Council Meeting Date: July 13, 2020 **Agenda Item:** 9(a)

CITY COUNCIL AGENDA ITEM

CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Discussion of COVID-19 Pandemic Projected City Budget Impact Update
DEPARTMENT:	Administrative Services Department
PRESENTED BY:	Sara Lane, Administrative Services Director
ACTION:	____ Ordinance ____ Resolution ____ Motion _X__ Discussion ____ Public Hearing

PROBLEM/ISSUE STATEMENT:

On April 20, 2020, staff presented Council with an initial estimate of the financial impacts of the COVID-19 pandemic on the City's budget. The April 20, 2020 staff report provided three potential scenarios. Assessing the impact and being able to effectively model revenues is important for Council to take the necessary immediate and long-term actions to maintain financial sustainability.

The scenarios presented in April showed a $2.4M to $5.6M projected range of reduced revenue in 2020 with uncertainty about the depth of a recession and length of the recovery. Since that time, staff have updated the projected impact, based on additional information, and now estimate a 2020 revenue reduction of $7.6M. The 2020 adopted budget anticipated a $0.9M surplus and approximately $0.5M of the reduced revenue can be offset with $0.5M in expenditure reductions, resulting in an overall $6.2M 2020 revenue shortfall. Over the last three months, the City fine-tuned an action plan that utilizes a combination of cost savings, expenditure reductions, and 2019 revenue collections that exceeded budget projections to fill the projected 2020 shortfall. This action plan *does not* utilize funds from the City's General Fund reserves or Revenue Stabilization Fund to fill the 2020 shortfall.

While there is a way forward in addressing the 2020 revenue shortfall, there are still challenges ahead for the next biennium and beyond. Economists and colleagues are now predicting that the recovery will be stalled by deeper economic woes, commonly referred to as the "L" recovery, which demonstrates a quick drop in economic activity and a long recovery period. Ongoing impacts of the COVID-19 pandemic and the related recession have changed the previous forecast projecting a balanced budget through the 2021-2022 biennium into one that now projects annual shortfalls throughout the City's long-term forecast period. Attachment A to this staff report updates the April estimate including a scenario from the City's 10-Year Financial Sustainability Model (10 YFSM).

While staff has attempted to utilize reasonable assumptions in the forecast update based on local and regional expertise, staff cautions that there continues to be a healthy dose of uncertainty that will only be resolved through actual experience over the next few months. Some anticipated impacts that are not addressed in this update include the further impacts to park and recreation program revenues for the fall/winter of 2020 and for 2021, as well as impacts on gambling tax and gas tax revenues through the next biennium.

Tonight's discussion provides Council an opportunity to: (i) discuss the City Manager's recommendation to address the 2020 revenue shortfall, (ii) to respond to the City Manager's recommendation that the City not reopen the Shoreline Pool and cease operating the facility as a City program, and (iii) discuss other issues related to early formation of the 2021-2022 biennial budget.

RESOURCE/FINANCIAL IMPACT:
Current estimates anticipate the impacts of COVID-19 to result in a $6.2M shortfall in 2020 operating budget and a $3.7M shortfall in the 2021-2022 operating budget. Staff has developed a plan to address the 2020 revenue shortfall through a combination of cost savings, expenditure reductions, and 2019 revenue collections that exceeded budget projections. The City is required by law to adopt a balanced budget. Balancing the 2021-2022 projected shortfall will require the use of reserves and/or operating budget reductions to meet the legal requirements of a balanced budget.

RECOMMENDATION

No action is required by the Council. This item is provided for informational purposes and to seek guidance on balancing the current and upcoming biennial budgets.

Approved By: City Manager ***DT*** City Attorney ***MK***

INTRODUCTION

Amid the current pandemic environment, the City has been focused on managing the needs of the community, the changing daily priorities and seeking to model the financial impacts of an event that is completely unprecedented. Assessing the impact and being able to effectively model revenues is essential for the Council to take the necessary immediate and long-term actions to maintain financial sustainability. Scenarios developed thus far utilize current data, comments and analysis by local government colleagues and economists, and anecdotal evidence. Staff will continue to evaluate data as it becomes available from various sources (e.g., revenue collections, economic forecasts, etc.), monitor for trends that may develop and modify projections as necessary.

BACKGROUND

On April 20, 2020, staff presented Council with the initial estimate of the financial impacts of the COVID-19 pandemic. That staff report, which is available at this link: http://cosweb.ci.shoreline.wa.us/uploads/attachments/cck/council/staffreports/2020/staffreport042020-9a.pdf, provided an initial financial impact. Attachment B to that staff report presented three scenarios that illustrate the potential severity of the 2020 downturn ranging from a projected $2.4M to $5.6M loss of revenues in 2020.

In May, staff updated the forecast based on additional information, and now projects a $7.6M reduction in revenue in 2020. Since the adopted 2020 budget anticipated a $0.9M budget surplus and part of the projected revenue loss can be offset with $0.5M in related expenditure reductions, the revenue shortfall that needs to be filled to balance the 2020 budget is approximately $6.2M.

The May forecast also projects ongoing financial impacts of the COVID-19 pandemic and the related recession on the 2021-2022 biennium, although it does not include a longer or staggered lockdown period in response to a potential second wave (or more) of COVID-19 later this year that would prolong the depths of the recession. The following table shows that staff is projecting an operating budget shortfall of $2.15M in 2021 and $1.54M in 2022.

	2021	2022
Previously Forecast Surplus	$0.817M	$0.785M
- Forecast Revenue Loss	($2.530M)	($1.730M)
- Forecast Expenditure Increase	($0.436M)	($0.595M)
= Forecast Operating Budget Shortfall	**($2.148M)**	**($1.540M)**

DISCUSSION

2020 COVID-19 Impact Action Plan

Tonight, staff would like to: (i) discuss the City Manager's recommendation to address the 2020 revenue shortfall, (ii) to discuss to the City Manager's recommendation that the City not reopen the Shoreline Pool and cease operating the facility as a City program, and (iii) discuss other issues related to early formation of the 2021-2022 biennial budget .

The City Manager has recommended a combination of strategies that can be implemented immediately to fill the forecasted 2020 revenue shortfall. It also provides a positive net position that provides flexibility to address revenue losses that may exceed the current forecast and/or further unexpected costs to quickly address emerging issues. In order to preserve the City's greatest flexibility for long-term response, this recommendation does not utilize funds from the City's General Fund reserves or Revenue Stabilization Fund to fill the 2020 shortfall.

City Manager Recommendation	**2020**
Anticipated Revenue Loss	($6,200,000)
Additional Estimated Costs Related to COVID-19	($1,700,000)
Estimated Total Impact	**($7,900,000)**
Expenditure Savings and Reductions	
2019 Jail Housing Savings	$568,000
2019 Unspent Operational Contingency	$884,000
2019 Unspent Insurance Reserve	$255,000
2019 Departmental Savings (Not carried over to 2020)	$667,000
2019-2020 One-Time Supplemental Request Reductions/Deferrals	$673,000
2020 Anticipated Departmental Savings/Expenditure Reductions	$610,000
2019-2020 Expenditure Savings and Reductions Total	*$3,657,000*
2019-2020 Revenues/Resources	
2019 Operating Revenue Collections over Projections	$3,000,000
2020 Anticipated FEMA/CARES reimbursement*	$1,700,000
2019-2020 Revenues/Resources Total	*$4,700,000*
Net Increase/(Decrease) to 2020 Ending Fund Balance	**$457,000**

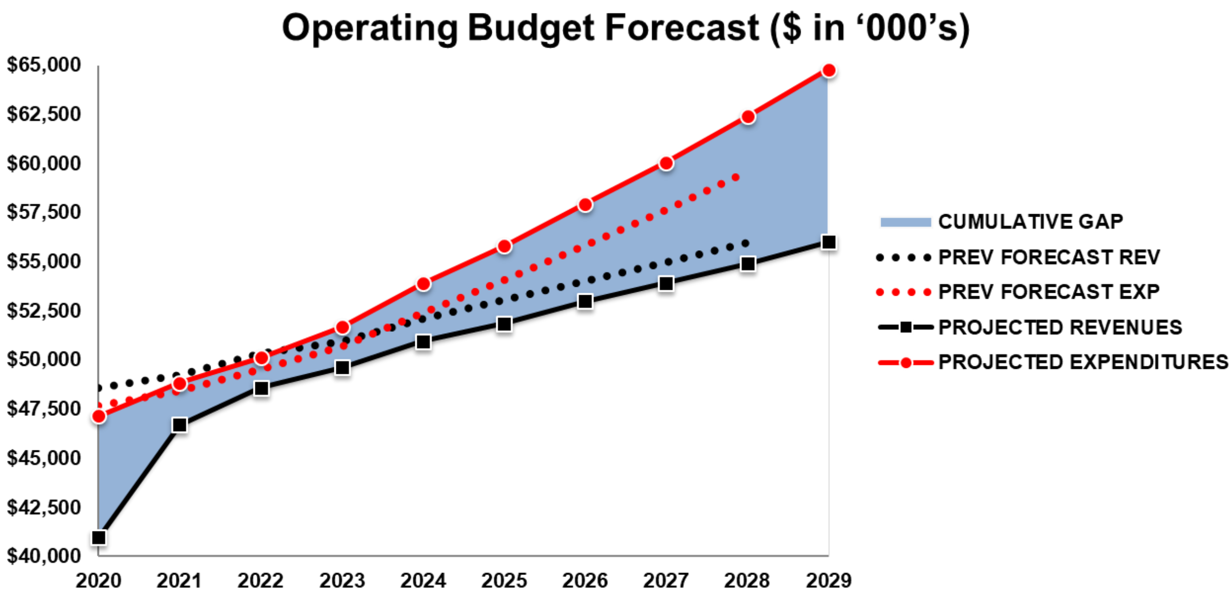
* Assumes that CARES Relief Funding will cover costs that FEMA will not cover (Premium Pay, PPE, Community & Business Support, etc.)

2021-2022 Biennium

While there is a way forward in addressing the 2020 revenue gaps as noted above, there are still challenges ahead. Ongoing impacts of the COVID-19 pandemic and the related recession on the 2021-2022 biennium result in a forecast biennial operating budget shortfall of $3.7M ($2.2M in 2021 and $1.5M in 2022). Based on this forecast, a previously projected balanced budget through 2022 became a budget that will require significant expenditure reductions and/or use of reserves to maintain a balanced budget for the biennium.

	2021	**2022**
Previously Forecast Surplus	$0.817M	$0.785M
- Forecast Revenue Loss	($2.530M)	($1.730M)
- Forecast Expenditure Increase	($0.436M)	($0.595M)
= Forecast Operating Budget Shortfall	**($2.148M)**	**($1.540M)**

The chart below summarizes the before and after COVID-19 budget projection with dotted lines showing the budget assumptions/projections before the COVID-19 pandemic and the solid lines showing updated projections. The blue area in the chart represents the gap between projected expenditures (solid red line with circle markers) and projected revenues (solid black line with square markers) based on the new budget forecast. It is important to note that a major assumption for projected revenues for 2023 and beyond does not include renewal of the City's property tax levy lid lift. Attachment A of this report discusses more details on anticipated impacts to various revenue streams.



In order to present the Council with a balanced 2021-2022 Proposed Biennial Budget later this fall it is important to seek guidance from Council now regarding some actions to close the 2021-2022 forecast operating budget shortfall totaling $3.7M.

Use of Reserves
The City established the Revenue Stabilization Fund to accumulate a reserve equal to thirty percent (30%) of annual economically sensitive revenues within the City's operating budget. The current balance of this reserve fund is $5.5M. Utilization of this reserve is limited to covering revenue shortfalls resulting from unexpected economic changes or recessionary periods assuming that the forecast indicates that over the long-term, revenue growth will return to pre-recession levels. The City's Financial Policies require that in the event reserves fall below required levels, the City shall include within its biennial budget a plan to restore reserves to the required levels.

The City Manager anticipates recommending the use up to $2M of the Revenue Stabilization Fund in her City Manager recommended 2021-2022 budget to help ease the budget impacts of the recession. This number could change as more information becomes available in developing the 2021-2022 biennial budget. These funds will need to be restored over the long-term per the City's financial policies.

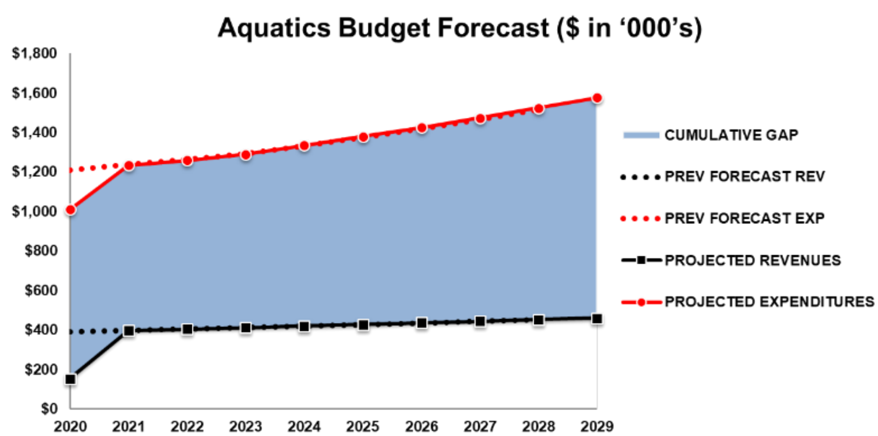
Recommendation to Close the Shoreline Pool
The Shoreline Pool was constructed by King County in 1971 and since that time has provided important aquatic and recreational opportunities for many in our community, including our seniors, youth, local swim teams, and families. In 2013, a pool

assessment was completed which identified several significant health and safety upgrades along with other major maintenance to keep the pool operational. After the 2013 pool assessment the City invested $750,000 in several short-term repairs to extend the life of the pool for another five to seven years. In 2019, the City spent over $100,000 on additional maintenance and emergency repairs with the goal of keeping the pool operational until its closure in 2021.

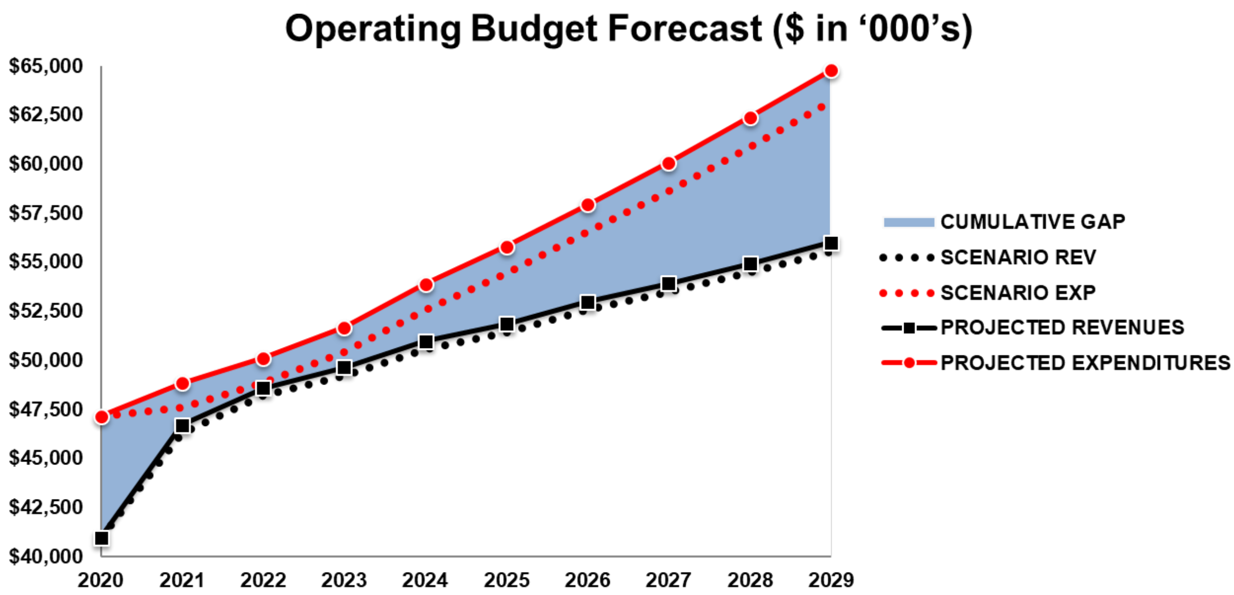
As was discussed during the Council's Strategic Planning Workshop in February, staff announced in March that we will stop operating the Shoreline Pool in September 2021. Council may recall that the City Manager sent a letter to the Shoreline School District at the beginning of March indicating that the City would cease operating the pool in September 2021 and asking if they would be interested in taking over its operation. The School Board did not have an opportunity to discuss its interest prior to the COVID-19 health emergency shutdowns, but we understand this will be discussed at their meeting on July 13.

In response to the COVID-19 health emergency the pool, and other recreational facilities, were closed on March 6, 2020 and it is unlikely that they would reopen to the public before King County moves to Phase 3 of the State's Safe Start Plan. Even then it is likely that there would be restrictions on occupational capacity, the types of programs that could be offered, and additional sanitation requirements.

The annual pool operational costs historically exceeded the revenue generated from the aquatic programs by approximately $800,000 to $850,000 per year. The blue area in the chart below reflects the forecasted annual amount of General Fund subsidy required to operate the pool. Operating the pool in a reduced capacity will not reduce the operational costs of the pool (red line); in fact, staff believes costs will rise from additional sanitation requirements. A loss of revenue (black line) from occupation capacity limits and reduced class offerings will create a larger General Fund subsidy than currently exists.



Given the budget challenges ahead, the likely operational impacts resulting from the COVID-19 health emergency and the potential for unplanned maintenance costs to keep the pool operational until September 2021, the City Manager is recommending that the does not reopen the pool. Closing the pool will resolve approximately $1.7M of the forecasted $3.7M shortfall for 2021-2022 as reflected in the dotted lines in the chart below. Again, these projections do not include renewal of the City's levy lid lift for 2023-2028.



Closing the pool will result in the layoff and elimination of six regular employee positions.

__Pool Facility Closure Options__
At its Capital Improvement Plan (CIP) update on June 22, 2020, Council expressed an interest in exploring several options related to the pool facility closure. Following is a brief discussion of three potential options:

- *Transfer pool facility as is to Shoreline Schools or another agency to operate.* This would likely be the lowest cost option if the pool facility is transferred "as is." As noted earlier, staff have made the initial offer to transfer the pool ownership to the Shoreline School District. The School District is supposed to discuss this offer on July 13.
- *Demolition and site restoration.* This option would involve demolition of the pool (likely in early 2021) with site restoration. The pool is located on School District property, so any improvements beyond restoration would need to be discussed and approved by the Shoreline School District. The anticipated cost for demolition and basic site restoration is $913,850.
- *"Mothball" the pool for potential future use.* This option requires ongoing staffing in order to maintain the viability of the pool liner and systems. The anticipated costs are:
    - One-time costs - $4,500 (materials - $3,000; labor - $1,500)
    - Ongoing annual costs - $155,280 (staff - $42,650; utilities and supplies - $112,630)
- "*Mothball" the pool in anticipation of future demolition.* The anticipated costs are:
    - Immediate one-time costs - $4,500 (materials - $3,000; labor - $1,500)
    - Future one-time costs - demolition estimate (see above) escalated at 3% per year

Staff Recommendation

Staff recommends that the City plan to move forward with demolition and site restoration should the school district or another agency not step forward to take over the facility by the end of 2020. Mothballing for potential future operations reduces the cost savings that would be realized by the pool closure. During the current financial situation, this does not seem like a prudent option without a clear plan for resuming operations. Additionally, mothballing the pool for later destruction provides some short-term deferral of costs but results in overall long-term higher costs.

Next Steps

Deciding to not reopen the pool a year earlier than originally anticipated is difficult, especially given other challenges in front of the Council. Staff are seeking guidance considering the pandemic and budget challenges. If the Council desires to open the pool, under limitations and guidance by Public Health and continue its operation until September 2021, it is likely that alternative staff and service budget reductions will be proposed since the City cannot rely solely on the use of Revenue Stabilization Fund reserves to balance the budget through the next biennium.

STAKEHOLDER OUTREACH

Staff provided an overview of the COVID-19 impact to the City's budget and the City Manager's recommendation for pool closure with the Parks, Recreation and Cultural Services Board on June 25.2019. In June, the Mayor and City staff met with our 32nd District Legislators to share the projected COVID-19 pandemic financial impacts.

RESOURCE/FINANCIAL IMPACT

Current estimates anticipate the impacts of COVID-19 to result in a $6.2M shortfall in 2020 operating budget and a $3.7M shortfall in the 2021-2022 operating budget. Staff has developed a plan to address the 2020 revenue shortfall through a combination of cost savings, expenditure reductions, and 2019 revenue collections that exceeded budget projections. The City is required by law to adopt a balanced budget. Balancing the 2021-2022 projected shortfall will require the use of reserves and/or operating budget reductions to meet the legal requirements of a balanced budget.

RECOMMENDATION

No action is required by the Council. This item is provided for informational purposes and to seek guidance on balancing the current and upcoming biennial budgets.

ATTACHMENTS

Attachment A: May 2020 COVID-19 Stress Test on Operating Revenues and 10 YFSM Update

MAY 2020 COVID-19 STRESS TEST ON OPERATING REVENUES AND 10 YFSM UPDATE

Executive Summary – Impacts and Response:

Council received a report of staff's preliminary estimate of the potential financial impacts at its meeting on April 20, 2020 (April update). This report contains the first update to that preliminary estimate including a scenario from our 10 Year Financial Sustainability Model (10YFSM) that incorporates factors from the Puget Sound Economic Forecaster at Western Washington University (PSEF) April Update. PSEF will be providing its next economic update in late-June that will serve as the foundation for the 10 YFSM upon which the 2021-2022 proposed biennial budget will be developed. We anticipate that next forecast will be influenced by actual experience; however, there will be much that remains unknown. Staff will continue to monitor actual experience closely in order to respond as quickly as possible should greater-than-anticipated losses be realized. The following is a high-level summary of the impacts and planned response, which is discussed in detail in this report:

	2020	**2021**	**2022**
Previously Forecast Surplus	$0.874M	$0.817M	$0.785M
- Forecast Revenue Loss	($7.591M)	($2.530M)	($1.727M)
- Forecast Expenditure Increase	$0.000M	($0.273M)	($0.325M)
+ Implemented Expenditure Containment	$0.527M	$0.000M	$0.000M
= Forecast Operating Budget Shortfall	**($6.189M)**	**($1.986M)**	**($1.267M)**
+ Strategies to Address Shortfall *:			
2019 Revenue Surplus	$3.000M		
2019-2020 One-Time Supplemental and Operating Expenditure Reductions	$3.641M		
Ongoing Operating Expenditure Reductions	$0.000M		
Use of Revenue Stabilization Fund	$0.000M		

The Strategy to address the 2020 shortfall uses a variety of one-time tools and the details are found on page 7 of this report. Ongoing strategies to address forecast shortfalls will be identified during the 2021-2022 biennial budget process and presented as part of the proposed budget.

Modeling Using a Stress Test:

Assessing the impact and being able to effectively model revenues is essential for the City Council to take the necessary immediate and long-term actions to maintain financial sustainability. As discussed in the April update the City began its evaluation of economic impacts by evaluating the following potential recovery scenarios:

Little "v" Recovery
- Rebound is swift, but not easy
- Short-term, quick fixes could bridge the gap to recovery

Big "V" Recovery
- Downturn is deeper, but bounce back is rapid
- Short-term bridge strategies apply

"L" Recovery
- Recovery is stalled by deeper economic woes
- Long-term transformation strategies needed ASAP

Real GDP numbers for the first quarter were just released and reported a 4.8 percent real GDP decline in the first estimate indicating that we are in recession. The Fed's modeling forecast nearly 47 million Americans losing their jobs temporarily in the second quarter. We already know that Washington lost over 550,000 jobs in March and April with unemployment of 15.4% for April. Within the three zip codes that mainly encompass Shoreline (98133, 98155, 98177), but do overlap with other cities, there have been over 15,000 initial filings for unemployment. As of May 9, Shoreline' unemployment rate is estimated to be 14.7% to 24.4%.

Economists are now predicting that the recovery will take on the "L" shape with economic activity. However, each revenue source is impacted and will recover differently, and this and future updates of the 10 YFSM takes these stress factors into consideration. The update for the budget process will include incorporating changes to the projected revenue and expenditure forecast based upon updated economic indicators and actual experience.

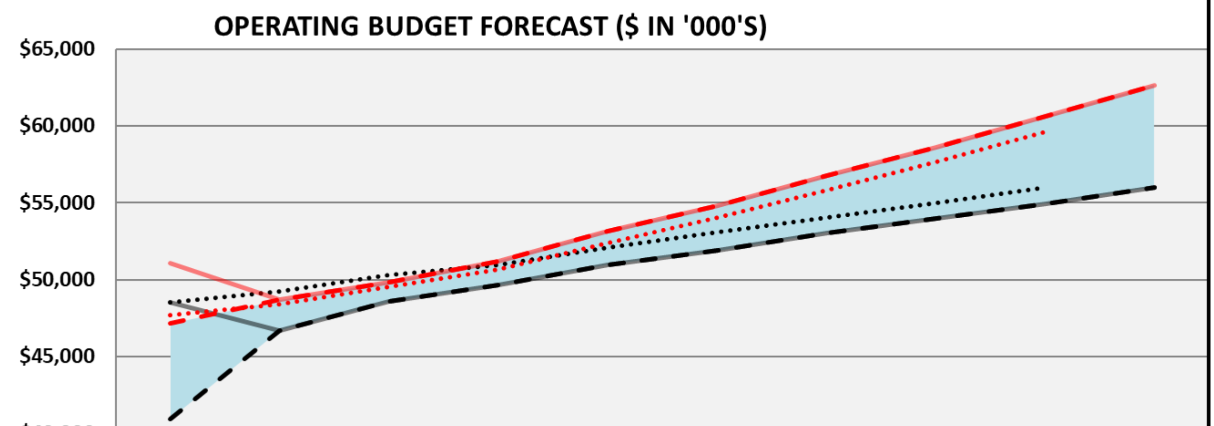
While this update incorporates additional sources of data, we caution that there continues to be a hefty dose of uncertainty built into this forecast that will later be revised as actual data provides a greater indication of the local impact of a socially distanced economy. Some anticipated impacts that are not addressed in this update include the Fall 2020 and 2021 impacts on parks and recreation program revenues, as well as impacts on gambling tax, and gas tax revenues through the next biennium. We monitor these revenue streams closely.

MAY 2020 COVID-19 STRESS TEST ON OPERATING REVENUES AND 10 YFSM UPDATE

May 2020 COVID-19 Stress Test and 10 YFSM Update:

The current plan for 2020, as included in the adopted budget through Ordinance No. 883, provides a surplus of approximately $0.9 million with revenues of $48.6 million, ongoing expenditures of $47.7 million, and the use of $3.4 million of fund balance supporting one-time expenditures. This preliminary update of the forecast *Scenario Revenues* line in the chart below reveals an anticipated $7.6 million loss of budgeted revenues. However, with operating revenues falling to $41.0 million, there is a shortfall of $6.2 million from operating expenditures currently planned to be reduced to $47.2 million. The 2021-2022 biennium was forecast to provide a surplus of $1.6 million but this update forecasts a $4.9 million loss of revenue resulting in a shortfall of $3.3 million.

This update does not anticipate the result of a successful levy lid lift in 2022 for the six-year period of 2023-2028. A successful levy lid lift in 2022 resetting the levy rate at $1.51/$1,000 assessed valuation (a $0.32, or 27%, increase from the forecast levy rate for 2023) would balance 2023-2028. Staff have identified a plan to address the shortfall for 2020. Should Council choose to use the Revenue Stabilization Fund to backfill the 2021-2022 shortfall, the levy rate would likely need to be set at a higher rate since that would be the only revenue source available to replenish the Revenue Stabilization Fund as required by the City's Financial Policies.



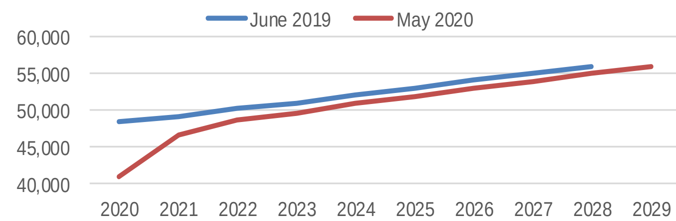
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
ANNUAL SURP/(GAP)	(6,189)	(1,986)	(1,267)	(300)	(619)	(744)	(773)	(898)	(1,054)	(989)
CUMULATIVE (GAP)	(6,189)	(1,986)	(1,267)	(1,567)	(2,186)	(2,930)	(3,703)	(4,601)	(5,655)	(6,644)
VARIANCE BASE	47,156	48,679	49,855	51,204	53,169	54,825	56,750	58,598	60,604	62,654
PREV FORECAST REV	48,557	49,223	50,315	50,962	52,113	53,072	54,018	54,987	55,973	
BASELINE REVENUES	48,557	46,693	48,588	49,637	50,983	51,895	53,047	53,997	54,948	56,010
SCENARIO REVENUES	40,966	46,693	48,588	49,637	50,983	51,895	53,047	53,997	54,948	56,010
PREV FORECAST EXP	47,683	48,406	49,530	50,676	52,383	54,040	55,843	57,656	59,608	
BASELINE EXPENDITURES	51,098	48,679	49,855	51,204	53,169	54,825	56,750	58,598	60,604	62,654
SCENARIO EXPENDITURES	47,156	48,679	49,855	51,204	53,169	54,825	56,750	58,598	60,604	62,654

MAY 2020 COVID-19 STRESS TEST ON OPERATING REVENUES AND 10 YFSM UPDATE

The table and chart below compares ongoing operating revenues forecast ($ in '000's):

Projection	2020	2021	2022	2023	2024
June 2019	48,557	49,223	50,315	50,962	52,113
May 2020	40,966	46,693	48,588	49,637	50,983
Change	(7,591)	(2,530)	(1,727)	(1,325)	(1,130)

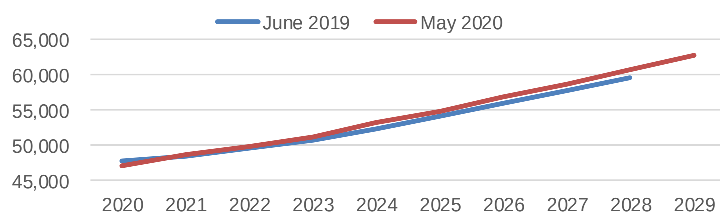
Projection	2025	2026	2027	2028	2029
June 2019	53,072	54,018	54,987	55,973	#N/A
May 2020	51,895	53,047	53,997	54,948	56,010 #
Change	(1,177)	(971)	(990)	(1,025)	#N/A



The table and chart below compares ongoing operating expenditures forecast ($ in '000's):

Projection	2020	2021	2022	2023	2024
June 2019	47,683	48,406	49,530	50,676	52,383
May 2020	47,156	48,679	49,855	51,204	53,169
Change	(527)	273	325	528	786

Projection	2025	2026	2027	2028	2029
June 2019	54,040	55,843	57,656	59,608	#N/A
May 2020	54,825	56,750	58,598	60,604	62,654
Change	784	907	942	996	#N/A



Long-Term Budget Trends and Assumption in the 10 YFSM:

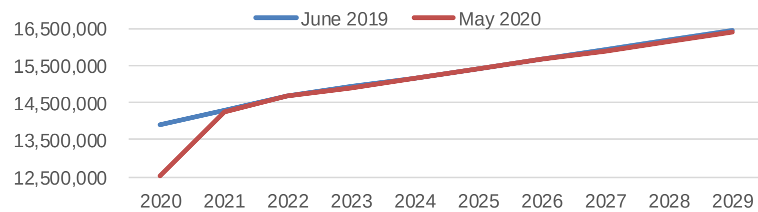
Below are some of the major assumptions used in the most recent projections:

- Property Tax: Property tax, while considered relatively stable, is subject to each property owners' ability to pay so staff anticipates the City will experience a greater-than-historical level of delinquencies. Therefore, staff has incorporated a 10% delinquency factor for 2020 collections, which results in an estimated $1.39 million shortfall in 2020. The forecast for property tax has decreased from the previous forecast based upon the updated inflation, assessed valuation and new construction assumptions for King County.
  - *Inflation*: The levy lid lift approved by Shoreline voters limits the growth in the annual property tax levy to the rate of inflation plus new construction. Previously, inflation was forecast at 2.4% in 2021 and 2.2% in 2022. Inflation is now forecast at 2.1% in 2021 and 2.3% in 2022. This serves to reduce the amount to which the levy is forecast to grow prior to the addition of new construction assessed valuation. Once the levy lid lift expires in 2022, the annual levy will only be allowed to grow by new construction plus the statutory 1.0% limit.
  - *Assessed Valuation*: Previously, the City's assessed valuation was forecast to increase 4.5% in 2021 and 3.0% in 2022. The City's assessed valuation is now forecast to increase by 1.7% in 2021 and 0.6% in 2022. This will not have much effect on the property tax levy forecast as there is enough room in between the existing levy rate and $1.60 limit to allow for adjustment of the levy rate caused by this less-than-previously-forecast assessed value.
  - *New Construction*: New construction valuation for 2021 and 2022 is forecast to be $63.7 million for 2021 and $68.6 million for 2022. It is important this is approximately 50% of the amount of new construction added to the rolls in the 2019-2020 biennium.

The assumption presented above result in property tax revenue that is forecast to increase by 2.4% in 2021 and 2.9% in 2022, with average increases of 1.8% for 2021-2028. Below is a comparison of the June 2019 forecast to the April 2020 forecast:

Projection	2020	2021	2022	2023	2024
June 2019	13,916,110	14,296,409	14,695,970	14,929,986	15,169,878
May 2020	12,524,499	14,253,900	14,666,273	14,903,486	15,145,894
Change	(1,391,611)	(42,509)	(29,698)	(26,500)	(23,984)

Projection	2025	2026	2027	2028	2029
June 2019	15,416,484	15,667,227	15,921,235	16,180,351	16,438,580
May 2020	15,396,660	15,647,983	15,900,139	16,154,116	16,404,381
Change	(19,824)	(19,245)	(21,096)	(26,234)	(34,199)



- <u>Sales, Business & Occupation, and Gambling Taxes</u>: The significant downturn in business activity resulting from closing businesses or severely restricting operations is resulting in decreased state and local tax revenues (e.g., Sales, Local Criminal Justice Sales, Business & Occupation, and Gambling taxes).
  - *Sales Tax*: The projection for sales tax for 2020 has decreased from the previous forecast based upon the updated retail sales growth assumptions for the Puget Sound region. Taxable retail sales throughout the Puget Sound region and King County are expected to decline from the 2019 level by 13.6% and 16.5%, respectively. Staff's forecasting practice assumes that most of the Retail Trade sector's activity will change at 75% of the growth assumptions for the Puget Sound region.

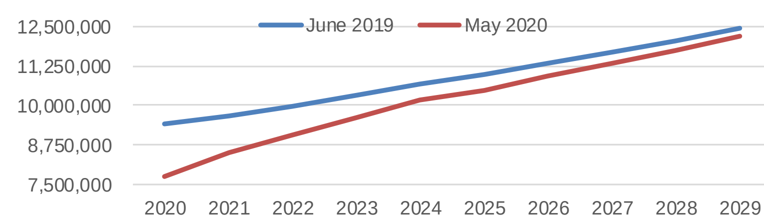
    When comparing 2019 and 2020, the budget for 2020 anticipated growth in Retail Trade sales tax and total sales tax collections of 3.0% and 3.2%, respectively. The previous forecast anticipated growth from 2019 in Retail Trade sales tax by 4.1% but a decline in total sales tax collections by 6.5%, largely reflective of an anticipated decline in Construction sales tax collections from the high level we were experiencing at that point in 2019. The April 2020 forecast reveals an estimated decline of 12.9% and 29.5%, respectively.

    A more relevant comparison worthy of discussion is the results from the April 2020 forecast to the previous forecast for 2020. It is anticipated that 2020 collections will come in 17.9% less, which results in an estimated $1.68 million shortfall.

    To the right is a comparison of the June 2019 forecast to the April 2020 forecast for Sales Tax.

Projection	2020	2021	2022	2023	2024
June 2019	9,391,258	9,669,234	9,981,484	10,303,041	10,648,610
May 2020	7,713,646	8,472,404	9,066,678	9,615,337	10,183,432
Change	(1,677,612)	(1,196,830)	(914,806)	(687,704)	(465,178)

Projection	2025	2026	2027	2028	2029
June 2019	10,991,380	11,338,099	11,694,615	12,062,599	12,442,252
May 2020	10,448,330	10,908,593	11,323,026	11,738,238	12,166,224
Change	(543,049)	(429,507)	(371,589)	(324,361)	(276,029)



  - *Local Criminal Justice Sales Tax*: King County taxable retail sales are expected to be 21.2% less than previously forecast, which results in an estimated $0.35 million shortfall.

  - *Business & Occupation Tax*: Staff anticipates that Business & Occupation Tax collections will experience a shortfall like that for Sales Tax of $0.19 million.

  - *Gambling Tax*: The closure of gaming establishments for much of the second quarter and anticipation that, were the economy to reopen this summer, that there will be a slow return to the normal level of activity in third and fourth quarters results in an estimated shortfall of $1.05 million.

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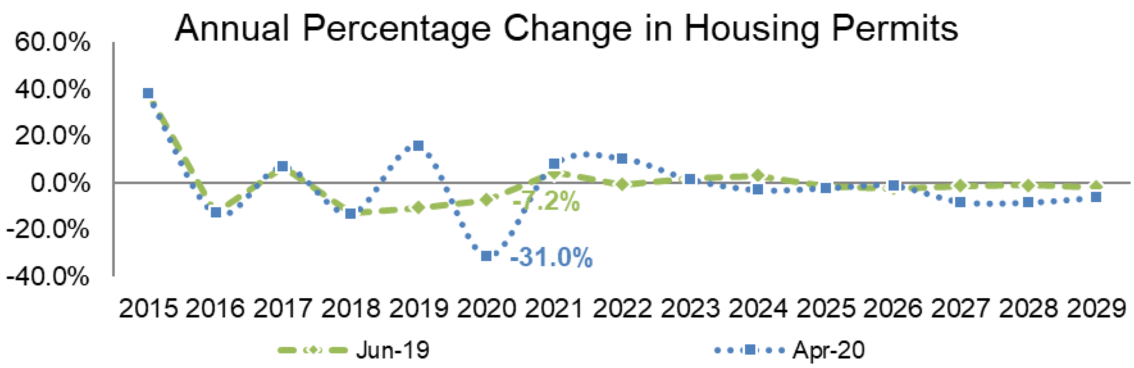
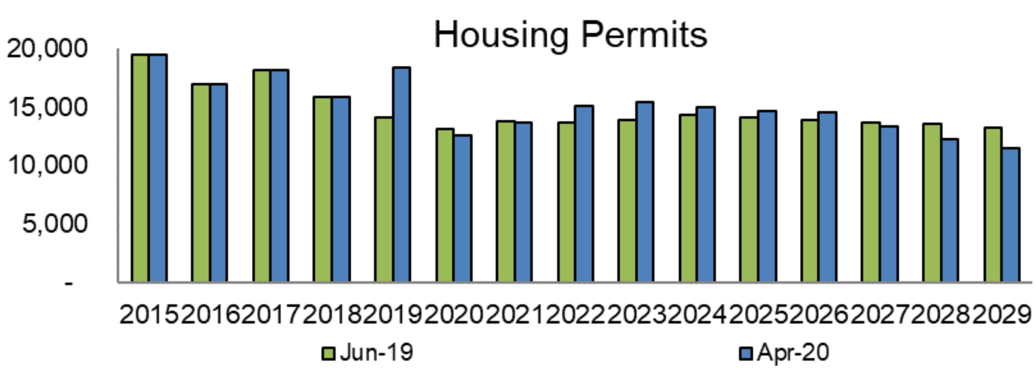
- *Recreation and Aquatics*: The closure of the City's recreation facilities for the months of March through May is estimated to result in a loss of registration and rental revenue of $0.375 million, which is partially offset by a $0.134 million of directly related expenditure reductions. Summer programming planned for the months of June through August has been cancelled. Staff estimates a loss of revenue totaling $0.840 million, which is partially offset by directly related expenditure reductions totaling $0.393 million. Staff are analyzing the impact of the decisions to cancel summer celebrations, neighborhood events, and recreation classes, as well as the redesign and limiting of participants for summer day camps. This forecast includes a preliminary net revenue loss of $0.688 million.

- *Housing Permits*: The June 2019 forecast assumed the number of permits issued in 2020 would be 7.2% less than that forecast for 2019. Updated assumptions for the April 2020 forecast anticipate a 10.8% year-over-year decrease. The number of housing permits issued in 2019 came in 28.9% more than that forecast in June 2019. This indicates that updated assumptions for the April 2020 forecast anticipate a 31.0% decrease from 2019.

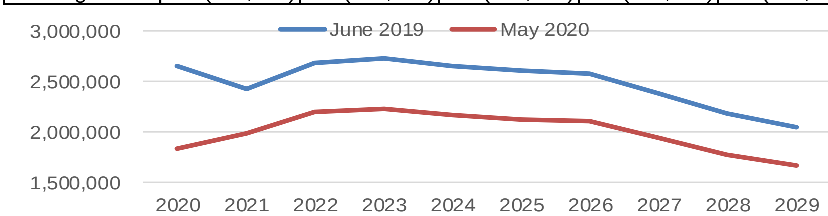


The April 2020 forecast still anticipates fewer housing permits to be issued each year through 2029 as compared to any of the past five years. Staff are continuing to evaluate options for forecasting the impact of COVID-19 on future permitting revenues.



Development fees will likely be impacted in the near-term by the closure of City Hall but may also be impacted in the long-term if the ability to finance development projects is curtailed. Not related to COVID are anticipated permits for affordable housing and Deep Green projects that will have significant reductions in permit fees that are not yet incorporated into the forecast. To the right is a comparison of the June 2019 forecast to the May 2020 forecast for development revenue:

Projection	2020	2021	2022	2023	2024
June 2019	2,649,483	2,426,540	2,685,173	2,730,829	2,653,032
May 2020	1,827,358	1,977,967	2,188,789	2,226,005	2,162,590
Change	(822,125)	(448,573)	(496,384)	(504,824)	(490,442)
Projection	**2025**	**2026**	**2027**	**2028**	**2029**
June 2019	2,598,993	2,572,688	2,368,454	2,175,741	2,044,320
May 2020	2,118,541	2,097,099	1,930,619	1,773,531	1,666,405
Change	(480,452)	(475,590)	(437,835)	(402,210)	(377,915)



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- *Fuel Tax*: Revenue from Fuel Tax is based on the number of gallons sold, not the dollar value of the sales. Therefore, the 2020 distribution will be impacted in the near-term by the Stay Home – Stay Healthy Order but may also be impacted in the long-term like the decline in consumption experienced during the Great Recession. Fuel Tax distributions to Shoreline are anticipated to be 29.2% less than previously forecast, which results in an estimated shortfall of $0.640 million.

Impacts on Cash Flow:

Staff continue to monitor cash flow closely. April property tax collections were not noticeably impacted by the extension for tax filing primarily due to the large reliance on escrow accounts. Potential impacts are more likely anticipated in October. Sales Tax receipts experience a two-month lag, so impacts are not yet apparent. The City remains in a strong cash position and anticipates being able to manage any short-term cash flow impacts.

Non-Operating Fund Impacts:

The City's Capital Funds rely heavily on Real Estate Excise Tax (REET) to fund Transportation, Parks and General Capital Projects. Comparing updated modeling of potential REET impacts to the forecast presented in the City's 2019-2024 Capital Improvement Program reveals a potential for collection greater than that previously forecast for 2020 and 2021 of approximately $0.510 million but a shortfall of $0.951 million for 2022-2024. Collections from the City's Voted Transportation Benefit District (TBD) Sales Tax, which funds the expansion of the City's Sidewalk system, may come in less by $491,000. While this impact is not anticipated to affect Shoreline's ability to cover debt service on the bonds that were issued in 2019 or the commitment complete specifically identified projects, it will likely reduce the amount of sidewalk expansion Shoreline can finance in the future.

Summary and City Response:

In summary, as a result of the impacts of the COVID-19 pandemic and the Stay Home – Stay Healthy Order, Shoreline's 2020 operating revenues may experience a loss of $7.6 million, or 15.6%, of budgeted operating revenues. Because the budget anticipated a surplus, the actual budget shortfall is forecasted at $6.2 million. The City is planning to use a combination of strategies to address the shortfall including revenue collected in excess of budget, 2019 expenditure savings, and anticipated 2020 expenditure savings including to reductions in travel and training, and operating and project related expenditures that are impacted by the COVID-19 response. Our current plan (details in table) appears to adequately address the forecasted budget deficit and provide approximately $0.4 million safety net for changes to in the forecast.

Shoreline is fortunate that, due to the strong financial policies adopted by Council, it is in a good position from a cash and reserve perspective with sufficient fund balance for the General Fund that exceeds reserve targets as well as a fully funded Revenue Stabilization Fund, commonly referred to as a rainy-day reserve. Despite this strong position, the current forecast clearly reflects that impacts will be felt for several years to come. To that end, we are preparing our 2021-2022 budget with the anticipation that some ongoing reductions will be necessary and that use of the revenue stabilization fund is likely. Council guidance and full discussion of the options and plan to maintain long term financial sustainability will be a major focus of the 2021-2022 budget process.

COVID 19 Impact Action Plan		2020
Forecasted Operating Budget Shortfall		$6,200,000
Additional Estimated Costs Related to COVID -19		$1,700,000
Estimated Total Impact		$7,900,000
Strategies to Address Shortfall		
2019-20 One-Time Supplemental and Operational Expenditure Reductions		
2019 Jail Housing Savings		(568,000)
2019 Unspent Operational Contingency		(884,439)
2019 Unspent Insurance Reserve		(255,000)
2019 Departmental Savings		(589,425)
2019-20 One Time Supplemental Request Reductions/Deferrals		(705,147)
2020 Anticipated Savings/Expenditure Reductions		
Contingency	(20,000)	
Fuel Savings	(30,000)	
Professional Services	(61,000)	
Anticipated Project Savings	(200,000)	
Special Events	(74,382)	
Street Light Electricity	(105,000)	
Travel & Training	(131,094)	
Miscellaneous	(17,250)	
		(638,726)
2019-20 One-Time Supplemental and Operational Expenditure Reductions Tota		(3,640,737)
2019-20 Revenues/Resources		
2019 Operating Revenues Surplus		(3,000,000)
*2020 Anticipated FEMA/CARES reimbursement**		(1,700,000)
Total 2019-20 Revenues/Resources		(4,700,000)
Total Strategies to Address 2020 Shortfall		(8,340,737)
Balance of Shortfall to fill/ (Surplus over Shortfall)		**(440,737)**

*Assumes that CARES Relief Funding will cover costs that FEMA will not cover (Premium Pay, PPE, Community & Business Support, etc)