Shoreline City Council
Long-Range Financial Planning Strategic Retreat
Cascade Room, Spartan Recreation Center
January 29th, 2007
Agenda

12:00	Lunch
12:45	Welcome and Introduction -Ground Rules -Review Agenda
1:00	Financial Forecast: A Presentation and Discussion • Financial Forecast (Tab 1) o Short Term View o Long Term View o The Gap and nature of future Budget Challenges o Relationship between operating and capital budgets • City's Financial Polices (Tab 2) o Reserve Polices and Amounts
2:00	Break
2:15	Current Service Expenditures: A presentation and discussion • Program Budgets (Tab 3) o Prior efficiencies and budget adjustments • Community Input (Tab 4) o Community Prioritization of Programs o 2006 Citizen Survey Importance-Satisfaction Ratings
2:45	Revenue Sources: Range of options available for closing the gap (Tab 5): • Revenue sources: o short term o long term
3:15	Break
3:30	Short Term Solution: Discussion and Direction To Staff
5:00	Dinner
5:30	Long Term Solutions: Discussion and Direction To Staff

6:45	**Break**
7:00	**Going Forward: Community Involvement**
7:45	**Wrap-Up**
8:00	**Adjourn**

City of Shoreline, Washington
2007-2012 Operating Budget Financial Forecast

Background & Purpose

The National Advisory Council on State and Local Budgeting (NACSLB) has endorsed the forecasting of revenues and the forecasting of expenditures in their Recommended Budget Practices. The Government Finance Officers Association (GFOA) recognizes the importance of combining the forecasting of revenues and the forecasting of expenditures into a single financial forecast. GFOA recommends that each government entity have a financial planning process that assesses long-term financial implications of current and proposed policies, programs, and assumptions that develop appropriate strategies to achieve its goals. The forecast should extend at least three to five years beyond the budget period and should be regularly monitored and periodically updated. The forecast, along with its underlying assumptions and methodology, should be clearly stated and made available to participants in the budget process.

A key component in determining future options, potential problems, and opportunities is the forecast of revenues and expenditures. Revenue and expenditure forecasting does the following:

- Provides an understanding of available funding;
- Evaluates financial risk;
- Assesses the level at which capital investment can be made;
- Identifies future commitments and resource demands; and
- Identifies the key variables that cause change in the level of revenue.

As with any forecasting process, assumptions are made based on historical experience, current trends, and known future changes. Forecasts are usually based on conservative assumptions in that revenues should not be forecast based on maximum growth potential and expenditures should not be forecast based on the minimum growth in expenditures.

The City's financial policies and state law require that the City adopt a balanced budget. This being the case, even though forecasts may project budget deficits, the City would not be able to operate in a budget deficit position on an on-going basis. This is one of the reasons for long-term forecasts, to plan for changes that must occur in order to maintain a balanced budget.

Forecasts and the Budget

The purpose of the long-range financial forecast is to give an early indication of the budget position for the next few years. This forecast is the first step that staff takes in projecting the financial resources that will be available for providing services and for projecting the cost of the current levels of service. As more information is learned during the year and prior to the formal budget process, the forecasts will be updated and the information incorporated into the City's annual budget. The 2007 forecast is equal to the adopted 2007 budget. There are some items that have changed or are expected to change that will affect the 2007 budget, primarily PERS, street lights, and jail, that are discussed in this forecast.

2007-2012 Baseline Operating Budget Forecast

OPERATING BUDGET FORECAST
SIX YEAR FORECAST

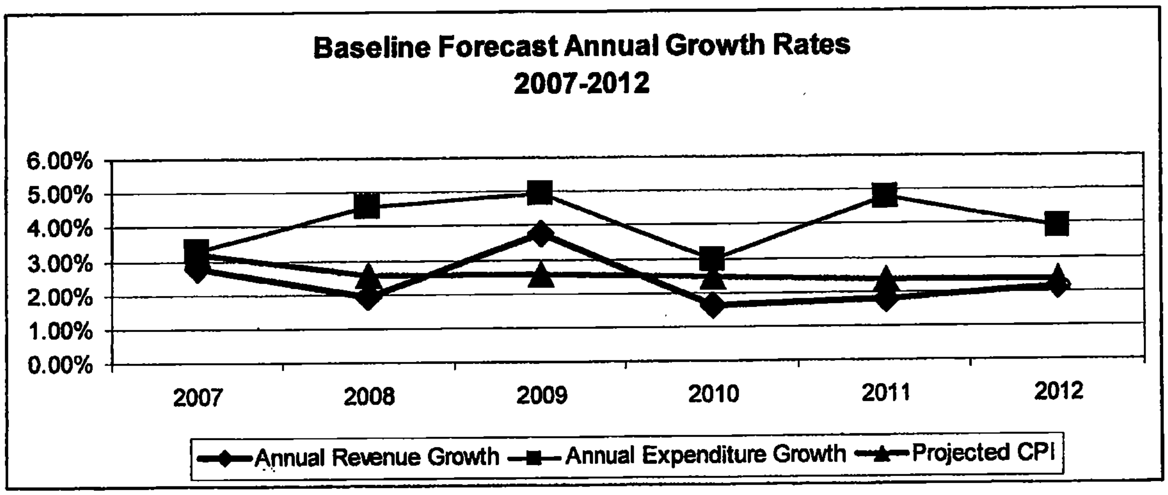
	2007 Forecast	2008 Forecast	2009 Forecast	2010 Forecast	2011 Forecast	2012 Forecast
Beginning Fund Balance	$ 10,185,740	$ 10,185,740	$ 9,423,934	$ 8,288,021	$ 6,410,832	$ 3,526,790
Revenues:						
Taxes:						
Property	7,066,510	7,236,228	7,354,368	7,472,371	7,590,275	7,708,113
Sales and Use	7,474,500	7,876,148	8,314,216	8,609,667	8,923,328	9,288,888
Gambling	2,134,500	2,273,090	2,264,765	2,256,856	2,249,343	2,242,205
Utility	3,215,000	3,299,269	3,376,192	3,452,782	3,529,057	3,606,810
Other	672	672	672	672	672	672
Franchise/Utility Contract Payments	2,750,595	2,814,030	2,878,659	2,942,917	3,006,838	3,072,020
Licenses and Permits	947,865	956,297	927,189	862,158	822,522	822,676
Intergovernmental	1,772,375	1,823,620	1,854,058	1,884,515	1,914,470	1,944,899
Charges for Services	1,593,750	1,548,539	1,547,870	1,521,119	1,511,993	1,531,451
Fines and Forfeitures	10,000	10,000	10,000	10,000	10,000	10,000
Interest Income	426,355	385,000	385,000	385,000	385,000	385,000
Miscellaneous Revenues	461,732	166,360	166,702	167,036	167,363	167,692
Total Revenue	27,843,854	28,389,253	29,079,701	29,565,094	30,110,860	30,780,427
Operating Expenditures						
Salaries & Benefits	10,738,990	11,349,079	11,821,486	12,364,802	12,905,744	13,471,352
Supplies	643,468	643,501	637,083	637,099	637,115	637,132
Services & Charges	5,505,003	5,566,011	6,451,444	6,601,164	7,041,090	7,202,669
Intergovernmental	9,943,818	10,395,956	10,800,582	11,334,473	11,894,956	12,483,600
Interfund	260,858	263,857	264,242	267,211	270,126	273,095
Debt Service	0	-	-	-	-	-
Other	0	-	-	-	-	-
Capital Outlay	114,000	7,500	7,425	7,425	7,425	7,425
Total Operating Expenditures	27,206,137	28,225,904	29,982,262	31,212,194	32,756,456	34,075,274
Revenue Over (Under) Expenditures	637,718	163,349	(902,561)	(1,647,100)	(2,645,597)	(3,294,847)
Other Financial Sources (Uses)						
Operating Transfers In	516,271	516,271	916,271	916,271	916,271	916,271
Transfers Out	1,153,989	1,441,426	1,149,624	1,146,360	1,154,716	1,163,332
Net Budget Surplus (Gap)	(0)	(761,805)	(1,135,913)	(1,877,189)	(2,884,042)	(3,541,908)
Ending Fund Balance	$ 10,185,740	$ 9,423,934	$ 8,288,021	$ 6,410,832	$ 3,526,790	$ (15,118)

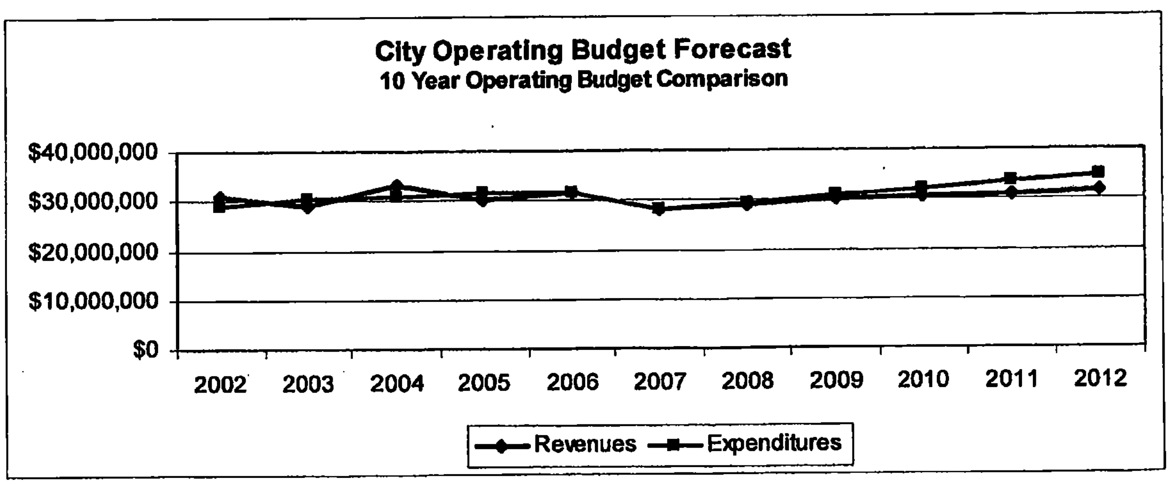
Assumptions						
Inflation	3.20%	2.57%	2.55%	2.44%	2.34%	2.33%
Annual Sales & Use Tax Change	5.93%	5.18%	4.05%	3.38%	3.53%	3.98%
General Fees & Licenses Increase	2.40%	1.93%	1.91%	1.83%	1.76%	1.75%
Investment Interest Rate	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Building Permit Change	-1.60%	1.00%	-5.60%	-12.60%	-9.00%	-0.60%
Revenue Collection	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
PERS Employer Contribution Rate	5.74%	7.42%	8.45%	8.69%	8.70%	8.70%
Health Benefit Escalator	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Regular Salary Escalator	4.88%	4.31%	4.30%	4.20%	4.11%	4.10%
Police Contract Escalator	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Expenditure Percentage	100.00%	100.00%	99.00%	99.00%	99.00%	99.00%
New Maintenance Costs for Completed Capital Projects	$ 175,706	$ 5,000	$ -	$ -	$ 292,712	$ -

The six-year operating budget financial forecast shows an anticipated 2008 budget gap of approximately $ 762,000 and a 2009 budget gap of $1.1 million. Future annual budget gaps grow to $3.5 million by 2012. This trend is reflective of previous forecasts.

The projected budget gaps indicate a long-term structural imbalance between revenues and expenditures. This is primarily because annual expenditure growth is projected to outpace annual revenue growth. Over the six-year period of 2007-2012 the operating revenues are projected to grow an average of 2.33% annually while expenditures are projected to grow an average of 4.24% annually. Inflation, as measured by the consumer price index, is projected to average 2.57% over the next six years.

	2007	2008	2009	2010	2011	2012	Avg
Annual Revenue Growth	2.74%	1.92%	3.77%	1.62%	1.79%	2.16%	2.33%
Annual Expenditure Growth	3.27%	4.61%	4.94%	3.94%	4.80%	3.91%	4.24%
Projected CPI	3.20%	2.57%	2.55%	2.44%	2.34%	2.33%	2.57%





Historically the City has always balanced annual expenditures with annual revenues. Any surpluses that have resulted from previous years' revenues exceeding expenditures have been allocated for one-time expenditures such as capital projects. The previous graph provides both an historical comparison of revenues and expenditures along with the forecast for 2007 through 2012.

Changes Since the September 2006 Forecast

The September 2006 Base Forecast projected a $416,000 operating budget gap for 2008, with the annual budget gaps growing in future years. This base forecast projects a larger gap for 2008, but the trend for growing budget gaps in the future remains. Although the trends continue to be the same between the two forecasts, there are some significant changes since September 2006. The changes include the following:

Revenue Changes

Sales Tax: The City receives sales tax directly as a result of sales activity that occurs within Shoreline and from the County-wide 0.1% criminal justice sales tax. It appears that the Puget Sound economy is continuing to expand and all forecasts are for retail sales to grow at a greater rate than previous forecasts for the next two years. The Puget Sound Economic Forecaster published their newest 10 year economic forecast for the Puget Sound region in December 2006. Although the City tends to have a lower overall growth rate in sales tax than the Puget Sound region as a whole during times of expansion and a lower decline in sales tax during times of recession, staff does use this source as a guideline. As a result of the newest Puget Sound economic forecast, projections by the State, and the overall economic health of our region, staff has raised the projected sales tax growth rates for the next six years.

	2007	2008	2009	2010	2011	2012
Annual Growth Rate - 9/2006	4.10%	4.65%	4.58%	3.90%	3.98%	3.98%
Annual Growth Rate - 1/2007		5.18%	4.05%	3.38%	3.53%	3.98%

In addition to the update to the sales tax growth rates, this forecast includes projected sales tax growth from the streamlined sales tax initiative. It is hoped that the legislature will adopt the streamlined sales tax plan along with full mitigation for cities negatively impacted by the change in sales tax sourcing rules during the 2006 legislative session. The Department of Revenue finished updating revenue projections from streamlined sales tax in early January. The City of Shoreline is projected to receive an additional $120,000 in sales tax annually starting in 2009. This amount grows slightly in future years.

Streamlined Sales Tax	2007	2008	2009	2010	2011	2012
AWC Projections 1/07	-	-	119,500	137,600	145,500	154,100

Property Tax:: Property tax projections have been updated to reflect the final assessed valuation and new construction for 2007 received from King County The final new construction amount for 2007 resulted in an annual increase in expected property tax of approximately $50,000.

Business License: The September 2006 forecast included $90,000 annually in business license revenue. Since the Council decided not to implement a business license program, this revenue has been removed from this forecast.

Expenditure Changes

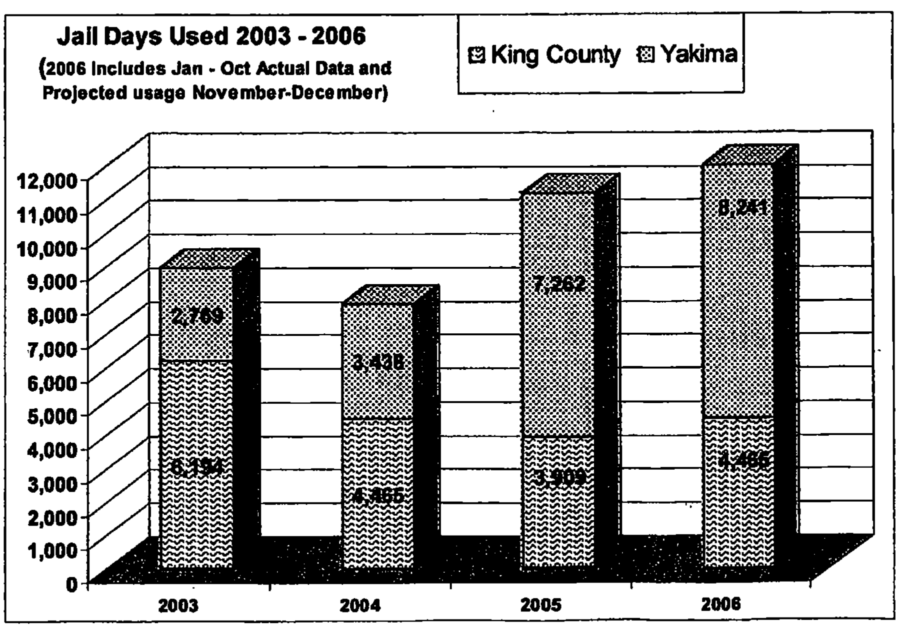
Public Employee Retirement System (PERS) employer contribution rates: In November 2006 the Pension Funding Council (PFC) adopted revised PERS rates for 2007-2009 and the State Actuary updated projections for 2009-2013. The adopted rates include funding for the gain-sharing provisions for both Plan 1 and Plan 3 of the PERS system. Although the Pension Funding Council has adopted the recommended rates for 2007-2009, it is the State Legislature who ultimately adopts the contribution rates. This forecast reflects the most recent rates adopted by the PFC and projected by the State Actuary. The following chart compares the employer contribution rates used in the September 2006 long-range forecast and the rates we are now using in this long-range forecast.

	2007	2008	2009	2010	2011	2012
PERS Employer Contribution Rate - 4/2006	5.74%	6.79%	7.55%	7.48%	7.48%	7.48%
PERS Employer Contribution Rate - 1/2007	5.74%	7.42%	8.45%	8.69%	8.70%	8.70%

As was shared with Council during the budget process, if the State Legislature approves funding for gain-sharing for 2007, the City's 2007 contribution rate will be closer to 6.01%. This will result in 2007 contributions increasing by approximately $28,000.

As a result of the projected increase in contribution rates, the City's PERS employer contributions from the General and City Street funds will increase by approximately $60,000 in 2008, $74,000 in 2009, and $104,000 in 2010, as compared to the projections in the September 2006 forecast.

Jail: In August 2005 there was a large increase in the number of bed days that the City was utilizing through the jail contracts with King County, Yakima, and Issaquah. This trend has continued throughout 2006. As of January 24, 2007, we have not received the King County bills for November and December 2006, but the trends for both Yakima and Issaquah were for increased usage during November and December 2006.



The previous chart demonstrates the increase in jail usage from 2003 to 2006. There has been no indication that the increased jail usage trend will reverse. As a result we are forecasting future jail activity to be in line with the usage of 2005 and 2006.

The chart below provides a comparison between the September 2006 and the current forecast for jail costs. The 2007 amount reflects budgeted amounts. If we have the same level of activity in 2007 as in 2006, then the projected actual 2007 jail costs could be $76,000 higher than the budget.

	2007	2008	2009	2010	2011	2012
Jail - 9/2006	1,225,217	1,245,191	1,312,433	1,383,326	1,458,069	1,536,873
Jail - 1/2007	1,225,217	1,302,111	1,372,199	1,446,080	1,523,962	1,606,060
Difference	0	56,920	59,766	59,754	65,893	69,187

Street Lights: As discussed during the 2007 budget process Seattle City Light (SCL) was considering an increase in the street light rate for 2007. Since there was a great deal of uncertainty regarding the action that SCL and the City of Seattle would take in regards to the street light rates, the 2007 budget did not include an increase in cost. We now know that the Seattle City Council approved a 50% increase in street light rates effective January 1, 2007. The impact of this change is projected to increase the City's annual street light costs by $79,000 for all existing street lights that the City is paying for. In addition to this, there are 300 street lights that are still in dispute. If the City does become responsible for these additional street lights then it would mean an additional $31,000, a $110,000 increase to the cost budgeted for 2007. The 2007 budget for street lights is $183,000 and the projected actual cost is approximately $285,000. This forecast includes the street light rate increase for years 2008 through 2012.

Baseline Forecast Overview

Based on current trends and if there are no changes in revenue and expenditure forecasts, the City's baseline forecast projects an operating budget gap for 2008 and budget gaps continuing for each of the next five years. This trend has stayed consistent during the last few forecast updates. It should be noted that the later years of any forecast are less certain than the earlier years.

The following table and graph demonstrates the City's operating budget baseline financial forecast for 2007-2012.

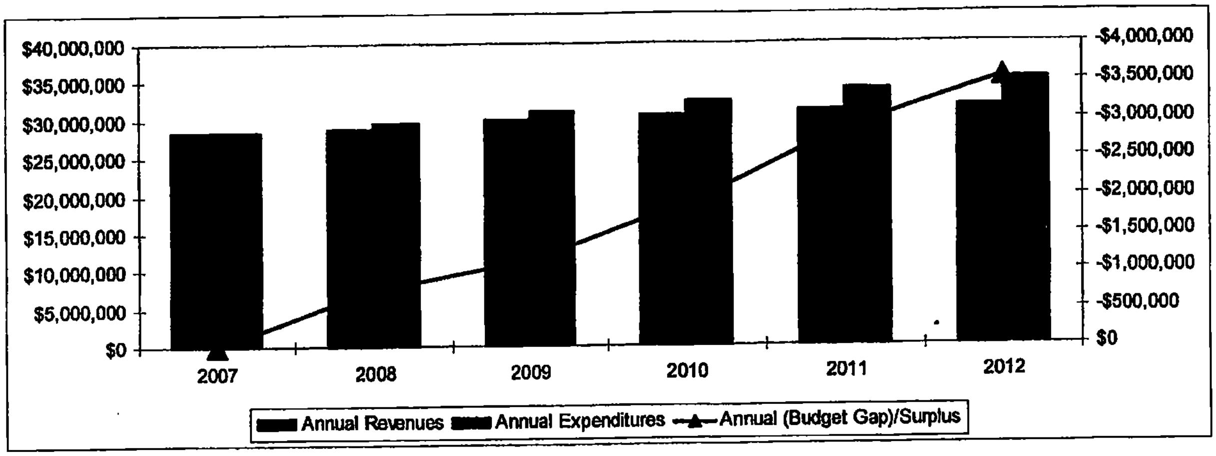
Operating Fund Projections

Expenditure Assumption **2007- 2008 100%** **Others 99%**

Base Projections

	2007	2008	2009	2010	2011	2012
Annual Revenues	28,360,125	28,905,523	29,995,972	30,481,365	31,027,130	31,696,699
Annual Expenditures	28,360,126	29,667,329	31,131,885	32,358,554	33,911,172	35,238,606
Annual (Gap)/Surplus	(0)	(761,806)	(1,135,913)	(1,877,189)	(2,884,042)	(3,541,908)

2007-2012 Operating Budget Financial Forecast



Other Scenarios
When there are assumptions that have a distinct possibility to be different than the assumptions in the base forecast, alternative forecasts may be developed. At this time the only assumption that could change the forecast significantly would be that of jail usage.

Operating Budget Description
The City's operating budget is defined as the combination of the City's General and City Street funds. Together, these funds support the general operations that the City provides to its residents and business operators on a daily basis. These include public safety, enforcement of local codes, park and facility maintenance, recreation and cultural activities, street and right-of-way maintenance, planning and community development, development plan review and building construction inspection, community communications, and support services.

Since the operating budget includes multiple funds, there may be questions as to the reasoning for combining the General and Street Funds. The primary reason for combining these two funds is that they are dependent on general tax support. For example, the Street Fund is charged for General Fund overhead support (facility space, support services, utilities, etc.) and at the same time the General Fund allocates a portion of general revenues to the Street Fund to maintain a positive operating position. To balance the Street Fund, approximately $1.6 million a year in general revenue sources is required. Although from an accounting perspective we are required to maintain two separate funds, in order to simplify the long-term financial analysis of City operations, we have consolidated the two funds and eliminated the interfund transfer of monies.

Capital Improvement Program Impacts
Capital Improvement Program: This forecast focuses on the City's operating budget. Although this is the focus there is some interrelationship. Completion of capital projects many times leads to additional operating costs. For those projects within the current six-year Capital Improvement Program we have included operational impacts into our forecasts.

Forecast Assumptions
The City's budget policies require that on-going expenditures be balanced with on-going revenues. For this reason the six-year financial projections show either a budget surplus or a gap by comparing the annual projected revenues against the annual projected expenditures. There is

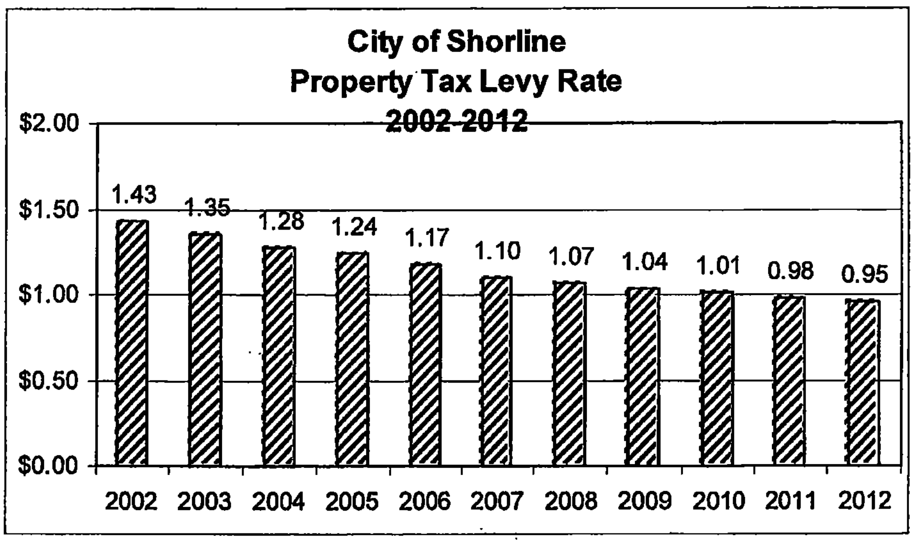
no consideration given for available reserves, as reserves are not considered an on-going revenue source.

Revenue Assumptions
Baseline: Overall revenues are projected to grow by an average of 2.3% annually over the next six years.

The following is more specific information on the most significant operating revenue sources.

Property Tax
Baseline: This assumption does not include any impact of the possible passage of a future property tax reduction initiatives. Property tax growth is limited to an annual 1% levy increase (I-747 limitation) and an annual average of $43 million in new construction. This results in average annual real property tax revenue growth of 1.6%.

The City's property tax rate is projected to continue to fall over the next six years, as assessed valuation growth outpaces levy increases. The following graph provides the projected tax levy rate for the City through 2012. The City's maximum property tax levy rate is $1.60. The 2007 property tax rate is $1.10 and the rate is projected to fall to $1.07 in 2008.



Each additional 10 cents in property tax levy equates to approximately $650,000 in property tax revenue. At this time the City has approximately $.50 in property tax levy capacity equating to approximately $3.2 million in annual revenue.

Sales Tax
Baseline: Two prominent regional economists, Dick Conway and Doug Pederson, produce a quarterly publication *The Puget Sound Economic Forecaster*. Each year their March issue includes a 10 year Puget Sound economic forecast update. Staff relies on the work that these economists do to help project population, retail sales, and building permit trends. Traditionally Shoreline does not experience the full retail sales growth rates that may be experienced by other localities within the Puget Sound region during periods of growth, but neither do we experience the full decline in retail sales that these same places may experience during a recession. As a result, the City's long-range forecast projects Shoreline's growth at approximately 75% of the

Puget Sound Region as a whole. The following chart compares the Economic Forecaster Puget Sound Region forecast for retail sales growth and the growth factors used in the City's 2007-2012 financial forecast.

	2007	2008	2009	2010	2011	2012
Economic Forecaster Projections 12/2006	7.90%	6.90%	5.40%	4.50%	4.70%	5.30%
City Forecast Annual Growth Rate	5.93%	5.18%	4.05%	3.38%	3.53%	3.98%

<u>Gambling Tax</u>
Baseline: This forecast assumes that card room gambling gross receipts are approximately 20% less in 2007 and beyond than they had been in 2005. This is reflective of the activity level that has been experienced to date in 2006 and was used in preparing the 2007 budget.

The tax rate is assumed to return from 7% to 10% effective April 1, 2007, and remain at the 10% level for all remaining years. This is the same assumption used in developing the 2007 budget. All forecast scenarios assume the continuation of the Council's policy to allocate card room gambling tax revenues generated over a 7% tax rate towards capital. This results in approximately 30% of the City's gambling tax being allocated for capital purposes. Primarily the allocation towards capital funds the pavement management program and contributes towards the City's sidewalk program.

The following chart shows the annual projected card room gambling tax, the amount transferred for capital purposes, and the amount that remains in the General Fund for operational purposes.

	2007	2008	2009	2010	2011	2012
Projected card room gambling tax	1,949,000	2,106,089	2,106,089	2,106,089	2,106,089	2,106,089
Transfer for Capital Purposes	474,075	631,827	631,827	631,827	631,827	631,827
Amount Used for Operational Purposes	1,473,925	1,474,262	1,474,262	1,474,262	1,474,262	1,474,262

Pull-tab related gambling tax revenue has been declining annually. This forecast assumes that this decline will continue over the next few years.

<u>Utility Tax and Franchise Fees</u>
Baseline: Utility tax and franchise revenue increases have been linked to projected inflationary increases. Usually utilities structure their rates to recapture inflation related increases. These increases average approximately 2% annually over the next six years.

<u>Seattle City Light Contract Payment</u>
Baseline: The Seattle City Light (SCL) contract payment is made based on 6% of the power portion of the electric revenue generated from Shoreline rate payers. The 2007-2012 has left the annual base revenue at $1,000,000 with inflationary increases during the six year period.

<u>Permit Revenue</u>
Baseline: The long-term financial forecast is based on the long-term permit activity forecast for King County from the Puget Sound Economic Forecaster. Over the next few years building

permit activity is projected to decline slightly. We will continue to monitor to determine if projections for King County are reflective of Shoreline activity levels.

Revenue Source	2007	2008	2009	2010	2011	2012
Permits-Building & Structures	455,000	459,550	433,815	379,154	345,031	342,960
Permits-Build/Strict - Plumbing	30,935	31,244	29,495	25,778	23,458	23,318
Mechanical Fees/Permits	65,000	65,650	61,974	54,165	49,290	48,994
Land Use Fees/Permits	230,000	230,000	230,000	230,000	230,000	230,000
Fire System Fees/Permits	13,400	13,534	12,776	11,166	10,161	10,100
Inspection Service-Plumbing	78,000	78,780	74,368	64,998	59,148	58,793
Plan Check Fees	395,000	327,200	308,876	269,958	245,662	244,188
Environmental Review(SEPA/EIS)	25,000	25,482	25,969	26,445	26,909	27,379
Total	1,292,335	1,231,440	1,177,273	1,061,665	989,659	985,733
Economic Forecaster Permit Activity Projections	-1.6%	1.0%	-5.6%	-12.6%	-9.0%	-0.6%

Transfers Into the General Fund

The City receives approximately $550,000 annually from the capital and surface water funds for overhead charges. The overhead charges represent the capital and surface water share of facility, administration, finance, information technology, legal, and city clerk related charges.

In 2009 and beyond the transfers into the general fund include $400,000 annually in real estate excise tax (REET) to go towards the debt service payment of City Hall.

Expenditure Assumptions:

Overall expenditures are projected to increase an average of 4.09% annually over the next six years. The six-year forecast assumes that the City will maintain current services and service levels.

Expenditure Rate:

Baseline: As has been the City's experience, it is highly unlikely that 100% of the City's operating budget will be expended in a given year. In 2005 the General Fund expenditure rate was 98% of projected expenditures. The long-term forecast assumes a 100% expenditure rate for 2007 and 2008 and 99% for the remaining years.

Inflation

Baseline: Inflation is projected to average 2.57% annually over the next six years. Inflation is used to project expenditure increases related to salaries, professional service contracts, and intergovernmental contract increases. The following chart reflects the inflationary projections for the next six years.

	2007	2008	2009	2010	2011	2012	Average
Projected CPI	3.20%	2.57%	2.55%	2.44%	2.34%	2.33%	2.57%

Salaries

Baseline: Market rate adjustments are forecasted at 90% of inflation. It is assumed that 50% of staff positions will be eligible for step increases (4% annually) over the next six years, as currently 45% of our regular employees are at the top of their salary range. This also assumes that there will be some turn-over in current staffing and replacement staff may start lower in the salary range than long-term employees.

Benefits

Baseline: The major changes in benefits are expected to occur in health and retirement benefits. This forecast accounts for an annual increase of 7.5% in health benefit costs for the next six years. Health premium cost increases for 2007 averaged 7.9%.

The employer contribution for the Public Employee Retirement System (PERS) is based on the rates approved by the State Legislature. This chart shows the anticipated employer contribution rates through 2012.

	2007	2008	2009	2010	2011	2012
PERS Employer Contribution Rate - 1/2007	5.74%	7.42%	8.45%	8.69%	8.70%	8.70%

Public Safety

Baseline: The police contract is projected to increase by an average of 5% annually over the next six years. Jail costs have been projected based on historical and recent jail bed usage data. The following table summarizes the data used to forecast jail costs over the next six years.

Jail - Details in Jail Info File with/in LT Forecast Directory	2007	2008	2009	2010	2011	2012
KC Misdemeanor Bookings (Last 3 Year Avg)	680	680	680	680	680	680
KC Misdemeanor Maintenance Days (Last 3 Year Avg)	4,400	4,400	4,400	4,400	4,400	4,400
Yakima Misdemeanor Maintenance Days (Avg of 2005 & 2006)	7,874	7,874	7,874	7,874	7,874	7,874
Unused Bed Days	0	0	0	0	0	0
Issaquah Misdemeanor Maintenance Days (Annualize 2006)	1,233	1,233	1,233	1,233	1,233	1,233
$ Cost of KC Misdemeanor Bookings	197.23	208.67	220.77	233.58	247.13	261.46
$ Cost of KC Misdemeanor Maintenance Days	103.29	109.29	115.62	122.33	129.43	136.93
$ Cost of Yakima Misdemeanor Maintenance Days	71.48	75.05	78.80	82.74	86.88	91.22
$ Unused Bed Days	0.00	0.00	0.00	0.00	0.00	0.00
$ Cost of Issaquah Misdemeanor Maintenance Days	68.25	71.66	75.25	79.01	82.96	87.11

Capital

City Hall: All forecast scenarios assume that the City will construct a new City Hall and that debt service payments will begin in 2009. Currently we are estimating annual occupancy costs (debt service/maintenance & operations) to total between \$1.1 and \$1.3 million dollars annually. As approved by the City Council, \$400,000 of Real Estate Excise Tax will be dedicated towards the debt service costs for City Hall starting in 2009.

Operating Transfers Out

Baseline: The 2007-2012 continues to implement Council Policy by allocating a portion of the City's general revenues to fund capital improvements. The forecast also continues build the fund balance of the General Reserve Fund to the 37.5 cents per $1,000 valuation that is allowed by Washington State Statute. In addition to these allocations, general revenues are allocated for equipment replacement, anticipated unemployment claims and funding for the major maintenance of the City's facilities. This allocation of funds is done through an operating transfer from the General Fund to the fund that accounts for the corresponding types of expenditures. The table below shows the operating transfers that are part of the 2007-2012 forecast.

	2007	2008	2009	2010	2011	2012
Transfer to Unemployment	10,000	10,000	10,000	10,000	10,000	10,000
Equipment Replacement	100,000	100,000	100,000	100,000	100,000	100,000
Roads Capital - Gambling Tax	474,083	631,827	631,827	631,827	631,827	631,827
General Reserve Transfer	0	114,111	118,675	123,422	128,359	133,494
Roads Capital - Sidewalk & Street Overlay	138,919	142,488	146,121	149,690	153,194	156,762
Long-Term Repair & Replace On-going	143,000	143,000	143,000	143,000	143,000	143,000
One-Time General Capital Transfer	288,000	300,000	0	0	0	0
Total Operating Transfers Out	**1,153,989**	**1,441,426**	**1,149,624**	**1,157,939**	**1,166,380**	**1,175,083**

***It should be noted that the summary forecast on page 2 of this documents shows operating transfers for years 2010 through 2012 at 99% of the total. This reflects the anticipated expenditure rate.**

General Reserve Fund

Baseline: The General Reserve Fund was established to accumulate monies to be used for emergencies or to moderate economic changes. The amount of reserves that can be accumulated in this fund are limited by state law to $0.375 per $1,000 of assessed valuation. Since the City's assessed valuation has continued to increase, and this trend is projected to continue, the amount of the reserve has continued to increase. The reserve increases by transferring general fund revenues to the reserve fund. The long-term forecast continues this policy and an annual average of $123,000 of operating resources are transferred from the operating budget to the General Reserve Fund. The projected 2006 ending fund balance for the General Reserve fund is $2.3 million. The General Reserve fund is not adequate to hedge the City against an economic downturn and/or unexpected emergencies.

General Fund Reserve Levels:

The 2006 projected ending fund balance for the General and General Reserve Funds combined totals $9.6 million, approximately 30% of General Fund revenues. Although reserves can be used to help ease "short-term" economic changes, they cannot be used to balance the City's operating budget for the "long-term". In fact, the City's financial policies state that the budget needs to balance on-going expenditures with on-going resources. Reserves are not considered "on-going resources". This being the case, the City would not use reserves to balance the operating budget on a long-term basis, but the $9.5 million in reserves would cover the annual budget gaps through 2011.

The City's financial policies require that the City maintain a minimum General Fund reserve level of 10% of general fund revenues. The General Fund reserve is defined as the combination of the General Fund ending fund balance and the General Reserve Fund ending fund balance.

The City's General Fund reserve level is projected to be $9.6 million at the end of 2006, or 30% of General Fund on-going revenues.

As was stated earlier, the long-term forecast does not assume the use of reserves to close operating budget gaps. If reserves were used to close the projected gaps, the City would have enough to balance the operating budget for the next five years. Since reserves are not considered recurring revenues, the City would be in a very precarious financial situation beginning in 2012 with a budget gap projected at nearly $3.2 million and no general fund reserves. The real purpose of the reserves is to help address declines in economically sensitive revenues, shifts in revenue sources that are out of the City's control, or to cover cash flow needs which alleviates the need for short-term borrowing. Reserves are available to provide the City with more operating flexibility.

The level of reserves is not mandated by law, but rather is a decision that each jurisdiction makes based on the elasticity of their revenue sources, their cash flows, and their local economy. Moody's Investors Service, who provides bond ratings to many cities and counties throughout the State of Washington, have reported that their clients have reserve levels that range from the teens to close to 50%. Bond issuers outside of the State of Washington often have reserves at significantly higher levels.

Potential Future Impacts

Fire Hydrants: Currently the City is involved in litigation, with a number of other cities and Seattle Public Utilities (SPU), regarding the financial responsibility of fire hydrants. Currently SPU and the Shoreline Water District have the financial responsibility to pay for fire hydrants through water assessment rates. Prior to 2005 SPU embedded the cost of providing fire hydrants and fire flow in the water rates paid by their retail customers. As a result of Washington State Supreme Court action that prevented Seattle City Light from recovering the costs of street lights on public streets through general electric rates, SPU did not feel it appropriate to continue the assessment of fire hydrant and fire flow in their retail water rates. As a result they established separate rates to recover the costs.

SPU initially billed the Fire Districts for these costs in 2005. The Fire Districts refused payment. SPU then billed the cities for these costs. To date the cities (Burien, Kenmore, Lake Forest Park, and Tukwila) have also refused payment while waiting resolution through the legal system.

SPU has estimated the 2006 impact to the City of Shoreline would be $207,000. Since SPU only provides approximately ½ of the City with water and the Shoreline Water District provides the other half of the City with water, staff has estimated that total fire hydrant and fire flow costs within the City of Shoreline could be $400,000 to $500,000 annually. The City has not incorporated these costs into its budget or the long-term financial forecast.

Balancing Prior Year Budgets

In light of the long-term forecasts, our focus over the last few years has been on cost containment, expenditure reductions and improving service efficiencies. Some of our successes include:

- In 2003 an employee group developed an alternative health benefit policy. As a result of this policy change, the City's health benefit costs in 2006 were $313,000 less than would have been budgeted under the previous policy.
- We have initiated agreements with Yakima County and Issaquah to house prisoners at a lower rate than is charged by King County.
- We have changed the way we pay for Police Department canine services by purchasing this on a call-out basis instead of having a dedicated unit. This has resulted in annual savings of $100,000.
- Departments absorbed $167,000 in baseline budget reductions in 2005 and an additional $169,000 in baseline reductions for 2007. This was done by reviewing historical expenditure practices and eliminating budget authority that had not been spent in consecutive years.

Since 2003 these changes have equated to $730,000 in annual expenditures that have been reduced from the City's baseline budget.

In addition to these cost saving measures the City has developed more efficient service delivery methods without increasing budget costs, while enhancing service levels. Examples include:

- In-house athletic field maintenance as opposed to continuing with contract services.
- In-house provision of street sweeping services versus private and County contract.

Balancing Future Budgets

Staff will continue to update assumptions and the City's long-range operating forecast throughout the year as more information is available. This may result in some changes in the long-range forecasts, but it is unlikely that these changes will significantly change the trend of expenditure growth outpacing future revenue growth.

In order to balance future budgets it will be necessary to either reduce expenditures, increase revenues or some of both. During recent years some general operating expenditure reductions have been made, and many of the City's operating costs have been held constant over the last few years. At this time it appears unlikely that additional operating expenditure reductions could be made without either eliminating a specific service or reducing levels of service.

There are three primary revenue enhancement options available to the City for future budgets. The first would be to exercise the City's option to assess the Seattle City Light (SCL) contract payment on the distribution portion of the revenue generated by the Shoreline ratepayers. The City's franchise agreement with SCL allows the implementation of a contract payment of up to 6% of the distribution portion of the electric revenues from Shoreline. SCL is allowed to pass this charge on to Shoreline rate payers. The 6% assessment on the distribution revenues is estimated to generate approximately $550,000 annually. The City of Tukwila exercised this option with SCL in 2004 and phased in the 6% distribution assessment over the last 3 years.

The second would be implementation of the remaining 5% utility tax authority on the cable utility. Currently the City has a 1% utility tax and a 5% franchise fee on cable. Legally the City can levy a utility tax up to 6% on cable. Each additional one percent is projected to generate approximately $100,000 in annual revenue, for a total of $500,000 if the full 5% was implemented.

A third revenue option is a property tax levy lid lift. As was discussed in the property tax portion of the forecast assumptions, the City's property tax levy rate has fallen since 2002. This is a result of assessed valuation growing more rapidly than the City's property tax levy increases. In 2007 the City's levy rate is approximately $1.10 per $1,000 valuation. Statutorily the City could assess up to $1.60 per $1,000 valuation. Each 10 cents in property tax levy equate to approximately $650,000 in annual revenue. A levy lid lift has to be approved by a majority of the Shoreline voters.

Conclusion

Based on the assumptions described above, the City's operating budget is projected to have budget gaps starting in 2008 and into the future. Although the City's long-term projections reflect annual operating gaps, this does not mean that the City will actually operate in a deficit position. Rather, the long-term projections help staff and the City Council anticipate the need to develop long-term solutions to bring the annual operating budget into balance. Although reserves can be used to help ease short-term budget deficits, the projections show that the operating budget has long-term issues that need to be addressed in order to balance the budget on an on-going basis.

The reason for the budget gaps is basically a result of the long-term expenditure growth outpacing long-term revenue growth. Although operating expenditures are projected to increase modestly over the next six years, the growth is slightly greater than projected inflation and greater than projected revenue growth. Revenue growth is projected to be less than inflation for four out of the next six years.

Staff will continue to update the long-range forecast as the City starts its annual budget process. The forecast should be considered a dynamic process as it may change as additional information becomes available. As the City Council considers priorities for the next year and the long-term, the development of a strategy to maintain the City's long-term financial stability must be considered.

Financial Policies

I. Financial Planning Policies

II. General Budget Policies
- A. No Operating Deficit
- B. Resources Greater than Estimates
- C. Budget Adoption Level
- D. Necessary to Implement City Council Goals Identified in Annual Workplan
- E. Public Safety Protection
- F. Degradation of Current Service Levels
- G. Investments that are Primarily funded by Additional Fees or Grants
- H. Investments that delay Future Cost Increases
- I. Investments that Forestall Adding Permanent Staff
- J. Commitments that can Reasonably be Maintained over the Long Term
- K. Overhead and Full Cost Allocation
- L. Maintenance of Quality Service Programs
- M. Distinguished Budget Presentation

III. Formulation and Approval of Budgets

IV. Budget Adjustment and Amendment Process
- A. Adjustment
- B. Amendment

V. Reserve and Contingency Fund Policies
- A. Contingency Reserve
- B. Unreserved Fund Balance
- C. Budgeted Operating Contingency
- D. Budgeted Insurance Reserve
- E. Budgeted Capital Improvement Contingency.

VI. Capital Improvement Program Plan Policies
- A. Relationship of Long-Range Plans to the CIP
- B. Capital Improvement Plan Coordination Team
- C. Establishing CIP Priorities
- D. Types of Projects Included in the CIP
- E. Scoping and Costing Based on Predesign Study
- F. Required Project Features and Financial Responsibility
- G. Predictability of Project Timing, Cost and Scope
- H. CIP Maintenance and Operating Costs
- I. Local Improvement Districts (LID)
- J. Preserve Existing Capital Infrastructure Before Building New Facilities
- K. New Facilities Should be of High Quality, Low Maintenance, Least Cost
- L. Public Input at All Phases of Projects
- M. Basis for Project Appropriations
- N. Balanced CIP Plan
- O. Use of Debt in the CIP
- P. Finance Director's Authority to Borrow
- Q. CIP Plan Update and Amendment
- R. Formalization of Monetary Agreements
- S. Applicable Project Charges

VII. Debt Policy

I. FINANCIAL PLANNING POLICY

The City shall develop and maintain a 6-year financial forecast that estimates resource and expenditure behavior for the five years beyond the current budget period. This forecast will provide the City's decision makers with an indication of the long-term fiscal impact of current policy and budget decisions. This planning tool must recognize the effects of economic cycles on the demand for services and the City's resources. To this end, the forecast should differentiate between revenue associated with one-time economic activities and revenues derived as a result of base economic growth. City financial planning should ensure the delivery of needed services (many of which become more critical during economic downturns) by assuring adequate reliance on ongoing resources in order to support continued City services during economic downturns.

II. GENERAL BUDGET POLICIES

These general budget policies are the basis on which staff develops budget recommendations and establishes funding priorities within the limited revenues the City has available to provide municipal services.

A. No Operating Deficit: Current revenues will be sufficient to support current expenditures. Revenue estimates will be realistic and debt financing will not be used for current operating expenses.
B. Resources Greater than Budget Estimates: Resources (fund balance) greater than budget estimates in any fund shall be considered "one-time" resources and shall not be used to fund ongoing service delivery programs.
C. Budget Adoption Level: Budget adoption by the City Council shall be at fund level. Any changes in appropriations at fund level require City Council approval.
D. Necessary to Implement City Council Goals Identified in Annual Workplan: The City Council identifies specific goals as part of its work-plan, and departmental budgets should include adequate resources to accomplish those goals in the expected timeframes.
E. Public Safety Protection: Public safety is a top priority, and as such, unmet needs in this area should have a priority over other service areas.
F. Degradation of Current Service Levels: When increased service demands are experienced over a sustained period of time, resources should be provided to prevent service level degradation below an acceptable level.
G. Investments that are Primarily Funded by Additional Fees or Grants: Programs and investments that are funded through a dedicated revenue source (i.e., non-tax revenue), that meet the goals of the City Council, will receive priority consideration.
H. Investments that Delay Future Cost Increases: When practical, resources should be allocated for selective preventative investments that can be made to avoid even larger costs in the future.
I. Investments that Forestall Adding Permanent Staff: Recognizing that personnel related expenditures represent the largest portion of the City's budget, methods to increase efficiency and effectiveness of the delivery of City services through technology improvements should receive priority funding if it can forestall the addition of permanent staff.
J. Commitments that can Reasonably be Maintained over the Long-Term: Funding for new programs and services in operating funds should be limited to the extent that they can be reasonably funded over the near-to-long-term given the current revenue stream.
K. Overhead and Full Cost Allocation: Department budgets should be prepared in a manner to reflect the full cost of providing services.
L. Maintenance of Quality Service Programs: The City of Shoreline will offer quality service programs. If expenditure reductions are necessary as a result of changing economic status, selective service elimination is preferable to poor or marginal quality programs that are caused by across the board cuts.

M. Distinguished Budget Presentation: The City will seek to comply with the suggested criteria of the Government Finance Officers Association in producing a budget document that meets the Distinguished Budget Presentation program criteria as policy document, as an operations guide, as a financial plan, and as a communication device.

III. FORMULATION AND APPROVAL OF BUDGETS

In accordance with RCW 35A.33, departments shall be requested by the Finance Director to prepare detailed estimates of revenues and expenditures for the next fiscal year by no later than the second Monday of September. Responses will be due by no later than the fourth Monday in September, and by no later than the first business day in October, the Finance Director will present to the City Manager a proposed preliminary budget setting forth the complete financial program, showing expenditures requested by each department and sources of revenue by which each program is proposed to be financed.

Although the schedule outlined above meets the requirements of the Revised Code of Washington, the Shoreline budget process usually follows an accelerated time schedule. The Finance Director typically requests departments to prepare their detailed estimates of revenues and expenditures for the next fiscal year in July, with those responses due in August.

By no later than the first Monday in October, the City Manager will provide the City Council with current information on estimates of revenues from all sources as adopted in the budget for the current year. The City complies with this requirement by providing the City Council with a quarterly report and a comprehensive overview of the City's current financial position at a summer Budget Retreat.

The administration will analyze program priorities and needs and recommend funding levels for each program in a proposed operating budget and six-year capital improvement program, which will be submitted to the Council by no later than 60 days prior to the end of the fiscal year. The City Manager typically presents the proposed budget to the City Council in late October.

As part of the budget document, a budget message will be prepared that contains the following:

- An explanation of the budget document.
- An outline of the recommended financial policies and programs of the City for the ensuing fiscal year.
- A statement of the relation of the recommended appropriation to such policies and programs.
- A statement of the reason for salient changes from the previous year in appropriation and revenue items.
- An explanation of any recommended major changes in financial policy.

The operating budget proposal for the general fund will include a financial plan that shows projected revenues and expenditures for at least the next five fiscal years. The financial plan will provide an explanation of the assumptions used in projecting future year expenditure and revenue levels, such as growth in tax revenues, inflation, cost of services, and other factors that may impact the financial condition of the City.

The operating budget will be classified and segregated according to a standard classification of accounts as prescribed by the State Auditor.

The Council will hold public hearings as required and approve operating and capital budgets prior to the end of the fiscal year in accordance with State law.

IV. BUDGET ADJUSTMENT & AMENDMENT PROCESSES

Under the provisions of State law and the City's operating procedures, the operating budget may be adjusted or amended in two different ways. Adjustment of the budget involves a reallocation of existing appropriations and does not change the budget "bottom line." Amendment of the budget involves an addition to or reduction of existing appropriations.

A. Adjustment

The City departmental expenditures and program goals are monitored throughout the year. Certain departments may develop the need for additional expenditure authority to cover unanticipated costs that cannot be absorbed within the budget, while other departments may unexpectedly not require their full budget authorizations. The Finance Department reviews and analyzes all department and/or fund budgets to determine what adjustments are necessary and whether the adjustments can be made within existing appropriation limits and within the City Council and Departmental goals as provided in the budget. Necessary adjustments are then reviewed with the affected department and/or fund managers. When an adjustment is needed, the Finance staff will look first to savings within the department and then consider budget transfers between departments. The Finance Director, in conjunction with the Department Directors and the City Manager, reviews and decides if any specific budget reductions are needed. No City Council action is needed as State law allows budget adjustments to be done administratively and approved by the City Manager. As a matter of practice, staff will include any adjustments made between departments with the quarterly financial information provided to the City Council.

B. Amendment

Amending the City's budget occurs whenever the requested changes from departments and/or funds will cause the existing appropriation level for the fund to change. This situation generally occurs when the City Council authorizes additional appropriation. This is done by an ordinance that amends the original budget and states the sources of funding for the incremental appropriations.

V. RESERVE AND CONTINGENCY FUND POLICIES

A. Contingency Reserve

It is the City's policy to maintain a contingency reserve in accordance with RCW 35A.33.040. The reserve will be available for unforeseen urgent or emergency needs. The contingency reserve is intended to provide for unanticipated expenditures or revenue shortfalls of a non-recurring nature. The maximum allowable amount in the contingency reserve is 37.5 cents per thousand dollars of assessed valuation.

B. Unreserved Fund Balance

It is the City's policy to maintain a unreserved balance in each of the operating funds of the City (i.e., General, City Streets) at a level sufficient to provide for cash flow needs, a reasonable amount for emergent or unforeseen needs, and an orderly adjustment to adverse changes in revenues, including termination of revenue sources through actions of other governmental bodies. The Finance Director, in conjunction with the departments and the City Manager, will analyze fund balance requirements and recommend formal fund balance policies for each of the principal City funds. Fund balance policies will be reviewed at least every three years to ensure all relevant factors are being considered. Until such time as a thorough analysis has been completed for each fund, the City's policy will be to provide a minimum fund balance (combination of Contingency Reserve and Unreserved Fund Balance) of at least 10% of budgeted operating revenues for the General Fund and a minimum unreserved fund balance of 5% of budgeted operating revenues for other City operating funds.

C. Budgeted Operating Contingency

In order to provide for unforeseen expenditures or new opportunities throughout the year, the General Fund budget will have an operating contingency of $250,000 that will be used only with City Council approval. Savings within departmental budgets throughout the year will be the first source for funding unforeseen expenditures or providing for new opportunities before the Operating Contingency is accessed.

D. Budgeted Insurance Reserve

A separate insurance reserve account will be budgeted within the General Fund budget to be used for potential substantial events (street damage, inverse condemnation, etc.) and infrastructure repair not covered by insurance policies or other sources such as FEMA. The budgeted amount should approximate 2% of the City's assets (not including roads and surface water utilities).

E. Budgeted Capital Improvement Contingency

A separate capital contingency account will be budgeted within each of the three capital improvement funds to be used for capital project adjustments and for project acceleration. The amount to be budgeted in each of the capital contingency accounts is equal to 10% of the total budgeted capital improvement projects within each fund for that year or $200,000, whichever is less.

The City Manager may administratively approve expenditures from the contingency fund for any project, without changing the project scope, regardless of the percentage of the project budget, if the amount does not exceed $10,000. In addition, the City Council delegates the authority to the City Manager to administratively approve dollar adjustments to individual capital projects that do not change the scope of project in an amount up to 10% of the project's adopted budget, not to exceed $50,000.

VI. CAPITAL IMPROVEMENT PROGRAM PLAN POLICIES

A number of important policy considerations are the basis for the Capital Improvement Program (CIP) Plan. These policies provide guidelines for all financial aspects of the CIP, and ultimately affect the project selection process.

A. Relationship of Long-Range Plans to the CIP

The CIP will be updated annually as part of the City's budget process. The City Council may amend the CIP Plan at any time as required.

Virtually all of the projects included in the CIP are based upon formal long-range plans that have been adopted by the City Council. This ensures that the City's Capital Improvement Program, which is the embodiment of the recommendations of these individual planning studies, is responsive to the officially stated direction of the City Council as contained in the Comprehensive Plan, Council work goals, and supporting documents. Examples of these supporting documents: Pavement Management System Plan and the Parks and Open Space and Recreation Services Plan. There are exceptions, but they are relatively small when compared to the other major areas of expenditure noted above.

B. CIP Coordination Team

A CIP Coordination Team is a cross-departmental team which participates in the review and recommendation of the CIP program to the City Manager. The Team will review proposed capital projects in regards to accurate costing (design, capital, and operating), congruence with City objectives, and prioritize projects by a set of deterministic criteria. The Public Works Director, or his/her designee, will serve as the lead for the team.

C. Establishing CIP Priorities

The City uses the following basic CIP project prioritization and selection process:

1. Each CIP program area establishes criteria to be used in the prioritization of specific projects submitted for funding. These specific criteria are developed by staff in conjunction with City Council priorities and input from citizens, associated City boards and commissions. The criteria is identified in the City's budget document. The City has divided its CIP projects into the following program areas: General & Parks Capital Projects, Roads Capital Projects, and Surface Water Capital Projects.
2. Designated personnel within City departments recommend project expenditure plans to the Finance Department. The project expenditure plans include all capital costs and any applicable maintenance and operation expenditures along with a recommended funding source.
3. The CIP Coordination Team evaluates the various CIP projects and selects those with the highest priority based on input from citizens, project stakeholders, appropriate advisory committees, and City Council goals.
4. A Preliminary CIP Plan is developed by the Finance Department and is recommended to the City Council by the City Manager.
5. The City Council reviews the Operating and Preliminary CIP Plan, holds a public hearing(s) on the plan, makes their desired alterations, and then officially adopts the CIP and establishes related appropriations as a part of the City's budget.
6. Within the available funding, the highest priority projects are then selected and funded in the CIP.

D. Types of Projects Included in the CIP Plan

The CIP Plan will display, to the maximum extent possible, all major capital projects in which the City is involved. It is difficult to define precisely what characteristics a project should have before it is included in the CIP Plan for the public's and City Council's review and approval. While the following criteria may be used as a general guide to distinguish among projects which should be included or excluded from the CIP Plan, there are always exceptions which require management's judgment. Therefore, the City Manager has the administrative authority to determine which projects should be included in the CIP Plan and which projects are more appropriately contained in the City's operating budget.

For purposes of the CIP Plan, a CIP project is generally defined to be any project that possesses all of the following characteristics:

1. Exceeds an estimated cost of $10,000;
2. Involves totally new physical construction, reconstruction designed to gradually and systematically replace an existing system on a piecemeal basis, replacement of a major component of an existing facility, or acquisition of land or structures; and
3. Involves City funding in whole or in part, or involves no City funds but is the City's responsibility for implementing, such as a 100% grant-funded project or 100% Local Improvement District funded project.
4. Involves the skills and construction needs beyond those needed for a general repair and maintenance project.

These should be considered general guidelines. Any project in excess of $25,000 meeting the criteria of (2), (3) and (4) above, or various miscellaneous improvements of a like nature whose cumulative total exceeds $25,000 (i.e., street overlays) should be considered as part of the CIP process.

Program area managers are responsible for the cost estimates of their proposed programs, including future maintenance and operations costs related to the implementation of completed projects.

E. Scoping and Costing Based on Predesign Study
For some projects it is difficult to develop accurate project scopes, cost estimates, and schedules on which no preliminary engineering or community contact work has been done. To address this problem, some projects are initially proposed and funded only for preliminary engineering and planning work. This funding will not provide any monies to develop final plans, specifications, and estimates to purchase rights-of-way or to construct the projects. Future project costs are refined through the predesign study process.

F. Required Project Features and Financial Responsibility: If a proposed project will cause a direct impact on other publicly-owned facilities, an equitable shared and funded cost plan must be coordinated between the affected program areas.

G. Predictability of Project Timing, Cost and Scope: The predictability of timing and costs of projects is important to specific private developments, such as the provision of street improvements or the extension of major sewer lines or water supply, without which development could not occur. These projects generally involve significant financial contributions from such private development through developer extension agreements, LIDs, and other means. Once a project has been approved by the City Council in the CIP, project scheduling is a priority to maintain.

The City Council authorizes the City Manager to administratively approve the acceleration of project schedules so long as they can be accomplished within budgeted and any allowable contingency expenditures, with the understanding that all controversial issues will be brought before the City Council. All project additions or deletions must be approved by the City Council.

H. CIP Maintenance and Operating Costs: CIP projects, as approved by the City Council, shall have a funding plan for maintenance and operating costs identified in the project description. These costs will be included in the City's long-term financial planning.

I. Local Improvement Districts (LID)
Examples of when future LIDs may be formed are as follows: 1) where old agreements exist, committing property owners to LID participation on future projects; 2) when a group of property owners wish to accelerate development of a certain improvement; 3) when a group of property owners desire a higher standard of improvement than the City's project contemplates; or 4) when a group of property owners request City assistance in LID formation to fund internal neighborhood transportation facilities improvements, which may or may not have City funding involved. If City funding is proposed by the project sponsors (property owners), they shall so request of the City Council (through the City Clerk) in writing before any LID promotion activity begins. The City Manager shall analyze such request and report his conclusions and recommendation to Council for their consideration. The Council shall by motion affirm or deny the recommendation. The Council's affirmative motion to financially participate shall expire in 180 days, unless the project sponsors have submitted a sufficient LID petition by that time.

In the event that the request is for street resurfacing in advance of the City's normal street resurfacing cycle, the City's contribution, if any, will be determined based on a recommendation from the Public Work's Department and a financial analysis of the impact of completing the project prior to the City's original timeline.

On capital projects whose financing depends in part on an LID, interim financing will be issued to support the LID's portion of the project budget at the same time or in close proximity to the issuance of the construction contract. The amount of the interim financing shall be the current estimate of the final assessment roll as determined by the administering department.

In the event that the project is 100% LID funded, interim financing shall be issued either in phases (i.e., design phase and construction phase) or up front in the amount of the entire estimated final assessment roll, whichever means is estimated to provide the lowest overall cost to the project as determined by the Finance Department.

The City will recapture direct administrative costs incurred by the City for the LID project by including these in the preliminary and final assessment roles.

J. Preserve Existing Capital Infrastructure Before Building New Facilities: It is the City's policy to ensure that adequate resources are allocated to preserve the City's existing infrastructure before targeting resources toward building new facilities that also have maintenance obligations. This policy addresses the need to protect the City's historical investment in capital facilities and to avoid embarking on a facility enhancement program which, together with the existing facilities, the City cannot afford to adequately maintain.

K. New Facilities Should Be of High Quality, Low Maintenance, Least Cost: The intent of this policy is to guide the development and execution of the CIP Plan through an emphasis on lowest life-cycle cost. Projects should only be built if the necessary funding to operate them is provided. Also, priority is given to new facilities that have minimal ongoing maintenance costs so as to limit the impact upon both the CIP and the operating budget.

L. Public Input at All Phases of Projects: The City makes a serious commitment to public involvement. The City's long-range plans are developed through an extensive citizen involvement program.

M. Basis for Project Appropriations: During the City Council's CIP Plan review, the City Council will appropriate the full estimated project cost for all projects in the CIP Plan. Subsequent adjustments to appropriation levels for amendments to the CIP Plan may be made by the City Council at any time.

N. Balanced CIP Plan: The CIP Plan is a balanced six-year plan. This means that for the entire six-year period, revenues will be equal to project expenditures in the plan. It is anticipated that the plan will have more expenditures than revenues in single years of the plan, but this imbalance will be corrected through the use of interim financing, if actually needed. Over the life of the six-year plan, however, all planned interim debt will be repaid and all plan expenditures, including interest costs on interim debt will be provided for with identified revenues. Any project funding plan, in which debt is not retired within the current six-year plan, must have specific City Council approval.

O. Use of Debt in the CIP: The CIP is viewed as a long-term program that will continually address capital requirements far into the future. As such, the use of long-term debt should be minimized, allowing the City to put money into actual projects that benefit Shoreline residents and businesses rather than into interest payments to financial institutions. There may be exceptions to this policy for extraordinary circumstances, where voted or non-voted long-term debt must be issued to achieve major City goals that otherwise could not be achieved, or would have to wait an unacceptably long time. Issuance of long-term debt must receive City Council authorization.

Staff monitors CIP cash flow regularly and utilizes fund balances to minimize the amount of borrowing required. Funds borrowed for cash flow purposes are limited to short-term obligations. Projected financing costs are included within a project in the administrative program area.

P. Finance Director's Authority to Borrow: The Finance Director is authorized to initiate interim and long-term borrowing measures, as they become necessary, as identified in the CIP Plan and approved by the City Council.

Q. CIP Plan Update and Amendment: The CIP Plan will be updated at least annually. The City Council may amend the CIP Plan at any time if a decision must be made and action must be taken before the next CIP review period. All project additions or deletions must be approved by the City Council.

R. Formalization of Monetary Agreements: All agreements between the City and outside jurisdictions, where resources are exchanged shall be in writing specifying the financial terms of the agreement, the length of the agreement, and the timing of any required payments (i.e., Joint CIP projects where the City is the lead agency, grant funded projects, etc.). Formalization of these agreements will protect the City's interests. Program areas shall make every effort to promptly request any reimbursements that are due the City. Where revenues from outside jurisdictions are ongoing, these requests shall be made at least quarterly, unless alternative arrangements are approved by the City Manager or City Council.

S. Applicable Project Charges: CIP projects should reflect all costs that can be clearly shown to be necessary and applicable. Staff charges to CIP projects will be limited to time spent actually working on those projects and shall include an overhead factor to cover the applicable portion of that person's operating cost.

VII. DEBT POLICY

The Objectives of the City's Debt Management Policy are:

A. To limit the use of debt so that debt service payments will be a predictable and manageable part of the operating budget.
B. To raise capital at the lowest cost, consistent with the need to borrow. This will be accomplished by:

   1. Keeping a high credit rating (while making attempts to strengthen credit rating).
   2. Maintaining a good reputation in the credit markets by adjusting the capital program for regular entry to the bond market and by managing the annual budget responsibly.
   3. Institute and maintain procedures that ensure full and timely repayment of City obligations.

General Debt Policies

Before issuing any debt, the City will consider the impacts of such debt on the operating budget, the effect on the City's credit rating, the debt capacity remaining under constitutional and statutory limitations, the most cost-effective term, structure, and type of debt, and the impact on taxpayers.

Disclosure statements will be used to keep taxpayers and investors informed of the City's financial position. These include printed copies of:

A. Annual reports
B. Operating budget and Capital Facilities Plan
C. Official Statements

Debt issues will be sold on a competitive basis (except when conditions make a negotiated sale preferable) and awarded to the bidder who produces the lowest true interest cost.

Debt issues may be sold on a negotiated basis I the issue is unusually large or small, the project is complex, the issue is a refunding, flexibility is desired in the structure, the market is volatile, or other conditions make it in the City's best interest to conduct a negotiated sale.

Long Term Debt: Long term debt will be used to maintain and develop the municipal infrastructure when the economic life of a fixed asset exceeds five years.

Revenue bonds will generally be used for projects which are financially self-sustaining.

General Obligation bonds can be used to finance public works projects which benefit the community and where there are sufficient dedicated revenues to amortize the debt.

General Obligation pledges can be used to back self-sustaining projects financed through revenue bonds when costs can be reduced and the municipal credit rating is not put in jeopardy by this action.

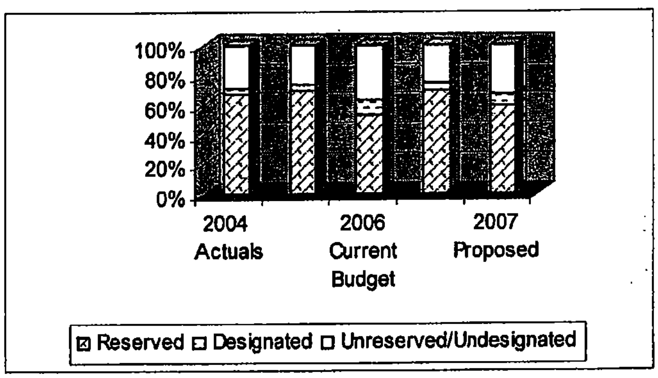
The City will continue to rely on a strong local improvement district program for certain local or neighborhood street, water and sewer improvements.

The City will use interfund borrowing where such borrowing is cost effective to both the borrowing and the lending fund. Such borrowing shall implement Council directed policy in a simplified manner, such as borrowing associated with interim financing for local improvement district projects.

Ending Fund Balances

The following table and graph illustrate the City's ending fund balances between 2002 and 2005. The fund balances are segregated into three major components: unreserved/undesignated, reserved, and designated.

	2004 Actuals	2005 Actuals	2006 Current Budget	2006 Projected	2007 Proposed
Reserved:					
General Capital Fund	7,980,092	12,100,573	2,103,768	12,232,990	3,472,347
City Facility -Major Maintenance Fund	-	160,723	170,680	177,152	145,124
Roads Capital Fund	15,236,389	13,150,365	3,247,990	7,885,027	6,535,098
Surface Water Capital Fund	3,244,311	-	-	-	-
Development Services Fund	409,248	-	-	-	-
Street Fund	618,679	778,568	437,329	795,243	675,243
Arterial Street Fund	15,535	-	-	-	-
Surface Water Management Fund	2,986,290	-	-	-	-
Surface Water Utility Fund		5,548,452	5,440,548	6,363,913	5,754,464
Subtotal Reserved	30,490,544	31,738,681	11,400,315	27,454,325	16,582,276
Designated:					
Equipment Replacement Fund	1,168,020	1,251,262	1,514,777	1,470,072	1,685,641
Vehicle Maintenance & Operations	52,602	47,572	52,134	59,637	59,637
Unemployment Fund	72,154	69,958	72,604	72,258	72,758
Code Abatement Fund	38,322	118,916	88,595	68,128	50,628
Asset Seizure Fund	20,335	21,722	26,058	33,831	33,831
Public Art Fund	61,040	278,867	324,635	212,240	212,240
Subtotal Designated	1,412,473	1,788,297	2,078,803	1,916,166	2,114,735
Unreserved/Undesignated:					
General Fund	10,936,005	9,685,010	5,675,139	7,394,350	6,742,849
General Reserve	1,970,996	2,160,346	2,178,539	2,282,647	2,341,193
Subtotal Unreserved/Undesignated	12,907,001	11,845,356	7,853,678	9,676,997	9,084,042
	44,810,018	**45,372,334**	**21,332,796**	**39,047,488**	**27,781,053**



Unreserved/Undesignated Fund Balances

The unreserved/undesignated fund balance is the balance of net financial resources that are available for discretionary appropriations. The 2007 Proposed Budget estimates unreserved/undesignated fund balance of $9,084,042 at the end of 2007.

Reserved Ending Fund Balances

The second component of ending fund balance is those funds reserved for a specific purpose. These funds are not available for appropriation because they are legally restricted. These reserves primarily represent monies allocated for capital and specific maintenance purposes. The reserved fund balances are estimated to be $16,582,276 at the end of 2007.

Designated Ending Fund Balances

The third component of ending fund balances, totaling $2,114,735 in 2007, is those moneys that have been earmarked for specific purposes (equipment replacement, unemployment, etc.). Although designated for specific purposes, there is the ability to appropriate some of these funds for other purposes since the original source of the funds was general revenues from the General Fund.

CITY OF SHORELINE

Memorandum

DATE: **January 25, 2007**

TO: **City Councilmembers**

FROM: **Debbie Tarry, Finance Director**

RE: **Operating Reserve Policy**

CC: **City Leadership Team**
Patti Rader, Finance Manager

Types of Reserves

The City has general operating reserves (General Fund, General Reserve and Street Fund), designated reserves (those funds which have revenues that have been designated for a specific purpose such as code abatement, equipment replacement or drug seizure), or restricted reserves (those funds in which there is a legal requirement that the resources must be spent for a specific purpose such as capital or surface water revenues). This memorandum focuses on the general operating reserves.

Current Policy

Council has requested clarification on the City's operating reserve policy. The City's current financial policies require the following be maintained for operating reserves (Section V of the City's Financial Policies):

- Contingency Reserve – This reserve is maintained in the "General Reserve Fund" in accordance with RCW 35A.33.040. This RCW limits the amount that can be put in a General Reserve Fund to 37.5 cents per thousand dollars of assessed valuation. The current maximum allowable balance is $2,445,389 and the actual balance is $2,274,789. The purpose of this fund is to provide for unforeseen urgent or emergency needs.
- Unreserved Fund Balance – The financial policies require that the General Fund maintain a minimum 10% of budgeted operating revenues as unreserved fund balance. The purpose of this reserve is to provide sufficient reserves to manage cash flow needs, have a reasonable amount for emergent or unforeseen needs, and adequate reserves for the orderly adjustment to adverse changes in revenues. The projected ending 2006 unreserved fund balance in the General Fund is $6.9 million. Ten percent of the budgeted operating revenues in the General Fund for 2007 would equal $2.7 million.

- Budgeted Operating Contingency – The financial policies require that the City budget and maintain within the General Fund a $250,000 operating contingency. This has been budgeted and is included within the City's General Fund ending fund balance.
- Budgeted Insurance Reserve – The financial policies require that the City budget and maintain within the General Fund an insurance reserve contingency to be used for potential substantial events and infrastructure repair not covered by the City's insurance coverage. The amount is to approximate 2% of the City's general fixed assets. This amount has been approximately $255,000. This amount has been budgeted and is included within the City's General Fund ending fund balance.

Based on the policies currently in effect the City's total general operating reserves for the General Fund would need to total $5.7 million which equates to approximately 21% of the general budgeted operating revenues. Currently the total general operating reserves are as follows:

General Reserve Fund	$ 2,274,789
Unreserved General Fund Balance	$ 6,889,350 (projected for 2006)
Operating Contingency	$ 250,000
Insurance Reserve	$ 255,000
Total	$9,669,139

It should be noted also that the City earns investment interest from its general operating reserves. The City's long-term financial forecast assumes that there will be a minimum of $7 million in general operating reserves that can be invested annually. The projected investment interest is approximately $350,000 annually.

Policy Revision

It may be an appropriate time to review the City's operating reserve policies and modify them to provide more clarity and assure that the City is maintaining adequate reserves to meet the City's strategic objective of financial stability. The primary purpose to maintain reserves is for the following:

- Revenue Stabilization and Unforeseen Emergencies: Council may want to consider eliminating the "General Reserve Fund", which has a cap on the amount of funds that can be accumulated in this type of fund and establish a "Revenue Stabilization Fund". The purpose of the fund would be to set aside adequate reserves to cover revenue shortfalls over a recessionary period and basically serve as an "emergency savings account" for the City. The amount to set aside can be a formula either tied to expenditure activity or revenue activity. Some formulas used by other cities include:
    - A percentage of operating revenues or operating expenditures
    - An amount equal to a certain number of months of expenditures such as the average of three months of general fund expenditures. (For Shoreline this would be approximately $7.7 to $7.9 million)

- A percentage of economically sensitive operating revenues for certain amount of time. The City of Des Moines uses such a formula which is defined as 10% of economically sensitive revenues to cover revenue shortfalls over a three year recessionary period. (For Shoreline this would be approximately $6 million)

- Unreserved General Fund Balance: In order to adequately manage the cash flows within the City's General Fund the City must maintain an reserved fund balance within the General Fund of $3 million. This is primarily because the General Fund expenditures tend to occur on a fairly equal basis each month, while many of the substantial revenue sources are received on a quarterly basis (i.e., gambling tax, utility taxes) or semi-annually (i.e., property tax). In reviewing the General Fund cash flow for 2005 and 2006 it appears that the largest negative cash flow balance during the year was $2.5 million. Reserves allow the City to manage the cash flow adequately so that we do not have to borrow monies and pay interest during times of the year when there is a negative cash flow.

  In addition to the need to manage cash flow, staff would recommend that the Council continue the policy of budgeting a contingency and insurance reserve totaling $505,000.

<u>Use of Reserves</u>
The City's financial policies state that resources (fund balance) greater than budget estimates in any fund shall be considered "one-time' resources an shall not be used to fund ongoing service delivery programs. The City has complied with this policy. There have been years in which the City's operating revenues have exceeded operating expenses. Since the City's operating reserves were adequate, the Council has chosen to use these funds for one-time expenditures such as setting aside monies for City Hall or setting aside monies to replace or upgrade some of the major traffic signals within the City.

If the Council chooses to modify the existing operating reserve policy and spend any reserves in excess of required levels then this needs to be done with the expectation that the funds are used for one-time purposes. Also if at any time in the future operating reserves drop below required levels a plan would need to be put in place to restore the reserves to the required levels.

2007 Operating Program Budget Summary

Program List	Department	2007 Budget Page	2007 Proposed Budget	2007 Program Revenue or Dedicated Revenue Stream	2007 Tax/General Revenue Subsidy	2007 FTE Allocation	
Contract Non-Discretionary							
Jail	Criminal Justice	194	1,225,217	-	1,225,217	-	
Public Defender	Criminal Justice	195	154,209	-	154,209	-	
Prosecuting Attorney	City Attorney	135	168,000	-	168,000	-	
Police Support Services (911 Center, Canine, MARR, etc.)	Police	183	1,631,429		1,631,429	Contract	
Sub-Total Contract Non-Discretionary			***3,178,855***	**-**	***3,178,855***	**-**	
Revenue Generating Service Programs							
Aquatics	Parks & Rec	207	792,939	354,050	438,889	5.625	
Athletic Field Maintenance & Operations	Parks & Rec	205	273,349	183,101	90,248	2.075	
General Recreation Programs	Parks & Rec	210	779,089	508,182	270,907	3.900	
Teen Recreation Programs	Parks & Rec	212	381,274	39,056	342,218	4.050	
Recreation Facility Rental Program	Parks & Rec	209	28,764	58,750	(29,986)	0.370	
Right-of-Way Permit and Inspection Program	Public Works	250	113,526	120,000	(6,474)	1.300	
Building & Inspections Team	Planning & Dev Svc	225	752,182	704,390	47,792	6.050	
Current Planning Team	Planning & Dev Svc	232	540,385	202,750	337,635	4.700	
Permit Services Team	Planning & Dev Svc	227	718,932	332,945	385,987	9.150	
Planning Long Range Team	Planning & Dev Svc	229	322,219	52,250	269,969	3.350	
Sub-Total Revenue Generating Programs			***4,702,659***	***2,555,474***	***2,147,185***	***40.570***	
Non-Revenue Generating Service Programs							
Code Enforcement	Planning & Dev Svc/CRT	223	465,790	-	465,790	1.650	
Police Community Storefronts	Police	178	277,216	-	277,216	2.000	Contract
Police Investigations Crime Analysis	Police	179	426,649		426,649	4.000	Contract
Police Patrol	Police	181	3,887,461	1,320,718	2,566,743	28.000	Contract
Street Crime Investigations	Police	180	426,649	-	426,649	3.000	Contract
Police Traffic Enforcement	Police	184	700,404	31,660	668,744	5.000	Contract
School Resource Officer Program	Police	182	134,899	32,000	102,899	1.000	Contract
Environmental Services	Public Works	249	162,028	122,616	39,412	0.350	
Street Operation (Excludes Pavement Resurfacing)	Public Works	251	1,548,212	901,966	646,246	9.250	
Traffic Services & NTSP (Excludes Capital Component of NTSP)	Public Works	255	280,714	-	280,714	2.260	
Economic Development: Business Attraction and Retention	Economic Development	239	257,725	-	257,725	1.000	
24 Hour Customer Response Team	Customer Response Team	165	158,990	-	158,990	3.250	
Parks & Open Space Maintenance Program	Parks & Rec	206	1,059,999	38,824	1,021,175	5.525	
Parks Cultural Services Program	Parks & Rec	214	231,445	22,000	209,445	0.750	
Emergency Management Planning	City Manager Office	106	122,715	-	122,715	1.000	
Human Services: Support for Social Agencies	Human Services	127	592,010	152,070	439,940	1.800	
Communications	Comm & Intergovt Relations	121	282,303	-	282,303	1.470	
Neighborhoods	Comm & Intergovt Relations	123	170,648	-	170,648	1.470	
Sister City Relations	City Clerk	114	6,000	-	6,000	-	
Sub-Total Non-Revenue Generating Service Programs			***11,191,857***	***2,621,854***	***8,570,003***	***72.775***	
Support Service Programs							
Parks Administration	Parks & Rec	203	406,930	-	406,930	4.000	
Financial Planning & Accounting Services	Finance	143	765,382	1,800	763,582	8.630	
Purchasing Services	Finance	145	210,450	-	210,450	1.750	
Grant Research & Development	Finance	151	18,672	-	18,672	0.200	
Geographical Information Systems	Finance	147	185,234	-	185,234	1.050	
Information Technology Operations and Security Systems	Finance	148	904,387	-	904,387	3.600	
Information Technology Strategic Plan Implementation	Finance	150	346,474	-	346,474	2.350	
Legal Services	City Attorney	134	382,782	-	382,782	3.000	
Planning and Development Operations Support Team	Planning & Dev Svc	231	252,624	-	252,624	2.600	
Police Administration	Finance	177	853,915	1,290	852,625	6.000	Contract
Public Facility & Vehicle Maintenance & Operations	Public Works	257	907,389	-	907,389	2.450	
Public Records & City Council Meeting Management (City Clerk)	City Clerk	112	397,027	29,897	367,130	3.800	
Public Works Administration	Public Works	259	292,980	-	292,980	2.150	
City Council	City Council	97	174,493	-	174,493	-	
City Manager's Office	City Manager Office	104	692,636	-	692,636	6.000	
Intergovernmental Participation	Finance	152	101,987	-	101,987	-	
Intergovernmental Relations	Comm & Intergovt Relations	122	115,750	-	115,750	0.560	
Development	Human Resources	157	391,553	1,500	390,053	3.000	
Sub-Total Support Service Programs			***7,400,665***	***34,487***	***7,366,178***	***51.140***	
Non-Programs - Operating Budget							
Contingencies			524,820	505,000	19,820	-	
City-wide supplies, equipment, election & liability insurance	Finance	140	679,491	-	679,491	-	
General Fund Contributions to:							
Unemployment			10,000	-	10,000	-	
Civic Center - Future Lease			288,000	-	288,000	-	
Equipment Replacement			100,000	-	100,000	-	
Roads Capital Programs			756,002	-	756,002	-	
Sub-Total Non-Programs			***2,358,313***	***505,000***	***1,853,313***	**-**	
Total Operating Budget			**28,832,349**	**5,716,815**	**23,115,534**	**164.485**	

CITY COUNCIL WORK PLAN

2007-2008

Complete the projects approved in the 2006 Parks Bond

Implement the Economic Development Strategic Plan

Implement an affordable civic center/city hall project

Complete the Aurora improvements from 165th to 205th Streets including, but not limited to, sidewalks, drainage and transit

Develop a comprehensive housing strategy

CITY OF SHORELINE

Create an "environmentally sustainable community"

Provide safe and affordable transportation options to support land use plans including walking, bicycling, transit and vehicular options

Goal No. 8

Develop a Fircrest master plan in partnership with the state

Goal No. 9

Increase emergency preparedness training and education

Goal No. 10

[illegible] opportunities for all residents, including our youth, to get more [illegible] neighborhood safety and improvement programs

Results of Community Prioritization Exercise

Combined Community Group Results

	Service	Community Groups Combined	Community Groups Combined
1	Police Patrol	1.10	1
	Police Investigations and Crime Analysis	1.50	1
	Land Use & Building Permits	1.70	1
	Street Crime Investigations	1.70	1
	Police Traffic Enforcement	1.80	1
	Street Operations & Maintenance	1.80	1
	Economic Development	1.90	1
	Emergency Preparedness	1.90	1
	Human Services	1.90	1
2	Park and Open Space Maintenance	1.90	2
	Pavement Resurfacing Program	2.10	2
	Planning and Development Customer Service Support	2.20	2
	Traffic Services	2.20	2
	24 Hour Customer Response Team	2.30	2
	Athletic Field Maintenance & Operations	2.30	2
	Code Enforcement & Inspection	2.30	2
	Street Lighting	2.30	2
	Teen Recreation Programs	2.30	2
	Planning Projects & Policy Development	2.40	2
	School Resource Officer Program	2.40	2
3	Youth Recreation Programs	2.40	3
	Police Community Storefront Program	2.50	3
	Community Information Publications & Communications	2.60	3
	Information Technology Strategic Plan Implementation	2.70	3
	Neighborhood Traffic Safety Program	2.70	3
	Aquatics	2.80	3
	Preschool Recreation Programs	2.80	3
	Recycling Program	2.90	3
	Special Needs Recreation Programs	2.90	3
	Vegetation & Tree Maintenance - Right of Way	2.90	3
	Council of Neighborhoods	3.00	3
4	Right-of-Way Permit and Inspection Program	3.00	4
	Adult Recreation Programs	3.10	4
	Intergovernmental Participation	3.10	4
	Arts Council Contribution	3.20	4
	Neighborhood Mini-Grant Program	3.30	4
	Recreation Special Events	3.30	4
	Shoreline Museum Contribution	3.30	4
	Recreation Facility Rental Program	3.40	4
	Sister City Relations	3.90	4

2006 Citizen Survey Importance – Satisfaction Ratings

Importance-Satisfaction Analysis
Shoreline, WA

Overview

Today, city officials have limited resources which need to be targeted to activities that are of the most benefit to their citizens. Two of the most important criteria for decision making are (1) to target resources toward services of the highest importance to citizens; and (2) to target resources toward those services where citizens are the least satisfied.

The Importance-Satisfaction (IS) rating is a unique tool that allows public officials to better understand both of these highly important decision making criteria for each of the services they are providing. The Importance-Satisfaction rating is based on the concept that cities will maximize overall citizen satisfaction by emphasizing improvements in those service categories where the level of satisfaction is relatively low and the perceived importance of the service is relatively high.

Methodology

The rating is calculated by summing the percentage of responses for items selected as the first, second, and third most important services for the City to emphasize over the next two years. This sum is then multiplied by 1 minus the percentage of respondents that indicated they were positively satisfied with the City's performance in the related area (the sum of the ratings of 4 and 5 on a 5-point scale excluding "don't knows"). "Don't know" responses are excluded from the calculation to ensure that the satisfaction ratings among service categories are comparable. [IS=Importance x (1-Satisfaction)].

Example of the Calculation. Respondents were asked to identify the major categories of city services they thought should receive the most emphasis over the next two years. Twenty-four percent (24%) of the respondents *who had an opinion* selected *enforcement of codes and ordinances* as one of the most important services to emphasize over the next two years.

With regard to satisfaction, *enforcement of codes and ordinances* was ranked seventh overall with 46% rating *enforcement of codes and ordinances* as a "4" or a "5" on a 5-point scale excluding "Don't know" responses. The I-S rating for *enforcement of codes and ordinances* was calculated by multiplying the sum of the most important percentages by 1 minus the sum of the satisfaction percentages. In this example, 24% was multiplied by 54% (1-0.46). This calculation yielded an I-S rating of 0.1296, which was ranked third out of eight major service categories.

The maximum rating is 1.00 and would be achieved when 100% of the respondents select an activity as one of their top three choices to emphasize over the next three years and 0% indicate that they are positively satisfied with the delivery of the service.

The lowest rating is 0.00 and could be achieved under either one of the following two situations:

- if 100% of the respondents were positively satisfied with the delivery of the service

- if none (0%) of the respondents selected the service as one of the three most important areas for the City to emphasize over the next two years.

Interpreting the Ratings

Ratings that are greater than or equal to 0.20 identify areas that should receive significantly more emphasis over the next two years. Ratings from .10 to .20 identify service areas that should receive increased emphasis. Ratings less than .10 should continue to receive the current level of emphasis.

- *Definitely Increase Emphasis (IS>=0.20)*

- *Increase Current Emphasis (0.10<=IS<0.20)*

- *Maintain Current Emphasis (IS<0.10)*

The results for Shoreline are provided on the following pages.

Importance-Satisfaction Rating
City of Shoreline - 2006
OVERALL

Category of Service	Most Important %	Most Important Rank	Satisfaction %	Satisfaction Rank	Importance-Satisfaction Rating	I-S Rating Rank
Very High Priority (IS >.20)						
Flow of traffic and congestion	71%	1	38%	8	0.4402	1
High Priority (IS .10-.20)						
Maintenance of City streets	50%	2	62%	5	0.1900	2
Enforcement of City codes and ordinances	24%	6	46%	7	0.1296	3
Medium Priority (IS <.10)						
Quality of police services	34%	3	74%	2	0.0884	4
Effectiveness of communication w/ the public	18%	7	64%	3	0.0648	5
Quality of City parks, programs and facilities	25%	5	81%	1	0.0475	6
City stormwater runoff/management system	29%	4	62%	5	0.0385	7
Quality of customer service from City employees	10%	8	64%	3	0.0217	8

Note: The I-S Rating is calculated by multiplying the "Most Important" % by (1-'Satisfaction' %)

Most Important %: The "Most Important" percentage represents the sum of the first, second, and third most important responses for each item. Respondents were asked to identify the items they thought should receive the most emphasis over the next two years.

Satisfaction %: The "Satisfaction" percentage represents the sum of the ratings "4" and "5" excluding "don't knows".
Respondents ranked their level of satisfaction with the each of the items on a scale of 1 to 5 with "5" being very satisfied and "1" being very dissatisfied.

Importance-Satisfaction Rating
City of Shoreline - 2006
PUBLIC SAFETY SERVICES

Category of Service	Most Important %	Most Important Rank	Satisfaction %	Satisfaction Rank	Importance-Satisfaction Rating	I-S Rating Rank
Very High Priority (IS >.20)						
The City's efforts to prevent crime	56%	1	61%	2	0.2184	1
Enforcement of drug and vice laws	39%	2	48%	6	0.2028	2
High Priority (IS .10-.20)						
Enforcement of local traffic laws	24%	4	57%	3	0.1032	3
Medium Priority (IS <.10)						
Overall quality of local police protection	38%	3	75%	1	0.0950	4
Quality of animal control services	9%	5	53%	4	0.0423	5
Shoreline District Court	5%	6	49%	5	0.0255	6

Note: The I-S Rating is calculated by multiplying the "Most Important" % by (1-'Satisfaction' %)

Most Important %: The "Most Important" percentage represents the sum of the first, second, and third most important responses for each item. Respondents were asked to identify the items they thought should receive the most emphasis over the next two years.

Satisfaction %: The "Satisfaction" percentage represents the sum of the ratings "4" and "5" excluding "don't knows".
Respondents ranked their level of satisfaction with the each of the items on a scale of 1 to 5 with "5" being very satisfied and "1" being very dissatisfied.

Importance-Satisfaction Rating
City of Shoreline - 2006
CITY MAINTENANCE

Category of Service	Most Important %	Most Important Rank	Satisfaction %	Satisfaction Rank	Importance-Satisfaction Rating	I-S Rating Rank
High Priority (IS .10-.20)						
Adequacy of street lighting in your neighborhood	32%	2	42%	7	0.1856	1
Maintenance of sidewalks in Shoreline	30%	3	39%	8	0.1830	2
Adequacy of street lighting on arterial streets	23%	6	53%	2	0.1081	3
Medium Priority (IS <.10)						
Overall maintenance of City streets	28%	1	65%	5	0.0980	4
Adequacy of storm drainage in your neighborhood	21%	3	54%	5	0.0966	5
Overall cleanliness of city streets/public areas	21%	7	60%	1	0.0840	6
Maintenance of City streets in your neighborhood	15%	5	61%	3	0.0585	7
Mowing and trimming of City properties	12%	8	54%	4	0.0552	8

Note: The I-S Rating is calculated by multiplying the "Most Important" % by (1-'Satisfaction' %)

Most Important %:

The "Most Important" percentage represents the sum of the first and second most important responses for each item. Respondents were asked to identify the items they thought should receive the most emphasis over the next two years.

Satisfaction %:

The "Satisfaction" percentage represents the sum of the ratings "4" and "5" excluding "don't knows".
Respondents ranked their level of satisfaction with the each of the items on a scale of 1 to 5 with "5" being very satisfied and "1" being very dissatisfied.

Importance-Satisfaction Rating

City of Shoreline - 2006

CODES AND ORDINANCES

Category of Service	Most Important %	Most Important Rank	Satisfaction %	Satisfaction Rank	Importance-Satisfaction Rating	I-S Rating Rank
Very High Priority (IS >.20)						
Enforcing the clean up of litter and debris	57%	1	28%	4	0.4104	1
Enforcing removal of abandoned autos	53%	2	33%	3	0.3551	2
High Priority (IS .10-.20)						
Enforcing building codes	27%	3	37%	2	0.1701	3
Enforcing sign regulations	20%	4	41%	1	0.1180	4

Note: The I-S Rating is calculated by multiplying the "Most Important" % by (1-'Satisfaction' %)

Most Important %:

The "Most Important" percentage represents the sum of the first, second, and third most important responses for each item. Respondents were asked to identify the items they thought should receive the most emphasis over the next two years.

Satisfaction %:

The "Satisfaction" percentage represents the sum of the ratings "4" and "5" excluding "don't knows".
Respondents ranked their level of satisfaction with the each of the items on a scale of 1 to 5 with "5" being very satisfied and "1" being very dissatisfied.

Importance-Satisfaction Rating
City of Shoreline - 2006
TRANSPORTATION

Category of Service	Most Important %	Most Important Rank	Satisfaction %	Satisfaction Rank	Importance-Satisfaction Rating	I-S Rating Rank
Very High Priority (IS .20>)						
Availability of sidewalks near your residence	34%	2	24%	6	0.2584	1
Availability of sidewalks near schools	36%	1	40%	3	0.2160	2
Availability of pedestrian walkways	32%	3	34%	4	0.2112	3
High Priority (IS .10-.20)						
Availability of public transportation	31%	4	57%	1	0.1333	4
Availability of bicycle lanes	19%	6	34%	4	0.1254	5
Availability of sidewalks on major streets	23%	5	48%	2	0.1196	6

Note: The I-S Rating is calculated by multiplying the "Most Important" % by (1-'Satisfaction' %)

Most Important %: The "Most Important" percentage represents the sum of the first and second most important responses for each item. Respondents were asked to identify the items they thought should receive the most emphasis over the next two years.

Satisfaction %: The "Satisfaction" percentage represents the sum of the ratings "4" and "5" excluding "don't knows".
Respondents ranked their level of satisfaction with the each of the items on a scale of 1 to 5 with "5" being very satisfied and "1" being very dissatisfied.

Importance-Satisfaction Rating

City of Shoreline - 2006

PARKS AND RECREATION

Category of Service	Most Important %	Most Important Rank	Satisfaction %	Satisfaction Rank	Importance-Satisfaction Rating	I-S Rating Rank
Very High Priority (IS >.20)						
Walking and biking trails in the City	45%	2	48%	7	0.2340	1
High Priority (IS .10-.20)						
Outdoor athletic fields	19%	3	66%	3	0.0646	2
Medium Priority (IS <.10)						
Maintenance of City parks	49%	1	75%	1	0.1225	3
City swimming pool	14%	5	60%	5	0.0560	4
Number of City parks	19%	3	71%	2	0.0551	5
Fees charged for recreation programs	11%	6	58%	6	0.0462	6
Ease of registering for programs	6%	7	64%	4	0.0216	7

Note: The I-S Rating is calculated by multiplying the "Most Important" % by (1-'Satisfaction' %)

Most Important %:

The "Most Important" percentage represents the sum of the first, second, and third most important responses for each item. Respondents were asked to identify the items they thought should receive the most emphasis over the next two years.

Satisfaction %:

The "Satisfaction" percentage represents the sum of the ratings "4" and "5" excluding "don't knows".
Respondents ranked their level of satisfaction with the each of the items on a scale of 1 to 5 with "5" being very satisfied and "1" being very dissatisfied.

Memorandum

DATE: January 24, 2007

TO: City Councilmembers

FROM: Debbie Tarry, Finance Director

RE: Potential Revenue Sources

CC: City Leadership Team
Patti Rader, Finance Manager

In order bring the operating budget into balance over the long-term, the City Council may want to consider using one or more of the following revenue sources.

Short-Term Options (2008-2009)

1. **Reduce Operating Revenues Used for Capital Expenditures**
   Currently the City allocates an amount equal to the gambling tax in excess of a 7% rate for capital expenditures. This amount is projected to be approximately $632,000 annually beginning in 2008. In addition to the gambling tax the General Fund transfers nearly $300,000 annually to capital. The City Council may need to weigh this policy against the ability to provide on-going operating services. Obviously a change in this policy would affect the current funding scenarios for capital projects, so consideration should be given to alternative ways to fund capital projects (i.e., bond proceeds). The gambling tax and General Fund transfers to capital help fund the newly expanded sidewalk program, the new long term facility repair and maintenance account, and our annual street overlays.

$ Amount:	*$932,000 annually*
Timeline to Implement:	*Immediate Council Policy Direction*
Each 1% Change:	*Not Applicable*

2. **Collection of Contract Payment on "Distribution" Portion of the Electricity Utility Rates**
   The current franchise agreement between the City and Seattle City Light (SCL) provides that the City receive a 6% contract payment on the power portion of the electricity revenues, but not on the distribution portion. The franchise agreement does allow the City to collect a contract payment, up to 6%, on the distribution

portion. In order to do this the City must give a one year notice to SCL. The Franchise agreement allows SCL to collect a surcharge on the power portion of rates from our residents, implemented at the same time as the contract fee, but not the distribution portion. Based on recent data provided from SCL for 2001 through 2004, the distribution portion of the electric revenues collected within Shoreline represent 32% of total revenues. Assuming that this revenue allocation has remained constant for 2005 and 2006, it is estimated that a 6% contract payment on the distribution portion of SCL rates would generate approximately $550,000 of revenue annually.

Assuming an average residential electric charge of $70 per month, the implementation of the 6% contract payment on the distribution portion of the charge would increase the rate payer's overall bill by approximately $1.35 per month or slightly more than $16 per year.

In 2004 the City of Tukwila implemented a contract payment on the distribution portion of the SCL revenues. Tukwila implemented the 6% payment over a 3 year period.

$ Amount:	*$550,000 annually*
Timeline to Implement:	*One Year Notice to SCL*
Each 1% Change:	*$92,000*

3. **Cable Utility Tax**

The City currently levies a 1% utility tax on cable TV. The utility tax rate on cable TV is governed by the Cable Communications Policy Act of 1984. It requires that the utility rate not be "unduly discriminatory against cable operators and subscribers." Since the City has set all its utility tax rates at six percent, the rate on cable TV could go up to six percent also without being "unduly discriminatory". Although there is no required timeline to implement an increase in the cable utility tax, it is likely that it would take 60 to 90 days for the cable provider to bill all accounts at the increased utility tax rate.

A five percent increase in the cable utility tax would generate approximately $500,000 in annual revenue. The average residential monthly cable fee is $57. Implementing an additional 5% of utility tax would cost the average residential customer approximately $2.83 monthly, or $34 annually.

The City does collect a 5% franchise fee from the cable provider on total cable revenues. An increase in the utility tax rate would result in a slight increase n franchise fee revenue, approximately $24,000 annually.

$ Amount:	*$500,000 annually*
Timeline to Implement:	*60 to 90 Days*
Each 1% Change:	*$100,000*

Long-Term Options (2010 and beyond)

1. **Property Tax Levy Lid Lift**
   The City has a statutory property tax rate limit of $1.60 per $1,000 valuation. The 2007 tax rate imposed by the City is $1.10. With the 1% annual property tax levy increase limitation and with property values continuing to increase, the City's tax rate is projected to fall to $1.00 by 2010.

   If the City desires to increase property tax revenues beyond the 101% limitation, imposed by I-747, we can ask the voters to "lift" the levy lid. A simple majority vote is required. For every additional 10-cents in property tax levy rate it is estimated that an additional $650,000 in property tax revenue would be generated. A 10-cent property tax levy increase would increase the property tax bill for the owner of a home valued at $373,000 by approximately $37 annually.

$ Amount:	*$3.9 million if full capacity assessed in 2010*
Timeline to Implement:	*Approval by voters by November General Election for following year implementation*
Each $.10 Change:	*$650,000*

2. **Other Alternative Revenues**
   In 2002 the City Council reviewed some alternative revenue sources. Two of those sources could generate substantial additional revenue for City operations.
   - *Business & Occupation Tax* - This tax is levied on the gross revenues of businesses. The maximum B&O tax rate that the City can adopt is 0.2%, unless voters approve a larger rate increase. The B&O tax has been an unpopular tax. There are currently 13 Cities within the Puget Sound Region that levy this tax. It is estimated that this tax could generate at least $1.5 million annually if the City adopted a 0.2% tax rate. A lower tax rate would generate less revenue. All ordinances that impose a B&O tax for the first time must provide for a referendum procedure.
   - *Revenue Generating Business License Fee* – As the Council has discussed, State Law does allow for the implementation of revenue-generating regulatory licenses. These type of licenses usually charge a fee to businesses based on number of employees, square footage of establishment, type of business or a combination of these options. The amount of revenue generated would be dependent on the fee structure adopted. There are several cities in close proximity to Shoreline that have a revenue generating business license. The most substantial fee is charged by the City of Redmond with a $83 per employee fee.

3. **Policy Decision to Make Certain Services Fully Fee Supported**
   One option always available to the Council is to determine that certain services provided by the City should be fully or partially supported by fees. This is really a policy decision that is left to individual cities, as it is difficult sometimes to separate "individual" benefit from "community" benefit. Usually those services that can be identified to benefit specific individuals are services that are more likely to be

supported through fee revenues. Some services that have traditionally been supported either fully or partially by fees include: recreation, building & land use permits, plan reviews, special events, etc. Obviously fee increases in these areas may cause more limited participation or may discourage development within the community.