

MACRO BUDGET DISCUSSION

June 18, 2012

What we intend to cover

1. Review 2011 Performance
 - Ending Fund Balance Results
2. Reserves Question
3. Revenue and Expenditure Structure
4. Projected Financial Scenarios
5. Confirm Reserves Direction
6. Confirm Revenue items Direction
7. Confirm Expenditure approach Direction
8. Annual/Biennial Budget Calendar

2011 Ending Fund Bal. Impact

(rounded \$'s to Millions)

	2011 Budget	2011 Actual	Variance	REFERENCE 2012 Budget
REVENUE: Non-GF	\$ 20	\$ 18	(\$ 2.0)	\$ 20
General Fund	<u>29</u>	<u>29.5</u>	<u>0.6</u>	<u>30</u>
TOTAL REVENUES	\$ 49	\$ 47.9	(\$ 1.4)	\$ 50

EXPENSE: Non-GF	\$ 24	\$ 16.1	(\$ 7.9)	\$ 25
General Fund	<u>29</u>	<u>28.3</u>	<u>(0.6)</u>	<u>30</u>
TOTAL EXPENSES	\$ 53	\$ 44.4	(\$ 8.5)	\$ 55

END BAL. ADJ: Non-GF			\$ 5.9
General Fund			<u>1.2</u>
TOTAL ENDING BALANCE			\$ 7.1

Projected 2012 Ending Balances

(\$'s Rounded to Millions)

FUND		2012 BUDGET	2011 Adjustment	2012 Adj. Projection
001	General	\$7.6	\$1.2	\$8.8
102	Street	10.6	0.8	11.4
103	Contingency Reserve	0.8	0.0	0.8
105	Port ILA	2.8	0.3	3.1
106	Transit Planning	0.2	0.1	0.3
107	Hotel/Motel	7.1	0.4	7.5
108	Building Management	1.3	0.6	1.9
111	Des Moines Creek ILA	1.4	0.3	1.7
301	Capital Improvements	3.1	0.1	3.2
303	Fire Equip. Reserve	1.0	0.4	1.4
306	Municipal Facilities CIP	2.1	0.0	2.1
307	Transportation CIP	2.0	2.4	4.4
308	Light Rail Stn Areas CIP	0.2	0.3	0.5
403	SWM Utility	2.1	0.0	2.1
406	SWM Construction	1.4	0.0	1.4
501	Equipment Rental	1.6	0.1	1.7
TOTAL		\$45.3	\$7.1	\$52.4

Operating
Reserve
Restriction*

Dedicated
and/or
Restricted
Funding

*Currently 3 months' opr. Expenses = \$7.6 M = 25% of General Fund Expenses

2012 Activity

- \$7.1M + \$1.0 million (approx.) related to State utility Re-valuation/re-assessment – part of tax levy in 2012 = \$8.1 million
 - \$1,600,600 carry forwards (action planned for 6/27/12)
 - \$ 93,613 Angle Lake Phase II design, AB#3407 (Fund 301)
 - \$ 150,000: Process Improvement Program
 - \$ 25,200 ILA with Tukwila to increase level of service provided in probation services: budget amendment per AB#3402 - passed 3/27/12
 - \$ 16,500 Budget amendment for tenant improvements related to SASH lease, AB#3417 (#108 Fund Adj.)
 - \$ 600,000 – Prior Year Sales & Use Tax Correction;
State Dept. of Revenue Audit and correction reported to city on 6/15/12

= \$ 5.6 Million total adjustment thru June, 2012

Net Balances after adjustments

(\$'s Rounded to Millions)

FUND		2012 BUDGET	2011 Adjustment	2012 Adj. Projection
001	General	\$7.6	\$1.4	\$9.0
102	Street	10.6	0.8	11.4
103	Contingency Reserve	0.8	0.0	0.8
105	Port ILA	2.8	0.3	3.1
106	Transit Planning	0.2	0.1	0.3
107	Hotel/Motel	7.1	0.4	7.5
108	Building Management	1.3	0.6	1.9
111	Des Moines Creek ILA	1.4	0.3	1.7
301	Capital Improvements	3.1	0.0	3.1
303	Fire Equip. Reserve	1.0	0.4	1.4
306	Municipal Facilities CIP	2.1	0.0	2.1
307	Transportation CIP	2.0	0.9	2.9
308	Light Rail Stn Areas CIP	0.2	0.3	0.5
403	SWM Utility	2.1	0.0	2.1
406	SWM Construction	1.4	0.0	1.4
501	Equipment Rental	1.6	0.0	1.6
TOTAL		\$45.3	\$5.6	\$50.9

Operating
Reserve
Restriction*

Dedicated
and/or
Restricted
Funding

*Currently 3 months' opr. Expenses = \$7.6 M = 25% of General Fund Expenses

Reserves Review

1. Definition of Balanced Budget = ?

- ❑ General Fund Revenues = General Fund Expenses
2012 Budget: Rev = \$29.8 Million; Exp = \$30.3 Million
- ❑ Minimum General Fund budgeted ending balance
= 3 mo. Operating reserve (Approx. \$7 to \$8 million)
2012 Budgeted Ending Balance = \$7.6 Million (3 mo)

General Fund Revenue Structure

- 2012 General Fund Revenue Budget
 - Property Tax – 46% of GF Revenues.
 - Sales Tax – 35% of GF Revenues, contains growth component related to consumption
 - Excise Taxes – 8% (leasehold & card games)
 - License/Permit Revenue – 4%
 - Charges for Services – 4%
 - Grants/State Shared Revenue – 2%
 - Interest, leases, fines, misc. other revs – 2%

General Fund Revenue Drivers

GENERAL FUND REVENUE	2012 Budget/Est.	% of Total GF
Property Tax	\$ 12.8	46%
Sales Tax	9.8	35%
All other Revenues	5.2	19%
TOTAL REVENUE (without transfers)	\$ 27.8	100%

- Property Tax – 46% of GF Revenues
 - Limited to 1% increase annually, maybe less if decreasing assessed valuation (AV) results in hitting \$3.10/1000 AV cap
- Sales Tax (ST) – 35% of GF Revenues
 - Contains growth component related to consumption, but also dependent on tourism, economic swings.

2012 Activity: Construction is down, based on 2012-2016 Port of Seattle CDP the 5 year average local ST = \$711,899 or \$700,000/yr. rounded.

2012 General Fund Budgets

(\$'s rounded to millions)

GENERAL FUND DEPTS	2012 Budget	% of Total GF
City Council	\$ 0.3	1%
City Manager	1.1	4%
Municipal Clerk	0.8	3%
Finance & Systems	1.4	5%
City Clerk	0.4	1%
Legal Services	0.9	3%
Human Resources	0.6	2%
Public Works	0.5	2%

2012 General Fund Budgets

(\$'s rounded to millions)

GENERAL FUND DEPTS	2012 Budget	% of Total GF
Parks & Facilities	\$ 3.9	13%
Community & Economic Development	2.1	7%
Fire	7.7	25%
Police	9.1	30%
Non-Departmental	1.1	4%
General Fund EXPENSE	\$ 30.3	100%

Expense Structure

- 2012 General Fund Expense Budget = **\$30.3 Million**
 - **\$21.5 Million:** Personnel Expense Budgets (approx. 70% of General Fund)
*includes personnel share of police ILA
 - **\$4.7 Million:** Non-Personnel, Public Safety Budgets (16% of GF)
*includes training, supplies, dispatch, fleet maintenance, insurance etc.
 - **\$4.1 Million:** Non-Personnel, All 10 other City Departments (14% of GF)
*includes training, supplies, service contracts, inter-local agreements, etc.

Prior Actions:

- Moved from AWC Plan B to Healthfirst medical plan in 2011
- Achieved wellness program premium discount of 2%
- Previously cut positions and instituted furloughs

Looking Forward

1. What's beyond 2013?

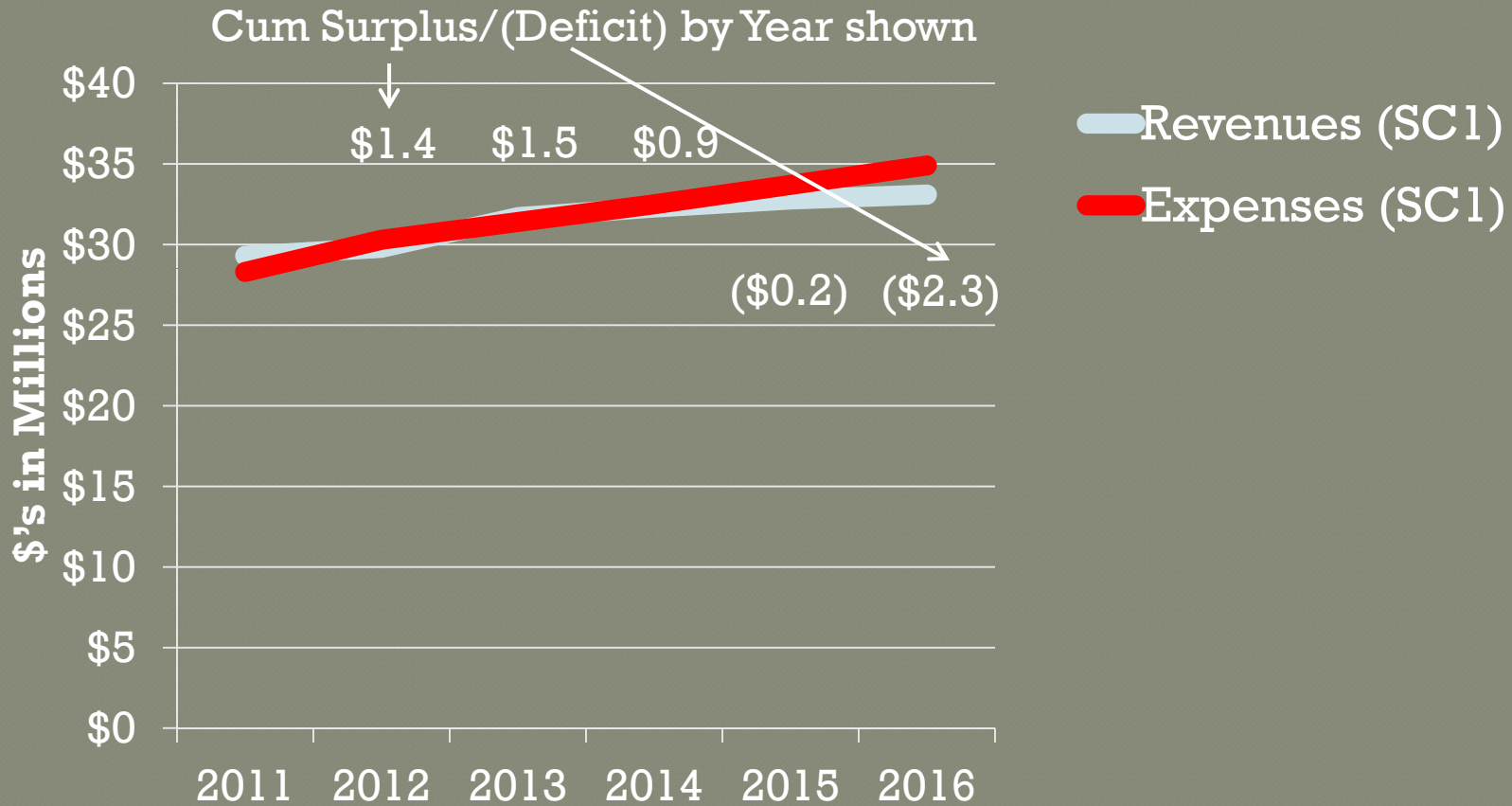
- ❑ Capital Infrastructure needs
- ❑ Operational impact of capital improvement
 - ❑ Increased cost of maintenance
- ❑ Legislative outlook
 - ❑ Likely to be decreased State grant funding, state shared revenues, with increasing regulation/compliance requirements. (NPDES phase II implementation...)
 - ❑ Medical Cost double digit increases – 2014 Health Care Law, what it will mean to competition for talent and cost implications to employers and employees.
 - ❑ Labor contracts – 3 year terms.

General Fund Forecast (2011-2016)

Assumptions (Scenario 1):

1. Property Tax increases at 2.2% in 2013; 1.5% after
 - Total Assessed Valuation (4%) in 2013; +1.5% after
2. Continue 0% Utility Tax and 0% B&O Tax
3. Continue current Fee structure
4. All other revenue types increase at 2%
5. Non-Personnel expenses increase at 2%
6. Estimate 4% composite increase on Personnel expenses (salary and benefit factors combined)
7. Estimate 4% increase on police services ILA

5 Year Forecast – General Fund (2011-2016)



Projected:

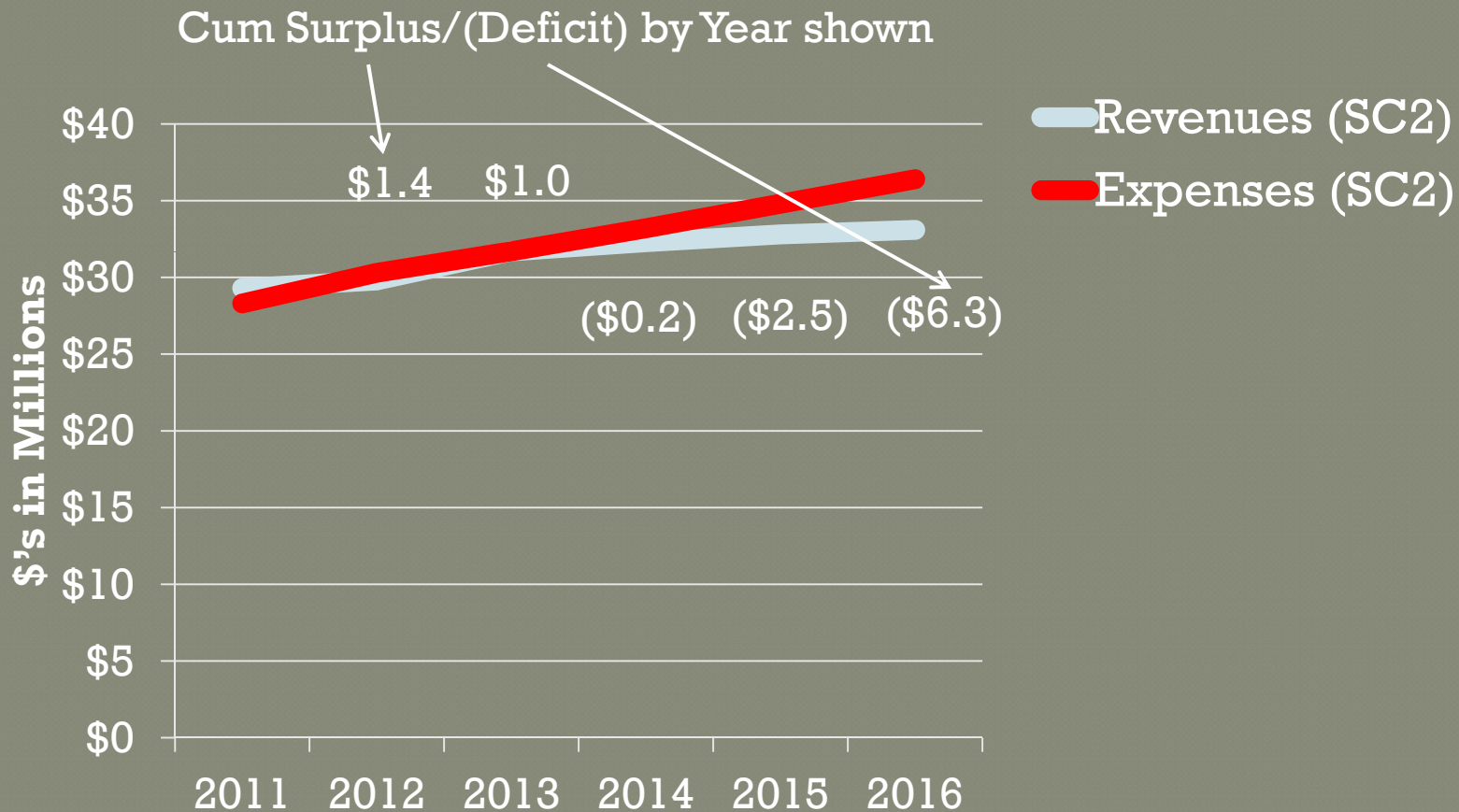
GF Balance + Revenue – Expenses (with 3 mo. Reserve) = Deficit in 2015

General Fund Forecast (2011-2016)

Assumptions (Scenario 2):

1. Property Tax increases at 2.2% in 2013; 1.5% after
 - Total Assessed Valuation (4%) in 2013; +1.5% after
2. Continue 0% Utility Tax and 0% B&O Tax
3. Continue current Fee structure
4. All other revenue types increase at 2%
5. Non-Personnel expenses increase at 2%
6. **Estimate 6%** composite increase on Personnel expenses (salary and benefit factors combined)
7. Estimate 4% increase on police services ILA

5 Year Forecast – General Fund (2011-2016)



Projected:

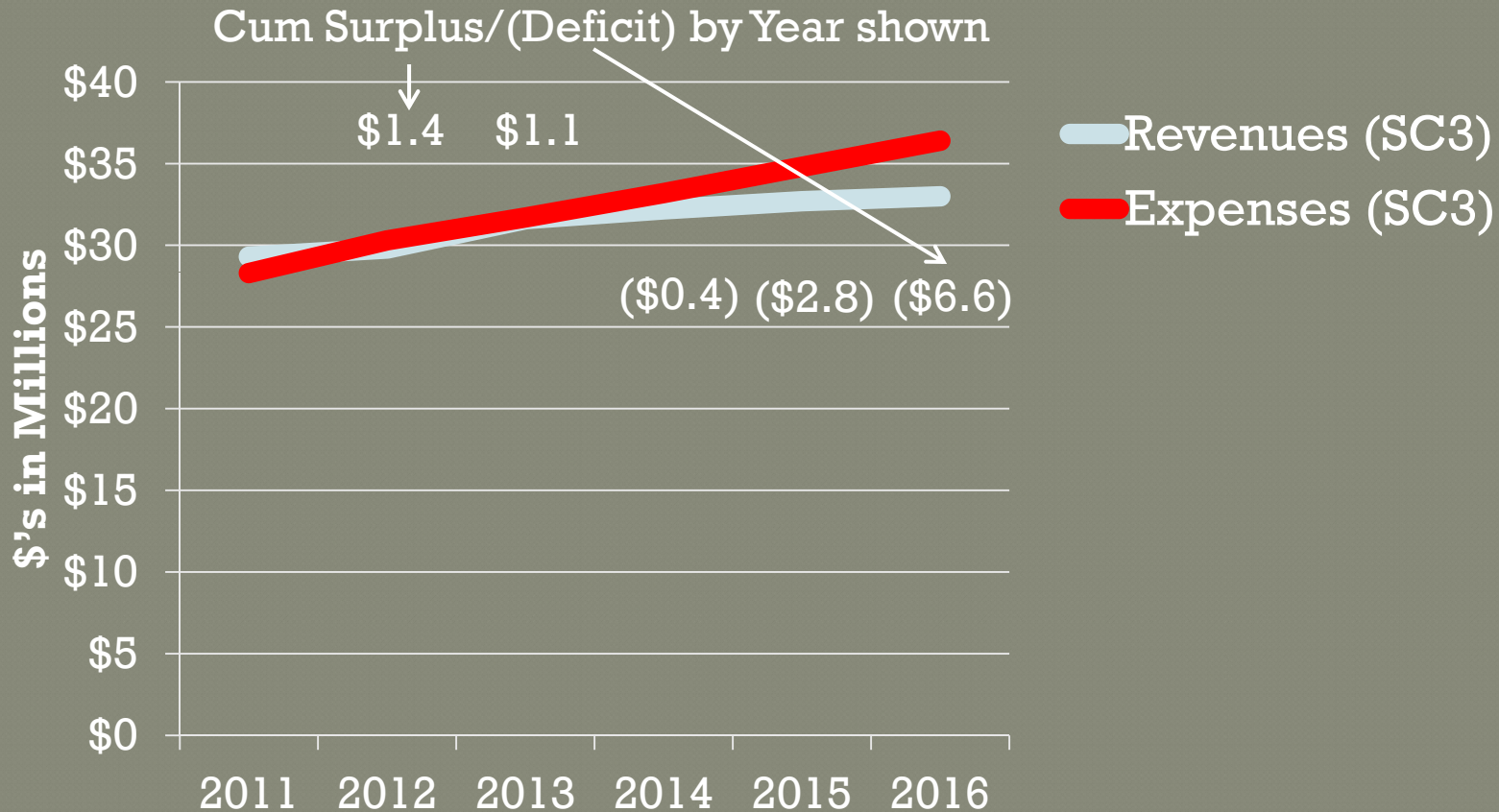
GF Balance + Revenue – Expenses (with 3 mo. Reserve) = Deficit in 2014

General Fund Forecast (2011-2016)

Assumptions (Scenario 3):

1. Property Tax increases at **1.6%** in 2013; 1.5% after
 - Total Assessed Valuation (4%) in 2013; +1.5% after
2. Continue 0% Utility Tax and 0% B&O Tax
3. Continue current Fee structure
4. All other revenue types increase at 2%
5. Non-Personnel expenses increase at 2%
6. **Estimate 6%** composite increase on Personnel expenses (salary and benefit factors combined)
7. Estimate 4% increase on police services ILA

5 Year Forecast – General Fund (2011-2016)



Projected:

GF Balance + Revenue – Expenses (with 3 mo. Reserve) = Deficit in 2014

Reserves Direction

1. Definition of Balanced Budget = ?

- ❑ General Fund Revenues = General Fund Expenses
2012 Budget: Rev = \$29.8 Million; Exp = \$30.3 Million
- ❑ Minimum General Fund budgeted ending balance
= 3 mo. Operating reserve (Approx. \$7 to \$8 million)
2012 Budgeted Ending Balance = \$7.6 Million (3 mo)

2013 Definition of Balanced Budget = ?

- ❑ Allocate any portion of Ending Balance to a Strategic Contingency?

Revenue Options

2. Balancing thru Revenues:

❖ Property Tax Options:

- ❑ State allowable increase of 1% per year (was previously 6%), can levy banked capacity from 2012.
- ❑ Zero Increase eliminates this source as a balancing option.
- ❑ Other increase? Maximum allowable rate is 1% plus any banked capacity.
- ❑ Maintaining below the \$3.10/1000 AV statutory cap is dependent on what total assessed valuation does
- ❑ 2012 Rate = \$2.88/1000 AV; with a 4% Decrease in AV the 2012 rate would = \$3.00/1000 AV

HISTORICAL NOTE: The City did NOT levy the allowable 1% in 2012; banked capacity decreases in a decreasing AV market (results of I-747 calculation)

Revenue Options

2. Balancing thru Revenues:

- ❖ Utility Tax can be levied in an amount up to 6%, which is the maximum allowed by State law. (Councilmanic)

- 1% tax rate is estimated to generate \$445,000/year; or approx. 6% = \$2.67 M (2011 estimate).

- ❖ B&O Tax can be levied up to 0.2% of Gross Sales (Councilmanic)

NOTE: This can now also be levied on liquor store operations as that has been privatized in the State of Washington.

- 0.2% is estimated to generate \$242,941/year

Expense Options

3. Balancing thru Expenditures:

❖ Expense Adjustments:

- ❑ Identify which services to reduce or eliminate to meet current funding level
- ❑ Strategic planning exercises (Citizen Survey, Council visioning and goal setting, and organizational alignment) can help
- ❑ Lean/Six Sigma work should help realize efficiencies that will save the city money.

2013 Budget Calendar

- ✓ May: City Council Visioning and Goal setting
- June 18: Macro Budget Workshop
- ❑ June 26-Complete 2011 to 2012 carry forward action
- ❑ June 30: Biennial Budget Filing Date – if elected
- ❑ July-Aug: Staff budget preparation
- ❑ Sept: Filing of Preliminary Budget by City Mgr.
- ❑ Oct/Nov: City Council budget workshops providing further direction on preliminary budget proposal.
- ❑ Nov: Property Tax public hearing and 2013 levy rate determination to be made by City Council
- ❑ Dec: Final adoption of 2013 Budget.

Annual vs. Biennial?

- Biennial Budget option?

- Action due by June 30th to opt. for a 2013-2014 Biennial Budget

Background:

- 2 Council Study Sessions and white paper
- 32 Cities have adopted a 2011-2012 Biennial budget, including Auburn, Burien, Mercer Island, Renton, Tukwila, and Kent (just this year).

Annual vs. Biennial?

● Biennial Budget option background, cont...

- Main Benefits:
 - Ability to plan for future years needs and sourcing – longer term perspective on what is coming.
 - Coincides with Cities every other year goal setting process
 - Future Capital investments/timing can be planned 2 years in advance vs. one.
 - Saves Time – budget development process done every two years with annual modification in 2nd year vs. every year.
 - Political consideration: State-law designs this to begin in non-election (odd-numbered) years.
- Main Detractors Sited:
 - Concern over a perceived loss of control
 - A decreased level of comfort with the increased variability of forecasts due to the extended term and potential changes in economic conditions

Thank you!
