

**CITY COUNCIL AGENDA ITEM**  
CITY OF SHORELINE, WASHINGTON

<b>AGENDA TITLE:</b>	Acceptance of the 10-Year Financial Sustainability Plan
<b>DEPARTMENT:</b>	Administrative Services
<b>PRESENTED BY:</b>	Robert Hartwig, Administrative Services Director
<b>ACTION:</b>	<input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution <input checked="" type="checkbox"/> Motion <input type="checkbox"/> Public Hearing <input type="checkbox"/> Discussion

**PROBLEM/ISSUE STATEMENT:**

In 2012, the City Council adopted their 2012-14 Goals. Goal #1 is to “Strengthen Shoreline’s economic base”, and Action Step #3 under this goal is to “Develop a 10-year Financial Sustainability Plan to achieve sufficient fiscal capacity to fund and maintain priority public services, facilities, and infrastructure”. Tonight the City Council is being asked to accept the 10-year Financial Sustainability Plan, the end result of a two-year process (see Attachment A).

The plan establishes a Base Financial Model and includes seven strategies (or tools) for the City to use to maintain financial resiliency and sustain existing services. The model allows the City to store historical financial data, update projections with actual results, use the information to inform the City’s annual budget process, and model the effects of changing conditions.

Changing conditions can include economic events, unexpected cost increases, the results of implementing one or a combination of the sustainability strategies, etc. The City will also be able to model new strategies and revise projections as additional historical data becomes available.

The Plan has been reviewed by a subcommittee of the City Council, which consisted of Mayor Winstead, Deputy Mayor Eggen, and Councilmember Salomon. Tonight’s discussion will focus on answering any Council questions related to the final recommendations and accepting the Plan.

**RESOURCE/FINANCIAL IMPACT:**

There is no immediate financial impact associated with tonight’s action. The ultimate financial impact will be measured as part of the annual budget process, with the results reported to the Council during the budget presentations. If various strategies in the Sustainability Plan are used, they will cause a financial impact that can be both estimated and measured against initial estimates.

**RECOMMENDATION**

Staff recommends that Council move to accept the proposed 10-year Financial Sustainability Plan (Attachment A).

Approved By:        City Manager ***DT***    City Attorney ***IS***

## **BACKGROUND**

In 2012, the City Council adopted their 2012-14 Goals. Goal #1 is to “Strengthen Shoreline’s economic base”, and Action Step #3 under this goal is to “Develop a 10-year Financial Sustainability Plan to achieve sufficient fiscal capacity to fund and maintain priority public services, facilities, and infrastructure”. To implement this Goal and Action Step, over the past two years, the City has gone through a comprehensive 10-year financial sustainability process, which included staff review and analysis and Council oversight and direction.

To begin, a 10-year Financial Sustainability staff team was formed that planned the project and reviewed past community processes. The team introduced the project to all employees and then worked with the staff to identify all of the thousands of tasks they perform to provide service to Shoreline residents. These tasks were then grouped into hundreds of activities, and then finally, the activities were grouped into 127 unique City services. The Administrative Services Department (ASD) then calculated the cost for every service, and finally, the City’s Leadership Team prioritized each service as either a Core Service or a Quality of Life Service.

Using these services, ASD then spent several months working with MuniCast, a financial modeling company, to develop a Base Financial Model that was used in the 10-year Financial Sustainability Project. The Base Model became the key component to all of the subsequent modeling work as scenarios were developed.

Staff next spent several more months identifying over 20 economic development, revenue, and expenditure strategies and developed scenarios for each strategy. Beginning in January 2014, a Council subcommittee (Mayor Winstead, Deputy Mayor Eggen, and Councilmember Salomon) held six subcommittee meetings to look at the financial model and the scenarios. More specifically, the committee reviewed assumptions, approved the process, reviewed the scenarios and models, decided which scenarios to pursue, and added an interest revenue strategy.

Ultimately the subcommittee narrowed the strategies down to one economic development, two expenditure, and four revenue strategies. The subcommittee then prioritized these seven strategies, developing a resilient financial sustainability plan. The City Council received two project updates during the subcommittee’s work.

The subcommittee completed its meetings on March 31<sup>st</sup>, finalizing its recommendations in April (see Attachment A).

## **PUBLIC INPUT**

During its work, the subcommittee established a public process in order to provide information and seek input from the public on the draft Financial Sustainability Plan. This public process began with an article published in April for the May issue of the *Currents* newsletter. The article discussed the project and invited the public to an open house on May 14<sup>th</sup>. In addition, the Plan recommendations were presented to the Council of Neighborhoods on May 7<sup>th</sup>.

A webpage about the project was also created on the City's website. All of the presentations, staff reports, memos, etc., regarding the project are readily available on this webpage. The webpage can be accessed at the following link: <http://www.shorelinewa.gov/government/departments/administrative-services/ten-year-sustainability-plan>. The page also includes a form for public comments. Public feedback from the website and other means is included as Attachment B.

At the public open house held on May 14<sup>th</sup>, seven (7) members of the public attended along with Councilmember Salomon. Although attendance was light, a lively discussion took place. Feedback from that discussion is included in this staff report as Attachment C.

### **ALTERNATIVES**

The final step in developing the 10-Year Financial Sustainability Plan is for the City Council to accept the subcommittee's recommendations. If accepted, staff will be preparing a final report on the project and will also be submitting articles on the project to major governmental publications. Given that there were few examples of other cities involved in financial sustainability projects, and in each case the work was not nearly as extensive as Shoreline's project and was not structured to help inform future budget processes, staff believes that it is very important to educate the government sector about this project and the tool that was ultimately developed as a result.

Staff also intends to incorporate the Plan and the financial model into the City's annual budget process. The model allows staff to project the effect of any major budget decision to the General Fund budget, both in that budget year and into the future. Staff believes that it will help both City staff and the City Council to make better informed budget decisions.

The Council can also choose not to accept the 10-Year Financial Sustainability Plan. However, given all of the staff, Council subcommittee and Council time and effort into the process and given the direction provided by the Council to date, staff believes that not accepting the Plan would be unfortunate. Regardless of whether the Plan is accepted or not, staff does plan to use the developed financial model as part of the annual budget process.

### **RESOURCE/FINANCIAL IMPACT**

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### **RECOMMENDATION**

Staff recommends that Council move to accept the proposed 10-year Financial Sustainability Plan (Attachment A).

## **ATTACHMENTS**

Attachment A: 10-Year Financial Sustainability Plan

Attachment B: Public Comments Received From Financial Sustainability Website

Attachment C: Summary of Feedback from Public Open House – May 14, 2014

## 10-YEAR FINANCIAL SUSTAINABILITY PLAN

The Shoreline City Council has evaluated the City's history of financial sustainability. Based on existing circumstances it appears that existing revenue sources may not be sufficient to maintain financial sustainability into the future.

The City Council believes that Shoreline's citizens have repeatedly emphasized that it is important to the community that the City maintain existing service levels whenever possible. In addition, the City Council states its intent to fulfill its obligations to the citizens, maintain public safety, and maintain existing City infrastructure. The City Council also intends to fulfill its regional obligations.

As such, the City Council intends to emphasize the priorities identified by our citizens in Vision 2029, the community's long-term vision for Shoreline. The City should invest in economic development necessary to improve its tax base. In its efforts to accomplish these things the City Council also needs to minimize the effects of new and existing taxes on its citizens and businesses.

### *A. FINANCIAL SUSTAINABILITY*

In order to preserve the City's financial sustainability, and taking into account the obligations listed above, the City Council believes that it is necessary to establish various economic development, revenue, and expenditure targets over the 2014-2024 timeframe. These targets are listed below in priority order.

- 1) Achieve the development of an additional 160 units of multi-family residential housing and 7,500 square feet of retail redevelopment annually, beginning in 2014.
- 2) Reduce the expenditure growth rate to 0.2% below the average projected ten year growth rate and attempt to maintain existing service levels, beginning in 2015. Continue to seek out efficiencies and cost-saving strategies.
- 3) During 2014, research ways to increase investment returns by 100 basis points (1%) per year, and implement strategies to accomplish this.
- 4) During 2015, perform a study that will evaluate higher cost recovery percentages for an appropriate combination of fee based programs. The results will be reviewed, with target implementation beginning with the 2016 budget.
- 5) In 2014, begin to identify ways to replace the \$290,000 transfer from the General Fund to the Roads Capital Fund with another dedicated source of funding.
- 6) In 2016 or later, engage the business community in a discussion regarding the possible future implementation of a Business and Occupation (B&O) Tax.
- 7) Monitor the City's progress in relation to the Financial Sustainability Model. In 2016 or later, engage Shoreline residents in a discussion regarding the possibility of renewing the property tax levy lid lift.

The targets outlined above are over and above pre-existing revenue, growth, and expenditure assumptions for the City of Shoreline. The City intends to use this information to inform future budget processes.

## *B. COMMUNICATIONS*

In addition to communications and public processes conducted to date, the Council directs staff to communicate the Financial Sustainability Project and Model to Shoreline's residents through *Currents* articles. This discussion should include the final recommendation considered and ultimately approved by the City Council.

## *C. POTENTIAL SURPLUSES AND UNANTICIPATED SAVINGS*

The City Council states that the City's first priority is to ensure adequate reserves. If reserves are below policy levels then surpluses should be used to restore reserves to mandated levels. If reserves meet or exceed policy requirements the surpluses should be used to fund economic development investment in Shoreline, fund infrastructure improvements, fund other high priority one-time needs or be held to fund future deficits if they are forecast in the Financial Sustainability Model. If it appears that surpluses are sustainable on a recurring basis, the City Council will review and consider funding for new on-going operational needs.

## 10-Year Financial Sustainability Plan Comment Summary

1. Commenter: Jeanne Monger  
Received through website

I was one of the Echo Lake Neighborhood Association reps to the CON meeting on May 7<sup>th</sup>. I appreciated Mr. Hartwig's and Mr. Kirkwood's presentation. I'm very glad that they are working with the financial stability plan under the Council's goal. I like the idea of fostering economic development and continuing that effort. While running an efficient government should be an ongoing effort too, there is only so much cost cutting that can be done and still provide the excellent services the City provides and citizens expect. I feel increasing fees should be avoided until or unless it becomes a necessity. Thanks for accepting comments on this subject.

2. Commenter: Gretchen Atkinson  
Received by phone

Ms. Atkinson believes that the 10-year Financial Sustainability Plan should include money for parking garages. She believes that parking garages are needed in North City, at Gateway Plaza, and at Aurora Square. "In order to make economic development programs fly, we need to put these in." She knows that these are expensive, but they should be included in the 10 year plan. It is very difficult to find parking in North City already.

She very much appreciates the effort we took to share this information with the Council of Neighborhoods and the efforts that were put in to developing both the plan and the CON presentation.

**10-Year Financial Sustainability Plan  
Open House  
Public Comment Summary  
May 14, 2014**

Attachment C

**Staff: Debbie Tarry, John Norris, Robert Hartwig, Patti Rader, Rick Kirkwood, Grant Raupp**

**Number of members of the public present: 7**

**CITY SERVICES**

- **What City services do you use?**
  
- **What City services do you most value?**
  1. Police
  
  2. Parks (Richmond Beach Saltwater Park, Pool)
  
  3. Library (Staff explained that the libraries in Shoreline are operated by King County)
  
- **What services would you maintain and what services would you change?**
  1. Crime Issues
    - a. Increase level of policing
    - b. Increase community involvement
  
  2. Sidewalks (multiple members of the audience); along 185<sup>th</sup> and 195<sup>th</sup>
  
  3. Street maintenance: Potholes and right-of-way maintenance
  
  4. Aurora Improvements upkeep going forward
  
  5. General City streetscape upkeep – maintenance of 15<sup>th</sup> & 175<sup>th</sup>, entrance to City from Freeway

**HOUSING**

- **Do you think Shoreline should offer more housing options?**
  1. Multi-Family on Aurora is a good location for that type of development
    - a. Look at transit corridors for Multi-Family development
  
  2. Put Multi-Family near light-rail development
  
  3. Additional housing will provide the customer base necessary to support businesses looking to locate in Shoreline

**10YFSP SUBCOMMITTEE EXPECTATIONS**

1. We have to do something to address the “blue wedge”
  
2. May have to raise money (i.e. taxes)
  
3. Need to prioritize maintenance of current assets (road maintenance, park maintenance, park development).

4. Member of the public expressed support of the 10YFSP process. (He saw the 10YFSP presentation at the 5/7/2014 Council of Neighborhoods meeting)

### **ECONOMIC DEVELOPMENT**

- **What do you think of when you think of Economic Development**
  1. Bars & Restaurants
  2. More Housing = More Economic Development
  3. Fill in vacant commercial properties
  4. Shoreline is a city of small business. (No Wal-Marts)
    - a. Should encourage small business.
    - b. Need specialty businesses (like Edmonds)
      - i. Shoreline is located between Alderwood and Northgate malls, which is a challenge.
  5. Have seen some recent activity (new restaurants coming into neighborhoods)
    - a. Specialty restaurants – need more sit-down, white tablecloth restaurants.
  6. Limited choices when it comes to Shoreline downtown options
    - a. Would like to see more options
  7. Mixed-use building development
  8. Why is redevelopment harder than development?
    - a. Staff explained that the existing improvements on the land (i.e. buildings) have value to the current owner and the developer needs to pay for those improvements versus the lower value of a non-developed property. Also, it can be difficult for a developer to assemble multiple parcels of land that are owned by multiple individuals.
- **Do you think the Subcommittee's economic development target is too high? too low? about right?**
  1. Member of the public asked how the City reaches economic development goals because it is market driven.
    - a. Staff explained the City could market the opportunities throughout the city to developers/ offer incentives to developers/have community redevelopment areas/have conversations and study sessions with developers.
  2. "It's all about marketing."
  3. Believes the subcommittee's goals are reasonable. Identify what needs to be addressed early-on.
  4. As economic development happens some concerns get addressed (e.g., sidewalks are often installed as properties are developed/redeveloped)

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5. School District concerns with development of multi-family units. (185<sup>th</sup> Light-rail station)
  - a. Have we been talking to School District?
    - i. Staff explained that we have been discussing the potential for MFR zoning near the light rail stations and on Aurora. The District understands that this could impact school capacity.
6. Will there be any development occurring around light rail station areas prior to station opening?
  - a. The station will likely be the draw for MFR, so development ahead of time may very well be limited.
7. The Subcommittee's economic development targets seem like modest goals that are attainable.

### **REVENUES**

1. Member of the public asked why property tax levy lid lift renewal was so low on considerations because it passed easily last time it was up for vote.
2. Member of the public asked if other cities had B&O taxes.
  - a. Staff explained that some neighboring jurisdictions do and others do not have City-level B&O taxes. Refer to the memo regarding general Business and Occupation Taxes included as Attachment E (pages 14-16) in the [Subcommittee's March 31, 2014 packet](#) for more information.
3. Member of the public asked about pool costs and how much it is supported by user fees.
  - a. Approximately 42.0% of the staffing and operation of the pool is covered by user fees. It costs approximately \$930,000 to staff and operate the pool. The City receives approximately \$387,000 in revenues from services such as water safety, adult programs, community public recreation swims, facility rentals, and sales of merchandise. Refer to the Operating Budget Quality of Life Services Cost Matrix included as Attachment E (page 15) in the [Subcommittee's February 24, 2014 packet](#) for more information. This information was provided as a response to the members of the public that provided an email address on the Open House sign-in sheet.
4. What is the process for fee review?
  - a. Staff explained the Council's budget review process. The current fee schedule review process is based on Shoreline Municipal Code Chapter 3.01.820, which states:

*The fee schedules in this chapter shall be automatically updated on an annual basis on January 1<sup>st</sup> of each year by the Seattle Consumer Price Index for all urban consumers (CPI-U). The adjustment shall be calculated each year and included in the city manager's proposed budget. The annual adjustment shall be based on the CPI-U average for the period that includes the last six months of the previous budget year and the first six months of the current budget year. The city manager may choose to not include annual CPI-U adjustments in the city manager's proposed budget and the city council may choose to not include annual CPI-U adjustments in the adopted budget for select user fees in any individual budget year without impacting the full force of this section for subsequent budget years. The annual adjustments to the fees in this chapter shall be rounded to the nearest quarter-dollar.*

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5. In response to the slide showing the Subcommittee did not consider a Utility Tax increase, a member of the public asked what is the criteria the City would use to raise the Utility Tax. Also asked what the current rates and the statutory limits of other utility taxes rates are.
  - a. This revenue option was presented to the Subcommittee on page 7 in the [Subcommittee's January 28, 2014 packet](#). The following is an excerpt from that packet's staff report:

*In the case of electric, gas, steam, and telephone services, the City could ask the voters to approve an increase of the existing taxes to some amount greater than 6%. These revenue sources can be increased beyond the current 6% rate with a majority vote of the citizens...*

*There are no restrictions on tax rates for water, sewer, and stormwater utilities. It should be noted that this possibility is something that has generated a lot of interest from those who appear to oppose the City's contractual assumption of the Ronald Wastewater District assets in 2017. However, in these cases a voter referendum process may be required. As stated previously, the discussion with the Subcommittee is to have a comprehensive review of options, prior to any recommendations or decisions being made. In any event, the only way any fee would increase is after extensive public process. Based on Shoreline's past history, it would be expected that the matter would be discussed ahead of time in Currents, on the website, and on Council agendas/staff reports/etc.*

The Subcommittee unanimously agreed to remove this option from further consideration without further discussion. This information was provided as a response to the members of the public that provided an email address on the Open House sign-in sheet.

6. Will the City receive revenue from recreational marijuana?
  - a. Staff explained that marijuana excise taxes, which were established by Initiative 502 as a 25% excise tax on marijuana producers, processors, and retailers, will not be shared by the state.

Whether sold for recreational or medical purposes, marijuana and marijuana-infused products are not considered food or food ingredients, nor are they considered prescription drugs since they cannot be legally prescribed. Therefore, according to the Washington State Department of Revenue, these products do not qualify for the food or prescription drug retail sales tax exemptions. The City would receive a portion of the retail sales tax as it applies to sales of marijuana and marijuana-infused products to consumers. The amount subject to retail sales tax is the "selling price" (RCW 82.08.010), which may include, but is not limited to: the cost of goods sold, the 25% marijuana excise tax imposed on the producer, the 25% excise tax imposed on the processor, the 25% marijuana excise tax imposed on the retailer, business expenses, and additional markup for desired profit. Refer to the Washington State Department of Revenue's webpage regarding Initiative 502 for more information.  
(<http://dor.wa.gov/content/getaformorpublication/publicationbysubject/taxtopics/502.aspx>)

At the present time Shoreline will not receive any portion of the excise tax and it is unclear whether Shoreline will be able to receive any sales tax (at 0.85%) on the sale of marijuana. It appears that Shoreline is able to receive sales tax (at 0.85%) on marijuana-related paraphernalia and food products sold in licensed establishments, but this revenue source is expected to be very small.

7. Question about impact fees paid by developers for projects. Were Council's concurrency discussions and impact fees discussed by Subcommittee?
  - a. Staff explained that the fees do not support operations budgeted in the General Fund, rather they pay for improvements, such as roads, that are impacted by the new trips created by the development itself. These fees would be received into Capital Projects funds unrelated to the General Fund.

### **EXPENDITURES**

1. Would not like to see the Police Department reduced/cut.
2. We get great service for what we pay employees. Would not want to see a reduction in quality of employees.
3. School District doesn't pay its share of Surface Water.

### **BASE SCENARIO**

1. What are the forecast assumptions built in the model's base scenario for Point Wells, SPU (water utility) assumption, Ronald Wastewater District assumption, and the Aurora Square Community Renewal Area. In addition, what will the impact be if these developments or assumptions do not transpire?
  - a. Staff explained that the model does not include any assumptions tied specifically to these four items; therefore, there will be no change to the base scenario regardless of the end result for any of these four items.