

# MACRO BUDGET DISCUSSION

June 23, 2014  
City Council Workshop

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## What we intend to cover

1. Review 2013 Performance
  - Review Impact to 2014 Ending Fund Balance
2. Review/Confirm Reserve Direction
3. Review Revenue and Expenditure Structure and major components
4. Review 5-Year Financial Forecast
5. Confirm Revenue items Direction
6. Confirm Expenditure approach Direction
7. 2015-2016 Biennial Budget Calendar

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## 2013 Performance

(rounded \$'s to Millions)

	2013 Budget	2013 Actual	Variance	REFERENCE 2014 Budget
REVENUE: Non-GF	\$ 18.8	\$ 18.8	--	\$ 29.8
General Fund	30.9	29.5	(\$ 1.4)	33.4
<b>TOTAL REVENUES</b>	<b>\$ 49.7</b>	<b>\$ 48.3</b>	<b>(\$ 1.4)</b>	<b>\$ 63.2</b>

EXPENSE: Non-GF	\$ 25.3	\$ 18.6	(\$ 6.7)	\$ 45.9
General Fund	31.8	31.3	(0.5)	33.6
<b>TOTAL EXPENSES</b>	<b>\$ 57.1</b>	<b>\$ 49.9</b>	<b>(\$ 7.2)</b>	<b>\$ 79.5</b>

END BAL. ADJ: Non-GF			\$ 6.7
General Fund			(0.9)
<b>TOTAL ENDING BALANCE</b>			<b>\$ 5.8</b>

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## Projected 2014 Ending Balances

(\$'s Rounded to Millions)

FUND	2014 BUDGET	2013 Adjustment	2014 Adj. Projection
001 General	\$8.8	-\$0.9	\$7.9
102 Street	2.3	1.0	\$3.3
103 Contingency Reserve	0.8	0.0	\$0.8
105 Port ILA	0.9	0.0	\$0.9
106 Transit Planning	0.1	0.0	\$0.1
107 Hotel/Motel	6.5	0.1	\$6.6
108 Building Management	2.0	0.2	\$2.2
111 Des Moines Creek ILA	1.1	0.4	\$1.5
204 Spec. Assessmt Debt	0.2	0.0	\$0.2
301 Capital Improvements	0.4	1.0	\$1.4
306 Municipal Facilities CIP	0.6	1.5	\$2.1
307 Transportation CIP	1.0	1.0	\$2.0
308 Light Rail Stn Areas CIP	0.1	0.8	\$0.9
403 SWM Utility	1.8	0.4	\$2.2
406 SWM Construction	1.4	0.0	\$1.4
501 Equipment Rental	0.7	0.3	\$1.0
<b>TOTAL</b>	<b>\$28.7</b>	<b>\$5.8</b>	<b>\$34.5</b>

Operating  
Reserve  
Restriction\*

\*Target is 25% or \$8.4 M ; \$7.9 M = 23.5% of 2014 General Fund Expense Budget

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## 2014 Performance Monitoring Major Focus Area

- Continued diligence in monitoring construction related sales taxes - primarily related to Sound Transit and Port of Seattle capital development construction projects:
  - Budget anticipates \$920,000 transfer to general fund
  - Actual construction related sales tax = \$258,611 in 2013; down from \$555,180 in 2012.
  - The actual timing of capital construction projects by outside entities has uncertainty. Projections are estimates only based on publicly available info and should not be considered a guarantee of future results.

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## Strategic Reserve Review

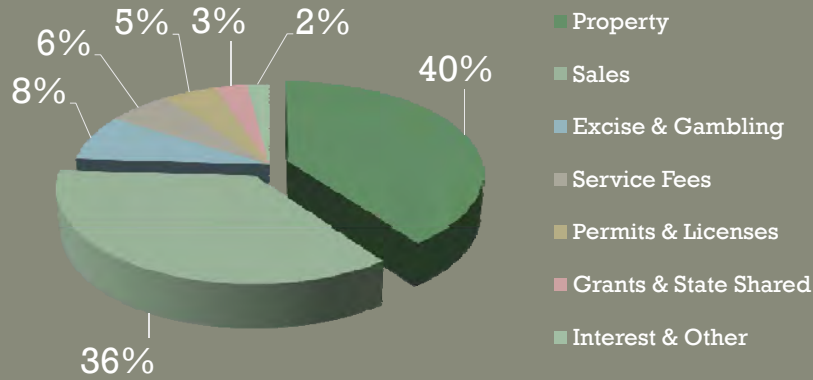
### Definition of Balanced Budget = ?

- A. General Fund Revenues = General Fund Expenses  
2014 Budget: Rev = \$33.4 Million; Exp = \$33.6 Million
- B. Minimum General Fund budgeted ending balance = 3 mo. Operating reserve (Approx. \$7 to \$8 million)  
2014 Expense Budget = \$33.6 million, making the target reserve requirement = \$8.4 million (25%)

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## General Fund Revenue Structure

### Revenue By Source



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## General Fund Revenue Drivers

GENERAL FUND REVENUE	2014 Budget	% of Total GF
Property Tax	\$ 12.3	40%
Sales Tax	11.1	36%
All other Revenues	7.2	24%
<b>TOTAL REVENUE (without transfers)</b>	<b>\$ 30.6</b>	<b>100%</b>

- Property Tax – 40% of General Fund Revenues
  - Currently at \$3.10/\$1000 assessed valuation (AV) cap per State Law. If AV increases enough, there also would be the 101% limit.
- Sales Tax (ST) – 36% of General Fund Revenues
  - Contains growth component related to consumption, but also dependent on tourism, economic swings.
  - 2014 Activity: Summer construction activity expected to increase over past years

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## General Fund Dept. Budgets

(\$'s rounded to millions)

2011 THRU 2014 HISTORICAL COSTS OF PUBLIC SAFETY	2011	2012	2013	2014 Budget	2015 Estimate
Fire Services/KentRFA*	\$ 7.2	\$ 7.3	\$ 8.0	\$ 9.1	\$ 9.5
KCSO – Police Services	<u>8.1</u>	<u>8.3</u>	<u>8.6</u>	<u>8.8</u>	<u>9.2</u>
Subtotal	15.3	15.6	16.6	17.9	18.7
% Increase by Year		2%	6.4%	7.8%	4.5%

\*2014 is the first year of ILA with Kent RFA

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## Looking Forward

### What's beyond 2014?

1. Total City Budget - Capital Infrastructure needs not included in forecast
2. Total City Budget – Operational impact of new capital improvement(s) are not included in forecast
  - Increased cost of maintenance
3. Legislative outlook
  - Likely to be decreased State grant funding, state shared revenues, with increasing regulation/compliance requirements.
  - Medical Cost double digit increases – implementation of the Federal Health Care Law, what it will mean to competition for talent and cost implications to employers and employees.
  - Current AFSCME Labor contract ends 2014.

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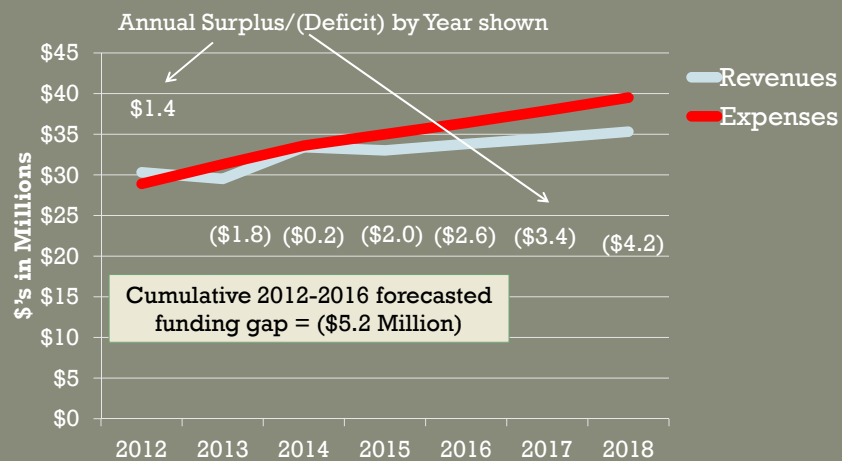
## General Fund Forecast (2014-2018)

### Major Assumptions:

1. Property Tax remains at \$3.10/\$1000 AV cap.
  - If assume total Assessed Valuation increases at 2% per year, this cap will be in place until 2018
2. No new taxes, continue current Fee structure
3. All other revenue types increase at 2%
4. Non-Personnel expenses increase at 2%
5. Estimate 4.5% composite increase on Personnel expenses (salary and benefit factors combined)
6. Estimate 4.5% increase in public safety contracts
7. Transfer into the general fund \$920K per year related to construction sales tax.

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## 5 Year Forecast – General Fund (2014-2018)



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## Other Considerations

### Potential 2015-2016 General Fund Budget considerations not included in forecast

- ❑ Classification & Compensation study
  - Council Direction to prepare a decision card on this item?
- ❑ Code Compliance
  - Council Direction to prepare a decision card on this item?
- ❑ Other pending Budget Considerations
  - Capital Budget
    - ✓ Sidewalk Program
    - ✓ Fire Station Funding
  - Operating Budget
    - ✓ Other decision cards

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## Expense Options

### Balancing thru Expenditure Reductions:

- ❖ Level of Service Decisions:
  - ❑ Identify which services to reduce or eliminate to meet funding level
  - ❑ Strategic planning exercises (Citizen Survey, Council visioning and goal setting, and organizational alignment) can help
  - ❑ Use Business Analytics to assess resource levels

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## Revenue Options

### Balancing thru Revenues:

1. **Increase Fees for Services**
  - ❑ Update charges for services to reflect cost share of service being provided by fee paying customers.
    - Those requesting services pay an increased cost for services being provided. Some fees have not been increased in over 5 years
2. **Utility Tax can be levied in an amount up to 6% (Councilmanic)**
  - ❑ 1% tax rate is estimated to generate \$445,000/year;
  - ❑ 6% tax rate is approx. = \$2.67 M (2011 estimate) Admin. and special program costs not included in estimate amount.
  - ❑ Re-affirm previous (2012) general consensus that this option should be considered for future use.
    - Burien(6%); Tukwila (6%); Kent(6%); Renton(6%);
    - 3 of 51 WA cities with pop. 15,000 to 75,000 don't levy (94% do levy)
3. **Business & Occupation Tax:**
  - ❑ State restricts amount up to 0.2% of gross sales
  - ❑ 39 of Washington's 281 cities levy this tax (14%)

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## 2015-2016 Budget Calendar

- June 23: Macro Budget Workshop
- ❑ July-Aug: Staff budget preparation
- ❑ Sept: Filing of Prelim. Budget by City Mgr.
- ❑ Oct: City Council budget workshops providing further direction on preliminary budget proposal.
- ❑ Nov: Property Tax public hearing and 2015 levy rate determination to be made by City Council
- ❑ Nov/Dec: Final adoption of 2015-2016 Biennial Budget.

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