

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE: 2013 Proposed Budget Department Presentations
DEPARTMENT: City Manager
PRESENTED BY: Julie Underwood, City Manager
Robert Hartwig, Administrative Services Director

PROBLEM/ISSUE STATEMENT: The City Manager presented the 2013 proposed budget to the City Council on October 15, 2012. Tonight’s agenda includes the review of department’s 2013 budget requests. The proposed 2013 budget has been made available to the public and is available on the City’s website. Hard copies are also available at City Hall, the Shoreline Police Station, Neighborhood Police Centers, and the Shoreline and Richmond Beach libraries.

The focus of the departmental presentations will be on any significant changes between the department’s 2012 budget and the 2013 proposed budget. This will serve to expedite the budget review process and make the best use of the Council meeting time. The department review schedule is listed below:

October 22 (Budget Pages 105-236)

City Council
City Manager
Community Services
Administrative Services & Citywide
City Attorney
Human Resources
Police
Criminal Justice (Jail & Court)
Parks, Recreation & Cultural Services
Planning & Community Development

November 5 (Pages 239-256 & 283-432)

Public Works (Including the Surface Water Utility)
Capital Improvement Plan (2013)

Tonight staff plans to complete department reviews through the Planning & Community Development Department. Future budget workshops are planned for November 5, 13, and 19. Public hearings for the 2013 budget will be held on November 13 and November 19. The adoption of the 2013 property tax levy and 2013 budget are scheduled for November 26.

FINANCIAL IMPACT: The 2013 Proposed Budget totals \$67,049,762.

RECOMMENDATION

No action is required by the City Council. Department presentations will be for informational purposes and provide an opportunity for Council to ask specific questions regarding proposed department budgets.

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

ATTACHMENT A: 2013 Budget Transmittal Letter



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October 15, 2012

Honorable Mayor McGlashan and Members of City Council
Residents and Stakeholders of the City of Shoreline

Dear Mayor McGlashan and City Councilmembers:

We are pleased to present the City's 2013 Proposed Budget. This budget represents the results of thoughtful direction provided by the Mayor and Council along with the dedicated efforts of the City Manager, Department Directors, and City staff members. The 2013 Proposed Budget is scheduled for City Council review during several upcoming meetings in October and November, 2012, and will be presented for final adoption on November 26, 2012.

The City's budget is used as a planning document, estimating future City revenues and expenditures. It serves to guide the City's operations and capital programs from a numeric perspective for the upcoming year. The budget is prepared on a fund by fund basis. All information is organized by fund. Each fund accounts for different services and activities.

Shoreline adheres to generally accepted accounting principles (GAAP) applicable to governments. Shoreline uses proprietary funds to account for the surface water utility and certain internal service activities (fleet, information services, and unemployment management activities). Most other activities are recorded in governmental funds (General Fund, Capital Services Funds, Debt Service Funds, etc). These funds are included in the 2013 Proposed Budget and each fund is described in more detail at the beginning of each fund section.

SUMMARY OF THE 2013 BUDGET

Council Goals and Community Priorities

As a planning document, one fundamental purpose of the City's budget is to allocate resources that support the community's vision and priorities. The 2012 Shoreline citizen survey reported that 92% of residents believe that Shoreline is an excellent or good place to live and 72% say the City is heading in the right direction. As a result, City staff members strive to use resources to maintain and enhance this level of community satisfaction. The City is guided by seven key strategic objectives to create the desired community vision for Shoreline:

Total Budget: \$67.0 million

Operations Budget: \$36.7 million

Capital Budget: \$22.1 million

Financial Reserves: \$5.2 million

General Fund Balance: \$6.1 million

AA+ Bond Rating

***S&P Highest Financial
Management Rating of "Strong"***

***17 years of Unqualified (clean)
Audit Opinions***

***GFOA Budget Award for 13
consecutive years***

***92% of residents believe that
Shoreline is an excellent or good
place to live***

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(1) Safe and attractive neighborhoods and business districts; (2) Quality services, facilities, and infrastructure; (3) Safe, healthy, and sustainable environment; (4) Governmental excellence; (5) Economic vitality and financial stability; (6) Human services; and (7) Effective citizen communication and engagement.

In addition, each year the Council adopts goals identifying the most important items for the City to accomplish over the next 18 to 24 months. The 2013 Proposed Budget allocates resources that staff members use to successfully accomplish these key goals. Following is a list of the Council's 2012-2014 goals including specific items that are funded in the 2013 Proposed Budget.

Goal 1: Strengthen Shoreline's economic base.

- Complete the 10 Year Financial Sustainability Plan
- Aurora Square Master Planning
- Business mini-grant pilot program
- Consolidation of the City's commercial development code and design standards
- Permitting system upgrade
- Farmer's Market Sponsorship

Goal 2: Improve Shoreline's utility, transportation, and environmental infrastructure.

- Moving GIS to the Cloud Server
- Initiate construction on the 192nd to 205th Aurora Ave. N. improvements
- Update and renewal of the City's franchise agreement with Seattle City Light
- Transition of traffic signal synchronization from a contracted service to a City provided service

Goal 3: Prepare for two Shoreline light rail stations.

- Light Rail Station Area Planning
- Update of the land use maps in the station areas
- Mayor and Deputy Mayor representation on the "Lynnwood Link" coordination committee

Goal 4: Enhance openness and opportunities for community engagement.

- Communication Assistant FTE increase by 0.25
- Website upgrade for enhanced mobile features
- Engage the community on crime prevention efforts and programs

2013 Budget Highlights

CHALLENGES

The City of Shoreline, along with most cities throughout the nation, is experiencing challenges presented by extended weakness in the local, national, and global economies. The recession reduced the City's sales tax collections by nearly 13% and development revenue by 61% from the peak in 2007-2008. Sales tax collections fell to levels collected in 2005, but are now slowly recovering. Development revenues fell to historic lows, but are also now recovering. Assessed valuation continues to decline, however there are indications that property values may start a recovery in 2014.

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As discussed above the recession profoundly affects the ability of cities to balance their budgets and maintain existing levels of service. In addition to these concerns are problems experienced at the federal and state levels. In an effort to balance their own budgets the federal and state governments have reduced revenues previously shared with cities. This will most likely continue into the future.

STABLE FINANCIAL CONDITION

All of these and other significant challenges add complexity to balancing city budgets. Yet despite these challenges Shoreline's staff and City Council have worked together to maintain the City's positive and stable financial condition. The City has fully funded reserves that meet or exceed City policies. The City's Revenue Stabilization Fund ("rainy day reserve") totals \$5.2 million, equal to approximately 37% of the City's economically sensitive operating revenues. This exceeds the 30% minimum established by the City Council. The 2013 Proposed Budget also provides a General Fund ending fund balance of \$6.1 million. This is 39% above the City Council's minimum policy requirement of \$4.4 million.

As a result of the Council's strong financial policies, diligent financial management, and conservative budget planning, the City continues to maintain its AA+ bond rating and Standard & Poor's (S&P) highest financial management rating of "strong." The City has a perfect record with 17 Unqualified (clean) Audit Opinions, and has received 13 consecutive GFOA Budget Awards.

REVENUES

Budgeted 2013 revenues for all funds total \$59.2* million. This is a \$14.6 million (33%) increase from the 2012 budget. The primary reason for this change is a \$13.9 million (244%) increase in Capital Services Fund revenues.

The City's proposed Operating Funds revenues total \$33.4* million. This is a \$0.7 million (2%) increase over the 2012 budget. This is primarily the result of a \$0.6 million increase in budgeted Fines and Forfeits revenues. This changed when the State Auditors' Office requested that we "gross up" District Court fines. In prior years revenues were netted with expenditures in this category.

Debt Service Funds revenues are budgeted at \$1.9* million. This is a \$0.2 million (10%) decrease from the prior year. Staff members are recommending a temporary reduction in property tax collections for the 2006 General Obligation Bond Fund (Parks Bonds). Bond funds are not permitted to accumulate excessive amounts of fund balance and this one-time adjustment is needed to use accumulated fund balance from prior years. The City estimates that the excess levy will go from \$0.27 per \$1,000 AV in 2012 to about \$.255 per \$1,000 in 2013, resulting in about a \$4-\$5 decrease in property taxes (based on an assessed value home of \$300,000).

Capital Services Funds revenues are budgeted at \$19.7* million. This is a \$13.9 million (244%) increase from the prior year. Primary reasons include \$3.0 million in bond proceeds that will be used to purchase a maintenance facility site and a \$10.9 million increase in federal grant revenues to complete the Aurora Avenue street reconstruction projects.

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The Surface Water Utility Fund revenues are budgeted at \$3.8* million, a \$0.2 million (6%) increase from the 2012 adopted budget. The primary reason for this change is a \$0.2 million increase in intergovernmental revenues due to an increase in grants awarded.

Internal Service Funds revenues are budgeted at \$0.5* million, unchanged from the prior year.

*Note: * - Amounts shown exclude interfund transfers and use of fund balance.*

EXPENDITURES – OVERVIEW

Budgeted 2013 expenditures for all funds total \$67.0 million. This is a \$12.3 million (22%) increase from the 2012 budget. The primary reason for this change is a \$12.6 million increase in Capital Services Fund expenditures.

The City's proposed Operating Funds budgets total \$36.7 million. This is a \$0.4 million (1%) increase over the 2012 budget. As in prior years, the 2013 Proposed Budget is balanced and complies with the City's adopted budget and financial policies.

Debt Service Funds expenditures are budgeted at \$3.4 million, unchanged from the prior year.

Capital Services Funds expenditures are budgeted at \$22.1 million. This is a \$12.6 million (133%) increase over 2012. The main reasons for this difference are a \$9.7 million increase in Roads Capital Fund projects and a \$2.9 million increase in General Capital Fund projects.

The Surface Water Utility Fund expenditures are budgeted at \$4.5 million, a \$0.5 million (10%) decrease from the prior year. The primary reason for this change is a \$0.5 million decrease in new capital outlay projects.

The remaining budget decrease of \$0.2 million comes from the Internal Service Funds. Internal Services expenditures are 33% lower than in 2012 and are budgeted at \$0.4 million in 2013. The primary reasons for this change are lower unemployment claims (no layoffs are included in the 2013 Proposed Budget) and lower equipment replacement costs (the 2012 budget included a large vehicle purchase).

EXPENDITURES – STAFFING

After reviewing workloads, service delivery expectations, and optional service delivery methods, the 2012 Budget included a significant reallocation of resources to meet community needs. The final budget reallocated resources towards Public Works, Facilities Maintenance, and Surface Water needs, among others. Planning, Information Systems, and Administrative support positions were reduced in order to accomplish these changes.

The 2013 Proposed Budget continues this trend. To accomplish the Council Goals and community priorities we are recommending the following budget changes:

- *Communication Assistant* – An increase of 0.25 FTE increasing the ability to address communications needs. No net budget effect (the position is funded from savings in related professional services).
- *Animal Control Officers* – A decrease of 1.50 FTE. Earlier this year the City Council decided to continue to contract with King County for these services resulting in \$18,448 in salary savings.

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- *GIS Specialist – Transferred* 1.0 FTE from the Administrative Services Department to the Public Works Department to reflect the current status of this employee. No net budget effect.
- *Recreation Assistant I and Recreation Assistant II* – The Assistant I position was increased by 0.3 FTE and the Assistant II position was decreased by 0.275 FTE to realign priorities. No net budget effect.
- *Capital Project Technician* – This 0.5 FTE position became vacant and was eliminated. The Public Works Department did this to plan ahead for the upcoming completion of the Aurora Avenue projects. This accomplishes a budget savings of \$43,388 that will be allocated to other Aurora Ave. N project expenditures.
- *Capital Project Manager II* – This 1.0 FTE position became vacant and was eliminated. The Public Works Department did this to plan ahead for the upcoming completion of the Aurora Avenue projects. This accomplishes a budget savings of \$128,637 that will be allocated to other Aurora Ave. N. project expenditures.
- *Engineer II – Traffic/Associate Traffic Engineer* – This position was reclassified from Associate Traffic Engineer to Engineer II – Traffic. No net budget effect (this reclassification is funded from Traffic Signal Rehabilitation professional services).

As a result of these changes the City will reduce its staff count by 2.725 FTEs in the 2013 Proposed Budget. This is a decrease of 9.2 FTEs (6.2%) since 2008. In 2013, Shoreline will have 2.37 FTEs per 1,000 population for non-utility personnel. In 2012, the median FTEs per 1,000 population for comparable cities is 2.55, and the average is 2.85.

EXPENDITURES – ADDITIONAL PROGRAM COSTS

Other significant 2013 Proposed Budget recommendations include the following:

Department	Program / Item	Cost	
		One-Time	On-going
CMO - Economic Development	Aurora Square Master Planning	25,000	
CMO - Economic Development	Business mini-grant pilot program	10,000	
CMO - Economic Development	Farmer's Market Sponsorship		5,000
CMO - Communications	0.25 FTE increase - Communications Assistant		21,155
P&CD - City Planning	Light Rail Station Area Planning	250,000	
Admin Services - Web Development	Website Upgrade for enhance mobile features	16,380	
Admin Services - IT Strategic Plan	IT Tech Plan - Permitting System Upgrade	47,500	
Public Works - GIS	Moving GIS Server to the Cloud	1,325	2,475
Public Works - Traffic Signal Rehab	Reclassification of Associate Traffic Engineer to Traffic Engineer II		8,171
Total		350,205	36,801

The one-time items are being funded from one-time revenues of \$480,855 in projected year-end 2012 operating budget savings.

EXPENDITURES – CAPITAL OUTLAY

As discussed above, the 2013 Proposed Budget for Capital Services Funds totals \$22.1 million. Significant projects making up the \$22.1 million total include:

- Maintenance Facility Acquisition \$ 3.0 million

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• Echo Lake Park Improvements	0.2
• Parks Repair & Replacement	0.2
• Sunset School Park	0.2
• Trail Corridors	0.2
• Aurora Avenue North – 192 nd to 205 th	14.4
• Annual Road Surface Maintenance Program	1.4
• Traffic Signal Rehabilitation Program	0.5
• Traffic Safety Improvements	0.3
• Route Development Plan – 145 th Corridor	0.2
• Roads Capital Engineering	0.2
• 19 Small Projects (under \$0.2 million each)	<u>1.3</u>
Total	\$ <u>22.1</u> million

Also as discussed above, the 2013 Proposed Budget for new Capital Outlay in the Surface Water Utility Fund totals \$0.3 million. When added to \$1.6 million in ongoing 2012 capital projects carrying over into 2013, the Surface Water Fund will have \$1.9 million budgeted for capital outlay. Significant projects include:

• North Fork Thornton Creek LID Storm Water Retrofit	\$ 0.6 million
• Storm Water Pipe Replacement Program	0.3
• Surface Water Management Green Works Projects	0.2
• Surface Water Capital Engineering	0.2
• 5 Small Projects (under \$0.2 million each)	<u>0.6</u>
Total	\$ <u>1.9</u> million

EXPENDITURES – ONGOING EFFICIENCIES

Shoreline’s Citizen Advisory Committee on Long-Range Financial Planning provided several recommendations to the City Council in 2010. The Committee stressed continued commitment to two concepts: finding efficiencies and delivering services cost effectively. City staff takes these recommendations seriously. In many ways ongoing efficiency efforts have allowed Shoreline to maintain services during times when other cities were making significant reductions.

Past efficiencies include:

- A 2010 contract moving most jail services from King County to Snohomish County. As a result of this contract the 2013 jail budget is \$467,586 (31%) lower than the 2010 year-end actual. By the end of 2013 this change should result in cumulative savings of \$1,421,059 through the first three contract years.
- A 2011 program instituting joint supervision between the City of Shoreline and City of Kenmore Police Departments. As a result of this program the City of Shoreline will receive credit toward the 2012 and 2013 contracts totaling \$306,746. The 2013 credit is \$164,255.
- The City of Shoreline received an additional credit of \$119,027 on the 2012 police contract due to the results of an internal audit by King County. The credit relates to health insurance benefit costs and the effects will continue into future years.

These are just a few examples of ongoing efficiencies realized in the past few years. City staff members will continue to seek out partnerships and other efficiencies during 2013 and beyond.

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Outlook

City staff members are proud to present a balanced 2013 Proposed Budget that addresses Council goals and community priorities. However, we also recognize that the City continues to face financial challenges in the future. The passage of Proposition No. 1 in 2010 was intended to stabilize property tax collections for six years. Unfortunately declining assessed valuation resulted in the City reaching legal property tax rate limitations. The actual property tax levy is now at the legal maximum and the amount of property tax revenue in 2013 will be about 6.4% less than 2012 collections.

The State of Washington, like its city governments, is also suffering from the recession. Falling revenues in the past resulted in budget gaps. The State Legislature closed these gaps in part by reducing amounts traditionally remitted to local jurisdictions. In addition the Washington Supreme Court recently decided that the State is inadequately funding education. As a result it is quite possible that future State budget efforts will continue to have a negative impact on local government budgets. As in the past, the City of Shoreline will continue to exercise its fiduciary responsibility to the citizens and we will make any budget adjustments necessary as a result of future State legislative actions.

The City government is proactively dealing with these budget issues. Staff members are moving forward with a ten year financial sustainability strategy, scheduled for kick off in October, 2012. This project will consider what the future might look like based on a variety of budget scenarios. The goal is to develop an ongoing structural budget solution that City Council can use to set future priorities and make ongoing budget decisions.

In addition, the City's staff members continue to strive to attract economic development opportunities. The 2012 citizen survey shows community support for these efforts, with 67% favoring or strongly favoring further development efforts. Economic development has the added benefit of improving the City's future financial sustainability.

Financial sustainability includes investing in infrastructure improvements. By attending to our infrastructure today, the City avoids much more costly deferred maintenance problems in the future.

Last year's budget included the comment that "our economy will improve and development will return." This year we are beginning to see the effects of that upturn. However, City staff will remain vigilant. Staff members believe that Shoreline needs to plan for a variety of possible situations and remain resilient to changing economic conditions.

Conclusion

We believe that the 2013 Proposed Budget comprehensively addresses the City's service and capital investment needs for the coming year. It also addresses the top priorities of the City Council and the Shoreline community. This budget makes every effort to maintain existing levels of service. Our citizens have expressed that desire based on past feedback, the 2012 Citizen Survey, as well as through their support of Proposition 1 in 2010.

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2013 Proposed Budget is a 22% Increase from the 2012 Proposed Budget

2013 Operating Budget is a 1% Increase from the 2012 Budget

Staff Reductions since 2008: 6.2%

Finally, it is important to acknowledge the contributions of everyone involved in this year's budget process. We would like to express our appreciation to the City's Leadership Team and to all staff members. These individuals worked to provide realistic budget requests and to develop ways to meet Council and community priorities.

It is also appropriate to thank several members of the Administrative Services Department for their tireless efforts to produce the 2013 Proposed Budget, while still performing day to day duties and keeping up with workflow demands. Special thanks go to Patti Rader, Susana Villamarin, and Rick Kirkwood for their assistance in preparing this budget. Thanks are also needed to the City Council for providing policy direction to the City of Shoreline over the years.

Respectfully submitted,



Julie Underwood
City Manager



Robert Hartwig CPA, MBA
Administrative Services Director