



City Council Study Session Agenda
Virtual Platform
August 18, 2020 at 5:00 p.m.

A. Call to Order

- Pledge of Allegiance

B. Study Agenda

1. 2021 Budget Work Session – Presented by Finance Director Aaron BeMiller
2. 2020 Debt Refunding – Presented by Finance Director Aaron BeMiller

C. Adjourn

Shelton City Council
Meeting Agenda
August 18, 2020 at 6:00 p.m.
Virtual Platform

A. Call to Order

- Pledge of Allegiance
- Roll Call
- Late Changes to the Agenda

B. Consent Agenda (Action)

1. Vouchers numbered 102720 through 102754 in the amount of \$36,798.44
2. Voucher numbered 102769 and numbered 102791 through 102829 in the amount of \$137,814.39
3. Mason County Historical Society Museum 2nd Quarter LTAC Report – Written by Director Liz Arbaugh
4. Shelton-Mason County Chamber of Commerce 2nd Quarter LTAC Report – Written by President/CEO Heidi McCutcheon
5. LTAC Reappointment Letters

C. Presentations

1. Swearing-in & Promotion of Police Officers (via video)

D. Business Agenda (Study/No Action/Public Comment Taken)

1. 2020 Residential Paving – Presented by City Engineer Ken Gill
2. 2020 Chip Seal – Presented by City Engineer Ken Gill

E. Action Agenda (Action/Public Comment Taken)

1. Shoreline Master Program Periodic Review Grant – Presented by Senior Planner Jason Dose
2. Resolution No. 1166-0820 Purchase and Sale Agreement for Simpson Properties – Presented by City Manager Jeff Niten

F. Administration Reports

1. City Manager Report

G. Announcement of Next Meeting – September 1, 2020 at 6:00 p.m.

H. Adjourn

Special Note for Public Participation

*The meeting can be viewed at: masonwebtv.com
The public can provide comments via email or telephone.
Email: jeff.niten@sheltonwa.gov
Telephone: (360) 432-5105
Your comments will be relayed directly to the Council.*

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2021 BUDGET: EARLY ASSUMPTIONS

Shelton City Council Study Session
18 August 2020

Agenda

- 2021 Budget Calendar
- 2020 high-level financial status check-in
- 2020 high-level General Fund revenue check-in
- 2021 current revenue assumptions
- 2021 current base budget expense assumptions
- Budget timing and potential COVID-19 impacts

Budget Calendar

<u>Due Date</u>	<u>Activity</u>
23-Jun	OpenGov Budget Builder training
25-Jun	2021 budget instance open to users
30-Jun	Current labor allocations to users
1-Jul	Supplemental form and instructions to users
14-Jul	June YTD actuals to departments for estimate process
17-Jul	Labor costs updated for current CPI and benefit cost increases
28-Jul	2020 Year-End estimates due to finance for upload
5-Aug	2021 Base Budget and Budget Supplemental due to finance
Week of Aug 10	Department meetings with finance
Week of Aug 17	Department meetings with CM and finance
12-Aug	Leadership Team supplemental meeting
18-Aug	Council Study Session
28-Aug	CM preliminary budget decisions
2-Sep	Preliminary decisions to Leadership Team
3-Sep	Court of Last Resort, if needed
4-Sep	CM final budget decisions
15-Sep	Council Study Session
Sept	Proposed budget created
6-Oct	Proposed budget presentation to Council
Oct/Nov	Council consideration of budget
Dec	Council adopts 2021 budget

High-level Current Year Budget Status

Fund	June YTD	2020 Budget	2020 Estimate
General			
Expense	5,696,306	12,290,690	12,062,218
Revenue	6,596,366	12,290,690	12,099,150
Variance Incr / (Decr.)	900,059	-	36,932
Street			
Expense	606,516	2,280,650	1,609,040
Revenue	440,677	1,476,010	831,520
Variance Incr / (Decr.)	(165,838)	(804,640)	(777,520)
Capital Resources			
Expense	-	-	-
Revenue	-	310,600	100,000
Variance Incr / (Decr.)	-	310,600	100,000
Tourism			
Expense	39,692	59,130	68,567
Revenue	17,006	51,700	34,011
Variance Incr / (Decr.)	(22,687)	(7,430)	(34,556)

High-level Current Year Budget Status

Fund	June YTD	2020 Budget	2020 Estimate
Water			
Expense	1,005,926	3,720,740	2,760,886
Revenue	1,010,831	2,474,090	2,343,313
Variance Incr / (Decr.)	4,905	(1,246,650)	(417,572)
Sewer			
Expense	3,073,446	5,777,330	5,822,025
Revenue	3,212,180	6,010,930	6,060,927
Variance Incr / (Decr.)	138,734	233,600	238,902
Solid Waste			
Expense	20,821	1,459,020	100,903
Revenue	5,606	470,000	10,267
Variance Incr / (Decr.)	(15,215)	(989,020)	(90,636)
Drainage			
Expense	450,845	1,275,710	940,285
Revenue	387,581	1,265,000	866,502
Variance Incr / (Decr.)	(63,264)	(10,710)	(73,783)

High-level Current Year Budget Status

Fund	June YTD	2020 Budget	2020 Estimate
Payroll Benefits			
Expense	22,080	219,200	125,600
Revenue	40,157	206,700	125,600
Variance Incr / (Decr.)	18,077	(12,500)	-
EM&R			
Expense	174,940	863,720	759,577
Revenue	255,125	736,610	486,039
Variance Incr / (Decr.)	80,185	(127,110)	(273,538)
Fireman's Pension			
Expense	49,163	98,570	88,248
Revenue	13,161	168,970	88,300
Variance Incr / (Decr.)	(36,002)	70,400	52
Bond			
Expense	92,234	184,490	184,467
Revenue	93,815	184,490	184,467
Variance Incr / (Decr.)	1,581	-	-

2020 GF Revenues

GF Revenue Source	June YTD	2020 Budget	\$ Variance To Budget	% of Budget Collected
Property Taxes	1,319,269	2,436,950	1,117,681	54.1%
Sales Taxes	1,520,751	2,864,730	1,343,979	53.1%
B&O Tax	421,633	733,640	312,007	57.5%
Non-City Utility Taxes	630,415	1,203,400	572,985	52.4%
City Utility Taxes	577,594	586,510	8,916	98.5%
Other Taxes	17,008	53,120	36,112	32.0%
Subtotal*	4,486,671	7,878,350	3,391,679	56.9%
All Other	2,109,695	4,412,340	2,302,645	47.8%
Grand Total	6,596,366	12,290,690	5,694,324	53.7%
* These accounts comprise 64% of total GF revenue budget				

GF Revenue Source	2020 Budget	2020 Estimate	\$ Variance	% Variance
Property Taxes	2,436,950	2,480,000	43,050	1.8%
Sales Taxes	2,864,730	2,863,600	(1,130)	0.0%
B&O Tax	733,640	733,000	(640)	-0.1%
Non-City Utility Taxes	1,203,400	1,235,000	31,600	2.6%
City Utility Taxes	586,510	1,087,000	500,490	85.3%
Other Taxes	53,120	32,600	(20,520)	-38.6%
Subtotal*	7,878,350	8,431,200	552,850	7.0%
All Other	4,412,340	3,667,950	(744,390)	-16.9%
Grand Total	12,290,690	12,099,150	(191,540)	-1.6%
* These accounts comprise 64% of total GF revenue budget				

Current Revenue Assumptions

- Property Tax: will increase by 1.15%
 - *1% based on state statutory maximum,*
 - *.15% new construction and delinquent penalties,*
 - *Actual collections will be based on County Assessor valuations.*
- Sales Tax: flat, budgeted at same level as 2020 budget.
- B&O: flat, budgeted at same level as 2020 budget.
- City and Non-City Utility Tax: flat, budgeted at the same level as 2020 budget.
- Building & Permitting: budgeted at 2020 estimated levels, roughly \$40K decrease.
- Utility Services Revenue: increase based on service fee changes on estimated actuals less 1x revenues.
 - *Drainage service fee revenue estimated to come in roughly \$385K under budgeted revenue. 2020 budget assumed rate increase.*
- Other revenue is assumed to be in-line with current estimates.

Current Base Budget Expense

- Current labor assumptions:
 - *COLA: budgeted at 3.0% increase,*
 - *Healthcare: budgeted at 7.5% increase,*
 - *Dental: budgeted at 3.0% increase,*
 - *PERS (Retirement): budgeted at a 0.12% increase.*

- Current budgeted FTE: 2020 = 101.50 2021 = 97.50
- Current total labor costs: 2020 = \$10,274,080 2021 = \$10,459,960
 - *Increase of \$179,880*
- Service contracts: budgeted at 2.50% increase.
- All other expenses are budgeted at 2020 levels.

Potential COVID Impacts

- Through June the City has not experienced a significant change in revenue however, there are unknowns that could still impact 2020 and 2021:
 - *\$600 weekly unemployment subsidy ended,*
 - *Further roll-backs from the Governor's Office,*
 - *Continued impacts from utility shut-off for non-payment,*
 - *Economic changes from the November election,*
 - *Long-term impact on spending habits.*

- We are preparing our 2021 with an eye toward these unknowns but without significant assumptions related to them. If there are revenue impact in the second half of the year it will likely be too late for a significant change to the proposed budget in the time available.
 - *If that is the case, we will likely recommend Council adopt the proposed budget with a clear understanding that we will bring a supplemental budget change in the first quarter of 2021.*



2020 BOND REFUNDING

Shelton City Council Study Session
18 August 2020



Refunding Team

- Municipal Advisor - Justin Monwai, Sr. Vice President, Piper Sandler & Co.
- Bond Counsel – Deanna Gregory, Partner, Pacifica Law Group
- Underwriter – Geoff Urbina, Managing Director & Caitlin Caldwell, Vice President, KeyBanc Capital Markets
- Bond Registrar – Carolyn Morrison, Vice President, US Bank National Association
 - *And a whole host of individuals supporting their efforts*

Debt Capacity (Legal Debt Limit)

- Applies to Principal balance of GO (General Obligation) debt
 - *GO debt: Debt the City has pledged its full faith and credit toward repayment.*
 - *GO debt generally has the lowest interest rates*
- State Law allows for GO debt issuance of up to 7.5% of the City's AV (Assessed Valuation)
 - *2.5% each for:*
 - Municipally owned water, sewer, or electric facilities
 - Open space and parks
 - General government purpose

Debt Capacity (continued)

- Except for as described below, all GO debt issuance requires a vote of the people.
 - *Voter turnout must be at least 40% of number of voters in most recent general election*
 - *60% of those voting must be in the affirmative.*
- Within the 2.5% limit for general government purposes, State law allows for the issuance of up to 1.5% of AV for non-voted (Councilmanic) debt
 - *Council can use this non-voted capacity for any of the three purposes listed on the previous slide but, the debt is applied to the 2.5% general government purpose regardless of use.*

GO Debt Limit

2020 City AV	773,130,558
<u>Voted legal debt limit</u>	
2.5% General purpose	19,328,264
2.5% Utility purpose	19,328,264
2.5% Open space purpose	<u>19,328,264</u>
<i>Total Legal Debt Limit</i>	<i>57,984,792</i>
<u>Councilmatic legal debt limit</u>	
1.5% General purpose	11,596,958

- While the City has the capacity to issue \$58M in voted debt or \$11.6M in Councilmatic debt, we also must have the ability to pay debt service (principal and interest costs).

Busy Schedule

- In order to try and achieve the best rates possible, the City is moving forward with a Schedule of Events (SOE) to close the bond sale prior to the November elections. Highlights include:
 - *8/19 : City to complete data requirements for POS (Preliminary Official Statement)*
 - *9/15: Bond Ordinance on Council business agenda*
 - *Week of 9/21: Rating call with S&P (Standard and Poor's)*
 - *10/6: Bond Ordinance on Council action agenda*
 - *10/14: Bond pricing*
 - *10/28: Bond closing*

Rating Agencies

- There are three major rating agencies for municipal bonds: Moody's, S&P, and Fitch
- These agencies perform a credit risk evaluation of the municipality.
 - *Many factors go into the investment decision making process however, the bond rating is often the single most important factor affecting interest costs on bonds.*
- Rating agencies use the following factors in their evaluation of credit risk:
 - *Economy*
 - *Debt Structure*
 - *Financial Condition*
 - *Demographic Factors*
 - *Management practices of the municipality*

Bond Ratings (S&P)

Best Quality	AAA
High Quality	AA+
	AA
	AA-
Upper Medium Grade	A+
	A
	A-
Medium Grade	BBB+
	BBB
	BBB-

- City of Shelton was rated A+ for our 2013 Bond sale with a stable outlook.
 - *In 2013, the City's strong fund balance was a significant factor in the rating.*
- Rating agencies use mathematical ratios to compare issuers to others however, subjectivity can play a role in the final rating.

2020 Bond Refunding

- The current plan is for the City to refund seven (7) separate debt instruments into one refunding bond.
- In order to achieve the highest savings, the refunding bond will be a non-voted General Obligation Bond (GO Bond) in which the debt payment is backed by the full faith and credit of the government.
- Not all of the bonds being refunded are currently GO bonds. This refunding will take up a significant portion of the Council's 1.5% Councilmanic debt capacity (approximately \$9 million of \$11.6 million of available non-voted debt capacity).
- However, with the current assumption of the City retaining its A+ rating, this refunding will result in an estimated net present value savings in the neighborhood of \$1.7M or 18% over the life of the bonds.
- The refunding will also shorten several of the refunded debts duration by 5 to 7 years.
- Questions or concerns?