



CITY OF BLAINE

CITY MANAGER'S OFFICE

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To: City Council

From: Michael Jones, City Manager

Date: April 13, 2020

Subject: Memo to Governor Inslee and District 42 Legislators

The Finance Director and I, in conjunction with our legislative consultants at Gordon, Thomas, Honeywell, have prepared a memo to Governor Inslee and the District 42 Legislators (following).

The memo outlines the city's anticipated budget impacts, both increased expenses and reduced revenues caused directly and indirectly by COVID-19. The memo presents a difficult fiscal situation, and requests assistance from the state. We are seeking direct aid in the form of federal assistance funds channeled through the state. We are seeking indirect assistance by way of more flexible spending regulations. And, finally, we are asking that the changes made in the state budget are not made in a way that increases the burden on cities.

Upon approval of the City Council, I will forward the memo along with a cover letter to our District 42 Legislators and to Governor Inslee.



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To: District 42 Legislators
Governor Jay Inslee

From: Blaine City Council

Date: April 9, 2020

Subject: City of Blaine Revenue Shortfall Projections

The City of Blaine is anticipating significant budget shortfalls due to the impacts of the COVID-19 crisis. While the impact is not unique, with the Canadian border closure, the crisis is particularly impactful to Blaine's economy. Cross-border commerce is a significant component of the local economy. The projections outlined in this memo are very preliminary but provide some indication of what may occur related to city revenues. We anticipate a minimum of a \$700,000 decrease in a \$7.1 million General Fund budget based solely on the immediate impacts of the border restrictions and "Stay Home, Stay Healthy" order.

This is assumed to be a best-case-scenario. We modeled the impacts of what we can be virtually certain of: sales tax, lodging tax, border gas tax, and local B&O tax shortfalls based on the April through June border restrictions, combined with the immediate impacts of sheltering in place. Further ripple effects from the closures are assured, but the impact is unclear and we have not modeled these longer-term effects. Our \$700,000 shortfall could easily be double or triple if a recession follows the pandemic.

The impacts we are projecting for the near-term are roughly equivalent to the impacts that we saw in the Great Recession in 2007/2008 and the temporary closure of Semiahmoo Resort in 2012. Both of those economic shocks resulted in 10-12% reductions in our general fund over the course of a year. What we are forecasting now condenses that year-long impact into just a few months.

General Fund Revenue Forecasts

The City is forecasting a 10% decrease in total General Fund revenue as a result of near-term economic changes resulting from the COVID-19 pandemic. This decrease will impact levels of service and program delivery. Most of General Fund revenue is made up of tax revenue: property tax, sales tax, utility tax, and business and

occupation tax. These sources, which comprise 64% of total General Fund revenue, fund general City services such as police, courts, building and planning services, community development, senior services, and parks.

Sales tax revenue is projected to decrease significantly. In Blaine this source is heavily dependent on cross-border economic activity. With that commerce activity extremely limited for April, May and June, the City forecasts that this revenue will decrease by approximately 20% (annualized), which represents a \$417,000 decrease in the 2020 General Fund budget.

Another revenue source that will be impacted is the City's newly enacted business and occupation tax. In 2019, the City Council adopted a local business and occupation tax, which went into effect on January 1, 2020. This source was necessary to help offset ongoing General Fund programmatic costs, primarily public safety related. The City forecasts that this revenue will decrease by 36% (\$130,000) from what was estimated in the 2020 budget.

Overall, this creates a revenue shortfall of \$700,000 in the General Fund. This represents a major loss for a City our size.

Penny per Gallon Gas Tax

Blaine's major revenue source for street maintenance is the penny per gallon gas tax. Only border communities in Washington State are authorized to impose an additional penny per gallon on top of the state gas tax. The City of Blaine has imposed this additional penny per gallon for many years now.

The City forecasts that the gas tax will decrease by 50%. The major driver behind this revenue is cross-border traffic. There is a direct correlation between border traffic, namely Canadians crossing to purchase fuel in Blaine. Except for essential business such as transportation of goods, border traffic has come to a halt. This will have a dramatic impact on an already stretched-thin Street Maintenance Fund.

Lodging Tax

Due to its seaside location, Blaine offers many tourism related activities for people to enjoy. The City and Semiahmoo Resort enjoy a strong partnership, where lodging revenues support taxes that fund unique visitor experiences. Many of the activities are likely to be cancelled due to the COVID-19 emergency. Overnight stays have already declined markedly, which directly impact lodging tax and sales tax revenue collections. A 30% decrease in lodging tax is forecasted. This decrease will affect Blaine tourism grants awarded to groups that organize and coordinate the many activities that draw crowds to Blaine and support visitor nights at the resort.

COVID Expenses

Whatcom Unified Command has requested a preliminary \$100,000 contribution from the City to assist with emergency operations center expenses. In addition, we have had unanticipated expenses that range from the cost of PPE for our first responders, fuel

consumption that results from dispatching all utility and street crew members in single occupancy vehicles, and software and service charges that result from staff members working from home. Fortunately, we have not yet had staff in critical positions (police and waste water treatment) become ill. Our overtime costs have been low, but this could change at any time. A full accounting is not yet available. Our initial estimates indicate a total of \$150,000 in unforeseen expenses.

Reserves and Budget Cuts

The City has General Fund reserves in the amount of \$1.38 million. Given that the forecasts are best-case-scenario, if the impacts are greater than the initial projections then the reserves will be depleted by the end of 2020.

Blaine already runs on a lean budget. We have the same number of FTE's as we did in 2007. Annually, we take steps to control costs, and we defer or eliminate important projects. Nonetheless, in light of the pandemic, we have taken initial steps to reduce expenditures. We have stopped all non-critical purchases. All projects are being considered for deferral.

Senior staff is preparing budget cut proposals, and we already know we will not be able to cut 10% from the budget without impacting staffing. It is clear that any cuts deeper than 10% will undoubtedly result in layoffs in some General Fund programs and a reduction in service levels.

Conclusion

All areas of life have been upended by the COVID-19 crisis. Blaine's economy and, therefore, its budget will be impacted. The City is seeking assistance in our effort to maintain critical services. We request that the State distribute some of the federal relief dollars to small cities, and that the State take swift action to add flexibility in use of existing revenue, such as making Transportation Benefit District (TBD) funds available for general street maintenance and making Real Estate Excise Tax (REET) funds available for maintenance of capital facilities in the 2020 calendar year.