

CITY OF TALLAHASSEE, FLORIDA

Voluntary Disclosure Regarding the Impacts of COVID-19

Dated May 15, 2020

The Novel Corona Virus 2019 (“COVID-19”) pandemic, along with various governmental measures taken to protect public health in light of the pandemic, has had an adverse impact on global financial markets and economies, including financial markets and economic conditions in the United States. The impact of the COVID-19 pandemic on the U.S. economy is expected to be broad-based and to negatively impact national, state and local economies.

In response to such expectations, President Trump on March 13, 2020, declared a “national emergency,” which, among other effects, allows the executive branch to disburse disaster relief funds to address the COVID-19 pandemic and related economic dislocation. On March 25, 2020, President Trump declared the State of Florida a disaster area because of the spread of COVID-19. In addition, Governor DeSantis signed various executive orders that have, among other effects, (i) closed all public and private schools serving pre-kindergarten through 12th grade students through the remainder of the spring semester, (ii) closed all bars and limited dine-in restaurants customers to 25% of capacity, and (iii) instructed residents to stay at home except for essential travel. The finances of City residents are likely to be adversely affected by the continued spread of COVID-19, the various governmental actions in response thereto and changes in the behavior of businesses and people, which all could affect the City’s revenue.

The City and other governmental entities have taken a number of steps locally with respect to COVID-19. On March 13, 2020 Leon County schools and local universities suspended on-campus learning. On March 18, 2020, the City worked with local hospitals to open a drive-through testing site on City property. By March 23, all State, Leon County and City offices were closed to the public. On March 25, 2020, with City support, Leon County issued a Stay at Home Proclamation. In addition, the City has cancelled all permitted events until further notice, including the Word of South Festival and Springtime Tallahassee. The City also closed all of its recreational facilities, including the Senior Center, its two golf courses, playgrounds, tennis, racquetball, pickleball and sand volleyball courts, except for parks, trails and green spaces, until further notice. As of May 8, certain outdoor activities re-opened under various restrictions and limitations as recommended by the CDC, including the two golf courses and select tennis, pickleball, basketball and swimming facilities. Parks are being monitored to ensure that residents practice social distancing while on these open spaces. The City Commission postponed its March 25 Commission meeting, and has held its April 8, April 22, and May 13 Commission meetings digitally.

All City employees whose job functions allow have been encouraged to work from home whenever possible. The City’s electric, gas, water, sewer and stormwater utilities have made scheduling adjustments to protect the health of staff and ensure the workforce is available to provide essential services. These measures included rotation of employees for one or two weeks on and one or two weeks off, respectively, with the employees that are not on duty in self-isolation. Social distancing is to be observed amongst workers that are not working from home. The City’s solid waste management services have not experienced an interruption, and the airport, which remains open, is expecting commercial passenger traffic volumes to decline by more than 80%. The City’s bus service also continues to operate its full-service routes with limited exceptions. Operators are wearing masks and have a plexiglass shield for the driver’s compartment to minimize the chance of

infection from passengers. Passengers are limited on each bus to 15 at any given time (approximately 50% capacity), and passengers are advised to stagger seating to provide social distancing. Other departments continue to provide service with adjustments made to limit the spread of COVID-19.

The economic, financial and budgetary impacts on the City and its economy from the measures taken to combat the spread of COVID-19 are expected to be significant. The most immediate impact on the City's budget is the reduction in revenues due to the decrease in economic activity. The City was fortunate that the Legislative Session was in its final week and the two universities located in Tallahassee, Florida State University and Florida A&M University, were six weeks away from the end of the Spring semester when the national emergency was declared. No accurate estimates for future costs expected to be incurred are available due to the fluid nature of the response efforts.

Pledged Revenues available for debt service for the Energy System from October 2019 through April 2020 were \$60.4 million (unaudited), a 6.8% increase over the same period in FY2019. Pledged Revenues available for debt service fiscal year to date through April 2020 for the Consolidated Utility Systems were \$38.2 million (unaudited), a 7.8% increase from the same period in FY2019. Pledged Revenues available for debt service for the City's Capital Bonds were \$22.1 million (unaudited) for the first seven months of FY2020, a 2.2% increase over the same period in FY2019. However, the economic conditions resulting from actions taken to slow the spread of COVID-19 are expected to have a material adverse impact on future City revenue collections. Due to the lag between when utility sales occur and when revenues are received for those services, the full impact upon these operating revenues as a result of the economic shutdown throughout the month of April will not be fully known until June. For example, with state shared revenues such as sales tax revenues, April sales tax collections will not be distributed to the City until June. As a result, the City has delayed its normal budget preparation schedule approximately one month to get as much up-to-date information as possible in formulating its FY2021 Budget.

The amount and magnitude of the decline in City revenue collections cannot be estimated with any reasonable degree of certainty at this time. A preliminary forecast assuming a 50% reduction in State half-cent sales tax collections from April through June and a 25% reduction from July through September would result in a \$2.5 million, or 22%, shortfall in the amount of such sales tax included in the FY2020 Budget. With similar assumptions applied, State revenue sharing receipts would fall short of the budgeted amount by \$1.4 million, or 21%, in the current fiscal year. The forecast also assumed a reduction in electric utility revenues due to the slowdown and the absence of the university student population through September, which would result in a shortfall of \$20.8 million, or 7.4%, in FY 2020 budgeted electric sales. Similar assumptions were made for the gas, water and sewer utilities. Under this assumption, the shortfall for gas sales would be \$2.1 million, or 7.1%; for water, a shortfall of \$170,440, or 0.4%; for sewer, a shortfall of \$2.6 million, or 3.5%. The estimated electric and gas utility revenue impacts will be mitigated in part by corresponding reductions in fuel expenses.

The City's utilities are engaged in a number of efforts to temporarily ease the burden of utility costs upon those most impacted by the actions taken to respond to the COVID-19 pandemic. In March 2020, the City announced that it would not disconnect customers for non-payment for 60 days. In addition, the City implemented a Customer Utility Assistance Program that allows City utility customers the ability to defer one month's utility bill payment (March, April, or May

bill) until September of 2020 and allows the deferred bill to be spread over 6 months (September 2020 – March 2021) at no interest. Customers seeking to utilize this program must demonstrate certain financial assistance need. For residential customers, they must provide proof of unemployment or loss of income. For commercial customers they must provide proof of reduction in revenue. As of May 7, a total 696 residential customers and 197 commercial customers have registered in the Customer Utility Assistance Program. As is the normal course of business, the City is working with existing customers on developing payment plans affected by the COVID-19 pandemic. All of these actions are expected to slow the collection of revenues for the City's electric, gas, water and sewer utilities, but we are unable to adequately estimate the financial impact of these actions at this time.

Notwithstanding the expected decrease in revenues and unanticipated expenses related to COVID-19, the City does not anticipate any difficulties with liquidity needed to fund the budget for the current fiscal year ending September 30, 2020. The City Commission, City Manager and financial staff are continually monitoring the costs and revenue impacts of COVID-19. The City Treasurer-Clerk is closely monitoring cash flows to ensure adequate liquidity is available to fund expenditures. The City had approximately \$656 million in its operating portfolio as of May 5, 2020 to fund City expenditures, excluding monies expected to be received from FEMA reimbursements for COVID-19 response expenses or under the CARES Act described in more detail below. As of May 6, 2019, the City had approximately \$675 million in its operating portfolio. The average size of the operating portfolio at the beginning of May for the years 2016, 2017 and 2018 was approximately \$652 million.

Although revenue declines are expected in Fiscal Year 2019-20, at this time, the City does not expect to make budget cuts or use reserves in the current fiscal year. All departments have been asked to restrict non-essential expenditures, and certain budgetary actions may yet be taken in the future to prepare for expected revenue decreases.

The City expects to receive financial support from the federal government through a variety of mechanisms and legislative actions. With the President's declaration on March 13, the City anticipates receiving reimbursement for emergency response activities through FEMA Public Assistance. As of the date hereof, FEMA Public Assistance would be expected to reimburse 75% of these costs and the State would be expected to reimburse another 12.5%, with the City responsible for the remaining 12.5%. The CARES Act provides up to \$3.7 billion in federal grant funds for state and local governments for COVID-19 response and economic relief. Potentially, CARES funding could be used to offset the City's 12.5% share of COVID-19 Public Assistance costs. FEMA reimbursements may be received over multiple fiscal years. The foregoing programs are subject to various conditions and restrictions contained in the applicable legislative acts or in interpretive guidance provided by various federal agencies, and the estimated funding amounts provided herein are subject to adjustment. There may also be additional federal legislation that provides financial assistance to the City, but no assurance can be provided regarding future federal programs or funding. As of May 6, 2020, the City has incurred expenses of just over \$5 million that may be eligible for reimbursement from FEMA.

Although there will undoubtedly be material negative economic and financial consequences from COVID-19, the City expects to make all deposits required for the full and timely payments on all of its outstanding bonds, including Energy System Bonds, Consolidated Utility Systems Bonds, and Capital Bonds, as well as for all other City indebtedness.

It is likely that the full financial impact of COVID-19 on the City, its economy, and its financial position will change significantly as circumstances and events evolve. It is not possible at present to project with any reasonable degree of certainty the impact on the City's revenues, expenditures, reserves, budget, or financial position. The purpose of this voluntary disclosure is not to provide forward-looking estimates of projected fiscal impact, but to provide some preliminary data regarding the current fiscal year as well as to provide a brief discussion of operations and identify factors likely to have a bearing on the City related to the impacts of the COVID-19 pandemic. No assurance can be given regarding future events or impacts, because many actions and events are unpredictable, unknowable at this time, and outside the control of the City. The City will continue to monitor events as they occur, especially those that may have a significant impact on the City's budget and finances, and may provide updates to the marketplace via its investor website at www.tallahasseebonds.com and filings on EMMA. The provision of updated information is voluntary and may be discontinued at any time and as circumstances change and updated information becomes less meaningful. This voluntary disclosure is not intended to create any ongoing commitment or obligation on the part of the City and should not be interpreted by investors as such.

This information is subject to change without notice. This voluntary notice only speaks as of its date and does not imply there has been no change in any other information relating to the City or any of its outstanding bonds. Nothing contained in this voluntary notice is, or should be construed as, a representation by the City that the information included in this voluntary notice constitutes all of the information that may be material to a decision to invest in, hold or dispose of any securities issued by the City or otherwise related to the City. Although the City may provide additional information from time to time regarding the matters in this voluntary notice, it is not required to do so.

Certain statements contained in this voluntary disclosure reflect not historical facts but forecasts and constitute "forward-looking statements." No assurance can be given that the future results discussed herein will be achieved, and actual results may differ materially from the forecasts described herein. In this respect, the words "estimate," "forecast," "project," "anticipate," "expect," "intend," "believe," "budget" and similar expressions are intended to identify forward-looking statements. All projections, forecasts, assumptions and other forward-looking statements in this voluntary disclosure are expressly qualified in their entirety by the cautionary statement set forth above. The financial information set forth above is unaudited. Estimates are based on information available at the time of the estimates. Such estimates are subject to revision as additional information becomes available. Also, estimates are subject to risks and uncertainties which may cause results to differ materially from those estimates set forth above. No assurance is given that actual results will not differ materially from the estimates provided above.