

City of Mercer Island
**CITY'S FINANCIAL CHALLENGES:
OPERATING BUDGET**

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Presented to: Community Advisory Group

Date: January 6, 2018

City's Financial Challenges
Agenda

- **Part I: City Budget 101**
 - Problem statement
 - Key facts
 - City financial organization
 - General Fund 101
 - Youth & Family Services (YFS) Fund 101
- **Part II: HR Focus**
- **Part III: Financial Forecasts**
 - 2019-2024 Youth & Family Services Fund forecast
 - 2019-2024 General Fund forecast

Meeting Management

“Staying on the Bus”

- There are 24 CAG members with lots of energy, questions, ideas, and opinions
- Very few are familiar with local government finances
- Covey: “Seek first to understand, then to be understood”
- Our time together is very limited; we need to focus on the “driving” details
- CAG questions
 - During each presentation, please ask only clarifying questions
 - After each presentation, there will be dedicated Q&A time
 - If necessary, a sub-group can be formed to explore a question/issue in greater detail between Jan 6 and Feb 5

Problem Statement

Operating Budget

- Significant, ongoing deficits have taken root in the City’s operating budget in 2017
 - **General Fund:** Accounts for most of the City’s tax funded services
 - **YFS Fund:** Accounts for social services provided by YFS Department (a separate business unit)
 - 2017-2018 operating budget was balanced using one-time funding
 - 2017: \$695K
 - 2018: \$1.26M

Problem Statement

Operating Budget

- The deficits are not a surprise; they were projected back in 2014
 - Primary driver: revenue growth < expenditure growth due to 1% property tax growth limitation
- To maintain current service levels, a new, ongoing revenue source is needed
- Otherwise, very significant service level cuts will be required
- Note: Bellevue, Bothell, Kirkland, and Redmond are projecting operating deficits in 2019-2020

Key Facts

- \$64.7M total budget in 2018 (\$15.8M CIP)
- 208 employees in 2018 (includes 12 contract)
 - Among 6 full service Eastside cities:
 - MI has the lowest administrative staffing ratio
 - MI has the 2nd lowest total staffing ratio
- Clean audit opinion received for past 23 years
- Aaa credit rating from Moody's (highest rating)
 - Driven by high assessed property values, low property tax rate, and demographics (income & education)

Key Facts

- Lowest violent & property crime rates among full service Eastside cities
- Mar 2016 survey: 66% of residents believe City is doing a good or excellent job overall
- Useful taxpayer information
 - 2017 property tax levy breakdown by jurisdiction
 - 2017 property tax levy rate comparison
 - 2017 total City taxes vs. 4 monthly utility bills for a typical MI household

Key Facts

2017 Property Tax Levy (\$1.09M Home)

Jurisdiction	2017 Levy Rate Per \$1,000 AV	2017 Levy Amount	% of Total
MI School District	\$2.40629	\$2,616	29.6%
State School Fund	\$2.03205	\$2,209	25.0%
King County	\$1.38294	\$1,503	17.0%
City of MI	\$1.07739	\$1,171	13.2%
Library	\$0.45118	\$490	5.5%
EMS	\$0.26305	\$286	3.2%
Sound Transit	\$0.25000	\$272	3.1%
Port of Seattle	\$0.15334	\$167	1.9%
Flood Zone	\$0.11740	\$128	1.4%
Total	\$8.13364	\$8,841	100.0%

Key Facts

2017 Property Tax Levy Rate

King County Cities (>20K population)	2017 Levy Rate (City Portion Only)	King County Cities (>20K population)	2017 Levy Rate (City Portion Only)
1. Mercer Island	\$1.07739	10. Des Moines	\$1.51076
2. Issaquah	\$1.12329	11. Kenmore	\$1.53841
3. Maple Valley	\$1.12921	12. Shoreline	\$1.58415
4. Federal Way	\$1.13118	13. Renton	\$1.60954
5. Bellevue	\$1.14121	14. Bothell	\$1.89209
6. Kirkland	\$1.31279	15. Sammamish	\$1.92616
7. Redmond	\$1.35057	16. Auburn	\$2.19668
8. Burien	\$1.36228	17. Seattle	\$2.62327
9. Kent	\$1.41136	18. SeaTac	\$2.89429

What does this mean? Given the same AV, a Mercer Island homeowner will pay less property tax to the City than any other homeowner in King County will pay to his/her city.

Key Facts

Total City Taxes vs. 4 Monthly Utility Bills

\$1.09M Mercer Island Home & Family of 4

2017 Average Monthly Cost For:	Amount	Note
Puget Sound Energy (electricity & gas)*	\$220	3,200 sf home with A/C
Xfinity (cable TV, internet & digital voice)*	\$215	X1 Premier Triple Play (after promotion)
Verizon (cellular telephone)*	\$200	Beyond Unlimited, 4 lines, no device payment
City taxes	\$177	Only includes taxes remitted to City
City utilities (water, sewer, storm & EMS)*	\$160	Includes King Co. sewage treatment

* Excludes federal, state, and city taxes/fees.

City taxes fund the following:

- 24/7 police, fire & emergency medical services
- Street, roadside, median & sidewalk maintenance
- Park, path, trail & public building maintenance
- Recreation program support for youth & seniors
- School-based mental health counseling services
- Comprehensive planning & code enforcement
- Public meetings, public communication & records mgt

City utility charges fund the following:

- Water storage, distribution & maintenance
- Sewer collection, treatment & maintenance
- Storm & surface water management
- Utility infrastructure replacement
- Staffing capacity (i.e. 4 firefighters) to respond to simultaneous EMS calls

City Financial Organization

General Government vs. Utilities

- **General government**
 - Funded mostly by:
 - **Taxes:** Property, sales, utility, B&O, REET, and gas
 - **Fees:** Development, parks & recreation, EMS, cable franchise, and business license
- **Utilities**
 - Funded mostly by:
 - **Charges for service:** Water, sewer, and storm water rates

City Financial Organization

General Government

- **Operations & maintenance**
 - Police, fire, emergency medical services, park & trail maintenance, street & roadside maintenance, public building maintenance, recreation programs, youth & family services, development services, municipal court, and administrative services
- **Capital projects**
 - Streets; pedestrian/bicycle facilities; parks, recreation & open space; public buildings; and technology & equipment/fleet

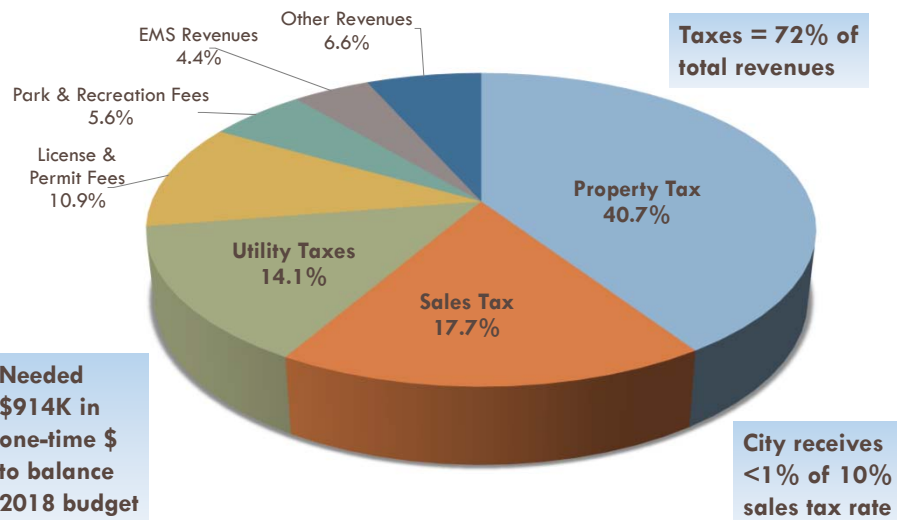
City Financial Organization

Utilities

- **Operations & maintenance**
 - Water storage, distribution & hydrants; sewer collection & treatment; and storm & surface water management
- **Capital projects**
 - Water, sewer, and storm water infrastructure replacement

General Fund 101

Revenues (2018 Budget = \$29.9M)



General Fund 101

MI vs. Eastside Cities (2017 Budget)

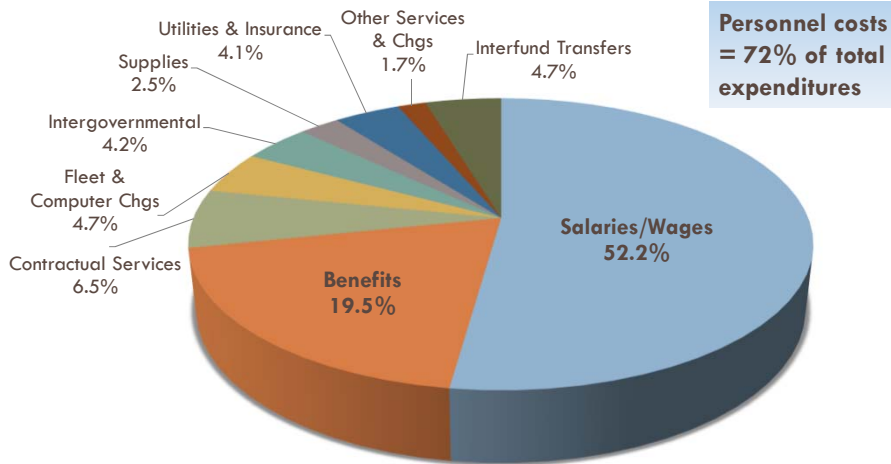
Taxes as a % of Total General Fund Revenues

City	Property Tax	Sales Tax	Utility Tax	Other Taxes	Total Taxes
Bellevue	18.5%	25.8%	12.0%	14.9%	71.2%
Issaquah	19.9%	26.4%	10.6%	11.4%	68.4%
Kirkland	19.9%	28.1%	15.9%	4.2%	68.1%
Redmond	22.5%	29.3%	13.3%	0.7%	65.8%
Bothell	25.2%	25.6%	18.0%	0.1%	68.9%
Mercer Island	40.1%	17.5%	14.1%	0.0%	71.7%

Note: Mercer Island is heavily dependent on property taxes, because it doesn't have a large commercial/retail sector like these other cities.

General Fund 101

Expenditures (2018 Budget = \$31.0M)



General Fund 101

2018 Budget by Department

Department	2018 Budget	% of Total
Police	\$7,040,341	22.7%
Fire/EMS	6,422,194	20.7%
Parks & Recreation	5,169,047	16.7%
Development Services	3,471,918	11.2%
Non-Departmental	3,334,364	10.8%
Public Works (ROW)	1,702,546	5.5%
City Manager's Office	1,055,275	3.4%
Finance	908,544	2.9%
City Attorney's Office	743,275	2.4%
Human Resources	609,219	2.0%
Municipal Court	494,611	1.6%
City Council	64,831	0.2%
Total	\$31,016,165	100.0%

General Fund 101

Non-Departmental by Cost Center

Cost Center	2018 Budget	% of Total
Interfund transfer to YFS Fund (\$400,000 ongoing + \$343,886 to balance 2018 YFS Fund budget)	\$743,886	22.3%
WCIA insurance premium (liability & property)	605,827	18.2%
General administrative costs (postage, office supplies, copier leases, miscellaneous professional services, and other costs)	528,692	15.9%
LEOFF I retiree (Police & Fire) healthcare costs	421,600	12.6%
Interfund transfer for technology & equipment CIP projects (includes \$40,000 for Community Center)	290,000	8.7%
Affordable housing payment to ARCH, regional membership dues & human services payments	249,503	7.5%
Interfund transfers for IT, debt service, and soil remediation work	218,285	6.5%
Interfund transfer to Water Fund (1.7% of 5.3% water utility tax rate) for fire hydrant maintenance	147,000	4.4%
Geographic Information Systems (GIS)	129,571	3.9%
Total	\$3,334,364	100.0%

General Fund 101

Employee Compensation

- Salaries & wages:
 - Per compensation policy, employees are paid at midpoint of the market, which consists of 10 cities:
 - Auburn, Bothell, Edmonds, Issaquah, Kirkland, Lynnwood, Redmond, Sammamish, SeaTac, and Shoreline
 - Police & Fire are subject to binding arbitration
- Healthcare benefits:
 - Lowest or 2nd lowest in the market for > 20 years
 - Medical insurance: 5.3% average annual increase in 2011-2017

General Fund 101

Key Observations

- Property, sales, and utility taxes = 72% of total revenues
- Personnel costs = 72% of total expenditures
- **To maintain current service levels on an ongoing basis, taxes need to grow at the same rate as personnel costs**

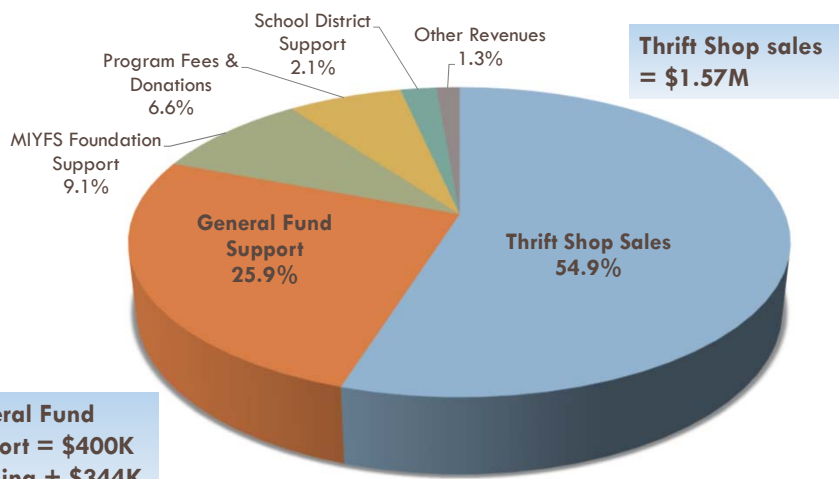
General Fund 101

Key Observations

- Personnel costs (especially healthcare benefits) grow faster than inflation
- Unlike the private sector, the City cannot spread personnel cost increases across the number of widgets sold or the number of clients served, with very few exceptions
- From a cost growth perspective, the City is very similar to a professional services firm whose costs are primarily tied to personnel

YFS Fund 101

Revenues (2018 Budget = \$2.87M)

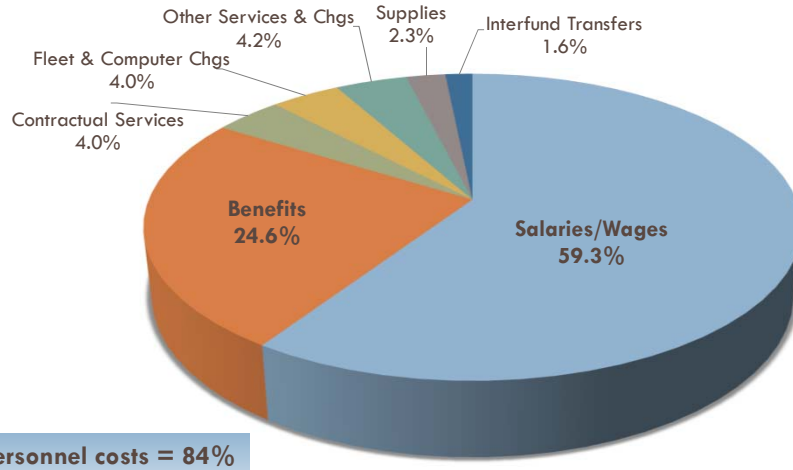


Thrift Shop sales = \$1.57M

General Fund support = \$400K ongoing + \$344K one-time

YFS Fund 101

Expenditures (2018 Budget = \$2.85M)



Personnel costs = 84% of total expenditures

YFS Fund 101

2018 Budget by Cost Center

Cost Center	2018 Budget	% of Total
Thrift Shop	715,374	25.1%
General Services/Administration	698,398	24.5%
School-Based Counseling	648,195	22.8%
Community-Based Counseling	250,931	8.8%
Youth Volunteer Programs (SVP & VOICE)	148,194	5.2%
Family/Emergency Assistance	113,934	4.0%
Senior Outreach	104,856	3.7%
Healthy Youth Initiative	70,089	2.5%
Jobline	51,945	1.8%
Capital Projects	45,000	1.6%
Total	\$2,846,916	100.0%

CAG Questions

Part I: City Budget 101



Part II: HR Focus

Understanding Compensation & Benefits

- Demographics by employee group
- How public sector pay is determined
 - Federal & state laws impacting pay & other factors that determine pay
- Washington State bargaining laws & their impact on compensation
- Examining the comparable market
- Cost controlling measures

Demographics by Employee Group

- 208 regular & contract employees
 - 49 AFSCME employees
 - Field workers & some administrative employees
 - 35 Police (MIPA) & support employees
 - 29 Fire (IAFF) employees
 - 95 Non-represented employees
 - Directors, managers, professional & administrative employees

How is Public Sector Pay Determined?

- Federal & state law
- Collective bargaining laws
- Long-standing Council policy
 - Pay at the midpoint of the “comparable market”
- Public sector standard practices

Federal & State Laws Affecting Pay

- Fair Labor Standards Act (FLSA)
 - Minimum Wage, Overtime
- Affordable Care Act (ACA)
 - Minimum coverage requirements
 - Instability in the market due to uncertainty
- Family Medical Leave Act (FMLA) & Washington Leave Act (WLA)
 - Costly, especially to those departments with 24/7 minimum staffing requirements (Fire & Police)

Federal & State Laws Affecting Pay

- Mandatory federal & state benefits
 - Social security & Medicare (FICA tax)
 - Workers' compensation
 - State pension benefits (rates set by State Actuary)
- Washington State minimum wage
 - Domino effect on wages
- Paid sick leave
 - Paid sick leave for seasonal & temporary employees
- Bargaining laws

Washington State Bargaining Laws

- Must bargain hours, wages & working conditions
- Public Employment Relations Commission (PERC)
 - Interest arbitration for Police & Fire
 - Settlement mediation for other bargaining groups
- Constraints
 - City cannot engage in “direct dealing” with union employees
 - City is unable to make unilateral decisions
 - Past practice considerations (bound to precedent)
 - Forecasted inability to pay is insufficient
- Consequences
 - Lost trust/poor relationship between labor groups & management
 - Unfair labor practice complaints

The “Comparable Market”

- Based on the following criteria:
 - Cost of living (King & South Snohomish County)
 - Population (20,000-100,000)
 - Sales tax per capita (\$200-\$1,000)
 - Number of employees (150-750)
 - Number of “like” job matches
- Comparable cities:
 - **First tier:** Auburn, Bothell, Edmonds, Issaquah, Kirkland, Lynnwood, and Redmond
 - **Second tier:** Sammamish, SeaTac, and Shoreline

How Do We Compare?

Snapshot of Salaries by Position (2017 Data)

City	Director (Average)	Recreation Coordinator	Planner	Police Officer	PW Team Member
Auburn	\$13,560	\$6,186	\$7,174	\$7,936	\$5,517
Bothell	\$12,844	\$6,159	\$6,809	\$8,460	\$5,585
Edmonds	\$13,513	\$6,002	\$7,341	\$8,009	\$5,591
Issaquah	\$14,228	\$6,066	\$7,728	NS	\$5,482
Kirkland	\$13,413	\$6,288	\$7,784	\$8,420	\$5,545
Lynnwood	\$13,238	\$5,414	\$6,781	\$7,822	\$5,396
Mercer Island	\$13,428	\$5,613	\$7,423	\$8,020	\$5,479
Redmond	\$14,050	\$6,054	\$7,768	\$8,080	\$5,646
Sammamish	\$13,479	\$5,122	\$7,120	N/A	\$5,920
SeaTac	\$12,731	\$5,364	\$7,359	N/A	\$5,636
Shoreline	\$13,095	\$5,229	\$7,208	N/A	\$5,518
Market Avg	\$13,415	\$5,788	\$7,307	\$8,121	\$5,584
MI vs Mkt Avg	0.0%	3.0%	1.6%	1.4%	2.1%

How Do We Compare?

Benefits Provided to Non-Reps (2018 Data)

City	Total Cost (Family of 4)	Employer's Cost	Employee's Cost	% Paid by Employee
Issaquah	\$2,686	\$2,465	\$221	8.2%
Lynnwood	\$2,462	\$2,462	\$0	0.0%
Auburn	\$2,459	\$2,313	\$146	5.9%
Bothell	\$2,405	\$2,267	\$138	5.7%
Sammamish	\$2,236	\$2,216	\$110	4.9%
Redmond	\$2,509	\$2,173	\$336	13.3%
Mercer Island	\$2,398	\$1,986	\$412	17.0%
SeaTac	\$2,175	\$1,979	\$196	9.0%
Kirkland (self-insured)	\$1,927	\$1,927	\$0	0.0%
Edmonds	\$2,098	\$1,888	\$210	10.0%
Shoreline	\$2,284	\$1,876	\$408	17.8%
Market Average	\$2,324	\$2,157	\$177	7.6%

How Do We Compare?

Paid Leave Information for Non-Reps

City	Annual Vacation Leave	Annual Sick Leave	# of Paid Holidays
Auburn	12 to 26 days max 384 hrs - eligible for cash out	12 days max 960 hrs - eligible for 100% cash out	12 days no cash out
Bothell	12 to 22 days max 354 hrs - eligible for cash out	12 days max 960 hrs - eligible for 20% cash out	12 days no cash out
Edmonds	12 to 27 days max 354 hrs - eligible for cash out	12 days max 1,000 hrs - eligible for 200 hr cash out	11 days no cash out
Issaquah	12 to 24 days max 436 hrs - eligible for cash out	12 days max 1,280 hrs - eligible for 50% cash out	11 days no cash out
Kirkland	12 to 24 days max 382 hrs - eligible for cash out	12 days max 960 hrs - eligible for 144 hr cash out	11 days no cash out
Lynnwood	12 to 22 days max 280 hrs - eligible for cash out	12 days max 960 hrs - eligible for 144 hr cash out	11 days no cash out
Mercer Island	12 to 21 days max 240 hrs - eligible for cash out	12 days max 720 hrs - no cash out	11 days no cash out
Redmond	12 to 23 days no max - eligible for cash out	12 days max 960 hrs - eligible for 50% cash out	12 days no cash out
Sammamish	12 to 22 days max 280 hrs - eligible for cash out	12 days max 960 hrs - eligible for 50% cash out	12 days no cash out
SeaTac	12 to 23 days max 448 hrs - eligible for cash out	12 days max 960 hrs - eligible for 50% cash out	11 days no cash out
Shoreline	12 to 24 days max 240 hrs - eligible for cash out	12 days max 960 hrs - eligible for 20% cash out	10 days no cash out

Ongoing, Cost-Controlling Measures

- Concessions when times are tough
- Maintain lean staffing models
- Vacant position review (internal review process)
 - Can the work be contracted out at a lower cost?
 - Can existing staff absorb the work?
 - Can the position be reclassified?
 - Can other efficiencies be created?
- Effective performance management system
 - Formal performance criteria that employees are accountable to successfully achieve

CAG Questions

Part II: HR Focus



Part III: Financial Forecasts

- Background information
- Youth & Family Services (YFS) Fund forecast
 - 2019-2024 projected deficits & primary drivers
 - 2019-2024 major revenues: % change
 - 2019-2024 major expenditures: % change
- General Fund forecast
 - 2019-2024 projected deficits & primary drivers
 - 2019-2024 major revenues: % change
 - 2019-2024 major expenditures: % change
- Total projected operating deficits (2019-2024)

Financial Forecasts

Background Information

- Both forecasts, which are included in section 2 of CAG binder, were updated on 8/15/17
- Both forecasts will be updated again, if necessary, for Apr 2 CAG meeting
 - Taking into account 2017 actuals & new information regarding development activity in 2018
- Looking at 2017:
 - General sales tax, development fees, and utility taxes will be significantly different from budget
 - However, total revenues will be within 1% of budget

Financial Forecasts

Background Information

- Best starting point for 2019-2024 forecast for YFS Fund & General Fund is 2018 budget
 - Because prior year anomalies are excluded
- Looking forward, revenue and expenditure adjustments were made to 2019 related to:
 - Projected decline in development activity
 - One-time funding needed to balance General Fund & YFS Fund in 2018
- Forecasted % changes in 2020-2024 will be explained relative to historical % changes in 2012-2016

YFS Fund

Projected Deficits & Primary Drivers

YFS Fund	2019	2020	2021	2022	2023	2024
Projected deficit	-\$300K	-\$359K	-\$422K	-\$490K	-\$562K	-\$639K
Increase in deficit	-\$53K*	-\$59K	-\$63K	-\$67K	-\$72K	-\$77K

* The underlying deficit in 2018 is \$247K, which is being bridged using one-time funding.

- School District reduced annual support for mental health school counselors from 42% of total cost to \$60K beginning in 2010.
- City reduced annual tax support from \$465K to \$320K in 2010-2013 and to \$200K in 2014 (increased to \$400K in 2015).
- Council added 4th elementary school counselor in Sep 2016.
- MIYFS Foundation increasing annual support from \$200K to 10% of YFS budget beginning in 2018 (\$279K).

YFS Fund

2019-2024 Forecast

2019-2024 Total Revenues vs. Total Expenditures: % Change

YFS Fund	2019	2020	2021	2022	2023	2024	Avg
Total revenues	-9.4%	3.0%	3.1%	3.1%	3.1%	3.2%	1.0%
Total expenditures	4.5%	4.7%	4.8%	4.8%	4.8%	4.9%	4.8%
Net expenditure growth	13.9%	1.7%	1.7%	1.7%	1.7%	1.7%	3.8%

2019 total revenues: Reflects elimination of \$344K one-time contribution from General Fund in 2018.

YFS Fund 2019-2024 Forecast

Major Revenues % Change: 2012-2016 Actual vs. 2020-2024 Forecast

Major Revenue	12-13	13-14	14-15	15-16	12-16 Avg	20-24 Avg*
Thrift Shop sales (55%)	4.1%	0.4%	5.1%	11.5%	5.3%	4.0%
General Fund support (24%)	0.0%	-37.5%	160.1%	-23.1%	24.9%	0.0%
MIYFS Foundation support (9%)	4.1%	0.0%	-5.5%	16.8%	3.9%	4.8%
Program fees & donations (7%)	0.0%	-4.5%	15.8%	-6.2%	1.3%	0.0%

* To simplify the comparison, 2019 was excluded from the forecasted average because of the elimination of the \$344K one-time contribution in 2018.

YFS Fund 2019-2024 Forecast

Major Expenditures % Change: 2012-2016 Actual vs. 2020-2024 Forecast

Major Expenditure	12-13	13-14	14-15	15-16	12-16 Avg	20-24 Avg*
Salaries & wages (58%)	1.3%	4.8%	4.9%	4.0%	3.8%	4.0%
Benefits (25%)	16.3%	7.9%	7.9%	9.6%	10.4%	7.5%
Contractual services (4%)	-5.5%	-1.0%	10.7%	5.3%	2.4%	3.0%
Fleet & IT charges (4%)	13.9%	-8.8%	22.3%	1.2%	7.2%	4.0%
Other services & charges (4%)	5.2%	11.6%	21.8%	-3.8%	8.7%	3.0%

* To maintain consistency with the major revenues comparison, 2019 was excluded from the forecasted average.

General Fund

Projected Deficits & Primary Drivers

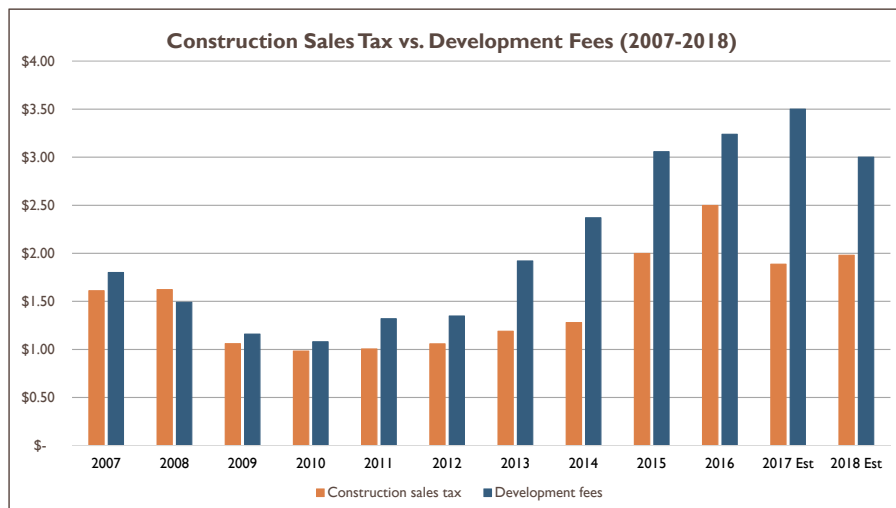
General Fund	2019	2020	2021	2022	2023	2024
Projected deficit	-\$1.69M	-\$2.55M	-\$3.48M	-\$4.48M	-\$5.55M	-\$6.71M
Increase in deficit	-\$772K*	-\$862K	-\$929K	-\$1.00M	-\$1.07M	-\$1.16M

* The underlying deficit in 2018 is \$914K, which is being bridged using one-time funding.

- Average annual expenditure growth (4.8%) is > average annual revenue growth (2.3%) in 2019-2024.
- 1% annual property tax growth limitation + 1% new construction growth on average = 2% effective annual growth cap.
- Development activity is projected to slow down in 2018-2019 after all-time highs in 2015-2017, which generated spikes in construction sales tax and development fees.

General Fund

Development-Related Revenues



General Fund 2019-2024 Forecast

Total Revenues vs. Total Expenditures: % Change

General Fund	2019	2020	2021	2022	2023	2024	Avg
Total revenues	0.8%	2.6%	2.6%	2.6%	2.6%	2.6%	2.3%
Total expenditures	2.7%	5.2%	5.2%	5.2%	5.2%	5.3%	4.8%
Net expenditure growth	1.8%	2.6%	2.6%	2.6%	2.6%	2.6%	2.5%

2019 total revenues: Reflects \$500K reduction in construction sales tax and development fees driven by a projected decline in development activity relative to an all-time high in 2016.

2019 total expenditures: Reflects reduction in DSG contract staff related to a projected decline in development activity and elimination of \$344K one-time contribution to the YFS Fund in 2018.

General Fund 2019-2024 Forecast

Major Revenues % Change: 2012-2016 Actual vs. 2020-2024 Forecast

Major Revenue	12-16 Avg	20-24 Avg*	Note
Property tax (40%)	2.6%	2.0%	Higher than normal "new construction" in 15-16 & used "banked capacity" in 15
Sales tax (18%)	14.7%	5.0%	High development activity level in 14-16
Utility tax (14%)	5.1%	1.0%	Instituted utility tax on City's water, sewer, and storm water utilities in 13-14
License & permit fees (11%)	19.9%	4.0%	High development activity level in 14-16; increased cost recovery targets in 14 & 16
Recreation/rental fees (6%)	2.7%	2.0%	Increased Community Ctr rental rates in 13
EMS revenues (4%)	4.2%	2.0%	Changed EMS utility rate structure in 13

* To simplify the comparison, 2019 was excluded from the forecasted average because of the projected decline in development activity.

General Fund 2019-2024 Forecast

Major Expenditures % Change: 2012-2016 Actual vs. 2020-2024 Forecast

Major Expenditure	12-16 Avg	20-24 Avg*	Note
Salaries & wages (52%)	4.4%	5.0%	Forecast driven by 3.0-3.5% COLA, step increases/PFP & market adjustments
Benefits (19%)	5.4%	7.5%	Forecast driven by ACA uncertainty, L&I rate increases & state retirement rate increases
Contractual services (7%)	8.1%	3.0%	Legal/consultant costs incurred in 13 for I-90 tolling & 16 for I-90 loss of mobility
Fleet & IT charges (5%)	4.7%	4.0%	Forecast driven by fuel & personnel costs
Interfund transfers (4%)	11.8%	0.8%	Ignore past; mostly fixed going forward
Intergovernmental (4%)	8.4%	5.0%	Forecast driven by police/fire dispatch costs

* To simplify the comparison, 2019 was excluded from the forecasted average because of the projected decline in development activity.

General Fund Key Question

- Given the underlying structural imbalance, how did the City balance the General Fund budget in 2013-2018?
 - 10 FTEs were cut in 2011-2012 budget
 - High level of development activity in 2013-2016
 - Increased cost recovery targets for development services in 2014 & 2016
 - Instituted 3.9% utility tax on City's water, sewer & storm water utilities in 2013 & increased tax rate to 5.3% in 2014

General Fund

Key Question

- How did the City balance the General Fund budget in 2013-2018? (cont'd)
 - 1.0% property tax increase in 2013-2017 + “new construction” additions (1.3% per year on average)
 - One-time funding used to balance budgets in 2013-2014, 2015-2016 & 2017-2018
 - 1.8% average annual inflation kept salary & wage growth low in 2013-2017
 - 3.5% average annual growth in medical insurance premiums in 2013-2017

Total Projected Operating Deficits

General Fund & YFS Fund

Operating Fund	2019	2020	2021	2022	2023	2024
General Fund deficit	-\$1.69M	-\$2.55M	-\$3.48M	-\$4.48M	-\$5.55M	-\$6.71M
YFS Fund deficit	-0.30M	-0.36M	-0.42M	-0.49M	-0.56M	-0.64M
Total projected deficit	-\$1.99M	-\$2.91M	-\$3.90M	-\$4.97M	-\$6.11M	-\$7.35M
Increase in total deficit	-\$0.83M	-\$0.92M	-\$0.99M	-\$1.07M	-\$1.15M	-\$1.23M

CAG Questions

Part III: Financial Forecasts



Feb 5 CAG Meeting

Agenda

- Other operating needs
- Operating budget balancing options
 - Service level cuts (ignoring other operating needs)
 - Service delivery changes
 - Leaving KCLS & having the City provide library services
 - Forming a Regional Fire Authority
 - New revenue source
 - Economic development
 - Utility taxes
 - Levy lid lift

Additional Information

- YFS Fund 2019-2024 forecast
 - Projected revenues % change
 - Projected expenditures % change
- General Fund 2019-2024 forecast
 - Projected revenues % change
 - All other revenues breakdown
 - Major revenues % change breakdown (2012-2016 actual)
 - Projected expenditures % change
 - Intergovernmental, interfund transfers, and all other expenditures breakdown
 - Major expenditures % change breakdown (2012-2016 actual)

YFS Fund 2019-2024 Forecast

2019-2024 Projected Revenues: % Change

Revenue	2019	2020	2021	2022	2023	2024	Avg
Thrift Shop sales (55%)	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
General Fund support (24%)	-46.2%	0.0%	0.0%	0.0%	0.0%	0.0%	-7.7%
MIYFS Foundation support (9%)	4.5%	4.7%	4.8%	4.8%	4.8%	4.9%	4.8%
Program fees & donations (7%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
All other revenues (5%)	-2.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.3%
Total revenues	-9.4%	3.0%	3.1%	3.1%	3.1%	3.2%	1.0%

2019 General Fund support: Reflects elimination of \$344K one-time contribution.

All other revenues: Includes MISD support for school counselors and grants.

YFS Fund 2019-2024 Forecast

2019-2024 Projected Expenditures: % Change

Expenditure	2019	2020	2021	2022	2023	2024	Avg
Salaries & wages (58%)	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Benefits (25%)	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Contractual services (4%)	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Fleet & IT charges (4%)	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Other services & charges (4%)	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Supplies (2%)	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
All other exp's (2%)	-6.1%	1.2%	1.2%	1.2%	1.2%	1.3%	0.0%
Total expenditures	4.5%	4.7%	4.8%	4.8%	4.8%	4.9%	4.8%

Salaries & wages: 3.0-3.5% COLA + 0.5-1.0% PFP.

All other expenditures: Includes Thrift Shop CIP funding, utilities, and intergovernmental.

General Fund 2019-2024 Forecast

2019-2024 Projected Revenues: % Change

Revenue	2019	2020	2021	2022	2023	2024	Avg
Property tax (40%)	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Sales tax (18%)	0.0%	5.0%	5.0%	5.0%	5.0%	5.0%	4.2%
Utility tax (14%)	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
License & permit fees (11%)	-4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	2.7%
Recreation/rental fees (6%)	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
EMS revenues (4%)	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
All other revenues (7%)	1.5%	1.6%	1.6%	1.6%	1.7%	1.7%	1.6%
Total revenues	0.8%	2.6%	2.6%	2.6%	2.6%	2.6%	2.3%

2019 sales tax: Reflects \$250K reduction in construction-related sales tax.

2019 license & permit fees: Reflects \$250K reduction in development fees.

General Fund 2019-2024 Forecast

- **All other revenues include:**
 - Utility & CIP overhead (\$742K in 2018)
 - Shared (intergovernmental) revenues (\$586K in 2018)
 - Court fines (\$415K in 2018)
 - General government (\$225K in 2018)
 - Investment interest (\$6K in 2018)

General Fund 2019-2024 Forecast

Major Revenues % Change: 2012-2016 Actual vs. 2020-2024 Forecast

Major Revenue	12-13	13-14	14-15	15-16	12-16 Avg	20-24 Avg*
Property tax (40%)	1.6%	2.8%	4.2%	1.8%	2.6%	2.0%
Sales tax (18%)	7.7%	7.4%	29.7%	14.0%	14.7%	5.0%
Utility tax (14%)	16.0%	3.9%	0.3%	0.1%	5.1%	1.0%
License & permit fees (11%)	35.5%	14.2%	24.4%	5.3%	19.9%	4.0%
Recreation/rental fees (6%)	11.0%	-2.2%	0.6%	1.3%	2.7%	2.0%
EMS revenues (4%)	8.8%	0.2%	4.8%	2.9%	4.2%	2.0%

* To simplify the comparison, 2019 was excluded from the forecasted average because of the projected decline in development activity.

General Fund 2019-2024 Forecast

2019-2024 Projected Expenditures: % Change

Expenditure	2019	2020	2021	2022	2023	2024	Avg
Salaries & wages (52%)	4.0%	5.0%	5.0%	5.0%	5.0%	5.0%	4.8%
Benefits (19%)	6.3%	7.5%	7.5%	7.5%	7.5%	7.5%	7.3%
Contractual services (7%)	0.4%	3.0%	3.0%	3.0%	3.0%	3.0%	2.6%
Fleet & IT charges (5%)	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Intergovernmental (4%)	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Interfund transfers (4%)	-30.3%	0.8%	0.8%	0.8%	0.9%	0.9%	-4.4%
All other exp's (8%)	4.5%	4.5%	4.6%	4.6%	4.6%	4.7%	4.6%
Total expenditures	2.7%	5.2%	5.2%	5.2%	5.2%	5.3%	4.8%

Salaries & wages: 3.0-3.5% COLA + step increases/PFP + market adjustments.

2019 salaries & benefits: Reflects reduction in DSG contract staff.

2019 interfund transfers: Reflects elimination of \$344K one-time contribution to YFS Fund.

General Fund 2019-2024 Forecast

■ **Intergovernmental** includes:

- Police & fire dispatch costs (\$837K in 2018)
- Affordable housing payment to ARCH (\$129K in 2018)
- Regional memberships & human services (\$121K in 2018)
- Jail costs (\$91K in 2018)
- Fire apparatus maintenance (\$54K in 2018)

General Fund 2019-2024 Forecast

- **Interfund transfers** include:
 - YFS Fund support (\$400K + \$344K in 2018)
 - Technology & equipment CIP (\$342K in 2018)
 - Fire hydrant maintenance (\$147K in 2018)
 - Debt service (\$95K in 2018)
- **All other expenditures** include:
 - Supplies (\$772K in 2018)
 - Utilities (\$630K in 2018)
 - Insurance (\$630K in 2018)
 - Other services & charges (\$535K in 2018)

General Fund 2019-2024 Forecast

Major Expenditures % Change: 2012-2016 Actual vs. 2020-2024 Forecast

Major Expenditure	12-13	13-14	14-15	15-16	12-16 Avg	20-24 Avg*
Salaries & wages (52%)	4.7%	5.3%	6.1%	1.7%	4.4%	5.0%
Benefits (19%)	3.4%	3.9%	9.4%	4.9%	5.4%	7.5%
Contractual services (7%)	13.7%	0.8%	0.4%	17.3%	8.1%	3.0%
Fleet & IT charges (5%)	4.9%	-4.6%	17.1%	1.4%	4.7%	4.0%
Interfund transfers (4%)	13.2%	55.5%	-20.3%	-1.4%	11.8%	0.8%
Intergovernmental (4%)	25.1%	-6.9%	-0.1%	15.4%	8.4%	5.0%

* To simplify the comparison, 2019 was excluded from the forecasted average because of the projected decline in development activity.