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**Council Subcommittee Meeting Date: January 13, 2014**

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**CITY COUNCIL SUBCOMMITTEE  
10-YEAR FINANCIAL SUSTAINABILITY PROJECT  
CITY OF SHORELINE, WASHINGTON**

<b>AGENDA TITLE:</b> 10-Year Financial Sustainability Subcommittee – Meeting #1
<b>DEPARTMENT:</b> Administrative Services
<b>PRESENTED BY:</b> Robert Hartwig, Administrative Services Director
<b>ACTION:</b> <u>  X  </u> Discussion

**BACKGROUND:**

Beginning in 2012, the City Council adopted a goal to develop a 10-Year Financial Sustainability Plan (10 YFSP) to achieve sufficient fiscal capacity to fund and maintain priority public services, facilities, and infrastructure. A plan for completing this project was reviewed with the City Council later that year, and City staff members have been working on the 10 YFSP since that time.

Staff is now ready to move this Council goal forward by working with the 10-Year Financial Sustainability Council Subcommittee. Over six meetings, the subcommittee will discuss the City's financial forecast, base scenario, and various alternative strategies; develop preferred alternatives; and ultimately finalize a recommendation to the Council for the 10YFSP.

**PROBLEM/ISSUE STATEMENT:**

When looking at the subject of financial sustainability, the first question to ask is what problem are we trying to solve? Based on the City's operating budget 10-year forecast, it appears that expenditures will grow faster than revenues given current revenue and expenditure assumptions. Over the course of ten years this is projected to eventually create a structural budget gap, where expenditures exceed revenues annually. This gap, if not addressed, would grow each year to a point where the City's operating Fund Balance would eventually dip below legally required minimums.

Clearly, this situation would not happen. The Council's adopted financial policies would require that the City Manager present the City Council with a balanced budget every year. The City Council takes its fiduciary responsibilities very seriously, making sure that financial decisions are prudent based on community needs and desires. In addition, the fact that the Council included financial sustainability as a goal shows a clear intent for the City government to remain solvent in the future.

Shoreline's citizens have repeatedly expressed their support for existing service levels. They value and desire the current services that the City is providing. In some cases

citizens would like to see higher levels of service. Their support has been demonstrated at the ballot box and in various community studies.

Staff has spent several months quantifying services, classifying services, developing a 10-year financial forecast, arriving at a baseline scenario, and developing alternatives that the Subcommittee can study. These alternatives include revenue, expenditure, and economic development strategies. Over the course of the next several meetings (see Attachment A for the meeting schedule) we will explore these strategies, along with the effect that adopting specific alternatives is expected to have on future revenues and expenditures.

It is important to note that both the baseline forecast and the Base Scenario start from the assumption that Proposition 1 (property tax levy lid lift) is **not** renewed by the voters in 2016. However, when we examine alternatives we will show the effects of renewing Proposition 1 as one of many alternatives that are available to help accomplish financial sustainability.

Tonight's presentation will include identifying problems and challenges to financial sustainability, an outline of the project plan and deliverables, introduction of the baseline forecast, and introduction of the Base Scenario. There will also be an opportunity for the Subcommittee to ask questions and provide feedback to questions posed by staff.

The baseline forecast (Attachment B – page 1) is essentially the same operating budget forecast we include in the annual budget when it is considered by the City Council. It assumes that there are no changes in City priorities and that current service will be provided to the community. The baseline forecast assumes a limited amount of growth in City maintenance services. This growth relates to future operating maintenance costs that are directly associated with forecasted capital improvement projects. It provides the starting point for the Base Scenario and all of the other alternatives that will be considered during these meetings.

The Base Scenario (Attachment B – page 2) takes the information in the baseline forecast and adjusts revenues and expenditures to historic norms. Based on past history the City tends to collect about 101% of budgeted revenues, and tends to spend about 98% of budgeted expenditures. Staff believes that the Base Scenario is the most likely result if current service levels are maintained into the future and current revenue sources grow at traditional levels.

In addition to the baseline forecast and the Base Scenario a variety of alternatives have been developed. Some of these expand or create new revenue sources. Others are related to expenditure savings. Still others relate to a greater emphasis on economic development and the impact that development would have on the community. These alternatives will be presented during future Subcommittee meetings.

Current services provided by the City's operating funds (General and Streets Funds) are described in Attachment C. These services are further categorized as either Core services or Quality of Life services. This list of approximately 125 services is a summary of literally hundreds of individual activities necessary to provide these services.

The baseline forecast and Base Scenario are based on a set of revenue, expenditure, and other assumptions. These assumptions are outlined in Attachment D. An organizational chart of the City's departments and functional units is also included (Attachment E).

**COUNCIL QUESTIONS FOR CONSIDERATION:**

Each meeting will include a set of questions for the Subcommittee to consider. Other questions from the subcommittee members are welcomed and encouraged. Staff will track these questions and provide responses to these questions at subsequent Subcommittee meetings.

Starting questions for tonight's meeting are:

- Is the problem accurately identified?
- Is this the right approach?
- Are the base assumptions reasonable?
- Are there any changes to the assumptions you would like to see?
- Are there any specific questions relating to revenues, expenditures, services, etc you would like to have answered for the next meeting?

**RESOURCE/FINANCIAL IMPACT:**

The ultimate effect that the 10 YFSP has on the City's resources and finances will depend on the final draft of the plan. The goal of the City Council is for Shoreline to be a financially sustainable community in order to provide sustainable public services that continue to make Shoreline a desirable place to reside and do business.

**RECOMMENDATION**

The Subcommittee should discuss tonight's topics in preparation for future Subcommittee meetings and provide input as necessary.

**ATTACHMENTS:**

Attachment A – Subcommittee Schedule

Attachment B – Forecast Charts

    Page 1 – Baseline Forecast

    Page 2 – Base Scenario Forecast

Attachment C – Operating Budget Services

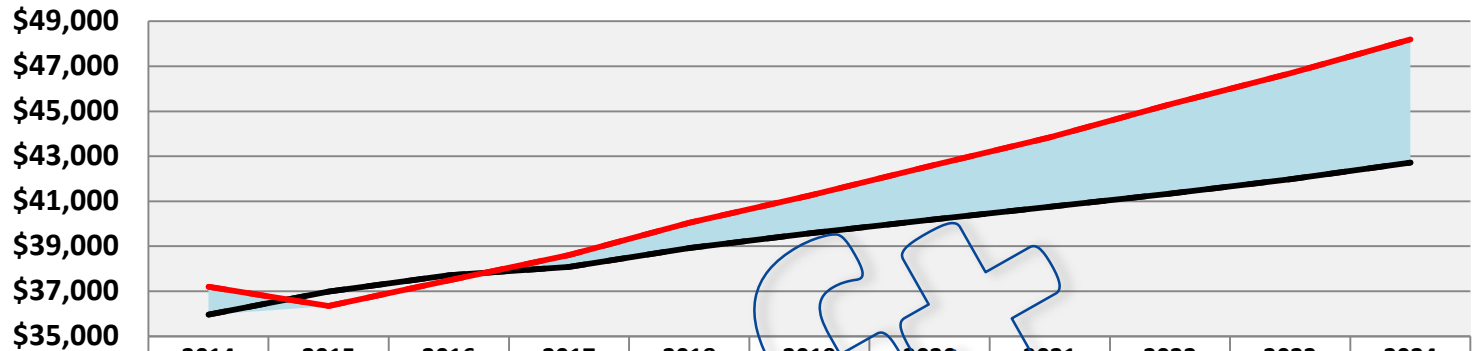
Attachment D – Assumptions Used in Forecast

Attachment E – Organizational Chart

## 10-Year Financial Sustainability Plan – Subcommittee Schedule

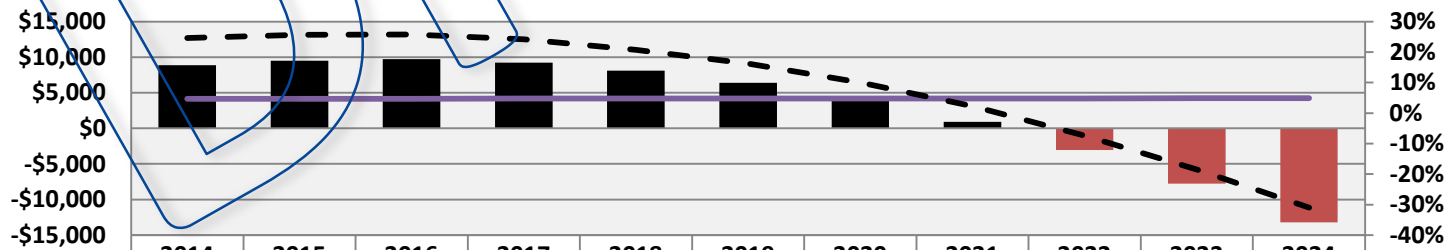
<b>Council Subcommittee</b>			
<b>Mayor Winstead, Deputy Mayor Eggen, Councilmember Salomon</b>			
	Date	Time	Subject
Meeting #1	Monday, January 13	5:30 p.m. – 6:45 p.m.	<ul style="list-style-type: none"> <li>• Introduction</li> <li>• Baseline/Base Scenario</li> <li>• Assumptions</li> </ul>
Meeting #2	Tuesday, January 28	6:00 p.m. – 8:00 p.m.	<ul style="list-style-type: none"> <li>• Analyze Strategies               <ul style="list-style-type: none"> <li>○ Revenues</li> <li>○ Expenditures</li> <li>○ Economic Development</li> </ul> </li> </ul>
Meeting #3	Monday, February 10	5:15 p.m. – 6:45 p.m.	<ul style="list-style-type: none"> <li>• Analyze Strategies (Continued)</li> <li>• Services – Core/Quality of Life</li> <li>• Constraints on Revenues, Expenditures, Development</li> <li>• Options</li> </ul>
Meeting #4	Monday, February 24	5:30 p.m. – 6:45 p.m.	<ul style="list-style-type: none"> <li>• Finalize Strategies</li> <li>• Develop Preferred Alternatives</li> </ul>
Meeting #5	Saturday, March 1	9:00 a.m. – Noon	<ul style="list-style-type: none"> <li>• Develop and Finalize Recommended Preferred Alternative</li> </ul>
Meeting #6	Monday, March 31	5:30 p.m. – 6:45 p.m.	<ul style="list-style-type: none"> <li>• Final Revisions Based on City Council Feedback</li> </ul>

### BASELINE REVENUES AND EXPENDITURES (\$ IN '000'S)



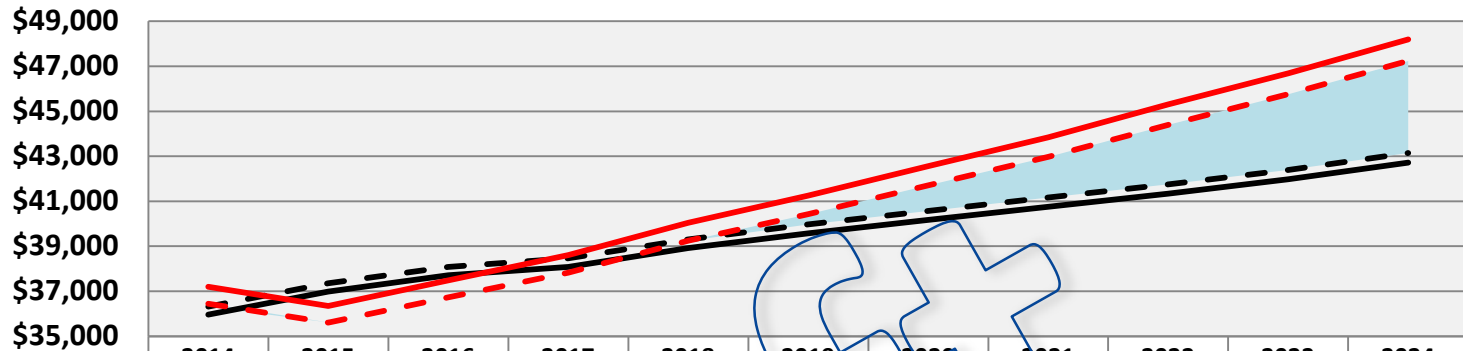
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>ANNUAL SURP/(GAP)</b>	(1,237)	650	229	(522)	(601)	(552)	(717)	(699)	(872)	(753)	(764)
<b>CUMULATIVE (GAP)</b>	(1,237)	-	-	(522)	(1,122)	(1,674)	(2,391)	(3,090)	(3,962)	(4,716)	(5,480)
<b>VARIANCE BASE</b>	37,194	36,340	37,482	38,604	40,044	41,247	42,559	43,848	45,302	46,689	48,198
<b>BASELINE REVENUE</b>	35,958	36,991	37,712	38,082	38,921	39,573	40,168	40,757	41,340	41,973	42,718
<b>SCENARIO REVENUES</b>	35,958	36,991	37,712	38,082	38,921	39,573	40,168	40,757	41,340	41,973	42,718
<b>BASELINE EXPENDITURES</b>	37,194	36,340	37,482	38,604	40,044	41,247	42,559	43,848	45,302	46,689	48,198
<b>SCENARIO EXPENDITURES</b>	37,194	36,340	37,482	38,604	40,044	41,247	42,559	43,848	45,302	46,689	48,198

### BASELINE FUND BALANCE (\$ IN '000'S)



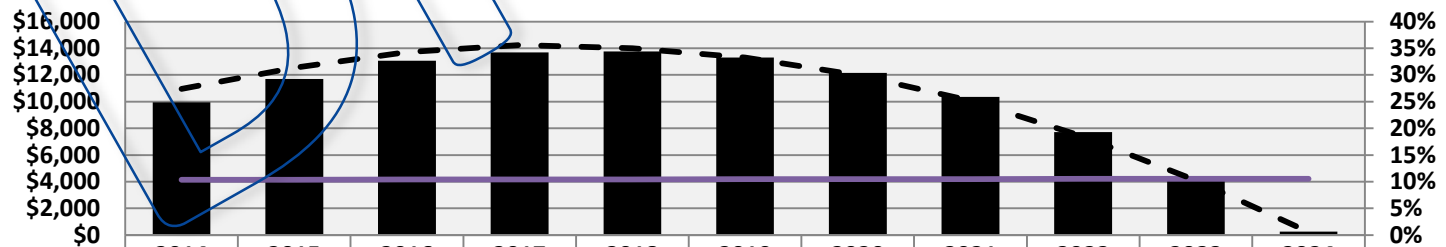
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>POSITIVE</b>	8,849	9,499	9,728	9,206	8,084	6,410	4,018	928	-	-	-
<b>NEGATIVE</b>	-	-	-	-	-	-	-	-	(3,034)	(7,750)	(13,230)
<b>MIN. REQ'D. OPERATING FB</b>	4,137	4,145	4,159	4,170	4,179	4,187	4,194	4,201	4,209	4,217	4,227
<b>% REVENUE</b>	25%	26%	26%	24%	21%	16%	10%	2%	-7%	-18%	-31%

### BASE SCENARIO REVENUES (101%) AND EXPENDITURES (98%) (\$ IN '000'S)



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
ANNUAL SURP/(GAP)	(133)	1,747	1,356	631	68	(454)	(685)	(667)	(837)	(719)	(727)
CUMULATIVE (GAP)	(133)	-	-	-	-	(454)	(1,138)	(1,806)	(2,643)	(3,362)	(4,089)
VARIANCE BASE	36,450	35,614	36,733	37,831	39,243	40,422	41,708	42,971	44,396	45,755	47,234
BASILENE REVENUE	35,958	36,991	37,712	38,082	38,921	39,573	40,168	40,757	41,340	41,973	42,718
SCENARIO REVENUES	36,317	37,361	38,089	38,463	39,311	39,969	40,570	41,165	41,753	42,393	43,145
BASILENE EXPENDITURES	37,194	36,340	37,482	38,604	40,044	41,247	42,559	43,848	45,302	46,689	48,198
SCENARIO EXPENDITURES	36,450	35,614	36,733	37,831	39,243	40,422	41,708	42,971	44,396	45,755	47,234

### BASE SCENARIO FUND BALANCE (\$ IN '000'S)



POSITIVE	9,952	11,699	13,055	13,686	13,754	13,300	12,162	10,356	7,713	4,351	262
NEGATIVE	-	-	-	-	-	-	-	-	-	-	-
MIN. REQ'D. OPERATING FB	4,137	4,145	4,159	4,170	4,179	4,187	4,194	4,201	4,209	4,217	4,227
% REVENUE	27%	31%	34%	36%	35%	33%	30%	25%	18%	10%	1%

Operating Budget Services  
January, 2014

## Administrative Services Department

	Core Services	Quality of Life Services
<b>FINANCE</b>	Cash Receipting	
	Payroll	
	Accounts Payable	
	Pay Taxes and Submit Shared Revenues	
	Grants Development	
	Grant Administration	
	Accounts Receivable	
	Cash Management/Investment	
	Financial Reporting/Annual Audit	
	Financial Planning and Monitoring	
<b>IT</b>	Telecom Management	Web Development
	Hardware Management	Audio/Video
	Data Management, IT support (from GIS)	Government Access Channel
	Software Mgmt. and Maintenance (IFAS)	
	Network Administration	
	IT Customer Service and Response	
	Technical Solution Analysis, Planning	
<b>PURCHASING</b>	Purchasing	
	Citywide Supplies	
<b>FLEET &amp; FACILITIES</b>	Facilities Maint. Svcs. and Cap. Proj. Mgmt.	
	Fleet Maintenance Services	

Operating Budget Services  
January, 2014  
**City Manager's Office**

	<b>Core Services</b>	<b>Quality of Life Services</b>
<b>CITY MANAGERS'S OFFICE</b>	Council Relations/Mgt	Regional Relationships and Leadership
	External Agency Coordination	
	Organizational Leadership	
	Citizen/Customer Relations	
<b>COMMUNICATIONS</b>		Communications
<b>GOVERNMENT RELATIONS</b>	Intergovernmental Relations	
<b>ECONOMIC DEVELOPMENT</b>	Real Estate Services	Economic Development
<b>CITY CLERK</b>	City Council - Clerk's Office	Licensing
	Hearing Examiner	Reception
	Records Management	
<b>CRIMINAL JUSTICE</b>	Jail Facilities Management	
	Public Defense Management	
	Municipal Court Management	
	Jail Transport	

### Community Services

	<b>Core Services</b>	<b>Quality of Life Services</b>
<b>NEIGHBORHOODS</b>		Support Council of Neighborhoods
		Support Neighborhood Assns.
		Volunteer Coordination
<b>HUMAN SERVICES</b>		Human Services
		Ensure access to services
<b>CRT</b>	Phone and Front Desk Intake	
	Customer Response	
	Code Enforcement	
	ROW Cleanup	
<b>EMERGENCY MGMT.</b>	Readiness for Emergency Response	Community Stakeholder Readiness



Operating Budget Services  
January, 2014

## Planning and Community Development

	<b>Core Services</b>	<b>Quality of Life Services</b>
<b>P&amp;CD</b>	Permit Process	Implement Sustainability Strategy
	Code Development	
	Plan Development	
	Code Enforcement	

## Public Works Department

	<b>Core Service</b>	<b>Quality of Life Services</b>
<b>GIS</b>	Geographic Information System	
<b>ROW</b>	Sidewalk and curb ramp inventory	
	Issue ROW Permits, Inspections	
<b>TRAFFIC SERVICES</b>	Traffic Engineering	
	Management of Traffic Facilities	
<b>STREET OPS</b>	Street Maintenance	Customer Service Response
	Traffic Safety	
	ROW - Vegetation Management	
	Weather Event Response	
<b>ENGINEERING</b>	Engineering Services	
	Permit Services	
<b>TRANSPORTATION</b>		Manage and Implement Transportation Master Plan
		Transportation Facility Planning
		Transit Planning
<b>ENVIRONMENTAL SERVICES</b>		Resource Conservation Services
		Environmental Services Special Projects

Operating Budget Services  
January, 2014

**Parks, Recreation and Cultural Services**

	<b>Core Services</b>	<b>Quality of Life Services</b>
<b>PARK OPS</b>	Park Restroom, Shelters and Facilities	Maintenance of Dog Parks
	Athletic Field Maintenance	Seasonal Events
	Maintenance of Parks, Parking Lots, Hard Surfaces and Trails	
	CIP Projects Support - Parks Ops	
<b>PRCS ADMIN.</b>	Park Urban Forestry	Recreation Guide
	Parks Capital Project Coordination	Communication - Marketing
		Library Board Admin.
		Public Art Coordination
		Long Range Park Planning
		Park Stewardship Coordination
<b>SPECIAL EVENTS</b>		Special Events
		Healthy City Events
		City Grants to Other Agencies
<b>AQUATICS</b>		Water Safety
		Adult Program
		Community Public Recreation Swims
		Shoreline School Dist.
		Rentals
		Facility Operations
<b>TEENS</b>		Teens
		Youth
		Special Events - Teens
		Richmond Highlands Rec. Center
<b>GENERAL PROGRAM</b>		Preschool Programming
		Youth Programming
		Adult Programming
		SRC - facility operation
		Facilities/Rentals
		CLASS System admin.

## Operating Budget Services

January, 2014

**Other Departments**

<b>CITY ATTORNEY</b>	<b>Core Services</b>	<b>Quality of Life Services</b>
	Legal Advisory Services	
	Civil Litigation	
	Prosecution	

<b>HUMAN RESOURCES</b>	<b>Core Services</b>	<b>Quality of Life Services</b>
	Onboarding/Exiting	
	Recruitment-Selection	
	Benefits and Compensation	
	Employee Relations	
	Compliance	
	Organizational Development	

<b>CITY COUNCIL</b>	<b>Core Services</b>	<b>Quality of Life Services</b>
	City Council	

<b>POLICE ADMINISTRATION</b>	<b>Core Services</b>	<b>Quality of Life Services</b>
	Criminal Investigations Unit	Community Service Officer
	Patrol	Storefront Operations
	Support Services	School Resource Officer
	Front Desk Services and Assistance	
	Traffic Enforcement	
	Street Crimes Investigation (Special Emphasis Team)	

10-Year Financial Sustainability Plan  
Assumptions Used in Forecast  
January 13, 2014

*REVENUE ASSUMPTIONS*

Revenue	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Ave.
Property Tax	3.6%	3.1%	1.6%	1.6%	1.5%	1.2%	1.4%	1.4%	1.4%	1.4%	1.8%
Sales Tax	4.1%	3.8%	3.8%	3.6%	3.2%	3.1%	2.9%	2.8%	3.4%	3.1%	3.4%
Utility Taxes	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%
Franchise Fee and Contract Payments	2.2%	2.2%	2.2%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%
Development Permits and Fees	-11.8%	-0.3%	1.6%	-0.7%	-0.6%	-1.8%	-2.1%	-1.4%	-0.8%	-0.7%	-1.8%
Liquor Excise Tax & Liquor Board Profits	-1.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.1%	2.1%	2.1%	2.1%	1.8%
Recreation Fees	2.0%	2.0%	2.0%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%
MV Fuel Tax	-1.0%	-2.8%	-2.8%	-2.8%	-2.8%	-2.8%	-2.8%	-2.8%	-2.8%	-2.8%	-2.6%

*EXPENDITURE ASSUMPTIONS*

Salaries & Wages	2.4%	3.1%	3.1%	3.1%	3.1%	3.1%	2.9%	2.9%	2.9%	2.9%	2.9%
Healthcare Benefits	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
PERS	17.1%	3.2%	3.2%	14.9%	3.1%	3.1%	2.9%	2.9%	2.9%	2.9%	5.6%
Utilities	2.5%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.3%	2.4%	2.4%
Law Enforcement Services Contract	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Jail (Snohomish & King County)	-6.5%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	2.7%	2.0%
District Court & Public Defense	2.5%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.3%	2.4%	2.4%

*OTHER GROWTH ASSUMPTIONS*

Population	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Population (King Co.)	1.1%	0.9%	0.9%	0.9%	0.9%	0.8%	0.8%	0.8%	0.8%	0.8%	0.9%
Inflation	2.5%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.3%	2.4%	2.4%
King County Building Permit Trend	11.9%	-1.0%	1.4%	-1.6%	-1.5%	-3.2%	-3.7%	-2.7%	-1.9%	-1.9%	-0.4%
Regular Levy Assessed Value	8.6%	5.3%	3.8%	3.5%	3.7%	3.7%	3.9%	3.7%	3.9%	3.9%	4.4%
Projected Change in Assessed Valuation	7.9%	4.7%	3.2%	2.9%	3.3%	3.3%	3.5%	3.3%	3.4%	3.5%	3.9%
New Construction	75.0%	1.5%	-0.7%	-7.8%	-10.8%	-8.7%	-2.9%	5.6%	6.9%	1.9%	6.0%
Property Tax Allowable Levy	3.6%	3.1%	1.6%	1.6%	1.5%	1.2%	1.4%	1.4%	1.4%	1.4%	1.8%
Gas Tax (Per Capita)	-1.3%	-3.0%	-3.0%	-3.0%	-3.0%	-3.0%	-3.0%	-3.0%	-3.0%	-3.0%	-2.8%
King County Taxable Retail Sales	5.9%	5.2%	5.0%	4.4%	4.6%	4.2%	4.2%	4.3%	4.3%	4.4%	4.7%
Local Sales & Use Tax (Puget Sound Region)	6.2%	5.8%	5.6%	5.2%	4.5%	4.3%	4.2%	4.3%	4.3%	4.4%	4.9%
Local Sales & Use Tax (King County Region)	6.1%	5.8%	5.6%	5.2%	4.5%	4.2%	4.2%	4.3%	4.3%	4.4%	4.9%
Local Sales & Use Tax (Shoreline)	4.6%	4.4%	4.2%	3.9%	3.4%	3.2%	3.2%	3.2%	3.3%	3.3%	3.7%

**City of Shoreline  
Organizational Chart  
January 13, 2014**

