



2020 COVID-19 STRESS TEST ON OPERATING REVENUES

Amid the current environment, the City has been focused on managing the needs of the community and the changing daily priorities and seeking to model the financial impacts of an event that is completely unprecedented.

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. Many of our local government colleagues, economists, and other professionals have advised that we cannot “trust our gut” and hope that the economy responds/recovers as it did during previous downturns, and that we should prepare for a “deeper- and longer-than-expected” downturn and recovery. Therefore, as the “new normal” takes shape over the next few months, Shoreline’s Leadership Team is preparing for the near-and long-term effects that the COVID-19 pandemic may have on its funds and ability to deliver valued services by evaluating three scenarios. Each is illustrative of the potential severity of the 2020 downturn and how long it might take to recover, as follows:

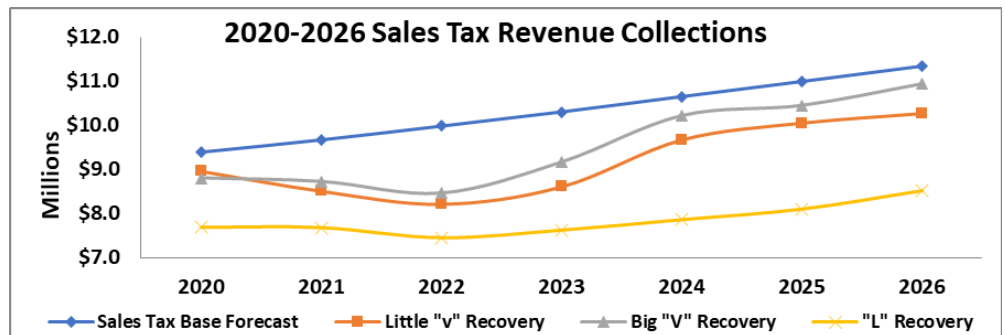
Little "v" Recovery	Big "V" Recovery	"L" Recovery
<ul style="list-style-type: none"> • Rebound is swift, but not easy • Short-term, quick fixes could bridge the gap to recovery 	<ul style="list-style-type: none"> • Downturn is deeper, but bounce back is rapid • Short-term bridge strategies apply 	<ul style="list-style-type: none"> • Recovery is stalled by deeper economic woes • Long-term transformation strategies needed ASAP

The table below assesses potential impacts on Shoreline’s operating revenue streams, which vary by revenue type:

Revenue	2020 Base Collections	Little "v" Recovery			Big "V" Recovery			"L" Recovery		
		Collections	\$ Change	% Change	Collections	\$ Change	% Change	Collections	\$ Change	% Change
Property Tax	\$13,916,110	\$13,220,305	(\$695,806)	-5.0%	\$12,524,499	(\$1,391,611)	-10.0%	\$12,524,499	(\$1,391,611)	-10.0%
Sales Tax	\$9,391,258	\$8,957,646	(\$433,612)	-4.6%	\$8,800,427	(\$590,831)	-6.3%	\$7,684,246	(\$1,707,012)	-18.2%
B&O Tax	\$1,064,819	\$1,015,654	(\$49,165)	-4.6%	\$997,828	(\$66,991)	-6.3%	\$871,271	(\$193,548)	-18.2%
Gambling Tax	\$1,437,300	\$872,784	(\$564,516)	-39.3%	\$679,324	(\$757,976)	-52.7%	\$537,907	(\$899,393)	-62.6%
PRCS Classes & Rentals	\$1,698,736	\$1,583,840	(\$114,896)	-6.8%	\$1,583,840	(\$114,896)	-6.8%	\$1,583,840	(\$114,896)	-6.8%
PCD Development Fees	\$2,164,258	\$1,848,078	(\$316,180)	-14.6%	\$1,604,515	(\$559,743)	-25.9%	\$1,538,275	(\$625,983)	-28.9%
Fuel Tax	\$1,274,526	\$1,012,009	(\$262,517)	-20.6%	\$981,235	(\$293,291)	-23.0%	\$634,666	(\$639,860)	-50.2%
Totals	\$30,947,007	\$28,510,316	(\$2,436,691)	-7.9%	\$27,171,668	(\$3,775,339)	-12.2%	\$25,374,703	(\$5,572,303)	-18.0%
Base Operating Revenue	\$48,819,600	\$46,382,909	(\$2,436,691)	-5.0%	\$45,044,261	(\$3,775,339)	-7.7%	\$43,247,297	(\$5,572,303)	-11.4%

The above recovery scenarios were developed with current data, comments and analysis by local government colleagues and economists, and anecdotal evidence available at this time. 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.

Each revenue source is impacted differently, and our model takes these stress factors into consideration. For example, property tax, while considered relatively stable, is subject to each property owner’s ability to pay so the City may experience a greater-than-historical level of delinquencies that impact current cash flow. The significant downturn in business activity resulting from closing businesses or severely restricting operations will result in decreased state and local tax revenues (e.g., Sales, Business & Occupation, and Gambling taxes). For Shoreline’s Sales Tax, the largest impact will likely be seen in the Retail Trade Sector but restriction on construction activity may have an impact on the Construction Sector as well. The shape of the recovery can be illustrated with the forecast for Sales Tax collections.

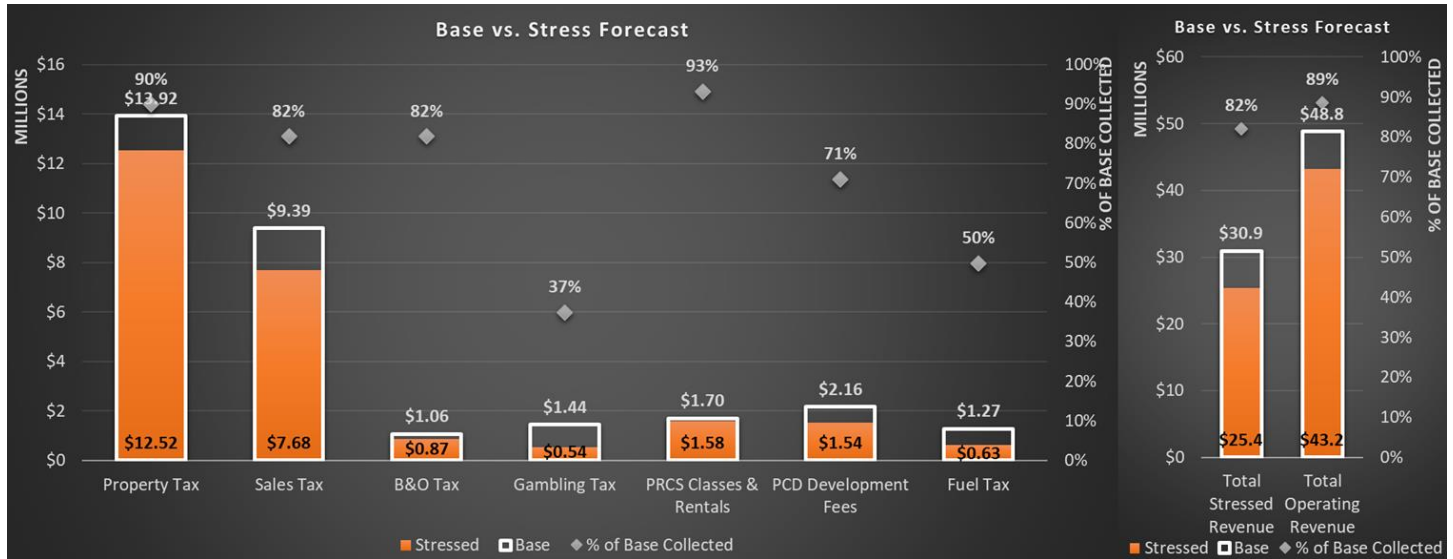


Parks and Recreation revenues have already been impacted as the cancellation of classes and rentals resulted in a significant amount and number of refunds. Staff will be evaluating the potential impact of the Stay Home – Stay Healthy Order will have on participation in future classes and rentals of facilities and incorporating the rental fees from the Assessment and Recovery Center located on Shoreline B. 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.



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Lastly, 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.



Impacts on Cash Flow:

Actions taken by the King County Assessor to defer April property tax payments until the end of June, the DOR's extension for tax returns, and Shoreline's extension of 2020 first and second quarter Business & Occupation Tax and Gambling Tax returns will impact the City's cash flow. The Administrative Services Department is closely monitoring cash flow and, while not anticipated, will be prepared to take any necessary actions that may include drawing down reserves and / or issuance of tax anticipation notes.

Non-Operating Fund Impacts:

The City Capital Funds rely heavily on Real Estate Excise Tax (REET) to fund Transportation, Parks and General Capital Projects. Early modeling of potential REET impacts reveal a potential shortfall of between \$3,000 to \$230,000 as compared to the 2020 budget projection. The City's Voted Transportation Benefit District (TBD) Sales Tax, which funds the expansion of the City's Sidewalk system, will also be impacted by the significant downturn in business activity. Applying the Sales Tax stress factors to the TBD Sales tax reveals a potential shortfall of between \$124,000 to \$491,000. While this shortfall is not anticipated to impact Shoreline's ability to cover debt service on the bonds that were issued in 2019, it will 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 decrease of \$2.4 million to \$5.6 million (5.0-11.4% of budgeted operating revenues) depending on the shape of the recovery. 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, Leadership and staff recognize that the economic challenges of this event will likely impact multiple years and these resources must be conserved to mitigate impacts both now and in future budgets. To that end, as was mentioned above, Shoreline's Leadership Team is evaluating opportunities for cost containment, including considering deferral of one-time spending authorized but not already expended in the 2019-2020 biennial budget and identifying opportunities for ongoing cost savings that honors Council's commitments to the community and staff. The City Manager will discuss the plan for addressing the 2020 revenue impacts with Council in the coming months and will seek guidance that will guide our long-term response to be incorporated into the 2021-2022 biennial budget development and update of the 10 Year Financial Sustainability Model (10YFSM) as the impacts of the event and shape of the recovery become more apparent.