

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE: 2010 and 2011 Budget Update
DEPARTMENT: Finance
PRESENTED BY: Debbie Tarry, Finance Director

PROBLEM/ISSUE STATEMENT:

The purpose of this discussion is to provide the City Council with an update of the 2010 budget and recommendations, a preliminary briefing on the status of the 2011 budget, and an update on any changes to the City's long-term financial projections. 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 and during the 2011-2016 capital project review. The Council recently completed a review of the capital budget through the 2011-2016 Capital Improvement Program (CIP) process. This report will highlight some adjustments to the 2011 capital budget that are currently anticipated as a result of real estate excise tax (REET) and investment interest continuing to lag behind projections that were forecast during the 2011-2016 CIP process.

As of September 22, the City Manager's recommended 2011 operating budget is nearly balanced. The 2011 operating budget primarily is focused on sustaining current levels of service. The budget does not include any new personnel positions, programs or services. Although this is the case, the 2011 budget does include a full year of funding for Animal Control services as a result of the recent contract with King County and recommended funding for an agreement with the Kruckeberg Garden Foundation to continue providing maintenance services in 2011.

The preliminary 2011 operating budget assumes that Shoreline Proposition No. 1 passes, and as a result includes \$1,018,000 in property taxes from the proposed levy. Additionally the 2011 budget recommends using \$605,000 of funds from the City's Revenue Stabilization Fund as a result of the slow recovery from the economic recession and the lingering impact that the recession continues to have on the City's sales tax, development, and investment interest revenues.

As Council is aware there are two liquor initiatives (I-1100 and I-1105) on the November 2, 2010 ballot, as well as King County Proposition No. 1 (0.2% sales tax measure) that could impact the City's 2011 revenue forecast. The City Manager's proposed budget does not include potential impacts from the State Initiatives or the King County measure. The City Manager will present his recommended balanced 2011 budget to the City Council on October 18, 2010.

Council was briefed in August on the City's second quarter financial report. At that time Staff shared with Council the on-going impacts that the recession has had on sales tax, development, and investment interest revenue resulting in projections for these revenue sources being lowered by \$700,000 for 2010. Additionally an upswing in jail activity for 2010 has resulted in jail costs being projected to exceed the 2010 budget by nearly \$500,000. Combined with the revenue reductions this is a net \$1.2 million negative impact to the City's 2010 general fund budget. Based on current expenditure projections for the remainder of 2010 and some off-setting revenue increases in other areas, staff is recommending that Council authorize using an additional \$200,000 from the Revenue Stabilization Fund for 2010. This would bring the total recommended usage to \$1.2 million for 2010, leaving a balance of \$4.95 million in the fund. Staff has a recommended plan to repay the \$1.2 million from anticipated one-time revenues related to the permitting and sales tax from the building of the two new high schools in Shoreline. It is likely that staff may recommend the use of Revenue Stabilization funds in 2012 and 2013 as we anticipate lingering effects of the recession through that time.

Although the City Council will be focused on review of the 2011 operating 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 has been updating the long-term forecasts as part of the 2011 budget process, and included some details of that within this staff report. It is anticipated that the impacts of the recession may continue to have an impact on City revenue streams through 2013.

RECOMMENDATION

No action is required by the City Council. This item is for informational purposes and to provide the City Council with preliminary 2011 budget information.

Approved By: City Manager  City Attorney ____

INTRODUCTION

Recently the City Council was briefed on the City's 2010 second quarter financial report. This report included an update on changes in projected sales tax, development, and investment interest revenues along with the anticipated impact of increasing jail costs in 2010. Staff has done further analysis since that time and is recommending that the City Council increase the authorized use of Revenue Stabilization Fund from \$980,000 to \$1.2 million in 2010.

Staff is preparing the 2011 Proposed Budget and updating financial projections as part of the process. This workshop will provide an opportunity for staff to share with the City Council the latest financial projections, along with a discussion on some of the major policy issues that will need to be discussed during the 2011 budget workshop reviews. The Council 2011 budget schedule is as follows:

Preliminary 2011 Budget Update	September 27
Transmittal of Proposed 2011 Budget	October 18
Department Budget Reviews	October 25
Public Hearing & Department Reviews	November 1
Public Hearing on Revenue Sources & 2011 Property Tax Levy	November 8
Final 2011 Budget Discussion	November 15
Adoption of 2011 Property Tax Levy	November 22
Adoption of 2011 Budget	November 22

BACKGROUND

2010 Operating Budget

The 2010 adopted budget included authorization to use \$980,000 of Revenue Stabilization Fund to sustain current service levels as a result of the recession. Since adoption of the 2010 budget, staff has updated revenue and expenditure projections.

The impacts of the economic recession have continued to have a negative impact on the City's sales tax, development, and investment interest collections. As a result staff has reduced the projections from these revenue sources from \$8.26 million to \$7.5 million for 2010.

	Adopted Budget	Revised Forecast	Change	% Change
Sales Tax	6,196,236	5,827,175	(369,061)	-6.0%
Criminal Justice Sales Tax	1,100,000	1,045,885	(54,115)	-4.9%
Development Revenue	804,000	589,549	(214,451)	-26.7%
Investment Interest	160,000	69,739	(90,261)	-56.4%
Total	8,260,236	7,532,348	(727,888)	-8.8%

In addition to the decline in these revenues, jail costs have trended higher and it is expected that jail costs will exceed the 2010 budget by nearly \$500,000. The combined impact of the increased jail costs and the downturn in economically sensitive revenues is \$1.28 million.

Fortunately a few revenue categories are projected to exceed original projections for a total of approximately \$363,000. Primary areas include cable utility tax and franchise fee (\$57,000), business license fees (\$110,000), electric contract payment from Seattle City Light (\$100,000), gambling tax late payment penalties (\$18,000), intergovernmental payments (\$47,000) and miscellaneous revenue sources (\$24,000). Additionally projected 2010 General Fund expenditures, excluding the projected increase in jail costs, are \$600,000 below budget. Primary areas of expenditure savings include savings from vacant positions throughout the year (Economic Development Manager, Communications Specialist, Purchasing Officer) of approximately \$158,000, reduced use of temporary staff (\$23,000), utility costs being less than originally projected for City Hall (\$129,000), advertising less than projected (\$13,000), police contract final costs less than preliminary billing (\$126,000), and lower election fees (\$30,000). As a result of the projected expenditure savings and the excess revenues in other categories, the net impact is that the 2010 General Fund budget has a remaining gap of \$280,000. To close this gap staff is recommending that Council consider authorizing an increase in the allocation of Revenue Stabilization Fund from \$980,000 to \$1.2 million. Staff will continue to target internal budget savings to cover the remaining \$60,000 in projected shortfall for 2010.

This will leave a remaining balance of \$4.925 million in the Revenue Stabilization Fund.

2011 Preliminary Budget Assumptions

Shoreline Proposition 1 – Maintenance and Operations Levy

As Council is aware the City's long-term financial forecasts projected a \$1 million budget gap for 2011, as a result of the structural imbalance of the 1% property tax limitation. The 2011 proposed budget assumes the passage of Shoreline Proposition No. 1 and therefore includes \$1 million of additional property tax from the levy. The actual amount of Proposition No. 1 property tax projected to be collected in 2011 is \$1.8 million. As discussed previously with Council, since Proposition No. 1 is a six year levy, more property tax revenues will be collected in the first three years (2011-2013) of the levy than needed to balance the budget, and therefore will be reserved for use in the last three years (2014-2016). As a result the 2011 budget includes \$1 million in revenue to be used in 2011 with the remaining \$800,000 reserved for future years.

Economically Sensitive Revenues

Although Proposition No. 1 provides funding to close the structural gap, the recession and slow recovery continue to have an impact on sales tax, development, and investment interest revenues. It is anticipated that the City's revenues will not recover fully until 2014, and even then, development activity will continue to be at levels below those prior to the recession. In fact, much of the continued lag in sales tax is related to the downturn in building materials and construction related sales tax activity. Investment interest continues to lag behind projections, as interest rates continue to

remain at historical lows. Rates are now projected to continue to remain at the current low rates through 2011.

The following chart compares the 2011 revenue forecast done in January 2010 and the latest update for sales tax, development revenue, and investment interest:

	2011 Budget - January 2010 Projections	2011 Budget - September 2010 Projections	Difference
Sales Tax	6,306,303	6,091,418	(214,885)
Criminal Justice Sales Tax	1,123,542	1,113,542	(10,000)
Development Revenue	1,103,738	593,680	(510,058)
Investment Interest	225,000	100,000	(125,000)
Total	8,758,583	7,898,640	(859,943)

Even though these revenue projections have decreased by nearly \$860,000, other revenue and expenditure adjustments have limited the 2011 budget gap related to the lingering effects of the recession to \$670,000. As Council is aware, the projections presented by staff earlier this year showed the 2011 budget gap as \$1 million. Given the continued slow economic recovery the gap has grown to \$1.67 million. Proposition No. 1 will provide \$1 million of funding to apply toward the projected gap, leaving a remaining gap of \$670,000.

To close this gap, the 2011 proposed budget will recommend allocating \$605,000 from the Revenue Stabilization Fund. Even though this is the case, staff anticipates that the Shoreline School District will obtain their building permits for the two new high schools in 2011. It is anticipated that the permit fees will generate nearly \$789,000 in one-time revenues. Per the City's adopted financial policies these revenues should be used to support one-time costs as opposed to funding on-going programs. Approximately \$102,000 will be used to fund the projected levy costs for Proposition No. 1 and the anticipated leave pay-out related to the City Manager's retirement. A portion of the remaining \$687,000 can be used to fund the staff costs required in reviewing and approving the high school building plans, along with any required inspection services. The remainder is currently reserved to allocate to the Revenue Stabilization Fund. As a result of allocating these one-time permit revenues to the Stabilization Fund the projected ending 2011 balance will be \$4.925 million.

Initiatives 1100 and 1105

Initiatives 1100 and 1105, which would eliminate the State controlled liquor stores, will both appear on the November 2, 2010 ballot. The City currently receives liquor profits and liquor excise taxes from the State controlled liquor stores. In 2010 the City is

projected to receive nearly \$446,000 in liquor profits and \$269,000 in liquor excise taxes. Both initiatives would eliminate liquor profits from the State run liquor stores. Although the initiatives have varying implementation dates, the State has indicated that if either of the initiatives pass that the State will close liquor stores on June 15, 2011. This being the case, if either of the initiatives pass the 2011 liquor profits would be reduced by \$200,000. Since the proposed 2011 budget does not assume passage of either of the initiatives, if one of the initiatives does pass the 2011 budget will need to be reduced by \$200,000 to off-set the loss of revenue. An additional \$200,000 would be lost in 2012, with the total liquor profits eliminated at that time. The City's long-term projections would need to be updated to include this revenue loss.

I-1100 maintains the liquor excise taxes, while I-1105 eliminates the liquor excise taxes effective April 1, 2012. It is unclear what decision would be made if both initiatives were to pass. In 1993, when two rival tax-limit measures, I-601 and I-602, were on the ballot, the Attorney General issued a formal opinion observing it would be possible for the Legislature to resolve any conflict by amending either or both measures with a two-thirds vote. Failing that, the courts would be tasked with resolving the differences, possibly giving deference to the initiative that got the most votes or that had the later effective date. This being the case, the City's long-term projections assume continued receipt of liquor excise taxes, but there is a possibility that these taxes may be repealed in future years. If this were the case the City would collect sales taxes on liquor sales occurring within the City, but it is estimated these may be \$20,000 to \$30,000, approximately \$240,000 less than the current excise taxes.

King County Proposition No. 1 – 0.2% sales tax

King County Proposition No. 1 which would result in a 0.2% sales tax increase will appear on the November 2, 2010 ballot. This initiative increases the King County sales tax rate by 0.2% for three years (2011-2013) and then drops the increase to 0.1% for another 17 years (March 31, 2031). King County Proposition No. 1 would generate approximately \$1.16 million in additional annual sales tax for the City for years 2011 through 2013, and approximately \$560,000 annually for the remaining years through March 31, 2031. The City would be required to allocate 30% of the proceeds towards criminal justice purposes and the remainder can be spent on other governmental purposes. The City has not included any revenue from King County Proposition No. 1 in its proposed 2011 budget or its long-term financial projections.

Long-Term Projections

The City's financial policies require that the City maintain a six-year operating budget financial forecast. Staff updated the forecast in January 2010 and has been updating the forecast again as part of the 2011 budget process. Below is a comparison of the projected bottom-line of the two forecasts:

	2011 Forecast	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
January 2010 - Net Budget Surplus (Gap)	(995,238)	(1,531,626)	(1,678,638)	(2,392,478)	(3,349,172)	(4,076,682)
September 2010 - Net Budget Surplus (Gap)	(670,225)	(826,502)	(989,945)	(240,198)	282,053	(162,952)

A primary difference in the two forecasts is the inclusion of anticipated property taxes from Shoreline Proposition No. 1 in the September 2010 forecast. The following table reflects the net property taxes used from Proposition No. 1 in the September 2010 forecast:

	2011	2012	2013	2014	2015	2016
Shoreline Prop No. 1 Net Property Tax	1,018,000	1,531,974	1,655,001	2,327,437	3,254,323	3,333,133

The funds from Proposition No. 1 would have closed the gaps for all years if not for the lingering impacts of the economic recession. As stated earlier in this report the gap in 2011 (\$670,225) can be directly tied to the reduced projections in sales tax, development, and investment interest revenues. It is expected that the economic recovery will continue its slow crawl through 2013, and thus the forecast for sales tax, development revenue, and investment interest has been lowered for 2012 and 2013. Once the economy is back on a more even trajectory, starting in 2014, the City's development revenues will not return to pre-recession levels. Fortunately, based on current assumptions, the long-term projections show that budget gaps are fairly minimal in 2014-2016 as long as Proposition No. 1 passes. Until that time, it is likely that the City will continue to use some proceeds from the Revenue Stabilization Fund along with any other budgetary savings to sustain current service levels.

2011 and Long-Term Budget Trends

Since January, staff has continued to evaluate revenue and expenditure trends and updated the City's long-term financial model. Also departments have submitted their 2011 budget requests and 2011 revenue estimates. Below are some of the major assumptions used in the most recent projections:

- **Sales Tax:** Sales tax collections continue to lag behind earlier projections. Most noticeably is the continued decline in construction related sales tax, both from retail sales of building materials and tax directly related to construction. The 2010 sales tax projections have been reduced from \$6.2 to \$5.8 million. The 2011 projections have been reduced from \$6.3 to \$6.1 million. It should be noted that the projected 2011 collections are almost equal to the sales tax collections of 2006. The following chart compares the January 2010 projections with the September 2010 projections for sales tax:

	2011	2012	2013	2014	2015	2016
January 2010 Projections	6,306,303	6,423,457	6,687,864	6,987,082	7,299,378	7,588,638
Sept. 2010 Projections	6,091,418	6,359,681	6,647,638	6,941,765	7,250,227	7,546,587

- **Gambling Tax:** Card room activity has seemed to stabilize based on reports received during the 1st and 2nd quarter of 2010. Actual activity is approximately 5% ahead of activity for the same period in 2009. Even though this is the case there seems to be some uncertainty of future activity given that the sale of Parker's casino did not occur and we currently have outstanding second quarter taxes due from Goldie's. The 2011 projected gambling tax revenue from card rooms is projected at \$1,530,000, the same as that projected for 2010. Staff has assumed flat growth in

future years. It should be noted that this is a 43% drop from the level of revenue collected at the 2004-2005 peak and an 11% drop from card room taxes collected in 2009. Staff will continue to evaluate card room gambling tax throughout 2010 to determine if any additional adjustments should be made.

- **Development Revenue:** Development activity has continued to lag behind estimates as a result of the current recession. Development revenue collections have been lowered from the original 2010 budget estimate of \$804,000 to \$589,000. Projected 2011 collections have been lowered from the January 2010 forecast of \$1,127,000 to \$594,000. This projection does not include the projected one-time revenue of \$788,000 for the permits of the two new high schools. Even though our January projections reflect predictions made by some of the major Puget Sound economists, we have not experienced the level of rebound that they had predicted. Currently there are no significant projects on the horizon that would provide us a higher level of assurance that the City would see a sustained rebound in development revenues in the next few years. As such, the long-term projections have been updated based on more recent experience and tempering the King County and Puget Sound predictions to match more closely with what we now think may occur in Shoreline. Below is a comparison of the January 2010 forecast and the September 2010 forecast:

	2011	2012	2013	2014	2015	2016
January 2010 Projections	1,126,672	1,386,882	1,535,534	1,629,294	1,719,163	1,742,851
September 2010 Projections	593,680	666,556	755,267	857,269	862,902	856,779

- **Investment Interest:** Investment interest rates have been falling since August 2007. At that time short-term interest rates were approximately 5.3%. Rates are currently down to 0.28% for short-term investments and around 1% for two-year government securities. As a result of the fall in investment interest rates the City's investment income in the General Fund has fallen from \$517,000 in 2007 to a projected \$100,000 in 2011. The January forecast projected investment interest at \$250,000 for 2011 based on an average investment rate of 3%, as it had been expected that we would start to see some recovery in investment rates by that time. This assumption has now been pushed out to 2012 and 2013.
- **Public Employee Retirement System (PERS) Contribution Rates:** The PERS employee and employer contribution rates were reduced effective July 1, 2009 to 5.31%, as a result of legislative action taken to help balance the State's budget. Prior to July 1, 2009, the City's contribution rate was 8.31%. The City incorporated these lower rates into its 2010 budget, resulting in a 35% drop (\$284,000) in contribution costs in 2010 when compared to the 2009 budget. Even though the State Legislature lowered the contribution rates for the 2009-2011 biennium, the rates are currently projected to increase on July 1, 2011 to 8.61%, with continued increases over the next few years. The increases are required to meet the actuary projections for the retirement plans over the long-term.

The 2011 rate change will result in an \$165,170, 31%, increase in the City's retirement contributions. Of this amount \$135,079 impacts the operating budget. The total budget for 2011 is \$702,000, slightly lower than the budget had been in

2009 (\$806,000). The following table shows the most recent projected rate changes:

PERS Employer Contribution	Current Rate	Effective 7-1-11	Effective 7-1-12	Effective 7-1-13	Effective 7-1-14
State Actuary Proj. Rates	5.31%	8.61%	9.30%	11.52%	11.57%

The City can expect substantial increases in future retirement contributions as the rate is projected to more than double in the next three years. Employee contribution rates will also rise.

- **Health Benefits:** Preliminary information from the Association of Washington Cities (AWC) shows that they anticipate medical premium rates to increase between 8% and 10% for 2011, 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% in 2011. This equates to approximately \$137,500 city-wide, of which approximately \$114,300 is budgeted within the City's operating budget. The AWC Board will finalize rates in late September.
- **Market Rate Adjustment (or COLA):** Historically the City has based its market adjustment at 90% of the June Seattle-Tacoma-Bremerton CPI-W. The June 2010 CPI-W was actually a negative 0.5%. As such, there will be no market adjustment or cost of living increase for City employees in 2011.
- **Jail Activity:** The 2011 budget, along with future forecasts, is based on the new contract with Snohomish County. The projected 2011 cost is \$1.3 million, approximately \$300,000 less than is projected to be spent in 2010. In order for the City to realize the projected drop in costs, efforts will have to be made to maximize the use of the Snohomish County jail versus King County facilities.
- **Police Contract:** The 2011 projected police contract totals \$10.1 million. The contract with King County is projected to increase by nearly 5%, \$478,000, from 2010 to 2011. This is primarily a result of the wage and benefit increases that were approved by the King County Council in 2008 as part of the ratified 5 year police guild contract. This contract provided for 5% cost of living adjustments for deputies for each of the next five years starting in 2008 through 2012.
- **Human Service Funding:** Currently the 2011 preliminary budget includes the first year of allocation of the 2011-2012 Human Services Funding Plan approved by the City Council. The 2011 preliminary budget includes an additional \$18,000 in annual funding for the Senior Center.
- **One-Time Costs:** The 2011 budget includes the expected election costs for Proposition No. 1, \$72,000, and the pay-out for accrued vacation and 10% pay-out for sick leave for the City Manager who will retire in February 2011.

DISCUSSION

Revenue Stabilization Fund

The City's revenue stabilization fund was created as a reserve to cover revenue shortfalls resulting from unexpected economic changes or recessionary periods. The City's reserve policy establishes this fund at 30% of economic sensitive revenues. The balance of the fund was \$6.12 million at the beginning of 2010. In 2009 the City Council authorized the use of \$595,000 of the fund in response to the current recession, but adequate budget savings were generated to negate the need to use any of the Stabilization Fund in 2009. The current 2010 authorizes using \$980,000 to off-set the decline in sales tax and development revenues. Staff is now recommending that the Council increase this authorization to \$1.2 million as the decline in sales tax, development, and investment interest revenues have been greater than originally forecast. This will result in the revenue stabilization fund having a balance of \$4.925 million, or approximately 26% of the 2011 projected economically sensitive revenues.

The 2011 budget will recommend the use of \$600,000 of Stabilization Funds as sales tax, development, and investment revenues are expected to continue to lag. The budget will also allocate approximately \$600,000 of the one-time permit fees related to the new high schools as repayment to the Stabilization Fund. This basically results in a net zero impact to the Stabilization Fund in 2011 leaving the projected balance at \$4.925 million.

It is anticipated that if the current projections for sales tax, development, and interest revenues hold for 2012 and 2013 that there may be a need to allocate some Stabilization Funds for use in the operating budget. At the same time, it is anticipated that the City will collect between \$500,000 and \$600,000 in one-time sales tax from the construction of the new high schools in 2012 and 2013. Staff anticipates allocating these funds toward the repayment of any used Stabilization Funds. As the economy stabilizes, future City budgets will need to include an allocation to restore the stabilization fund to the required 30% balance.

The primary questions for Council include:

1. 2010 Budget - Will Council authorize the additional use of Stabilization Funds for a total of \$1.2 million?
2. 2011 Budget - Will Council authorize the use of \$600,000 in 2011? Will Council support the recommendation to allocate one-time revenues from the high school permits toward restoring funds used from the Stabilization Fund?

2010 Budget

As discussed earlier in this report, staff is recommending that the City Council authorize an increase (\$220,000) in the use of Revenue Stabilization Fund from \$980,000 to \$1.2 million as economic sensitive revenues have continued to lag behind projections as the economy struggles to recover from the recession. Staff has identified nearly \$600,000 in budget savings to off-set the decline in economically sensitive revenues and the increased jail costs for 2011.

2011 and Beyond

Staff will be finalizing the proposed 2011 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.

Although the passage of Proposition No. 1 would provide significant funding to close budget gaps that have been projected for a number of years, the slow economic recovery has resulted in lower projected sales tax, development, and investment interest revenues for 2011 through 2013. These gaps are a result of the current recession as opposed to the larger gaps that were a result of the 1% property tax limitation since 2001.

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

	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
Net Budget Surplus (Gap)	(826,502)	(989,945)	(240,198)	282,053	(162,952)
Assumptions:					
Inflation	2.09%	2.26%	2.33%	2.48%	2.42%
Annual Revenue Growth	3.06%	3.06%	3.29%	4.93%	2.24%
Annual Sales & Use Tax Change	5.10%	4.95%	4.58%	4.80%	4.88%
General Fees & Licenses Increase	1.67%	1.81%	1.87%	1.99%	1.94%
Investment Interest Rate	3.00%	4.00%	4.50%	5.00%	5.00%
Building Permit Activity Change	15.00%	15.00%	15.00%	0.70%	-0.80%
Revenue Collection	100.00%	100.00%	100.00%	100.00%	100.00%
Annual Expenditure Growth	2.04%	3.47%	2.10%	3.44%	3.46%
PERS Employer Contribution Rate	8.96%	10.41%	11.55%	11.57%	11.57%
Health Benefit Escalator	7.50%	7.50%	7.50%	7.50%	7.50%
Regular Salary Escalator	3.28%	3.43%	3.50%	3.64%	3.58%
Police Contract Escalator	4.50%	3.50%	3.50%	3.50%	4.00%
Annual Jail Cost Increases	1.29%	2.72%	2.79%	2.91%	2.88%
Expenditure Percentage	100.00%	100.00%	99.00%	99.00%	99.00%
Contribution to Stabilization Fund	-	-	-	103,526	168,539
New Maintenance Costs for Completed Capital Projects	\$ 75,165	\$ -	\$ 5,000	\$ -	\$ -

As stated previously the forecast assumes passage of Shoreline Proposition No. 1. If this proposition does not pass then the projected budget gaps would increase by the amount of Proposition No. 1 property taxes used in the forecast as summarized below:

	2011	2012	2013	2014	2015	2016
Shoreline Prop No. 1 Net Property Tax	1,018,000	1,531,974	1,655,001	2,327,437	3,254,323	3,333,133

The forecasts do not include any impacts from I-1100, I-1105 or King County Proposition No. 1. The following table summarizes the potential annual impact of each of these items:

	2011	2012	2013	2014	2015	2016
I-1100	(192,297)	(384,681)	(392,940)	(401,615)	(410,978)	(420,345)
OR I-1105	(192,297)	(555,393)	(629,268)	(643,593)	(659,053)	(674,521)
King County Proposition No. 1	1,165,400	1,165,400	1,165,400	728,375	582,700	582,700

2011 Capital Budget

The City Council adopted the 2011-2016 CIP in July of 2010. Since that time staff has continued to monitor Real Estate Excise Tax (REET) collections and they are currently below projections. As such staff has revised the revenue projections for 2011 resulting in lower revenues to the General Capital Fund of approximately \$200,000 and to the Roads Capital Fund of approximately \$250,000. It is likely that the 2011 Proposed Budget will recommend lowering the planned capital expenditures for major park repair and replacement from \$350,000 to \$150,000 and that pavement and traffic signal maintenance will be lowered by \$250,000.

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 2011 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 2011 budget information.