

# 2005 Budget & Long-Range Forecast Update

September 20, 2004

Presented by Debbie Tarry, Finance Director

# Presentation Overview

- Review Proposed 2005 Budget Calendar
- Status of Preliminary 2005 Budget
  - What has changed since April?
  - What's impacting the City's Budget?
- Long-Term Financial Projections 2005-2010
  - What are the trends?
  - Next Steps
- Summary

# 2005 Budget Calendar

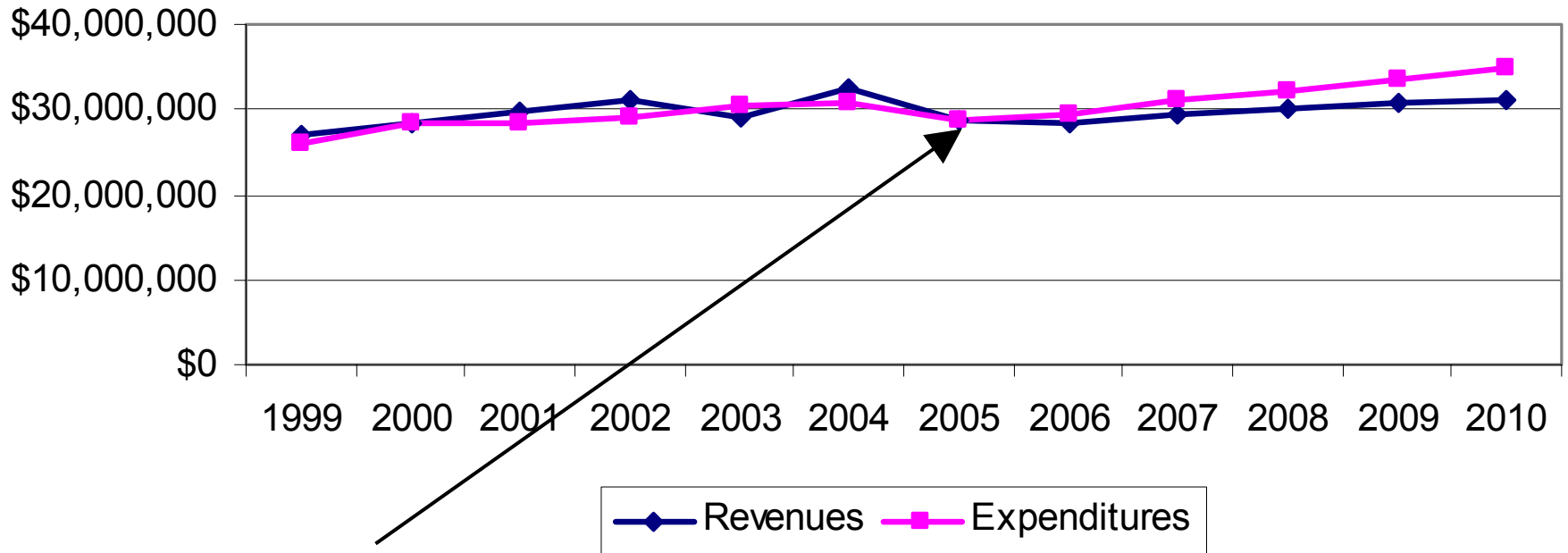
<b>Budget Development Update</b>	<b>September 20</b>
<b>Transmittal of Proposed 2005 Budget</b>	<b>October 25</b>
<b>Budget Review Workshops</b>	<b>November 1, 8, 15</b>
<b>Public Hearings</b>	<b>November 1 &amp; 8</b>
<b>Adoption of 2005 Property Tax Levy</b>	<b>November 22</b>
<b>Budget Adoption</b>	<b>November 22</b>

# ***Financial Policies That Guide Budget Decisions***

- ***On-Going Expenditures Balanced With On-Going Revenues***
- ***Maintain General Fund Reserves Equal to 10% of Operating Revenues***
- ***Use of Reserves Limited to One-Time Expenditures, Unanticipated Emergencies, and Short-Term Economic Downturns***
- ***Continue to Fund the Implementation of Council Goals***
- ***Maintain Current Level of City Services***
- ***Conservative Revenue Projections***

# Operating Budget Status Update

**City Operating Budget Forecast  
10 Year Operating Budget Comparison**



**2005 Preliminary Operating Budget has  
\$50,000 budget gap prior to any new  
revenue sources as recommended in the  
City Manager's long-term financial plan**

# ***What has Changed Since April?***

- ***April - Projected 2005 Operating Budget Gap of Approximately \$570,000***
  - Departments absorbed \$167,000 reduction in 2005 baseline budget
  - Jail Activity continues to decline for 3rd year and tentative agreement on how to cover unused bed commitment at Yakima County jail (\$160,000)
  - Medical Premium increase lower than expected (8%), but Retirement Contribution requirement higher than expected
  - Gambling Tax revenues greater than originally projected (\$100,000)
  - Sales Tax trends stronger (\$127,000)
  - Lease cost increases greater than expected

# Outside Factors Impacting the City's Budget?



- **Limited Property Tax and Sales Tax Growth**
- **Significant drop in State funding of I-695 Backfill**
- **Declining Investment Interest Rates**
- **Changes in Retirement Contribution Rates**
- **Elimination of Local Vehicle License Fee**

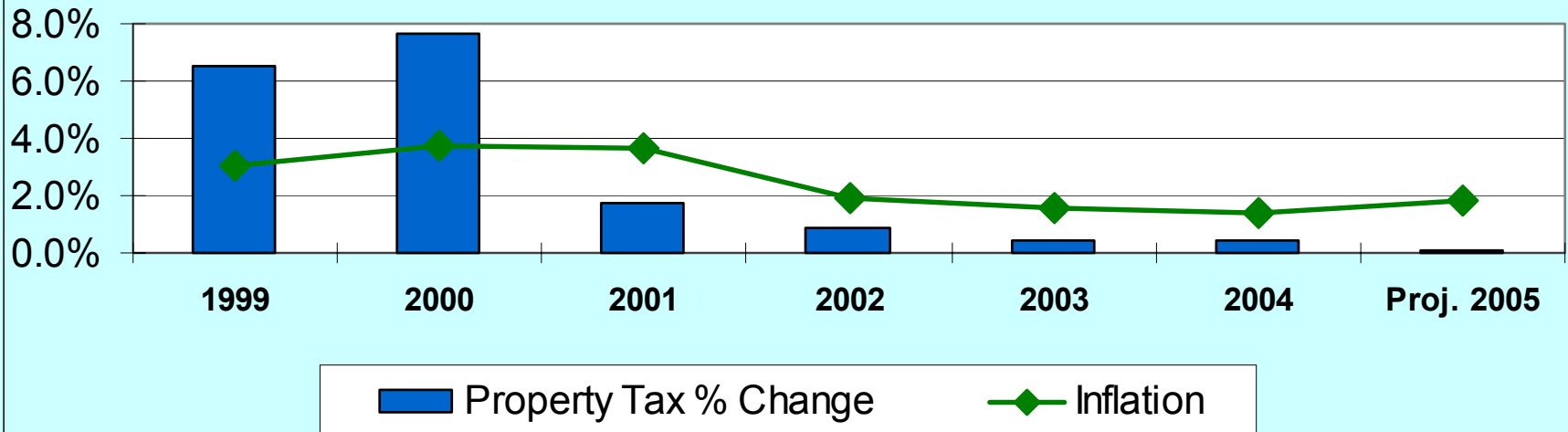
# 2005 Revenue Projections

- General Fund Operating Revenues Grow by 2.3%
  - *Property Tax Revenue Will Grow by 1.9%*
  - *Sales Tax Revenue Will Grow by 4%*
  - *Utility Taxes and Franchise Fee Revenue will decrease by 6%*
    - Removal by Seattle City Light of Electricity Fee Surcharge
  - *Gambling Tax Will Grow by 19%*
  - *State Shared Revenues*
    - Liquor Revenues Up
    - I-695 Backfill Monies Down
  - *Investment Interest Will Remain Flat*



# Property Tax Levy Growth Rate

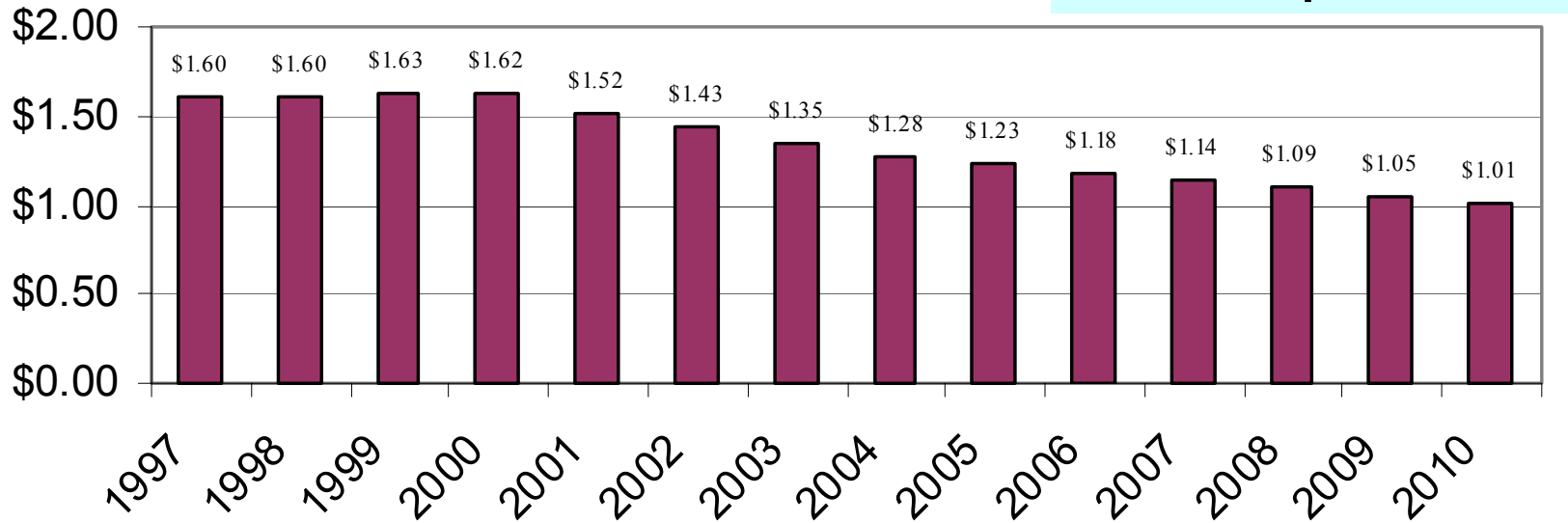
City Property Tax Growth Rate 1999-2004  
(Constant Dollars)



# Property Tax Rate History & Forecast

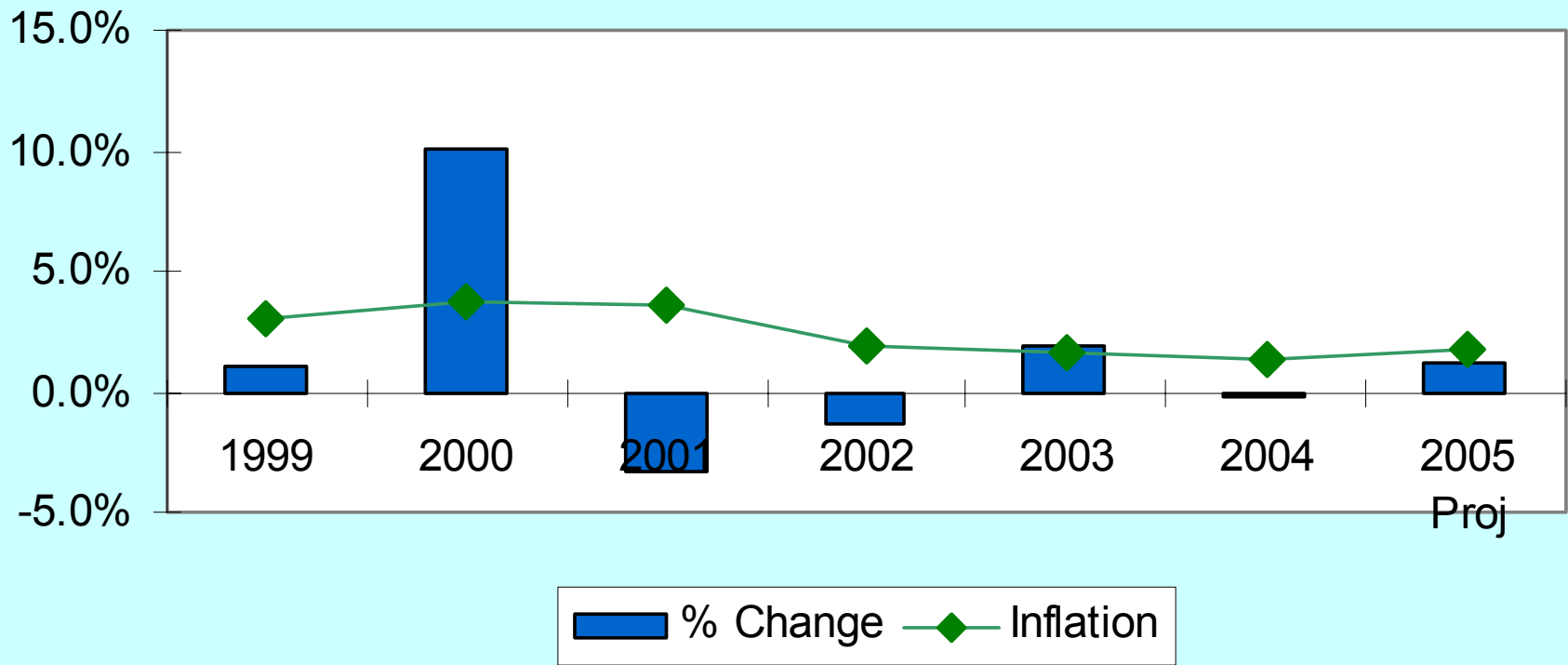
The City's  
Property Tax  
Rate has  
dropped by 20%  
since  
incorporation

City of Shoreline  
Property Tax Levy Rate  
1997-2010

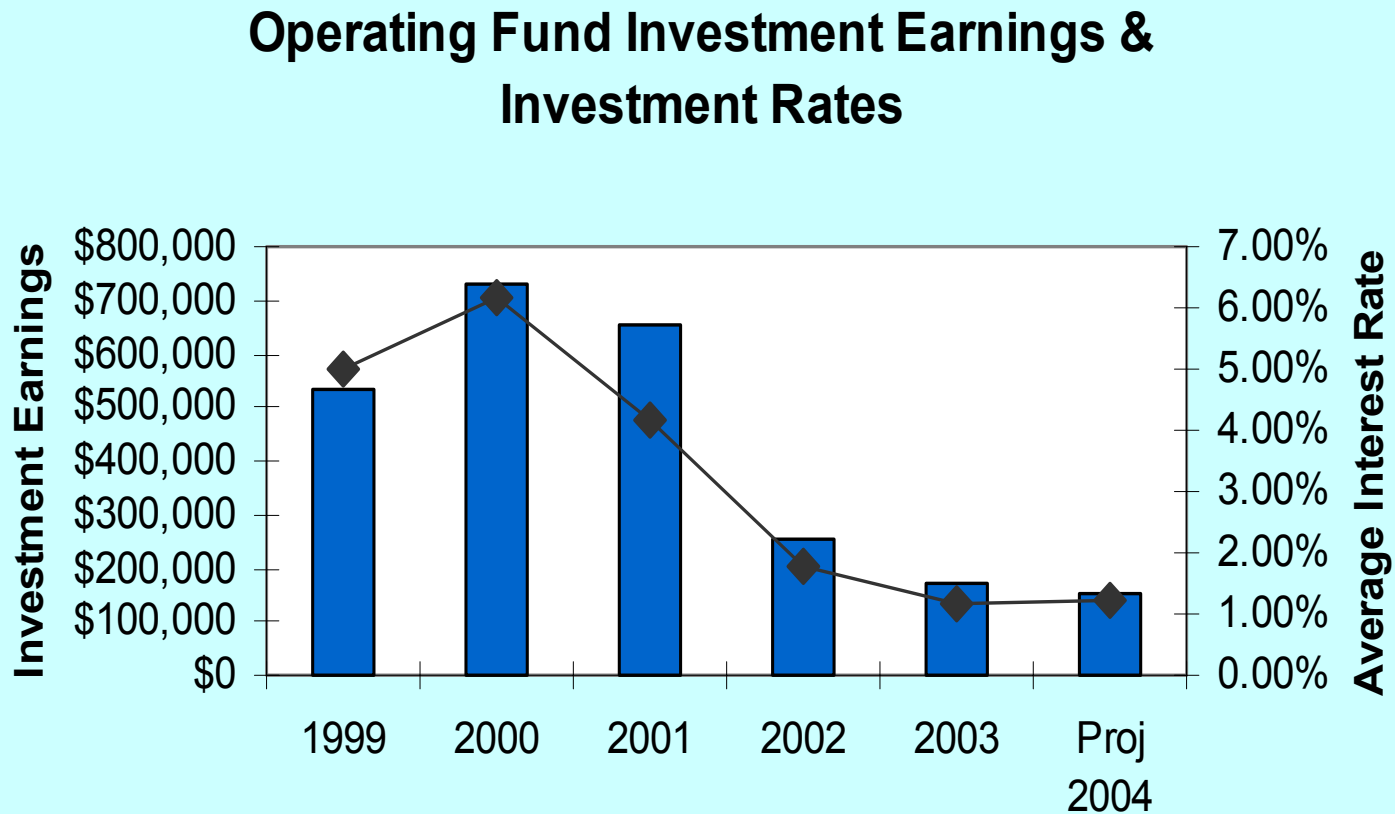


# Sales Tax Trends

## Sales Tax Growth Rate 1999-2005



# Operating Fund Investment Earnings & Interest Rates



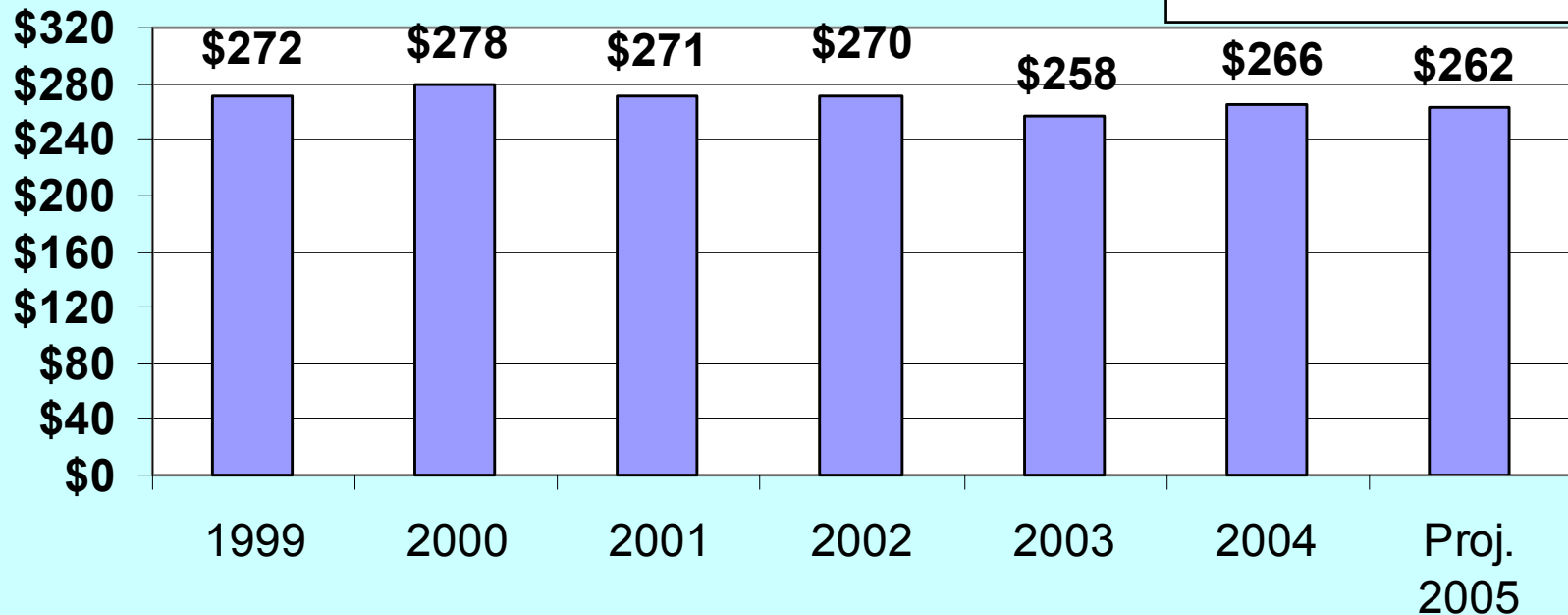
# ***2005 Expenditure Projections***

- ***General Fund Expenditures increase by .3%***
  - ***Exclude 2003 carryovers from 2004 budget and the 2005 budgeted expenditures increase by 2.8%***
    - Personnel Costs Increase by 4.3%
    - Police Contract Increases by 4%
    - Jail Costs Increase by 9%
    - ***Assuming Activity Trends Remain Unchanged***
      - Liability Insurance Assessment Increase of 22%
      - Capital Funding Policies Remain Unchanged

# Operating Budget Expenditures Per Capita

**Expenditures Per Capita  
(In Constant \$)**

Operating Costs  
Per Capita are less  
in 2005 than in  
1999



# Anticipated Changes in 2005 Budget

## Offset by other expenditure reductions

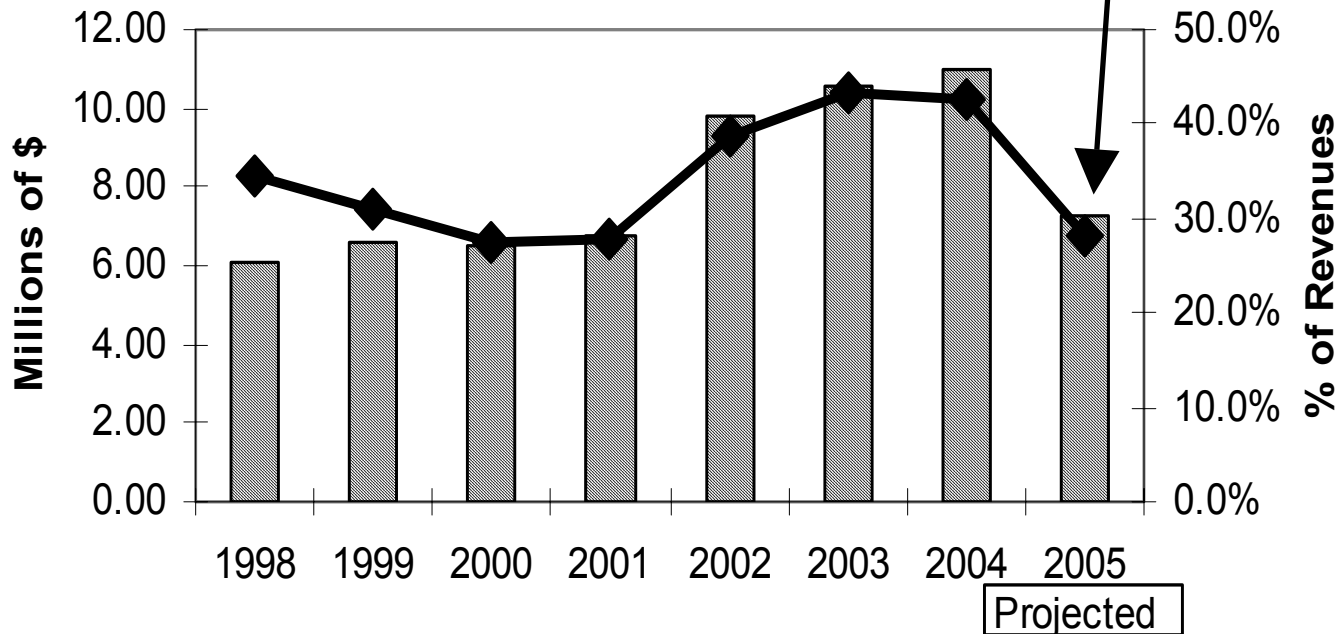
- Administrative Sergeant in place of one deputy position
- Associate Traffic Engineer
- Planner for Aurora/Interurban Projects

## Use of new revenues

- Facility repair & replacement fund

# General Reserves

**General Fund Reserves  
In \$'s and as a % of Revenues**



2005 Drop in Reserves Result of Allocating \$4 million for City Hall Project - Still Exceeds Policy Minimum of 10%



# *City Street Fund*

- *City Street Fund*
  - 54% of resources from Gas Tax & Right-of-Way fees
    - *Gas Tax Projected to Increase by 1.4%*
  - General Fund Supports 46% of City Street Expenditures

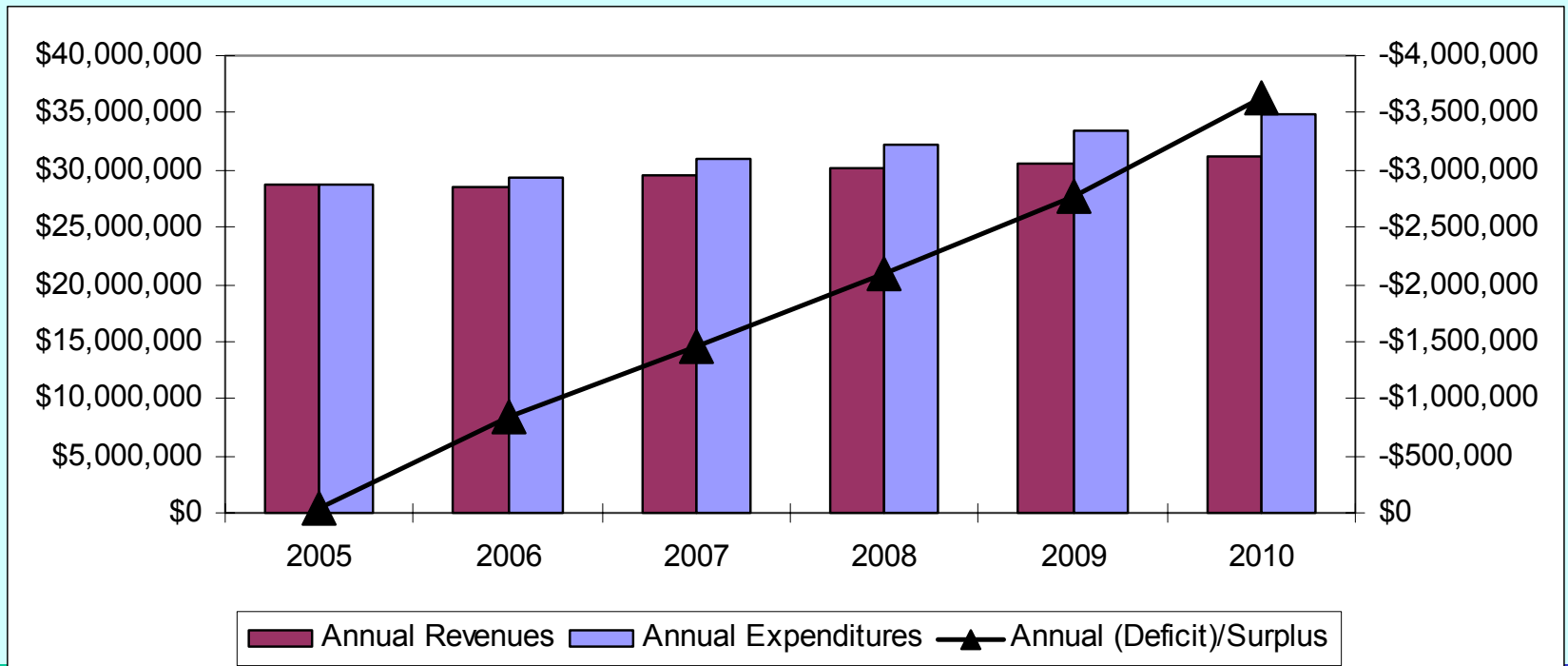
# ***Why Long-Term Forecasts***

- ***National Advisory Council on State and Local Budgeting Considers Financial Forecasts a Best Practice***
- ***Provides an Opportunity to Plan for Short and Long-Term Economic Changes***
- ***Evaluates Today's Decision In Terms of Long-Term Financial Impact***
- ***Make Assumptions Based on What is Known at a Given Time***
  - Changes Occur

# Long-Term Forecast Based on Current Assumptions

## Operating Fund Projections

Expenditure Assumption	2005	100%	Others	99%		
<b>Base Projections</b>						
	2005	2006	2007	2008	2009	2010
Annual Revenues	28,625,163	28,535,416	29,521,345	30,084,372	30,650,382	31,227,963
Annual Expenditures	28,675,846	29,378,197	30,980,930	32,173,629	33,424,151	34,863,838
Annual (Deficit)/Surplus	(50,683)	(842,781)	(1,459,585)	(2,089,258)	(2,773,769)	(3,635,876)



# Long Term Forecast 2006 - 2010

## Revenue Assumptions

- Property Tax - 1.6% Average Annual Increase
  - 1% Levy Increase plus \$35 Million Annual New Construction
- Sales Tax - 2.5% Average Annual Increase
- Gambling Tax - Remain Flat after 2005
- Utility Taxes and Franchise Fees - 2% Average Annual Increase after 2005
- Permit Revenue - 2% Average Annual Increase

# Long Term Forecast 2005 - 2009

## Expenditure Assumptions

- Salaries and Benefits - 5% Annual Growth
- Utility Costs - 3% Annual Growth
- Police Services Contract - 5% Annual Growth
- Jail Services Costs - 4 % Annual Growth
  - Larger Increase in 2005
- Property & Liability Insurance - 5% Annual Growth
- Municipal/District Court - No Change

# Long Term Forecast 2005 - 2009

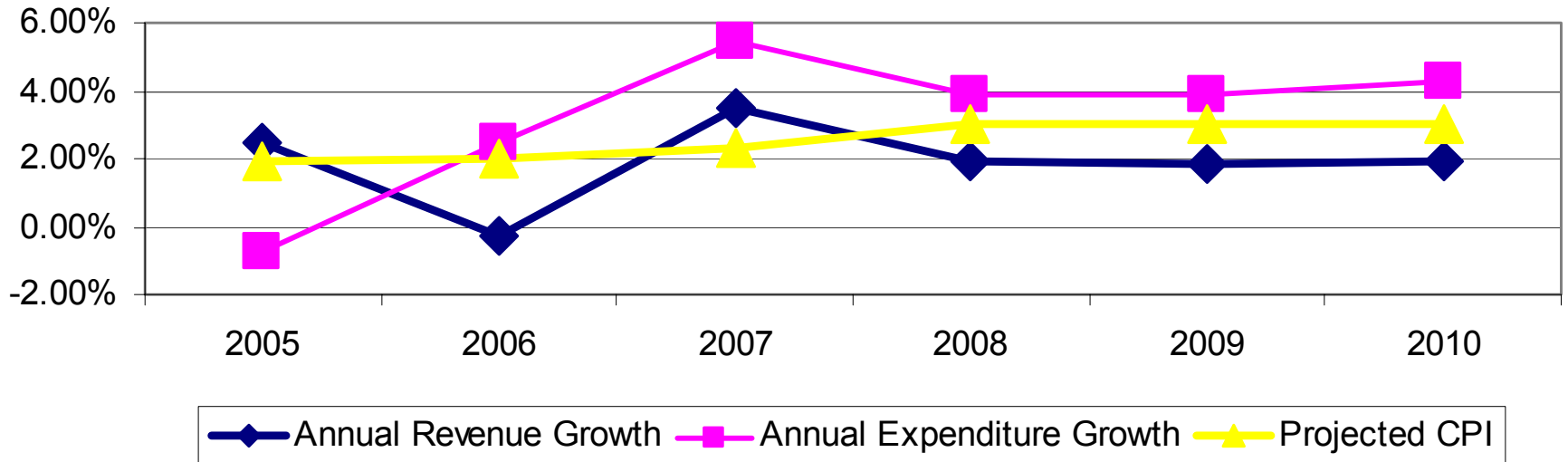
## Expenditure Assumptions

- Capital Program Allocations - Remains constant
- Occupation of New City Hall in 2007
- King County Road Services Contract - 5% Annual Growth
- Parks Maintenance - 5% Annual Growth
- Public Works Maintenance Contracts - 3% Annual Growth
- Projected Departmental Savings of 1%

# 2005-2010 Operating Revenue and Expenditure Trends

	2005	2006	2007	2008	2009	2010	Average
Annual Revenue Growth	2.47%	-0.31%	3.46%	1.91%	1.88%	1.88%	1.88%
Annual Expenditure Growth	-0.73%	2.45%	5.46%	3.85%	3.89%	4.31%	3.20%
Projected CPI	1.90%	2.00%	2.30%	3.00%	3.00%	3.00%	2.53%

**Baseline Forecast Annual Growth Rates  
2005-2010**



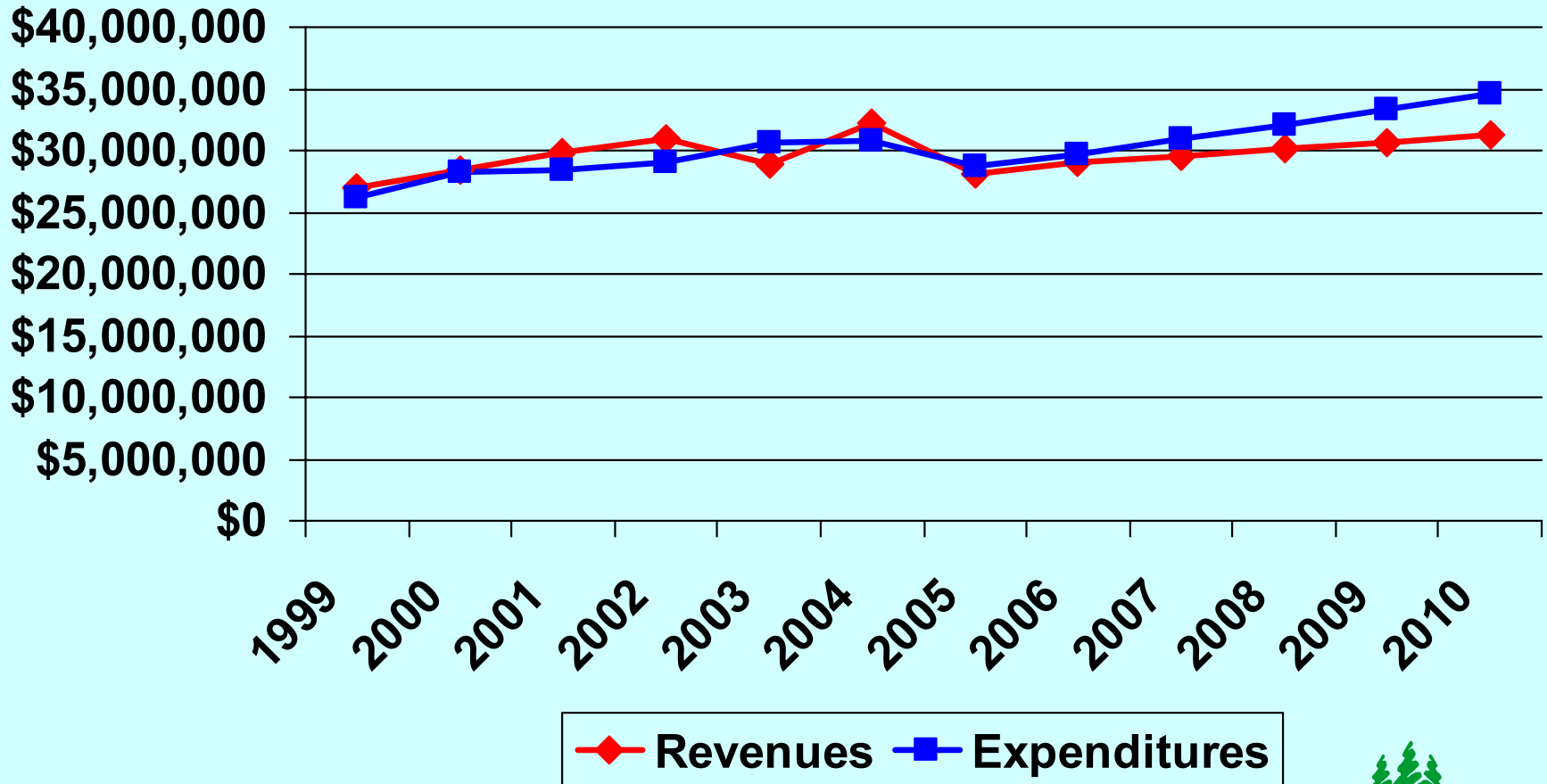
# ***Ways We Have Managed to Limit Cost Increases***

- *Changed the way we purchase Police Canine services (\$100,000 annually)*
- *Janitorial service changes and bid results (\$50,000 annually)*
- *Changed the City's Health Benefit Policy (\$160,000 annually)*
- *Use of Yakima County jail*
- *Completed Traffic Signal lights LED Replacement Project (\$25,000 annually)*



# Bottom Line

- *Long-term budget gaps need to be addressed*



# City Manager Recommendation

Action	Effective Year		
	2005	2006	2007
Reduce department base budgets by 1% and review low priority services for elimination			
Implement a utility tax on our surface water utility			
Increase recreation fees by approximately 10% and enhance the City's scholarship program			
Implement a revenue generating regulatory business license program			
Seattle City Light franchise fee (6%) on the distribution portion of the electric utility fees			
Property tax levy lid lift			

# ***City Manager Recommendation 2005 Budget***

- ***Department Base Budget Reductions/Low Priority Service Reductions (Up to \$290,000)***
  - Department Base reduced by 1% (\$167,000)
- ***Increase Recreation Fees and Enhance Scholarship Program (\$35,000-\$50,000)***
  - Possible resident/non-resident fee structure

# *City Manager Recommendation*

## *2005 Budget*

- *Utility Tax (6%) on surface water utility (\$150,000)*
  - Impact to single-family home \$6 year
  - 47 Cities in Washington have a utility tax on their surface water utility at a rate range of 3% to 19%
  - Impacts business & residential community

City	Tax Rate
Auburn	5.0%
Bellevue	5.0%
Bellingham	10.0%
Federal Way	5.0%
Kent	5.0%
Kirkland	6.0%
Olympia	7.0%
Renton	6.0%
Seattle	10.0%
Tacoma	8.0%
University Place	6.0%

# Summary

- City is in Good Financial Position
- Reserves Exceed Required Levels
- 2005 Proposed Budget will Meet Council Financial Policies and Goals
- Balanced Budget Will be Presented on October 25
- Current Assumptions Indicate That Annual Expenditures Will Grow Faster Than Annual Revenues
- Long-Term Strategies to be integrated into budget planning