

1 Date: May 8, 2020

2 To: All City of Lynnwood Employees

3 From: Nicola Smith, Mayor  
4 Sonja Springer, Finance Director

5 **RE: Update #2 on Financial Impacts of COVID-19 on City's 2020 Budget**

6  
7 On April 13, Finance Director Springer and I provided you with information on how the COVID-19  
8 pandemic is impacting the City's 2020 budget and initial measures we are taking to address a  
9 revenue shortfall.

10 Our City's Leadership Team has been responding to the COVID-19 crisis now for over two  
11 months. We are seeing the impacts this crisis is having on our community members, our  
12 employees, and our City services. We are all concerned about the uncertainty this pandemic is  
13 bringing to our lives. As you know, we have had to drastically alter our City services, and in some  
14 instances discontinue some of them to comply with the Governor's Stay Home Order.

15 Unfortunately, this health crisis creates financial implications for our families, our businesses, and  
16 our City's revenues. We are still analyzing the financial impacts our City will experience due to  
17 COVID-19 for 2020, but our current forecasts project an estimated \$6,760,000 shortfall in  
18 revenue this year. This represents our best estimate to-date, and means we need to reduce City  
19 expenditures by \$6,760,000.

20 **Steps Being Taken to Address Budget Shortfall**

21 We have some tough decisions to make. City leadership is considering and evaluating all options  
22 to determine how City services might be reimagined, restructured, reduced, or eliminated. Our  
23 Leadership Team will work closely with City Council, our valued employees, and labor partners to  
24 find the least-disruptive ways to mitigate the effects of lost revenues.

25 In April, we implemented the following cost-saving measures:

- 26     • Implemented a hiring "freeze" - only critical vacancies are being filled  
27     • Reduced part time and seasonal staff  
28     • Reduced travel and training  
29     • Reduced professional services and contracts  
30     • Reduced intergovernmental services  
31     • Reduced transfers out of the General Fund  
32     • Eliminated non-essential goods and services

33 The total of these reduction measures equal \$4,951,100, which leaves a shortfall of \$1,808,900 in  
34 the 2020 budget. These measures have helped, but are not enough, and we need to begin to  
35 consider additional options.

36 **Options**

37 To address the remaining \$1,808,900 shortfall for 2020, we are exploring several options:

- 38     • Use City financial reserves. Using reserves provides temporary relief, but it will need to  
39       be paid back over a period of time.  
40     • Utilize one-time revenues from large development projects.  
41     • Offer incentives for voluntary employee separation.

42 The Voluntary Separation Program will provide an incentive to those who wish to separate from  
43 City service in the coming months. Vacancies created by the separations may help the City  
44 reduce labor costs for the remainder of the year, which when combined with other financial  
45 resources, could potentially reduce the need for layoffs and provide budget savings into the  
46 future.

47 Employees applying for a voluntary separation will be eligible to receive either a lump sum payout  
48 based on their years of service, or several months' COBRA payments (health care premium  
49 coverage). The details will be available next week.

50 **Next Steps**

51 On Thursday, May 14 we will provide the City Council with an update on the financial situation  
52 and discuss the two options above.

53 These are difficult decisions, but it is our hope that by acting quickly with these cost-saving  
54 measures, we can minimize the need for more drastic changes in the future. Our City's  
55 Leadership Team will continue to work towards mitigating the impacts of COVID-19 on our City  
56 services. We will be sharing more information with you in the coming weeks. Thank you for all  
57 you do in this challenging time in our lives and the life of our City.

58

59 cc: City Council