

October 20, 2003

Honorable Mayor, City Council, and Shoreline Residents:

I am pleased to present the 2004 Proposed Budget. This document presents the overall plan for allocating the resources of the City to a variety of programs necessary to keep the community safe, enhance the quality of life, and maintain and develop facilities, parks, roads, and storm drainage.

As we have discussed numerous times, the national and regional economies experienced recession starting in late 2000. Although economists have declared that the national recession ended in 2001, the Puget Sound Regional recovery has lagged. Most local economists agree that the Puget Sound Region has probably seen the worst, but it is going to be a slow recovery, with full recovery not expected until 2005.

Even though this is the case, the City of Shoreline has been able to maintain service levels to the community and is in excellent financial position. This is primarily a result of the long-term financial focus and conservative budget practices that the City Council has adopted. Although we have been able to maintain our service levels, and in some cases able to improve service levels, our long-range forecasts indicate that this may become more challenging in the future, as revenue growth is anticipated to be below the projected inflation levels for the next several years.

In preparing the proposed budget, it was my goal to continue to allocate our resources to provide services that support the Community Vision, Values and Critical Success Factors, and 2003-2004 Council Work Plan. Consistent with Council direction and input, the proposed budget places primary emphasis on maintaining current services, investing in capital projects to enhance the facility, transportation, and surface water systems throughout the City, and implementing a program to enhance economic development within our community.

The proposed 2004 budget is balanced in all funds. Within the City's General Fund, if the budgeted contingencies are eliminated (\$730,000), operating revenues would exceed expenditures by \$295,000 for 2004.

Budget Organization

The budget begins with this transmittal letter to provide an overview of the budget and future financial issues. Following this letter are the vision, values, and goals established by the City Council and staff along with the City's strategic plan and the city-wide critical performance measures. The budget includes an Executive Summary focusing on organization-wide information and the Operating Budget section organized by department and programs. Within each department section, we have identified key accomplishments for year 2003 and key objectives for 2004. These accomplishments and objectives have been linked to the City's critical success factors, and in many cases represent accomplishment towards the City's Strategic Goals.

During 2003 departments identified their programs (main lines of business) and main activities within those programs as part of the city-wide performance measurement implementation. Additionally each department identified at least one outcome measure and one customer satisfaction measure for each program. The 2004 proposed budget contains results for any measurement results that were collected in 2002 and 2003. Some measures will not have actual results for 2003 until the end of the calendar year, and in those cases the 2003 information will be available for the 2004 Adopted Budget document. Other measures that were newly identified during 2003, will not have valid data until the end of 2004. The initial collection of this data will set the baseline for future comparisons.

The 2004-2009 Capital Improvement Program (CIP) provides the long range plans for roads, parks, facilities and surface drainage. The CIP was adopted in July 2003. The proposed 2004 budget contains a summary of the 2004-2009 CIP. Readers who would like a complete copy of the CIP document should contact the City Clerk's Office.

Appendices are provided that contain salary and benefit summaries, a glossary and other information that may be helpful to the reader.

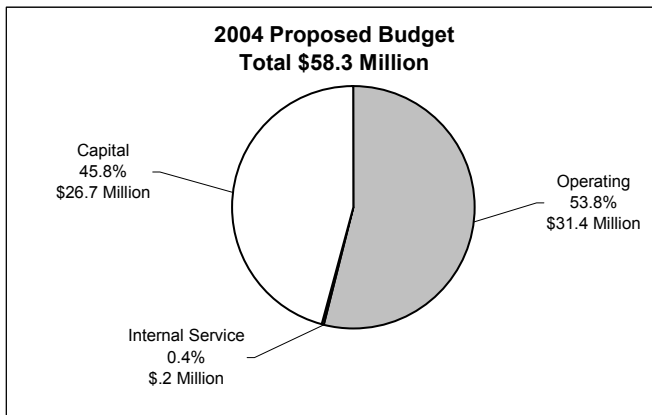
Budget Highlights

The City's 2004 proposed budget is balanced in all funds and totals \$58.3 million. The table below summarizes the 2004 proposed budget and provides a comparison to the 2003 budgeted expenditures. The 2003 budgeted expenditures represent the adopted budget and any budget amendments, such as reappropriations, that have occurred in 2003.

Fund	2004 Proposed Budget				2003 Current	03 - '04 % Change
	Beginning Fund Balance	Revenue	Expenditures	Ending Fund Balance	Budget Expenditures	
Operating Funds:						
General Fund	6,147,150	24,777,451	25,212,198	5,712,403	28,548,505	-11.7%
General Reserve	1,769,099	172,889	0	1,941,988	0	n/a
Streets	551,895	2,342,844	2,446,336	448,403	3,008,731	-18.7%
Surface Water Management	1,972,470	2,537,192	1,822,806	2,686,856	2,910,882	-37.4%
Development Services	318,158	1,718,661	1,765,366	271,453	1,859,545	-5.1%
Code Abatement	48,166	100,000	100,000	48,166	100,000	0.0%
Asset Seizure	20,025	23,000	23,000	20,025	29,851	-23.0%
Sub-Total Operating Funds	10,826,963	31,672,037	31,369,706	11,129,294	36,457,514	-14.0%
Internal Service Funds:						
Equipment Replacement	972,229	292,105	180,050	1,084,284	148,111	21.6%
Public Art Fund	0	183,250	0	183,250	0	n/a
Unemployment	64,584	10,000	10,000	64,584	10,000	0.0%
Vehicle Operations & Maintenance	57,707	54,465	55,300	56,872	55,000	0.5%
Sub-Total Internal Service Funds	1,094,520	539,820	245,350	1,388,990	213,111	15.1%
Capital Funds:						
Arterial Streets	0	348,546	348,546	0	358,905	-2.9%
General Capital	5,633,377	8,985,050	13,935,853	682,574	2,689,698	418.1%
Roads Capital	12,194,117	7,223,315	10,788,377	8,629,055	9,887,738	9.1%
Surface Water Capital	3,605,642	698,358	1,602,340	2,701,660	1,646,830	-2.7%
Sub-Total Capital Funds	21,433,136	17,255,269	26,675,116	12,013,289	14,583,171	82.9%
Total City Budget	33,354,619	49,467,126	58,290,172	24,531,573	51,253,796	13.7%

The proposed 2004 budget is 13.7% more than the 2003 Amended Budget. The City's operating fund expenditures decreased \$5 million, or 14%, from 2003 to 2004, while the capital expenditures are projected to increase by \$12.1 million, or 82.9%. The increase in capital expenditures is related to the construction of a City Hall and moving forward with transportation related projects.

The budget can be divided into three parts: Operating, Internal Service and Capital.



The City's operating budget represents the cost of providing services to the Community on a day-to-day basis.

The capital budget represents the cost of making improvements to the City's facilities, parks, transportation, and surface water systems. Internal service funds represent transfers between funds (public art, and unemployment insurance) to fund maintenance and replacement of City equipment. The total 2004 operating budget is \$31.4 million. This is \$5.8

million or 14% below the 2003 amended budget. The primary reason for this decrease is that the 2003 amended budget includes \$1.17 million of expenditures carried forward from 2002, a reduction in resources allocated for the City's technology plan and a reduction of the monies transferred from the operating budget to the capital budget. In 2003 there was a one-time transfer of \$2.8 million from the General Fund to the General Capital fund to apply towards the City Hall project. This transfer represented increases in reserves from previous years, as a result of revenues exceeding expenditures, and consistent with the City's financial policies these monies were used for one-time expenditures.

The capital budget includes resources that are allocated for completion of projects that enhance the City's facilities, parks, transportation, and surface water management systems.

Major changes within the City's 2004 budget include the following:

- ◆ **Personnel Costs:** The 2004 proposed budget includes an increase of \$346,000, 3.5%, in personnel costs. The major changes in personnel costs include a combination of the following:
 - Salaries and wages are increasing by \$122,095 or 1.5% in 2004. Increases to salaries and wages include:
 - Market salary adjustments and budgeted step increases. The proposed budget estimates an overall 1.2% market adjustment; and
 - Three new employee positions: An Administrative Assistant for the City Attorney's department and a Project Manager and Project Assistant within the Capital Improvement Program. All three of the positions are being funded by reductions in existing expenditures resulting in no net impact to the budget; and
 - A reorganization within the Parks, Recreation and Cultural Services Department resulting in the reinstatement of the Recreation Superintendent position.
 - Projected benefit cost increases (\$223,000) related to health insurance premiums, worker's compensation costs, and state retirement contributions.
- ◆ **Police Contract:** Overall the City's cost for police services is projected to increase by \$207,000 (3%). This is primarily a result of increased personnel costs, expiration of the COPS grant that had partially offset the cost of the High School Resource Officer, and increased maintenance costs for the King County 911 Communications Center.

- ◆ **Jail:** The City's jail contract is expected to be \$105,000 less in 2004 than in 2003. This is a result of using the Yakima County jail instead of the King County jail for some extended prisoner stays and a substantial drop in activity levels over the last two years.
- ◆ **2003 Base Budget Adjustments:** The 2003 budget contains approximately \$4.1 million in either one-time expenditures or 2002 carry-over expenditures. These items were removed while preparing the 2004 proposed budget.
- ◆ **Program Adjustments:** The 2004 proposed budget includes an enhanced level of right-of-way maintenance (\$30,000) as a result of savings created from a reduction in janitorial service costs. Also, the Development Services Fund includes a new plumbing review and inspection services program. This program is anticipated to be revenue neutral at this time.
- ◆ **Budgeted Contingency Expenditures:** The 2004 proposed budget includes four main types of contingency expenditures: operational and insurance contingency, County 911 Communication Equipment allocation, PERS and health benefit contingency, and a central sub-area service package contingency. These contingency accounts total \$731,149. The largest contingency is the operational and insurance contingency. Per the City's financial policies these contingencies total \$505,000 and are funded by allocating a portion of the existing General Fund Balance. The remaining contingencies represent anticipated costs that have not been finalized at the time of the submission of the proposed budget.
- ◆ **Human Service Funding:** The proposed 2004 budget includes \$10,000 for Hangtime and the Youth Council administered by the YMCA. Funding was provided for these programs in 2003. Since the City is on a two year funding cycle, funding was continued for 2004. It is anticipated that these agencies will participate in the regular funding application process for 2005 and beyond.
- ◆ **Miscellaneous Cost Increases:** Miscellaneous cost increases include anticipated increases in utilities, maintenance contracts, election costs and liability insurance. These increases total approximately \$138,000.
- ◆ **Capital Programs:** The City's capital budget will increase by approximately \$12 million from 2003 to 2004. This is primarily a result of the City Hall project that is scheduled to proceed in 2004.

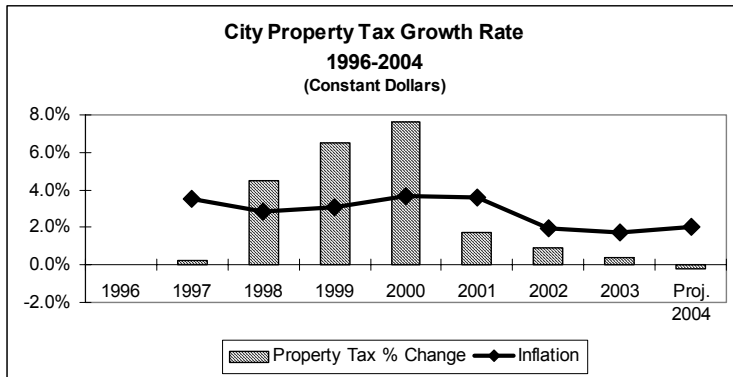
Economic Outlook

The nation and the Puget Sound region saw a dramatic economic decline in 2001. Although indications are that the national economy is emerging from recession, the Puget Sound economy is still struggling. Local economists agree that the economic recovery in the Puget Sound region will lag behind the national recovery. Since the end of 2000 the recession has cost the Puget Sound region 80,500 jobs or 4.6 percent of its total employment.

Employment in the Puget Sound region is unlikely to return to its pre-recession peak until after 2005. Local economists project that employment will expand 1.1 percent in 2004 and 2.1 percent in 2005. Housing starts are projected to have negative or minimal growth over the next few years. One bright spot is retail sales activity which is projected to grow at a more normal growth rate by 2004.

Although the economic outlook for the Puget Sound region is improving, the slow growth has reinforced the need to be conservative in our revenue forecasting. Overall the City's operating revenues are projected to remain flat with 2004 operating revenues being 0.16% greater than budgeted 2003 revenues.

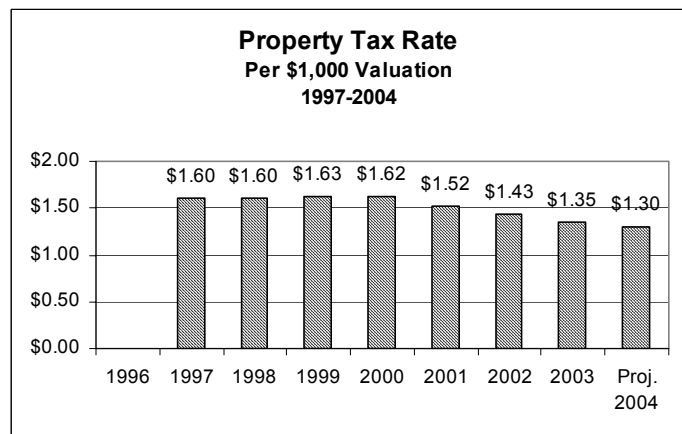
Property taxes represent 21% of the City's operating revenue. The City's property tax collections are projected to increase by 1.8% over 2003 collections to a total of \$6,686,088



for 2004. This amount includes a 1% property tax levy increase, with an additional 0.8% of property tax revenue generated from new construction valued at approximately \$34.9 million. The 1% levy increase is the annual limit allowed by I-747, approved by Washington State voters in 2002. Each year, the King County Assessor provides the assessed value of property in the

City. Since 1996, the City's assessed value has increased 86%. The total estimated

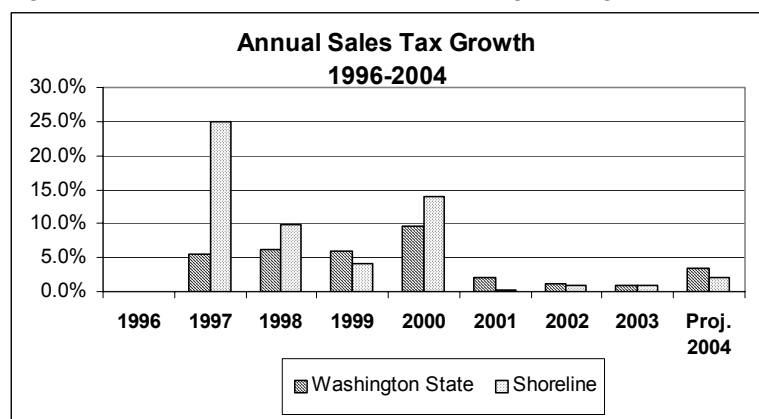
assessed valuation to be used for the 2004 tax levy is \$5,178,635,993. When the assessed valuation is adjusted for inflation, the increase is 49%, equating to an average annual increase of 5.2%. Although the 2003 proposed budget provides for increased property tax revenues on a real basis, when adjusted for inflation, the City has had property tax revenue growth below inflation since 2001 and in 2004 will have negative property tax growth.



As a result of assessed valuation increases outpacing the increase in property tax levy, the City's property tax rate has fallen every year since 2000. The projected property tax levy rate for 2004 is \$1.30 per \$1,000 assessed valuation, a reduction from the 2003 rate of \$1.35. This number is preliminary, as the King County Assessor has not provided the City with the assessed property valuation to be used to determine the 2004 property tax rate. Statutorily the City could levy up to a maximum property tax rate of \$1.60 per \$1,000 assessed valuation. *The owner of a home valued at \$262,000 in 2003 could expect the City portion of their property tax to increase by approximately \$6 in 2004.*

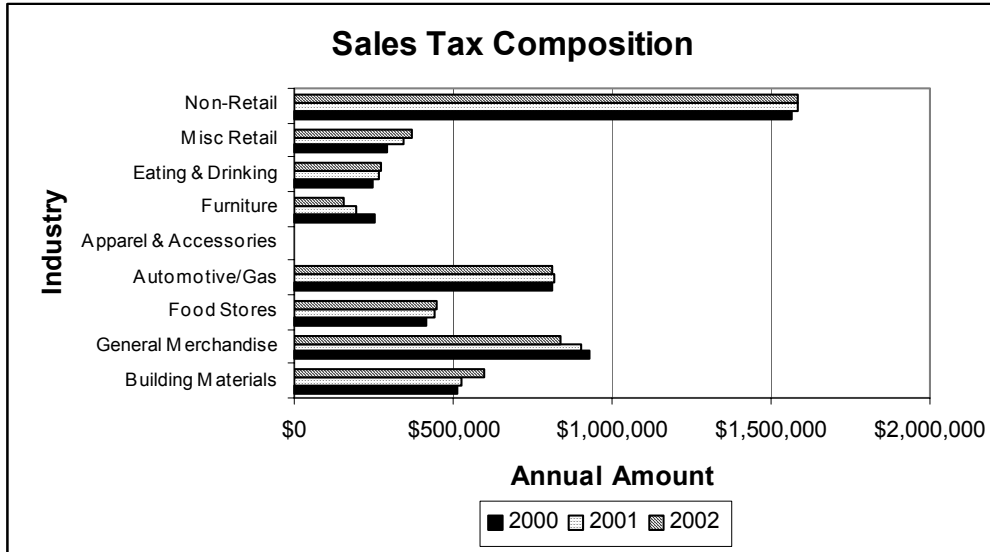
General sales tax, the second largest revenue source for City operations, totals \$5.3 million for 2004. The City is seeing some growth in sales tax collections, although the growth level is significantly lower than the

growth in previous years. With the exception of some one-time sales tax revenues as a result of auditing efforts, to date the City's 2003 sales tax is flat compared to 2002. Annual growth since 1996 averaged 7.1%. The largest growth occurred between 1996 and 2000, when the



average annual growth was 13%. Since 2000 the City's annual growth rate has only been 1%. In light of the improving economic picture for the region, the opening of Top Foods, and auditing efforts that have resulted in correcting the remittance of Sears sales tax to the City, the projected 2004 sales tax collections are estimated to increase by 2% as compared to 2004.

Although the sales tax growth rate in Shoreline is minimal, the City has fared much better than many other cities in the Puget Sound region. Many cities have seen negative sales tax growth over the last two years. Shoreline's tax base consists largely of basic consumer goods, and therefore our sales tax collections have been constant over the last few years.



Automobiles are the most significant luxury item in the Shoreline sales tax base, and these sales will need to be monitored throughout the next year.

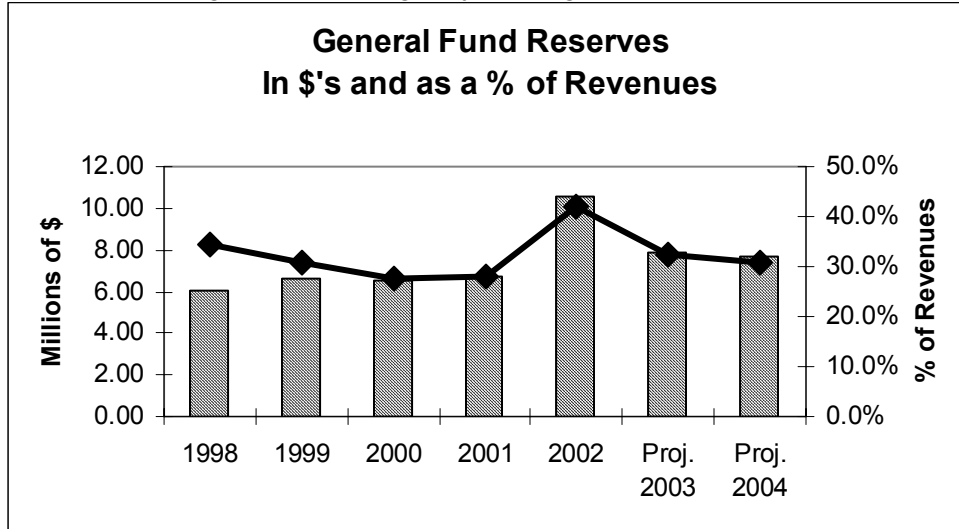
Utility taxes and franchise fees are the third largest source of revenue for the City's operating budget. These revenues are projected to grow by 1.8% overall in 2004. Utility taxes from Puget Sound Energy (natural gas) are projected to increase by 5% (\$28,000) as a result of increased utility rates. Franchise fees are projected to increase by \$50,000, or 9%, primarily a result of a franchise agreement between the Ronald Wastewater District and the City. The franchise agreement provides for a \$50,000 increase in franchise fees in 2004 and 3% annual growth thereafter. Although franchise fees collected from Seattle City Light (SCL) are projected to remain flat, the current rate structure includes a surcharge that was instituted in 2001 as a result of changes in the electric markets. In order to deal with the sky-rocketing power prices of 2001, SCL applied a surcharge to its rates to repay the money it borrowed to acquire energy during this time period. Although these surcharges are scheduled to end in mid-2004, SCL has not confirmed if this will be the case. Also, SCL is undergoing a rate review and it is anticipated, even with the removal of the surcharge, that rates may remain flat as a result of inflationary cost increases. The City has treated the surcharges as one-time revenues. The annual surcharges are estimated at (\$246,000)

Reserves

The City saves a portion of its revenues in reserve funds. These funds are used to continue providing services when the economy weakens, to cover one-time expenditure needs and to meet unforeseen emergencies. To demonstrate prudent financial management, the City Council adopted a policy of maintaining general reserves (General Fund and General Reserve Fund) at 10% of operating revenues. At the end of 2004, the City's general

reserves are projected to total \$7.7 million or 31% of projected General Fund operating revenues. The drop in reserves from 2002 to 2003 is the result of the planned use of \$2.8 million of reserves for the City Hall project.

The proposed 2004 budget recommends using \$705,000 of General Fund reserves. \$505,000 is budgeted for emergency contingencies and \$200,000 will be used on a one-



time basis to bring the total pavement management funding for 2004 to \$700,000. This is the level of recommended funding to maintain the City's current pavement rating.

Fee Adjustments

To continue the City Council's 1999 action to systematically review and adjust all service fees, the proposed 2004 budget includes inflationary adjustments to land use and non-building permit fees in the community development and public works areas. The hourly rate used to generate development fees will increase from \$121 to \$122. Building permits are based on the most recent edition of the Uniform Building Code adopted in the State Building Code, which provides for inflationary increases. Recreation class fees will continue to be based on the cost of providing the class plus an overhead charge. Aquatic fees, facility rental fees, and other general recreation fee have been adjusted based on market comparisons to other jurisdictions. These increases are anticipated to generate less than \$5,000 in additional revenue.

The proposed 2004 fee schedule is included in the Appendix of this budget document.

Detailed Service Level and Expenditure Recommendations

The major areas of change in expenditures are as follows:

- ◆ **Police Contract:** The City contracts for police services through the King County Sheriff's Office. Overall the City's contract for services is projected to increase by \$207,000 (3%). This is primarily a result of increased personnel costs, and the expiration of the School Resource Officer COPS grant. The City had a \$125,000 COPS grant to partially offset the cost of the High School Resource Officer (SRO) position for 2001-2003. The annual grant amount was approximately \$42,000. Since the City and the Shoreline School District each pay 50% of the cost of the SRO, the City's cost for the SRO program will increase by \$21,000 prior to any other personnel cost increases in 2004.

The proposed budget also recommends authorizing an additional deputy position. The City's police contract requires that we carry a fair share of the vacancies within the King County Sheriff's department. As a result of this requirement, there have only been two

months during the last three years when the City did not have at least one vacant position. Since the King County contract includes an annual reconciliation of budget to actual for personnel costs, the City has received rebates during the past three years partially as a result of the vacancy rates. Based on past experience, these annual rebates will be enough to off-set the cost of an additional officer, resulting in a neutral impact to the operating budget.

- ◆ **Personnel Services:** Overall the City's wages and benefits budget will increase by \$346,000, 3.5%, in 2004 as compared to the 2003. The primary increases are related to the following:
 - **Market Adjustment:** The importance and value of our current employees cannot be overemphasized. The budget reflects employee salaries and benefits consistent with the City's compensation policy. Based on the results of a survey of comparable jurisdictions, the proposed budget includes a recommended market adjustment of 1.2% totaling approximately \$93,000.
 - **Insurance Benefits:** The City has seen double digit health insurance cost increases over the last two years. The City's health insurance provider has indicated that health insurance premiums will increase an average of 15-20% annually over the next five years. Anticipating that the City would be facing large health benefit cost increases over the next few years, an employee task force was established early in 2003 to develop a recommendation that would limit the City's health benefit costs to approximately one-half of future premium cost increases. At the time that the task force was formed a budget goal was established to limit future health benefit cost increases to an average of 7.5% annually over the next five years. Other considerations that the task force had to consider while developing a recommendation included maintaining our competitive compensation package.

The City's present health benefits policy provides each full-time regular employee an insurance allowance equal to the health benefit premium cost for an employee, spouse, and one dependent. In 2003 this amount equates to \$739 per month. Employees have the ability to select their individual insurance needs (medical, dental, vision, life, and disability) and purchase the required insurance from their insurance allowance. Based on the employees insurance selections, and if the insurance premiums are less than the insurance allowance, \$739 a month, excess may be contributed to a deferred compensation program. In the case that the insurance premium amount is in excess of the insurance allowance, employees pay the difference out of pocket. Based on the City's current census approximately 80% of employees have an insurance benefit allowance in excess of the cost of their insurance premiums and 20% make out-of-pocket contributions toward their insurance costs.

The task force considered a wide-range of options that could be used to contain future health benefit costs. One of our challenges is that given the City's staff size it is not feasible to consider self-insurance or another independent program. The City's ability to acquire health insurance through the Association of Washington Cities (AWC) appears to be the best option at this time. Since the City already purchases the lowest cost medical plan from AWC, a lower cost plan is not an option. Also AWC continues to search for a plan that may result in lower premiums, by decreasing the participants benefit level, but there has not been a plan that has any significant premium decreases. As a result, the employee task force concluded that in order to meet my budget target for future health insurance benefit costs, the City would need to change its policy of how it provides health insurance benefits.

When reviewing the impacts of future health insurance premium increases on individual employees, it was apparent that continuing the City's current policy would result in employees who receive a health benefit allowance in excess of their premium costs would allow them to put a growing portion of this allowance in deferred compensation, while other employees would be paying hundreds of dollars out-of-pocket per month to purchase insurance. Based on these findings the task force developed a recommendation that maintains a standard allowance for all employees, and for those employees purchasing insurance in excess of this standard allowance, an additional contribution will be made so that the employee will not have to pay more than 5% of their insurance costs out-of-pocket. The task force recommendation is to freeze the standard insurance allowance at the current \$739 per month through 2005, and then cap any future increases to 50% of the health insurance premium cost increases with a 5% ceiling. In essence, the growth cap on the standard insurance allowance will allow the City to shift dollars to provide additional benefit to employees who must purchase insurance benefits for their families. Also, employees who have options to obtain health benefit coverage from other sources, such as a spouse, will receive a benefit level from the City that is considered fair, but is less than the cost the City would incur if the employee chose to basically purchase double coverage for themselves and their dependents.

The 2004 proposed budget includes \$1.2 million for health benefits, a \$135,000 increase (12%) from the 2003 budget. Of this increase \$16,000 represents increased cost as a result of all City Council members being eligible to receive insurance benefits in 2004 and \$31,000 is related to insurance benefits for the proposed new staff positions. When these two increases are taken into consideration, the City's cost for providing insurance benefits to employees will increase by approximately \$88,000 or 7.8% in 2004. Had the City maintained its current insurance benefit policy, the total cost for insurance benefits would have been approximately \$1.4 million in 2004, a 19% increase from the 2003 budget.

We all know the increasing cost of health insurance is a serious problem for employers and employees nation wide. I am deeply appreciative that our employees have been willing to collaborate with us to come up with a plan to mitigate the impact of these increases on our budget. In my mind it speaks volumes about the commitment our employees demonstrate to our values of service to our residents.

- **Parks & Recreation Reorganization:** In 2003 I reinstated the Recreation Superintendent position in PRCS. As a result, the City's Human Services functions were moved to the City Manager's Office and the Grants Specialist was moved to the Finance Department. The net increase to the operating budget for this reorganization is approximately \$21,323.
- **New Positions:** The 2004 proposed budget includes 3.5 new regular full-time equivalent positions. The positions are:
 - *Administrative Assistant - Communications and Intergovernmental Relations (.5FTE, Budget Impact \$0).* The C&IR Department budget included adequate extra-help budget to fund a part-time administrative assistant position for 2003. Based on the workload that was maintained by this extra-help position throughout 2003, it is apparent that there will be an on-going need for a half-time administrative support person in the future. In order to comply with labor regulations, the City needs to make the position a regular position that would

qualify for partial benefits. The C&IR was able to fund the regular position with their existing extra-help dollars in the 2003 budget.

- *Administrative Assistant – City Attorney (1FTE Budget Impact \$0)* The City Attorney's office has demonstrated a need for full-time administrative support. Because of the demonstrated need, reductions were made to existing extra-help and professional service line item within the City Manager's Office and City Attorney's base budgets to fund this new position.
- *Project Manager and Project Assistant – Capital Improvement Program (2 FTE, Budget Impact \$0)* In order to implement the 2004-2009 Capital Improvement Program (CIP), the 2004 proposed budget includes the addition of a project manager and a project assistant. The City has used a combination of internal staff and contracted consultants to implement its CIP. This will continue in the future, but the addition of these internal positions should help the City be more effective in its project implementation. Since existing project budgets included consultant services that these positions will now provide, the funding for the positions was created by reducing project monies allocated for consultant services. We anticipate the City's CIP will require these positions for several years, however as the projects are completed the positions will be phased out.
- ◆ **Jail Contract:** The City's jail activity has dropped over the last two years. In fact through June of 2003, activity is down by 7% compared to 2002 and 31% compared to 2001 for the same time period. As a result jail costs are projected to be approximately \$105,000 less in 2004 than those budgeted in 2003.
- ◆ **Liability & Property Insurance:** The City's liability and insurance premiums are expected to increase by \$70,000 from 2003 to 2004. The City's liability and property insurance premiums are determined by a combination of worker hours, loss experience, and insurance rates. The City's worker hours have increased significantly over the last three years, as well as the fact that the insurance industry is experiencing significant increases in premium costs.
- ◆ **Right-of-Way Maintenance:** During 2003 the Public Works Department re-bid for janitorial services. As a result of this process the future janitorial costs for the City are expected to be at least \$50,000 less annually than had previously been spent. A portion of these savings (\$30K), have been reallocated in the 2004 proposed budget to provide an increased level of service of right-of-way maintenance. This is an example of our staff looking for innovative ways of moving our scarce resources to services identified by the council and our customers as high priority in our strategic plan.

Additional detailed information on 2004 service level changes can be found within the individual department sections of this budget document.

State of Washington and King County Impacts

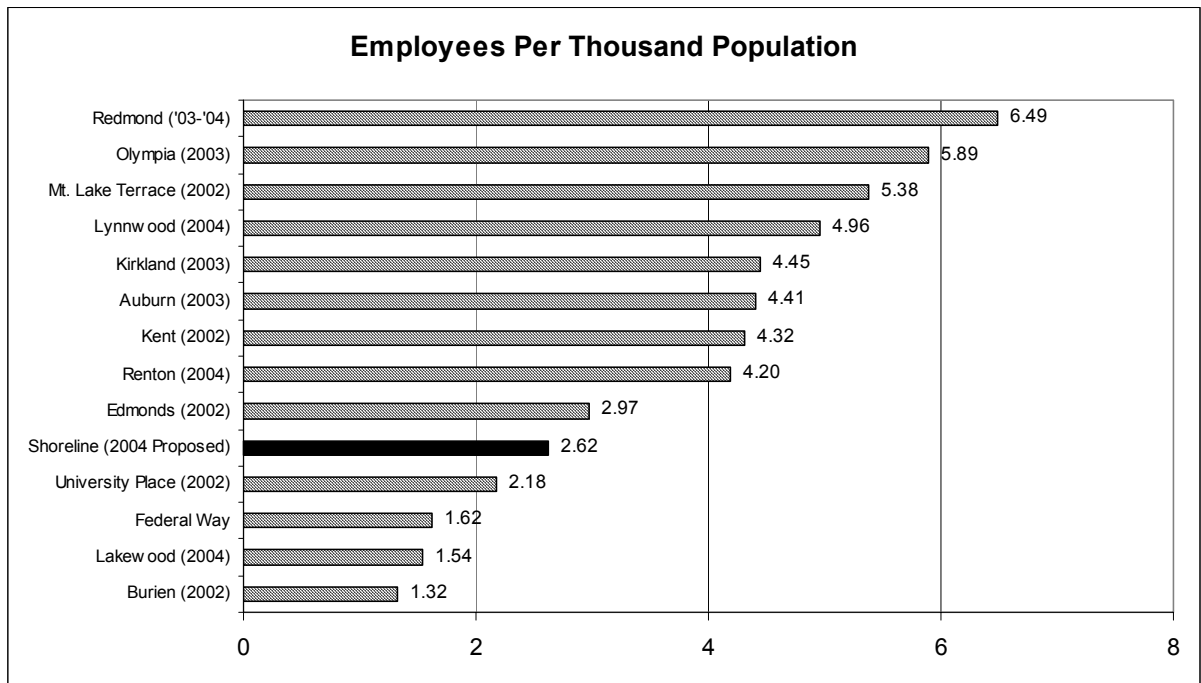
In 2001 the State Legislature eliminated the Motor Vehicle Excise Tax backfill monies to cities. Shoreline was eligible for approximately \$1.5 million in backfill funds. The Legislature failed to identify an on-going revenue source for the backfill funds, and therefore the City received \$148,000 in 2003 and will only receive \$55,000 in 2004. These monies are being treated as one-time revenues.

The County has notified the City that they will terminate our Municipal Court agreement effective December 31, 2004. The City is working with other jurisdictions to determine the most appropriate way to provide these services. There now appears to be a tentative agreement with the county to extend our court contract although at increased cost. The City

may see additional impacts as a result of the State and County budget deficits, but it should be noted that Shoreline residents continue to contribute a large part of their tax dollars to the County and State.

Staffing

The 2004 proposed budget provides funding for 137.9 regular full-time equivalent (FTE) positions. Of these, 3.5 FTEs represent new positions discussed above (Administrative Assistant (1.5), Project Manager, Project Assistant). With the addition of these positions, the City's ratio of employees per 1000 population is only 2.62. As the graph below depicts, a comparison of staffing to population still shows the City of Shoreline staffing levels significantly below comparable cities.



These ratios have been adjusted to **exclude** fire, police, special program and utility personnel from comparable cities.

One-Time Expenditures

The 2004 proposed budget includes \$226,000 in one-time expenditures. The largest portion is the allocation of \$200,000 in General Fund reserves to bring the monies budgeted for the City's pavement management program to \$700,000 for 2004. This is included in the City's CIP. Other one-time expenditures include the start-up costs for the new positions previously discussed (\$26,000).

Capital Budget

The total Capital Improvement Program (CIP) for 2004 is \$26.3 million, and for the 2004-2009 CIP is \$130.8 million. The 2004 budget is approximately \$647,000 greater than the anticipated 2004 expenditures in the adopted 2004-2009 CIP. The primary reason for this difference includes the following:

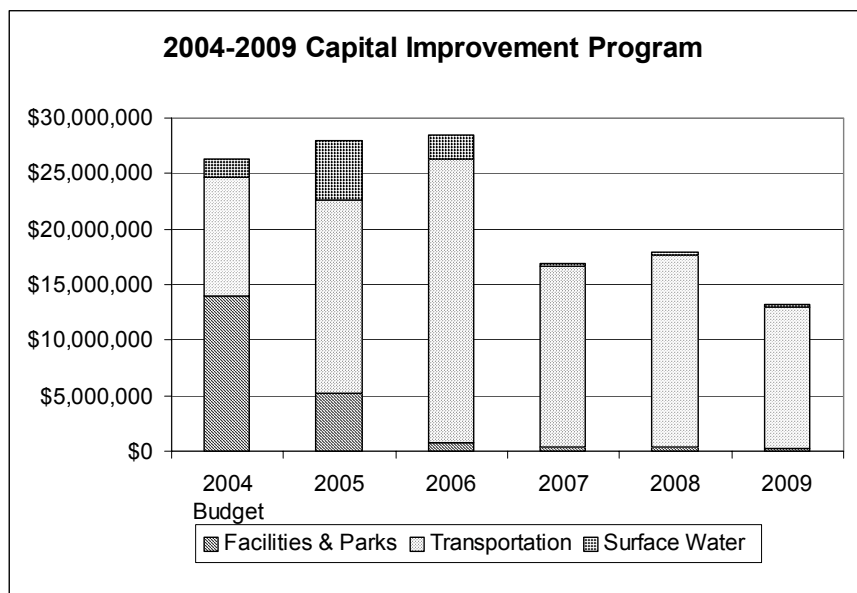
- ◆ **General Services Overhead:** Since the adoption of the 2004-2009 CIP, staff has been able to update the City's overhead allocation model that charges service delivery activities for general support services such as Finance, City Council, City Attorney, etc.

This is the first year in which the capital activities were included within the allocation model. A total of \$383,000 will be charged to the capital funds for support services funded through the City's general fund.

- ◆ **Engineering:** In prior years engineering services related to transportation and surface water projects not directly charged to a specific project had been charged to the street and surface water operating funds. These services, although not project specific, are really in support of the capital projects related to the transportation and surface water infrastructure systems. These costs have been included within the 2004 capital budget and total \$286,000.

The CIP covers projects over \$10,000 and includes buildings, land acquisition, park facilities, road and transportation projects, and drainage system improvements. Much of the capital improvement activity is funded through contributions from the General Fund, Real Estate Excise Tax (REET), federal grants, and Public Works Trust Fund loans.

This chart provides a breakdown of the allocation of capital dollars for 2004 through 2009. The change in capital dollars can vary significantly from year to year based on available resources to complete projects and the impact of completed capital projects on the City's operating budget.



Following are highlights from the

proposed 2004-2009 CIP projects that are either in progress or will be completed in 2004. Additional information on the CIP may be found in the Capital Improvement Program section of this budget document.

- ◆ The 2004-2009 CIP includes funding for the acquisition of a City Hall. The current estimated acquisition cost is \$16.5 million. This is a preliminary estimate, as the project is still in the early planning stages. Throughout 2003 staff has been reviewing space needs, financing options, and exploring alternative locations. It is anticipated that the property acquisition and design phase should be completed in 2004, with construction beginning in early 2005.
- ◆ Construction of two additional gateways within the City. The first two gateways are to be constructed in 2003. A total of \$374,000 is provided in the CIP for construction of City gateway sites, with \$103,000 allocated in 2004.
- ◆ The CIP contains funding for several master plans including an update of the City's Recreation and Open Space Plan, Facilities Plan and Transportation and Surface Water System. The plan updates were initiated in 2003 with completion expected by mid-year 2004. The total amount for these projects is \$635,000, with \$256,000 allocated in 2004.

- ◆ Complete the renovation of the Spartan Gym through a joint agreement with the Shoreline School District. The total expected project costs to the City are \$680,000.
- ◆ Develop a master plan for improvements to Cromwell Park. Projected total improvement costs will be \$505,000 with \$68,000 being expended in 2004.
- ◆ Initiate a Master Plan for Richmond Beach Saltwater Park. Total cost for developing the master plan is estimated at \$409,000. Funding for project implementation is not included in the 2004-2009 CIP.
- ◆ Annual preservation projects for roads and sidewalks are funded at \$900,000 for 2004 and \$700,000 in future years.
- ◆ The most significant transportation projects continue to be the Interurban Trail, Aurora Corridor, and 15th Avenue NE Improvements.
 - The Interurban Trail project totals \$5.3 million with \$1.7 million funded in 2004. Of the total \$5.3 million, approximately \$3.6 million will be funded through grants and other agency participation, with the remaining \$1.7 million funded from City resources. The trail was under construction in 2003 with construction occurring in the south and north sections.
 - Part of the Interurban Trail will include an overhead pedestrian crossing. This project is estimated to cost \$3.6 million, with \$384,000 allocated in 2004. This project will be 85% funded by grants.
 - The Aurora Corridor, 145th-165th project, totals \$25 million with the expectation that \$2.7 million will be funded in 2004. Of the total \$25 million, approximately \$21.7 million will be funded through grants and other agency participation, with the remaining \$3.3 million funded from City resources.
 - The 15th Avenue improvement project totals \$6.3 million, with the expectation that \$3.3 million will be funded in 2004. This project is primarily being funded with City resources.
- ◆ The 2004 budget provides for the continuation of the Neighborhood Traffic Safety Program with \$161,000 funded annually for capital improvements and \$50,000 funded within the operating budget for increased police traffic enforcement.
- ◆ The City has two major surface water drainage improvement projects: Ronald Bog and 3rd Avenue NW. These projects will be funded with Public Works Trust Fund loans with repayment coming from the surface water fees assessed on all property owners in the City.
 - The Ronald Bog Drainage Improvement project is expected to total \$6.2 million, with \$297,000 funded in 2004. This project should be completed in 2006.
 - The 3rd Avenue NW Drainage Improvement project is expected to total \$3.6 million with \$700,000 funded in 2004. This project should be completed in 2005.

More detailed information about the projects within the City's 2004-2009 CIP can be obtained with a copy of the Adopted 2004-2009 CIP.

Other Budget Issues

Initiative 776: In 2003 the voters of the State of Washington approved I-776. I-776 eliminated the local \$15 vehicle license fee collected by King County and distributed to cities based on a per capita formula, which eliminated approximately \$500,000 in annual transportation system maintenance revenue for the City. This revenue represented approximately 30% of the funding for the direct costs of our street operations budget. In response to the passage of I-776, the City reduced its annual funding of its pavement management program from \$700,000 to \$500,000 annually, reduced the curb ramp and

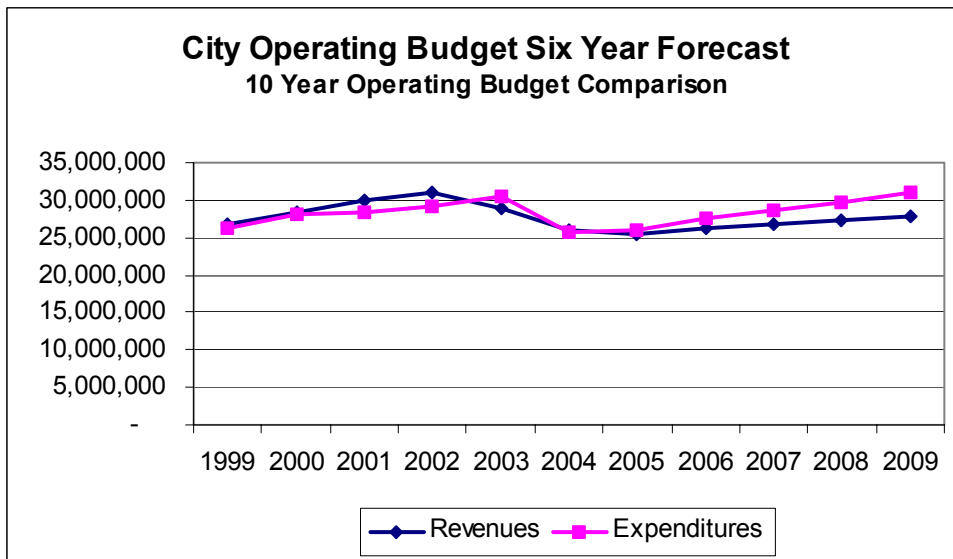
sidewalk program funding by \$100,000 annually, and reduced funding for activities such as street sweeping and snow and ice removal by \$184,000 annually.

In 2002 counties received an injunction to delay the implementation of I-776. As a result, counties have continued to collect the local vehicle license fee, but have not dispersed the proceeds to cities until a final court decision is made on the constitutionality of I-776. The State Supreme Court is yet to make its ruling. Since a final ruling has not been made by the court, the City has not included any of the revenues from the local vehicle license fees in the proposed budget, or its long-term financial plan. In the event that the vehicle license fee is reinstated, the City will need to evaluate which service levels should be restored.

Our Financial Condition and Future Challenges

The City's current financial condition is excellent. Over the last five years, the City's revenue collections have exceeded expenditures as a result of conservative financial planning, efficient management, restraint from using budget savings as a way to fund on-going operations and modest budget increases. The City is well positioned to respond to changes in the economy, but, at the same time, a prolonged decline in revenues would require the City to reevaluate its service levels in order to maintain a strong financial position.

Although the City reviews the long-term position of all funds, the primary focus is on the long-term financial position of the City's operating budget. The City is entering a time-period in which annual expenditure growth is projected to outpace annual revenue growth, therefore resulting in future budget gaps between annual operating revenues and



expenditures. Based on the assumptions that the City uses in its long-term financial planning, this graph depicts the projected budget gaps between annual operating revenues and expenditures in the future.

The City's budget policies dictate that the operating budget must be balanced on an annual basis with on-going revenue sources, unless a policy decision is made to use reserves in an emergency or as a one-time event. One of the advantages of doing long-term financial planning is that we can anticipate the need to either reduce expenditures, increase revenues, or do both. Also, it also allows us to anticipate the need for future policy changes.

One of the major goals that we have for 2004, is the development of a long-term financial strategic plan to address the trend that we are currently anticipating – slower growth in revenues than expenditures. The City Council has already done some preliminary work on this plan, as we have examined alternative revenue sources and discussed priorities of certain City services. Staff has focused during 2002 and 2003 on reducing expenditures and finding more efficient ways of doing business. Some examples are that we have changed the way that we purchase canine services resulting in over \$100,000 savings per year, and the janitorial bid that will result in \$50,000 of annual savings.

Over the next several months, in preparation for the 2004 Council Retreat, staff will focus on reviewing policy issues and financial options to provide for the continued long-term financial focus of our review to prioritizing the outcomes that are produced by our departmental activities. These outcomes will be compared against the critical success factors and outcomes the City Council has identified in the City's strategic plan. We will then prepare a budget that includes the highest priority services that fit within the revenue projected for future years. We believe this process will allow us to fund our highest priorities and identify other services which cannot be funded.

During the 2004 Council Retreat, we will be proposing several options to deal with the projected gap between revenues and expenditures in 2005 and 2006. For the last three years we have been able to reduce expenses with only minor services reduction impacts. I don't anticipate that we will be able to continue that for the next two or three years. In the past, Council has asked us to balance the budget without increasing tax rates or implementing new revenue sources. If that continues to be the Council direction, our primary options would be to: 1) reduce the amount of general fund revenue transferred to support our Capital Improvement Program and 2) reduce or eliminate low priority services. I am very confident, given our past conservative financial planning and spending policies, the indications that the Puget Sound Region should be emerging from the current recession by 2005, and our adequate reserve levels, that we will be able to develop a long-term financial strategic plan that will support our City vision of making Shoreline the best place to live, learn, work and play.

Conclusion

This budget is an effort to comprehensively address the City's service and capital investment needs for 2004. It does not satisfy all the demands placed on the City, but it addresses the top priorities identified by the Council. It does this through conservative revenue estimates, proposing a property tax levy within the confines of I-747, and limiting expenditure growth. The proposed budget provides employees with a compensation package in line with policies established by the City Council.

In presenting the proposed budget to the Council, I would like to acknowledge and express appreciation to the City Leadership Team and their staff for their willingness to submit realistic budget requests and develop alternatives to meet the Council priorities. I would also like to thank the Finance Department for its assistance in preparing this budget.

Finally, I would like to thank you, the Council, for the policy direction you have provided for service delivery to our community.

Respectfully submitted,

Steven C. Burkett
City Manager