



City of Covington
16720 SE 271st St. Suite 100
Covington, WA 98042

City Hall – 253.480.2400
www.covingtonwa.gov

October 8, 2020

Dear Mayor Wagner, Mayor Pro Tem Smith, Honorable Councilmembers, Residents and Businesses of Covington:

Preparing a budget always has its share of unknowns, preparing a budget during a global pandemic and economic slowdown raises the task to a new level of uncertainty. It is impossible to prepare a 2021 budget message and not address COVID-19. The public health emergency that has resulted from the COVID-19 pandemic will impact the 2021 budget. The unique challenge of being a city manager during this time is gauging the severity and duration of these impacts. This budget demonstrates our ongoing commitment to providing responsible fiscal management and continuing to position ourselves to meet these ongoing challenges.

Early on, we took several steps to help mitigate cash flow and revenue issues. On April 13, just weeks after Governor Inslee announced the Stay Home Stay Healthy order, the city placed over 50 full and part-time staff on standby. The majority of these employees worked in areas that saw a tremendous drop or complete closure of programs, such as aquatics, recreation, and athletics. The steps that were taken early in the pandemic, such as placing employees on standby, and the spending and hiring freeze, have helped stem the tide of financial losses. With these measures in place for 2020, the city was able to systematically mitigate our potentially dramatic financial losses.

Moving in to 2021, the approach that we have taken is to rely on our reserves to get us through the potential slowdowns that we still anticipate. Because of the expenditure reductions put in place early in the year, the general fund, street fund, and development services fund will see modest decreases to overall fund balance in 2020, with the surface water management fund seeing an increase. For 2021, because we will no longer have the impact of expenditure savings (most staff members are now back at work), the city will need to use reserves to maintain current service levels in most areas. The biggest impact to services will be felt in aquatics, recreation, and athletic programs. Due to the current restrictions in place, we are forecasting our largest losses to take place in these departments. Despite these challenges, the 2021 budget focuses on essential needs and services, while still making substantial progress in areas like transportation improvements, software and network enhancements, and continuing to build connections between the city and the public we serve.

City's response to COVID-19 effects

The city is working to mitigate the effects of the shutdown on our residents and businesses, to this end, the city has taken a variety of effective actions. The funding for these programs has been provided by the CARES Act money provided by the State.

The actions to date include:

- Launching the COVID-19 Rapid Relief Grant Program which disbursed of over \$118,000 in small business grants.
- Providing \$20,000 to the Storehouse Food Bank to help those experiencing food insecurity during the pandemic.
- Providing \$40,000 to Vine Maple Place for rental assistance for tenants facing financial hardships.
- Partnering with Puget Sound Regional Fire authority to provide COVID-19 testing for first responder's and their families at the future town center site.
- Suspending collections on various fees and halting sending past due accounts to collections.

growing toward **greatness.**

Long-term outlook

While there is significant uncertainty about how much the city's revenues will decline, we do know some of the ways in which it will happen. The main focus for next year will be on the performance of the park user fees. With the continued closure of some programs and reductions in others, we are anticipating a steep reduction in revenue collections. To offset those losses, expenditure reductions in the form of part-time hours related to those programs have also been reduced, in the amount of 2.3 FTE's. There are a couple areas of hope to report. Thanks to our sound fiscal and budget management over the last several years, we have been able to grow the city's reserves. Core revenues such as property tax and utility tax, as well as development revenue continue to remain strong despite the slowdown. We've also been cautiously optimistic in our sales tax collections for 2020 but have conservatively reduced 2021 collections due to anticipated decreases in construction activity.

The State's economic forecast shows revenue impacts of the pandemic not being as bad as first forecasted in early June, with the real estate market being much stronger than expected and retail activity supported by federal relief spending increased.

The city's long-range forecast continues to project strong retail sales but reduced commercial construction activity for the near term. Residential development is forecast to remain stable over 2020 projections which will help with real estate excise tax (REET), property tax, and state shared revenue as population increases.

Reviewing the forecast, the general fund looks healthy through 2023 but begins to dip into reserves starting in 2024. The street fund continues to struggle and is being subsidized by the general fund by \$440,000 for 2021. The development review fund and surface water management fund both remain strong.

Budget Process

The 2021 budget process began with the annual budget call in June. At that time, the calendar and decision card criteria were reviewed with the directors and budget team. For 2021, the instructions to directors were, 0% increases in base budgets and very limited criteria for decision cards.

2021 Budget Strategies

- Fund only what is crucial to continue operations.
- Prioritize submitted decision cards and use related reserves for funding.
- Ensure that decision card requests fit into one or more of the following criteria:
 1. **Health and safety related**
 2. **Legally mandated**
 3. **Necessary for grant eligibility**

Funds Overview

General Fund

The general fund is the largest city fund and provides for the day-to-day operations of city government. Revenues are unrestricted and are available to use for any governmental purpose.

For 2021, we are forecasting a 1.4% total decrease in revenues due to an anticipated reduction park user fees.

- Property tax for 2021 is estimated to be \$2.91 million. This includes an 0.6% increase plus new construction. This year the implicit price deflator was under 1%, which means in order to receive the full 1% the city will need to adopt an ordinance declaring a substantial need.
- Unrestricted sales tax revenue for 2020 is expected to decrease by 2.4% or \$121,375 under 2020 estimated collections of \$5.0 million due to a decrease in construction activity.
- Utility tax collections for 2020 are estimated at \$2.2 million, slightly higher than 2020 estimated actuals.
- Park user fees are expected to decrease 46.9% or \$639,990 under normal budget collections.

- Other sources of revenue total \$2.1 million plus \$822,066 being reimbursed to the general fund through interfund payments from other funds totaling \$2.9 million.

On the operating base budget expenditure side (excluding transfers), the budget is 7.5%, or \$908,103 higher than estimated actuals for 2020. This is due in part to an increase in the police contract, health care costs and staff returning to full-time after being placed on standby.

I am recommending four decision cards totaling \$271,600 – \$238,100 in one-time costs and \$33,500 in ongoing costs. The aquatic center hot water supply is being funded by the aquatic center reserve and the PROS plan is being funded by the park reserve, all remaining decision cards are funded from unassigned fund balance.

Title/Description	Fund	Initiating Dept	Amount Funded	
			One-Time	Ongoing
Cost of living adjustment	GF	Exec	-	-
Wired/Wireless Network Replacement	GF	Cent Svcs	21,300	3,500
Wetland Maintenance	GF	Pks Maint	-	30,000
Aquatic Center Hot Water Supply	GF	Aquatics	136,800	-
PROS Plan	GF	Parks	80,000	-
Net Total General Fund			238,100	33,500

Street Fund

General Fund continues to subsidize the Street fund by \$440,357 for 2021 to maintain the required 10% fund balance. Franchise fees and fuel taxes are forecasted to remain flat. Vehicle license fees are being reserved, until such time as the state Supreme Court renders a final decision on the constitutionality of Initiative 976. Base budget expenditures before decision cards are \$1.2 million which is a decrease of \$121,541 from the 2020 budget. This is due to a one-time decision card that occurred in 2020.

I am recommending one decision card totaling \$4,000 – \$5,000 in one-time costs and \$(1,000) in ongoing costs.

Title/Description	Fund	Initiating Dept	Amount Funded	
			One-Time	Ongoing
Arrow Board	ST	ST	5,000	(1,000)
Net Total Street Fund			5,000	(1,000)

Development Services Fund

For 2021, staff is forecasting a 33.6% reduction in revenues over 2020 estimates. Base budget expenditures are \$2.5 million, which is an increase from expected expenditures in 2020 of 21.4% due to increased consultant costs.

No decision cards were submitted.

Surface Water Management Fund (SWM)

Revenues for SWM are increasing 8.5% over 2020 estimates due to the adopted rate increase. Base budget expenditures are \$2.7 million, which is an increase of 13.3% due to salary and benefit increases.

No decision cards were submitted

Capital Investment Program (CIP) Fund

For 2021, I am recommending three decision cards with an expected city contribution of \$1,042,286. Total expenditures will be \$6,107,556, which will be offset with \$5,065,270 in grant funding, the remaining balance of \$1,042,286 will be provided with city funds such as park fee-in-lieu and park impact fees already available.

Title/Description	Fund	Initiating Dept	Amount Funded	
			One-Time	Ongoing
Welcome Park	CIP	CIP	354,500	-
WWRP Grant			(265,875)	-
Jenkins Creek Park Expansion	CIP	CIP	1,928,500	-
WWRP Grant			(500,000)	-
LWCF Grant			(250,000)	-
CFT Grant			(774,750)	-
Jenkins Creek Trail	CIP	CIP	3,824,556	-
WWRP Grant			(3,274,645)	-
Net Capital Investment Program Fund			1,042,286	-

Summary

Even in these difficult and uncertain economic times, staff has developed a budget that continues many of the strategic plan goals set by Council, provides the basic services that residents and businesses rely on, and continues to improve and maintain the public infrastructure and vision of the community through the city’s CIP projects. The decisions that were made over the last several years have allowed us to be in a conservatively optimistic financial position. To maintain that fiscal optimism, the 2021 budget is our most fiscally conservative budget to date. I am confident by working together with our community, Council and committed staff, we will embrace opportunities and mitigate challenges, positioning Covington to effectively deal with the changes that may come in the years ahead.

I look forward to your thoughtful deliberations.

Sincerely,



Regan Bolli
City Manager