



**LYNNWOOD FINANCE COMMITTEE - regular Finance Committee
meeting
THURSDAY, APRIL 28, 2022 3:00 PM**

1. CALL TO ORDER
2. ROLL CALL
3. FINANCIAL REPORTS
 - A. [Monthly Sales Tax Report](#) - 20 minutes
Michelle Meyer, Finance Director
4. DISCUSSION ITEM
 - A. [Utility Delinquency Update](#) - 20 minutes
Michelle Meyer, Finance Director; Corbitt Loch, Strategic Planner
 - B. [2021 Financial Reporting and Audit Update](#) - 20 minutes
Michelle Meyer, Finance Director
 - C. [Fee and Tax Relief Discussion](#) - 30 minutes
Michelle Meyer, Finance Director; Corbitt Loch, Strategic Planner
 - D. [American Rescue Plan Act Discussion](#) - 20 minutes
Michelle Meyer, Finance Director; Corbitt Loch, Strategic Planner
5. ADJOURN

FINANCE COMMITTEE 3.A

CITY OF LYNNWOOD FINANCE COMMITTEE

TITLE: Monthly Sales Tax Report

DEPARTMENT CONTACT: Michelle Meyer, City Council

SUMMARY:

Review of Sales Tax Revenues for January sales

PRESENTER:

Michelle Meyer, Finance Director

ESTIMATED TIME:

20

BACKGROUND:

The City receives Sales Tax revenue distributions on a monthly basis for sales that occurred two months prior. The detailed reports for January sales (revenues received in March) will be reviewed.

Since there is only one month of activity for 2022, quarterly comparison information is not included.

SUGGESTED ACTION:

Review of Sales Tax detail

PREVIOUS COUNCIL ACTIONS:

The Finance Committee reviews monthly sales tax detail at each meeting.

DEPARTMENT ATTACHMENTS

Description:

[CoL.Sales Tax Analysis Jan 2022.pdf](#)

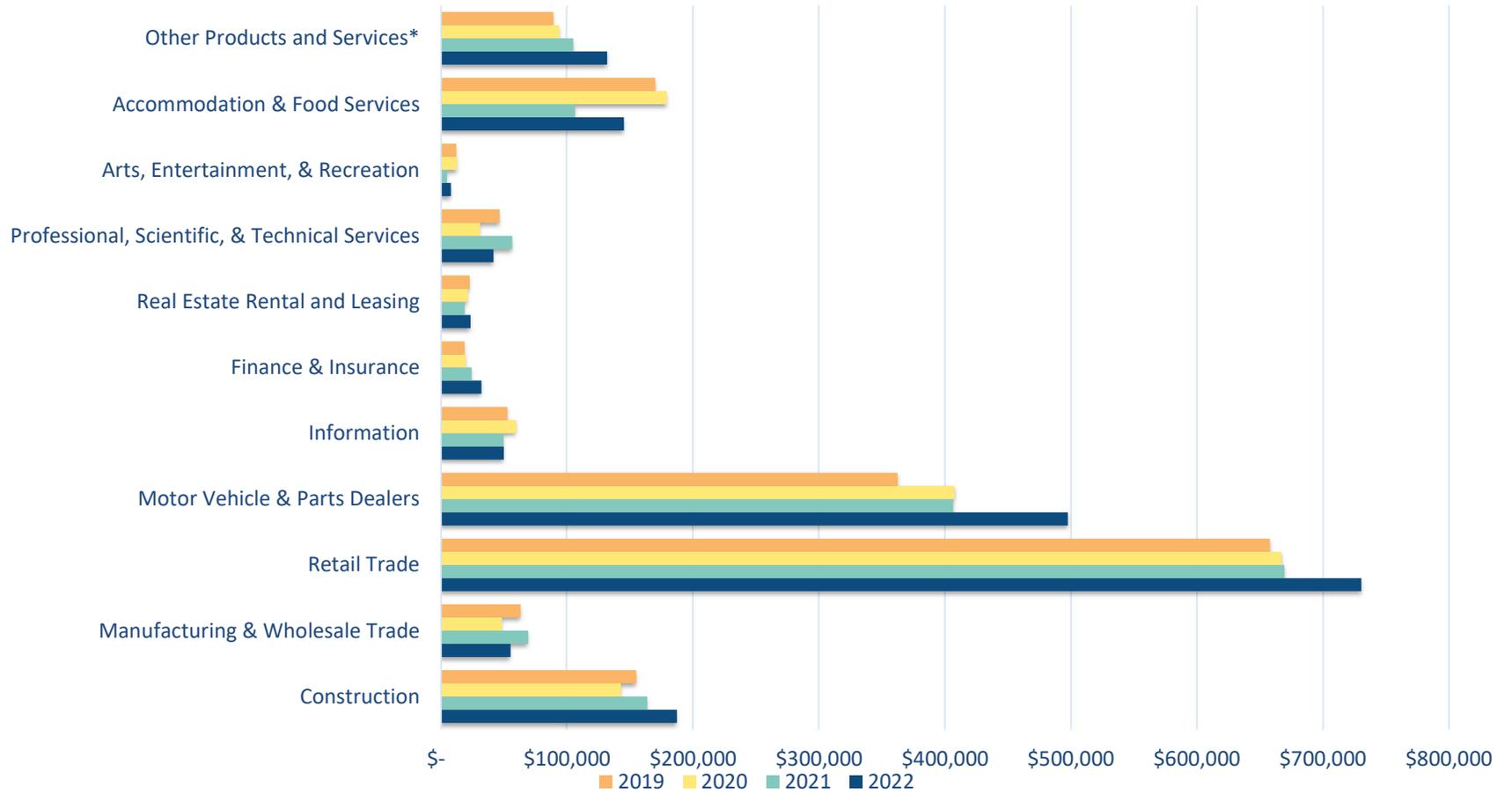


Sales Tax Analysis - Monthly Comparison
January 2022

Tax Categories	January	January	January	January	Change in Collections from Prior Year	
	2019	2020	2021	2022	\$	%
Construction	\$ 154,868	\$ 142,632	\$ 163,723	\$ 187,098	\$ 23,375	14.28%
Manufacturing & Wholesale Trade	63,162	48,209	69,086	55,222	(13,864)	(20.07%)
Retail Trade	657,621	667,004	669,205	730,401	61,196	9.14%
Motor Vehicle & Parts Dealers	362,465	407,721	406,546	497,515	90,969	22.38%
Information	52,719	59,541	49,483	49,894	411	0.83%
Finance & Insurance	18,606	19,652	24,180	31,898	7,718	31.92%
Real Estate Rental and Leasing	22,615	21,201	18,683	23,309	4,626	24.76%
Professional, Scientific, & Technical Services	46,395	30,986	56,514	41,480	(15,034)	(26.60%)
Arts, Entertainment, & Recreation	12,087	12,750	4,557	7,721	3,164	69.43%
Accommodation & Food Services	170,065	179,274	106,326	145,119	38,793	36.48%
Other Products and Services*	89,155	93,811	104,874	131,898	27,024	25.77%
Total Sales Tax Collected	<u>\$ 1,649,758</u>	<u>\$ 1,682,781</u>	<u>\$ 1,673,177</u>	<u>\$ 1,901,555</u>	<u>\$ 228,378</u>	

*Categories with small amounts of sales tax revenues have been combined

Monthly Sales Tax Comparison By Category



FINANCE COMMITTEE 4.A

CITY OF LYNNWOOD FINANCE COMMITTEE

TITLE: Utility Delinquency Update

DEPARTMENT CONTACT: Michelle Meyer, Finance

SUMMARY:

Review of Delinquent Utility Accounts

PRESENTER:

Michelle Meyer, Finance Director; Corbitt Loch, Strategic Planner

ESTIMATED TIME:

20

BACKGROUND:

As of the date this agenda item was submitted (April 20, 2022) the City is still unable to run aging reports in the usual format. A software patch is being deployed on April 22, 2022 that should correct the issue and reports will be made available to the Committee prior to the meeting.

SUGGESTED ACTION:

Review of the status of delinquent utility accounts.

PREVIOUS COUNCIL ACTIONS:

The Finance Committee routinely reviews updated utility information.

DEPARTMENT ATTACHMENTS

Description:

FINANCE COMMITTEE 4.B

CITY OF LYNNWOOD FINANCE COMMITTEE

TITLE: 2021 Financial Reporting and Audit Update

DEPARTMENT CONTACT: Michelle Meyer, Finance

SUMMARY:

Update on 2021 Financial Reporting and 2021 Audit

PRESENTER:

Michelle Meyer, Finance Director

ESTIMATED TIME:

20

BACKGROUND:

Staff will provide an update on the status of the 2021 financial report and financial statement preparations and discuss the time of the 2021 financial and accountability audits to be conducted by the Washington State Auditors Office. The 2020 audit exit conference was held at the April 4th Work Session.

SUGGESTED ACTION:

Review status of 2021 financial report and statement preparations and discuss timing for 2021 financial and accountability audits.

DEPARTMENT ATTACHMENTS

Description:

FINANCE COMMITTEE 4.C

CITY OF LYNNWOOD FINANCE COMMITTEE

TITLE: Fee and Tax Relief Discussion

DEPARTMENT CONTACT: Michelle Meyer, Finance

SUMMARY:

Review financial information relevant to certain fees and taxes

PRESENTER:

Michelle Meyer, Finance Director; Corbitt Loch, Strategic Planner

ESTIMATED TIME:

30

BACKGROUND:

At the February 28, 2022 meeting, the City Council discussed possible elimination of certain fees and taxes (specifically, taxes on city-owned utilities and Transportation Benefit District vehicle license fees).

The memo prepared by staff for that meeting is attached for review at the Finance Committee meeting in anticipation of a follow-up discussion that has been tentatively scheduled for the May 2, 2022 meeting.

SUGGESTED ACTION:

Review of memo dated February 28, 2022

PREVIOUS COUNCIL ACTIONS:

Discussion: February 28, 2022

DEPARTMENT ATTACHMENTS

Description:

[2.28.22 Memo for 2022 Utility Tax and TBD Vehicle Fee repeal_Finance.pdf](#)

1 DATE: February 28, 2022
2 TO: Lynnwood City Council
3 FROM: Finance Director Michelle Meyer
4 **RE: Potential Impacts of Eliminating Certain Taxes and Fees**

5

6 At the Council Summit held on January 29, 2022, Councilmembers indicated that one
7 priority for the first quarter of 2022 would be to discuss “tax and fee relief for
8 residents.” Subsequently, this topic will be discussed by the City Council during the
9 February 28, 2022, business meeting.

10

11 This memorandum has been prepared for the Council’s consideration related to the
12 potential impacts of eliminating certain taxes and fees including taxes on City-owned
13 utilities and vehicle fees collected by the City’s Transportation Benefit District (TBD).

14

15

Utility Tax on City-Owned Utilities

16

17 As allowed by Washington State Law that permits municipalities to enact utility taxes of
18 up to 6% (or higher with voter approval) on certain utilities, the city has a 6% tax rate in
19 place on the City’s water, sewer, and stormwater utilities.

20

Impact to the City’s General Fund

21

22

23 While revenue from utility charges is accounted for in the Utility Fund, utility tax
24 revenue is collected in the General Fund, from which all departments receive funding.
25 The 2021-2022 Budget anticipates approximately \$2.9 million in General Fund revenue
26 from the utility tax on City-owned utilities. Single-family residential accounts provide
27 37%; commercial accounts provide 34%; and multifamily residential accounts provide
28 29% of utility operating revenue. Occupants of single-family residences pay
29 approximately \$5.25 per month in utility taxes. The average utility tax paid per month
30 on commercial accounts can vary greatly based on the wide variety of business types
31 and meter sizes.

32

33 Following voter approval of the Regional Fire Authority in 2017, the City reduced its
34 property tax levy significantly from over \$12 million per year in 2017 to a current 2022
35 property tax levy of \$4.5 million. Due to its lower property taxes, the City relies more
36 heavily on other revenue sources such as sales tax and utility taxes to provide the
37 current level of service to our businesses and community members.

38

39 During the economic downturn related to the COVID-19 pandemic in 2020, the City
40 made significant efforts to reduce expenditures and maintain a balanced budget in

1 order to offset the negative impacts from reduced sales and other tax revenues. In
2 addition to numerous cuts in services, the City Council authorized a transfer from the
3 City’s Revenue Stabilization Fund to balance the General Fund for 2020 and passed a
4 resolution allowing for a temporary reserve balance of less than 2.5 months of operating
5 reserves as required by the City’s Financial Policies. The 2021-2022 budget included a
6 plan to restore those reserves which we are on track to accomplish, but there is no
7 surplus of reserves available to cover a significant General Fund revenue cut without
8 also making significant cuts to expenditures.

9
10 Washington cities and towns are required by law to adopt balanced budgets. Other than
11 increasing the property tax levy on a permanent basis, there would be no other way to
12 offset a significant revenue reduction in the General Fund other than to impose
13 significant service reductions. This could include staff layoffs which would seriously
14 reduce services to our businesses and community members. If the City Council chooses
15 to eliminate the utility tax on City-owned utilities, the Council will also need to provide
16 direction regarding service reductions to balance the budget.

17
18 Impact to the City’s Ability to Pay Its Current Debt Obligations

19
20 In 2021, the City issued Limited Tax General Obligation (LTGO) bonds to fund
21 construction of the Community Justice Center. As part of the issuance process, a credit
22 rating analysis was completed by S&P Global Ratings which confirmed the City’s AA+
23 rating with a stable outlook. The ratings report referenced the City’s very strong
24 liquidity, very strong budgetary flexibility with a formal general fund reserve policy of
25 2.5 months of operating expenditures, and history of balanced operating results in the
26 General Fund as reasons why this very high rating was affirmed. Beginning in 2023,
27 annual debt service payments of approximately \$3 million for the Community Justice
28 Center bonds will be funded primarily from the General Fund.

29
30 The Official Statement for the 2021 issuance referenced that “the City’s major sources
31 of governmental fund tax revenue are its regular property tax levy, sales and use taxes,
32 and utility taxes.” The City plans to issue debt in 2022 to refund the 2012 LTGO bonds
33 that funded the construction of the Recreation Center. We will have our rating reviewed
34 and issue an updated Official Statement. If there is indication at the time of rating and
35 Preliminary Official Statement preparation that the City Council is considering a
36 reduction in a significant source of General Fund Revenue, that would need to be
37 disclosed to the rating agency and potential buyers. This could adversely impact the
38 City’s credit rating leading to higher interest rates and less market competition for the
39 City’s bonds. Significant reductions in any General Fund revenues will adversely affect
40 the City’s ability to pay our existing debt obligations and may increase the cost of future
41 debt.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43

Prior Actions for Utility Taxes

The City’s first utility tax was adopted in 2006 by Ordinance 2645. In 2010, a 6% utility tax was adopted for City-owned utilities (water, sanitary sewer, and storm sewer) by Ordinance 2864. This tax was reduced to 4% in 2013 by Ordinance 3044. In 2014, the City Council restored the 6% tax rate by Ordinance 3104. While rarely popular, many Washington cities enacted utility taxes when the annual 1% limit on property tax increases was approved by voters and the State Legislature.

On May 26, 2020, the Lynnwood City Council adopted Ordinance 3358 to eliminate the 6% utility tax on water, sewer, and stormwater utility rates in an effort to offer financial relief to community members during the COVID-19 pandemic (with an effective date of January 1, 2021). The ordinance was introduced via email one hour prior to the May 18, 2020, meeting and subsequently forwarded to the next meeting for action without written explanation or analysis offered by the legislation’s sponsor as required in established procedures for Council meeting agenda items. The Finance Director prepared a written analysis regarding the financial implications of the action and presented that information at the May 26, 2020, meeting.

Due to the permanent nature of the action, conducted outside of the City’s established process for fiscal decision-making, which would create a new and severe General Fund revenue shortfall for 2021 and all years thereafter—without consideration and identification of any strategy to offset the serious impacts to the City’s finances, Mayor Smith exercised her authority to veto the ordinance. During the business meeting of June 8, 2020, a motion to override the Mayor’s veto failed.

Transportation Benefit District Fees

Impact to the City’s Transportation Benefit District Fund

In accordance with Washington State Law, the City’s Transportation Benefit District (TBD) has a vehicle license fee in place. Vehicle license fees are receipted into the TBD fund and used towards ongoing road and traffic signal maintenance, street overlays, sidewalk and ADA improvements, and maintenance of crosswalks. For the current 2021-2022 biennium, anticipated revenue from vehicle fees is around \$2 million, equal to an average of \$80,000 per month. This is one-third of the total revenue into the TBD fund. Vehicle owners in Lynnwood pay \$40 in vehicle license fees per vehicle per year. The City Council may set vehicle fees at \$0, \$20, or \$40.

During the 2021-22 budgeting cycle, the city allocated \$7.7 million for road repairs. However, staff have estimated that \$13.5 million to \$22.6 million is needed to cover the cost to repair the city’s roads and sidewalks.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36

Impact to Transportation Projects

Elimination of the vehicle license fee has the potential to jeopardize the safety and lifespan of Lynnwood’s streets and roads. This infrastructure is critical to the economic vibrancy of our local businesses and exists because of incalculable amounts of past investment of public monies. Lynnwood’s heavily traveled streets and sidewalks require continual maintenance. The cost to remedy the results of deferred maintenance are exponentially greater than the cost of regular upkeep. For example, sealing cracks in street pavement is less expensive than excavating and replacing pavement that has become “alligatored” due to water infiltration.

Analysis of Lynnwood’s TBD program indicates that current revenues do not even meet the current level of funding needed. At this time of rapid growth and the imminent arrival of light rail, the City should ensure our local transportation system is ready to meet these challenges.

City crews are currently responsible for: 300 lane miles of streets, 120 miles of sidewalks, 65 traffic signals, 4,400 traffic signs, and 160,000 traffic buttons. Transportation funding sources including General Fund contributions and fuel taxes have held stagnant over the last 10-20 years, which has led the City to rely more on TBD funds.

In virtually every local public opinion survey, respondents consistently identify streets and traffic congestion as the number one community issue. There have been multiple suggestions, including a December 13, 2021, motion to augment funding for streets using \$3 million of American Rescue Plan Act (ARPA) funds (presumably through 2024). Recognizing the importance of street maintenance, Lynnwood voters approved 0.1% sales tax to protect their streets. Transportation safety is an important form of public safety. TBD vehicle license fees help offset the enormous cost of providing safe streets for Lynnwood’s drivers. Elimination of the revenues from TBD vehicle fees will adversely affect the City’s ability to fund transportation projects. Poorly maintained streets will threaten Lynnwood’s stature as a regional retail hub. If General Fund transfers to the Street Fund were to be increased to offset the loss of vehicle fee revenue, it will be necessary that the City Council identify commensurate reductions in other City services.

1 Prior Actions for Transportation Benefit District (TBD) Fees

2
3
4

Summary of TBD milestones

May 24, 2010	Lynnwood City Council created the Lynnwood TBD.
November 29, 2010	TBD Board established \$20 vehicle registration fee, effective July 1, 2011.
July 27, 2016	TBD increased vehicle registration fee to \$40, effective February 1, 2017.
November 8, 2016	Lynnwood voters approve 0.1% sale and use tax to fund road improvements, effective April 1, 2017, for a 10-year period.
March 24, 2020	Lynnwood City Council assumes the powers of the TBD.
October 25, 2021	Lynnwood City Council votes to repeal the \$40 vehicle registration fee—action was vetoed (see below).

5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22

On October 25, 2021, the Lynnwood City Council adopted Ordinance 3400 to eliminate the \$40 TBD vehicle license fee beginning in 2023. The measure was introduced after a presentation on transportation funding at the October 4, 2021, Work Session and subsequently forwarded to the October 11, 2021, meeting; it was discussed again at the October 18, 2021, Work Session before taking action at the October 25, 2021, meeting. No financial analysis was offered by the legislation’s sponsor as required in established procedures for Council meeting agenda items. Staff prepared a written analysis regarding the potential implications of the action, which was emailed to Councilmembers on October 9, 2021, and included in the packet for the October 18, 2021, meeting.

Due to the permanent nature of the action, conducted outside of the City’s established process for fiscal decision-making, which would create a new and severe TBD revenue shortfall for 2023 and all years thereafter—without consideration and identification of any strategy to offset the serious impacts to the City’s transportation funding, Mayor Smith exercised her authority to veto the ordinance.

Excerpts from City of Lynnwood Financial Policies

Revised 11/22/21

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

3. Budgeting: General

A. These Financial Policies shall be used to guide major policy initiatives and shall be incorporated or summarized in the adopted biennial budget document.

F. The proposed preliminary budget, Preliminary Budget, adopted budget, and the mid-biennial modification of the adopted budget shall be based upon, and consistent, with:

- i. The Community Vision.
- ii. Performance management/measurement techniques and principals set forth by the Mayor.
- iii. The method of Budgeting for Outcomes (BFO), also known as Priority-Based Budgeting, as indicated in Resolution 2015-05.

4. Financial Forecasts

B. Financial Forecasts shall:

- i. Incorporate plans for reserves and specific fund balances.
- ii. Include revenue streams as may be appropriate to support capital projects in accordance with the city's Capital Facilities Plan and Strategic Investment Plan Component.
- iii. Serve as a basis for decision making that may affect long-term trends and financial needs.

C. All financial decisions shall be within the context of the long-range planning forecast and other related long-range plans (Capital Facilities Plan / Strategic Financial Plan). Staff shall provide a review of the implications of budgetary and other fiscal proposals on these long-range forecasts and plans. Staff shall include a "fiscal note", in a format to be provided by the Finance Director and approved by the Council, with each action item on the council agenda. If no note is deemed necessary, the agenda cover sheet shall so state.

FINANCE COMMITTEE 4.D

CITY OF LYNNWOOD FINANCE COMMITTEE

TITLE: American Rescue Plan Act Discussion

DEPARTMENT CONTACT: Michelle Meyer, Finance

SUMMARY:

ARPA position discussion

PRESENTER:

Michelle Meyer, Finance Director; Corbitt Loch, Strategic Planner

ESTIMATED TIME:

20

BACKGROUND:

When the City of Lynnwood was allocated federal funding through the American Rescue Plan Act (ARPA) in 2021, Finance staff indicated that we would initially manage the grant with existing staff and request additional staff through the grant funding if needed.

The City recently received an audit "finding" related to the management of the 2020 CARES grant. To assure the level of internal control needed to comply with the very specific ARPA federal grant requirements, complete the steps outlined in the City's Corrective Action Plan for the State Auditor's Office, and avoid any future findings related to ARPA, Lynnwood can create a new temporary position dedicated only to ARPA grant administration.

PREVIOUS COUNCIL ACTIONS:

Most recent ARPA discussion: April 20, 2022 Council Work Session

DEPARTMENT ATTACHMENTS

Description:

[ARPA position memo 4.22.pdf](#)

MEMORANDUM

DATE: April 13, 2022

TO: Mayor Frizzell

FROM: Michelle Meyer, Finance Director

SUBJECT: American Rescue Plan Act Position Request

When the City of Lynnwood was allocated federal funding through the American Rescue Plan Act (ARPA) in 2021, Finance staff indicated that we would initially manage the grant with existing staff and request additional staff through the grant funding if needed.

Recently, the Washington State Auditor’s Office (SAO) conducted the exit conference for the City’s 2020 Financial and Federal Audit. This audit included a “finding” related to the City’s management of the federal 2020 CARES grant indicating that the City had inadequate internal controls for ensuring compliance with federal requirements on subrecipient contracts because the City did not complete a formal risk assessment and conduct specific subrecipient monitoring based on that risk assessment.

To assure the level of internal control needed to comply with the very specific ARPA federal grant requirements, complete the steps outlined in the Corrective Action Plan provided to SAO, and avoid any future findings related to ARPA, Lynnwood can create a new temporary position dedicated only to ARPA grant administration.

Creating new positions to manage grant requirements and reporting is an allowable use of the ARPA grant funding. Many other cities and counties have created new positions within their organizations to successfully manage these very large and highly regulated grant allocations.

Titles for these positions include Recovery Specialist, ARPA Accountant, ARPA Grant Administrator, etc. An estimated salary range is between \$70,000 to \$100,000 depending on specific job functions. A term-limited position can be filled through December 31, 2024, with the possibility of extension based on grant eligibility. If there is support to move forward with position creation, Finance would work with Human Resources to develop a full job description and appropriate salary range.

Examples of job duties include:

- Develop risk management assessment process as outlined in the formal “response” to SAO related to the 2020 finding and ensure future compliance
- Serve as subject matter expert on the US Department of Treasury’s Final Rule/ARPA guidance
- Develop strategies to identify projects/initiatives that match funding requirements
- Synthesize complex ideas and present information in an understandable manner to internal and external stakeholders
- Act as the City's liaison with subrecipient agencies concerning contractual and monitoring requirements
- Provide project management oversight and compile documentation for audit
- Track eligibility and expenditures and reconcile all ARPA transactions
- Submit required reports according to federal schedule
- Assist with preparation of schedule of expenditures of federal awards related to ARPA

As indicated in the City’s response to the 2020 audit finding, we are committed to establishing and following effective internal controls in compliance with federal uniform guidance for grant administration. Allocating a small portion of the ARPA funding for a dedicated position to manage the grant program will help ensure future compliance.