

City of SeaTac

Macro Budget Workshop Minutes Synopsis

July 13, 2018
11:00 AM

City Hall
Council Chambers

Call to Order: The SeaTac City Council Macro Budget Workshop was called to order by Mayor Michael Siefkes at 11:02 a.m.

Council Present: Mayor Michael Siefkes, Deputy Mayor (DM) Erin Sitterley, Councilmembers (CMs) Rick Forschler, Joel Wachtel, Peter Kwon, Clyde Hill, and Pam Fernald.

Staff Present: City Manager Joseph Scorcio, City Attorney Mary Mirante Bartolo, City Clerk Kristina Gregg, Finance & Systems Director Gwen Pilo, Budget Analyst Alexis Briggs, Human Resources (HR) Manager Vanessa Audett, Municipal Court Administrator Gail Cannon, Police Chief Carl Cole, Community & Economic Development (CED) Director Steve Pilcher, Parks, Community Programs & Services (PCPS) Director Lawrence Ellis, Public Works (PW) Director Will Appleton, Senior Management Analyst Tim Ramsaur, Executive Assistant Lesa Ellis, Accounting Analyst Christina McCall, and Senior Management Analyst Anita Woodmass

Public Comments (related to the agenda items listed below): None.

City Manager Scorcio stated today is Vicki Lockwood's birthday and she brought cake to celebrate. Council and staff sang her Happy Birthday.

Review 2017-2018 Performance

City Manager Scorcio briefed Council on the budget objectives which were included in the Council packet. Council approved the budget objectives as part of the 2017-2018 biennial budget.

Council discussion ensued regarding budget objectives moving forward.

Finance & Systems Director Pilo reviewed the 2017 Performance and 2018 projections for revenues, expenses and total ending balance:

	2017 Budget	2017 Actual	Variance
Total Ending Balance for General Fund (GF) and Non-GF	\$58.9	\$66.0	\$7.1

She reviewed the major components of the revenue and expenses:

- Revenue – Property Tax up \$700,000 from new construction, Sales Tax up \$3 million, Leasehold Excise Tax up \$800,000, Parking Tax up \$1.3 million, REET up \$600,000
- Expenses – related to vacant positions and project work.

Council discussion ensued regarding the 2017 performance.

	2018 Budget	2018 Estimate	Variance
Total Ending Balance for General Fund (GF) and Non-GF	\$51.5	\$74.8	\$23.3

She reviewed the major components of the revenue and expenses:

- Revenue – Property and sales tax higher than budgeted, permit revenue strong, parking Tax and REET exceeding expectations
- Expenses – On track with managed reduction target of 4%.

2018 Projected Ending Fund Balance

Ms. Pilo reviewed the GF Reserves for 2018 - \$12.835 million, which is the targeted four months of operating costs, plus \$11.780 million over Target.

Mr. Scorcio stated some of the \$11.780 is committed money as the revenue was received from permitting fees for work that will need to occur in future years. Council discussion ensued regarding the potential for setting the money aside in order to show the committed money.

This item was brought forward on the agenda:

5-Year Financial Forecast

Budget Analyst Briggs reviewed the major assumptions for the 5-year GF forecast:

- Property Tax Levy remains the same. 2% increase in AV per year;
- all other revenue increases at 2%,
- personnel expenses increase at 5% (salary and benefits),
- intergovernmental expenses (King County Sheriff's Office contract - at 3.5%, Puget Sound Regional Fire Authority contract at 2.5%, and SCORE Jail at 3%,
- all other expenses grow at 3%

The major GF revenue drivers include: Property Tax (\$15.8), Sales Tax (\$12.3), and all other revenues (\$7.4), for a total revenue of \$35.5 million.

Future Risks/Initiatives

Ms. Briggs reviewed the future risks/initiatives:

- Recession/Downturn (predicting in next 5 years, possibly as soon as 2020),
- City Business Licenses (Model Ordinance w/minimum licensing threshold, Conversion to State System in 2019);
- AFSCME Contract ends in 2019,
- Sale of City properties,
- Development Activities (monitoring pre-application activity),
- Port ILA and Business Licensing.

Staff is working hard to ensure all airport businesses are licensed. As of July 2018, 95 Port business are licensed, which is an increase of 26 since March of 2018. Sales tax is collected in June but numbers won't be available until August. The numbers will be reported out at a future Administration & Finance (A&F) Committee meeting.

Council discussion ensued regarding POS Business Licenses and sales tax.

Mr. Scorcio asked Council to provide input on the major assumptions. Council concurred with the assumptions.

Financial Policies

Ms. Pilo stated this discussion began at an A&F Committee meeting in December 2017. The draft policies are a combination of established policies from other entities and input from the City Council. She stated she is seeking additional input from the Council as to whether these are policies the Council is okay with staff developing further.

She reviewed the proposed language for the following policies:

Application and Administration: The use of "shall" or "must" indicates the City's intent to closely adhere to the stated policy. The use of "should" or "may" indicates a preferred approach. These policies serve to guide the City Council while enabling flexibility for the Council to respond to specific circumstances.

Council discussion ensued.

Break: Mayor Siefkes recessed the meeting at 12:36 p.m. and reconvened at 1:00 PM

Council discussion continued regarding the Application and Administration.

General Budget Policies:

- One time expenditures associated with an employee's end of employment
- Through performance improvement, reduce annual expenditures by 5% in GF
- short-term economic downturns and temporary gaps in cash flow
- long-term revenue downturns

Council discussion ensued regarding the policies: potential future retirements, performance improvement as a marketing tool, and short-term versus long-term.

Financial Policies (continued):

Reserve Policies for GF:

- GF reserve balances equaling not less than 4 months of the operating expenditures for the fiscal year
- The reserve will be available for unforeseen, urgent, or emergency needs
- Council authorization shall be required for expenditure of GF Reserves

Reserve Policies for Enterprise Funds – new policy

- reserve balance target for the Surface Water Management Utility operations is the amount equivalent to 45 days of total budgeted operating expense
- the reserve balance target for the Surface Water Management Utility capital is the amount equivalent to 10% of all Original Set Values
- The reserve balance target for the Solid Waste & Environmental Utility operations is the amount equivalent to 30 days of total budgeted operating expenses
- Council authorization shall be required for expenditure of enterprise fund reserves.

Council discussion ensued regarding the funds. Ms. Pilo stated this policy will not hurt any of the funds as they already have the required reserve balances.

Reserve Policies for Capital Funds – Three years of the six-year CIP shall be maintained in Capital Funds. Monies collected from the sale of assets shall be returned to the fund where the purchase originated.

Reserve Policies for Replacement Funds

- replacement reserves shall be established for equipment and computer hardware/software with a value greater than \$5,000, regardless of whether the equipment is acquired via lease, gift, or purchase
- Equipment and computer hardware/software with a value less than \$5,000, enrollment in the Equipment Replacement Fund is optional and will be at the request of the purchasing Director.
- Monies collected from the sale of assets carried on equipment replacement schedules shall be receipted to the Equipment Replacement Fund.

Reserve Policies for Special Revenue Funds (Street Fund): Special Revenue Funds are legally restricted for specific purposes. Balances may occur in these funds but shall not be used for any purpose inconsistent with the Funds purpose until the original purpose for the Fund is achieved.

Revenue Policies: The City Council shall not increase the regular property tax levy if GF reserves are in excess of the target GF reserve policy.

Expenditure Policies:

- Budget surpluses resulting from vacant positions should not be used as justification to increase expenses for operational or capital expenditures
- Enterprise Fund expenditures shall be fully supported by their own rates, fees, and charges, not subsidized by the GF. The Enterprise Funds shall pay their share of overhead costs and services provided by the GF
- The City shall assess funds for services provided internally by other funds. The estimated cost of services shall be budgeted as an expense to the fund benefiting from the service and the cost of the service shall be recognized as revenue to the providing fund. A review of the method for determining the amount of the interfund assessment shall be reviewed periodically. For more information, refer to the City's Cost Allocation Policy.

Accounting, Auditing & Financial Reporting (FR): Instances when combined, actual revenues are less than combined, budgeted revenues for a period of two consecutive quarters, the City Manager shall put forth to the A&F Committee a proposed budget amendment that responds to the underperformance of revenues. The City Manager's proposed budget amendment shall include an updated financial forecast and a written description of the anticipated changes to performance measures, program outcomes, and levels of service. This policy shall not preclude the City Manager from initiating corrective action pursuant to his/her administrative authorities prior to action by the City Council. The recommendation of the A&F Committee shall be forwarded to the City Council.

Financial Policies (continued):

Additional Policies:

Interfund Loan Policy – gives the Finance Director authority to transfer money between funds with regular reporting to the A&F Committee.

Cost Allocation Policy – Identifies a method to allocate indirect costs to the Funds benefiting from the service.

Council discussion ensued regarding each policy. Council concurred with all policies in theory. The wording will be improved before adoption and address Cost and Time allocation.

Topics for future conversation: Human Services allocations, \$1.5 million is all inclusive for Human Services, realign Human Services under the Finance & Systems Department, and Active Stormwater treatment.

Decision Card Process

Mr. Scorcio stated decision cards are created for new employees, programs, or capital purchases. Decision cards are Council's choice. This year, a more straightforward process is being used: identified as mandatory or discretionary, ranked by Department, prioritized by City Manager, presented at Budget Workshop. He questioned Council on how they wanted to see the decision cards. Council discussion ensued regarding options. Council determined Decision Cards would be presented at the budget workshop in three groups ranked by the City Manager: Recommend Funding, Consider Funding, and Do Not Fund.

Fee Schedule

Mr. Scorcio stated four years ago the Council passed a fee schedule with a proviso in it that says fees will automatically be updated and escalate by the CPI. It also has a provision that says every two years, the City Manager will come forward with any additional changes needed to the fee schedule. There will be a few new fees proposed as well as some consolidated fees.

Ms. Briggs reviewed the potential changes to the fee schedule Ordinance: round fees to nearest dollar and tie inflation index to specific month – June, and CPI increase on business license fees once moved to state.

Resident Vicki Lockwood questioned what the increase would be based off the following year.

Council concurred with rounding fees to the nearest \$.50 and basing the next year's increase on the actual amount.

Budget Calendar

Ms. Pilo reviewed the calendar:

October 1 – City Manager submit proposed budget to Council

October 1 – 31 – Budget Workshops

November 13 – Public Hearings on Property Tax & Preliminary Budget

November 27 – Council adopts property tax levy

Council to adopt budget prior to December 31

Mr. Scorcio requested Council guidance on budget workshops. Council concurred with scheduling the four Friday's in October from 10 a.m. – 3 p.m. with the goal of only holding three workshops.

He also questioned what role the A&F Committee should play. Council suggested the A&F for informational presentations and the Budget Workshops for decision making. The October 11 A&F Committee meeting will be used for budget information.

Executive Session: None

Adjourned:

Mayor Siefkes adjourned the Macro Budget Workshop at 2:54 p.m.