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Honorable Mayor Wallis, City Councilors and Citizens of Longview,

Preparing a biennial budget for a city with a comprehensive range of services always has its share of unknown variables. However, preparing one in the midst of an economic shutdown during a global pandemic elevates the task to a new level of uncertainty. The unpredictability of this year's budget mirrors the unpredictable spread of the virus and the unknown timing for effective therapies to treat it.

Although it is impossible to anticipate the depth and duration of the economic downturn caused by the pandemic, the willingness of our community and city workforce to meet the challenges head-on exemplifies the resiliency needed for the future. We have taken proactive steps throughout the pandemic to understand its likely economic fallout, addressed the anticipated budgetary shortfalls in 2020, and revamped the 2021-2022 budget development process to ensure early and measured action in response to the deficit.

The City relies heavily on the success of our economy and the tax revenues generated to fund critical services. Even before the COVID-19 pandemic, the City recognized that current sources of revenue would not be sufficient to maintain long-term fiscal stability. The reality of revenue restrictions and cost increases from federal and state mandates, materials, supplies, pensions, and labor will continue to stretch our dollars. Because of this, we continue to look for ways to identify operational efficiencies and reduce expenses.

The COVID-19 public health emergency, and the City's response to it, is a theme you will see throughout this budget. As we work to provide the highest quality of service, the City is learning how to do that in new environments of social distancing, remote work, limited social gatherings and unpredictable revenue sources. It is impossible to anticipate, at this point, the depth and duration of the economic downturn caused by the pandemic.

COVID-19 PANDEMIC

The City has leaned into this crisis and is working to mitigate the effects of the shutdown on our residents and businesses. To this end, the City has taken a variety of swift and effective actions to assist our citizens and has provided federal grant funding for the community in the form of small-business loans, utility assistance programs, and tenant-based assistance programs.

While there is considerable uncertainty about the City's revenues, we know the closure of retail establishments will have an impact on sales tax revenues. The stay-at-home order means hotels are nearly empty and the hotel/motel tax will decrease as a result. We know it also means less driving and demand for fuel, reducing the amount of gas tax revenue available for maintenance of the City's streets and roadways.

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It is important to note that this budget does not include costs associated with the City's response efforts to the COVID-19 pandemic, as both the nature of the response and the guidance for how eligible federal and state funding can be used to offset those costs are still evolving. In addition, this budget does not assume the reimbursement of any lost revenue, though the City will continue its strong advocacy efforts toward that goal.

COUNCIL PRIORITIES

The City Council met for a budget retreat in March 2020 to set the long-term vision for our City and our top priorities for 2021-2022 and beyond. The Council reviewed key accomplishments, best practices for the strategic planning process, and the capacity and timelines to tackle the important issues we face. The Council set priorities for the next several years and affirmed our mission, vision, and values. Aligning operations and priorities, establishing clear expectations, and developing a consensus on policy direction were some of the goals achieved at the budget retreat.

The Council is continuing to focus on community priorities identified through our outreach efforts, while remaining aware of the shifting circumstances that affect our operations daily. While the outlook has changed drastically with the COVID-19 crisis, it is still important to note key results from this planning effort that will continue to guide budget decisions.

One key result to enhancing public safety and emergency response was focused on developing more successful interactions between police officers and people suffering mental health issues. Recognizing that an armed officer is not always the best response to an emergency call, the Council is supporting a new model of crisis intervention and service delivery. The 2021-2022 proposed budget expands the partnership between law enforcement and behavioral health professionals, with the goal of ensuring the safety of all, to respond effectively, and to improve access to services and supports for people with mental illness.

FINANCIAL CONDITION

With a biennial budget of nearly \$219 million, only \$83.6 million comprises the General Fund operating budget. The majority of the remaining \$135.4 million in funding is dedicated to the operation of enterprise funds like utilities, transit, and golf; internal service funds such as equipment rental, facility maintenance, and insurance; and capital investments in the amount of \$25.5 million.

Although the City's proposed budget for the general fund is balanced for 2021-2022, many underfunded needs remain. Over the last several years, the City has been able to maintain service levels by deferring funds for capital improvements and maintenance, drawing down reserves, and lowering depreciation contributions to key funds such as building maintenance and employee benefits reserve.

With the reduced revenue estimates and the increased expenditures, the proposed general fund budget reflects a \$2.3 million deficit for 2021 and a \$2.1 million deficit for 2022. These deficits will be mitigated by budgeting a transfer from the fund balance reserve. Because 2021 is the beginning of what will be multiple years of uncertainty, we must commit to placing appropriate limits on the use of fund balance to ensure we have the resources needed to respond to the uncertainty that lies ahead, and fortify our ability to weather the next financial challenge.

It is an ongoing balancing act to make sure that service levels are maintained, and that funding aligns with operational necessities and Council priorities. Our budget will continue to face pressure from additional expenses, including increased employer-paid pension costs, contractual obligations, unfunded state mandates, and other cost drivers. With continued budget reduction measures in place, and with businesses starting to re-open and generate economic activity as this budget is finalized, the City will strive to maintain the reserve as long as possible.

BUDGET APPROACH

When we started our budget development process this year, it looked like we would be experiencing strong revenue growth, however, the COVID-19 pandemic created a great deal of uncertainty about our city revenues and budget. The recommendations included in this document take serious steps to address what we know will be a substantially weaker economic environment for the foreseeable future, while still mindful that much of the long-term impact from the pandemic is uncertain. Though service impacts in the 2021-2022 biennium are real, this proposed budget preserves the City's most critical functions and minimizes workforce impacts by leveraging available revenues, vacancies, and cost saving strategies to minimize more severe actions that would otherwise be necessary.

This budget builds on the importance expressed by the community to maintain services that enhance our quality of life. We realize this budget may need to be amended during the next fiscal year. If necessary, we will employ those cost reduction measures needed to manage the expense side, until we get a clearer picture of our anticipated future revenues. If the current social distancing measures are successful in controlling the spread of the virus and the economy recovers quickly, the impact on our revenues and budget may be limited. On the other hand, if the current social distancing measures need to remain in place for an extended period, or the economy doesn't bounce back as anticipated once the restrictions are removed, the impact on our revenues and budget may require further adjustment.

We want to express appreciation for our dedicated and talented staff who prepared this budget document. Though budget development is always a demanding task, the City transformed its budget development process to resolve sudden and severe revenue shortfalls in both 2020 and the 2021-2022 proposed budget; an extraordinary accomplishment. For those of you who have a deeper interest in the budget, we encourage you to visit our city web site where you can review the budget in its entirety.

Regardless of the challenges presented to us, we know our community will remain strong, our workforce committed, and our City ready to overcome any challenge. Because of our resilience, we will get through this challenge together and come through even stronger on the other side. It is with an understanding of the complexity and uncertainty of the situation we are dealing with at this time that we present the 2021-2022 proposed budget for the City of Longview.

Respectfully,



Kurt Sacha
City Manager



Kris Swanson
Administrative Services Director