

Community Priorities/Long-Range Financial Planning Citizens Advisory Committee

Interim Report September 2008

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Community Priorities/Long-Range Financial Planning Citizens Advisory Committee

Interim Report September 2008

Committee Members

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I. Situation Statement

The City Council and the community have identified a vision of the City that includes safe neighborhoods, active partnerships, diverse culture, quality businesses, natural resources, responsive government, and quality of life. This can be accomplished if the City provides services that promote the following:

- Safe and attractive neighborhoods and business districts
- Quality services, facilities, and infrastructure
- Safe, healthy and sustainable environment
- Government excellence
- Economic vitality and financial stability
- Human services
- Effective citizen communication and engagement

The City's long-term financial forecasts indicate that by 2010 the City's current resources will not be adequate to continue the same level of services currently provided to, and expected by, the Shoreline community.

II. Committee Goal

The overall goal of the Community Advisory Committee (CAC) will be to develop a recommendation to the City Council on the long-term strategy to provide community services and the funding mechanisms to provide those services. The focus of the committee's review and analysis is the operating fund, and its budget. Specifically this is the General and City Street funds. Other funds are in place to accept and manage designated projects and activities; generally, these funds are restricted to specific revenue sources and expenditures.

III. Purpose of Interim Report

The CAC has met nine times since appointment by the City Council on March 3, 2008. The purpose of this interim report is to summarize the current status of the committee's thoughts and preliminary recommendations. Over the next several months, the committee will meet and develop final recommendations to the City Council. This will provide an opportunity to continue to gather additional information, including the results of the 2008 Citizen's Survey and information from the Shoreline community regarding service priorities and funding options.

IV. Findings to Date – Summary of Facts

The committee reviewed a vast amount of information, including statistical data, performance data, citizen service surveys, comparisons with similar cities, budgets and forecasts.

2006 Citizen's Survey

- 59% of respondents believed that the City of Shoreline was moving in the right direction
- 50% of respondents believed that they were receiving good or excellent value in City services for the taxes they paid to the City. 34% believed they were receiving average value, while 8% believed they were receiving below average or poor value.
- Over 80% of respondents continued to believe that their quality of life in the City was good or excellent.
- There was less satisfaction when respondents were asked about their satisfaction levels with housing choices (70%), Shoreline as a place to work (55%), a place to shop (49%).
- Areas of services that should receive the highest emphasis as a result of low satisfaction and high importance:
 - Flow of traffic and congestion
 - Maintenance of City streets
 - Enforcement of City codes/ordinances

City Budget

- 36% of the City's operating budget is spent to create safe and attractive neighborhoods. The primary functions in this area include police services, emergency management, and jail.
- 36% of the City's operating budget is spent providing quality services for a healthy and sustainable environment in the City. The primary functions in this area include recreation and parks, street and right-of-way maintenance, building code, zoning, permitting, and environmental services.
- 2% of the City's operating budget is spent on human services
- 3% of the City's operating budget is allocated towards citizen communication and engagement. Primary functions in this area include

neighborhoods, communications such as Currents and Channel 21, and maintenance of public records.

- The remaining 23% includes support services and economic development. Support services include finance and information technology, human resources, City Council and City Manager, purchasing, City Clerk, legal and grants.
- When adjusted for inflation the cost of providing these services, on a per capita basis, is less in 2008 (\$265) than it was in 2000 (\$278).
- From 2000 to 2008 the City's population has actually declined by 106 persons, or a negative 0.2% change in population.

City Revenues

- 84% of the Cities revenues come from local and state taxes and utility related revenues. Primary revenue sources include:
 - Property Tax (23%)
 - Sales Tax (26%)
 - Utility Related Revenues (22%)
 - Gambling Taxes (7%)
 - State Shared Revenues & Operating Grants (6%)
- Property Tax revenue growth is limited by State Statute to 1% annually plus new taxes generated from new construction. Property tax revenue growth has not kept pace with inflation since 2000. On average property tax revenues have grown by 2.5% since 2000, primarily as a result of new construction, while inflation has averaged 2.7% annually over the same time period.
 - Increases or decreases in assessed valuation do not have an impact on the amount of revenue collected by the City.
 - Approximately 9% of all property taxes paid by Shoreline residents go to the City for City services.
- Sales tax has shown moderate growth since 2000 with growth overall just keeping pace with inflation.
- Utility related revenues are the only revenue source that has exceeded inflationary growth since 2000.
- Gambling tax has dropped substantially since 2005. Revenue in 2007 was \$1.3 million less than in 2004 and \$1 million less than in 2005.
- With only 22% of City operating revenues exceeding the rate of inflation, the City has had to find efficiencies and other less expensive ways to provide services in order to live within the current revenue structure.
- The City Council authorized two revenue increases in 2007. Cable utility tax went from 1% to 6% in July 2007. The City increased its electric contract payment from 3% to 4.5% effective April 1, 2008. This was in response to the anticipated budget gaps that were forecast for 2008 and 2009.

V. Management, Budgeting and Finances

The City is required to prepare an annual budget for approval by the City Council. As with any budget, revenues and expenditures must be estimated based on past experience, future plans and community needs. Revenue sources include amounts that are reasonably stable, as well as amounts that fluctuate significantly based on economic conditions and other external factors. Some of these significant revenue sources do not increase with the rising rate of inflation. In recent years, the City has been able to make some adjustments to revenue sources, as well as improving efficiency and effectiveness of expenditures. With these adjustments, the City has been able to provide a consistent level of services within the budget.

The annual budget of the operating fund is required to be balanced, i.e. planned revenues and expenditures are to be the same. The City's management actively monitors actual revenues and expenditures, and makes necessary adjustments throughout each year. If revenue declines significantly, because of adverse economic or other external conditions, expenditures must be reduced to offset the shortfall. Management has consistently demonstrated an ability to manage City operations to achieve a balance at the end of each year.

We reviewed the 2008 budget booklet and the six-year financial planning forecasts.

During the course of our meetings, we received presentations and comments from management and staff. They were knowledgeable concerning City priorities, services, operations and finances. We had many questions and comments, and management and staff appropriately responded to all of them.

VI. Projected Situation

- The City uses a six year horizon for its financial planning.
- The City's long-range forecasts incorporate anticipated changes in revenues and/or expenditures related to known impacts, such as completion of capital projects which will require on-going maintenance, i.e. a park.
- Other than these "known" impacts, the six-year forecasts assume "status-quo" meaning
 - Maintains current levels of service
 - No new services or changes to service levels
- Why the gap?
 - Projected annual average growth of revenues is 2.5%, for reasons discussed previously in the revenue section
 - Property tax 1% cap
 - On-going decline in gambling tax

- Modest historical sales tax growth and given current economic environment, it is likely that this growth may be even less over the next few years
 - Fuel tax (used for street maintenance and transportation projects) is declining as a result of decreased gasoline consumption.
 - Projected annual average growth of expenditures is 4.6%
 - Salaries and benefits (40% of operating budget) projected to grow at 4.23% annually. Growth linked to cost of living adjustments based on inflation, rate increases in the employer contribution to the State retirement system, and health insurance.
 - Contractual Services (37% of operating budget) for police and jail are projected to grow by 4.7% annually.
 - Other costs within the budget (20% of operating budget) such as utilities, maintenance, liability & property insurance, State audit, etc. are projected to grow by 4.1% annually.
- What are the current projected gaps?

Year	Projected Budget Gap
2010	\$1 Million
2011	\$1.1 Million
2012	\$2 Million
2013	\$2.7 Million
2014	\$3.5 Million

VII. Preliminary Recommendations by Committee

The committee believes the Shoreline community would not desire a significant reduction in City services. The committee will be reviewing the results of the 2008 citizens' survey and looking for additional community input to determine if this deserves further consideration. As such the committee has focused in the following areas in analyzing steps that the City should consider to close the projected budget gaps.

A. Efficiencies

The committee has consensus regarding efficiencies in the following areas:

- **What's already been done:** The City has implemented a number of efficiency measures over the last few years. It is important to inform citizens about what has already been done. This includes previous budget reductions, efficiencies, investments that save over the long-run, contracting, etc.
- **Sustained commitment to efficiencies:** It will always be important to keep looking for efficiencies and ways to demonstrate responsible financial stewardship of taxpayers' dollars.
- **Efficiencies if asking for more:** If the City is going to ask the citizens for additional revenues, then they need to know what has already been done

and what is being done now to assure efficient delivery of City services. There is general understanding that the future projected budget gaps can not be closed with efficiencies, but staff must be diligent in looking for opportunities to make the delivery of services more efficient.

The committee has identified the following priority areas where the City should focus efficiency and communication efforts:

- *Criminal Justice*: This is a major cost area for the City and the therefore the city should continue to explore opportunities to limit or reduce future growth of expenditures without significantly adversely affecting safety in the community.
- *Cost-Benefit Analysis Comparisons*:
 - Help Shoreline citizens better understand what revenues are received by the City of Shoreline versus other jurisdictions
 - Work with other jurisdictions to make sure there is value to Shoreline
- *Maximize Technology for Communications*: Use web; on-line systems; list servers, etc to deliver documents, newsletters, etc. to community. Opportunity for savings in postage and printing costs.
- *On-going Budget Review*: Continue to look for areas of savings and efficiencies such as in-house versus contracted services. Incentivize staff involvement in developing cost-saving ideas/efficiencies.

Other areas that the City may want to evaluate for efficiencies:

• Smart Partnerships	• Shop Locally
• Volunteerism	• Human Services (consider as an investment that could lower criminal justice costs)
• Capital Budget Implications	• YMCA Coordination
• Cross-Department Review	• City Insurance (Property, Liability, Health)
• Pavement Surface Alternatives	• Transit Service Improvements
• Economic Development	• Judicious Use of Consultants
• City Memberships	

B. Maintaining Current Services

The committee, at this time, believes the community desires to maintain the current level of services. It is apparent that if service levels are not going to be reduced or eliminated, which would have a corresponding reduction in expenditures, alternative or additional revenues will be required to provide resources to fund current service levels. These resources should be used first to maintain current services prior to increasing funds to enhance service levels or provide new services.

Alternative revenue sources that have been considered by the committee include:

- Transportation Benefit District (New legislation approved in 2008)
- Property Tax Levy Lid Lift (Voter approval required)
- Business & Occupation Tax
- Card Room (Gambling) Tax Rate Increase
- Business License – Revenue Generating
- Utility Tax Rate Increase (Voter approval required)

A matrix of revenue sources considered can be found at the end of this report in Exhibit A.

Those revenue sources that the committee considers the most likely for the City to consider include:

- *Transportation Benefit District:* Specifically the \$20 vehicle license fee that can be approved administratively by the City Council. Current estimates are that this revenue source would generate approximately \$600,000 annually. Transportation and related infrastructure maintenance is a high priority of the community and this revenue source is specifically for this purpose. This revenue source existed to fund transportation related costs prior to the passage of I-695 in 1999. Prior to this time the City received a \$15 vehicle license fee and the revenue totaled approximately \$500,000 annually. The elimination of this revenue source resulted in reductions in the City's transportation and maintenance program.

The committee is interested in receiving additional information, including finding out if other communities plan to implement this revenue source.

- *Property Tax Levy Lid Lift:* Overall the committee is open to the option, but not necessarily unanimous at this point. There is consensus that additional information is needed. The additional information needed includes:
 - How much is the right amount?
 - Can a levy be phased over a period of time to match with needed revenue?
 - Consideration of the financial impact to property owners is very important. Both residential and business owners.
 - A \$2 million levy equates to approximately 28 cent increase in current levy rate. On a home valued at \$364,000 this results in an annual tax increase of \$102
 - Should funds be designated of specific purpose – i.e., public priorities, critical services, services consistent with city values. For

example, should there be linkage to public safety because it is one of the largest drivers of the “gap.”

- Economic conditions at the time of the vote
- Use reliable polling research on viability, options, and levels.
- The timing of a special levy should not compete against school district – or other measures.
- This revenue source is the best opportunity to close the projected budget gaps

There was less consensus regarding the use of other revenue sources discussed by the committee. Although this was the case, the committee recognizes that the revenue sources are viable options that could be considered by the City Council and the Shoreline community.

C. Expanding Service Levels

The committee anticipates that the following areas are of the highest priority for future expansion of current service levels:

- Sidewalks/Pavement maintenance
- Traffic Signal Coordination
- Volunteer Coordination
- Economic Development – Supporting local businesses and attracting new businesses
- Senior Services – Anticipating needs of an aging community, reductions in funding made at the County level, maintaining services provided by the Senior Center.
-

The committee is interested in reviewing any new findings in this area from the 2008 citizen survey results.

To fund future service level increases the committee believes that these revenue sources will need to be considered:

1. Levy Lid Lift – designated for priorities and above that approved for maintaining current service levels
2. Transportation Benefit District
 - a. The voted capacity that is provided in the legislation
 - i. Vehicle License fee in excess of \$20 (up to maximum of \$100)
 - ii. Sales Tax – 1/10th of 1%

Other areas and ideas to consider for service level increases or for cost-saving opportunities:

- School Resource Officer – consider getting contributions from non-profits for funding

- YMCA – Agreement to provide some services in exchange for City contribution
- Road/Sidewalk Surfaces – Explore asphalt alternatives to enhance longevity and reduce overall costs
- Misdemeanor Work Projects – Use to contain costs of labor related to park and right-of-way maintenance
- Transit Services – Improve transit services from Sound Transit and Metro
- Strategic Zoning & Development – Understand type of development and growth and the potential positive or negative impact on City budget

D. Observation Concerning the Longer-Term Future

The Committee's task was to consider forecasting, budgeting, services and revenue sources for the next six years. We noted that some other cities of comparable size receive a much higher proportion of their revenues from business related activities. These revenue sources include sales and use taxes, as well as property taxes.

Consideration should be given to expanding these revenue sources for the City of Shoreline. We recognize this is a long-term strategy and is beyond the time period we are dealing with in this report.

VIII. Next Steps

The committee believes that its next steps should include:

1. Gathering additional Information (Fall 2008)
 2. Participating in community outreach efforts regarding the City's long-term strategy to provide municipal services and the financial plan to provide resources to meet this goal. (Winter 2008/2009)
 3. Developing a final recommendation to the City Council (March/April 2009)
- The committee has identified some specific areas of additional information that would be helpful in the committee formalizing their recommendations.

Specifically these include:

- Have the Association of Washington Cities (AWC) make a presentation to the committee that explains that all cities are in this situation (anticipating budget gaps, seeing expenditure growth outpace anticipated revenue growth, etc.) Have AWC perspective on why this may be.
- Results of the 2008 citizen survey
- Have staff provide a list of budget requests that the City received as part of the 2009 budget process (i.e., Senior Services, etc.)
- Provide a 2 Year Levy Calendar – when do levies expire. Use this as a tool for planning.
- Information on the impact of a levy lid lift (and other taxes) on per household/business basis.

- Additional information to understand the relationship between the operating and capital budgets.
- Provide an overview of the decision making process used to make budget choices if additional resources are not provided.
- Comparison of levies from other cities and the detail of how these cities allocate their tax resources

The committee would want the community outreach efforts to include:

- *Hearing from the community on “What kind of a City do we want to be”.*
- *Engaging the Council of Neighborhoods and Neighborhood Associations*
- *Developing a communication plan to include various communication mediums.*
- *Providing opportunities to hear from a wide range of Shoreline residents.*

EXHIBIT A

REVENUE OPTIONS			
Revenue Source	Process to Implement	Revenue Potential	Annual Revenue Range
Property Tax Levy Lid Lift	Election – Majority Approval Required	Each \$.10 in levy lid lift equates to approximately \$722,000 in additional revenue.	\$72,000 to \$4.2 million
Business License/Registration Fee (Non-Revenue Generating)	City Ordinance – City Council Adoption	This is a revenue neutral fee. Revenues set to recover cost of the program.	Revenue Neutral
Revenue Generating Business Licenses	City Ordinance – City Council Adoption	Fee may be assessed in different ways: Per employee, square footage, flat amount	Dependent on the structure used to generate the fee.
Gambling Tax - Current City tax rate is 10%, State Law allows up to 20%	City Ordinance – City Council Adoption	For each 1% increase approximately \$190,000 (Assuming current level of card room activity is maintained)	\$190,000 to \$1.9 million
Business & Occupation Tax	City Ordinance – City Council Adoption	For each .1% approximately \$460,000	\$0 to \$1 million
Utility Tax above 6% on natural gas or telephone (Existing City rate is 6%)	Election – Majority Approval Required	For each 1% on natural gas - \$175,000 and for each 1% on telephone - \$292,000	Each 1% increase for both would be \$467,000
Utility tax above 6% on surface water utility fee (Existing City rate is 6%)	City Ordinance – City Council Adoption	For each 1% approximately \$30,000	Each 1% increase \$30,000
Transportation Benefit District – revenue restricted for	City Ordinance – City Council Adoption	Non-Voted: • \$20 per vehicle fee	Non Voted: \$600,000 Voted:

<p>transportation improvements (maintenance or capital)</p>	<ul style="list-style-type: none"> • Annual vehicle fee up to \$20 • Transportation impact fees on commercial and industrial buildings <p>Election – Majority Approval Required</p> <ul style="list-style-type: none"> • Property Tax – 1 year excess levy • Up to 0.2% sales and use tax • Up to \$100 annual vehicle fee per vehicle registered 	<p>– estimate is \$600,000</p> <p>Voter Approved:</p> <ul style="list-style-type: none"> • Vehicle Fee – Each \$10 increase is \$300,000 • Sales Tax @ 0.1% = \$760,000 	<ul style="list-style-type: none"> • Vehicle License Fee \$300,000 to \$2.4 Million • Sales Tax - \$0 to \$1.5 Million
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