



MEMORANDUM

COVID-19: Workforce Reductions

TO: City Council
FROM: Jessi Bon, City Manager
RE: COVID-19 Fiscal Impacts & Workforce Reductions
DATE: April 29, 2020

The COVID-19 Pandemic has created a health and economic emergency that is significantly impacting the Mercer Island community. The Pandemic is also impacting the City’s finances. The purpose of this memorandum is to update you on an initial list of actions taken to ensure the City of Mercer Island remains fiscally sound and is positioned to sustain essential services such as police, fire, utilities, and transportation.

Staff will present an updated financial analysis on the General Fund and the YFS Fund at the May 5, 2020 City Council Meeting. The May 19, 2020 City Council meeting will include a discussion and updated financial forecasts on the City’s capital programs and Utility Funds.

BACKGROUND

At the end of February 2020, the first known case of COVID-19 was confirmed in King County. What followed was the enactment of a number of King County and Statewide measures to slow the spread of the virus. Two of the earlier impacts on the City of Mercer Island that resulted from these measures were the closure of the Mercer Island Community and Event Center (MICEC) on March 11 and the closure of the Mercer Island Thrift Shop on March 16. Both closures resulted in an immediate and ongoing loss of significant revenues to the City.

At the April 7, 2020 City Council meeting the staff provided an initial projection of the negative revenue impacts due to the Pandemic, focusing primarily on revenues generated through the Parks and Recreation Department, the Youth & Family Services (YFS) Department, and Sales Tax. The initial projections were as follows:

Category	2020 Projected Revenue Losses (4/7/20)
Parks & Recreation	\$1.1 million
Sales Tax	\$1.3 million
Youth & Family Services	\$1.1 million

The following are some of the assumptions used to develop these early projections:

- **The financial impacts of the Pandemic will extend into 2021, with a full recovery unlikely until 2022.** This planning assumption still holds and is being used to prepare future forecasts.
- The Thrift Store, which provides critical revenue to sustain YFS operations, was originally assumed to resume operations in June and meet 50% of the 2020 budget revenue goal through the end of the year. The 50% revenue projection goal was utilized because July, August, and November have historically been high revenue generating months. With the ongoing Pandemic response and

impacts to retail, this assumption has since been modified, such that no revenue is projected until July 2020 at the earliest. Projected Thrift Store revenue losses for 2020 remain at \$1.1 million.

- Recreation programming, facility rentals, and field rentals will likely not resume until September 2020. Although the Governor has recently announced a loosening of restrictions on outdoor recreation, events, gatherings, league play etc. are still not allowed. Considerable uncertainty remains about when these services will resume and what operating requirements will be needed to safely open parks and recreation facilities.

The financial presentation for the May 5, 2020 City Council meeting will include updated projections and a detailed analysis for the General Fund and the YFS Fund.

WORKFORCE REDUCTIONS

It is the City Manager's responsibility, serving as the Chief Executive of the City, to implement budget directives and ensure the City remains fiscally sound. Given the immediate losses to City revenues and projected future losses, immediate expenditure reductions were needed. These reductions, consisting mostly of layoffs and furloughs, were implemented in two phases over the past two months.

Unless otherwise noted, the savings described below include one-time vacation cash-out costs for those employees separating from employment.

This cost-savings projections also include the City's estimated portion of unemployment costs. Political subdivisions and most nonprofit organizations that are exempt from federal unemployment taxes under Section 501(c)(3) of the Internal Revenue Code have two options for unemployment insurance payments:

1. Reimbursable method: Pay for actual unemployment benefits of former employees
This option is available to political subdivisions and most nonprofit organizations. A reimbursable employer is billed every three months for its share of unemployment-insurance benefits received by former employees during the preceding calendar quarter.
2. Local Government Tax
This method is available only to cities, counties, and towns. Employers who elect this option are assigned a tax rate of 1.25% of total gross wages for the first eight quarters. After that, the tax rate is computed using an experience rating system based on benefits paid to former employees.

The City of Mercer Island, like most other cities, uses the reimbursable method for unemployment insurance payments. **This means that the City self-insures by paying for the unemployment costs of former employees.** This method has been the standard practice for local governments as unemployment costs are typically very low, except for rare circumstances such as the current Pandemic.

With the passage of the CARES Act, self-insured employers will be reimbursed for half (1/2) of the unemployment costs by the federal program. The mechanism for reimbursement is still being worked out by the State Employment Security Department and the timing of any reimbursement to the City is currently unclear. The City does not have a reserve set aside for unemployment expenses, but staff are tracking the expenses as they are incurred and have included the unemployment costs in the analysis below. Given the new Federal legislation related to the Pandemic, most employees will be eligible for 39 weeks of unemployment.

GENERAL FUND

2020 General Fund Revenue Projections

Pending further analysis, the current General Fund financial forecast indicates a projected revenue loss of \$4.3 million in Fiscal Year 2020. The details of this analysis will be presented at the May 5, 2020 City Council meeting and includes projected losses in Sales Tax, Property Tax, permit revenues, B&O Tax, recreation programming revenue, facility rental revenue, and more.

The General Fund includes the Parks and Recreation Department, which alone is forecasted to lose \$1 million in revenue through the end of August and up to \$1.4 million at year-end if programs and/or facility operations do not resume and meet budget objectives.

Phase 1 – General Fund Workforce Reductions

In March and early April, I made the difficult decision to layoff eighteen (18) Parks and Recreation Department employees:

- Parks Maintenance Seasonal Staff (3)
- Community Center Casual Labor Staff (5)
- Recreation Instructors (10)

The estimated savings from the Phase 1 layoffs is \$200,000 for the remainder of 2020 assuming all of the positions remain vacant. While some staff re-hires will be required once the Community Center re-opens, the timing of the re-opening, and the composition and mix of programs and services to be restored will be subject to future policy discussions with the City Council.

Recruitment for the following positions in the Parks and Recreation Department was also suspended and these positions will remain vacant through 2020:

- Marketing Coordinator (1)
- Parks Foreman (1)
- Recreation Coordinator - Contract (1)
- Remaining Parks Maintenance Seasonal Positions (8 to 9 positions)

The estimated 2020 savings for these positions is \$550,000.

Phase 2 – General Fund Workforce & Other Reductions

At the end of April and in further consideration of the projected \$4.3 million shortfall in the General Fund, the decision was made to layoff fourteen (14) employees in the Parks and Recreation Department:

- Parks and Recreation Director (1)
- Recreation Manager (1)
- Parks Operations Manager (1)
- Community Programs Manager (1)
- Reservations & Customer Service Supervisor (1)
- Recreation Supervisor (1)
- Customer Service Specialist/MICEC (3)
- Recreation Coordinator (1)
- MICEC Operations Coordinator (1)
- Senior P&R Administrative Assistant (1)

- Parks Project Coordinator (1)
- Natural Resource Specialist (1)

The estimated savings from the Phase 2 layoffs is \$1.04 million for the remainder of 2020 assuming all of the positions remain vacant. These savings do not include vacation cash-out costs (one-time payouts at separation) as some of the staff may continue serving in a temporary role in the Emergency Operations Center (EOC) through the end of May. (See information on page 7 about the EOC).

Staff re-hires will be required once the Community Center re-opens and other services resume, but the timing of the re-opening and the composition and mix of programs and services to be restored is subject to future policy discussions with the City Council.

In addition to staff reductions, a number of other cost saving measures are planned in the Parks and Recreation Department. This includes reductions in advertising, summer programming staff, travel and training, supplies, utilities, and more. These additional budget reductions are estimated at \$421,000 through the end of August. Further reductions may be considered and are largely dependent on when/if recreation programs and services are restored in 2020.

For the time being, recreation and MICEC customer service needs will be handled through the EOC. Park maintenance staff are currently reporting to Public Works leadership. Limited park maintenance operations deemed essential are planned to resume in May. All other Parks and Recreation programs, services, and projects are suspended.

Facilities:

City buildings remain closed, with the exception of the Police and Fire Department facilities. When services resume, staff anticipate in-person operations will be limited for the duration of 2020. Given the scaled back facility operations and the need to mitigate the revenue losses in the General Fund, the decision was made to layoff two (2) employees in the Facilities Division:

- Facilities Project Manager (1)
- Facility Maintenance Technician (1)

For the remainder of the year, facility needs will be handled through the EOC. The restoration of facility maintenance services will be part of future policy discussions with the City Council.

The estimated savings from the Phase 2 layoffs in the Facilities Division is \$146,000 for the remainder of 2020.

Other:

Additional General Funds cost-savings measures implemented in March and April include:

- A savings of \$50,000+ by eliminating all non-essential professional training and related travel through 2020. Several staff divisions are still evaluating mandatory training needs, so this number will be updated in the future.
- A savings of \$100,000+ due to powering down utilities at closed City facilities and reducing some building and landscaping maintenance activities. Projected savings will increase as the building closure is extended.

General Fund Summary

In summary, the Phase 1 and Phase 2 General Fund reductions will result in the following projected savings:

Reductions	2020 Estimated Savings
Phase 1 – P&R Layoffs	\$ 200,000
Phase 1 – P&R Hiring Freeze	\$ 550,000
Phase 2 – P&R Layoffs	\$1,040,000
Phase 2 – P&R Operating Reductions	\$ 421,000
Phase 2 – Facilities Layoffs	\$ 146,000
Other	\$ 150,000
Total	\$2,507,000

The total estimated savings resulting from these reductions is \$2.5 million for 2020, with most of the savings resulting from the suspension of MICEC operations and related recreation programs and services.

Phase 3 – Potential Reductions and Policy Considerations

Given the projected savings provided above, it is clear that further reductions or additional resources will be needed to address the projected \$4.3 million General Fund revenue shortfall in 2020. Other cost savings measures still under review include:

- Additional workforce reductions through layoffs, furloughs, salary reductions, etc.
- Suspending non-essential contracts, particularly in the General Fund.
- Identifying potential transfers from the General Fund that could be delayed or eliminated.
- Tracking Federal and State resources to supplement emergency operations costs.
- Initiating discussions with labor partners to explore additional ways to close the budget gap.

Some of the options under consideration involve policy decisions by the City Council, such as:

- Implementing a furlough program for all non-represented employment positions.
- Reducing City Hall operations to four days per week, which could be done in conjunction with a furlough program.
- Implementing an early retirement program.
- Use of the compensated absence reserve to cover one-time cash-out costs.
- Interfund loan between the Utility Fund and the General Fund.
- Other scenarios, including revisiting options presented as part of the Management Partners assessment in 2019.

It is important to note that the projected loss of \$4.3 million in General Fund revenue includes a \$1.2 million revenue shortfall for licensing, permits, and zoning fees through the end of the year. At the time this memorandum was prepared staff were still assessing reduction and cost-savings scenarios for the Community Planning and Development Department.

YOUTH AND FAMILY SERVICES (YFS) FUND

2020 YFS Fund Revenue Projections

The current financial analysis includes a projected loss of \$1.1 million in Thrift Store revenue and a \$200,000 loss in revenue for other services in 2020. This analysis now assumes the Thrift Store will resume operations in July 2020 and achieve 50% of the revenue goals through the end of the year. To a certain

degree, this assumption is speculative - restrictions on retail operations have not been lifted and guidelines for operations during the Pandemic are still being developed.

Phase 1 - YFS Fund Workforce Reductions

In late March and early April, I made the difficult decision to layoff twenty-two (22) YFS employees:

- Thrift Shop Contract Staff (10)
- Thrift Shop Casual Labor (5)
- Thrift Shop Work Study (6)
- Donor Development Officer (1)

The estimated savings from the Phase 1 layoffs is \$404,000 for the remainder of 2020 assuming all positions remain vacant. Given that the Thrift Store is planned to re-open in the July timeframe, current financial models also include \$174,000 in future 2020 staff costs.

Phase 2 – YFS Fund Workforce & Other Reductions

At the end of April and in consideration of the projected remaining shortfall in the YFS Fund, the decision was made to place the following positions on 90-Day Standby Layoffs:

- YFS Director (1)
- Administrative Assistant (1)
- Elementary School Mental-Health Counselors (2)
- Healthy Youth Initiative & Voice Coordinator (1)
- Community Based Counselor (1)

The decision to place these six (6) positions on 90-day Standby was to allow time for the City Council to discuss policy options related to YFS services and operations, while also immediately drawing down expenses. A decision on whether or not to extend these layoffs beyond 90-days will need to be made in early July.

The estimated savings for the 90-day Standby layoffs is \$114,000 (over the 90-day period). If the layoffs are extended through the end of 2020, the estimated savings is \$304,000.

Additional reductions were made in the YFS Department via furloughs (reductions in work hours/week):

- Senior Program Manager & Clinical Supervisor (8-hours/week furlough) (1)
- Community Development & Administrative Manager (8-hours/week furlough) (1)
- Employment & Emergency Assistance Staff (8-hours/week furlough) (1)
- School Mental Health Counselors (12-hours/week furlough) (5)
- Thrift Shop Business Coordinator (20-hours/week furlough) (1)
- Thrift Shop Operations Coordinator (20-hours/week furlough) (1)
- Elementary Clinical Supervisor & Senior Services Counselor (20-hours/week furlough) (1)

The two (2) Thrift Store employees are anticipated to be furloughed for two months assuming that the Thrift Store reopens in July. The other nine (9) YFS staff furloughs are assumed to extend through the end of 2020 and the total estimated savings from the furloughs is \$151,000.

In addition to staff reductions, a number of other budget reductions are proposed in the YFS Department. This includes repair and maintenance costs, utility costs, reduction in supplies, and suspension of training and travel. These additional cost saving measures are estimated at \$59,000 through the end of the year.

YFS Fund Summary

In summary, the YFS Fund cost saving measures implemented thus far have resulted in the following projected savings:

Reductions	2020 Estimated Savings
YFS - Phase 1 Layoffs	\$404,000
YFS – Phase 2 Layoffs (90-day vs. full year)	\$114,000 to \$304,000
YFS – Phase 2 Furloughs	\$151,000
Other	\$59,000
Total	\$728,000 to \$918,000

The estimated 2020 savings resulting from these reductions ranges from \$728,000 to \$918,000. Factoring in the \$174,000 in staff costs to resume Thrift Store operations and the projected \$1.3 million revenue loss, a shortfall of \$556,000 to \$746,000 remains. Further reductions or additional resources will still be needed to close the gap in 2020.

Youth and Family Services Foundation

City staff along with Mayor Wong recently met with two board members from the Youth and Family Services Foundation to discuss scenarios to address the funding gap in 2020. The Foundation has committed to providing additional funding support in 2020, along with continued support for YFS in 2021 and beyond. At the meeting it was recommended that a working group of City Councilmembers and Foundation Board members be formed to focus on prioritizing service needs for 2020 and beginning discussions on a long-term strategy to stabilize funding for Youth and Family Services.

EMERGENCY OPERATIONS

As the City continues to address the impacts of the Pandemic, it is important to ensure resources are available to sustain the City’s emergency response, including the essential recovery and long-term planning work that is currently underway.

EOC Status

The City’s EOC began operating in response to the Pandemic at Level 3 the first week in March and was elevated to Level 1 status by the end of that month. Level 1 EOC operations have continued since that time with staff resource demands peaking in April when nearly 40 City staff were assigned to a specific emergency response role. Although the City is still providing critical emergency response services, the number of employees needed to support the EOC workload has declined and resource are being adjusted.

Last week staff began implementing a strategy to consolidate EOC staff roles in anticipation of a prolonged Pandemic response extending through the end of 2020 and into 2021. Effective the first week in May, the EOC will be scaled back to 14 employees assigned to emergency response roles. Ongoing functions in the EOC include:

- **Logistics** – Responsible for facilities, supplies, equipment, transportation, timekeeping, finances, human resources, and technology needs. This team is also responsible for pursuing grants and Federal reimbursements.

- **Operations** – Responsible for public safety, parks, human services, utilities, infrastructure, planning, volunteers, and small business support.
- **Planning** – Responsible for situation reports, data collection, call center/customer service, policy analysis, and recovery planning.
- **Other** – The emergency response and recovery planning also require dedicated legal and communications resources.

The EOC team is currently responsible for sustaining a variety of operations including Citywide customer service functions, limited MICEC/recreation needs, facilities, supply procurement, and more.

In preparation for the slow lift or modification of the “Stay Home, Stay Healthy” Orders, the EOC team has begun working on critical operating planning to safely resume City Operations. Staff members from all departments are participating in these efforts. These are a few examples of the tasks that are currently underway:

- Modifications to facilities including implementation of physical barriers (plexiglass shields) at customer service counters in City buildings.
- Developing operating protocols for MICEC specific to facility rentals, recreation programs, drop-in programs, leagues, and more.
- Cleaning and disinfecting protocols for all facilities.
- Updating personnel policies and staff training plans to ensure a safe work environment.

A number of the planning projects, particularly the work related to resuming suspended operations (MICEC, recreation programming, YFS, etc.) will be part of future policy discussions with the City Council.

Emergency Operation Costs

The City does not have a dedicated reserve for emergency operations expenses. Previous emergencies were generally short-term in duration and the operating costs were absorbed by individual Departments. In this case, and given the significant financial impacts to the City, dedicated funding will be needed to sustain the emergency response and recovery planning through the end of the year.

Staff plan to discuss funding options to sustain EOC operations with the City Council at the May 5, 2020 meeting.

Future Reimbursements

Historically, local jurisdictions have been eligible for State and Federal reimbursements when a Federal disaster is declared. The normal reimbursement share is 75% from the Federal government, 12.5% from the State of Washington, and 12.5% remains the responsibility of the City. Staff have been closely tracking the City’s costs related to the emergency response per FEMA requirements and are prepared to seek reimbursement when the opportunity arises. The timing and amount of the reimbursement is unknown.

Cares Act Funding from Washington State

Governor Inslee announced on Monday, April 27, that nearly \$300 million will be awarded from the State’s federal stimulus funding to local governments that did not receive direct distributions under the federal CARES Act. Funds can be used to cover critical expenses arising from the COVID-19 emergency, including isolation and quarantine sites, staffing, and the procurement of medical supplies and equipment for health care providers and first responders. The preliminary estimate is that the City of Mercer Island will receive \$734,000 from the State to support the COVID-19 response.

Once the funding amount is confirmed, the City Council will address the allocation and use of funds. A final estimate of CARES Act funding from the State is anticipated within a week.

HUMAN RESOURCES SUPPORT/ONE-TIME WORK ITEMS

The City has an immediate resource need in the Human Resources Department to address a number of work items related to benefits administration, policy updates, new software implementation, and conversion of paper records to electronic format. These are generally short-term work items that will be completed by the end of 2020. Many of these work items arose from the results of the recent State Audit and other recent staff findings.

The recommendation is to retain two to three employees from the recently announced layoffs to complete the following work items:

- Provide administrative support with the payroll audit, benefit payments, DRS reporting, unemployment benefits tracking, and leave accruals.
- Research and apply retention requirements for personnel files and payroll records. Paper personnel files are currently archived through 1960.
- Digitize current personnel files and payroll records.
- Research and respond to backlogged requests for information from the Department of Retirement Services.
- Implement the NEOGOV software platform that will automate current manual processes and support the entire employee lifecycle, including online applications acceptance, performance management, and automated forms. The main component is implementing an HRIS system that includes payroll, benefits administration, and automated time and attendance tracking.

Currently, the Human Resources Department consists of a Human Resources Specialist and a Payroll Specialist. The Chief of Administration has been supporting the Department since January in an almost full-time capacity. Due to the Pandemic all progress on the software implementation has ceased and staff have been focusing primarily on supporting employee transitions.

Staff are preparing an allocation request for the May 19, 2020 City Council meeting to fund this one-time work. There is salary savings due to the vacant Human Resources Director position and that will be factored into the analysis. It is imperative that these outstanding work-items be addressed in 2020.

CONCLUSION

This is a very challenging time for our community. The City has projected a significant loss of revenues as a result of the Pandemic, the impacts of which are expected to extend into 2021. These losses, coupled with the unexpected and ongoing expense of managing an emergency response and an already uncertain budget forecast, required immediate reductions in staffing and operation costs.

Decisions to cut and/or reduce services and staff are very difficult. These are not decisions any City Manager wants to make. Although these decisions are fiscally responsible, they are devastating to the community and the City organization.

There are many critical policy decisions ahead of us and this will remain the primary focus in 2020. I look forward to collaborating with the community, our many partners, the City Council, and the staff as we look to the next phase of recovery and rebuilding.