


Macro Budget Discussion

City Council Workshop

July 13, 2018



Agenda

1. Review 2017-2018 Performance
 2. 2018 Projected Ending Fund Balances
 3. 5-Year Financial Forecast
 4. Future Risks/Initiatives
 5. Financial Policies
 6. Decision Card Process
 7. Fee Schedule
 8. Budget Calendar
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2017-2018 Performance



Budget Objectives

2017 Performance

	2017 Budget	2017 Actual	Variance
Revenue			
General Fund	\$ 36.4	\$ 40.4	\$ 4.0
Non-GF	\$ 30.7	\$ 24.9	\$ (5.8)
Total Revenue	\$ 67.1	\$ 65.3	\$ (1.8)
Expense			
General Fund	\$ 40.5	\$ 38.4	\$ (2.1)
Non-GF	\$ 31.9	\$ 18.1	\$ (13.8)
Total Expense	\$ 72.4	\$ 56.5	\$ (15.9)
Ending Balance			
General Fund	\$ 16.5	\$ 19.4	\$ 2.9
Non-GF	42.4	46.6	4.2
Total Ending Balance	\$ 58.9	\$ 66.0	\$ 7.1

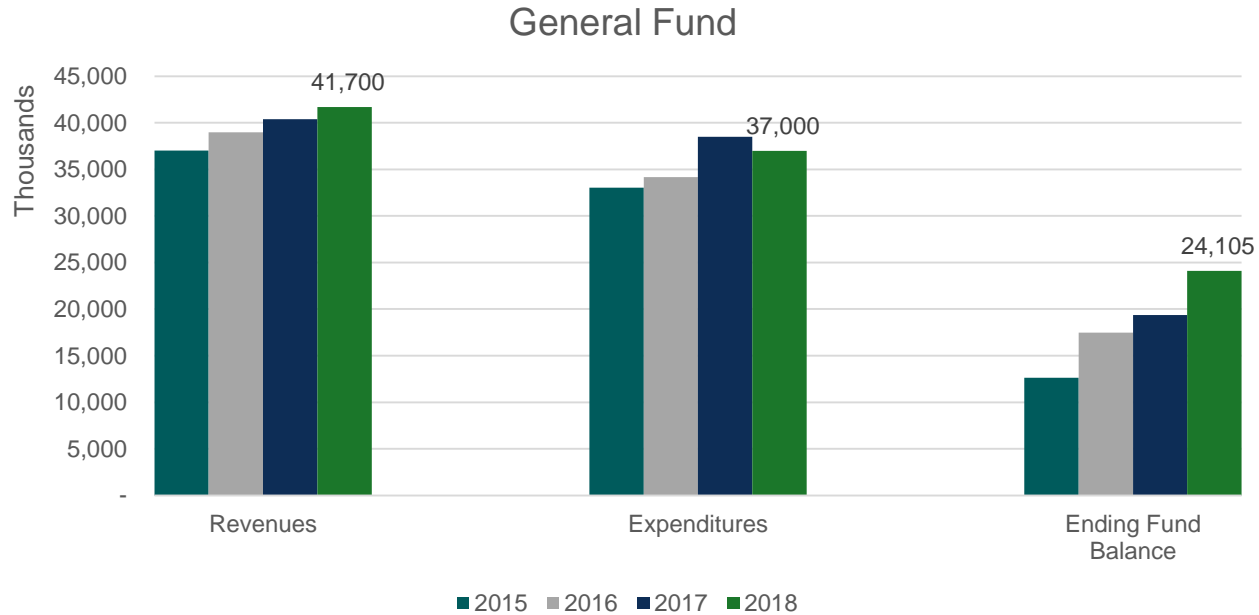
- Revenue
 - Property Tax up \$700,000 from new construction
 - Sales Tax up \$3M
 - Leasehold Excise Tax up \$800,000
 - Parking Tax up \$1.3M
 - REET up \$600,000
- Expenses
 - Related to vacant positions and project work

2018 Projection

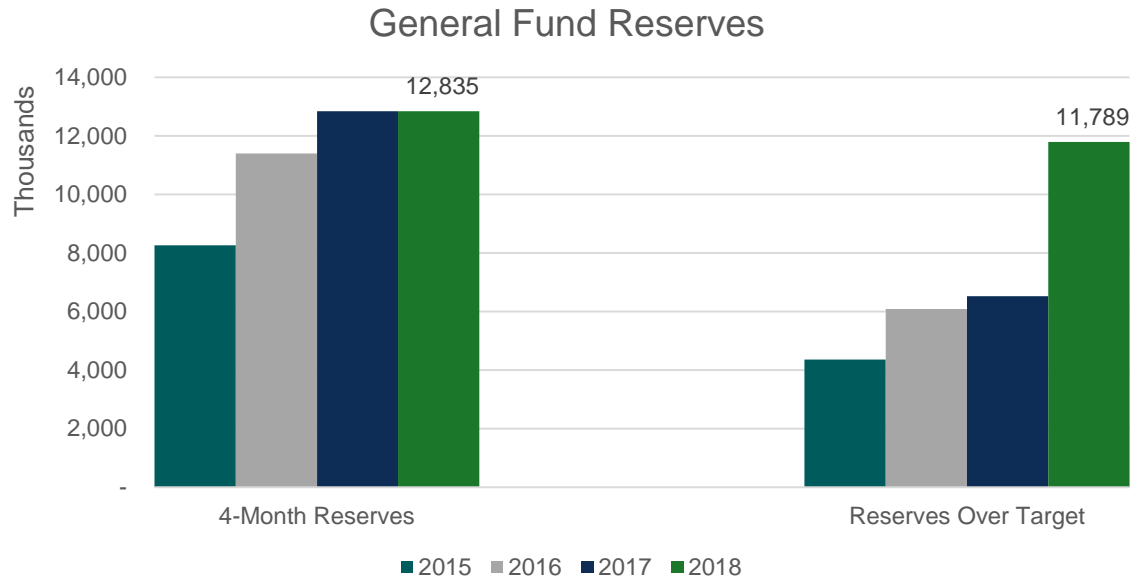
	2018 Budget	2018 Estimate	Variance
Revenue			
General Fund	\$ 37.6	\$ 41.7	\$ 4.1
Non-GF	\$ 29.7	\$ 30.7	\$ 1.0
Total Revenue	\$ 67.3	\$ 72.4	\$ 5.1
Expense			
General Fund	\$ 38.2	\$ 37.0	\$ (1.2)
Non-GF	\$ 34.5	\$ 29.2	\$ (5.3)
Total Expense	\$ 72.7	\$ 66.2	\$ (6.5)
Ending Balance			
General Fund	\$ 12.8	\$ 24.1	\$ 11.3
Non-GF	\$ 38.7	\$ 50.7	\$ 12.0
Total Ending Balance	\$ 51.5	\$ 74.8	\$ 23.3

- 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 GF Ending Fund Balance



General Fund Reserves



5-Year Financial Forecast

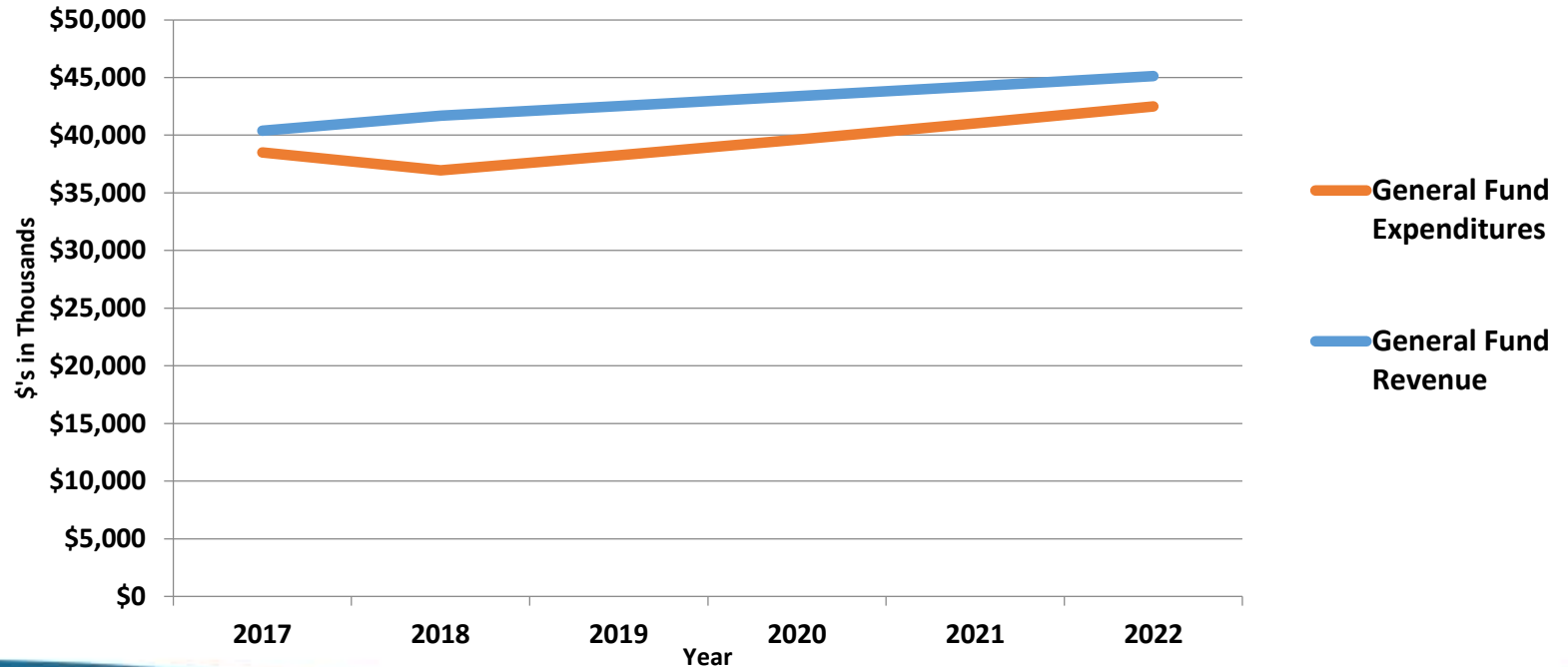


5-Year Forecast – General Fund

- Major Assumptions:
 - Property Tax Levy remains the same. 2% increase in Assessed Valuation (AV) per year.
 - All other revenue increases at 2%
 - Personnel expenses increase at 5% (salary and benefits)
 - Intergovernmental expenses:
 - King County Sheriff's at 3.5% (per City request)
 - Kent RFA at 2.5%
 - SCORE Jail at 3%
 - All other expenses grow at 3% (per City Manager)

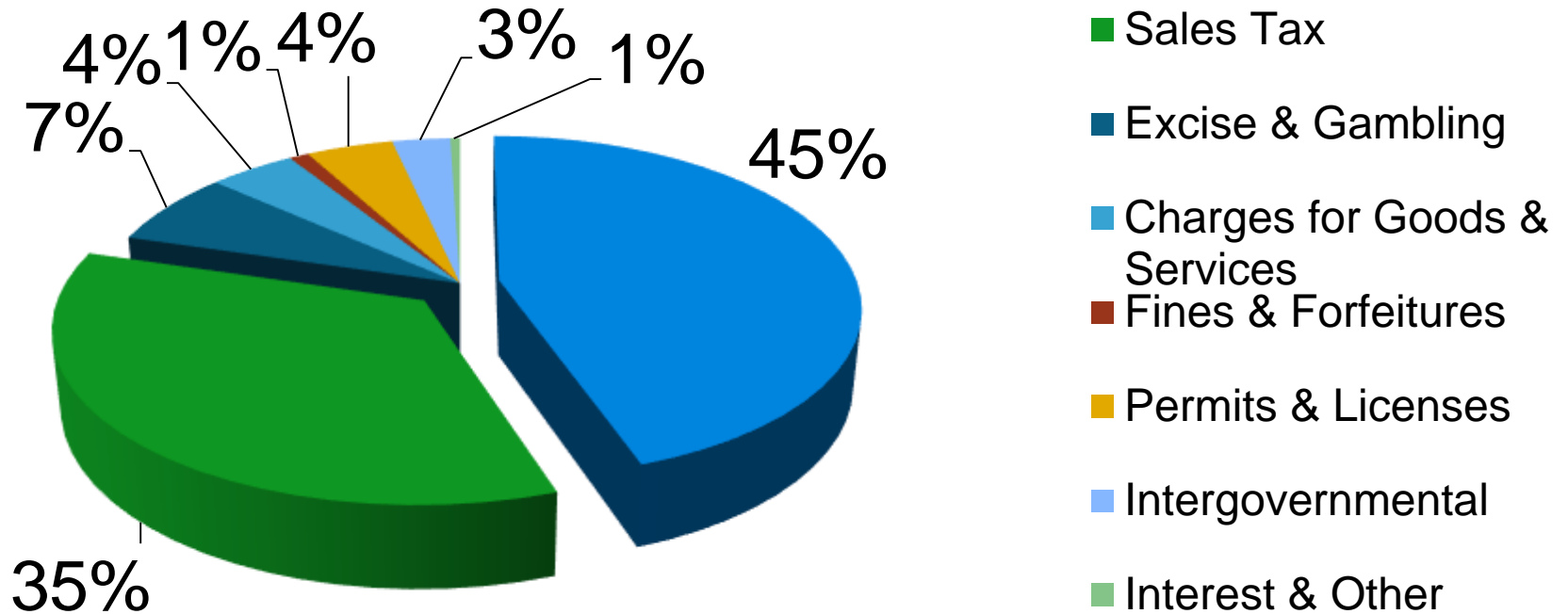
5-Year Forecast – General Fund

2018-2022 General Fund Projection
(with 4 Month Reserve Target)



General Fund Revenue Structure

Revenue By Source



General Fund Major Revenue Drivers

GENERAL FUND REVENUE	2018 Budget	% of Total GF
Property Tax	\$ 15.8	45%
Sales Tax	12.3	35%
All Other Revenues	7.4	20%
TOTAL REVENUE <i>(without transfers in)</i>	\$ 35.5	100%


Property Tax (45% of General Fund Revenues)

- Dependent on assessed valuation.

Sales Tax (35% of General Fund Revenues)

- Dependent on tourism, economic swings.

Future Risks/Initiatives

- Recession/Downturn
 - Predicting in next 5 Years, possibly as soon 2020
 - City Business Licenses
 - Model ordinance w/ minimum licensing threshold (Effective: Jan 1, 2019)
 - Loss of revenue?
 - Conversion to State system in early 2019
 - Increase in compliance?
 - AFSME Contract ends 2019
 - Sale of City Properties
 - Development Activities
 - Monitoring pre-application activity
 - Port ILA & Business Licensing
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Port of Seattle Businesses

Business Licenses

- As of March 2018: **69**
 - *Notification in May*
- As of June 2018: **92**
- As of July 2018: **95**

Total Increase: 26 Licenses


Sales Tax

- Sales Tax collected in June will be received by the City in August
- Report out at a future A&F Meeting


Financial Polices




Application & 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.
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General Budget Policies

- The budget shall account for onetime expenditures associated with an employee's end of employment. The Finance Director shall establish administrative procedures specifying the conditions under which such funds may be expended.
 - The City will endeavor, through performance improvement, to reduce annual expenditures by 5% in the General Fund.
 - Short-term (anticipated less than one year) economic downturns and temporary gaps in cash flow: Expenditure reductions or restrictions may be imposed. Expenditures from the General Fund Unassigned Fund Balance, or interfund loans may be used in accordance with the Interfund Loan policy.
 - Long-term (greater than one year) revenue downturns: Revenue forecasts shall be revised. When long-term revenue downturns are likely, deficit financing (borrowing) is not a preferred fiscal response. Onetime and/or ongoing expenses shall be reduced, new revenues shall be secured, reserve funds may be used or a combination thereof as necessary, to achieve a balanced budget.
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Reserve Policies – General Fund

- Adequate reserve levels are a necessary component of the City's overall financial management strategy and key factor in external agencies' measurement of the City's financial strength. Collectively, the adopted budget should include General Fund reserve balances equaling not less than *4 months* of the operating expenditures for the fiscal year. The reserves specified by this policy consist of the General Fund Ending Fund Balance.
 - The reserve will be available for unforeseen, urgent, or emergency needs. The reserve is intended to provide for revenue shortfalls; for expenditures deemed necessary by the City Manager and City Council; and temporary short-term interfund loans of a non-recurring nature.
 - City Council authorization shall be required for expenditure of General Fund Reserves.
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Reserve Policies - Enterprise Funds

- The City shall maintain reserves in the Enterprise Funds as follows:
 - The reserve balance target for the Surface Water Management Utility operations is the amount equivalent to 45 days of total budgeted operating expenses.
 - The reserve balance target for the Surface Water Management Utility capital is the amount equivalent to 10% of all Original Asset Values.
 - The reserve balance target for the Solid Waste & Environmental Utility operations is the amount equivalent to 30 days of total budgeted operating expenses.
 - City Council authorization shall be required for expenditure of Enterprise Fund Reserves.
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Reserve Policies - Capital Funds

- The City shall maintain capital reserve funds to provide funding for three years of the six years Capital Improvement Plan, less proprietary fund projects.
 - The use of any reserves within the Capital Improvement Funds shall be approved by the City Council.
 - Monies collected from the sale of assets shall be receipted into the fund where the purchase originated.
 - Contributions to the capital reserve funds will be made as per the budget recommendations set by the City Council.
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Reserve Policies - 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.
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Reserve Policies - Special Revenue Funds

- 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 General Fund reserves are in excess of the target General Fund reserve policy.

Expenditure Policies

- Budget surpluses resulting from vacant positions should not be used as justification to increase expenses for operational or capital expenditures purposes.
 - Enterprise Fund expenditures shall be fully supported by their own rates, fees, and charges, not subsidized by the General Fund. The Enterprise Funds shall pay their share of overhead costs and services provided by the General Fund.
 - The City shall assess funds for services provided internally by other funds. The estimated cost of service 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.
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Accounting, Auditing & FR

- In 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 Administration & Finance 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 Administration & Finance Committee shall be forwarded to the City Council.

Additional Policies


- Interfund Loan Policy
- Cost Allocation Policy



Decision Card Process




Decision Card Process

- For new employee, program, or capital purchase.
 - Identified as mandatory or discretionary
 - Ranked by Department
 - Prioritized by City Manger
 - Presented at Budget Workshop
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Fee Schedule




Fee Schedule

- Changes to Ordinance
 - Round fees to nearest dollar
 - Tie inflation index to specific month (June)
 - New Fees and Consolidated Fees
 - CPI increase on business license fees once moved to State
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Budget Calendar

Upcoming Dates

- 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
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Questions?

