

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	2009 Budget and City Financial Long-Term Projection Update
DEPARTMENT:	Finance
PRESENTED BY:	Debbie Tarry, Finance Director

PROBLEM/ISSUE STATEMENT:

Staff is currently in the process of finalizing the 2009 Proposed Budget. The purpose of this discussion will be to provide the City Council with an update of the City's long-term financial projections and some of the primary policy issues that will need to be addressed during the 2009 budget deliberations. This report focuses on the City's operating budget which includes the General and City Street Funds. The Surface Water Fund is an enterprise fund supported by the surface water utility fees and therefore the budget is reflective of the needs that were considered as part of the Surface Water Master Plan. The Council recently completed a review of the capital budget through the 2009-2014 Capital Improvement Program (CIP) process. The 2009 Proposed Capital Budget may differ slightly from the 2009 plan in the adopted 2009-2014 CIP. Primarily these differences will be linked to changes in grant revenues related to Cromwell and Hamlin parks since the City was notified that they will not be awarded RCO grants for these projects and adjustments to the projected real estate excise tax collections in 2008.

FINANCIAL IMPACT:

As of September 5, the City's 2009 preliminary operating budget has a budget gap of approximately \$194,000. The budget gap represents expenditures in excess of revenues within the City's base operating budget. The base budget is to provide the current level of services with the exception of any new maintenance needs related to capital projects that have been completed, such as the 145th to 165th Aurora Avenue improvements, park improvements, and the new City Hall. The base budget does not include any new personnel positions, programs or services. The current budget gap is still preliminary and subject to change as more revenue and expenditure information is gathered during the finalization of the proposed 2009 budget. Staff anticipates that the 2009 budget will be balanced within currently available resources. The base budget will need to be balanced before the City Manager determines if any service level changes or program changes should be included in his recommended budget. The City Manager will present his recommended balanced 2009 budget to the City Council on October 13, 2008.

The Council last reviewed the City's long-term financial projections earlier this year. At that time staff was projecting that the 2009 operating budget would be balanced with current revenue sources. At the same time, as was projected at that time, budget gaps are projected for 2010 and beyond. As the Council is aware, the City Council

implemented short-term budget strategies to address anticipated budget gaps that were projected to start in 2008. This strategy included reductions in base budget items and the phased implementation in increases in the City's cable utility tax and the Seattle City Light contract payment. As a result of the implementation of this strategy the City has been able to balance its budget for 2008 and 2009.

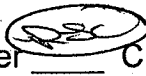
Although the City Council will be focused on a review of the 2009 budget later this year, it is important that we continue to monitor our long-term financial position and consider policy decision impacts on the City's long-term financial health. The purpose of the long-term projections is to provide information so that staff and the City Council can make resource allocation decisions that provide sustainable public services to the Shoreline community. Staff will be providing the Council an update of the long-term financial forecast during the Council meeting of September 15, 2008.

RECOMMENDATION

No action is required by the City Council. This item is for informational purposes and to provide the City Council with preliminary 2009 budget information.

Approved By:

City Manager



City Attorney

INTRODUCTION

Staff is preparing the 2009 Proposed Budget and updating financial indicators and projections as part of the process. This workshop will provide an opportunity for staff to share with the City Council the latest financial projections, along with a discussion on some of the major policy issues that will need to be discussed during the 2009 budget workshop reviews. The Council 2009 budget schedule is as follows:

Preliminary 2009 Budget Update	September 15
Transmittal of Proposed 2009 Budget	October 13
Department Budget Review	October 20
Public Hearing & Department Reviews	October 27
Public Hearing on Revenue Sources & 2009 Property Tax Levy	November 17
Adoption of 2009 Property Tax Levy	November 24
Adoption of 2009 Budget	November 24

BACKGROUND

Earlier this year staff provided Council with an update of the City's long-term financial projections. At that time, staff projected that the 2009 budget would be balanced with current resources, but that budget gaps were anticipated for 2010 and into the future. Council appointed a citizen's committee of 18 individuals to develop an advisory recommendation to the City Council on the long-term financing strategy to provide City services to the Shoreline community. This committee began meeting in March 2008 and will be providing an interim report to the City Council tonight, September 15, 2008.

The most recent update of the City's long-term projections are similar to those reviewed earlier this year. The table below compares the projections for 2010 through 2014 developed in March 2008 and the recent update.

Year	March 2008 Projected Budget Gap	September 2008 Projected Budget Gap
2009	\$0	Current Preliminary Budget Gap \$194,000
2010	\$1 Million	\$1.2 Million
2011	\$1.1 Million	\$1.35 Million
2012	\$2 Million	\$2.2 Million
2013	\$2.7 Million	\$2.9 Million
2014	\$3.5 Million	\$3.75 Million

Since March staff has continued to evaluate revenue and expenditure trends and updated the City's long-term financial model. Also departments have submitted their 2009 budget requests and 2009 revenue estimates. Some of the major changes that have occurred since the March projections include:

- **Gambling Tax:** Punch-card and pull-tab related gambling tax revenue has continued to decline. As a result revenue from this source has been decreased by an additional \$18,000 for 2009. Card room gambling tax has declined in 2008 more than had originally been anticipated. As was discussed with the City Council during

the second quarter financial update, it is anticipated that card room gambling tax collections will be \$225,000 below budget. As there is no additional information at this time to increase projections for 2009 beyond those anticipated in 2008, the 2009 preliminary budget assumes collections of \$1.9 million for 2009, \$225,000 below those in the March long-range update. Staff will continue to evaluate card room gambling tax throughout 2008 to determine if further adjustments should be made.

- **Sales Tax:** Currently 2008 sales tax collections are approximately 2.5% ahead of 2007 collections. It appears that most of the growth is in the retail sector. The first installment of streamlined sales tax will be received by the City in September. The changes in the economy have caused some concern whether sales tax collections will slow. At the same time, when reflecting on the sales tax growth during the recession of 2002-2003, the City's sales tax collections continued to grow, although at a very minimal rate. As a result, staff is currently projecting that sales tax collections in 2009 will grow approximately by 2.5% compared to 2008. In addition to this growth the Washington State Department of Revenue has projected that Shoreline will receive approximately \$119,000 in streamlined sales tax revenue in 2009. This combined with the 2.5% projected growth results in an additional \$300,000 of revenue compared to 2008 projected collections.
- **Utility Tax Adjustments:** Recently Puget Sound Energy (PSE) requested a rate increase in natural gas rates to be effective October 1, 2008. Although approval of this rate will not occur until later in September, it is likely that this increase will be approved. Council may recall that last year PSE adopted a 13% rate decrease that was effective October 1, 2007, as a result of lower natural gas costs. As such this rate increase is projected to put rates back to a level that existed prior to the 2007 reduction. This rate increase is projected to generate \$89,000 more utility tax revenues in 2009 compared to the 2008 budget

Utility taxes from garbage and cable are expected to increase in 2009. Primarily the growth from garbage reflects a full year of the cost increases implemented by the King County transfer station, which is a component of the City's garbage rates. Comcast has also requested a rate increase, which will result in an increase of cable utility tax of approximately \$28,000 above projected 2008 collections. Utility taxes from telephone (land lines and wireless) appears to have peaked, and as such staff is recommending that the 2009 utility tax from telephone remain the same as those collected in 2008, approximately \$1.8 million.

- **Public Employee Retirement System (PERS) Contribution Rates:** In the March forecast PERS employee and employer contribution rates were projected to continue to increase through 2011. The legislature recently approved rates that will peak in 2009 and then hold steady or decline slightly in future years. The following table shows the most recent projected rate changes:

PERS Employer Contribution	Effective 7-1-08	Effective 7-1-09	Effective 7-1-10	Effective 7-1-11	Effective 7-1-12
September 2008 Projected Rate	8.31%	8.00%	8.00%	7.51%	7.51%

As a result of these legislative changes, the City's PERS contribution will increase by approximately 18%, \$105,000, from 2008 to 2009. The increase from 2007 to 2008 was 30.3%. The bright spot is that the long-term rates (2010 through 2012) are approximately 1.5% less than those projected in the March forecast. Prior to 2005, rates had been as low as 1.8%.

- **Health Benefits:** Preliminary information from AWC shows that they anticipate medical premium rates to increase between 9% and 10% for 2009, while dental and vision increases will be less. As a result, we have estimated that the City's contribution towards health benefits will increase by approximately 8.3% in 2009 or approximately \$115,000 within the operating budget. The AWC Board will review health premium recommendations at the end of September and adopt final rates at that time.
- **Market Rate Adjustment:** The preliminary 2009 budget anticipates a salary market rate adjustment of 5.22%. This is based on 90% of the June Seattle-Tacoma CPI-W. This CPI figure was 5.8%. Historically the City has based its market adjustment on the median market adjustment awarded by the City's comparable jurisdictions, as outlined in the City's compensation policy. This median has been very close to 90% of the Seattle-Tacoma CPI-W. Overall the City's salaries and wages budget, for regular staff, are anticipated to increase by 6.3% from 2008 to 2009.

2008 has seen inflation rise to higher levels than have been experienced in previous years. Although this is the case, economists are still projecting that inflation rates will decline in 2009 and be closer to 3%.

- **Salary Survey:** The City's compensation policy includes a routine salary survey of classifications every three years to ensure that the City's salaries are at the median of the City's comparable cities. During 2008 staff is completing a salary survey on classifications 54 through 73. Any changes recommended as a result of this review will be included in the proposed 2009 budget.
- **Lease Costs and City Hall:** The 2009 budget allocates \$300,000 in lease savings, since the City now owns the Annex, towards the funds for the City Hall/Civic Center project. The 2009 budget includes the City's lease obligations for the current City Hall based on the agreement with the landlord. It is anticipated that the City will not have a debt service payment on the new City Hall until 2010, as usually the first debt service payment is not due until six months after the long-term financing has been issued. Currently the City is anticipating issuing the long-term financing for City Hall by August 2009.

The 2009 preliminary budget contains anticipated operating costs related to the new City Hall, such as utilities, janitorial, system maintenance, etc., for 4 months. Basically this represents the time period of September through December.

The 2009 budget will most likely contain some one-time monies for moving from the Annex and City Hall to the new City Hall.

- **Jail Activity:** 2008 jail activity is projected to be slightly lower than 2007 activity. The following chart summarizes the actual jail activity for 2005 through 2007, along with projections for 2008.

Jail Overview								
Facility	2005		2006		2007		2008 Estimate	
	Jail Usage	Cost	Jail Usage	Cost	Jail Usage	Cost	Jail Usage	Cost
King County Bookings	673	\$ 118,583	790	\$ 134,270	719	\$ 141,808	602	\$ 125,854
King County Jail Days	3,909	\$ 360,723	4,543	\$ 430,543	4,251	\$ 438,576	3,816	\$ 417,318
Yakima Jail Days + Medcal	7,262	\$ 468,276	8,487	\$ 576,222	5,042	\$ 408,402	5,527	\$ 424,801
Issaquah/Renton	387	\$ 25,948	1,233	\$ 81,391	817	\$ 60,760	752	\$ 62,488
Total	12,231	\$ 973,530	15,053	\$ 1,222,426	10,829	\$ 1,049,546	10,697	\$ 1,030,462

As the City Council is aware, jail usage had a significant increase beginning in August 2005. The City continues to maximize its contract with Yakima County and is working with the Jail Advisory Group to monitor the activities at the Yakima jail. Staff continues to evaluate the ability to process prisoners through the Issaquah/Renton jails in order to meet the savings goal used to justify the additional Street Crime Officer added in 2007.

King County has asked to renegotiate jail rates starting in 2009, but at this time staff has used the existing contract to base projected 2009 costs. If jail rates were to increase beyond those in the current contract, then the current \$1.3 million projected for 2009 would increase.

As was stated earlier in this report, the King County Prosecutor is raising the threshold for felony property crimes. This means that there will be some shift of cases that were previously charged as felonies to now be misdemeanor crimes. The City is responsible for misdemeanor crimes. The City's Prosecuting Attorney has projected that this could result in a 700 day increase in City jail days. This cost is estimated at \$72,000 and is included in the 2009 preliminary budget.

- **Police Contract:** The 2009 police contract with King County is expected to increase by 8%, \$858,000, as compared to the 2008 budget. This is higher than in past years. This is primarily related to anticipated increases in salaries and wages. King County is in the midst of settling a contract with the union that represents the County's deputies. The contract expired on December 31, 2007. As a result the new contract is expected to raise salaries higher than originally anticipated for 2008, with wages increasing higher than originally projected for 2009 and 2010. As a result staff has raised the projected cost increase in 2010 to 6.5%.
- **Human Service Funding:** Currently the 2009 budget includes the first year of allocation of the 2009-2010 Human Services Funding Plan approved by the City Council. The Senior Center has requested an additional \$18,000 in funding for 2009 and 2010, although these funds were not included in the adopted 2009-2010 Human Service Funding Plan. The 2009 budget also includes \$25,000 in funding for utility assistance as authorized by Council during the approval of the Seattle City Light contract payment on electric distribution revenues.

- **Street Lights:** The 2009 projected budget includes \$285,000 for street light charges. The City has been working with Seattle City Light to identify street lights that the City has assumed responsibility for payment. In 2008 Seattle City Light completed its inventory of street lights and transferring all of the appropriate lights to the City.
- **YMCA Contribution:** The 2009 projected budget includes \$40,000 as per the Council's decision in 2007 to contract with the YMCA for \$80,000 for future services. It is anticipated that the City will receive \$10,000 in services in 2008, with the remaining \$70,000 spread between 2009 and 2010.

DISCUSSION

Some of the primary factors affecting the 2008 proposed budget and the 2008-2013 long-range forecasts include:

GENERAL FUND

Revenues

General Fund operating revenues, excluding interfund operating transfers and the use of fund balance for one-time expenditures, are projected to increase by approximately 3.9% from the 2008 current budget to 2009. This is approximately a \$1.15 million increase.

A description of the most significant revenue trends for 2009 are discussed below.

Property Tax Revenues: Property tax revenues are projected to grow by 2% in 2009. Approximately 1% of this growth is a result of projected new construction within the City, which results in increased valuation. A 1% increase in levy accounts for the remaining increase in property tax for 2009. The 2% increase in property tax revenue equates to approximately \$170,000. The projected 2009 property tax levy rate is \$0.98, down approximately 4% from the 2008 levy rate of \$1.02.

Sales Tax Revenues: The current projection for 2008 is for sales tax to grow by 2.5% over the 2007 levels, or \$165,000, for a total of \$6.79 million. At the current time we are projecting a 4.4% increase from 2008 to 2009 for total sales tax collections of \$7 million. Staff is continuing to monitor sales tax collections in 2008 before finalizing the 2009 projections. The increase in sales tax represents growth from local retail sales and sales tax anticipated to be received as a result of the streamlined sales tax implementation.

The City also receives criminal justice sales tax, which is collected county-wide and then distributed on a per capita basis. These revenues are projected to increase by 3.1% over 2008 collections.

Utility Contract Payments, Utility Taxes & Franchise Fees: Overall utility tax, franchise fees, and interlocal utility contract agreement revenues are projected to increase by 7.8%, \$555,000, when compared to anticipated 2008 collections. The primary reason for this increase is:

- The Seattle City Light contract payment will increase from 4.5% of revenues to 6% of revenues effective January 1, 2009. This increase is projected to generate approximately \$367,000 in additional revenue or 66% of the total increase in projected revenues in this category. .

State Shared Revenues: Liquor Board Profits and Liquor Excise taxes are two sources of revenue collected by the State of Washington and then distributed to cities on a per capita basis. It appears that these revenue sources will increase by \$35,000 from 2008 to 2009.

Recreation Revenues: Participation in the City's recreation programs has continued to increase in 2008. Actual revenues in 2008 are projected to exceed those budgeted by \$87,000, or 6.8%. The increased revenues are primarily a result of higher participation at the City's pool, in the summer day camps, and additional field rental fees. Revenues in our recreation programs are expected to be 11.4% greater in 2009 than compared to the 2008 budget. This equates to approximately \$146,000. This is approximately \$59,000 higher than projected 2008 revenues. This revenue projection includes recommended increases in fees for summer programs and other recreation programming along with anticipated revenue increases related to field rentals as a result of the turf improvements made at Twin Ponds. Any revenues received in excess of the rental revenue base that existed prior to the field improvements will be allocated to the General Capital Projects Fund to help restore some of the City's contribution towards these improvements.

Development Revenues: It is anticipated that activity levels will remain fairly constant between the 2008 and 2009.

Investment Interest: Investment interest rates have been declining since August 2007. Currently the City is able to get a rate of return close to 3.5% on a new two year investment. In 2002-2003 the rate had fallen to close to 1%, while prior to the current decline the City could get in excess of 5%. As a result we are projecting that investment interest revenue will decrease by 11% to \$350,000 in 2009. If interest rate trends change, staff will need to reevaluate the projected investment interest.

Expenditures

Overall expenditures, excluding one-time interfund operating transfers that were budgeted in 2008 and carry-overs, are projected to increase by approximately 7.2% in 2009 as compared to the adopted 2008 budget.

A discussion of the most significant expenditure trends follows.

Personnel: Personnel expenditures represent approximately 34% of the City's operating budget. Excluding any new personnel positions, personnel costs are projected to increase by approximately 7.2%, \$824,000. This is primarily based on anticipated step increases for employees who are not at the top of their salary range, an anticipated market rate adjustment of up to 5.22%, a projected 8.3% increase in the City's health benefit costs, and a 19% increase in the employer PERS contribution. The City's long-term financial forecast projects personnel costs to increase by approximately

5% annually, as future PERS rate increases are not going to be as large as those that occurred in 2006 through 2009 and economists project that inflation will remain under control and be closer to 3% for the next few years.

Overall salaries for regular and extra-help employees are expected to increase by \$558,000, or approximately 6.4%. \$55,000 of this increase is related to an increase in extra-help budget related to recreation programs. The remaining \$266,000 (\$824,000 less \$558,000) in increased personnel costs are primarily related to the benefit changes. The largest increases are in the PERS contribution (\$105,000), social security replacement (\$34,000) and health benefits (\$115,000).

Police Contract: The 2009 police contract with King County is expected to increase by 8.2%, \$858,000, as compared to the 2008 budget. This is higher than in past years. This is primarily related to anticipated increases in salaries and wages. King County is in the midst of settling a contract with the union that represents the County's deputies. The contract expired on December 31, 2007. As a result the new contract is expected to raise salaries higher than originally anticipated for 2008, with wages increasing higher than originally projected for 2009 and 2010. As a result staff has raised the projected cost increase in 2010 to 6.5%.

Jail: We are currently anticipating that the 2009 budget to be \$1.3 million, equal to the 2008 budget. The 2008 actual expenditures are projected to be \$1.1 million. The 2009 projection includes approximately \$72,000 in costs related to the King County Prosecutor raising the threshold for felony property losses. The City's prosecutor has estimated that this change will increase the City's annual jail days by approximately 700 days.

New Maintenance Costs: As capital projects are completed the City must absorb any related on-going maintenance costs. In 2009 this includes the maintenance costs related to the improvements completed on Aurora 145th through 165th project and park improvements completed as part of the bond projects. The City anticipates these costs in its long-term financial projections. The preliminary cost estimate for the maintenance related to these projects is still being evaluated.

Capital Funding: The City will allocate approximately \$830,000 of general fund revenues in 2009 to the capital project funds. This funding is primarily for long-term facility repair/replacement and road surface management. This allocation is included in the City's long-term projections and the preliminary 2009 budget. In addition to this \$130,000 of field rental revenue is being transferred to provide funding for future turf replacement.

Future Needs

Evaluating future financing options will be key in determining any future service enhancements the City may consider. Given our long-term financial projections the 2009 budget instructions to departments were that any service enhancement requests had to be funded by new on-going revenues, reductions in existing programs that are a lower priority or reductions that can be made as a result of efficiencies. Although this was the case, some needs were identified that would require either new one-time or on-going resources. Some of the departmental requests that have been identified include:

- *Financial Software Upgrade:* The vendor which provides the City's financial software (IFAS) is doing a major upgrade in the software's base operating system. The current software version will only be maintained through 2009. As a result the City must update software versions. In 2008 the City completed the first phase of the upgrade with an approximate cost of \$101,000. The second phase to be completed in 2009 is projected to cost \$62,000.
- *Human Services and Youth Services Plan:* The City Council adopted a major Council goal to update the City's plans in these areas. The cost to develop these plans is estimated at \$65,000.
- *Development of a Design Review Process and Design Standards for Commercial Areas:* Staff has estimated that the cost to complete this process would be \$25,000.
- *Senior Center Support:* The Senior Center has requested an additional \$18,000 annual support for 2009 and 2010.
- *Traffic Signal Analyst:* This position would have the responsibility to coordinate the City's signal synchronization efforts. The expected cost for this position would be \$104,500 for on-going costs and \$64,300 in one-time costs for required equipment.
- *Vehicle Needs:* The Street and Traffic Services division have each requested new trucks to meet some of their operating needs.
- *Increase in City's Scholarship Funding for Recreation Programs:* The Parks Department has requested to increase their scholarship funds from \$35,000 to \$45,000.
- *Public Arts Coordination:* Currently services related to art coordination is being funded through the 1% for arts allocation. Enhanced services could be provided if some general funds were provided to help fund these needs.

As the City Manager finalizes his recommended 2009 budget it will be determined which, if any, of the requests should be included in the proposed 2009 budget.

2009 AND BEYOND

Staff will be finalizing the proposed 2009 budget during the next month and the City Manager will present a balanced budget to the Council in October. In making budget recommendations we continue to monitor our long-term forecasts.

Staff will continue to monitor the long-term projections as the 2009 budget is finalized. Staff anticipates providing additional updates on the long-term projections during the September 15, 2008, Council presentation.

SUMMARY

As Council has continued to monitor future financial projections, it has followed conservative financial planning. This has allowed the City to carefully plan service enhancements, and maintain a stable financial position through good and bad economic cycles. The purpose of the long-term projections is to provide information so that staff and the City Council can make resource allocation decisions that provide sustainable public services to the Shoreline community. As the Council continues to plan for 2009 and beyond, it will be a necessary to monitor financial trends and follow a plan that will allow for the long-term provision of public services.

RECOMMENDATION

No action is required by the City Council. This item is for informational purposes and to provide the City Council with preliminary 2009 budget information.

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