

Longer Term General Fund Discussion

Background:

Council requested that the City take a longer view of the financial horizon during the 2017-2018 budget development, and again asked for an update during the 2018 Mid-Biennium discussions. During both of those earlier discussions the conclusions were similar, in that revenues were forecasted to exceed expenditures in the near term, yet by 2020 or 2021, the reverse occurred, in that expenditures grew faster than revenues. In response to the 2018 Mid-Biennium discussion, the Council provided two-fold action, the first to continue to build reserves in the General Fund to better position the City for anticipated shortfalls in the Operating Budget in the mid-term and to protect the City in the case of an economic downturn and the second, Council approved the 1 percent Councilmanic Property Tax increase for 2018.

In the previous agenda item, staff updated the Council on the most current General Fund Forecast 2019-2024. It is important to note that the forecast is a plan and not a budget. It provides information that influences how the City will approach fiscal decisions. The general fund forecast shows revenues exceeding expenditures in the near term. However, starting in 2021, the reverse occurs when expenditures will exceed revenues. This is primarily due to (1) continued population growth requiring more urbanized services, (2) the depletion of the LEOFF I Medical reserve necessitating costs to shift to the general fund, (3) expiration of the annexation sales tax revenue in 2022, (4) ensuring existing and new infrastructure, such as Fire Station #10, is maintained, staffed and operated, and (5) cost of existing service level grows faster than revenue growth. Assuming no change in revenues or expenditures, the current forecast shows the general fund continuing to build reserves through 2020 until they must be drawn on to balance the budget in the out years, which is not a long term financially sustainable strategy. The forecast also shows by 2023, the projected ending fund balance will be less than the Council policy of 15 percent.

Council Discussion:

Tonight, staff will provide information to Council regarding the longer term financial forecast (presented in the previous section) and options to consider. As the City Manager begins to develop his preliminary budget recommendation to Council, staff is seeking any early feedback the Council may wish to provide to respond to the current general fund forecast.

Analysis and Options:

The current General Fund Forecast provides time to address the out-year forecast, yet the 2019-2020 budget cycle is an opportunity. Prudent fiscal management to avoid crisis intervention is important. To help provide context and order of magnitude, staff will present several scenarios on Monday night. If there is no change to the forecast, the City will need to either:

- Decrease expenditures, or
- Increase revenues, or
- A combination of both.

Longer Term General Fund Discussion

Considering the forecast as well as the pressures of urbanization on service level, there are several initiatives underway to work to impact the rate of expenditure growth including focusing on innovation, challenging the status quo to address redundancies, creating efficiencies and researching near term investments that will create out year savings. As the City Manager begins to develop his Preliminary Budget he will be taking into consideration the work mentioned here, and the survey results (found in the next section) in order to bring forward a fiscally prudent budget for Council consideration.

In relation to revenue options, adjustments in tax rates or other rates or authorizing a new revenue source, either councilmanic or by a vote of the people, requires Council approval, primarily via ordinance. The table starting on the next page provides a list of options either by councilmanic action or by voted measure for Council consideration and feedback.

Potential Revenue Options

There are several options under RCW for new revenue generated either by Councilmanic action or by voted measure. Each revenue option is broken down between Councilmanic and Voted with estimates of revenue generation: (*O= operating, C= capital*)

Revenue Option	Historical Activity	Councilmanic Options	Voter Approved Options	Who Pays	O	C	Considerations
Property Tax RCW: 84.55	Past 5-year history: <ul style="list-style-type: none"> 2014 – 0% 2015 – 3% (1% operating, and 2% capital) 2016 – 1% operating 2017 – 27.5 cents (voter levy for fire and neighborhoods) 2018 – 1% operating 	\$9.1M banked capacity, 16 cents or 16% of the general tax 1% or 1 cent (similar amounts) = ~\$579K annually (\$430K GF, \$68K Fire levy (CIP), \$81K Trans. Levy (CIP))	Any increment	All property owners (residential, business, and developers)	X	X	-Councilmanic banked capacity available -Voted simple levy can be used on pay-as-you-go basis or bonded over 9 years -Voted bonded UTGO levy can be combined with bond issuance to yield large amount of capital up front
Transportation Benefit District RCW: 35.21.225	New Source, No History.	\$20 vehicle Fee = ~\$2M \$40 if at \$20 for 2 yrs. = ~\$4M \$50 if at \$40 for 2 yrs. = ~\$5M (also extensive public outreach) If the TBD contains all territory within the jurisdiction(s) that established the TBD, Council may implement without a vote of the people a <ul style="list-style-type: none"> \$20 per vehicle fee; increasing to \$40 per vehicle after two years at \$20; increasing to \$50 per vehicle after two years at \$40 with an extensive public outreach. 	\$100 vehicle fee = ~\$10M Up to 0.2% sales tax ~\$16M (variable based on 2017 YE estimate) Any increment of property tax -Vehicle fees from \$50 to \$100 per vehicle require voter approval -Sales tax and/or property tax requires voter approval	Vehicle Fee: any resident or business with a vehicle Sales tax – all consumers (residential, business, developers, visitors) Property tax – all property owners	X	X	-RCW 35.21.225 governs formation. -Funds must be used for transportation improvement projects. Projects may include operation, preservation, and maintenance of these transportation facilities or programs.
B&O RCW 35.21.710	Last rate change: 1990; increased by .0196%.	Current rate is .1496% of gross receipts. Maximum is 2%. Each 0.01 percent increase is expected to generate \$2.6 million in 2019 of B&O tax revenue.	NA	Business	X	X	-Can be used for operating and capital -To stay competitive within market for business generation, rate should be within median of local jurisdictions.

Potential Revenue Options

Revenue Option	Historical Activity	Councilmanic Options	Voter Approved Options	Who Pays	O	C	Considerations
Admission Tax RCW 35.21.280	Unchanged since implementation in 1995.	Increase by 2% to maximum of 5% ~ \$200K annually	NA	People who purchase tickets			
Utility Taxes RCW 35.21.870	8 Total Utilities; last rate changes were from 1993 to 2011 depending on Utility.	If all available taxes increase by 0.5% then up to \$1.7M annually	NA	Existing business and residential	X	X	-Use is unrestricted
Impact Fees RCW 82.02.050	Last rate change was 2016, and 3% inflation increase every year after.	Up to \$7,992 per latest TFP. Fire and/or Parks Impact Fees (no estimates)	NA	Developers		X	-Transportation Restricted to capacity projects
Local Improvement District RCW 36.73.080	All Local Improvement Districts have been expired	NA	Any increment of special benefit	Existing residential and business property owners		X	-Requires a formal process -Bonds must be repaid, typically over 20 years
Parking Tax RCW 82.80.030	New Source, No History.	Can be levied on a per stall, per vehicle, or gross receipts	NA	People who park vehicles	X	X	-Use restricted to transportation or transit purposes (RCW 82.80.070.)
Regional Fire Authority RCW 52.26.140	New Source, No History.	NA	Property tax up to \$0.50/\$1000 AV Special Benefit Charge	Property owners (residential, business and developers)	X	X	-Requires a formal process -District can levy benefit charges, property taxes or a combination of both
Public Facility District RCW 35.57	New Source, No History.	NA	Sales and use tax not to exceed 0.2%	Sales tax – all consumers (residential, business, developers, visitors)	X	X	-Requires a formal process -May be used for financing, design, acquisition, construction, equipping, operating, maintaining, remodeling, repairing, and reequipping public facilities
Firefighter Pension Fund Levy RCW 41.16.060	New Source, No History.	Property tax up to \$0.225/\$1000 AV	NA	Property owners (residential, business and developers)	X		-Requires a report by a qualified actuary on the condition of the fund. -Only can address Fire LEOFFI obligation.
Grants	Grants are received as available projects are identified.	NA	NA	Depending on the Grant requirements	X	X	-Must be project specific -Requires addition of new discrete projects in the CIP