

**CITY COUNCIL AGENDA ITEM**  
CITY OF SHORELINE, WASHINGTON

<b>AGENDA TITLE:</b> 2007 Budget and City Financial Long-Term Projection Update
<b>DEPARTMENT:</b> Finance
<b>PRESENTED BY:</b> Debbie Tarry, Finance Director 

**PROBLEM/ISSUE STATEMENT:**

Staff is currently in the process of finalizing the 2007 Proposed Budget. The purpose of this discussion will be to provide the City Council with an update of the City's long-term financial projections and some of the primary policy issues that will need to be addressed during the 2007 budget deliberations. 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. The Council recently completed a review of the capital budget through the 2007-2012 Capital Improvement Program (CIP) process. Staff is not anticipating any significant changes between the 2007 Proposed Budget and the project list adopted in the CIP for 2007.

**FINANCIAL IMPACT:**

As of September 1, the City's 2007 proposed operating budget still has a budget gap of approximately \$455,000. The budget gap represents expenditures in excess of revenues, and is on the City's base budget. The base budget is to provide the current level of services with the exception of any new maintenance needs related to capital projects that have been completed, such as 15<sup>th</sup> Avenue and the 145<sup>th</sup> to 165<sup>th</sup> Aurora Avenue improvements. The base budget does not include any new personnel positions, programs or services. Although the current budget gap is still preliminary and subject to change as more revenue and expenditure information is gathered during the finalization of the proposed 2007 budget, it will be a challenge to balance the budget. The base budget will need to be balanced before the City Manager determines if any service level changes or program changes should be included in his recommended budget. The City Manager will present his recommended balanced 2007 budget to the City Council on October 16, 2006.

The Council last reviewed the City's long-term financial projections during the April City Council Retreat. At that time staff was projecting a 2007 operating budget gap of approximately \$60,000 and budget gaps in future years. Since that time we have been able to update some of our projections based on additional information. This includes gambling tax trends, sales tax trends, utility rate changes, health insurance premium increases, Public Employee Retirement System (PERS) employer contribution rate increases, and trends of bookings and usage of jail beds that affect the City's jail costs. These changes have resulted in a preliminary forecast of the operating budget having a

\$455,000 budget gap for 2007. As stated earlier, although there is currently a budget gap, the City Manager will present a balanced budget in October. The City's long-term financial forecasts show budget gaps occurring in 2008 through 2012.

Although the City Council will be focused on review of the 2007 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 will be providing the Council an update of the long-term financial forecast during the Council meeting of September 18, 2006.

**RECOMMENDATION**

No action is required by the City Council. This item is for informational purposes and to provide the City Council with preliminary 2007 budget information.

Approved By:        City Manager RD    City Attorney \_\_\_\_\_

## INTRODUCTION

Staff is preparing the 2007 Proposed Budget and updating financial indicators and 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 2007 budget workshop reviews. The Council 2007 budget schedule is as follows:

Preliminary 2007 Budget Update	September 18
Transmittal of Proposed 2007 Budget	October 16
Public Hearing & Department Budget Review	October 23
Public Hearing on Revenue Sources & 2007 Property Tax Levy	November 6
Budget Review Workshop	November 13
Budget Review Workshop (If Necessary)	November 20
Adoption of 2007 Property Tax Levy	November 27
Adoption of 2007 Budget	November 27

## BACKGROUND

During the April 2006 City Council retreat, staff provided Council with an update of the City's long-term financial projections. At that time, staff was projecting a \$60,000 operating budget gap in 2007. Since that time staff has continued to evaluate revenue and expenditure trends and updated the City's long-term financial model. Also departments have submitted their 2007 budget requests and 2007 revenue estimates. Some of the major changes that have occurred since the April projections include:

- **Gambling Tax:** As Council is aware, the City's gambling tax revenues are down significantly in 2006 as a result of declining activity in bingo, pull-tab, and card room games. Since April staff has been informed that the Cascade Bingo Hall has closed. Cascade Bingo provided approximately \$44,000 in bingo/raffle associated gambling tax to the City annually. This revenue is now projected at zero beginning in 2007. Pull-tab activity has continued to decline and staff had projected declining revenue from this source, but activity has slowed quicker than projected. One significant change is the closure of Cascade Bingo, as they provided approximately 18% of the City's budgeted pull-tab gambling tax revenue. As a result the City's 2007 projected revenue from punch boards/pull-tab, as well as the long-term financial forecast has been reduced. In fact the 2007 projection (\$185,000) is approximately 22% less than the 2006 budget (\$236,000).

Card-room gross receipts has been approximately 20% less in 2006 for the first two quarters than was collected during the same period of 2005. The primary reasons for this decline seem to be: competition from tribal casinos, passage of the smoking ban in public places in November 2005 (does not apply to tribal casinos), competition from on-line betting, and impacts from construction along Aurora Avenue. Council approved a temporary reduction in the City's card room tax rate from 10% to 7% for nine months in recognition of the impact that Aurora construction was having on local card rooms.

At this time there has not been any indication that card room activity will go back to pre-2006 levels since it appears that the primary reasons for the decline in activity is related to the smoking ban and the competition from both tribal casinos and on-line gambling. As a result, staff has reduced both the 2007 forecast for card-room activity and the long-term financial forecast for gambling activity.

The net impact of these revenue changes is a reduction in operating revenues of \$451,422 for 2007. The following chart shows the change in projected 2007 gambling tax revenues that have occurred since the April financial forecast.

	April 2006 - 2007 Budget Projection	September 2006 - 2007 Budget Projection	Difference
Punch Boards/Pull-Tabs	212,400	185,000	(27,400)
Bingo	44,000	-	(44,000)
Card Games	2,650,000	1,949,000	(701,000)
Transfer to Capital	(795,000)	(474,022)	320,978
Net Gambling Tax for Operations	2,111,400	1,659,978	(451,422)

- **Seattle City Light (SCL) Contract Payment:** In 2005 SCL anticipated making rate adjustments that would result in lower electric rates to consumers. This did not occur in 2005 or in 2006. On July 19, 2006, Mayor Nickles' submitted his proposed 2007-2008 electric rates to the Seattle City Council. The rate recommendation would result in a small increase to Shoreline's residential customers (.8%), or approximately \$5 to \$7 annually, but a decrease for most commercial ratepayers. Based on this information staff believes that the contract payment will not drop significantly from prior years and therefore we have raised our annual projection to \$1 million, from \$850,000, for 2007. The contract payment in 2004 was \$1,066,780 and in 2005 \$1,032,548. Currently 2006 revenue is estimated at \$1,000,000.
- **Seattle Public Utilities (SPU) and Shoreline Water District Contract Payment:** In 2004 we were notified by SPU that they had been calculating the City's contract payment incorrectly. In 2005 we received a back payment for underpayment of the contract payment since 2002. The 2005 fourth quarter payment from SPU was not received until March of 2006. If this payment had been recorded in 2005, and the back payment was excluded, the total 2005 revenue from water contract payments would have been \$555,000. Based on collections for the first two quarters of 2006, it appears that 2006 collections are tracking similarly to the 2005 collections. 2007 revenue is estimated at \$565,000.
- **Utility Tax Adjustments:** Recently Puget Sound Energy (PSE) requested a 9.9% rate increase in natural gas rates, as a result of higher gas costs, to be effective October 1, 2006. Although approval of this rate will not occur until later in September, it is likely that this increase will be approved since it is basically a "pass-through" rate increase, in other words it is only a result of higher energy costs to PSE. Over the years we have seen the natural gas rates increase and then decrease. It appears that some of the recent increases for PSE are of a more permanent nature and therefore we have increased our forecast for natural gas utility tax by 17.1%, or \$145,000, in 2007 as compared to the 2006 budget.

Utility taxes from telephone (land lines and wireless) appears to have stabilized. In reviewing 2005 revenue collections staff found that there were some late 2004 payments that were accounted for in 2005, as a result the 2005 revenue was slightly overstated, while the 2004 revenue was slightly understated. The 2004 collections were approximately \$1.48 million, while the 2005 collections were \$1.65 million. The current 2006 budget is \$1.48 million. Staff is continuing to monitor 2006 collections to see if actual collections will exceed this amount. At this time staff has left 2007 revenue projections at \$1.48 million.

- **Sales Tax Trends:** To date, 2006 sales tax collections are tracking 3.8% ahead of the 2006 budget and 1.5% ahead of 2005 collections for the same time period. Although this is very modest growth, it appears that most of the growth is occurring in the retail sector, which is considered on-going revenue. Currently we are projecting 2007 sales tax revenues to be 8% greater than the 2006 budget, but only 2.5% greater than projected actual collections for 2006. We are projecting that the City will collect \$6.08 million in sales tax in 2006, and \$6.25 million in 2007. Most economists are predicting both employment and income growth in the Puget Sound region for 2006 along with very positive retail sales tax growth (6.5%) throughout the region.
- **Public Employee Retirement System (PERS) Contribution Rates:** As was projected in the April forecast, PERS employee and employer contribution rates will continue to increase through 2010. The State Actuary revised the 2006 pension contribution rates to reflect legislation that passed during the 2006 Legislative session. The following table shows the rate changes that were approved:

	Effective 7-1-06	Effective 9-1-06	Effective 1-1-07	Effective 7-1-07	Effective 7-1-08	Effective 7-1-09
PERS Employer Contribution	3.69%	3.70%	5.47%	6.01%	7.57%	7.53%

As a result of these legislative changes, the City's PERS contribution will increase by approximately 98.5% from 2006 to 2007. The 2006 General Fund PERS contribution budget totaled \$190,268 and the 2007 budget is projected at \$377,620, a \$187,000 increase. The rate increases are a result of the declining investment rate returns since 2002 and the growing long-term retirement obligation. Prior to 2005, rates had been as low as 1.8%.

The City had anticipated that the rates would increase as investment rates fell and had put approximately \$160,000 of on-going revenue in a contingency to soften the blow of the increases.

Although the Legislature approved these rates, there is a chance that an additional rate increase could be approved for 7/1/07. This rate increase would be a result of the gain-sharing provisions of PERS 1 and PERS 3. The Association of Washington Cities (AWC) has said that the rate increase could be as much as 0.71%. An additional increase at this rate would cost the City approximately \$31,300 in 2007. At this time since it is uncertain what the Legislature will do, the City's 2007 budget does not include any budget or contingency for a rate increase above that which has already been approved.

- **Health Benefits:** Preliminary information from AWC shows that they anticipate medical premium rates to increase between 12% and 13% for 2007. As a result, we have estimated that the City's contribution towards health benefits will increase by approximately 10% in 2007. In the General Fund this equates to approximately a \$111,000 increase. The AWC Board will review health premium recommendations at the end of September and finalize the rates.
- **Market Rate Adjustment:** The preliminary 2007 budget anticipates a salary market rate adjustment of 3.78%. This is based on 90% of the June Seattle-Tacoma CPI-W. This CPI figure was 4.2%, higher than anticipated in the April financial forecast and higher than projected by most economists. At that time, CPI was projected at 2.4%. Historically the City has based its market adjustment on the median market adjustment awarded by the City's comparable jurisdictions, as outlined in the City's compensation policy. Historically this median has been very close to 90% of the Seattle-Tacoma CPI-W.
- **Salary Survey:** The City's compensation policy includes a routine salary survey of classifications every three years to ensure that the City's salaries are at the median of the City's comparable cities. During 2006 staff is completing a salary survey on classifications 1 through 45. Any changes recommended as a result of this review will be included in the proposed 2007 budget.
- **Lease Costs:** The 2007 proposed budget will reflect a significant decrease in lease costs as a result of the acquisition of the City Hall Annex. Since the City will own the building, there will be no lease costs for the space currently occupied by the City. There is also no debt service costs related to a new City Hall in 2007. As a result the City's facility occupancy costs are approximately \$289,000 less than was forecasted in the April projections. Although this is the case, the 2007 budget will include a transfer of the lease savings to the General Capital Fund in order to reserve those monies towards the acquisition of the Civic Center property and City Hall construction. Staff had estimated a total of \$350,000 of lease savings between 2007 and 2008 that would be allocated for this purpose. It is anticipated in 2009 that the annual reduction in lease payments would be used towards the annual debt service costs of the City Hall.

Staff is currently developing a management plan for the ownership of the Kimm Property and the City Hall Annex building. At this time, staff has not incorporated any lease revenue or operational expenses associated with these facilities outside of those related to the operation of City Hall into the 2007 proposed budget. This information will be presented to Council during the budget discussions and will be included in the 2007 adopted budget.

- **Jail Activity:** 2007 jail activity is projected to be roughly the same as in 2006. The following chart summarizes the actual jail activity for 2003 through 2005, along with the projections for 2006 and 2007.

Jail Overview										
Facility	2003		2004		2005		2006 Projection		2007 Estimate	
	Jail Usage	Cost	Jail Usage	Cost	Jail Usage	Cost	Jail Usage	Cost	Jail Usage	Cost
King County Bookings	759	\$118,948	608	\$101,256	673	\$118,583	744	\$138,696	744	\$146,602
King County Jail Days	6,685	\$442,383	3,857	\$334,055	3,909	\$360,723	3,839	\$374,648	3,839	\$395,929
Yakima Jail Days + Medical Payment	2,769	\$162,713	3,438	\$212,228	7,262	\$468,276	8,154	\$534,415	8,159	\$580,686
Yakima Additional Medical Costs				\$0		\$0	0	\$2,500	0	\$5,000
Issaquah/Renton		NA	218	\$12,665	387	\$25,948	1,390	\$91,064	1,390	\$97,000
Issaquah/Renton Medical							0	\$1,224	0	0
Total Costs	10,213	\$724,044	8,121	\$660,204	12,231	\$973,530	14,127	\$1,142,547	14,132	\$1,225,217

As the City Council is aware, jail usage had a significant increase beginning in August 2005. The City continues to maximize its contract with Yakima County and is working with the Jail Advisory Group to monitor the activities at the Yakima jail. For 2007 we are anticipating the same usage patterns as in 2006 and have incorporated into the cost estimate the daily jail cost increases that both Yakima and King County will charge in 2007 (King County increase is 5.7% and Yakima is 5%). The 2007 projected budget is \$1.225 million, a 46% increase compared to the 2006 budget, but in line with 2006 anticipated expenditures.

- **Human Service Funding:** Currently the 2007 preliminary budget increases the City's General Fund allocation towards the competitive human service funding by 4.4% to \$280,500. This increase off-sets anticipated reductions in federal funding and allows for some inflationary increases. The long-term financial projections maintain this level of funding through 2012.
- **Police Contract:** The April forecast used a 5% estimated increase in the police contract. Since that time we have raised the estimated increase to 5.5% for most categories of the police contract. Also, for the last three years the City had a received a \$25,000 annual credit towards the Administrative Sergeant position that was added in 2004 from a COPS grant. 2006 is the final year of this grant, and therefore this credit was removed for 2007. As a result the police contract is anticipated to be \$8.381 million in 2007. This is a 5.6% increase from the 2006 budget of \$7.934 million.

## DISCUSSION

Some of the primary factors affecting the 2007 proposed budget and the 2007-2012 long-range forecasts include:

### **GENERAL FUND**

#### **Revenues**

General Fund operating revenues, excluding interfund operating transfers and the use of fund balance for one-time expenditures, are projected to increase by approximately 1.7% from the 2006 current budget to 2007. This is approximately a \$453,000 increase.

A description of the most significant revenue trends for 2006 are discussed below.

*Property Tax Revenues:* Property tax revenues are projected to grow by 1.9% in 2007. Approximately .8% of this growth is a result of projected new construction within the City, which results in increased valuation. A 1% increase in levy accounts for the remaining increase in property tax for 2007. The 1.9% increase in property tax revenue

equates to approximately \$131,000. The projected 2007 property tax levy rate is \$1.14, down approximately 3% from the 2006 levy rate of \$1.17.

*Sales Tax Revenues:* The current projection for 2007 is for sales tax to grow by 8% over the 2006 budget levels, or \$464,500, for a total of \$6.25 million. Although this may seem like a large increase, we have increased our 2006 sales tax revenue projections to \$6.09 million. Based on this level of sales tax revenue, the 2007 projected collections reflect a 2.5% growth from projected 2006 collections.

The City also receives criminal justice sales tax, which is collected county-wide and then distributed on a per capita basis. County-wide sales tax revenues in 2005 increased by 13.4% compared to 2004 collections. This was a positive change, as sales tax on a county-wide basis had shown modest growth in the previous year. County-wide sales tax is projected to continue in the growth mode as the economic recovery continues in the Puget Sound region. For this reason 2007 collections are projected to increase, 11.2%, to \$1.224 million in 2007, when compared to the 2006 budget. When compared to the 2006 expected collections the 2007 budget increase is 6.4%. The June issue of the Economic Forecaster projected that retail sales in the Puget Sound would increase by 6.5% in 2007.

*Utility Contract Payments, Utility Taxes & Franchise Fees:* Overall utility tax, franchise fees, and interlocal utility contract agreement revenues are projected to increase by 8.4% when compared to the 2006 budget, and 2.6%, \$149,000, when compared to 2006 expected collections. Some of the primary reasons for this increase include:

- Seattle City Light (SCL) rates are anticipated to have a very slight increase for residential customers in 2007 and a decrease for most commercial customers.
- Cable rates have increased in 2006 and are expected to increase 2007 collections by 10%, \$50,000, in 2007 compared to the 2006 budget. Actual collections in 2006 are tracking higher than the 2006 budget.
- Surface Water Utility Tax revenues reflect an anticipated 8.9% increase, \$14,500, that aligns with the expected surface water utility rate increase as was adopted with the Surface Water Management Plan. The anticipated residential utility rate will go from \$111 to \$121, a \$10 annual increase.

*Gambling Tax:* As was previously discussed, gambling tax revenues are projected to decrease by 21.4%, \$451,000, for general operations.

*State Shared Revenues:* Liquor Board Profits and Liquor Excise taxes are two sources of revenue collected by the State of Washington and then distributed to cities on a per capita basis. It appears that these revenue sources will increase slightly (\$21,000) from 2006 to 2007.

*Recreation Revenues:* Participation in the City's recreation programs has continued to increase in 2006. Revenues in our recreation programs are expected to be 14.8% or \$107,000 higher than budgeted in 2006 as a result of the increased participation and introduction of some new programs. In 2007 it is expected that participation will mirror 2006 levels and therefore only slight increases in program revenues are anticipated.



The biggest change in recreation revenue projections will occur with the soccer field rental rate increases associated with the anticipated improvements in turf to be made to fields A & B. Any revenues received in excess of the rental revenue base that existed prior to the field improvements will be allocated to the General Capital Projects Fund to help restore some of the City's contribution towards these improvements.

*Development Revenues:* Development related revenues are projected to decrease slightly by approximately .87%, \$11,300, in 2007 as compared to the 2006 budget. It is anticipated that activity levels will remain fairly constant between the two years.

*Investment Interest:* Investment interest rates have been on the incline since 2005. Currently the City is able to get in excess of 5% on new two year investments. In the last few years the rate had fallen to close to 1%. As a result we are projecting that investment interest revenue will increase by 25% to \$375,000 in 2007.

### **Expenditures**

Overall expenditures, excluding one-time interfund operating transfers that were budgeted in 2006 and carry-overs, are projected to increase by approximately 1.3% in 2007 as compared to the adopted 2006 budget. The current 2006 budget includes approximately \$237,000 in carryovers from the 2006 budget. Including these carryovers from the current 2006 budget, the preliminary 2007 operating budget reflects a .5% increase from the 2006 budget.

A discussion of the most significant expenditure trends follows.

*Personnel:* Personnel expenditures represent approximately 34% of the City's operating budget. Excluding any new personnel positions, personnel costs are projected to increase by approximately 7%, \$705,000. This is primarily based on anticipated step increases for employees who are not at the top of their salary range, an anticipated market rate adjustment of up to 3.78%, a projected 10% increase in the City's health benefit costs, and a 98% increase in the employer PERS contribution. The City's long-term financial forecast projects personnel costs to increase by approximately 5% annually, as future PERS rate increases are not going to be as large as those that occurred in 2006 and 2007 and economists project that inflation will remain under control and be closer to 3% for the next few years.

Overall salaries for regular and extra-help employees are expected to increase by \$317,000, or approximately 4.6%. The remaining \$388,000 (\$705,000 less \$317,000) in increased personnel costs are primarily related to the benefit changes. The largest increases are in the PERS contribution (\$206,000) and health benefits (\$128,000). Other increases include social security replacement (\$20,000) and labor and industries costs (\$25,000).

*Police Contract:* The police contract with King County is projected to increase by approximately \$447,000, 5.6%, in 2007, as compared to the 2006 adopted budget. This is primarily a result of anticipated labor cost increases, some shift in activity level allocated to the City for support services, and implementation of the King County

wireless project for police services. This is a preliminary estimate in cost increase as it is based on historical trends. At this time King County has not provided cost increase estimates. The actual increase will not be determined until after the King County budget is adopted and the annual reconciliation is completed next spring.

*Jail:* We are currently anticipating that the 2007 budget to be \$1,225,000.

*New Maintenance Costs:* As capital projects are completed the City must absorb any related on-going maintenance costs. In 2007 this includes the maintenance costs related to the improvements on 15<sup>th</sup> Avenues and the improvements completed as part of the 145<sup>th</sup> and 165<sup>th</sup> Aurora project. The City anticipates these costs in its long-term financial projections. The preliminary cost estimate for the maintenance related to these projects is still being evaluated.

*Capital Funding:* The City will allocate approximately \$733,000 of general fund revenues in 2007 to the capital project funds. This funding is primarily for long-term facility repair/replacement and road surface management. This allocation is included in the City's long-term projections and the preliminary 2007 budget.

### **Fund Balance**

The General Fund currently has a healthy fund balance based on conservative budget planning by the City Council. The 2006 projected ending fund balance for the General and General Reserve Funds combined total approximately \$9.6 million, nearly 35% of General Fund revenues. These reserves represent the reserves available to the City to cover unexpected emergencies, unexpected changes in the economy, and provide for cash flow management, as many of the City's revenue sources come in semi-annual or quarterly payments, while operational expenditures occur on a fairly straight-line basis throughout the year. These reserves do not include any of the capital project fund reserves or other reserves designated for specific purposes.

The City's financial policies require that the General Fund and General Reserve Fund balances total at least 10% of the General Fund revenues. Although this is the case, most bond rating agencies, and for cash management needs, these balances should remain at a minimum of 20% to 25% of General Fund revenues.

The City's financial policies prohibit the use of these reserves to balance the City's operating budget on a long-term basis. They could only be used to address short-term budget shortfalls or one-time expenditures.

### **Outstanding Items**

- *Natural Gas Utility Tax:* Staff is still reviewing this revenue stream. Given the anticipated rate increase and based on usage trends in 2005 and 2006, there may be an opportunity to raise our revenue estimates.
- *Telephone Utility Tax:* Staff is continuing to review 2006 receipts from this revenue stream to determine if 2007 revenue estimates should be modified.
- *Street Lights:* Staff is still working with Seattle City Light to fully identify all the street lights that the City is assuming. Also Mayor Nickles' has proposed a significant increase in street light rates (between 26.3% and 90.3%, depending on the type of light). Staff is in contact with the City of Seattle to determine if this will have an

impact on the City's costs for 2007 and if so, to what extent. At this time there is no increase in the 2007 preliminary budget for streetlight rate increases. The current 2006 budget for street lights is \$183,500. A significant increase in this cost will increase the operating budget gap.

### **Future Needs**

Evaluating future financing options will be key in determining any future service enhancements the City may consider. Given our long-term financial projections the 2007 budget instructions to departments were that any service enhancement requests had to be funded by new on-going revenues, reductions in existing programs that are a lower priority or reductions that can be made as a result of efficiencies. Although this was the case, some needs were identified that would require either new one-time or on-going resources. Some of the departmental requests that have been identified include:

- *Park Maintenance Worker*: This position would allow more of the park maintenance functions to be performed internally as opposed to contracting for the service. Council reviewed this proposal as part of the evaluation of the parks maintenance and landscape bid evaluation. The funding will come from reduced expenditures for professional services for the landscape contract.
- *Street Sweeper*: This is a request for the City to purchase a street sweeper to meet our environmental requirements and to perform street sweeping services more efficiently and effectively than is currently occurring through contracted services.
- *Natural Resources Management Strategy*: Monies would be allocated to develop a strategy for the City to manage its natural resources into the future to support the Council's goal to create an environmentally sustainable community.
- *Town Center Development Plan*: This plan would help develop a master plan for Shoreline's Town Center area located generally between No. 170<sup>th</sup> and N. 180<sup>th</sup> along Aurora Ave. N. The plan would bring vision and implementation tools to an area that will include the Civic Center, Aurora Avenue, the Interurban Trail, Heritage Park and commercial and mixed-use buildings.
- *.5 FTE Facilities Maintenance Worker*: This position would provide facility maintenance support throughout the City and provide support to manage the City's vehicle fleet. Currently these services have been provided through extra-help employees.
- *.5 FTE Hansen Development Assistant*: This position would provide data entry and Hansen development support to the Public Works department.
- *Other FTE increase requests*:
  - Increase the .5 FTE Administrative Assistant in the Communications & Intergovernmental Relations department to .75 FTE
  - Increase the Purchasing Assistant from .62 FTE to .75 FTE and the Finance Technician from .5 FTE to .62 FTE. This would increase each position by 5 hours a week.
  - Increase a .5 FTE Recreation Assistant position at Spartan Gym to a full-time regular position.

As the City Manager finalizes his recommended 2007 budget it will be determined which, if any, of the requests should be included in the proposed 2007 budget.

## **CITY STREET FUND**

The City Street Fund receives approximately 47% (\$902,000) of its resources from Gas Tax and Right-of-Way fees to off-set direct costs and the remaining 53% (\$990,000) from General Fund Revenues. More General Fund monies have been shifted towards maintenance of City streets over the last few years as a result of the elimination of the local vehicle license fees in 2002. The elimination of license fees resulted in a revenue loss to the City of nearly \$500,000 annually. Also Motor Vehicle Fuel Tax revenues have not increased at a rate to keep cost with the additional costs that have been absorbed by the Street Fund, such as street lighting, street maintenance, and street sweeping. The Street Fund maintenance does not include the long-term pavement management program.

The long-term projections for this fund indicate that either the City will need to allocate additional general fund revenues for street operations or develop alternative revenues to maintain service levels, especially as some of the capital projects are completed and increased service levels are required to adequately maintain the improvements. In the absence of these options it is likely that service levels will need to be reduced. For the short-term the fund has adequate reserves.

## **2007 AND BEYOND**

Staff will be finalizing the proposed 2007 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.

Staff anticipates that we will balance the 2007 budget within current resources, although this may require a reduction in current base allocations. At this time we have not determined what impact this may have on existing services. Our long-term forecast for 2008 through 2012 shows increasing budget gaps in the out-years unless there are changes in expense or revenue levels. In order to continue to provide current services to the community in the future it will be necessary to continue to monitor our revenue and expenditure trends along with receiving feedback from the community on service priorities.

Anticipating that the City will either have to reduce services or increase revenues in the near term it is likely that the proposed 2007 budget will recommend that we notify Seattle City Light that the City intends to collect a utility contract payment on the distribution portion of electric rates. This process takes 12 months to initiate, so there would not be any actual revenue collections from this source until 2008. The City has the ability to levy up to 6% on the distribution charges, and it is estimated that this could generate up to \$850,000 in annual revenue. As the 2007 budget is finalized the City Manager will determine how the implementation should be phased in over time.

In 2004, as the City Council reviewed the City's long-term forecast, staff advised that it may be necessary to pursue this revenue source to be effective in 2007. At this time, it appears that we have been able to delay implementing this revenue source by one year.

Staff will continue to monitor the long-term projections as the 2007 budget is finalized. Staff anticipates providing additional updates on the long-term projections during the September 18, 2006, Council presentation.

### **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. During the last two years staff has focused on reducing expenditure growth through efficiencies and modification of policies such as the City's health benefit policy. Even though this has been the case, if current trends and assumptions hold true, with no changes in expense or revenue levels, the City's operating budget will have annual operating budget gaps in future years. 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 2007 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 2007 budget information.

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