

**LYNNWOOD
CITY COUNCIL
Special Work Session**

Date: Thursday, September 10, 2020

Time: 3:00 PM

Place:

3:00 PM **A** Update Council on the Financial Impacts of COVID-19 on the City
 Adjourn

Memorandums for Future Agenda Items:

Memorandums for Your Information:

Contact: Executive Office (425) 670-5001

CITY COUNCIL ITEM A

**CITY OF LYNNWOOD
City Council**

TITLE: Update Council on the Financial Impacts of COVID-19 on the City

DEPARTMENT CONTACT: Sonja Springer, Finance Director

DOCUMENT ATTACHMENTS

Description:	Type:
Agenda 091020 Special Work Session	Backup Material
091020 Meeting Packet	Backup Material

**Lynnwood City Council
Special Council Meeting**

Thursday, September 10, 2020

Meeting will be held electronically via Zoom

Time: 3:00pm

AGENDA ITEMS:

Call to Order

- 1) Refunding 2010 Utility Bond Debt – Cost Savings for the Utilities –
Sonja Springer, Finance Director and Bill Franz, Public Works
Director**
- 2) Update on the General Fund Financial Forecast for 2020 Due to
COVID-19 - Sonja Springer, Finance Director**

Adjournment



City of Lynnwood, Washington

Finance Committee | Utility System Revenue Refunding Bond, 2020

September 10, 2020

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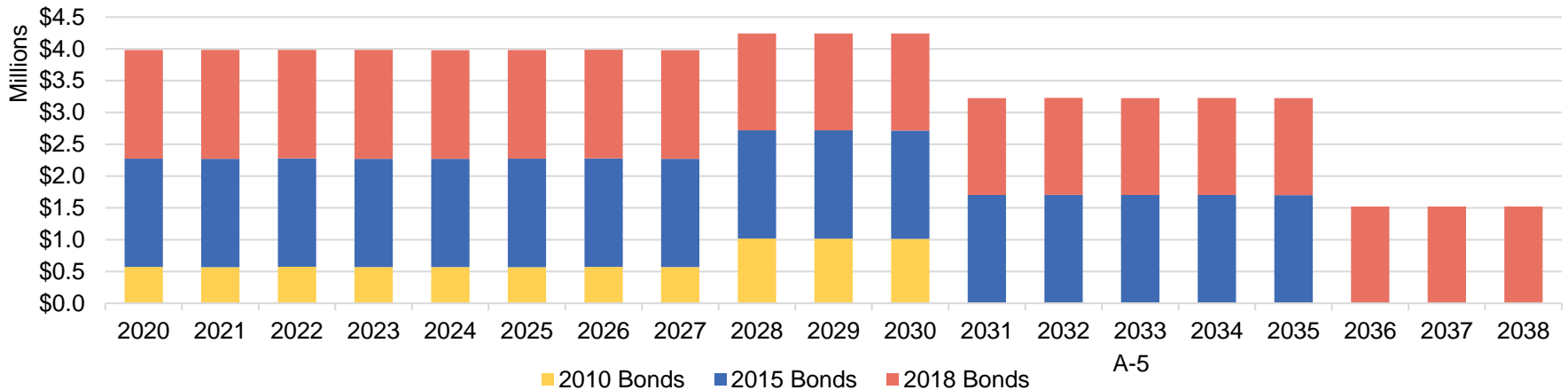
Utility System Revenue Bonds



Utility System Revenue Bonds Outstanding

Series	Purpose	Issue Size	Delivery Date	Final Maturity	Call Date	Outstanding Coupon(s)	Outstanding Par
2010	System improvements including the installation of a computerized monitoring and control system, meter, fire hydrant, and watermain replacements, sewer plant upgrades, and storm pipe replacements	\$7,720,000	11/9/2010	12/1/2030	12/1/2020	3.00% - 4.00%	\$5,905,000
2015	Additions and betterments and extensions of Utility System and to fund a deposit to the Reserve Account	24,075,000	10/28/2015	12/1/2035	12/1/2024	2.375% - 5.00%	20,815,000
2018	Current refund the Utility System Improvement and Refunding Bonds, 2008 and to finance system improvements	20,380,000	10/10/2018	12/1/2038	6/1/2028	3.00% - 5.00%	19,775,000
Total							\$46,495,000

Utility System Revenue Bonds





Background

- On November 9, 2010, the City issued its Utility System Revenue Bonds, 2010 (the “2010 Bonds”)
 - Original issue amount: \$7,720,000
 - Final maturity: December 1, 2030
 - Call date: December 1, 2020 (callable par of \$5,565,000)
- The City is considering the issuance of tax-exempt debt to refinancing the 2010 Bonds for debt service savings
 - A refinancing may be completed through a public market bond sale or a bank placement transaction (pros and cons described below)

Public Bond Sale		Direct Bank Placement	
Pros	<ul style="list-style-type: none"> ✓ Currently lower interest rates in the public market due to strong investor demand ✓ Transparent, based on a credit spread compared to benchmark index ✓ Large and diverse investor base 	✓	<ul style="list-style-type: none"> Faster transaction with lower issuance costs because banks do not require a bond rating nor a preliminary official statement Often allows for more flexible prepayment terms
Cons	<ul style="list-style-type: none"> ✗ Longer process and higher costs of issuance (rating and POS required) 	✗	<ul style="list-style-type: none"> Bank market is not transparent with respect to interest cost and terms – need to use RFP or direct outreach to get proposals from banks Banks are typically limited in the amount they are willing to lend to an individual institution

- ***Due to the lower issuance costs, limited use of staff resources, and expeditious transaction process, the City is prepared to move forward with a Direct Bank Placement transaction***

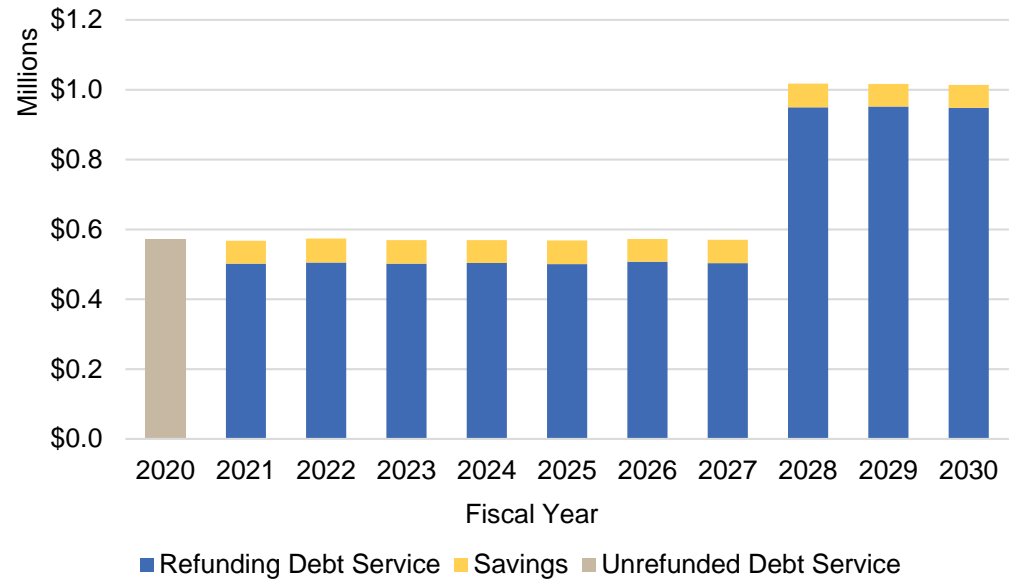


Current Refunding of Utility System Revenue Bonds, 2010

Refunding Statistics

Delivery Date	10/15/2020
NPV Savings	\$600,758
NPV Savings %	10.17%
Average Annual Savings	\$65,000
True Interest Cost	2.00%
Negative Arbitrage	\$14,670
Refunding Efficiency	97.62%
Refunded Par	\$5,905,000
Refunding Par	\$5,630,000

Estimated Savings



Tax Exempt Current Refunding - Interest Rate Sensitivity

Rates	TIC	NPV Savings (\$)	NPV Savings (%)	Negative Arbitrage
Current	2.00%	\$600,758	10.17%	\$14,670
+0.25%	2.25%	\$508,102	8.60%	\$16,568
-0.25%	1.75%	\$695,281	11.77%	\$12,769

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Timing: Key Milestones

SEPTEMBER							OCTOBER						
S	M	T	W	T	F	S	S	M	T	W	T	F	S
		1	2	3	4	5					1	2	3
6	7	8	9	10	11	12	4	5	6	7	8	9	10
13	14	15	16	17	18	19	11	12	13	14	15	16	17
20	21	22	23	24	25	26	18	19	20	21	22	23	24
27	28	29	30				25	26	27	28	29	30	31

<u>Milestones:</u>	<u>Timing</u>
Request for Financing Proposals (RFP) distributed to prospective lenders	9/8
Finance Committee Meeting – Discuss Plan of Finance (3:00 p.m.)	9/10
City Council Meeting – Work Session (6:00 p.m.)	9/21
Proposals due from prospective lenders (3:00 p.m.)	9/28
City Council Meeting – Consideration of Bond Ordinance (6:00 p.m.)	9/28
Bond Closing – funds delivered	10/15
2010 Bonds Redeemed	12/1

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Market Update



Market Update

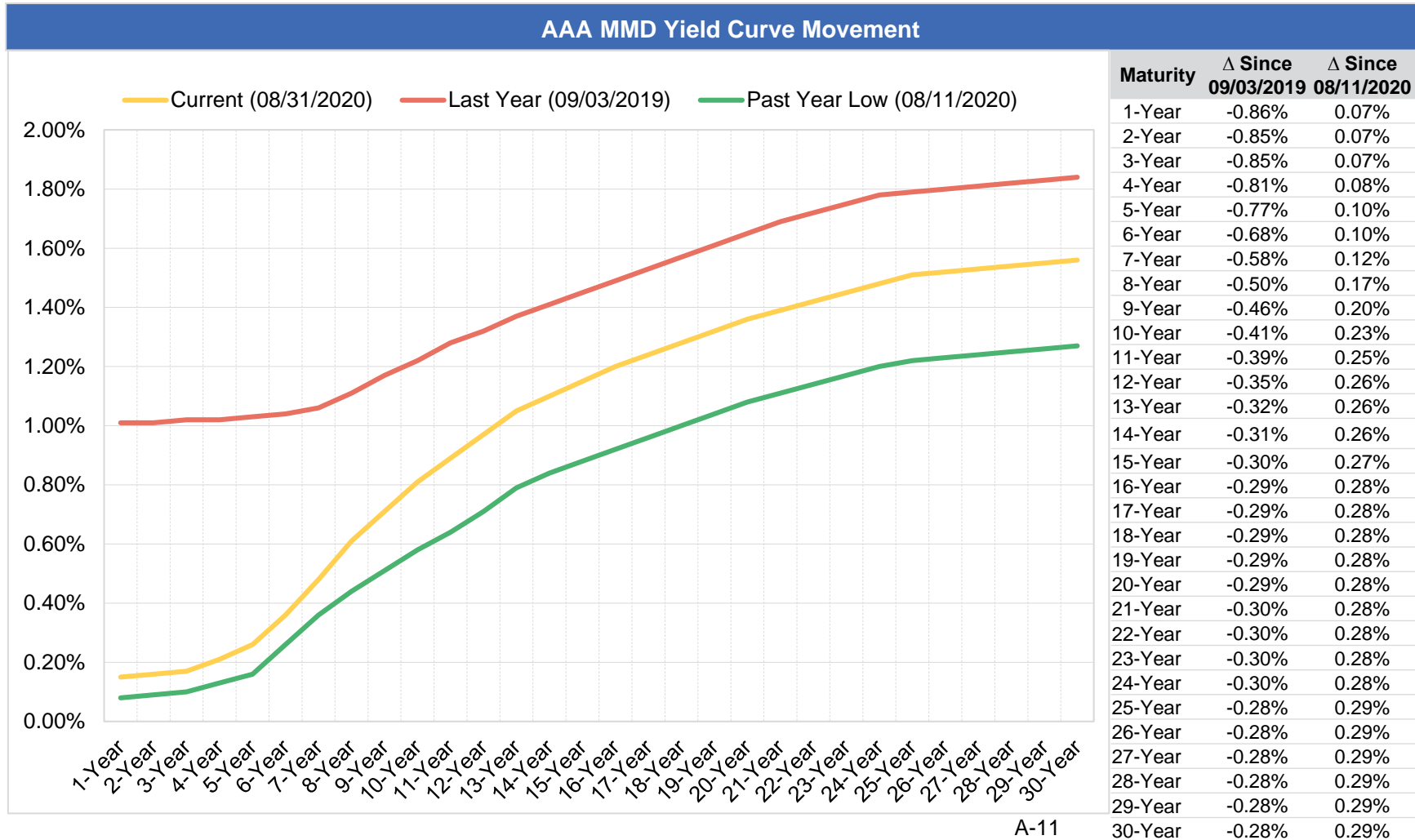
- **The U.S. economy continues to slowly recover in the face of a recent resurgence in COVID-19 cases in several states.** At the same time, sharp tensions between the U.S. and China have emerged from the pandemic's shadow.
- **The Federal Reserve (Fed) left its policies unchanged at the July Federal Open Market Committee meeting and reinforced its commitment to support economic recovery with an expansive monetary policy.** The Fed intends to keep rates near zero, continue its purchase of government securities and maintain its support of the credit markets. These efforts are likely to remain until the monetary policy body is confident that the economy has weathered the virus and is on track to achieve its goals of maximum employment and stable prices.
- **The U.S. economy suffered a record contraction in the second quarter as gross domestic product fell by an annual rate of 32.9%.** The decline was driven by a deep pullback in consumer spending, which accounts for about 70% of economic activity. Business investment and residential housing also suffered sharp declines, while federal government spending rose. U.S. economic activity is expected to rebound in the second half of the year.
- **The U.S. economy added 1.8 million jobs in July following a record 4.8 million jobs in June. Job gains in leisure and hospitality and the government sector accounted for more than half of the total gains.** The unemployment rate continued to improve, falling from 11.1% to 10.2% in July. A job gap remains compared to pre-pandemic numbers, and there are 15 million fewer employed workers in the U.S.

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Source: Bloomberg, PFM Research



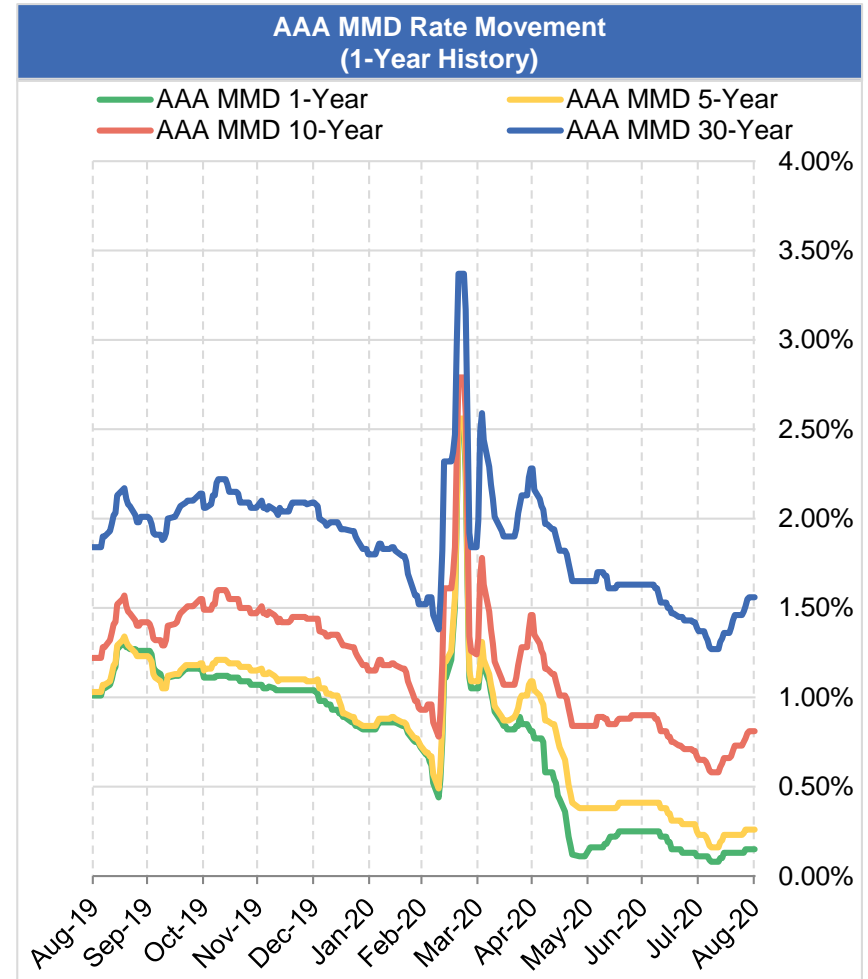
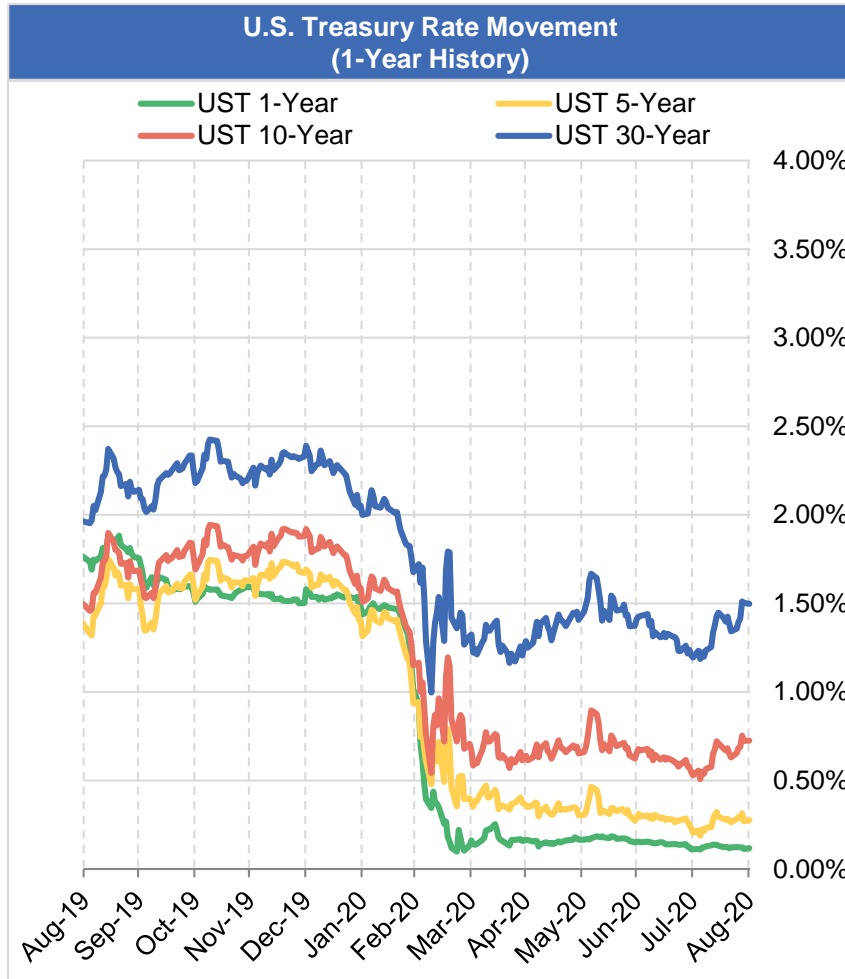
Recent AAA MMD Yield Curve Movement



Source: Thomson Reuters



U.S. Treasury & AAA MMD Rate Movement

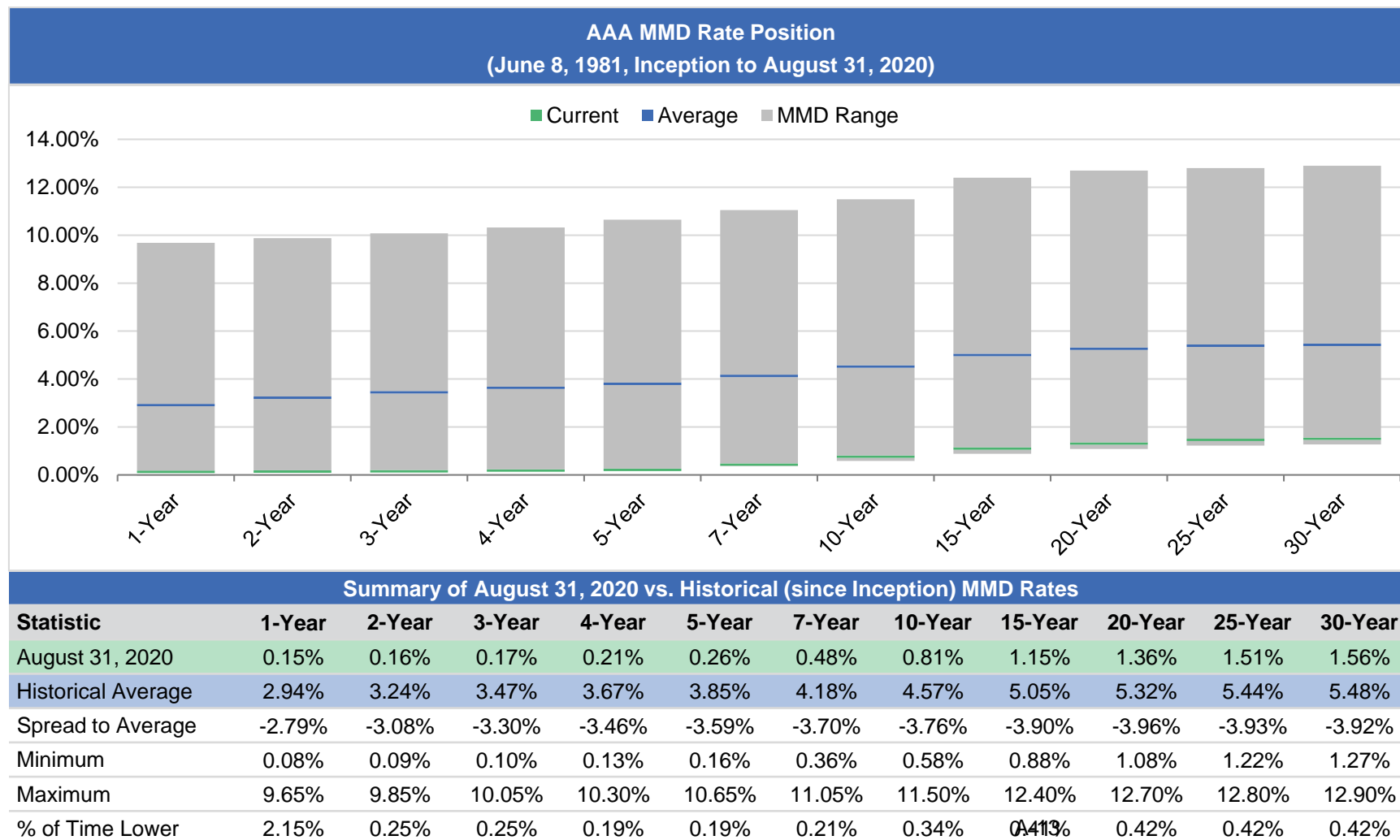


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Source: Thomson Reuters



AAA MMD Position Since Inception

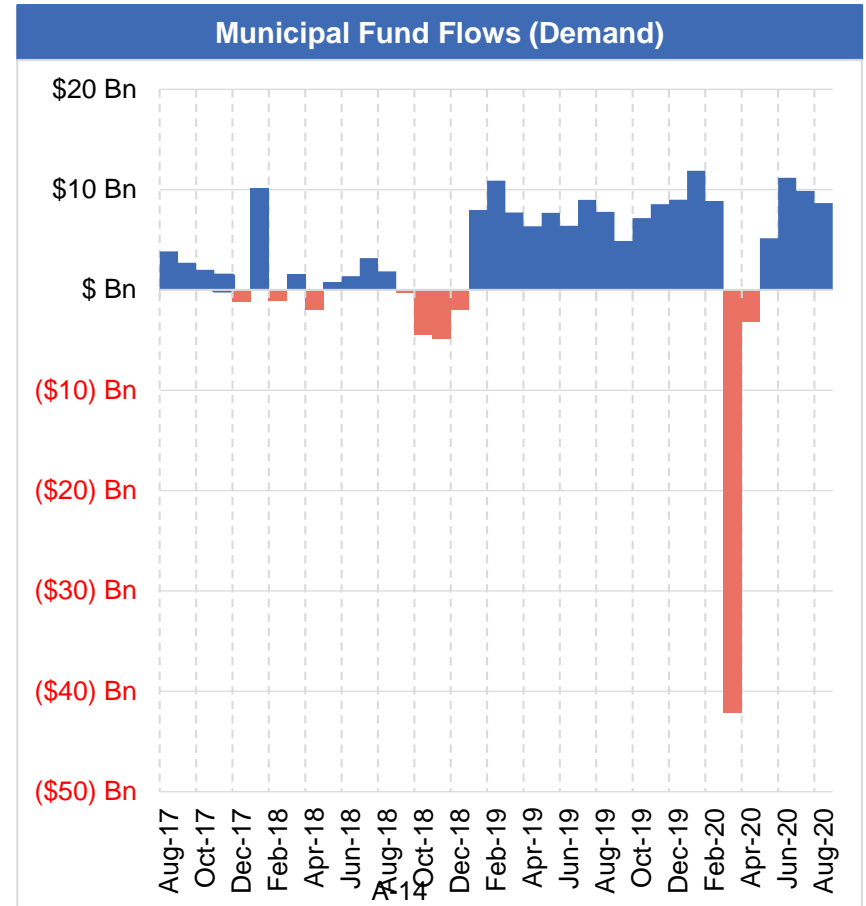
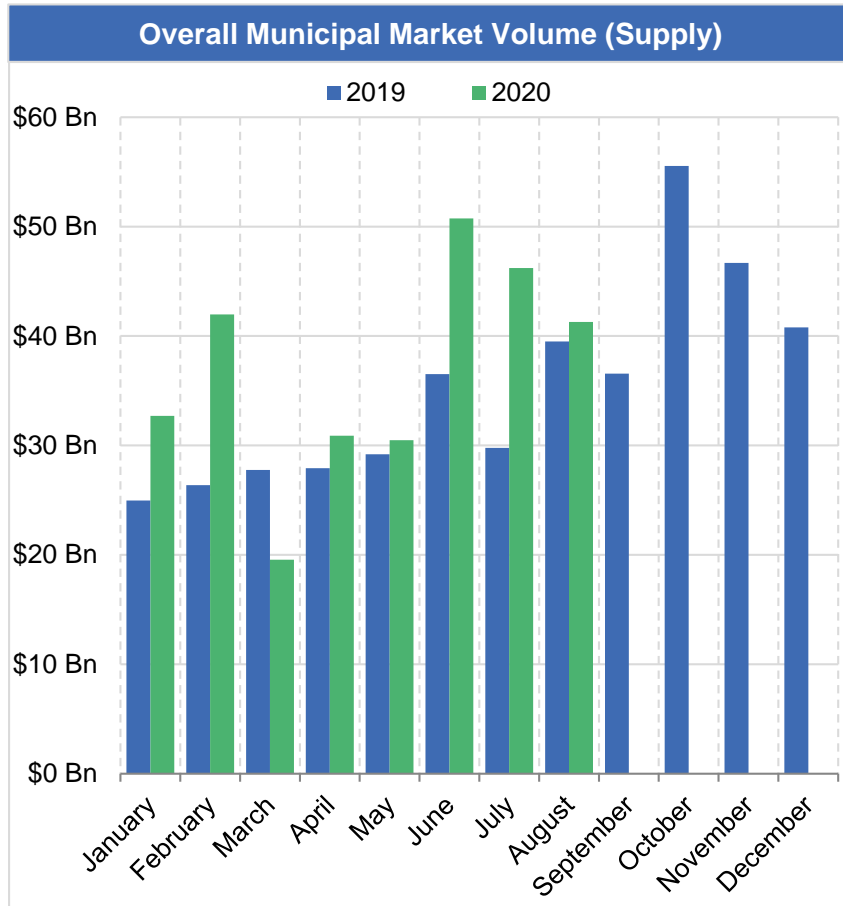


Source: Thomson Reuters



Municipal Market Supply & Demand

- New issuance volume was up by 4.52% year-over-year in August, while year-to-date new issuance volume was 21.43% higher than 2019 issuance through August.



Source: Bond Buyer, Investment Company Institute

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**Sales Tax Reductions Due to COVID-19 Impact
As of August 25, 2020**

Sales Tax General Fund:

2019-2020 Modified Budget:	\$47,512,736	Percent of Budget	
2019 Actual	22,556,266	47.47%	
2020 Forecast (2019 Actual + 4%)	23,458,517	49.37%	Original Forecast, Pre-Covid
Total Forecast Pre-Covid	\$46,014,783	96.85%	

Sales Tax Forecasted by Month	Original Forecast = 2019 + 4% Pre- COVID	2020 Sales Tax Adj for Covid-19 Impacts	Forecasted Tax Decrease	Actual Sales Tax	Difference Actual vs. Pre-COVID Forecast	Actual Decrease % from Original Forecast
January	\$ 1,773,482	\$ 1,773,482		\$ 1,682,783	\$ (90,699)	-5.11%
February	1,652,511	1,652,511		1,515,996	(136,515)	-8.26%
March	1,971,850	1,207,193	Less 39%	1,207,193	(764,657)	-38.78%
April	1,939,369	775,748	Less 60%	1,148,763	(790,606)	-40.77%
May	2,050,882	820,353	Less 60%	1,606,386	(444,496)	-21.67%
June	1,875,354	937,677	Less 50%	1,810,757	(64,597)	-3.44%
July	1,924,287	1,539,430	Less 20%			
August	2,143,992	1,715,194	Less 20%			
September	1,957,652	1,664,004	Less 15%			
October	2,063,102	1,856,792	Less 10%			
November	1,932,396	1,835,776	Less 5%			
December	2,173,640	2,064,958	Less 5%			
Total	\$23,458,517	\$17,843,117	\$5,615,400	\$ 8,971,878	\$ (2,291,570)	20.35%

YTD Loss 20.35%

Note: July and August assumptions updated from 30% and 25% decreases respectively, to 20% decreases

Date: September 10, 2020

To: City Council Finance Committee

From: Sonja Springer, Finance Director

Subject: Update on the General Fund Financial Forecast for 2020

Many updates have been shared with the City Council and the Council Finance Committee regarding the “gap” between General Fund revenues and expenditures in 2020 due to COVID-19. The most-recent update was shared with Council at their June 29 Work Session. At that time, the gap for 2020 was estimated to be \$2.2 million. This memorandum provides an update on the 2020 budget gap and suggests one measure that can help address this problem.

The current General Fund forecast indicates a gap of approximately \$2.6 million and a corresponding need for the City to use a portion of the General Fund unassigned fund balance or the Revenue Stabilization Fund to address this unanticipated, adverse financial condition brought about by COVID-19. This amount will change depending upon the actual revenues and expenditures during the remainder of 2020. The purpose of the reserves of the Revenue Stabilization Fund is to help protect the City from major economic downturns and other unanticipated, adverse financial conditions. For reference, an excerpt of the Financial Policies is provided at the end of this memorandum.

While sales tax earned in June was higher than we had forecasted, the extended closure of most of the Recreation and Parks programs have resulted in less fee revenue than expected. While the County remains at Phase 2 of reopening, the ability to offer recreation programming is highly constrained. A thorough review of all General Fund revenues has been completed and the financial forecast has been updated accordingly resulting in a General Fund gap increase from \$2.2 to 2.6 million.

As a reminder, the City has taken the following steps to offset the shortage of revenues in 2020:

- Identified expenditure reductions in every General Fund department. These reductions include eliminating non-essential travel and training, keeping position vacancies unfilled, a reduction of part time staff, reduced professional services, and reduced transfers from the General Fund to the Street Fund and Capital Projects Fund.
- Discontinued the transfer of EDIF eligible revenues to EDIF in 2020. This is estimated to be approximately \$1 million in additional revenues for 2020.
- Offered a voluntary separation program to employees.
- Offered voluntary furloughs and the “shared work” program to employees.
- Completed a thorough review of all Budgeting for Outcomes (BFO) programs by each department to identify lower-priority outcomes and possible elimination or reductions of these outcomes or programs.

Lynnwood’s Financial Policies call for General Fund reserves in the amount that equals 2.5 months of actual operating expenses during 2019. These reserves are accounted for in two “places”: Revenue Stabilization Fund and the General Fund unassigned fund balance. For the end of 2020, the amount of reserves that satisfy the Financial Policies is \$9,519,143. At the end of 2020 we are forecasting a combined General Fund and Revenue Stabilization reserve balance of \$6,912,014 or \$2,607,129 short of the reserve requirements. The City Council can authorize the use of any or all of the reserves with an accompanying plan to restore the reserves to the amount called for by the Financial Policies.

Below is an updated General Fund forecast for 2020 revenues, which shows a transfer of \$2,607,129 from the Revenue Stabilization fund to the General Fund. This transfer needs to be paid back or replenished as the economy and sales tax revenues improve.

The \$968,000 of CARES Act funding is included in “State Shared and Intergovernmental Revenues”.

GENERAL FUND REVENUES	2017 Actual	2018 Actual	2019 Actual	2020 Modified Budget	With Covid Impacts 2020 Projected
BEGINNING FUND BALANCE	\$ 10,134,924	\$ 8,190,691	\$ 5,430,869	\$ 5,962,407	\$ 4,125,559
OPERATING REVENUES					
General Property Tax	9,644,579	3,885,877	3,967,206	4,300,000	4,300,000
EMS Property Tax	2,272,228	2,323,234	23,839	-	-
Total Retail Sales Tax	20,749,419	21,014,172	22,556,266	24,453,852	17,843,117
Total Utilities Taxes	6,184,216	5,961,187	5,869,787	6,440,352	5,968,502
Total Gambling Tax	135,152	211,831	154,214	137,189	111,595
Admissions & Leasehold Taxes	682,148	923,335	705,753	745,093	351,034
Total Business & Other Licenses	3,066,097	2,879,145	1,836,596	3,148,337	4,616,220
Total Development Services	2,321,845	1,970,611	1,644,727	2,538,505	3,265,886
Total Recreation	2,932,131	3,119,510	2,873,626	3,370,878	1,093,088
Total Fines and Forfeitures	4,556,126	4,292,161	4,763,375	4,556,126	3,918,319
Total Franchise Fees	484,979	457,154	442,681	504,572	451,535
Total State Shared & Intergov	4,151,118	3,739,620	4,221,192	4,927,879	4,928,696
Total Transport Fees	769,891	(3,012)	3,483	-	-
Total Investment Interest	144,114	211,645	(24,316)	154,423	116,000
Total Operating Revenue	58,094,043	50,986,470	49,038,429	55,277,207	46,963,991
Transfers	192,000	-	5,805	874,810	205,805
Trfr from Rev Stabilization	-	-	-	-	2,607,039
One Time Revenue - ST2	288,258	350,063	465,641	2,261,615	2,261,615
Other Non Operating Revenues	251,342	160,411	1,342,966	297,901	188,850
Total Revenues	58,825,643	51,496,944	50,852,841	58,711,533	52,227,300
TOTAL REV & OTHER SOURCES	\$ 68,960,567	\$59,687,635	\$ 56,283,710	\$ 64,673,940	\$ 56,352,859

The General Fund forecast for 2020 expenditures follows, which includes an estimated combined reserve balance in the General Fund and the Revenue Stabilization Fund of \$6,912,104, or \$2,607,129 short of the \$9,519,143 required combined reserves.

The \$968,000 of CARES Act funding expenditures is included in the “Non-Departmental” projected expenditures.

GENERAL FUND EXPENDITURES	2017 Actual	2018 Actual	2019 Actual	2020 Modified Budget	With Covid Impacts 2020 Projected
OPERATING EXPENDITURES					
Legislative	\$ 437,221	\$ 406,952	\$ 406,546	\$ 452,357	\$ 416,001
Executive	762,109	802,540	871,851	977,624	909,366
Municipal Court	1,304,682	1,325,287	1,291,421	1,491,866	1,376,433
Legal	1,559,286	1,842,041	1,713,925	1,741,300	1,634,729
Human Resources	816,615	784,652	778,378	995,441	829,527
Administrative Services	3,540,188	3,562,518	3,586,525	3,975,810	3,742,264
Information Services	2,428,431	2,143,051	2,375,484	2,585,789	2,468,808
Non-Departmental	212,386	82,022	-	1,168,000	1,168,000
Police	19,350,714	20,683,675	21,350,443	22,769,019	21,075,588
Fire	12,483,771	3,578,301	1,176,835	1,046,950	900,047
Parks & Recreation	7,195,305	8,137,174	8,019,155	8,955,940	6,929,434
Public Works	3,346,781	3,281,941	3,116,857	4,516,021	3,475,767
Street Oper Fund (Transfer Out)	1,000,000	1,000,000	1,045,450	1,060,900	945,450
Community Development	2,733,126	3,057,919	2,554,275	3,604,078	2,530,490
Economic Development	713,470	701,941	510,527	638,345	513,559
Total Operating Expenditures	57,884,085	51,390,014	48,797,672	55,979,440	48,915,463
Oper Rev over (under) Oper Expend	\$ 209,958	\$ (403,544)	\$ 240,757	\$ (702,233)	\$ (1,951,472)
EXPENDITURES, continued					
One Time Expenditures - ST2	\$ -	\$ -	\$ 465,641	\$ 2,261,615	\$ 2,261,615
Transfer to Capital Funds	1,100,000	1,100,000	1,100,000	1,100,000	-
Additional Exp Reductions	-	-	-	-	-
Trfs to Other Funds (Debt, Etc.)	1,785,791	1,766,752	1,794,838	1,656,613	1,656,638
TOTAL EXPEND & OTHER USES	60,769,876	54,256,766	52,158,151	60,997,668	52,833,716
ENDING FUND BALANCES					
Reserved For:					
Reserves per Financial Policy	\$ 4,857,895	\$ 5,411,164	\$ 4,049,727	\$ 3,519,143	\$ 3,519,143
Unassigned (GAP)	3,332,796	19,706	75,832	157,129	(0)
ENDING FUND BALANCES	\$ 8,190,691	\$ 5,430,869	\$ 4,125,559	\$ 3,676,272	\$ 3,519,143
TOTAL EXPENDITURES, OTHER	\$ 68,960,567	\$ 59,687,635	\$ 56,283,710	\$ 64,673,940	\$ 56,352,859
USES & FUND BALANCES					
General Fund Ending Fund Balanc	\$ 8,190,691	\$ 5,430,869	\$ 4,125,559	\$ 3,676,272	\$ 3,519,143
Revenue Stabilization Fund Balan	6,000,000	6,000,000	6,000,000	6,000,000	3,392,961
Total Ending Fund Balances	\$ 14,190,691	\$ 11,430,869	\$ 10,125,559	\$ 9,676,272	\$ 6,912,104

To reduce the \$2,607,039 shortfall in the reserves, the Council has an option to transfer funds to the General Fund from two debt service funds that can be closed as no additional activity is expected or needed. The two funds' associated debt has been paid off.

- 1) The LID Guaranty Fund #224 has a balance of \$186,093 that can be transferred to the General Fund. There is no longer a need to maintain these monies in this fund as the associated debt has been paid off.
- 2) The LID Fund #263 has a balance of \$276,648 that can be transferred to the General Fund. This fund was established in 1993 by Ordinances 1977 & 1978 to account for local improvement district (LID) 93-LID-0001. This LID paid for improvements to SW 196th St near I-5. The property liens associated with the LID have been retired and the debt was paid in full in 2019.

Transferring these unneeded funds to the General Fund would reduce the estimated transfer needed from the Revenue Stabilization fund to \$2,144,298 or approximately \$2.1 million. A budget amendment would be required to authorize the transfer of these funds into the General Fund by the end of 2020. Staff seeks input from the Finance Committee regarding this budget amendment.

As mentioned above, the General Fund gap is likely to change as new monthly revenues and expenses become known. Staff will continue to identify and evaluate options to reduce the gap caused by the COVID-19 pandemic.

EXCERPT – FINANCIAL POLICIES

A. Reserves, General Fund

- i. Adequate reserve levels are a necessary component of the City's overall financial management strategy and key factor in external agencies' measurement of the City's financial strength. Collectively, the adopted budget should include General Fund reserve balances equaling not less than 2.5 months of the operating expenditures of the prior fiscal year. The reserves specified by this policy consist of the aggregate total of the General Fund Unassigned Fund Balance and the Revenue Stabilization Fund balance.
- ii. The purpose of the General Fund Unassigned Fund Balance is to provide for adequate operating cash and to cover receivables until they are collected. Achieving and maintaining this unassigned fund balance is the highest priority over developing and maintaining other general fund reserves.
- iii. The purpose of the reserves of the Revenue Stabilization Fund is to help protect the city from major economic downturns and other unanticipated, adverse financial conditions.
- iv. City Council authorization shall be required for expenditure of Unassigned Fund Balance or Revenue Stabilization Fund Balance.