



CITY OF BLAINE

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To: City Council
From: Jeff Lazenby, Finance Director
Date: May 11, 2020
Subject: Budget Update

This memo provides a brief budget update on some of the impacts of the COVID-19 crisis on the City's finances. As I have stated before, the effects of the emergency will not be fully realized until after the second quarter (June 30th) as there is a lag from when the impacts begin and when the City experiences them. Nonetheless, we know that the impacts will be significant and on par, if not greater, than the last economic contraction.

Business and Occupation Tax

During budget planning, staff communicated to Council that it was difficult to forecast this first-time revenue source. Without having access to gross business revenue information, the forecast was developed based on comparable data—namely similar-sized cities with B&O taxes. However, not all cities are the same and all have different economic bases, leading to a rough estimate.

To date, the City has collected \$13,709 in business and occupation tax revenue. That is 4% of the total budget estimate of \$368,000. Some major businesses have not submitted returns yet for the first quarter. I will be sending letters to those businesses reminding them that their returns need to be remitted.

The main issue with the B&O tax is that we are in the midst of a “perfect storm” where most if not all business sectors are impacted in some way by the crisis. No one could have predicted a global pandemic occurring. The perfect storm is that the pandemic occurred the same year the B&O tax was implemented. A return to some normalcy will only tell how the B&O tax trend develops.

Penny per Gallon Gas Tax

Another hard hit revenue source is the penny per gallon gas tax. Through the end of April 2020, the City has collected \$40,718 in the gas tax revenue. For comparison, through the end of April 2019 the amount collected was \$52,246. That is a 22%

decrease. To provide additional perspective, the amount collected in April 2020 alone was \$5,661 compared to \$15,269 in April 2019. For a month-to-month comparison that is a 63% drop. With the border closed to non-essential traffic, the amount collected over the next two to three months will be close to nil. This will impact street operations and maintenance programs. To help reduce Street Fund expenditures, the City Manager has approved that summer help positions will remain vacant.

FEMA and CARES Act Reimbursements

The City will be eligible for both FEMA and CARES Act funding. FEMA and CARES Act funds are two separate pots of money. Both pots will be distributed by the State. The amount of FEMA funding is not defined, but the State has estimated that Blaine is eligible for up to \$160,000 in CARES Act funding. An important caveat to keep in mind is that both pots are limited in scope in terms of reimbursement. Only those expenses directly related to responding to the crisis are eligible for reimbursement. These funds will not plug the City's budget shortfall. We cannot rely on these funds to do that. That is why staff has already begun to identify cuts in their respective department budgets.

Expenditure Reductions

Department heads have been able to identify \$250,000 in reductions in the General Fund budget. The plan for furloughing employees is still in development, if all employees accept a 1-week furlough that will generate about a \$90,000 savings. The City Manager and I will bring forward at the May 26th Council meeting a budget amendment for Council to formally adopt the anticipated decreases in revenue and the identified budget reductions.