

From: [Debbie Tarry](#)
To: [Will Hall](#)
Cc: [Keith McGlashan](#); [Chris Eggen](#); [Doris McConnell](#); [Shari Winstead](#); [Chris Roberts](#); [Jesse Salomon](#); [Carolyn Wurdeman](#); [John Norris](#); [Robert Hartwig](#); [Mark Relph](#)
Subject: RE: Revenue and expenditure projections
Date: Friday, November 15, 2013 3:54:59 PM

Will -

Just a short time ago I responded to your e-mail from Tuesday, November 12, somewhat overlaps your questions in this e-mail. So some of the same responses may be included. I have added in italics below responses.

In general the long-term forecasts will change as assumptions change and more precise information is known - the years further out always are much harder to predict and subject to variation. The important part is that we have instituted a best practice of looking at the long-term and taking measured steps to evaluate how our decisions today can impact the future. The original Prop 1 was pushed out a few years because we saw better results as long-term forecasts were updated with better information. We had originally expected to have deficits starting in 2007.

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

From: Will Hall
Sent: Friday, November 08, 2013 1:55 PM
To: Debbie Tarry
Cc: Keith McGlashan; Chris Eggen; Doris McConnell; Shari Winstead; Chris Roberts; Jesse Salomon; Carolyn Wurdeman
Subject: Revenue and expenditure projections

In the city manager recommended budget, six year forecast (page 93), I see that most revenue streams, including property tax revenues, are projected to increase every year through 2019. Overall, revenues are projected to grow at a fairly steady rate between 1.2% and 2.6% per year. I also see that expenditures are projected to grow more slowly than revenues for the first two years, then expenditures are projected to grow significantly more quickly than revenues in 2017, 2018, and 2019. It appears that the recommended budget plans to use increasing amounts of fund balance, or reserves, in those years to support growth in expenditures of more than 3% per year. Am I reading this correctly that the six year plan anticipates using \$515,324, \$1,194,593, and \$1,738,086 from fund balance in years 2017, 2018, and 2019, respectively?

Response: 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.

Is my math correct than in 2019, use of reserves or fund balance of \$1,738,086 would be required to cover 4.5% of our operating budget that year of \$38,712,027?

Response: This would be the cumulative impact if revenue and expenditures continued to be as projected in the out years and if staff and the Council did not take action in prior years to balance on-going expenditures with on-going revenues. As stated above, I do not believe that this would be the case. For example if looked at on an annual basis - reducing expenditures by 1% in 2017 reduces the future budget gap in 2018 to 1% and 3% in 2019.

Can we continue to use fund balance every year or, once we use part of it, is it gone and the remaining fund balance for future years is reduced, as shown in the six year plan?

Response: Once you use fund balance it is gone - this is why years 2017-2019 show a decline ending fund balance in the six year scenario. As stated above we would not recommend, nor would the City's adopted financial policies support the use of fund balance on an on-going basis to support on-going expenditures.

If we approve budgets consistent with the six-year plan, and we draw down our reserves consistent with the six-year plan, then how would you suggest we cover the \$1.7 million dollar budget gap (or larger, if the trend continues) in the year 2020?

Response: I would not recommend that the Council approve budgets that use reserves on an on-going basis to support on-going expenditures. The purpose of the long-term forecast and the 10 year financial sustainability plan is to address the funding of future services. I think it is also important to recognize that forecasts will change - especially the further out years. The intent is to continually monitor, update, and use the forecast for early warning signs. As shared in my earlier e-mail response, the six-year forecast in the budget is fairly conservative and even changing some assumptions based on historical reality can have a significant impact on the bottom line.

If you suggest we cover it with property taxes, then is my math correct that we would need to raise property taxes about 15% if we just want to cover that year, and more like a 20% property tax increase if we want to use a similar property tax stabilization approach that staff is using today with the prop 1 tax revenues to cover a six year period? And would e alternative be to cut that much out of our budget?

Response: We are not suggesting that future gaps be covered strictly by property taxes. I do think that the 1% growth cap does not allow for financial sustainability, when this does not even cover inflationary cost increases. Council has acknowledged this in putting this issue on the City's legislative priorities. The purpose of the forecast is to help us identify measures that can be taken to help close future budget gaps either through revenue growth or expenditure reductions. It is unlikely that there would be

capacity to increase the property tax levy by 15 or 20% in the 2017-2019, based on our current property tax levy rate projections.

Given that the projection for the next couple of years shows that our expenditure growth is slower than our revenue growth and we can adopt budgets that do not require use of fund balance or other one-time revenues, I can imagine an alternative where we do not allow our expenditures to grow to an unsustainable level. In this scenario, where we would not count on the use of \$1.7 million in one-time revenues to balance the budget, our expenditures and revenues would be equal in 2019 and we would not face a 20% tax increase or the equivalent immediate cut in services, such as we faces before the levy lid lift. Instead, we could still increase our expenditures every year, just not any faster than our even use grow.

I supported the levy lid lift because we were in a deep financial hole. We are not in a deep financial hole today. Our revenue growth is exceeding our expenditure growth. We have accumulated significant reserves both through policies such as the property tax equalization fund and through higher than forecast revenues and significant under expenditures.

Rather than intentionally dig ourselves into a \$1.7 million dollar hole as shown in the six-year forecast, could we use those reserves (over \$3.5 million) for one-time expenditures, such as an aggressive capital improvement plan to build sidewalks and infrastructure? Would investing in our community through such a program have the potential to make our city a better place to live, attract more investment, stimulate faster growth in the local economy, help our local businesses, and bring us closer to a sustainable financial future?

Response: I do not believe that we are digging ourselves into a \$1.7 million dollar hole. We are using a best practice to monitor our budget, updating assumptions as we have more clarity, and using the forecast model to note early warning signs. I agree that we should not plan to use reserves to balance on-going expenditures. We have the Revenue Stabilization Fund that was created to be used as rainy day fund through economic downturns, but not on a continual basis. Even through the last recession we were able to manage our finances in a way to minimize use of this fund. I agree that it would be beneficial to use some of our accumulated excess reserves for investment in the community. As stated earlier, once the reserves are used they are gone, so we should be very intentional on how they are used. Given the Council's priority of economic development I have asked Dan and Mark to identify what they would recommend if we had \$4 million (basically the net amount of General Fund Balance we have in excess of our current financial policies) to spend on transportation or economic development projects that would provide the best investment for our community. Here are some of their thoughts:

*Transportation: It would be our recommendation to allocate \$4 million with \$2M going to the same pavement strategy (**Will you asked about this**) and the remaining \$2M to used as Fed/State grant match for first 145th, then 175th. Staff would not recommend any sidewalk projects as part of this strategy. In summary the maintenance strategy would be: (a) \$1 million BST, (b) \$500,000*

for patch & crackfill and (c) \$500,000 as match for State overlay funds. The remaining \$2M would be used as a match to undertake PSandE (including environmental) for 145th, between 5th Ave NE and Aurora Ave, and/or for 175th from Stone to I-5. Staff would like to submit both of these projects to PSRC for the federal competition in early 2014, but match money (13.5%) is a challenge. We are currently working on cost estimates for 175th and 145th design. There may also be a need to keep some in reserve to finish up Aurora.

Economic Development: Identify projects that are supportive of the Aurora Square CRA.

I would appreciate response to all councilmembers I advance of our next budget discussion. Thank you.

Will Hall, Councilmember
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