

CITY COUNCIL AGENDA ITEM

CITY OF SHORELINE, WASHINGTON

AGENDA TITLE: Discussion of the Proposed Process for Developing the 10-Year Financial Sustainability Plan

DEPARTMENT: Administrative Services

PRESENTED BY: Robert Hartwig, Administrative Services Director

ACTION: ☐ Ordinance ☐ Resolution ☐ Motion
 ☒ Discussion ☐ Public Hearing

PROBLEM/ISSUE STATEMENT:

In November 2010 Shoreline voters approved a six-year property tax levy lid lift, setting the property tax levy rate at \$1.48 per \$1,000 assessed valuation (AV) and allowing annual inflationary level increases in the property tax levy. In 2011 and 2012, overall property values in Shoreline have declined therefore resulting in the City's property tax levy rate being at the statutory limit (\$1.60 per \$1,000 AV). This means that the rate of inflation was capped and we are not collecting what voters approved. Given that economic and market conditions have continued to limit revenue growth, the City continues to be challenged with maintaining current service levels with projected resource levels.

During the March Council retreat, Council expressed interest in moving forward with a ten year financial sustainability plan and adopted this as part of their 2012-2014 Work Plan. Tonight staff will outline the proposed plan including a discussion on the purpose, the staff and Council processes, the proposed timeline, and any additional considerations. Tonight we are asking the City Council to review the proposed process and provide input.

RESOURCE/FINANCIAL IMPACT:

There is no financial impact anticipated in developing the 10-year Financial Sustainability Plan. However, development of this plan will require a significant allocation of staff resources.

RECOMMENDATION

Staff is seeking Council's feedback on the proposed process and timeline.

Approved By: City Manager **JU** City Attorney **IS**

BACKGROUND

In March 2008, the City Council formed a community advisory committee representing a broad range of Shoreline residents and interests to recommend long-term strategies on service reductions, efficiencies and funding options. The Committee was largely focused on the six-year financial forecasts that indicated that by 2010 the City's current resources would not be adequate to continue to provide the current level of basic services to the Shoreline community (visit <http://shorelinewa.gov/index.aspx?page=122> for information on the Committee's work).

Although the City has implemented budgetary reductions and service efficiencies for the last several years, inflationary costs for fuel, asphalt, jail, the police contract and other items continue to grow faster than the City's primary revenue sources such as the property tax (capped at 1%) and sales tax. As part of the Committee's final recommendation to City Council, which was presented April 2009, they recommended asking voters to approve a property tax measure.

In November 2010, Shoreline voters approved a six-year property tax levy lid lift, setting the property tax levy rate at \$1.48 per \$1,000 assessed valuation (AV) and allowing annual inflationary level increases in the property tax levy. In 2011 and 2012, overall property values in Shoreline have declined therefore resulting in the City's property tax levy rate being at the statutory limit (\$1.60 per \$1,000 AV). This means that the rate of inflation was capped and we are not collecting what voters approved. Given that economic and market conditions have continued to limit revenue growth, the City continues to be challenged with maintaining current service levels with projected resource levels.

Likewise, during the March Council retreat, Council expressed concern that future Councils or voters might not approve a new property tax measure when Proposition 1 is due to sunset in 2016. In addition, the Council wanted to ensure that other strategies were being implemented to expand resources in other areas besides through property taxes. In order to plan beyond the six-year financial forecast, the Council adopted as part of their 2012-2014 Work Plan, the development of a 10-year Financial Sustainability Plan.

Tonight staff will outline the proposed plan including a discussion on the purpose, the Staff and Council processes, the proposed timeline, and any additional considerations. Tonight we are asking the City Council to review the proposed processes and provide input.

DISCUSSION

As previously discussed, a 10-year Financial Sustainability Plan provides the City with a working model to look ahead at future service levels. By looking at various revenue and expenditure assumptions staff can make recommendations to Council on sustainable service levels for Shoreline's future.

Purpose

The purpose for developing the 10-year Financial Sustainability Plan is to embark on a process that helps the City achieve sufficient fiscal capacity to fund and maintain priority public services, facilities, and infrastructure.

In order to provide a road map for the future, it is important that staff and the Council embark on the following:

- Reflect on community values (re-examine the Advisory Committee's work, Vision 2029),
- Review customer satisfaction surveys and polling information,
- Review financial forecasts and current levels of service,
- Examine the City's available and potential resources, and
- Prioritize services based on available resources.

Ultimately the 10-year Financial Sustainability Plan will provide guidance for the City Council in making future budget and resource allocation decisions.

The Project/Process

The process will take place in two phases. Initially staff will develop an internal proposal based on what we are terming the "staff process." Once complete the proposal will be presented to the City Council for further work in what staff is terming the "Council process." Both processes are discussed in further detail below.

Staff Process

The staff process is focused heavily on engaging our employees. It's fair to say that a City's budget is largely built on personnel expenditures—it takes staffing to deliver services. All employees will be involved at the department level, with one employee from each department (the Department Liaison) serving on a committee working with Administrative Services and the City's Leadership Team.

The process in each department will include a review of previous efforts in this area such as the Citizen Long Range Planning Committee's efforts, Council goal setting, Vision 2029, etc. The Public Works Department has already started this process and so we will utilize a format similar to theirs.

The process will begin in the Administrative Services Department (ASD). Using a sophisticated forecasting software package ASD staff will gather and analyze historical revenues and expenditures for the past several years. The ASD will use this information to develop an initial forecast for the departments to use during their work.

During the process the ASD will also be responsible for coordinating efforts between departments (with the help of the Department Liaisons). The ASD will

also prepare additional drafts based on department efforts, draft scenarios based on various assumptions, and ultimately help the staff committee prepare a draft for the City Council's review and approval. The ASD will also work with departments to identify potential new revenue sources for the City.

The individual departments will rely on the experience and wisdom of their employees as they work through the steps in the process. Their knowledge will be needed to identify the services currently being provided, resources needed, and current service deficiencies. Departments will review and recommend changes to key performance measurement benchmarks and critically evaluate performance measures. Departments may also recommend changes, especially considering results from the upcoming citizen satisfaction survey. Finally, departments will make recommendations on priorities for different services and service levels.

As a result of this work the ASD, Leadership Team, and Department Liaisons will verify ASD revenue projections, identify the most likely new revenue sources, verify the ASD costing of various services/job functions, consider the impacts of the City's compensation package, review the reasonableness of inflation assumptions and review commodity and outside service assumptions.

The staff committee will also review the ASD scenarios showing the effects of significant service cuts or increases in each department based on various assumptions. The group will determine which services and service levels are mandated (mission critical) and which services/service levels are discretionary. Ultimately scenarios will be presented representing those possibilities that the working group determines are most likely to occur. These scenarios will be presented to the Council for their review as discussed below.

Council Process

Once the staff work is completed, staff envisions a public analysis process involving a sub-committee of the City Council. Once convened this sub-committee will review all of the work described above. They will discuss the assumptions used in the various scenarios, critique the staff committee's ideas, and review and critique performance measures. The sub-committee will provide the "external filter" for the internal efforts.

Following this review the sub-committee will propose any changes to the scenarios presented and recommend any additional scenarios they would like the ASD to run. Once alternatives have been reviewed the sub-committee will utilize staff to develop a Committee Report with a recommendation to the full City Council.

Staff would work with the Council sub-committee to develop a citywide community engagement process. The goal for the public process is to have the community understand current service levels, the revenue needed to sustain

those service levels, and the amount of change needed to sustain or increase service levels.

Timeline

This is a large and complex process. Staff envisions the following schedule to complete this work.

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|---------------------------------------|---------------------|
| • ASD Develops Preliminary Data | Jul 2012 – Aug 2012 |
| • Department Review | Sep 2012 – Feb 2013 |
| • Working Group Develops Scenarios | Mar 2013 – Jun 2013 |
| • Council Committee Review | Jul 2013 – Sep 2013 |
| • Committee Recommendation to Council | Sep 2013 – Oct 2013 |
| • Council Consideration | Nov 2013 – Dec 2013 |
| • Council Accepts Final Report | December 2013 |
| • Monitor Results vs Report | 2014 and Beyond |
| • Adjust Plan as Needed | 2014 and Beyond |

Summary

Following the process outlined in this report, staff will develop a 10-year Financial Sustainability Plan that the City can use to make important revenue and service level decisions into the future. This process includes employee involvement, a careful review of a wide variety of factors, City Council participation and analysis, and ultimately includes City Council adoption of a plan that staff will monitor in the future.

RECOMMENDATION

Staff is seeking Council's feedback on the proposed process and timeline.