Council Meeting Date: September 19, 2005 **Agenda Item: 6(a)**

CITY COUNCIL AGENDA ITEM

CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	2006 Budget and City Financial Long-Term Projection Update
DEPARTMENT:	Finance
PRESENTED BY:	Debbie Tarry, Finance Director

PROBLEM/ISSUE STATEMENT:

Staff is currently in the process of finalizing the 2006 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 2006 budget deliberations. This report focuses on the City's operating budget which includes the General, City Street Fund, and the Surface Water Management Fund, as the Council recently completed a review of the capital budget through the 2006-2011 Capital Improvement Program (CIP) process.

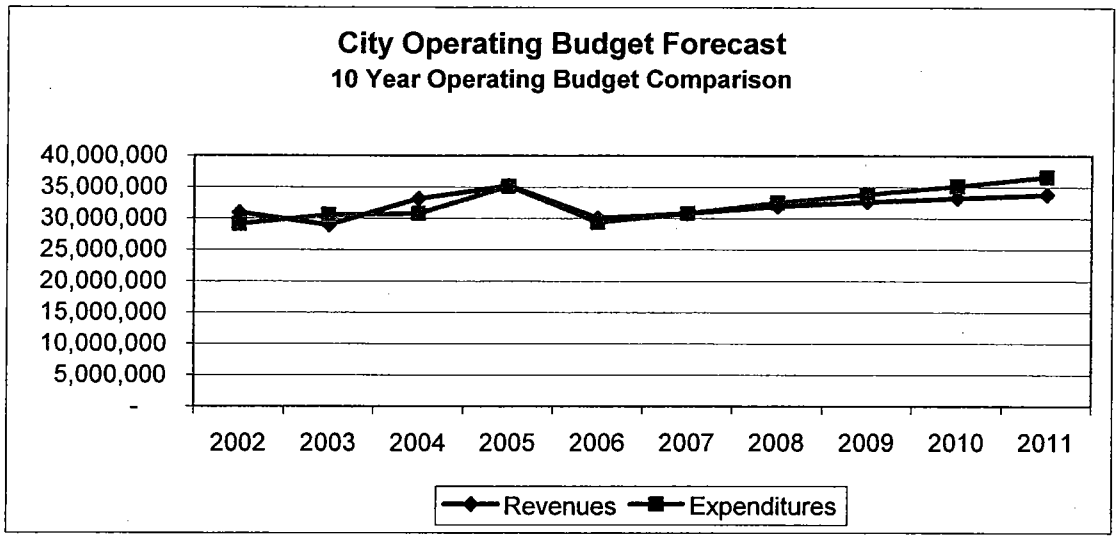
FINANCIAL IMPACT:

As of September 8, the City's 2006 proposed operating budget is balanced and revenues exceed expenditures. This is still preliminary and subject to change as more revenue and expenditure information is gathered during the finalization of the proposed 2006 budget, and as the City Manager determines if any service enhancements or new programs should be included in his recommended budget.

The Council last reviewed the City's long-term financial projections during the April City Council Retreat. At that time staff was projecting a 2006 operating budget surplus of approximately $235,000 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 sales tax trends, corrections from Seattle Public Utilities on how they calculate the water contract payment, utility rate changes, lower than expected health insurance premium increases, a lower than expected Public Employee Retirement System (PERS) employer contribution rate increase, 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 $600,000 budget surplus for 2006, a balanced forecast for 2007 and budget gaps occurring in 2008 through 2011.

Although the City Council will be focused on review of the 2006 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. For that reason, it is unlikely that the City Manager's recommended budget will include expending the entire surplus for on-going expenses.

The following chart shows the most recent projections of revenues and expenditures for 2006 through 2011.



Operating Fund Projections

Expenditure Assumption **2006 100% Others 99%**

Base Projections

	2006	2007	2008	2009	2010	2011
Annual Revenues	30,001,583	30,791,828	31,963,048	32,611,478	33,220,895	33,798,713
Annual Expenditures	29,346,408	30,781,663	32,498,629	33,813,264	35,139,852	36,658,852
Annual (Deficit)/Surplus	655,176	10,165	(535,581)	(1,201,786)	(1,918,957)	(2,860,139)

RECOMMENDATION

No action is required by the City Council. This item is for informational purposes and to provide the City Council with preliminary 2006 budget information.

Approved By: City Manager City Attorney ___

INTRODUCTION

Staff is preparing the 2006 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 2006 budget workshop reviews. The Council 2006 budget schedule is as follows:

Preliminary 2006 Budget Update	September 19
Transmittal of Proposed 2006 Budget	October 17
Public Hearing & Department Budget Review	October 24
Public Hearing on Revenue Sources & 2006 Property Tax Levy	November 7
Budget Review Workshop	November 14
Budget Review Workshop (If Necessary)	November 21
Adoption of 2006 Property Tax Levy	November 28
Adoption of 2006 Budget	November 28

BACKGROUND

During the April 2005 City Council retreat, staff provided Council with an update of the City's long-term financial projections. At that time, staff was projecting a $233,000 operating budget surplus in 2006. 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 2006 budget requests and 2006 revenue estimates. Some of the major changes that have occurred since the April projections include:

- **Public Employee Retirement System (PERS) Contribution Rates:** As was projected in the April forecast, PERS rates will be increasing in 2006. Since the April forecast the State Legislature adopted the rate change that took effect July 1, 2005, (2.44%) and the rate that will be effective July 1, 2006 (3.69%). The rate previous to July 1, 2005, was 1.38%. The State Legislature also directed the Pension Funding Council to adopt annual contribution rates for the 2007-2009 biennium to complete a four-year phase-in of rate increases. The State Actuary had initially recommended a PERS employer rate of 5.73% for the 2005-07 biennium and a rate of 7.28% for the 2007-09 biennium. When the Select Committee on Pension Policy first recommended phasing in the 2005-07 rates over four years, the Actuary calculated that that proposal would require employer contribution rates of 2.5% effective 7-1-05, 5.5% effective 7-1-06, 8.25% effective 7-1-07, and 9.96% effective 7-1-08. As you can see the rate increase for 2005 and 2006 is significantly lower than that recommended by the State Actuary. It is yet to be determined how this will affect the rate changes in 2007 and beyond. The 2006 preliminary budget includes the expected rate increase for 2006, which approximates what was originally budgeted in 2005. For purposes of long-term financial planning we have projected rates to increase from a weighted average of 3.07% in 2006 to 7.8% by 2011.
- **Health Benefits**: In 2003 the Council approved a new health benefit policy for the City, based on a recommendation from the City Manager. This new policy has helped to contain increases in health benefit costs to the City. The Association of Washington Cities (AWC) had projected that medical insurance premiums would

increase between 15% and 25% annually over the next five years. On September 1, 2005, the AWC committee that makes premium recommendations to the AWC Board of Directors recommended that medical premiums increase by approximately 4.5% and dental premiums by 10.5%. The Board will review this recommendation at the end of September and finalize the premiums, but it appears that our health benefit cost increases may be slightly lower than previously anticipated. Applying the preliminary 2006 rates results in a 3.89% ($51,000) increase in health benefits from 2005 to 2006.

- **Market Rate Adjustment**: The preliminary 2006 budget anticipates a salary market rate adjustment between 2.1% and 2.5%.
- **Salary Survey**: The City's compensation policy includes a routine salary survey every three years to ensure that the City's salaries are at the median of the City's comparable cities. In 2004 staff completed the salary survey for classifications up to range 50. Any salary adjustments that resulted from that survey were adopted as part of the 2005 budget. During 2005, staff is completing a salary survey on the remaining classifications. Any changes recommended as a result of this review will be included in the proposed 2006 budget. In the future 1/3 of the City's classifications will be reviewed annually providing for a review of individual classifications on a regular three year schedule.
- **Lease Costs**: The lease for City Hall will expire in 2006. Staff is anticipating that lease costs will increase and will anticipate that increase as part of the 2006 budget.
- **Jail Activity:** 2005 jail activity is projected to be roughly the same as in 2003 but slightly higher than in 2004. The City's use of the Yakima County Jail has doubled since 2003 and its use of the King County Jail has decreased by 50% which provides a cost savings to the City. The Yakima Jail is $27.45 per day less than King County. The City continues its efforts to maximize its contract with Yakima County and in fact for July and August of 2005 the City hit its minimum target for jail stay days. For 2006 we are anticipating the same usage patterns as in 2005 and have incorporated into the cost estimate the daily jail cost increases that both Yakima and King County will charge in 2006 (King County increase is 5.7% and Yakima is 5%). Even though this is the case we are currently anticipating that the 2006 budget ($839,000) will be slightly lower than the 2005 budget ($865,000). The current projected actual expenditures for 2005 are $815,000. Staff will continue to review the jail trends while the 2006 proposed budget is finalized.
- **Human Service Funding:** Currently the 2006 preliminary budget maintains the $62,000 in additional human services funding that was approved in the 2005 budget. Since the human service awards are for a two year funding cycle, it is anticipated that Council would want to continue the 2005 funding level in 2006. The long-term financial projections maintain this level of funding through 2011.
- **Seattle City Light (SCL) Contract Payment**: As the Council is aware, there is a pending lawsuit against SCL and the cities in which SCL has a franchise agreement claiming that the SCL contract payment to cities is illegal. It is anticipated that this lawsuit will take time to resolve and probably will not reach the courts until 2007 or beyond. Staff has continued to account for the revenue from our franchise agreement in 2006 and in the long-term financial forecast. The amount projected for collection in 2006 is $850,000.
- **Seattle Public Utilities (SPU) Water 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 2006 budget reflects a 30% ($135,000) increase from the 2005 budget as a result of the corrections made by SPU. Future increases would be tied to any water rate changes.

- **Other Utility Tax Adjustments**: Recently Puget Sound Energy (PSE) requested a on average a 14% rate increase in natural gas rates to take place later in 2005. In addition some other increases occurred in late 2004 and early 2005 that were not anticipated in the City's budget. 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 40%, or nearly $240,000, in 2006 as compared to 2005. The 2005 budget set the natural gas utility tax at $610,000, but we are anticipating that actual collections will be approximately $784,000. The preliminary 2006 estimate is $850,000, an 8.4% increase over projected 2005 collections. Utility taxes from telephone (land lines and wireless) continues to increase. As more and more people have subscribed to cell phone usage the revenue received by the City has increased. The 2006 budget forecast is for the City to collect nearly $1.5 million of telephone utility tax.
- **Gambling Tax Revenues:** Card room gambling tax revenue is projected to remain flat for 2006 through 2011 at $2.6 million. This is based on an 11% tax rate and a standard activity level. If either the tax rate is changed or the activity level changes, the card room gambling tax forecast may need to be adjusted. Gambling tax from pull-tabs has been declining over the last few years, and therefore we have projected an 18% decrease ($52,000) in 2006 as compared to 2005. The long-term forecast includes continued declines in future years.
- **Sales Tax Trends:** The growth in sales tax revenue has been encouraging since 2003. To date, 2005 sales tax collections are tracking 9.4% ahead of the 2005 budget and 3.6% ahead of 2004 collections for the same time period. Even though we have seen some moderate growth across a variety of retail sectors, we have seen some large growth in the area of construction related sales tax. For this reason, we anticipate that some of the growth in 2005 is related to one-time construction activity (Gateway, Fred Meyer's remodel, Aeigis) and therefore have taken this into consideration for the 2006 projections. Currently we are projecting 2006 sales tax revenues to be 5.2% greater than the 2005 budget, but only 1.5% greater than projected actual collections for 2005. We are projecting that the City will collect $5.7 million in sales tax in 2005, and $5.785 million in 2006. Most economists are predicting both employment and income growth in the Puget Sound region for 2006, although any impacts to the regional economy from hurricane Katrina or other impacts from the national economy may change this forecast.

DISCUSSION

Some of the primary factors affecting the 2006 proposed budget and the 2006-2011 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

4.9% from the 2005 current budget to 2006. This is approximately a $1.4 million 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 1.8% in 2006. 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 2006. The 1.8% increase in property tax revenue equates to approximately $121,000. The projected 2006 property tax levy rate is $1.21, down approximately 3% from the 2005 levy rate of $1.25.

Sales Tax Revenues: The current projection for 2006 is for sales tax to grow by 5.19% over the 2005 budget levels, or $285,000, for a total of $5.785 million. Although this may seem like a large increase, we have increased our 2005 sales tax revenue projections to $5.7 million. Based on this level of sales tax revenue, the 2006 projected collections reflect a 1.5% growth from 2005 levels.

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 2004 increased by 5.3% compared to 2003 collections. This was a positive change, as sales tax on a county-wide basis had shown no 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 2006 collections are projected to increase, 5.8%, to $1.1 million in 2006. The June issue of the Economic Forecaster projected that retail sales in the Puget Sound would increase by 6% in 2006.

Utility Taxes & Franchise Fees: Overall utility tax, franchise fees, and interlocal utility contract agreement revenues are projected to increase by 17.6%, $800,000, from 2005 to 2006. Some of the primary reasons for this increase include:

- Seattle City Light (SCL) did not adjust their electric rates downward in 2005 as originally been anticipated. The most recent information that we have been able to receive regarding rates for 2006, is that rates will most likely remain fairly constant to the 2005 levels.
- Telephone related utility tax continues to increase and therefore we are anticipating that 2005 actual collections will exceed the 2005 budget by 6% or $80,000. We are projecting that 2006 revenues will increase by 5.7% compared to 2005 actual collections.
- Cable rates have increased in 2005 and are expected to increase 2006 collections by 14%, $72,000, in 2006 compared to the 2005 budget. Actual collections in 2005 are tracking higher than the 2005 budget.
- Seattle Public Utilities has corrected how they calculate the water contract payment. This has resulted in a 30%, $135,000, increase for 2006 compared to the 2005 budget.

Gambling Tax: Gambling tax revenues are projected to decrease by 1.7% as we have seen a trend of decreasing gambling tax revenue from pull-tabs. Card room gambling tax is projected to remain flat from 2005 to 2006.

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 remain basically flat from 2005 to 2006.

The City will see a decrease in revenue from the state I-695 backfill monies in 2006. The State provided very minimal I-695 backfill monies (State assistance as a result of the elimination of the Motor Vehicle Excise Tax) for the 2004-2005 biennium. In 2005 the City received approximately $36,000 and will not receive any further payment in 2006. The City anticipated this drop and has been treating the I-695 backfill monies as one-time revenues since the State Legislature never identified an on-going revenue source to fund these payments.

Recreation Revenues: Participation in the City's recreation programs has continued to increase in 2005. Revenues in our recreation programs is expected to be 17% or $60,000 higher than budgeted in 2005 as a result of the increased participation and introduction of some new programs. In 2006 it is expected that participation will mirror 2005 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.

Development Revenues: Development related revenues are projected to increase by approximately 3.4% in 2006 as compared to the 2005 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 during 2005, and in fact the City has been able to get close to 4% on some 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 nearly double in 2006 to $300,000.

Expenditures

Overall expenditures, excluding interfund operating transfers and one-time expenditures, are projected to increase by approximately 4.2% in 2006 as compared to the originally adopted 2005 budget. The current 2005 budget includes approximately $619,000 in carryovers from the 2004 budget. Including these carryovers from the current 2005 budget, the preliminary 2006 operating budget reflects a 1.9% increase from the 2005 budget.

A discussion of the most significant expenditure trends follows.

Personnel: Personnel expenditures represent approximately 33% of the City's operating budget. Excluding any new personnel positions, personnel costs are projected to increase by approximately 4.5%, $460,000. 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 2.5%, a projected 4% increase in the City's health benefit costs, and an increase in the current PERS contribution rate from 2.4% to

3.7% for 2006. The City's long-term financial forecast projects personnel costs to increase by approximately 5% annually.

Police Contract: The police contract with King County is projected to increase by approximately $400,000, 4%, in 2006, as compared to the 2005 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 the preliminary information from King County. The actual increase will not be determined until after the King County budget is adopted the annual reconciliation is completed next spring.

Jail: We are currently anticipating that the 2006 budget ($839,000) will be slightly lower than the 2005 budget ($865,000). The current projected actual expenditures for 2005 are $815,000. Staff will continue to review the jail trends while the 2006 proposed budget is finalized.

Technology Plan: The 2006 anticipated expenditures for technology improvements are estimated at $300,000. The Council endorsed the 2004-2006 technology plan in 2003. The technology improvements scheduled for completion during 2005-2006 will focus on the ability to integrate and improve the ability to access information from the City's software systems for management and performance measurement purposes. Also the City will focus on emergency back up systems and maximizing the use of existing systems.

Capital Funding: The City currently allocates approximately $1.4 million of general fund revenues on an annual basis to fund capital projects and long-term facility and road surface management. This allocation is included in the City's long-term projections and the preliminary 2006 budget.

Fund Balance

The General Fund currently has a healthy fund balance based on conservative budget planning by the City Council. The 2005 projected ending fund balance for the General and General Reserve Funds combined total approximately $9.6 million, nearly 35% of General Fund revenues. It is anticipated that 2005 revenues will exceed 2005 expenditures by approximately $1.5 million.

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 2006 budget instructions to departments were to first consider any service enhancement requests that were either funded by new on-going revenues or 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 needs that have been identified include:

- *Supplemental Human Service Funding*: It is anticipated that the Community Development Block Grant (CDBG) will be reduced by the federal government for

2006 by $21,000 for the City of Shoreline. A supplemental budget request was submitted to replace this funding with additional general fund allocation.

- *Increase the Assistant City Attorney from .75 FTE to 1.0 FTE*: The Assistant City Attorney is a .75 FTE, and activity levels show that a 1.0 FTE is needed. It is anticipated that some anticipated cost reductions in the domestic violence advocacy program within the prosecutor's office will off-set a majority of the increased cost for this change.
- *Conversion of Contracted Information Technology Network Specialist Position to Regular Position*: The City has contracted for one Network Specialist position for the last three years. Activity levels indicate that this will be an on-going need, and therefore staff is recommending that this be converted to a regular position. It is anticipated that this will result in approximately $30,000 of general fund savings.
- *Park Maintenance Worker*: This position is being requested to supplement the current park maintenance staff. Funding would come from the long-term park facility maintenance and replacement fund. This will assist the park maintenance division to complete major repair and replacement projects along with routine maintenance.
- *Handicapped Accessible Vehicle*: This is a request for the City to purchase a van to be used in the Special Needs recreation programs. The van could also be used for other events requiring a larger vehicle.
- *Park Planning & Development Coordinator*: This would be a full-time position to support the facilities development and repair/replacement program, and help coordinate project efforts with other agencies such as King County, the Shoreline School District, and Shoreline Community College. In addition this position would assist neighborhoods working on park improvement mini-grants, Eagle Scouts, and support the efforts of other volunteer groups.
- *Electrical Permitting Program*: This program would improve the service levels to customers by allowing people to obtain electrical permits through the City at the time that other permits are applied for. The program would be revenue neutral, in that new revenue would off-set the anticipated new administrative support costs that would be incurred.
- *Economic Development Program Enhancements*: Two different program enhancements have been submitted as supplemental budget requests.

<u>Small Business Impact Program</u>

- *Small Business Impact Program* – Provide funding to Community Capital Development to provide a dedicated staff person to assist Shoreline businesses in developing and administering a private capital loan fund for micro and small businesses.
- *Environmental Cooperative of South Seattle (ECOSS)* – Provide funding to expand this service to the Shoreline business community.
- *North King County Small Business Development Center* – Provide funding to establish a Small Business Development Center for the North King County area.

<u>Echo Lake Special Study</u>

This study would be used to address long-standing circulation, infrastructure, land use and redevelopment issues in the area land north of 195th, east of Aurora, south of 200th and west of Echo Lake Park.

- *Traffic Signal Rehabilitation Program*: Funding to upgrade and rehabilitate two traffic signals a year. The City currently has 40 traffic signals, so this would establish a program to upgrade signals once every 20 years. This is the recommended life cycle for signals.
- *Streetlight Program*: This would provide funding to allow the City to pay for all streetlights throughout the City as has been discussed previously with the City Council.
- *Green Street Tree Initiative*: This new program would increase the tree canopy in Shoreline by encouraging residents to plant trees in their front yards.
- *Facilities/Vehicle Maintenance Worker*: This position would provide facility maintenance support throughout the City and provide support to manage the City's vehicle fleet.
- *Hansen Development Assistant*: This position would provide data entry and Hansen development support to the Public Works department.
- *Assistant City Engineer*: This position would consolidate Capital Improvement Program planning and Master Plan implementation and provide support to the Right-of-Way services division.

As the City Manger finalizes his recommended 2006 budget it will be determined which, if any, of the programs should be included in the proposed 2006 budget.

CITY STREET FUND

The City Street Fund receives approximately 54% ($883,000) of its resources from Gas Tax and Right-of-Way fees and the remaining 46% ($730,000) 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. 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.

SURFACE WATER UTILITY

The City Council adopted the Surface Water Master plan earlier this year. The master plan provided priorities for the operations and capital needs of the utility for the next 20 years. The plan recommended a funding plan to meet those needs. The recommended funding plan included a recommended rate structure along with debt financing to meet the operational and capital needs. The 2006 proposed budget will include a recommended rate that is in alignment with the master plan.

Since the master plan was adopted approximately a year later than originally anticipated, the 2006 proposed budget may include some adjustments to the suggested operational master plan to meet current needs. This may include the addition of a Surface Water Technician to assist with the enforcement of the federally required

National Pollutant Discharge Elimination System (NPDES) Phase II Storm Water permit along with performing light routine maintenance on the storm drainage system and solving drainage and flooding issues.

2006 AND BEYOND

Staff will be finalizing the proposed 2006 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.

As mentioned earlier in this report our preliminary forecast is that we could balance the 2006 and 2007 budgets with current resources if we do not increase service levels or initiate new on-going programs that would require operating budget dollars. Our long-term forecast for 2008 through 2011 shows increasing budget gaps in the out-years unless there are changes in expense or revenue levels. Even though this is the case, there may be a need to provide some current budget enhancements.
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.

It does not appear that the 2006 proposed budget will include recommended new general fund revenue sources, unless significant changes are made in current resource assumptions. As the Council may recall the City Manager made some long-term financial planning recommendations to Council on June 21, 2004. These recommendations are summarized in the following table:

	Revenue Effective Year		
Action	**2005**	**2006**	**2007**
Reduce department base budgets by 1% and review low priority services for elimination (Up to $290,000)			
Implement a utility tax on our surface water utility ($150,000)			
Increase recreation fees by approximately 10% and enhance the City's scholarship program ($30,000 to $55,000)			
Implement a revenue generating regulatory business registration program (Net Revenue $50,000)			
Seattle City Light franchise fee (6%) on the distribution portion of the electric utility fees ($0 to $600,000)			
Property tax levy lid lift ($0 to $2 Million)			

The 2005 recommendations were implemented with the adoption of the 2005 budget. It does not appear that the City is in a position that would require the 2006 recommendations at this time.

Although this is the case, City staff is currently researching program alternatives for a business registration program that will be introduced to the City Council in October. The following table is the updated operating projections for the City for 2006 through 2011.

Expenditure Assumption	Operating Fund Projections 2006 Base Projections		100%	Others	99%	
	2006	2007	2008	2009	2010	2011
Annual Revenues	30,001,583	30,791,828	31,963,048	32,611,478	33,220,895	33,798,713
Annual Expenditures	29,346,408	30,781,663	32,498,629	33,813,264	35,139,852	36,658,852
Annual (Deficit)/Surplus	655,176	10,165	(535,581)	(1,201,786)	(1,918,957)	(2,860,139)

The long-term projections assume 100% expenditure levels in 2005 and 99% expenditure levels in future years. Traditionally the City has had an expenditure level of 96 to 97% of budgeted expenditures.

As staff continues the development of the 2006 proposed budget and monitoring of expenditure and revenue trends this forecast may change.

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 may 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 2006 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 2006 budget information.