

CITY COUNCIL AGENDA ITEM

CITY OF SHORELINE, WASHINGTON

AGENDA TITLE: 2009 Budget Updated
DEPARTMENT: Finance
PRESENTED BY: Debbie Tarry, Finance Director

ISSUE STATEMENT:

Operating Budget

On February 23, 2009, the City Council was briefed during the City Manager's update that staff was recommending a \$1.7 million reduction in projected 2009 operating revenues as a result of the impacts of the current economic recession. The revenue reductions include sales tax (both local and criminal justice), permit/land use fees, and gambling tax. The following chart compares the adopted 2009 budget for these items and the revised projections:

Operating Budget	2009 Budget	2009 Estimate	Difference	% Change
Revenues:				
Property Tax	7,406,509	7,406,509	-	0.00%
Sales Tax - Local	7,090,452	6,196,236	(894,216)	-12.61%
Sales Tax - Criminal Justice	1,361,750	1,109,432	(252,318)	-18.53%
Gambling Tax	1,900,000	1,800,000	(100,000)	-5.26%
Utility Tax, Franchise Fees, Contract Payment	7,686,602	7,686,602	-	0.00%
Permit/Plan Checks/Land Use Fees	1,628,332	1,173,907	(454,425)	-27.91%
Recreation Fees	1,323,935	1,323,935	-	0.00%
Investment Interest	390,000	390,000	-	0.00%
All Other	2,912,316	2,912,316	-	0.00%
Sub-Total	31,699,896	29,998,937	(1,700,959)	-5.37%
Use of Fund Balance	148,750	148,750	-	0.00%
Total Resources	31,848,646	30,147,687	(1,700,959)	-5.34%

The 2009 budget included \$376,000 in contingency that could be used to off-set a reduction in revenue estimates. The contingency funds represented a \$250,000 reduction in the projected 2009 police contract costs as a result of reductions made by King County and \$126,000 in one-time items that will be funded through 2008 savings. In addition to this contingency, staff is recommending that the 2009 budgeted expenditures be reduced by \$730,000 and that \$594,959 be transferred from the Revenue Stabilization Fund to close the projected 2009 budget gap. The following table summarizes this recommendation:

Use of 2009 Budgeted Contingency	\$376,000
Reduction to 2009 Budgeted Expenditures	\$730,000
Use of Revenue Stabilization Fund	594,959
Total Adjustments	<u>\$1,700,959</u>

Capital Budget

Revenue projections for the Roads Capital fund have been reduced by \$1.5 million for years 2008 through 2010. This is primarily a result in the decline in real estate excise tax (REET), fuel tax, gambling tax, and investment interest. The Council has received requests from casino operators to consider an 18 month reduction in the gambling tax rate from 10% to 7% during the Aurora construction from 165th to 192nd. Staff has estimated that this would reduce projected revenue for roads capital projects by another \$810,000 bringing the total reduction in revenue to \$2.3 million. The reduction in revenue will require that staff analyze the projects scheduled for 2009 to determine if the projects and/or project schedules should be modified. Changes to the capital improvement plan (CIP), if required, will be reviewed during the CIP process and presented to Council in June as part of the 2010 to 2015 CIP update.

FINANCIAL IMPACT:

The 2009 budgeted operating revenues total \$31.7 million. The projected \$1.7 million reduction in revenues represents 5.4% of the budgeted revenues and reduces the 2009 projected resources to \$30.15 million. In order to keep the 2009 operating budget in balance budget adjustments must be made to off-set the \$1.7 million drop in projected revenue.

The current balance of the Revenue Stabilization Fund is \$6.1 million. The recommended use of \$594,959 leaves the balance at \$5.53 million or approximately 27% of economically sensitive revenues. The City's adopted financial policies require that the City Council authorize the use of any funds from the Revenue Stabilization Fund and that the funds must be repaid in future budgets as the economy recovers from the current recession.

RECOMMENDATION

Staff recommends that the City Council concur with staff's budget adjustment recommendations and request that staff prepare a budget amendment to implement these adjustments for the April 13, 2009 City Council meeting. If the City Council does not concur with staff's recommendations then the City Council should provide further direction to staff on the adjustments they believe should be made to balance the 2009 operating budget.

Approved By:

City Manager

City Attorney

BACKGROUND

On November 24, 2008, the City Council approved the 2009 budget. The 2009 operating budget was balanced with revenues equaling planned expenditures. Since that time the economic recession has worsened and early revenue trends indicate that 2009 revenues will be less than originally estimated by \$1.7 million. The 2009 budget included \$250,000 of budgeted contingency as a result of the 2009 police contract being less than originally estimated. In addition to this, the 2009 budget included \$126,000 in one-time expenditures to come from 2009 revenues. As a result of the City ending 2008 approximately \$400,000 better than originally projected, a portion of these savings can be used to fund the \$126,000 in one-time expenditures. These one-time expenditures included anticipated costs associated with moving into City Hall (\$96,000) and the purchase of a vehicle for the Construction Inspection Supervisor (\$30,000).

The 2009 operating expenditures can be reduced by the \$250,000 contingency and the \$126,000 in one-time expenditures. Offsetting the \$1,700,959 in reduced revenues by the \$376,000 nets \$1,324,959 in reductions that must be made in order to maintain a balanced 2009 budget.

The City's adopted reserve policies include a Revenue Stabilization Fund. The purpose of the fund is to provide a reserve that can be used to help offset revenue declines during cyclical economic downturns. It is not intended to fund budget gaps that may develop as a result of on-going structural budget issues, such as the budget gaps that City is anticipating to begin in 2010. The target balance of the Revenue Stabilization Fund is 30% of "economically sensitive" revenues. The City considers the following revenues as economically sensitive as they may decline in times of economic downturns and may increase during periods of economic expansion: sales tax, permit/development revenues, some recreation fees, state-shared revenues such as liquor excise taxes and liquor profits, utility taxes, franchise fees (except sewer), investment earnings, and the contract payment from Seattle City Light. The City Council must authorize the use of any of the reserve and following the end of the recession the City's budget should include a plan to rebuild the reserve to 30% of economically sensitive revenues.

DISCUSSION

Revenue Forecast Changes

Staff is recommending a \$1.7 million decrease in projected 2009 revenues. In November 2008 staff observed some downward trends in sales tax, permitting/development fees, and gambling tax collections. Although we have only received one month of sales tax revenues and two months of criminal justice sales taxes in 2009, they indicate a downward trend in collections compared to the level of revenue collected in 2008. Permitting and development revenue collections also continue to be under original projections and below 2008 collections for the same period of time. The following is a more detailed discussion of each of the revenue areas:

Sales Tax: Staff is recommending a 12.6%, \$894,000, reduction in the 2009 projected local sales tax revenues from \$7.09 million to \$6.2. The revised 2009 projection of \$6,196,236 is 6.7% below 2008 sales tax collections. The reduction of sales tax

revenue can be tied to three specific areas – construction, automobiles, and general retail sales. The most significant reduction is tied to the slow down of expected construction projects within the City. In 2008 the City collected slightly more than \$1.1 million in retail sales tax from construction activity. Collections tied to construction activity have grown substantially over the last few years. Often collections in sales tax from construction activity exceeded projections resulting in one-time revenue collections. Even though staff has been conservative in its sales tax collections, the drop in construction related sales tax is expected to be more severe than originally anticipated. Staff is anticipating that construction related sales tax will reflect more closely with levels collected in 2004 or earlier. As a result staff is recommending a \$500,000 decrease in projected sales tax from construction related activity in 2009, a 43% drop compared to 2008 collections.

The remaining \$394,000 reduction in projected sales tax revenues can be linked to a slowing of taxable retail activity with the automobile related activity having the biggest decline. In 2008 taxable retail sales activity fell by 2.8% compared to 2007. The adjustment to the 2009 projections would indicate that 2009 taxable retail sales would fall by 10% compared to 2008 activity.

In 2008 the City collected \$830,666 in retail sales from the automobile industry and this represented 21% of the taxable retail sales activity. Even though overall the City saw growth in sales tax from the automobile industry in 2008, it was only one auto dealer that had a substantial increase. Other major automobile dealers saw retail sales activity fall by 11.3% in 2008. Based on forecasts for the Puget Sound Region and the nation in general, staff is anticipating that automobile related activity will continue to decline in 2008.

In February 2009 the City received sales tax from December 2008 retail sales. The monthly revenue collection was \$630,850. This was a 8.2% decline from sales tax revenues received for the same period in 2008. December of 2008 was a tough month for local retailers not only because of the economy, but also we had several inches of snow for an extended period of time that limited many people from their normal shopping patterns. Even though collections of a single month may not reflect an overall trend for an entire year, given the trends within the Puget Sound Region and the State of Washington, staff believes that the downward trend of the December 2008 retail activity is indicative of reduced retail activity for 2009.

Staff will continue to monitor sales tax revenue throughout the year to see if the current projections should be revised upward or downward. The next monthly distribution of sales tax revenue should be received around March 25, 2009. These taxes will be from January 2009 retail activity.

Criminal Justice Sales Tax: Criminal Justice sales tax differs from the previous category because the City's collections are based on sales taxes collected on a county-wide basis and then distributed back to cities based on a sharing formula with King County and population. Trends of sales tax in this category reflect changes in taxable retail sales on a county-wide basis. As such the City has seen more variation in collections during the ups and downs of economic cycles from this revenue source. In fact during the last recessionary cycle of 2001 through 2003 the City saw sales tax

collections for Criminal Justice declined by 10% while local sales taxes grew by a very modest 0.6% during the same period.

The City has received two months of Criminal Justice sales tax in 2009 totaling \$202,135, which is a 16.1% decline from revenues collected in 2008 for the same period. The *Economic Forecaster* has projected a 5.1% decline in taxable retail activity for King County in 2009. Applying this forecast to county-wide sales tax collections from 2008, results in a 2009 revenue projection of \$1,109,432 for Shoreline – approximately 12.3% below 2008 collections. This is a slightly smaller decline than we have seen with the first two months of collections in 2009, but given the economic uncertainty, staff believes that the current projection of \$1.1 million is prudent. As additional months of collections are received staff will monitor to determine if projections should be reduced further. This level of collection reflects the same level of revenue collection the City had in 2005.

Permit/Development Revenue: In 2008 permit and other development related revenues totaled \$1,106,770, approximately 21.5% or \$302,680 below those projected for 2008. Activity levels in October 2008 fell significantly compared to prior year activity. This trend has continued to date. As such staff has reduced the 2009 forecast from \$1.6 million to \$1.17 million, a \$454,425 reduction. The \$1.17 million in projected revenue includes building permits, land use fees, plan check fees, right-of-way permits, and other miscellaneous permits. This level of revenue is dependent on one or two larger projects obtaining permits in 2009. Two projects that will be ready to have permits issued in the near future include Arabella II and the Market Square development at the China Clipper site. If neither of these projects obtain permits in 2009 or another large project does not obtain permits, then it is likely that the current projection may need to be further reduced. Staff is analyzing activity monthly and will closely monitor activity levels.

Gambling Tax: Card room gambling tax revenue projections are being reduced from \$1.9 million to \$1.8 million. This level of activity reflects the same level of activity that casinos had in 2008. The 2009 first quarter of activity from card rooms will not be received until April 30, 2009. The projected level of gambling tax revenue assumes that the gambling tax rate remains at 10% throughout 2009. Any reduction in the gambling tax rate would result in a reduction in the projected revenue.

Overall Revenue Projections: The change in revenue projections is being made with a very small amount of 2009 revenue being collected. Given the challenges of the current economic climate it will be key that staff continue to monitor revenue activity for 2009. Staff monitors revenue collections on a monthly basis and prepares formal reports to the City Council on a quarterly basis. Staff will continue this practice, but will bring to Council's attention any significant changes in 2009 revenue collections as these changes are identified.

Use of Revenue Stabilization Fund

Staff is recommending that the City Council authorize staff to use \$594,595 from the Revenue Stabilization Fund. This fund is to be used to cover revenue reductions that may occur during economic downturns. The \$594,595 represents approximately 37% of the \$1.6 million reduction in sales taxes and development revenue for 2009. The

portion of the fund from sales tax, permit and development revenues is \$2.9 million approximately 48% of the overall fund.

The current balance of the reserve is \$6.1 million. The use of \$578,368 represents 9.5% of the current fund balance. Any further declines in revenue may necessitate the use of additional amounts of the reserve.

Expenditure Reductions

Staff is recommending that the 2009 operating budget be reduced by \$730,000. The recommended reductions can be categorized into the following areas:

Reduction to expenditures that were revenue backed (\$75,400): The Planning & Development Services department budget included \$75,400 related to professional services and temporary help for additional plan review and plumbing inspection services during high activity periods. These expenditures were backed by revenue that has now been eliminated.

Change in allocation of staff from the operating budget to the capital budget (\$237,674): Budgets for capital projects include a combination of in-house staff and contracted services. Given the slow down in current permit activity, staff has identified a number of personnel positions budgeted in the General Fund that have skill sets to complete work on capital projects instead of contracting for the service. These include:

Position	Proposed FTE Allocation to Capital in 2009	Dollar Amount
Building Inspector	0.4 FTE	\$40,000
Right-of-Way Inspectors	0.8 FTE	\$65,880
Associate Planner	0.25 FTE	\$19,242
Technical Assistant	0.58 FTE	\$41,000
Total		\$166,122

In addition to this the Parks Project Coordinator is budgeted within the General Fund, but is currently devoting most of her time to the park bond projects. As such we will charge 80% of her time to the parks bond projects in 2009 resulting in a savings of \$71,552 in the General Fund.

Reduction in budgeted extra-help (\$73,000): Extra-help dollars are budgeted to fund temporary, seasonal, or non-benefited employee support.

- ♦ *Administrative Extra-Help (\$30,000):* Finance, City Clerk, Customer Response Team, Public Works, and the City Manager's Office combined have \$30,000 in budgeted administrative extra-help for 2009. These budget amounts will be eliminated. Currently there is a 0.5 FTE Administrative Assistant in the Planning and Development Services department. This person will be reassigned to Finance, but will "float" between the previously listed departments to fill some of the gaps created by the elimination of extra-help.
- ♦ *Operational Extra-Help (\$43,000):* The budgets for extra-help in parks maintenance, aquatics, planning, environmental services, and traffic services will

be reduced by a total of \$43,000. In most cases the remaining budget will support the same level of extra-help used in 2008.

Other Items (\$343,926):

- ◆ 20% Reduction in Travel & Training in the General and City Street Funds (\$60,548)
- ◆ Reduction in police overtime (\$11,000)
- ◆ Not fund the General Fund contribution to the Major Facility Maintenance Fund and the Parks Repair & Replacement Fund for 2009 (\$80,000). This would be a one-time reduction as over the long-term we will need to restore the funding for these items or find one-time dollars to address major maintenance items (i.e., HVAC upgrades, roof replacement, backstop replacements, etc.) as needed.
- ◆ Reduce environmental mini-grant funding (\$15,000). We will utilize the \$20,000 budgeted for neighborhood mini-grants and the \$20,000 budgeted in the Surface Water Utility fund to meet grant request needs for 2009.
- ◆ Reduce funding of equipment replacement by 1/3 for 2009 (\$51,143). This would extend the future replacement of equipment by four months. This is a relatively short extension and do not anticipate that it would result in significant maintenance issues for equipment over the long-term.
- ◆ Reduction in real estate advisory service contracts for Economic Development (\$10,000).
- ◆ Miscellaneous reductions (\$116,235). This includes line-item reductions from all departments in areas such as professional services, supplies, advertising, repair and maintenance. Some specific examples include:
 - City Attorney's Office – Reduce professional service budget for outside Counsel from \$60,000 to \$40,000. If an unanticipated need for outside Counsel arises then additional budget dollars could be required.
 - The City Manager has implemented a modified hiring freeze. Assuming that there will be fewer personnel recruitments in 2009 than in 2008, allows us to reduce the advertising budget in Human Resources by \$10,000.
 - Reduction in software licensing costs of \$8,000.
 - Reduce funding for contractual services with King County for the City's geographical interface system (GIS) by \$8,000.
 - Actual auto and property insurance assessments for 2009 were \$7,000 lower than originally anticipated so the budget for these will be reduced to reflect the actual cost.
 - Reduction for repair and maintenance of the City's copiers - \$6,000
 - Reduction of \$20,000 for on-call plumbing, electrical and athletic field lighting based on current expenditure trends.
 - Reduction in on-call services for code enforcement - \$4,000
 - Reduction in facilitator services for Public Works - \$5,000
 - Reduction in supplies for facilities - \$5,000
 - Reduction in anticipated costs of electricity for traffic signals - \$10,000
 - Reduction in anticipated contractual services for geo-tech engineering of soils - \$3,500
 - Reduction in program and office supplies - \$5,500
 - Reduction in postage - \$5,000

Remainder of 2009

It is still very early in 2009, as we have not even ended the first quarter. There is also a great amount of economic uncertainty, not only in the Puget Sound Region, but at the state and federal levels. As such, we may see changes to our current forecast. Staff is monitoring revenue activity monthly and will continue to provide updates to the City Council as changes are necessary. If revenues require further downward adjustments in 2009 then staff will bring additional recommendations to the City Council to keep the 2009 budget in balance.

SUMMARY

The economic recession is having an impact on the City's projected revenue collections for 2009. Staff is recommending a \$1.7 million (5.4%) decrease in the projected 2009 revenues. To compensate for the decline in projected revenues staff is recommending that 2009 budgeted expenditures be reduced by \$730,000, eliminate \$376,000 of budgeted contingency in the 2009 budget, and use \$594,959 of the Revenue Stabilization Fund. The following table summarizes the reduction in revenue and the recommended adjustments to cover the reduced revenues:

Revenue Reductions:

Sales Tax - Local	\$ 894,216
Sales Tax - Criminal Justice	252,318
Gambling Tax	100,000
Development Revenue	454,425
Total Revenue Reductions	\$ 1,700,959

Budget Adjustments:

Eliminate 2009 Budgeted Contingency	\$ 376,000
Reduction to 2009 Budgeted Expenditures	730,000
Use of Revenue Stabilization Fund	594,959
Total Budget Adjustments	\$ 1,700,959

RECOMMENDATION

Staff recommends that the City Council concur with the budget adjustment recommendations and request that staff prepare a budget amendment to implement these adjustments for the April 13, 2009 City Council meeting. If the City Council does not concur with staff's recommendations then the City Council should provide further direction to staff on the adjustments they believe should be made to balance the 2009 operating budget.