

**CITY COUNCIL AGENDA ITEM**  
CITY OF SHORELINE, WASHINGTON

<b>AGENDA TITLE:</b> Preliminary Discussion of 2013 Budget
<b>DEPARTMENT:</b> Administrative Services
<b>PRESENTED BY:</b> Robert Hartwig, Administrative Services Director
_____ Ordinance    _____ Resolution    _____ Motion
<u>  X  </u> Discussion    _____ Public Hearing

**PROBLEM/ISSUE STATEMENT:**

During the Council retreat held in March of this year, Council requested that a preliminary 2013 budget discussion be scheduled in June, allowing the City Council to have earlier input on the City Manager's proposed 2013 budget. The purpose of tonight's discussion is to provide that opportunity to the City Council. In order to facilitate the discussion staff will provide an update on any significant issues related to the 2012 budget, a briefing on the policy issues expected to be considered during the preparation and review of the 2013 budget, and an update of the City's long-term financial projections. The City Manager will present her proposed budget to the City Council on October 15, with adoption of the 2013 budget scheduled for November 26, 2012.

This report focuses on the City's operating budget which includes the General and City Street Funds. The 2013 operating budget primarily is focused on sustaining current levels of service. Please note that at this time all 2013 amounts are based on staff estimates using data from last year's budget process, along with updates to underlying assumptions based on current economic conditions and recent industry trends. No information is available from authoritative sources, such as the King County Assessor, at this time.

**RECOMMENDATION**

No action is required by the City Council. This item is for informational purposes and to provide the City Council with preliminary 2013 budget information. Staff anticipates that Council may provide additional budget direction to the City Manager as a result of this review.

Approved By:            City Manager **JU**    City Attorney **IS**

## INTRODUCTION

Staff is preparing the City Manager's 2013 Proposed Budget and updating long-term financial projections as part of the process. This workshop will provide an opportunity for staff to share with the City Council the latest financial projections, along with a discussion on some of the major policy issues that will need to be discussed during the 2013 budget process. The 2013 budget adoption schedule is as follows:

Discussion of Preliminary 2013 Budget	September 17
Second Quarter 2012 Financial Report	September 4
Transmittal of Proposed 2013 Budget	October 15
Department Budget Reviews	October 22
Public Hearing on 2013 Budget	November 5
Public Hearing on Revenue Sources & 2013 Property Tax Levy	November 13
Final 2013 Budget Discussion	November 19
Adoption of 2013 Property Tax Levy	November 26
Adoption of 2013 Budget	November 26

## BACKGROUND

### 2012 Operating Budget

#### *Revenues:*

The General Fund ended the first quarter of the year with revenue collections exceeding projections by \$91,171 or 2.32%. A large portion of this positive variance was due to revenue from permits issued for the construction of the two new high schools which was originally expected to be collected in 2011. Through the first quarter, some revenue categories were below projected levels.

Gambling Tax: The 2012 budget assumed that gambling taxes from card room activity would total \$1.54 million, excluding any collection of prior year taxes. Based on first quarter activity, staff is lowering projections to \$1.3 million. Parker's Casino ceased operations during the first quarter and the level of activity during the first quarter at Goldie's Casino was below the 2011 activity for the same period. We do expect to collect back taxes from Goldie's Casino for 2011 activity during 2012. The City has received a promissory note, with security, which would result in 2012 collections for prior year gambling taxes, penalties and interest of \$97,425 in addition to note payments from an earlier note totaling \$141,235. Parker's has outstanding taxes due totaling over \$500,000. The City is taking action to try to recover this outstanding balance, but it is unlikely that this will occur this year. The adopted 2012 card room gambling tax budget including collections of prior year taxes, penalties, and interest is \$1.8 million. At this time, we can expect to collect approximately \$143,000 less than budgeted with the inclusion of note payments for prior year taxes.

Liquor Excise Tax and Liquor Profits: 2012 collections from these two sources will be reduced by approximately \$80,535. This is based upon information provided by the Association of Washington Cities (AWC) that details projected collections of new revenue due to the passage of Initiative 1183 and ESHB 2823 which diverted \$23

million of liquor excise taxes from cities to the State's General Fund. Some of this loss may be offset by an additional distribution of profits related to the sale of state liquor inventory and license application rights for state-run liquor stores. The state received approximately \$31.6 million for the license application rights. Based on the distribution formula presented by AWC, the City could receive a one-time lump sum of \$150,000 from these sales. This has not been included in the 2012 projections.

#### *Projected 2012 General Fund Savings*

Although it is still early to project the 2012 budget outcomes, staff has completed a 2012 preliminary forecast. The preliminary forecast projects that the City's operating budget will end 2012 with net budget savings of nearly \$900,000. The primary reason for the projected level of savings is that staff does not expect to spend budgeted contingencies totaling \$805,000. Other expenditures are projected to be below budget. The following summarizes the primary areas of expenditure savings:

#### *Expenditures:*

Salaries & Benefits: There have been several staff vacancies and position changes during the first half of the year. There are also outstanding vacancies that are yet to be filled. In some cases, the hours of existing staff have been increased to help backfill the vacant positions. At this time, it is difficult to determine what the actual savings amount due to staff vacancies will be. We will work with departments during the next few weeks to calculate any potential savings.

Intergovernmental Charges: Staff anticipates that there will be approximately \$235,000 in savings from both of the jail and the police contracts in 2012. The 2012 budget anticipated a total of 14,300 jail days. The 2012 budget had assumed that 94% of jail days would occur at Snohomish County. Through April, nearly 98% of the activity has occurred at the Snohomish County Jail. Current projected jail days for 2012 are 14,808 an increase in usage of 3.5%. Jail savings of \$150,000 are occurring as a result of the higher use of the contract with Snohomish County.

Total police contract charges are anticipated to be approximately \$85,000 less than the 2012 budget as a result of the reconciliation credit from the 2011 contract totaling \$81,958 which is due to savings in overtime costs. The 2012 contract cost as included in the Final Exhibit B provided by the King County Sheriff's Office in May will be \$3,518 less than the 2012 budgeted contract cost. There may be some additional savings in the non-contract portion of the Police budget as staff continues to use available seizure funds for overtime, equipment and training costs as appropriate.

The City just received the 2011 reconciliation for District Court services provided by King County. The 2012 budget assumed a charge of \$75,000. The actual estimated charge is \$168,530. This will reduce the overall savings in the intergovernmental category to \$66,470.

Transfers to Other Funds: Collections from real estate excise taxes (REET) in the General Capital Fund are projected to be \$26,675 less than budgeted. Currently, REET is being used for the City Hall debt service. This under collection will result in an additional transfer of \$26,675 from General Fund to the City Hall debt service fund.

Budgeted Contingencies: Each year, the City includes an operational contingency of \$550,000 and an insurance reserve of \$255,000 in the General Fund budget. Staff does not anticipate the use of either of these contingencies. These contingencies are funded through an allocation of the General Fund fund balance.

Animal Control Services: The 2012 budget included one-time start up costs totaling \$52,150 for a City operated program. These funds have been placed in a contingency account and are not expected to be spent during the year.

Department Savings: Department staff began to develop their 2013 budget estimates on June 18. At that time departments also began to develop 2012 year end estimates for both revenues and expenditures. Another preliminary update of the 2013 budget will be provided to Council on September 17. The department's 2012 estimates will be included in that update. Historically, departments have ended the year with expenditure savings of between 1% and 3%. This could result in additional savings of between \$168,000 and \$505,000. (Police, Jail, and Non-Departmental expenditures along with transfer to other funds have been eliminated from this estimate.)

## **DISCUSSION**

### **2013 Operating Budget**

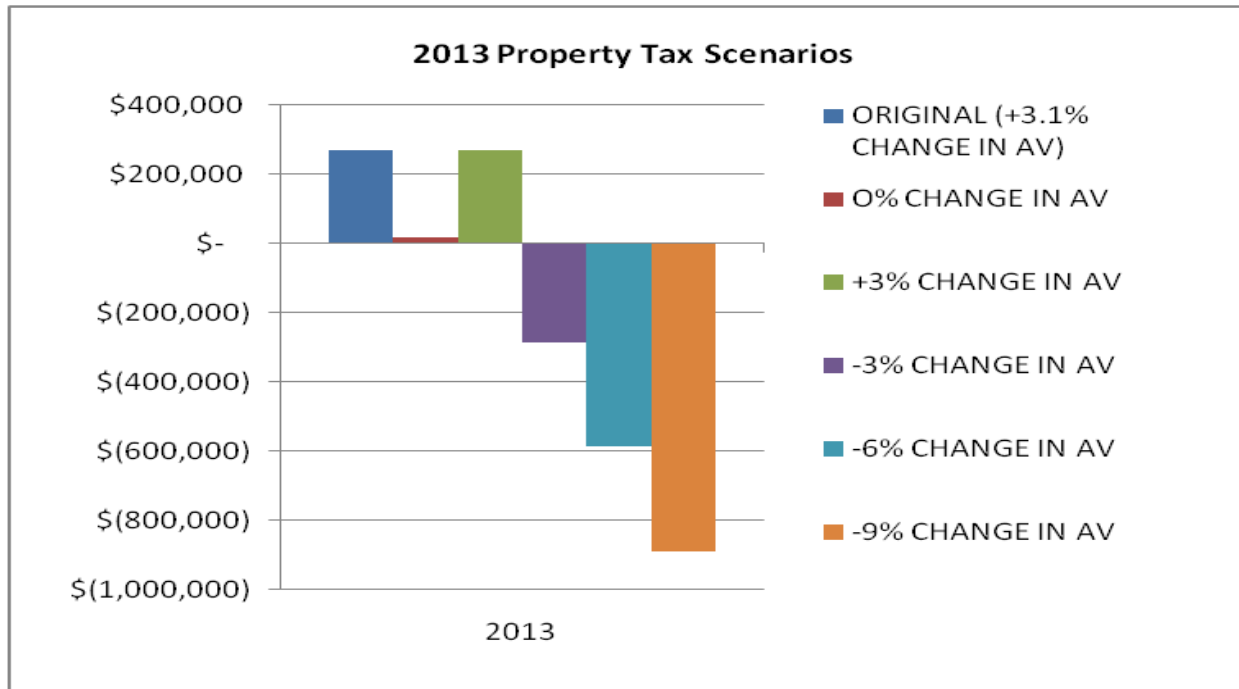
#### ***2013 Property Tax Levy***

By approving Proposition 1, voters authorized the City to set the 2011 property tax rate at \$1.48 per \$1,000 assessed valuation resulting in a 2011 levy of \$9.9 million. Proposition No. 1 also included a provision to increase the City's annual property tax levy by the change in the June to June Consumer Price Index for All Urban Consumers for the Seattle Area (CPI-U) for years 2012 through 2016. The six year projections for Proposition No. 1 anticipated an average annual 2.43% inflation rate (change in CPI-U) between 2012 and 2016 and specifically 2.08% for the 2012 levy. This index actually increased by 3.15% between June 2010 and June 2011 which was higher than anticipated in the six year projections for Proposition No. 1.

At the time that Proposition 1 was before voters, staff assumed that the assessed valuation for 2012 taxes would increase by approximately 2.3%. In fact, the assessed valuation actually dropped by 5.1%. This resulted in the levy increasing from the 2011 rate of \$1.48 per \$1,000 to the maximum levy rate of \$1.60. This results in a situation where the City's total property tax levy can only increase through new construction and growth in the City's assessed valuation.

Staff has been monitoring local real estate sales activity based on real estate excise tax data and has reviewed the S&P/Case-Shiller and CoreLogic Home Price Indices in an attempt to identify a trend in property values. The indices provide detailed data about trends related to home sales, but do not provide any data on the value of homes and properties that have not been placed on the market for sale. The King County Assessor's office will not be able to provide a preliminary estimate of the assessed valuation until August. Therefore, staff developed five different property tax scenarios based on possible changes in the City's total assessed valuation (AV). The scenarios ranged from an AV increase of 3% to a reduction of 9%. As shown below the scenario results would range from an increase in property tax revenues of \$271,000 (+3% AV) to

a loss of \$892,000 (-9% AV) when compared to the 2012 levy. The 2013 estimated budget assumes a 3% loss in the assessed valuation which would result in a loss of approximately \$285,000, resulting in a total property tax collection of \$9,832,741. When the 2012 budget was presented in the fall of 2011, the six-year forecast projected property tax collections totaling \$10,280,322. Staff confirmed that the Shoreline School District is currently assuming a 3% loss in AV.



**2013 Salary and Benefit Considerations:**

*Annual Salary Survey*

Staff will conduct the annual salary survey during 2012. The first third of the classifications in the City’s salary ranges will be surveyed. The survey conducted last year did not result in any additional cost as City salaries surveyed were within 5% of our comparable cities. In fact, the last two salary surveys (2011 and 2010) did not result in any significant salary adjustments.

*2013 Market Adjustment - Cost of Living Adjustment (COLA)*

The City’s compensation policy includes a provision for an annual market adjustment, cost of living adjustment (COLA), based on the defined labor market. Historically the median of the COLA granted by the comparable cities has been 90% of the Seattle/Tacoma/Everett June Consumer Price Index-All Urban Consumer (CPI-U). Since many of the cities do not complete their negotiations or formally adopt the cost of living adjustments until late November, when their budgets are adopted, staff has found that basing the City’s recommended market adjustment on the benchmark of 90% of Seattle/Tacoma/Everett June CPI-U has met the City’s compensation policy guidelines.

The Council did deviate from past practice in setting the 2012 COLA, when it was reduced from 2% to 1% during the 2012 budget adoption process. Prior to last year’s COLA of 1%, there has been no COLA for 2010 and 2009.

The June 2012 CPI-U for the Seattle/Tacoma/Everett area will not be available until July 17. The April 2012 CPI-U for our area showed a year over year increase of 2.9%. If we assumed that the June index showed the same increase, the market adjustment for 2013 would be 2.61%. This has been included in the 2013 forecast. Cost of living adjustments are projected to average 2.78% for 2014 to 2018. The salary forecast for 2013 through 2018 also assumes that 15% of employees will receive an annual step increase.

### *Health Benefits*

In 2011, the City issued a Request for Proposals (RFP) for an health benefits consultant and selected MCM. MCM reviewed the current offerings through AWC, the City's employee census and issued a RFP for medical insurance plans. MCM received a single bid for health plans from Aetna.

Staff reviewed the benefit level proposed by Aetna, the estimated initial premium cost, projected long-term premium costs, the impact to out-of-pocket costs, retiree insurance options, transition costs and the richness of the plan's wellness program. Given that there was less than 1% in savings between obtaining health insurance through AWC or Aetna, the City Manager recommended that the City continue to participate in the AWC plan.

MCM issued another RFP this year. Two firms responded but their 2013 rates are significantly higher than our current AWC rates and we do not consider them to be competitive (ODS and United Health Care). Aetna provided a quote for a Preferred Provider Option (PPO) which is 5.3% over the current 2012 AWC PPO rates through Regence and Group Health provided various options. The Group Health rates offered in the RFP process represented a 24% increase above the current rates for the City's Group Health plan through AWC.

The City received notification from AWC on June 7 that based on AWC's claims experience in 2012, and health care reform laws mandating additional preventative care covered in full, that early estimates indicate that AWC will likely see at least a 10% increase for Regence/Asuris, and 15% for Group Health in 2013. Even though AWC is projecting a 15% increase for Group Health rates, it is still a substantially lower increase than that received directly from Group Health as part of the RFP process. There is a chance that the Aetna PPO plan, may be slightly lower in cost than the AWC Regence PPO plan in 2013, but based on early estimates it does not appear that the difference will be substantial. The City's health plan allowance is currently based on the lowest cost health plan which is Group Health.

The RFP also included quotes for dental coverage from Aetna, MetLife, Sun Life and Washington Dental Service (WDS). The proposals ranged from a low of 3.4% over current AWC dental rates (MetLife) to 12.6% over current rates (WDS). Currently the lowest cost dental coverage through AWC is WDS. AWC has indicated that there is no premium increase projected for WDS in 2013, thus making the projected cost for obtaining dental coverage lower through AWC than through a different provider.

Staff would like to note that the quote provided by WDS through the RFP process was based exclusively on Shoreline's claims history. Given that WDS proposed a 12.6%

premium increase based on claim experience, it would seem to indicate that Shoreline is benefitting from being part of the larger AWC claims pool.

The 2013 projection for health benefits was developed prior to the updated information from AWC. The 2013 budget as presented in this report reflects an increase of 7.5% for 2013. Based on the information obtained from the RFP process and AWC, staff now expects that health benefits costs could increase by as much as 10%. Staff will continue to monitor AWC estimated premiums until they are adopted by the AWC Board of Trustees in September. The 2013 preliminary budget discussion on September 17 will include updated cost projections.

For now, we are assuming an annual escalator of 7.5% for all health benefits which include medical, dental, life and long term disability coverage for 2014 – 2018.

**Revenue Stabilization Fund**

The City’s revenue stabilization fund was created as a reserve to cover revenue shortfalls resulting from unexpected economic changes or recessionary periods. The City’s reserve policy establishes that the balance of the fund equal 30% of economic sensitive revenues. The fund balance at the end of 2011 was \$5,145,159. The General Fund will not be required to transfer any funds to the revenue stabilization fund in the next few years as the projected fund balance for the fund is already sufficient to meet the 30% target. Long range projections indicate that the General Fund will need to transfer approximately \$20,802 in 2017 and \$102,386 in 2018.

**2013 – 2018 Long-Term Projections**

The City’s financial policies require that the City maintain a six-year operating budget financial forecast. Staff updated the forecast in September 2011 and has updated the forecast again as part of the preliminary 2013 budget process. Below is a comparison of the projected bottom-line of the two forecasts:

	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
September 2011 - Net Budget Surplus (Gap)	(63,131)	(171,473)	427,887	585,458	(464,032)	N/A
June 2012 - Net Budget Surplus (Gap)	(230,029)	(152,146)	679,753	932,952	(183,441)	(937,937)

Based on the June 2012 forecast the difference between the two forecasts can be attributed to the following factors:

- Inflation is projected to be at a slightly higher rate which results in higher increases for fees and city services.
- Taxable retail sales are projected to occur at higher level than the previous forecast.
- Investment rates are lower.
- The current forecast shows a substantial increase in activity in the early years and then slightly lower in 2016 - 2018.
- PERS contribution rates are slightly lower.

- Jail costs are slightly lower based on the current jail usage trends.

Based on current assumptions the City will need to continue to work to balance the operating budget for 2013 and 2014. A much larger gap is shown in 2018. As Council is aware the City's property tax levy expires at the end of 2016, and therefore the levy limitation returns to a 1% cap in 2017. Excess property tax has been collected during 2011 and 2012 and will be used in 2014 through 2016 as originally planned.

### 2013 and Long-Term Budget Trends

Below are some of the major assumptions used in the most recent projections:

- **Sales Tax:** The projections for sales tax have increased over the previous forecast based upon retail sales forecast for the Puget Sound area. We are assuming that Shoreline taxable sales will increase at 75% of the predictions for the entire area. This is in keeping with past forecasting practices. The following chart compares the September 2011 projections with the June 2012 projections for sales tax:

	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Sept. 2011 Projections	6,091,418	6,575,508	6,864,507	7,164,762	7,463,031	N/A
June 2012 Projections	6,395,971	6,659,164	6,933,652	7,201,711	7,477,047	7,746,322
Change in Projections	304,553	83,656	69,145	36,949	14,016	

- **Gambling Tax:** As mentioned earlier the 2012 projected gambling tax revenue from card rooms is has been reduced to \$1,304,000 with promissory note payments for unpaid prior year taxes totaling \$206,328 for a total 2012 collection of \$1,510,328, slightly ahead of budget. Staff has assumed no growth in future years in tax collections so a baseline of \$1,304,000 is assumed. Promissory note payments have also been included in 2013 and 2014 projections. We continue to expect gambling taxes from pull tab activity to drop by 5% annually based on recent history.
- **Development Revenue:** Development activity is based upon projected permit activity for the Puget Sound area for 2013 to 2018. Projected revenue over the six year period is very similar to last year's projection, but the timing of the upturn has changed. Last year's forecast anticipated a ramping up of permit activity with a 15% increase in 2013, followed by another 13.5% increase in 2014 with activity slowly evening out. The latest forecast expected activity to increase by 39% in 2013 and then leveling out. Below is a comparison of the projected revenue from the March 2011 forecast and the September 2011 forecast:

	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Sept. 2011 Projections	680,904	760,528	844,203	915,021	943,976	N/A
June 2012 Projections	804,844	849,837	908,783	881,528	829,492	734,658
Change in Projections	123,940	89,309	645,800	(33,493)	(114,484)	

- **Public Employee Retirement System (PERS) Contribution Rates:** The PERS employee and employer contribution rates have been reduced or planned increases delayed several times over the past few years as a result of legislative action taken



to help balance the State's budget. The tables below illustrate the tempering of the rate increases that were expected. While the lowered contribution rate will have a positive impact on the 2013 budget, it only delays the impact of the future actuarially required increase in contributions. At some point the City can expect substantial increases in future retirement contributions to meet long-term actuarial needs. Employee contribution rates will also rise at that time.

The following table shows the most recent projected rate changes for the future as adopted by the Legislature this spring and State Actuary projections updated on October 31, 2011. These rates have changed since the September 2011 forecast:

PERS Employer Contribution	Current Rate	Effective 7-1-12	Effective 7-1-13	Effective 7-1-14	Effective 7-1-15 – 6/30/17
Legislative Approved Rates	7.08%	7.21%			
State Actuary Projected Rates			9.10%	9.10%	9.53%

The following table displays the rates that were included in the September 2011 forecast:

PERS Employer Contribution	Current Rate	Effective 7-1-12	Effective 7-1-13	Effective 7-1-14	Effective 7-1-15
Legislative Approved Rates	7.07%	7.07%			
State Actuary Projected Rates			10.14%	10.14%	11.59%

The impact on PERS contributions is shown in the following table:

	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Sept. 2011 Projections	806,646	923,427	1,015,214	1,111,836	1,145,232	1,180,089
June 2012 Projections	705,833	806,406	850,360	895,131	923,756	1,049,405

- **Jail Activity:** Projections for the 2013 budget, along with future forecasts, are based on the trend of activity that has appeared over the last twelve months and rate inflation factors outlined in the interlocal agreements (ILA) with Snohomish County and King County. Rates under the Snohomish County ILA will increase each calendar year by a rate equal to ninety percent of the CPI-U, or 3% whichever is less, and rates under the King County ILA typically increase at a rate of 5% for non-medical charges and 6.5% for medical charges. It is important to note that, under the King County ILA, 2013 rates will be based on rates derived from the "Actual Jail Costs" for 2011 that are inflated 10.25% for non-medical charges (5% for 2012 and again for 2013) and 13.42% for medical charges (6.5% for 2012 and again for 2013). Absent information pertaining to the calculation of rates derived from the "Actual Jail Costs" for 2011 and for the purpose of these projections, the projected rates for 2013 have been derived by inflating the 2012 rates by 5% for non-medical charges and 6.5% for medical charges.

In 2013, it is projected that Snohomish County will account for 96.47% of the activity and will generate 89.94% of the cost. It appears that the use of jail services from

Snohomish County is being maximized and the overall projected cost of approximately \$1.11 million for 2013 will result in a decrease of 3.48% from the amount budgeted in 2012 and continue to result in greatly reduced costs from the high of approximately \$1.50 million in 2010.

- **Police Contract:** The 2012 projected police contract totals nearly \$10.2 million. The City will receive a reconciliation credit from 2011 of \$81,958 which will reduce the total 2012 contract cost. The Sheriff's Office is well aware of concerns expressed by contract cities. The Guild contract was settled just before the sharpest recession in the last 30 years for the period of 2008 through 2012. This settlement included 5% annual salary increases for deputies and some significant increases in health benefit costs. As a result, public safety costs have increased while other segments of the municipal budget have been sharply reduced. Contract cities will be monitoring contract negotiations and we have been told that this year's negotiations will consider the effect of the 2007 negotiations. For future years we have assumed an annual escalator of 3.5%. It is hoped that this can be negotiated to a lower rate of increase.
- **Animal Control:** The 2013 budget assumes that King County will continue to provide animal control services for the City. For now the long-term forecast continues this assumption. In 2013, we anticipate a slight decrease in the cost of animal control services. The proposed interlocal agreement with the county provides for annual escalators which include the change in CPI and county population.
- **Unfunded/Underfunded Needs:** Development of the 2013 proposed budget is still in the very early phases, but staff has identified a few issues that will need further review and potentially may require additional funding in future budgets. Costs related to these issues have not been included in the updated forecast. Anticipated issues include:
  - *Street Tree Management and Maintenance:* The City uses existing staff resources to address the maintenance and management of City right-of-way tree issues. Management of the City's tree inventory could easily consume dedicated resources. Given that this continues to be an area of high priority to the community staff struggles with allocating adequate resources in this area.
  - *Indigent Defense Standards:* The Washington Supreme Court has adopted new Standards for Indigent Defense Services. The new standards will be effective September 1, 2012, except Standard 3.4 regulating caseload limit guidelines which will take effect September 1, 2013. The new standards include guidelines for caseload limits and types of cases; administrative costs, limitations on private practice, qualifications of attorneys, appellate representation and use of legal interns. Staff will be evaluating the new requirements and the related financial impacts.

### *Long-Term Financial Assumptions*

Staff will continue to monitor revenue and expenditure trends to identify any change in the assumptions for projecting the budget over the next five years. The following table summarizes the current budget projections and the base assumptions.

	<b>2014 Forecast</b>	<b>2015 Forecast</b>	<b>2016 Forecast</b>	<b>2017 Forecast</b>	<b>2018 Forecast</b>
<b>Net Budget Surplus (Gap)</b>	<b>(152,146)</b>	679,753	932,952	<b>(183,441)</b>	<b>(937,937)</b>
<b>Assumptions:</b>					
Inflation	2.47%	2.41%	2.35%	2.45%	2.43%
Annual Revenue Growth	3.07%	4.34%	3.50%	0.04%	1.91%
Annual Change in Assessed Valuation	4.72%	5.39%	5.86%	6.43%	5.79%
Annual Sales & Use Tax Change	4.11%	4.12%	3.87%	3.82%	3.60%
General Fees & Licenses Increase	1.98%	1.93%	1.88%	1.96%	1.94%
Investment Interest Rate	0.90%	1.90%	2.80%	3.00%	3.00%
Building Permit Activity Change	6.29%	7.76%	-3.36%	6.62%	-12.90%
Revenue Collection	100.00%	100.00%	100.00%	100.00%	100.00%
Annual Expenditure Growth	3.16%	2.63%	2.98%	2.93%	3.40%
PERS Employer Contribution Rate	9.10%	9.32%	9.53%	9.53%	10.56%
Health Benefit Escalator	7.50%	7.50%	7.50%	7.50%	7.50%
Regular Salary Escalator	2.49%	2.60%	2.63%	2.66%	2.75%
Police Contract Escalator	3.50%	3.50%	3.50%	3.50%	3.50%
Annual Jail Cost Increases	2.38%	2.14%	2.30%	2.39%	2.38%
Expenditure Percentage	99.00%	99.00%	99.00%	99.00%	99.00%
Contribution to Stabilization Fund	-	-	-	-	-
New Maintenance Costs for Completed Capital Projects	\$32,570	\$72,351	\$46,984	\$20,062	\$632

### **Long-Term Alternatives**

#### *Long-Term Sustainability*

Although the City uses a six year financial planning horizon in the budget, the City Council included as part of its goals and work plan the development of a 10 year financial sustainability plan. This will include optimistic, pessimistic, and moderate scenarios. This will also include looking at various alternatives to bridging anticipated future budget gaps. This may include service reductions, restructuring, reduced hours of service, etc. to improve the expenditure outlook. Also, included will be proposed revenue increases from a variety of sources, including such things as fee changes, new fees, and growth resulting from economic development. Developing this plan will be a focus in 2013.

## **SUMMARY**

Based on very preliminary information it appears that we will use approximately \$654,714 of the General Fund fund balance in 2012. This compares with \$1,459,714 originally budgeted including \$805,000 for the operating contingency and insurance reserve; \$500,000 for sidewalk funding, and \$214,074 for 2011 carryovers. The anticipated use of fund balance will result in a favorable variance of \$805,000. The 2013 budget preliminary estimates an \$805,000 use of fund balance. However, if we do not use the Contingency it is highly likely that we will end 2013 with an increase in fund balance.

Factors that may affect these estimates as we move forward in the budget process include updated information regarding revenue estimates, an unexpected increase in CPI or in pension and other benefit costs, higher than expected transfers to other funds, etc. Staff will provide additional information regarding the budget as we accomplish the 2013 budget process.

## **RECOMMENDATION**

No action is required by the City Council. This item is for informational purposes and to provide the City Council with preliminary 2013 budget information. Staff anticipates that Council may provide additional budget direction to the City Manager as a result of this review.

## **ATTACHMENTS**

Attachment A – Operating Budget Forecast

**OPERATING BUDGET FORECAST  
SIX YEAR FORECAST**

	2012 Projected Budget	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast
<b>Beginning Fund Balance</b>	\$ 7,431,366	\$ 8,182,764	\$ 7,952,735	\$ 7,800,589	\$ 8,480,341	\$ 9,413,294
<b>Revenues:</b>						
Taxes:						
Property	10,051,000	9,832,741	10,297,062	10,851,750	11,257,893	11,429,293
Sales and Use	7,414,748	7,572,069	7,887,305	8,226,692	8,556,397	8,893,211
Gambling	1,760,593	1,725,019	1,514,820	1,374,747	1,371,253	1,367,934
Utility	4,105,025	4,180,630	4,265,277	4,349,726	4,436,133	4,529,916
Other	7,200	7,200	7,200	7,200	7,200	7,200
Franchise/Utility Contract Payments	4,017,934	4,098,887	4,187,908	4,277,321	4,367,157	4,461,746
Licenses and Permits	769,575	893,579	924,722	964,224	951,947	925,042
Intergovernmental	2,187,971	2,237,094	2,276,015	2,315,323	2,354,448	2,395,894
Charges for Services	1,682,535	1,750,289	1,796,417	1,847,985	1,864,979	1,873,794
Fines and Forfeitures	631,000	631,000	631,000	631,000	631,000	631,000
Interest Income	104,000	41,000	99,500	194,500	280,000	284,000
Miscellaneous Revenues	1,979,105	1,271,286	1,273,348	1,275,502	1,277,753	1,280,121
<b>Total Revenue</b>	34,710,686	34,240,794	35,160,574	36,315,970	37,356,160	38,079,153
<b>Operating Expenditures</b>						
Salaries & Benefits	12,232,895	12,758,863	13,299,578	13,661,870	14,175,282	14,706,146
Supplies	798,905	624,343	624,343	618,099	618,099	618,099
Services & Charges	5,856,849	6,001,439	5,891,494	6,044,986	6,173,732	6,282,331
Intergovernmental	12,687,704	13,142,306	13,571,105	13,870,700	14,321,945	14,790,512
Interfund	324,453	327,315	330,554	330,456	333,663	337,083
Budgeted Contingency	37,944	805,000	805,000	796,950	796,950	796,950
Capital Outlay	69,250	-	-	-	-	-
<b>Total Operating Expenditures</b>	32,008,000	33,659,266	34,522,073	35,323,059	36,419,670	37,531,122
<b>Revenue Over (Under) Expenditures</b>	2,702,686	581,528	638,501	992,911	936,490	548,031
<b>Other Financial Sources (Uses)</b>						
Operating Transfers In	1,917,307	1,752,563	1,835,563	2,148,563	2,458,563	1,752,563
Transfers Out	3,868,595	2,564,120	2,626,210	2,461,721	2,462,101	2,484,035
<b>Net Budget Surplus (Gap)</b>	751,398	(230,029)	(152,146)	679,753	932,952	(183,441)
<b>Ending Fund Balance</b>	<b>\$ 8,182,764</b>	<b>\$ 7,952,735</b>	<b>\$ 7,800,589</b>	<b>\$ 8,480,341</b>	<b>\$ 9,413,294</b>	<b>\$ 9,229,852</b>

**Assumptions**

Inflation	2.23%	2.47%	2.41%	2.35%	2.45%
Annual Sales & Use Tax Change	4.30%	3.81%	4.35%	3.96%	3.81%
General Fees & Licenses Increase	1.78%	1.98%	1.93%	1.88%	1.96%
Investment Interest Rate	0.30%	0.90%	1.90%	2.80%	3.00%
Building Permit Change	39.09%	6.29%	7.76%	-3.36%	-6.62%
Revenue Collection	100.00%	100.00%	100.00%	100.00%	100.00%
PERS Employer Contribution Rate	8.16%	9.10%	9.32%	9.53%	9.53%
Health Benefit Escalator	7.50%	7.50%	7.50%	7.50%	7.50%
Regular Salary Escalator	2.61%	2.82%	2.77%	2.72%	2.81%
Police Contract Escalator	3.50%	3.50%	3.50%	3.50%	3.50%
Expenditure Percentage	100.00%	100.00%	99.00%	99.00%	99.00%
Contribution to Stabilization Fund	-	-	-	-	20,802
New Maintenance Costs for Completed Capital Projects	\$ 243,304	\$ 32,570	\$ 72,351	\$ 46,984	\$ 20,062