

# FINANCIAL SUSTAINABILITY

10 Year Financial Sustainability Plan  
Business Outreach



## Agenda

- |  |                           |
|--|---------------------------|
| • Welcome & Introductions                          | Allegra Calder            |
| Workshop Objectives                                | BERK Consulting           |
| • Background Presentation                          | Sara Lane & Rick Kirkwood |
| • Overview of City Services                        | City of Shoreline         |
| • Financial Sustainability                         |                           |
| • Best Practices                                   |                           |
| • History  |                           |
| • The City's 10 Year Financial Sustainability Plan |                           |
| • Survey Results                                   | Jennifer Tippins, BERK    |
| • Discussion                                       | Allegra Calder            |

1. Workshop Objectives
  - a. Provide background to help frame the discussion and understand “why” we are even discussing a potential B&O tax.
  - b. Engage in two way dialogue regarding the survey results.
  - c. Provide additional context for the report that will be provided to City Manager Debbie Tarry.
2. Staff will present the results of the outreach to Council in a discussion on August 14, 2017

## FINANCIAL SUSTAINABILITY BEST PRACTICES

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- Long range financial forecast
- Support ongoing costs with ongoing revenues
- Support one-time costs with one-time revenues
- Balance budget required by State law

The City has long held Financial Sustainability as a high priority. The City has implemented best practices of Financial Sustainability, including developing a 10 Year Financial Sustainability plan that we will review today. Before we get into too much detail about what the plan covers, we thought it would be good to review the services that are supported by the City's operating budget and operating revenues – the primary topic of the 10 year Financial Sustainability plan.

### Shoreline Police

- 51 uniformed officers
- Attended 52 neighborhood crime prevention meetings
- Handled over 28,000 police contacts, dispatched calls, and on-views
- Priority emergency call response averaged 3.92 minutes
- Partner with Business Community to enhance communication

**2017 Net Cost: \$9.93 million**



The City contracts with King County to provide Police Services. This provides the City with access to the full greater resources as a lower costs. Police Services seek to fulfill Council Goal No. 5: Promote and enhance the City's safe community and neighborhood programs and Initiatives –

Action Step # 7 is to Partner with the business community to enhance communication on crime trends and crime prevention efforts.

This will include training this Fall to employees of local businesses on what to do if confronted with an active shooter event. The training is CRASE (Civilian Response to Active Shooter Events) and is taught by our police staff. Additionally, Deputy Bates, our Community Outreach Officer has been working with local business on trespass concerns. She can provide education on when to call, common verbiage for no trespass signage and how to complete a no trespass letter that gives police authority to trespass somebody if the business is closed.





**Street Operations**

- 410 miles of City streets
- 10,949 street signs
- 60 miles of ROW landscaping
- 32 traffic circles
- 5 ROW beautification sites
- Plus City and community event support

**2017 Net Cost: \$442,000**

Street operations maintains the City's 410 miles of City Streets, including inclement weather treatment. They are also responsible for managing the landscaping on the City's major arterials (like Aurora!) to keep Shoreline streets attractive for those who work, live and play in Shoreline.

## Environmental Services

- Collaboration on Business Recycling
- Recology Storefront – education and recycling resources



## Traffic and Transportation Planning Services

- Answered 377 service requests
- Completed 173 traffic counts
- Completed 5 neighborhood traffic safety projects
- 19 active residential areas in Neighborhood Traffic Safety Program

**2017 Net Cost: \$1.48 million**

The Environmental Services Team manages our Solid Waste contract. Recology, our Solid Waste Vendor provides some business specific support for waste management, include a free waste audit with the goal to reduce the size of containers needed to help businesses to right-size waste containers and reduce costs.

The Traffic and Transportation Planning Services – focus on planning for the efficient operation of our transportation system, including signal operations.

## Permitting, Inspection, Planning & Code Enforcement

• Total permit applications handled	2,210
• Customers assisted	4,958
• Total Inspections Performed	4,519
• Zoning Reviews, Land Use, Tree & Sign approvals	638
• Light Rail Station Area Planning	

**2017 Net Cost: \$1.5 Million**



The City also provides Permitting, Inspection, Planning and Code Enforcement services to ensure that City codes are met in development and redevelopment.

## 24-Hour Customer Response Team

- Percentage of abandoned vehicles tagged within 24 hours of notification – 92% in 2016
- Number of service requests for parking/abandoned vehicles – 846 in 2016
- Support police, Shoreline Fire, and public works crews during emergencies

**2017 Net Cost: \$537,000**



24 Hour Customer Response Team provides 24 hour support to businesses and residents who notice issues throughout the City. In this way they also serve as the City's 1<sup>st</sup> responders on code enforcement issues.

## **Economic Development**

- Liaison to the Business Community
- Support for Shoreline Farmers' Market
- Liaison to SCC
- Shoreline Film Office
- SIFF – Seattle International Film Festival
- Theater Under the Stars
- Business License Program
- Promotional Campaign

**2017 Net Cost: \$329,000**



The City's Economic Development program has been implementing the 2012-2017 Economic Development Strategic Plan to achieve the Council's Goal to Strengthen Shoreline's Economic Base to maintain the public services that the Community expects. That plan, which will be updated this year, focused on City-Shaping Place Making Projects. Fred Kent calls Place Making the thing that "turns a City from a place you can't wait to get through into a place you never want to leave." Work is underway to update the Economic Development Strategic Plan at this time.





**Events**

- Celebrate Shoreline
- Hamlin Haunt
- Holiday Crafts Market
- Swingin' Summer Eve
- Noontime concert series
- Monster Mash Dash
- Santa Breakfast

**2017 Net Cost: \$316,000**

Placemaking also occurs through Community Events that increase the foot traffic in Shoreline and can provide opportunities for business collaboration and sponsorship.

## Emergency Management

- 5 new community response volunteers trained Spring 2017
- 6 trainings held annually for emergency planning and preparedness
- 3 disaster-related drills held annually
- City of Shoreline Comprehensive Emergency Management Plan completed in 2015

**2017 Net Cost: \$203,000**



The primary goal of Emergency Management is to lessen the economic impact of disasters by promoting preparedness and mitigation strategies prior to an incident so that recovery can occur quickly, allowing the City of Shoreline to remain an economically strong community.

The City of Shoreline Comprehensive Emergency Management Plan completed in 2015 – includes all hazards disaster response (natural disasters, economic, cyber, terrorism)



**Criminal Justice:**

- Jails
- Courts
- Public Defender

**2017 Net Cost: \$2.6 million**



The City is legally obligated to provide Criminal Justice services. The City contracts these services and currently works with 3 contract jails to ensure we are receiving the lowest possible prices for housing misdemeanants.



**Park Maintenance**

- 32 parks
- 14 restrooms
- 15 playgrounds
- 15 baseball fields
- 10 soccer fields
- 15 tennis courts
- 5 picnic shelters
- 3 off-leash dog areas
- 1 swimming pool
- 2 recreation centers
- 1 skate park
- Kruckeberg Botanic Garden
- City Hall campus
- Interurban Trail
- Miles of park trails

**2017 Net Cost:\$1.87 million**

We believe the City's maintenance of our 32 parks and other facilities contribute to the City's 93% satisfaction rate on our 2016 Citizen Satisfaction Survey.

**Aquatics and Recreation Programs:**

- 30,900 Drop-in visits to the Shoreline Pool
- Recreation Centers open 7,205 Hours
- 3,729 hours of teen and youth development programming
- 3,986 hours of aquatics instruction

**2017 Net Cost:\$1.65 million**



Additionally we have a robust Aquatics and Recreation Programs that while fee supported do not provide full cost recovery. Both the Citizen Satisfaction Survey and recent engagement regarding the City’s Park, Recreation and Open Space plan update have confirmed the value these programs provide in helping the City achieve its Vision 2029 - of Shoreline as a thriving, friendly city where people of all ages, cultures, and economic backgrounds love to live, work, play.

## Neighborhoods

- Funded five neighborhood mini-grant projects
- Supported neighborhood associations with 'signature' events
- Organized meetings between neighborhood associations and City staff

**2017 Net Cost: \$183,000**



The city values its 14 unique neighborhoods – many of which have unique business districts. Our neighborhood program provides coordination and support to the neighborhood associations and placemaking that encourages the business community.

## Community Partners

- Shoreline Historical Museum
- Shoreline-Lake Forest Park Senior Center
- Shoreline-Lake Forest Park Arts Council
- Kruckeberg Botanic Garden Foundation
- Shoreline School District

**2017 Net Cost: \$356,000**



The City also contracts with several Community Partners to help achieve the Council Goals and City Vision:

Shoreline Historical Museum: \$60,000

Shoreline-Lake Forest Park Senior Center: \$96,000

Shoreline-Lake Forest Park Arts Council: \$60,000

Kruckeberg Botanic Garden: \$40,000



## Human Services

- Support 15 agencies offering 28 different programs, including:
  - housing and counseling serving homeless
  - food and utility assistance
  - family support centers
  - support for victims of domestic violence
- Serve approximately 10,000 Shoreline residents every year

**2017 Net Cost: \$326,000**



The City also supports partners that specifically provide human or social services.



**SHORELINE CURRENTS**  
News from the City of Shoreline Volume 18 No. 2  
March 2016

**City works with partners to address homelessness**

On December 14, 2015, the Council passed a resolution supporting King County's declaration of emergency due to homelessness. While the issue of homelessness in the Puget Sound Region is not new, it has been on the rise in recent years. To this end, on November 2, 2015, King County and the City of Seattle declared a state of emergency.

The extent of homelessness and those at risk of homelessness in Shoreline can be seen through data that comes from schools and service providers, and from anecdotal data provided by the City's Parks, Recreation and Cultural Services Department. Since 2010, the number of Shoreline School District students who self-identify as homeless has almost tripled, rising from 134 in the 2010-11 school year.

140° Corridor update Page 3

**RA SOC**  
Regional Animal Services of King County

Chat Share Photo  
Tweet Like  
Music Friends News

### Other Services

- Elections
- Intergovernmental relations
- Communications:
  - Currents
  - Citizen Survey
  - Alert Shoreline
  - Social Media
  - Public Website
- Public Records Requests
- Pet Licensing/ Animal Control
- Business Licensing
- Public Meeting Management

As well as many other services.



## FINANCIAL SUSTAINABILITY BEST PRACTICES

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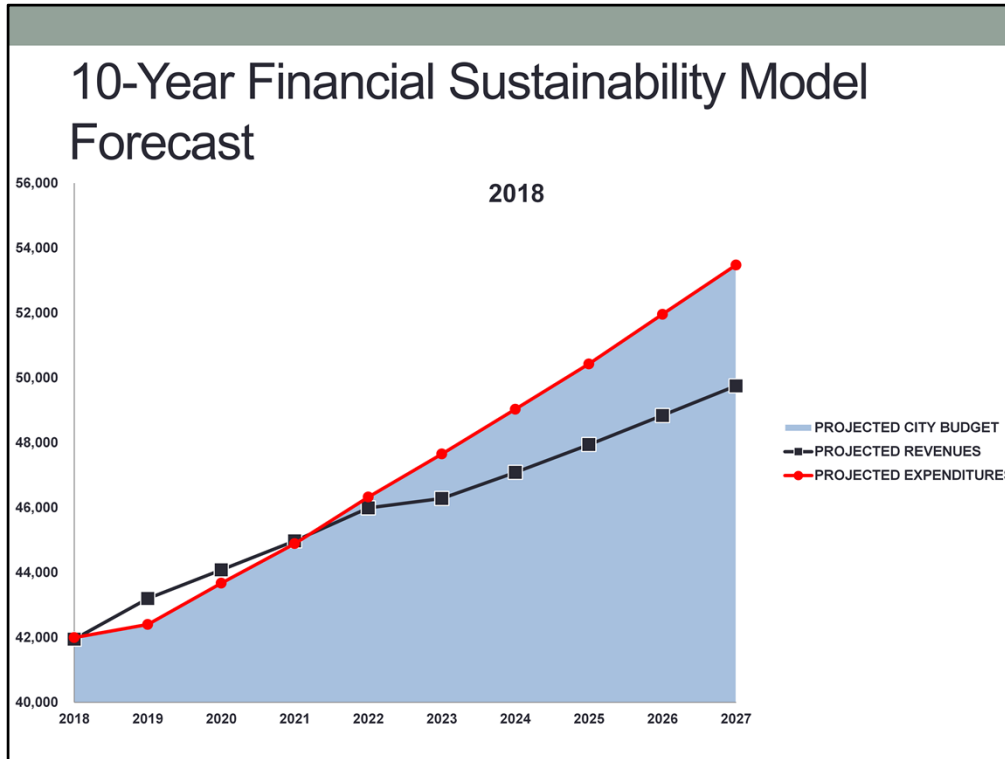
- Long range financial forecast
- Support ongoing costs with ongoing revenues
- Support one-time costs with one-time revenues
- Balance budget required by State law

As I mentioned at the beginning, the City values and prioritized financial sustainability and as a result we utilize best practices of Financial Sustainability, including maintaining fully funded operating reserves and a rainy day reserve for use in an unanticipated economic downturn. This means that the City evaluates the impact of our funding decisions on the long term and support ongoing costs, like the services mentioned, using ongoing revenues, and one time investments (mostly capital projects) using one time revenues.

## THE STRUCTURAL CHALLENGE

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However, the City of Shoreline (like most Cities) faces a structural challenge in funding of our basic services - where the cost of providing the services is growing faster than the revenue to support those services. In the next few slides we will provide an overview of how big the problem is, the drivers behind the problem and the strategies that have been considered to address the problem.

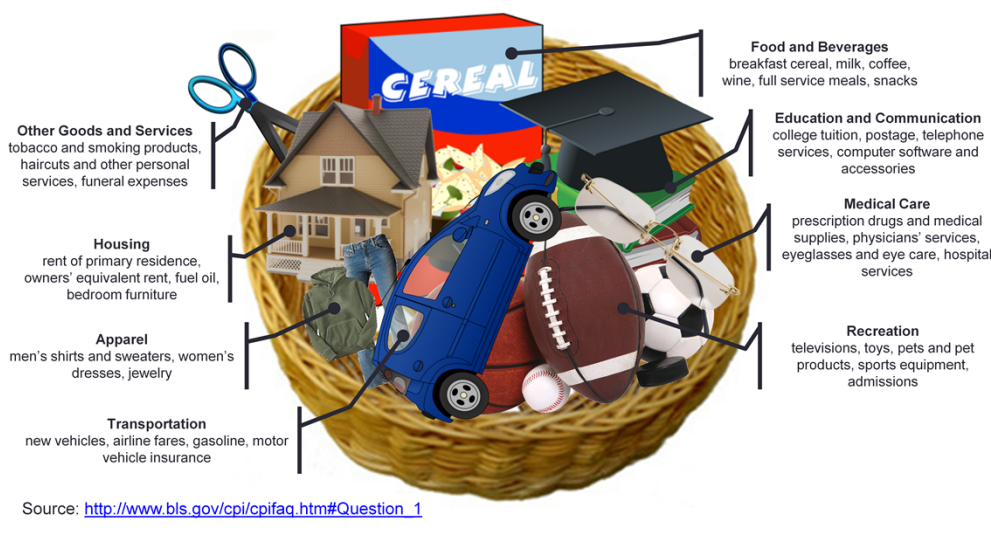


This slide shows the impact of that structural challenge with the black line representing our forecasted revenues (without any new taxes or fees) over the next 10 years and the red line our forecasted costs at current service levels.

- The year-over-year % change in City costs fluctuates between 2.8% and 3.1%. The year-over-year % growth in City revenues is approximately 2.0%

This is our current update of the Forecast, and you can see that the forecasted growth in costs is projected to exceed revenues throughout the latter half of the forecast period.

## CPI Market Basket: What goods and services do people purchase?



You might wonder why costs are rising faster than revenues. The primary reason for the imbalance is simply inflation.... However, as was mentioned on the last slide, while the City's operating revenue growth history and forecast aligns more closely with the Consumer Price Index (CPI; the most common measure of inflation) at around 2%, City costs have historically grown faster than CPI forecasted in the range of 2.8-3.1%.

This slide shows the types of good and services that are included in the CPI Calculation – costs that most every individual and business face.

## City's Basket: What goods and services does the City purchase?



And this slide identifies some of the costs that Cities face that are not generally considered in the CPI calculation.

To provide a couple of specific examples of the volatility for some of these costs, consider Jail Services. Recall that the City is required to house misdemeanants - Following is the history of our Average cost per jail day since 2013:

2013- \$70.55 (68% increase)

2014- \$118.93 (17% decrease)

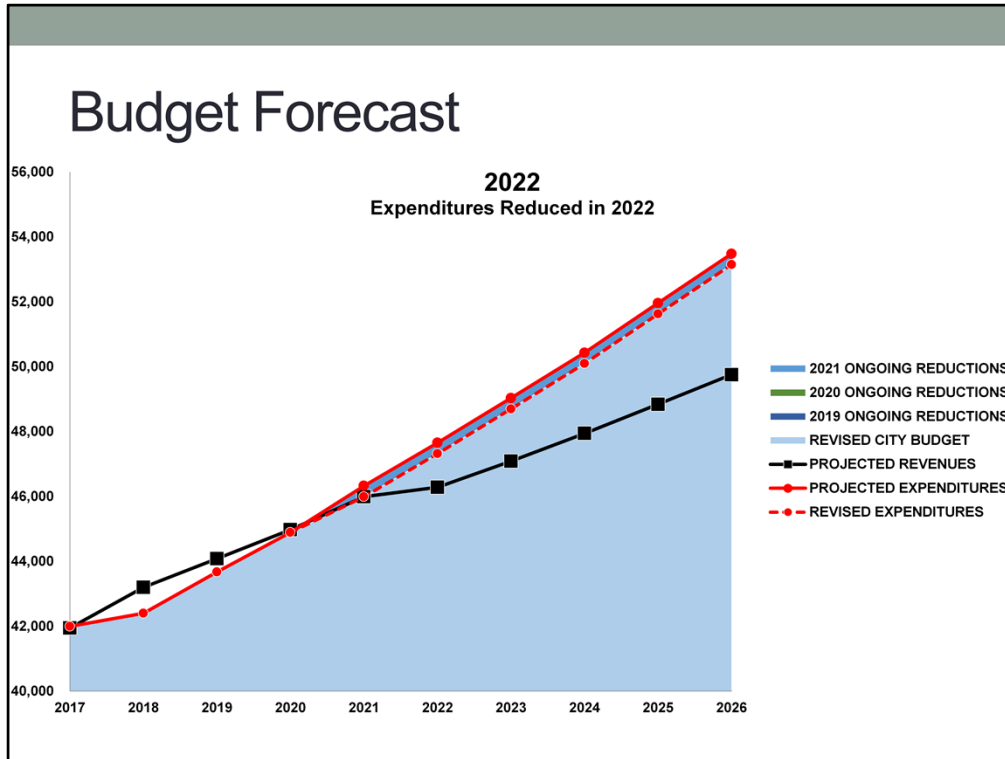
2015- \$99.19 (8% decrease)

2016- \$92.10 change from 2013-20016 (30% or an average of 7.5% per year)

You can see that the cost has fluctuated greatly in part influenced by where we can contract Jail beds from. The City has actively worked with jails throughout the state to identify the lowest cost options. In addition to the cost per jail day, the total cost is influenced by the number of jail days – something that is not within our control and fluctuates greatly based on the caseloads for the courts.

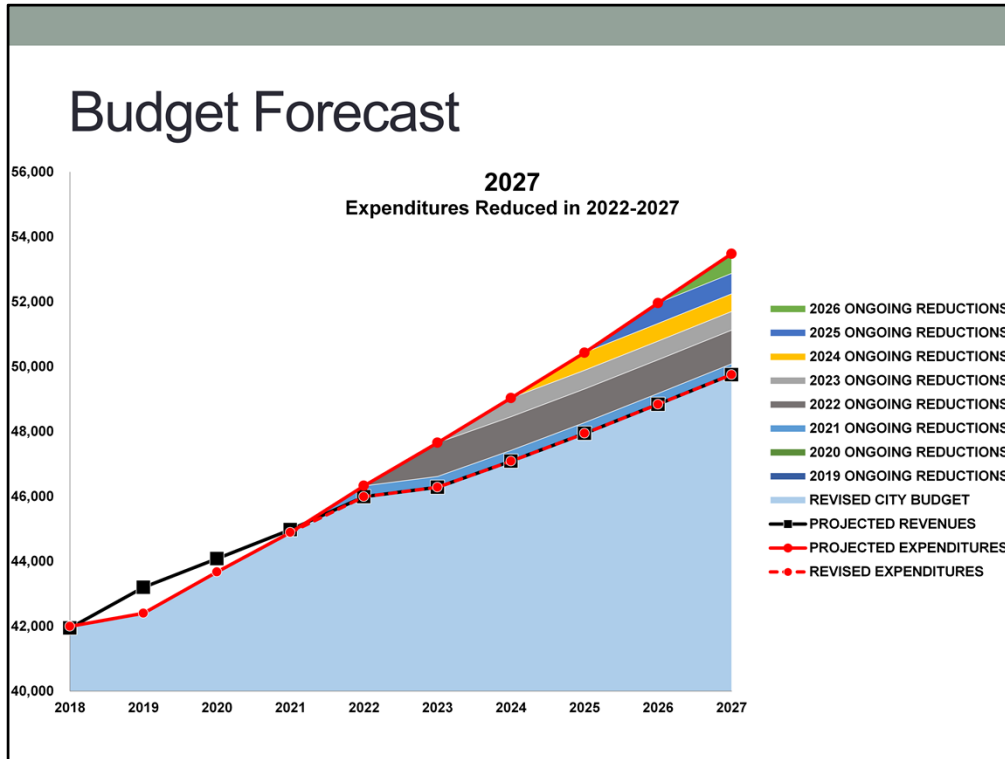
A more operational example is Janitorial Costs- When the City went out for Janitorial services for all of its facilities in 2016, the amount of budget available totaled \$228,398. The lowest bidder, prior to negotiation, had a proposal price of \$431,074.45 – an 88% increase. Facilities staff negotiated with two vendors and created a contract that used the lowest cost for various facilities and tasks, and by

reducing service level on staff facilities (City Hall staff restrooms, kitchens, garbage, vacuuming, etc) they were able to reduce the cost increase to \$55K which is still an increase of almost 25%.



The City however is required by law, to balance our budget. That means that we would never operate at a deficit. Therefore, there are only two options - reduce costs or increase revenues. Without new revenue our forecast anticipates that we will be forced to reduce costs, which results in a reduction in services, each year beginning in 2022.





The impact of the reductions is cumulative. Our forecast reflects the need for additional ongoing reductions being required each year continuing each year throughout the forecast.

## IMPLEMENTING FINANCIAL SUSTAINABILITY

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- Long range financial forecast
- Support ongoing costs with ongoing revenues
- Support one-time costs with one-time revenues
- Balance budget required by State law

As mentioned before- the City has long held Financial Sustainability – and the best practices to support that - to be a top priority. These best practices include:

- Long range financial forecast
- Support ongoing costs with ongoing revenues
- Support one-time costs with one-time revenues
- Balance budget required by State law

The next few slides will talk about the history of the City's sustainability efforts and how that brings us to our discussion!

# History of Financial Sustainability Efforts

- 2008: Citizen's Committee on Financial Sustainability
- 2010: Original Levy Lid Lift Vote
- 2014: Council Sub-Committee developed 10YFSP
- 2016: Financial Sustainability Citizen Advisory Committee
- 2016: Levy Lid Lift Renewal Vote



<http://www.shorelinewa.gov/government/departments/administrative-services/ten-year-financial-sustainability-project>

Recognizing the need for a long term strategy to address Financial Sustainability, Council formed a subcommittee and engaged the community to build on the work of the earlier Citizens committee and developed a 10 Year Financial Sustainability plan which was approved in 2014.

## 10 YFSP Development

Various strategies discussed by City Council Subcommittee

(<http://www.shorelinewa.gov/home/showdocument?id=16962>)

- Cost Containment Options
- Economic Development Strategies
- Cost Recovery
- Revenue Options Discussed
  - Property Tax
  - Sales Tax
  - Gas Tax
  - Utility Revenues
  - Gambling Tax
  - Business and Occupation (Gross Receipts) Tax
  - Additional Revenue Generating Business License Fee
  - Expansion of the \$20 Transportation Benefit District Fee

The committee considered several strategies including:

### Economic Development Strategies:

- Looked at the level of economic development activity that would be needed to close a hypothetical budget gap using single family, multi-family, retail, and non-retail commercial development approaches.
- At the time there were only 56 undeveloped acres available for single family residential development and no undeveloped land available for taxable commercial uses. As a result, virtually all future development in the City must come from redevelopment of already developed parcels.
- Conclusion: given the right market conditions, developer interest, City investment, etc., it may be possible to achieve an additional \$30 - \$50 million in multi-family activity (200-350 additional units above the average growth of 160 units per year).
- A strong economy and strategic Council action can work together to prompt growth that surpasses Shoreline's stabilized growth trajectory.

### Property Tax:

- Voter approval to renew levy lid lift
- Seek State legislation to change the current 1% limit on AV growth

#### Sales Tax:

- Seek State legislation to permit cities to retain the entire 1% of local sales tax
- Voter approved increase up to 0.2% for designated purposes
- Currently 0.15% of the local sales tax goes to King County.
  - The City would likely have to work with King County to find a substitute revenue source.
- Shoreline may combine with a group of cities with a population totaling at least 80,000 to form a public facilities district.
  - Such a district can operate recreational facilities and levy a sales tax of up to 0.2% for that purpose.
  - Voters in 2 or 3 cities would have to approve the district by majority vote.

#### Gas Tax:

- Seek State legislation to increase the gas tax at the pump while keeping the share back to the cities at the same percentage rate (or increased rate)
- The 2015 legislative session produced a transportation package that was adopted in 2<sup>nd</sup> ESSB 5987.
- Results in an increase in the motor vehicle fuel tax of 11.9¢ with two increases in August 2015 and July 2016.
- Revenues are shared with cities based upon a set allocation provided in the bill.
- As a reminder, fuel taxes in Washington are assessed as cents per gallon, so fuel tax revenue depends on the number of gallons sold, not the dollar value of the sales.

#### Utility Revenues:

- Council policy that taxes on electric, gas, steam, and telephone services are set at uniform rate
- City could ask voters to approve increases to some amount greater than 6%
- There are no restrictions on tax rates for water, sewer, and stormwater utilities
- A vote or referendum process may be required
- Tax on cable service cannot be “unduly discriminatory”

#### Gambling Tax:

- Council could take action to increase the gambling tax rate.
- Card games current rate is 10% of gross receipts > \$10,000
- Rate could be increased to 20%
- Only 3 of the 6 original card rooms are still operating in Shoreline

#### Cost Recovery:

- Staff could study areas where a greater portion of expenditures can be recovered through fees

Business & Occupation Tax:

- Tax on gross business receipts
- The maximum rate is 0.2% (can be set based on the class of business)
- Subject to referendum

Revenue Generating Business License Fee:

- Regulatory License Fee
- Most are based on employment
- Some are based on square footage

Expansion of the \$20 Transportation Benefit District Fee:

- Must be used for transportation related projects
- Council has authority to increase to \$50; voter approval required for greater increases

The committee recognized that there was no single strategy that could provide the long term financial sustainability they were seeking....

# 10 Year Financial Sustainability

## - The Plan

- ❑ *Strategy 1*: Economic Development
- ❑ *Strategy 2*: Reduce cost growth rate
- ❑ *Strategy 3*: Increase investment returns
- ❑ *Strategy 4*: Evaluate fees and cost recovery
- ❑ *Strategy 5*: Replace GF support of Roads Capital Fund
- ❑ *Strategy 6*: Possible implementation of a B&O Tax
- ❑ *Strategy 7*: Levy Lid Lift renewal

<http://www.shorelinewa.gov/government/departments/administrative-services/ten-year-financial-sustainability-project>

After much discussion and consideration the Committee recommended and the full council supported the adoption of 7 strategies to achieve long term Financial Sustainability.



## 10 YFSP Implementation

- ✓ *Strategy 1*: Economic Development
- ✓ *Strategy 2*: Reduce cost growth rate
- ✓ *Strategy 3*: Increase investment returns
- ✓ *Strategy 4*: Evaluate fees and cost recovery
- ☐ *Strategy 5*: Replace GF support of Roads Capital Fund
- ☐ **Strategy 6: Possible implementation of a B&O Tax**
- ✓ *Strategy 7*: Levy Lid Lift renewal

<http://www.shorelinewa.gov/government/departments/administrative-services/ten-year-financial-sustainability-project>

And since 2014, the City has been working to implement these strategies and achieve targets that were identified for each strategy. Thus far we have implemented 5 of the 7 strategies – all of which are ongoing strategies that will likely never be complete. Of the two remaining strategies, we are here tonight to discuss Strategy number 6. The target for this strategy was “to engage the business community in a discussion about the potential implementation of B&O tax”. As was mentioned in the opening comments, the results of this outreach will be provided to the City Manager who will ultimately make a recommendation to Council. Council will receive an update on the engagement efforts at the meeting on August 14.

## STRATEGY 6- OPTIONS TO CONSIDER

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- Expand Revenue-Generating Business License Fee Based on Square Footage and/or Employees
- Gross Receipts Tax  
Options for implementation

This brings us to the topic for tonight - engaging the business community in the discussion about the potential implementation of a Business & Occupation tax.

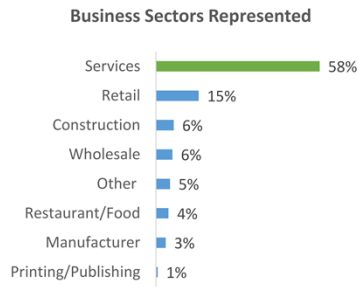
# BUSINESS OUTREACH SURVEY RESULTS

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BERK Consulting assisted the City in conducting a Survey of Businesses on this topic. The next few slides address the outcome of that survey.

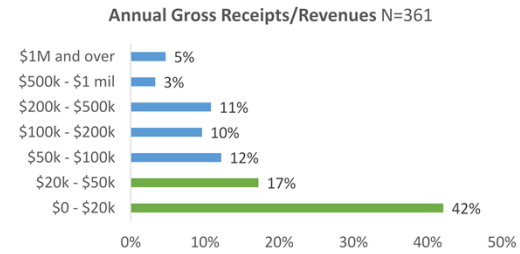
# Who did we hear from?

**75%** of respondents **Have a business located in Shoreline**

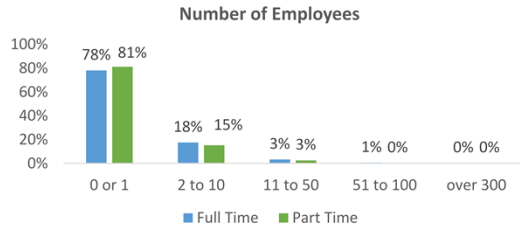


**80%** of respondents **Don't pay taxes to other cities**

**More than half** of respondents earn less than \$50,000 annually



**80% of respondents** have 0 to 1 full- or part-time employees



Source: BERK Consulting

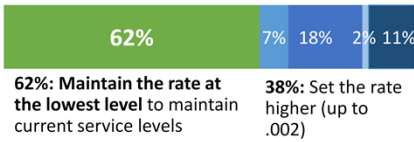
# What were their preferences?

The majority of respondents preferred the tax calculation be simple.

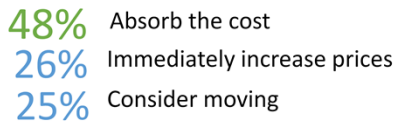
It is important to me that the tax calculation...



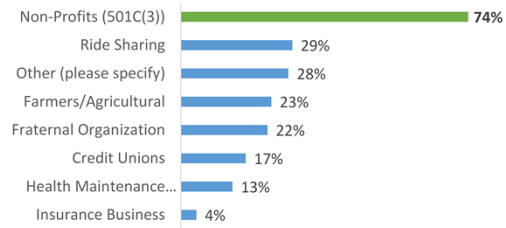
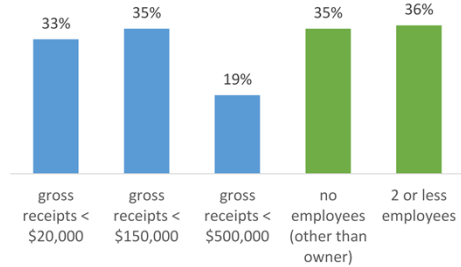
### Rate preferences



If the City were to impose a B&O tax rate of .001, my business would...



### Preferences for activities that should be exempt from taxation:



Source: BERK Consulting

## Which services provided by the City are most important to you as a business?



## FINANCIAL SUSTAINABILITY

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# Discussion

Shoreline B&O Tax

### **Business Outreach Workshops: Summary Notes**

#### **THE WORKSHOP STRUCTURE**

City of Shoreline held two public workshops on June 21 and 22, 2017 to engage Shoreline business owners in exploring a potential B&O tax. The workshops were held after the completion of an online survey that solicited feedback and input on the types of businesses in Shoreline and their preferences regarding a B&O tax structure (exemptions, tax rates, etc.). Businesses were notified via email.

The workshop began with a presentation by City staff and BERK Consulting to explain the City's budgeting issues, approach to long-term financial sustainability, and the results of the online survey. This provided business owners more information about why the City was exploring a B&O tax and how the tax fits into the City's larger plan for financial sustainability. Following the presentation, a general discussion was held for further dialogue between business owners and City staff.

#### **ATTENDANCE**

In total, the two workshops had nine attendees. There were four attendees at the evening workshop on June 21 who were all sole proprietors living and working in Shoreline. The morning workshop on June 22, had five attendees representing four companies with 100 to 150 employees. The represented companies included Carter Subaru, Club Hollywood Casino, Shoreline Health and Rehab, and Northwest Civil Engineers. Among this group, the representative from Northwest Civil Engineers was the only one who lived in Shoreline.



## **COMMENTS**

Among the sole proprietors, all wanted to be exempt from a B&O tax, as they felt they did not make enough money to justify the filing cost. They also thought a tax structure based on a square footage assessment would not be feasible, as many do not have a physical plant or office.

Representatives of the larger companies were concerned about how an additional tax would further impact their business's bottom line, especially considering the Affordable Care Act and minimum wage mandates have already increased costs.

Representatives voiced their concern about limited opportunities for their businesses to increase revenues, should they have to absorb the additional cost of a B&O tax.

The representatives of Shoreline Health and Rehab are dependent on Medicaid and Medicare reimbursement, which they felt was already insufficient. The representative of Club Hollywood Casino voiced similar concerns about limited opportunities for increased revenues. Both Carter Subaru and Northwest Civil Engineers already pay B&O taxes to other cities. The Carter Subaru representative had concerns if the tax calculation is based on gross receipts, which does not reflect profit margins.