

From: [Debbie Tarry](#)
To: [Will Hall](#)
Cc: [Carolyn Wurdeman](#); [Robert Hartwig](#); [Chris Eggen](#); [Chris Roberts](#); [Doris McConnell](#); [Jesse Salomon](#); [Keith McGlashan](#); [Shari Winstead](#); [Will Hall](#); [John Norris](#)
Subject: RE: Budget policies
Date: Friday, November 15, 2013 2:52:12 PM
Attachments: [2014 Budget - Property Tax Equal Fund - 6 Year Forecast.pdf](#)
[Alternate Revenue and Expenditure Projections - 111413.pdf](#)
[1429_001.pdf](#)

Will -

The Property Tax Equalization Fund was created with the adoption of the 2011 Budget. The description in the budget document of this fund is (page 254/263 of 2014 Proposed Budget: "The purpose of the Property Tax Equalization Fund is to accumulate and disburse proceeds from the City's maintenance and operations levy over the six year levy period. The City will collect revenues in excess of those needed to sustain current operating services in years 2011-2013 but will collect less than needed in 2015-2016." Attached is an updated comparison of the original plan and the actual plan for 2011-2016 that is being added to the Green Folder for Monday night's budget discussion. The reason that there was no addition in 2013 was that the actual levy went down as a result of the drop in assessed valuation and hitting the \$1.60 cap.

Under the General Budget Policies (p. 424 of budget document) - Item B - Resources Greater than Budget Estimates: Resources (fund balance) greater than budget estimates in any fund shall be considered "one-time" resources and shall not be used to fund ongoing service delivery programs. Item J - Commitments that can Reasonably be Maintained over the Long-Term: Funding for new programs and services in operating funds should be limited to the extent that they can be reasonably funded over the near-to-long-term given the current revenue stream.

- We did not amend this policy with the creation of the Property Tax Equalization Fund given that the intent of the fund was stated in the budget document and it was clear in the staff reports and Council's actions leading up to the ballot measure that if Prop 1 passed, the proceeds would be used to maintain basic services and that the proceeds collected in the early years of Prop 1 would exceed those needed and therefore would be accumulated to be used in later years. The six year forecasts have also included information regarding the use of property tax equalization funds and have been part of the annual budget adoption process approved by Council.
- The intent of the "Resources Greater than Budget Estimates" is really to focus on net increases to "fund balance" in excess of those planned through the budget adoption process. I believe we have been consistent to date in using any appropriation of those excesses for one-time expenses. Even though the six-year projections show use of fund balance in years 2017-2019, we would not recommend this as a way to balance the budget for those years especially if there was not a way to

bring on-going expenditures in line with on-going revenues.

- The 2014 Proposed Budget is not using any excess fund balance for on-going costs. Any use of excess fund balance is for one-time costs - in fact we have in excess of \$400,000 of on-going revenue that was not appropriated for on-going costs. This came up in the discussion of potential increases in jail costs.
- I believe that the proposed budget also conforms with the commitments that can reasonably be maintained. The six-year forecast in the budget is fairly conservative. For example it assumes that we collect 100% of projected revenue and spend 99% of projected expenditures. In reviewing our 10 year history of the operating budget we find that we have tended to collect 101.4% of projected revenues and spend 96.4% of expenditures. If we applied this to the six year forecast we would see fairly significant budget surpluses over the next few years and not have a budget gap until 2019 - and then it would be just under \$220,000 - approximately 0.5% of projected operating expenditures. I have attached a copy of the six-year forecast with this assumption for you. I have also attached an alternate revenue/expenditure projection that takes a look at variations of these assumptions. I think Assumption 3 (100% collection of revenues/97.5% expenditures) is a little more conservative and even then we practically push off budget gaps until 2019.
- The 10 year financial sustainability plan will address many of these issues and allow Council to agree on base assumptions, how to address future funding for services, what role economic development has on the financial forecast, etc. Staff is not counting on Council to propose a 20% property tax increase to voters, in fact based on our current projections there may only be room for up to a 10% increase in the levy rate by 2019.
- Staff has addressed the use of property tax equalization each year in the budget discussions and has tried to be clear on how this affects the operating budget after expiration of the current excess levy. I know that staff spoke quite extensively about this with the Council that was seated at the time that Council was debating whether to move forward with the excess levy. We have discussed with Council that the 1% property tax levy limit puts not only Shoreline, but many cities in a position to go out for future renewals of excess levies. Most recently the current Council indicated that one of the legislative priorities should be addressing the 1% cap either with some that allows for local decision making or a cap that is more reflective of inflation.

I hope that this response answers your questions. Please let me know if you have any additional questions.

Debbie Tarry

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-----Original Message-----

From: Will Hall
Sent: Tuesday, November 12, 2013 9:11 PM
To: Debbie Tarry
Cc: Carolyn Wurdeman
Subject: Budget policies

Debbie,

Did council amend the city's official budget policies to provide for the planned use of a property tax equalization fund and for the use of one-time surplus revenues to be used for ongoing expenses?

In reading our budget policies, the ones that jump out at me are:

- . Resources greater than budget estimates
- . Commitments that can reasonably be maintained over the long term.

It is not clear to me that the budget proposed by the city manager conforms to these policies. Can you please comment on that? Is staff counting on council to propose and the voters to approve a property tax increase on the order of 20% in determining what can reasonably be maintained over the long term? Other than by doing the math independently, has staff ever discussed with council the implications of using the property tax equalization approach as it affects future years, and has council ever been give an estimate of the future property tax increases that would be required to continue such a policy?

Will Hall, Councilmember
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