

CITY COUNCIL AGENDA ITEM

CITY OF SHORELINE, WASHINGTON

AGENDA TITLE: Adoption of Ordinance No. 538, Amending the 2009 Budget
DEPARTMENT: Finance
PRESENTED BY: Debbie Tarry, Finance Director

ISSUE STATEMENT:

On March 23, 2009, the City Council was briefed 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	269,750	121,000	81.34%
Total Resources	31,848,646	30,268,687	(1,579,959)	-4.96%

The 2009 budget included \$371,000 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 \$121,000 in one-time items that will funded through 2008 savings. In addition to this contingency, staff is recommending that the 2009 budgeted expenditures be reduced by \$735,000 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 2008 Savings for one-time items	<u>\$ 121,000</u>
Other Adjustments:	
Reduction of 2009 Budgeted Contingency	250,000
Reduction to 2009 Budgeted Expenditures	735,000
Use of Revenue Stabilization Fund	<u>594,959</u>
Total	<u>\$1,579,959</u>

The City Council reviewed staff's recommended expenditure reductions on March 23, 2009. Staff's original recommendation included a \$15,000 reduction in the environmental mini-grant program. The City Council requested that staff consider alternatives to this reduction.

Since that time the bill for voter registrations from King County has been received and it was \$2,000 less than budgeted. Also the final costs for the Construction Supervisor vehicle was \$5,000 less than budgeted, an additional \$3,000 reduction was made in budgeted extra-help and \$5,000 was reduced from city-wide supplies. As a result, the environmental mini-grant program remains fully funded for 2009.

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 Council approve Ordinance No. 538, amending the 2009 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 \$126,000 in one-time expenditures specifically for the purchase of a vehicle for the Construction Inspection Supervisor (\$30,000) and moving costs for City Hall (\$96,000). The vehicle costs came in under budget by \$5,000, so this will allow the budget to be reduced by \$5,000. 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 \$121,000 in one-time expenditures. This will be reflected as an increase in 2009 budgeted resources (budgeted use of fund balance) of \$121,000.

The 2009 budget included \$250,000 of budgeted contingency as a result of the 2009 police contract being less than originally estimated. The \$250,000 contingency can be reduced to \$0. In addition to the elimination of the police contract contingency staff is recommending that operating expenditures be reduced by an additional \$735,000, for total expenditures reductions of \$985,000.

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. Staff is recommending that the City Council authorize using \$594,959 of the reserve to fill the remaining 2009 budget gap created by the \$1.7 million of reduced revenues.

DISCUSSION

Revenue Forecast Changes

Staff is recommending a \$1.7 million decrease in projected 2009 revenues. Although we have only received two months of sales tax revenues and three 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. More detailed information regarding the reduction in revenues was included in the staff report of March 23, 2009.

The following table reflects the recommended revenue changes:

Operating Budget	2009 Budget	2009 Estimate	Difference
Sales Tax - Local	7,090,452	6,196,236	(894,216)
Sales Tax - Criminal Justice	1,361,750	1,109,432	(252,318)
Gambling Tax	1,900,000	1,800,000	(100,000)
Permit/Plan Checks/Land Use Fees	1,628,332	1,173,907	(454,425)
Total	11,980,534	10,279,575	(1,700,959)

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 \$985,000. The recommended reductions can be categorized into the following areas:

Elimination of the police contract contingency (\$250,000): The 2009 budget included \$250,000 of budgeted contingency as a result of the 2009 police contract being less than originally estimated.

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 (\$237,391): 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	\$39,330
Right-of-Way Inspectors	0.8 FTE	\$65,754
Associate Planner	0.25 FTE	\$20,336
Technical Assistant	0.58 FTE	\$40,540
Total		\$165,960

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 \$71,431 in the General Fund.

Reduction in budgeted extra-help (\$76,000): Extra-help dollars are budgeted to fund temporary, seasonal, or non-benefited employee support.

- ◆ *Administrative Extra-Help (\$33,000):* 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 (\$346,209):

- ◆ 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 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 (\$131,235). 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 \$42,900. 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.
 - Reduction in voter registration costs of \$2,000 based on actual charges from King County.

- Reduction in the vehicle cost for the Construction Inspections Supervisor of \$5,000.
- 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 - \$10,500
- Reduction in postage - \$5,000

Budget Amendment Ordinance

Ordinance No. 538 reflects the previous listed expenditure reductions. Since the City's budget is adopted at the "fund" level the attached ordinance reflects the expenditure changes in each of the affected funds. The reductions in the General and City Street funds reflect the \$895,000 in expenditure reductions. The increase of expenditures in the Revenue Stabilization Fund reflects the \$594,959 transfer from that fund to the General Fund.

Fund	2009 Current Budget (A)	2009 Budget Amendment (B)	Amended 2009 Budget (C) (A -B)
General Fund	\$ 32,632,820	\$ (874,535)	\$ 31,758,285
Street Fund	\$ 2,692,629	\$ (110,465)	\$ 2,582,164
Revenue Stabilization Fund	\$ -	\$ 594,959	\$ 594,959
All Other Funds not requesting amendments	\$ 86,808,147	\$ -	\$ 86,808,147
Total	\$ 122,133,596	\$ (390,041)	\$ 121,743,555

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 \$985,000 which includes eliminating \$250,000 of budgeted contingency and \$735,000 of line-item budget reductions. Staff is also recommending the use of \$121,000 of beginning fund balance to cover the cost of a vehicle for the Construction Inspection Supervisor and the anticipated costs of moving into the new City Hall. The remaining gap will be filled with the transfer of \$594,959 from the Revenue Stabilization Fund. The following table summarizes the changes in revenue and the recommended adjustments to cover the reduced revenues:

Revenue Changes:

Sales Tax - Local	\$ (894,216)
Sales Tax - Criminal Justice	(252,318)
Gambling Tax	(100,000)
Development Revenue	(454,425)
Use of Beginning Fund Balance	<u>121,000</u>
Total Revenue Changes	<u>\$ (1,579,959)</u>

Budget Adjustments:

Eliminate 2009 Budgeted Contingency	\$ 250,000
Reduction to 2009 Budgeted Expenditures	735,000
Use of Revenue Stabilization Fund	<u>594,959</u>
Total Budget Adjustments	<u>\$ 1,579,959</u>

RECOMMENDATION

Staff recommends that Council approve Ordinance No. 538, amending the 2009 budget.

ORDINANCE NO. 538

AN ORDINANCE OF THE CITY OF SHORELINE, WASHINGTON, AMENDING ORDINANCE 528 AND 537 BY DECREASING THE APPROPRIATION IN THE GENERAL AND STREET FUNDS AND INCREASING THE APPROPRIATION IN THE REVENUE STABILIZATION FUND..

WHEREAS, the 2009 Budget was adopted by Ordinance 528 and amended by Ordinance 537; and

WHEREAS, the 2009 adopted budget anticipated resources totaling \$31,848,646 in the General and City Street Funds; and,

WHEREAS, the national and regional economies have been negatively impacted by the national recession that started in 2008; and,

WHEREAS, as a result of the national recession the City has reduced revenue estimates in the General and City Street Funds by \$1,700,959; and,

WHEREAS, one-time expenditures included in the 2009 General Fund budget of \$121,000 will be funded from a portion of 2008 budget savings in the form of use of beginning fund balance; and,

WHEREAS, to keep the 2009 budget in balance expenditures will be reduced by \$985,000; and,

WHEREAS, the City has a Revenue Stabilization Fund for the purpose of offsetting revenue declines during cyclical economic downturns; and,

WHEREAS, the City will decrease the 2009 appropriation for the General Fund, Street Fund, and increase appropriation for the Revenue Stabilization Fund; and

WHEREAS, the City of Shoreline is required by RCW 35A.33.075 to include all revenues and expenditures for each fund in the adopted budget;

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF SHORELINE, WASHINGTON DO ORDAIN AS FOLLOWS:

Section 1. Amendment. The City hereby amends Section 2 of Ordinance No. 528, the 2009 Adopted Budget, by decreasing the appropriation from the General Fund by \$874,535, by decreasing the appropriation for the Street Fund by \$110,465, and by increasing the appropriation of the Revenue Stabilization Fund by \$594,959 and by decreasing the Total Funds appropriation to \$121,743,555 as follows:

General Fund	\$32,632,820	\$31,758,285
Street Fund	\$2,692,629	\$2,582,164
Code Abatement Fund	\$100,000	
Asset Seizure Fund	\$21,500	
Public Arts Fund	\$114,500	
Revenue Stabilization Fund	\$0	\$594,959
General Capital Fund	\$36,165,554	
City Facility-Major Maintenance Fund	\$55,953	
Roads Capital Fund	\$41,189,313	
Surface Water Utility Fund	\$7,086,314	
Vehicle Operations/Maintenance Fund	\$142,959	
Equipment Replacement Fund	\$245,204	
Unemployment Fund	\$10,000	
Unltd Tax GO Bond	\$1,676,850	
Total Funds	\$122,133,596	\$121,743,555

Section 2. Amending the 2009 Budget. The 2009 Budget is amended as set forth in Exhibit 1 and decreases the Total Funds appropriation to \$121,743,555.

Section 3. Effective Date. A summary of this ordinance consisting of its title shall be published in the official newspaper of the City. The ordinance shall take effect and be in full force five days after passage and publication.

PASSED BY THE CITY COUNCIL ON April 13, 2009

Mayor Cindy Ryu

ATTEST:

APPROVED AS TO FORM:

Scott Passey
City Clerk

Ian Sievers
City Attorney

Publication Date:

Effective Date: