



Memorandum

DATE: May 2, 2014

TO: 10-Year Financial Sustainability Project City Council Subcommittee

FROM: Robert Hartwig, Administrative Services Director

RE: Responses to Subcommittee Members' Questions

CC: Debbie Tarry, City Manager
John Norris, Assistant City Manager

Please find enclosed several attachments containing to Subcommittee members' questions that have been compiled since the Subcommittee last met on March 31.

- Attachment A – Responses to Subcommittee Questions
- Attachment B – Election Results of the Special Election for Proposition No. 1 Sales and Use Tax and Vehicle Fee for Transportation Improvements
- Attachment C – Statement of Votes Cast for King County Transportation District Proposition No. 1
- Attachment D – Memo Regarding MuniCast Charts Modeling Use of Reserves Scenario
- Attachment E – MuniCast Chart: Base Scenario
- Attachment F – MuniCast Chart: Base Scenario with Use of Reserves
- Attachment G – MuniCast Chart: Base Scenario plus Economic Development option with Use of Reserves
- Attachment H – MuniCast Chart: Base Scenario plus Economic Development and Investment Strategy options with Use of Reserves

10-Year Financial Sustainability Plan
 Responses to Subcommittee Questions
 May 2, 2014

Attachment A

Meeting Date	ITEM	REPLY	STATUS
March 1	Mayor Winstead requested that staff provide the results of how Shoreline votes on whether an annual \$60 vehicle license fee and 0.1% sales tax increase should be used to help pay for Metro bus service and road projects.	<p>The results of the Special Election (posted as of 5/1/2014 @ 3:57 p.m.) on Proposition No. 1 Sales and Use Tax and Vehicle Fee for Transportation Improvements show 46.04% voted yes and 53.96% voted no (refer to Attachment B).</p> <p>The Statement of Votes Cast for Proposition No. 1 shows the results of the voting for Legislative District No. 32 (posted as of 4/23/2014 @ 8:16 p.m.; refer to Attachment C). Of the voters in the Legislative District No. 32, 47.65% voted yes and 52.35% voted no.</p> <p>Certified election results will be available May 6.</p>	Pending ability for staff to filter results of all Shoreline precincts using King County's eCanvass online tool
March 31	Deputy Mayor Eggen requested staff reword the seventh target under the Recommended Alternative section of the 3/31/2014 staff report to recognize that the citizens will be engaged at some future point in time when the issue is discussed.	<p>Staff proposes replacing the seventh target with the following language:</p> <p>"Monitor the City's progress in relation to the Financial Sustainability Model. In 2016 or later, engage Shoreline residents in a discussion regarding possibly renewing the property tax levy lid lift."</p>	Pending Subcommittee Approval
March 31	Councilmember Salomon requested staff reword the third bullet point under the Communications Plan section of the 3/31/2014 staff report.	<p>Staff proposes replacing the third bullet point with the following language:</p> <p>"Communicate the Financial Sustainability Project and Model to Shoreline's residents through <i>Currents</i> articles. This discussion should include the final recommendation considered and ultimately approved by the City Council."</p>	Pending Subcommittee Approval

10-Year Financial Sustainability Plan
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<p>March 31</p>	<p>Subcommittee’s recommendation with regard to potential surpluses/unanticipated savings.</p>	<p>Staff proposes replacing the recommendation in the 3/31/2014 staff report with the following language:</p> <p>“The Subcommittee recommends that the 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, infrastructure improvements, or held to fund future deficits if they are forecast in the Financial Sustainability Model. If it appears that surpluses are sustainable, review and consider funding for new operational needs.”</p>	<p>Pending Subcommittee Approval</p>
<p>April 14</p>	<p>Councilmember Salomon requested staff provide more information about the assumptions in the model pertaining to the reduction of reserves. Specifically, are there any assumptions pertaining to the use of reserves for capital construction or covering projected operating deficits.</p>	<p>Staff responded to this request on May 1 via email. The memo included as Attachment D reflects that response plus additional explanation pertaining to the charts created to model the idea of using reserves to cover gaps. Staff modeled the use of up to \$900,000 of reserves each year. The model assumes that \$300,000 will go to each of three areas: (1) one-time expenditures; (2) economic development; and, (3) gap closing. The charts attached as Attachments E – H show the impacts of these options.</p>	<p>Complete</p>

Election Results

Special Election

April 22, 2014

Unofficial Cumulative

Attachment B

Updated: 5/1/2014 3:57:05 PM



King County
Elections

Countywide Measure

King County Transportation District

Ballots counted: 444,393

*Registered voters: 1,174,773

37.83%

Proposition No. 1 Sales and Use Tax and Vehicle Fee for Transportation Improvements

Yes	204,361	46.04%
No	239,478	53.96%

* Reflects the voter registration count as of April 22, 2014, Election Day

Statement of Votes Cast
SPECIAL ELECTION
SOVC For Jurisdiction Wide, All Counters, All Races
Abstract of Election Night Final

Date:04/23/14
Time:08:16:51
Page:1 of 2

	TURN OUT			King County Transportation District Proposition No. 1								
	Reg. Voters	Cards Cast	% Turnout	Reg. Voters	Times Counted	Total Votes	Times Blank Voted	Times Over Voted	Yes		No	
LEGISLATIVE DISTRICTS												
LEGISLATIVE DISTRICT NO. 1	26344	8252	31.32%	26344	8252	8230	21	1	3107	37.75%	5123	62.25%
LEGISLATIVE DISTRICT NO. 5	90601	28585	31.55%	90601	28585	28564	21	0	6636	23.23%	21928	76.77%
LEGISLATIVE DISTRICT NO. 11	70151	18299	26.09%	70151	18299	18286	12	1	5647	30.88%	12639	69.12%
LEGISLATIVE DISTRICT NO. 30	63100	16530	26.20%	63100	16530	16519	11	0	4113	24.90%	12406	75.10%
LEGISLATIVE DISTRICT NO. 31	25335	8176	32.27%	25335	8176	8171	5	0	1441	17.64%	6730	82.36%
LEGISLATIVE DISTRICT NO. 32	45655	14312	31.35%	45655	14312	14303	9	0	6815	47.65%	7488	52.35%
LEGISLATIVE DISTRICT NO. 33	65853	18641	28.31%	65853	18641	18629	12	0	5600	30.06%	13029	69.94%
LEGISLATIVE DISTRICT NO. 34	88561	28864	32.59%	88561	28864	28850	13	1	14620	50.68%	14230	49.32%
LEGISLATIVE DISTRICT NO. 36	101914	34172	33.53%	101914	34172	34156	16	0	21589	63.21%	12567	36.79%
LEGISLATIVE DISTRICT NO. 37	81085	22522	27.78%	81085	22522	22498	24	0	14168	62.97%	8330	37.03%
LEGISLATIVE DISTRICT NO. 39	335	142	42.39%	335	142	142	0	0	20	14.08%	122	85.92%
LEGISLATIVE DISTRICT NO. 41	89938	29186	32.45%	89938	29186	29168	18	0	11417	39.14%	17751	60.86%
LEGISLATIVE DISTRICT NO. 43	94687	31570	33.34%	94687	31570	31557	13	0	24624	78.03%	6933	21.97%
LEGISLATIVE DISTRICT NO. 45	87661	28475	32.48%	87661	28475	28356	117	2	10064	35.49%	18292	64.51%
LEGISLATIVE DISTRICT NO. 46	94632	31747	33.55%	94632	31747	31728	19	0	18565	58.51%	13163	41.49%
LEGISLATIVE DISTRICT NO. 47	73984	20983	28.36%	73984	20983	20973	10	0	4449	21.21%	16524	78.79%
LEGISLATIVE DISTRICT NO. 48	74934	23332	31.14%	74934	23332	23265	67	0	9633	41.41%	13632	58.59%
No Matching District	3	0	0.00%	3	0	0	0	0	0	-	0	-
Total	1174773	363788	30.97%	1174773	363788	363395	388	5	162508	44.72%	200887	55.28%



Memorandum

DATE: May 2, 2014

TO: 10-Year Financial Sustainability Plan City Council Subcommittee

FROM: Robert Hartwig, Administrative Services Director

RE: MuniCast Charts Modeling Use of Reserves Scenario

CC: Debbie Tarry, City Manager
John Norris, Assistant City Manager

Question/Statement:

Councilmember Salomon requested staff provide more information about the assumptions in the model pertaining to the reduction of reserves. Specifically, are there any assumptions pertaining to the use of reserves for capital construction or covering projected operating deficits.

Response:

Usually cities spend down reserves through one-time expenditures. There are a variety of options here. Some cities spend the money for public buildings, others for streets, some for parks and recreation facilities, some combination, etc. Less often I have seen cities spend the money for vehicles and equipment with extended service lives. For instance, larger trucks often last 20 years or more. This money is sometimes seen as a way to catch up on deferred maintenance from years past.

Another area is in the nature of “public investment”. Depending on local/state laws, some cities expend the money for projects that will benefit the city economically. Common areas here relate to economic revitalization projects (downtown streetscape projects, additions of public amenities in rundown shopping areas, lighting projects, etc.). Another area is actually investing in things that are intended to spur future economic development. Examples include acquisition of blighted properties, assembling properties for resale to developers, demolition, installation of public infrastructure in vacant areas (making a developable area “shovel ready”), etc.

There is no requirement that I am aware of regarding a maximum amount of reserves. However, I have seen reserves that exceed 100% of annual expenditures become political issues in local elections. In one city that I am aware of a large reserve resulted in several

seats turning over at an election. The new Council quickly spent the reserves down to 75% on projects they thought were important (with almost no community engagement in or awareness of the decision), and were planning to spend significant amounts of the remaining reserves after that.

Spending the reserves over the model's "deficit" years would definitely extend the period before the gap had to be addressed. The length depends on several factors. How much of the prior year reserves would be planned to cover the gap vs. how much would be planned for one-time expenditures? How far down would we spend reserves? Which of the other gap closing options would be implemented? Each of these and probably other items would affect the answer.

ASD would caution that we need to be very careful about using reserves to cover gaps that relate to long-term structural problems. Let's assume for a moment that we are forecasting that expenditures will grow at a faster pace than revenues. If we do not address the gap, and instead use reserves to close the gap, we create a bigger problem for the City in a future year's budget. As an example, if we don't close the gaps and expect a \$300,000 gap in year 1, and an additional \$350,000 gap in year 2, then we will have a \$650,000 gap to close in year 2. This would amount to the \$300,000 we closed with reserves in year 1 (instead of closing the gap), plus the compounding of that gap in year 2.

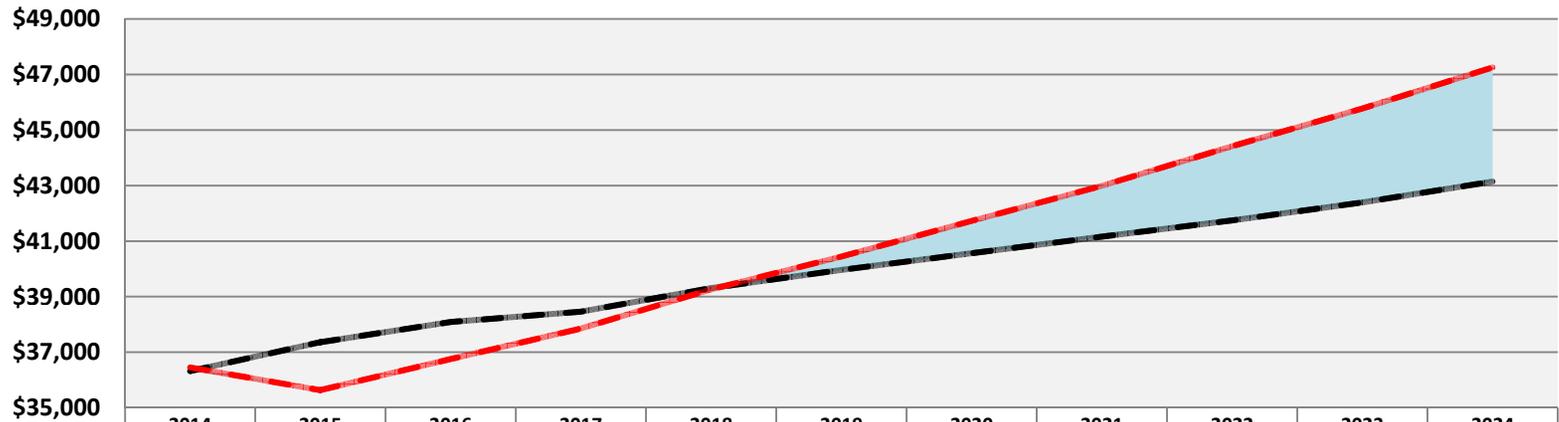
At some point in time the gaps must be addressed. It is a smaller challenge to close a 1% (\$300,000) gap in our annual budget process. It becomes a larger, more difficult challenge when the gap has grown to \$600,000, \$900,000, or larger. At some point the reserves run out to cover the gaps, and the large gap that developed over years of not addressing the gaps results in draconian management decisions at that future point in time.

Using reserves to cover one-time needs or short-term economic development projects reduces the likelihood that structural imbalances will not be addressed in a timely fashion in each budget.

To demonstrate the idea of using reserves to cover gaps, staff modeled the use of up to \$900,000 of reserves each year, assuming \$300,000 will go to each of three areas: (1) one-time expenditures; (2) economic development; and, (3) gap closing. The fifth row down on the Ending Fund Balance chart, labeled "(USE) OF FB FOR O-T, E/D, GAPS", reflects how much of the reserves is planned to be used. The model stops the allocations for the three areas once the reserves are drawn below the City's legal reserve limits (exhibit by the purple line).

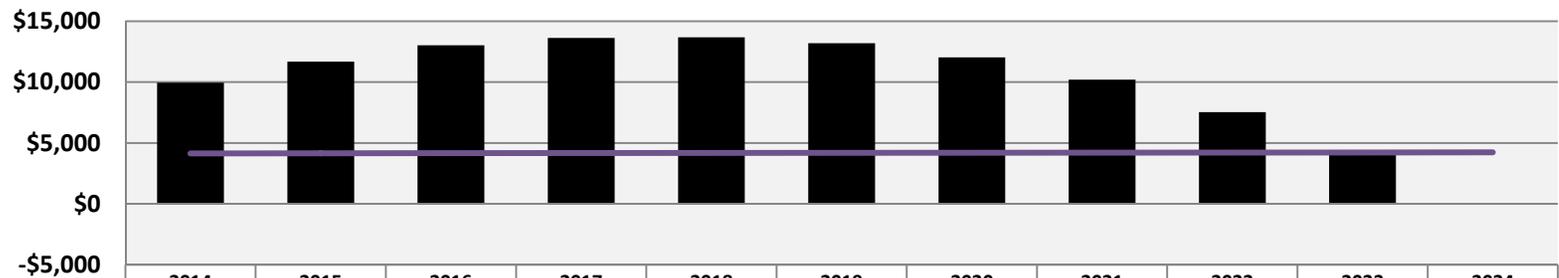
Attachment E reflects the Base Scenario without the planned use of reserves. While this scenario does not include the planned use of reserves to cover any gaps, reserves will be used to cover any unresolved "deficits" (refer to the sixth row of the Ending Fund Balance chart, labeled "(USE) OF ADDL FB TO CLOSE GAP"). Attachment F reflects the Base Scenario with the planned use of reserves. Two additional charts are included to exhibit the use of reserves with the Economic Development option turned on by itself (Attachment F) and the Economic Development and Investment Strategy options turned on together (Attachment G).

Base Scenario



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
ANNUAL SURP/(GAP)	(133)	1,727	1,336	610	45	(477)	(686)	(667)	(839)	(715)	(726)
CUMULATIVE (GAP)	(133)	-	-	-	-	(477)	(1,163)	(1,830)	(2,670)	(3,385)	(4,111)
VARIANCE BASE	36,450	35,633	36,752	37,851	39,262	40,442	41,727	42,989	44,415	45,776	47,253
BASE REVENUE	36,317	37,360	38,088	38,461	39,308	39,965	40,564	41,159	41,745	42,391	43,142
SCENARIO REVENUES	36,317	37,360	38,088	38,461	39,308	39,965	40,564	41,159	41,745	42,391	43,142
BASE EXPENDITURES	36,450	35,633	36,752	37,851	39,262	40,442	41,727	42,989	44,415	45,776	47,253
SCENARIO EXPENDITURES	36,450	35,633	36,752	37,851	39,262	40,442	41,727	42,989	44,415	45,776	47,253

ENDING FUND BALANCE

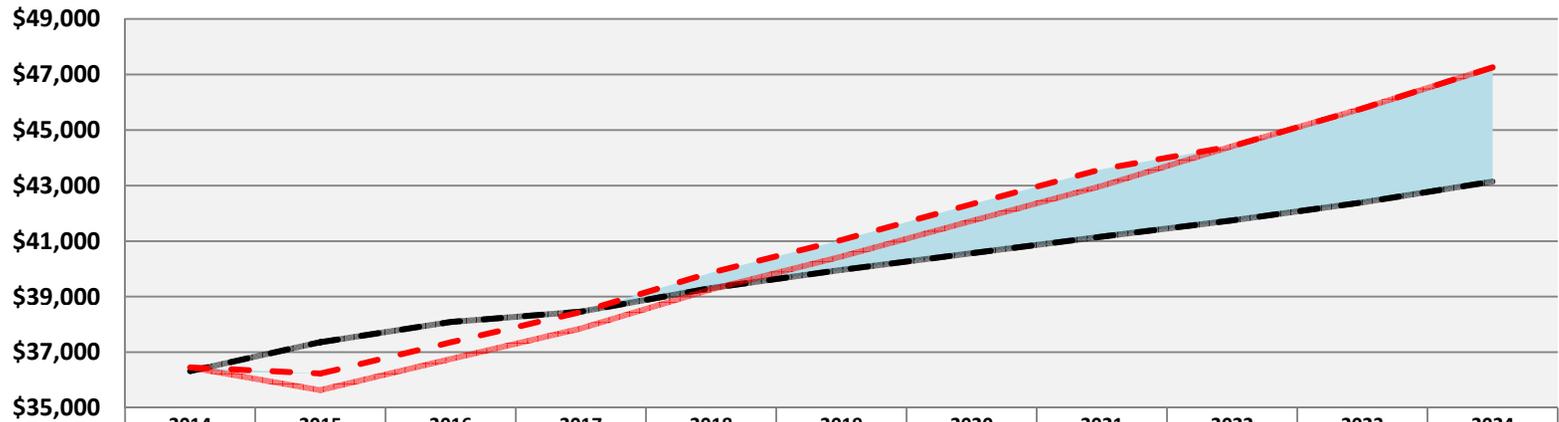


	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
POSITIVE	9,952	11,680	13,015	13,625	13,670	13,193	12,030	10,200	7,530	4,145	34
NEGATIVE	-	-	-	-	-	-	-	-	-	-	-
Y-O-Y GAIN/(USE) OF FUND BALANCE	(133)	1,727	1,336	610	45	(477)	(1,163)	(1,830)	(2,670)	(3,385)	(4,111)
MIN. REQ'D. OPERATING FB	4,137	4,152	4,166	4,177	4,186	4,195	4,202	4,209	4,216	4,225	4,235
(USE) OF FB FOR O-T, E/D, GAPS	-	-	-	-	-	-	-	-	-	-	-
(USE) OF ADDL FB TO CLOSE GAP	(133)	-	-	-	-	(477)	(1,163)	(1,830)	(2,670)	(3,385)	(4,111)
TOTAL (USE) OF FB	(133)	-	-	-	-	(477)	(1,163)	(1,830)	(2,670)	(3,385)	(4,111)

Assumptions:

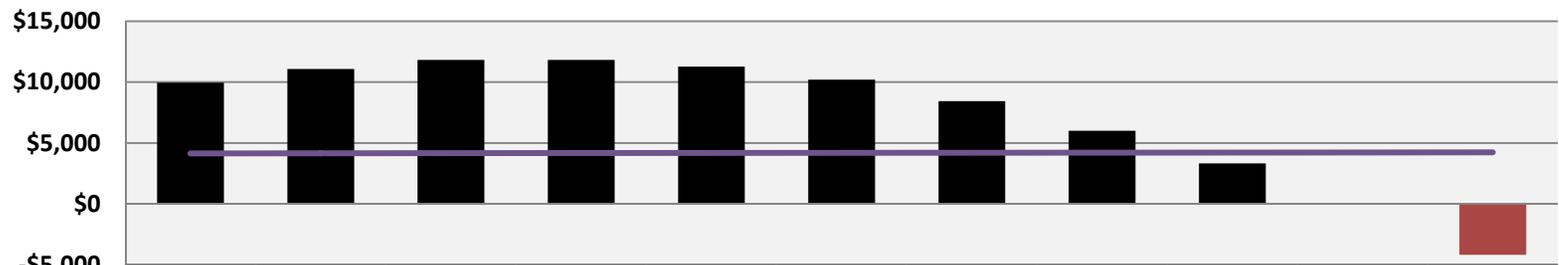
1. Revenues projected at 101%. Expenditures projected at 98%.
2. Base Scenario.

Base Scenario *with* Use of Reserves



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
ANNUAL SURP/(GAP)	(133)	1,127	736	10	(555)	(522)	(686)	(667)	(239)	(715)	(726)
CUMULATIVE (GAP)	(133)	-	-	-	(555)	(1,077)	(1,763)	(2,430)	(2,670)	(3,385)	(4,111)
VARIANCE BASE	36,450	36,233	37,352	38,451	39,862	41,042	42,327	43,589	44,415	45,776	47,253
BASE REVENUE	36,317	37,360	38,088	38,461	39,308	39,965	40,564	41,159	41,745	42,391	43,142
SCENARIO REVENUES	36,317	37,360	38,088	38,461	39,308	39,965	40,564	41,159	41,745	42,391	43,142
BASE EXPENDITURES	36,450	35,633	36,752	37,851	39,262	40,442	41,727	42,989	44,415	45,776	47,253
SCENARIO EXPENDITURES	36,450	36,233	37,352	38,451	39,862	41,042	42,327	43,589	44,415	45,776	47,253

ENDING FUND BALANCE

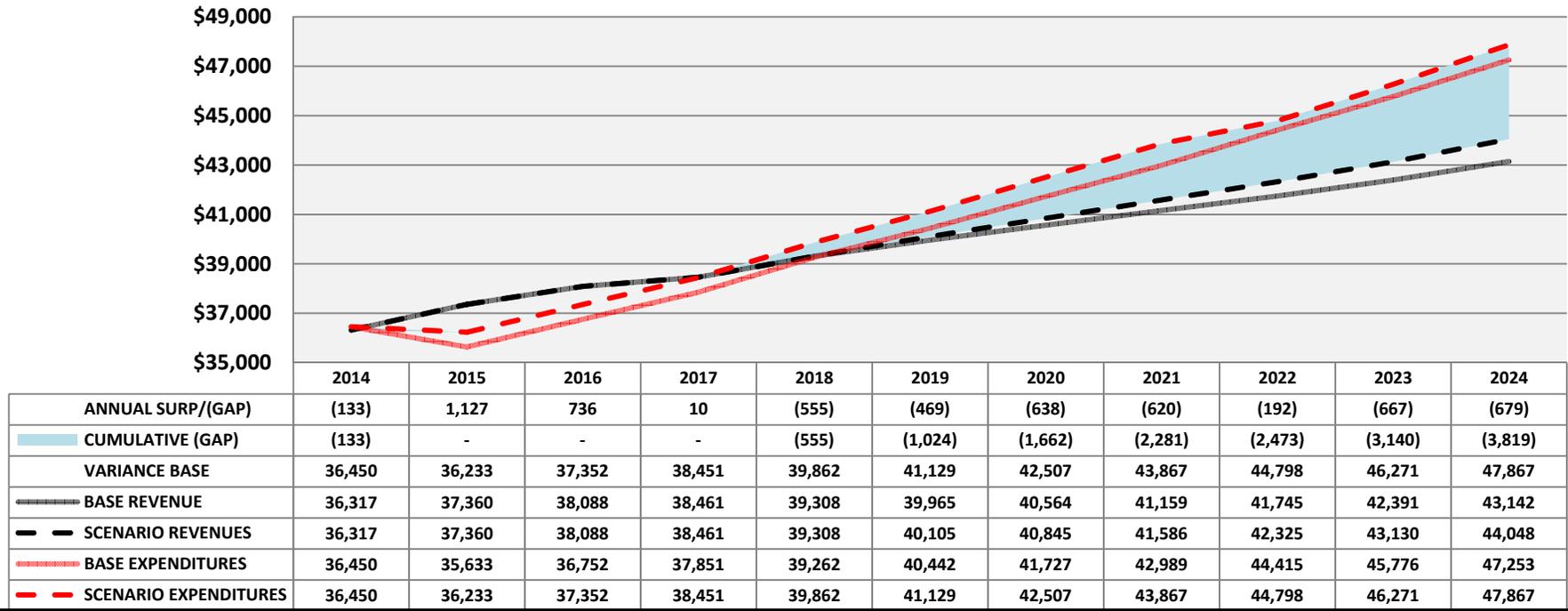


	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
POSITIVE	9,952	11,080	11,815	11,825	11,270	10,193	8,430	6,000	3,330	-	-
NEGATIVE	-	-	-	-	-	-	-	-	-	(55)	(4,166)
Y-O-Y GAIN/(USE) OF FUND BALANCE	(133)	1,127	736	10	(555)	(1,077)	(1,763)	(2,430)	(2,670)	(3,330)	(4,111)
MIN. REQ'D. OPERATING FB	4,137	4,152	4,166	4,177	4,186	4,195	4,202	4,209	4,216	4,225	4,235
(USE) OF FB FOR O-T, E/D, GAPS	-	(600)	(600)	(600)	(900)	(900)	(900)	(900)	-	-	-
(USE) OF ADDL FB TO CLOSE GAP	(133)	-	-	-	(255)	(777)	(1,463)	(2,130)	(2,670)	(3,330)	(4,111)
TOTAL (USE) OF FB	(133)	(600)	(600)	(600)	(1,155)	(1,677)	(2,363)	(3,030)	(2,670)	(3,330)	(4,111)

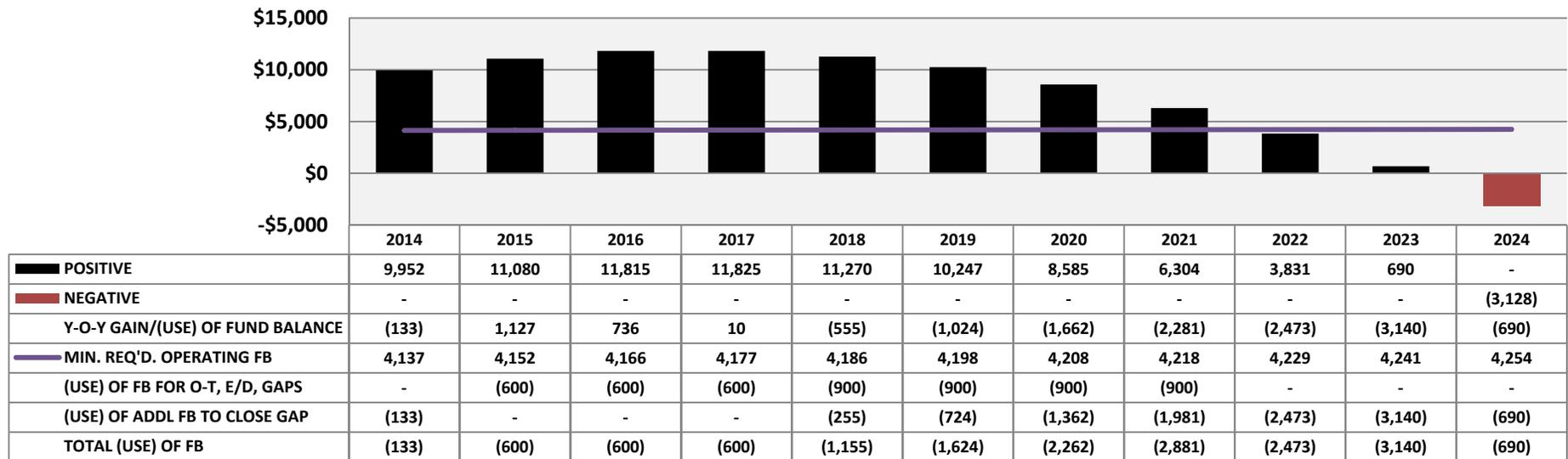
Assumptions:

1. Revenues projected at 101%. Expenditures projected at 98%.
2. Base Scenario with use of reserves for one-time expenditures, economic development incentives, and gap closing.

Base Scenario *plus* Economic Development option with Use of Reserves



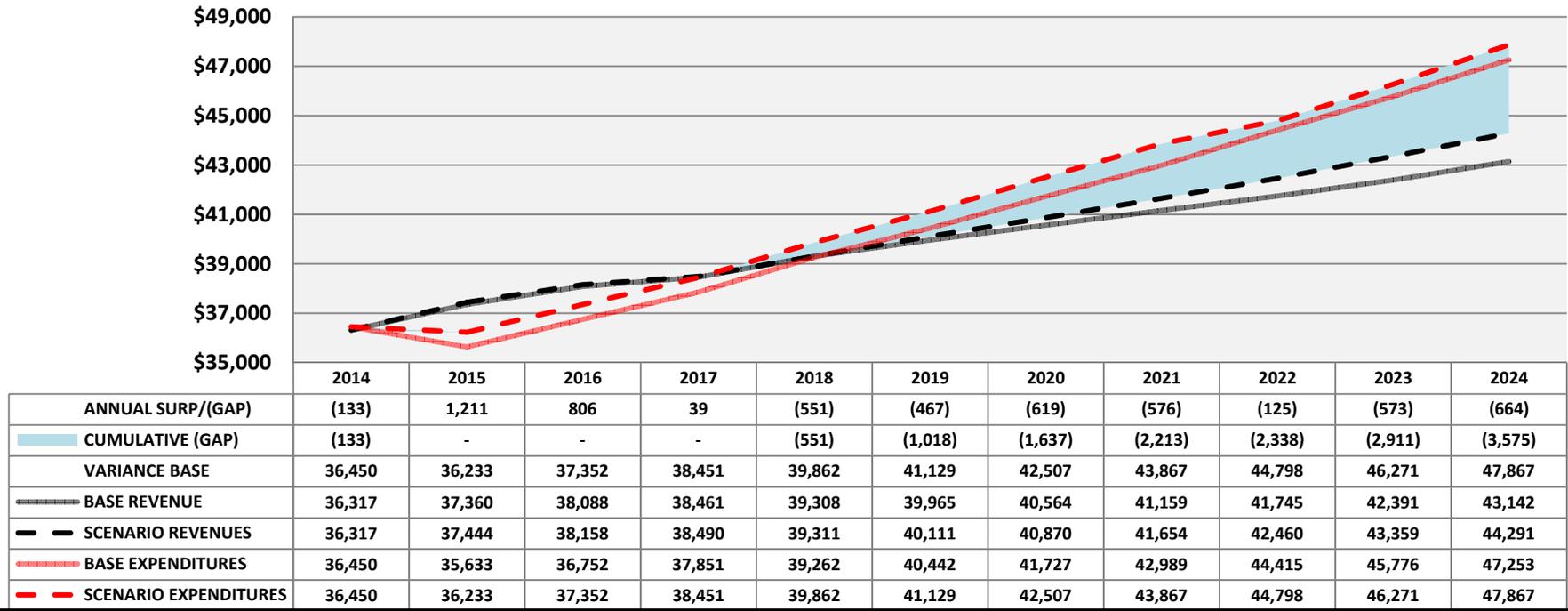
ENDING FUND BALANCE



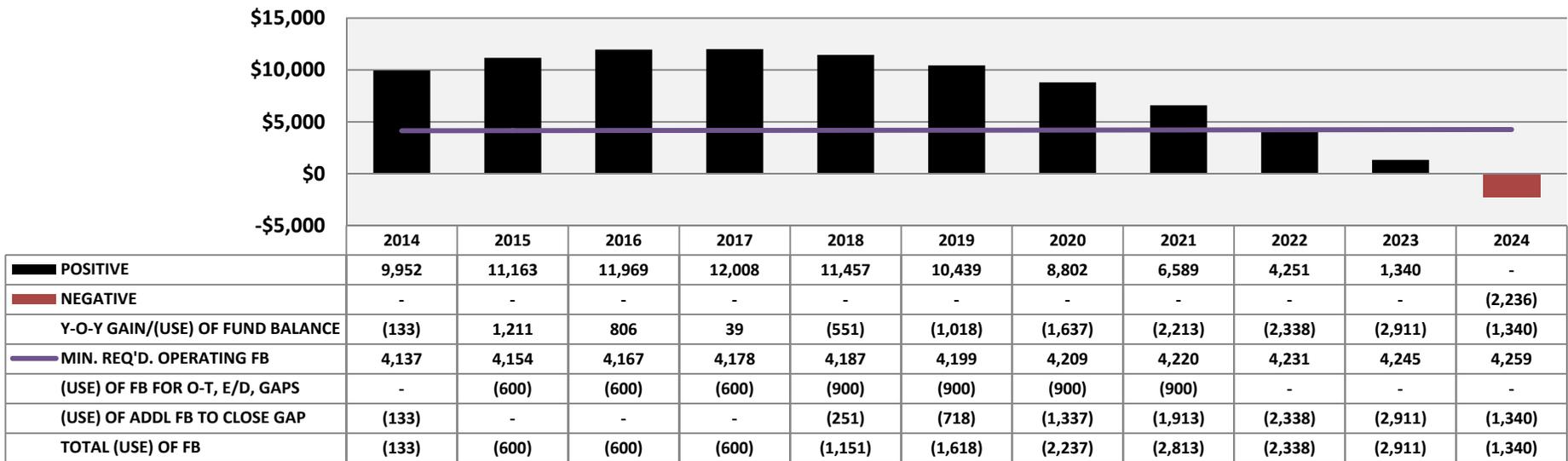
Assumptions:

1. Revenues projected at 101%. Expenditures projected at 98%.
2. Base Scenario plus Economic Development option with use of reserves for one-time expenditures, economic development incentives, and gap closing.

Base Scenario *plus* Economic Development *and* Investment Strategy options with Use of Reserves



ENDING FUND BALANCE



Assumptions:

1. Revenues projected at 101%. Expenditures projected at 98%.
2. Base Scenario plus Economic Development and Investment Strategy options with use of reserves for one-time expenditures, economic development incentives, and gap closing.