Financial Challenges Community Advisory Group (CAG)

- Sub Group Option-

1. Do not place an operational levy lift on the November 2018 ballot.

2. Immediately implement a cost containment program following the 2005-06 format or similar program as the city sees fit. (See #2 below)

3. Recast the 2019-2020 biennial budget to reflect the movement of funds such as the Beautification and Criminal justice funds to the general fund, REET funds that can legitimately be used for maintenance of capital projects and the final 2017 numbers to reflect more currently the 2019-2020 biennial position.

4. Send a recommendation to the City Council to create formal committees to study such long-term projects as, making the temporary 8% utility tax permanent, Fire Department merger and eliminating the Marine Patrol. Evaluate an additional REET 1 option of .5% for operating expenses, RCW82.46.010(3) Enlist the help of an economic development expert to provide guidance on increasing revenues.

5. Consider placing the levy on the November 2020 ballot if expenditures cannot be controlled to match revenues

Rationale:

1. Although the amount of the levy lift could be considered "peanuts", the CAG has a fiduciary responsibility to represent the whole community and even though we are a wealthy community, we have some less fortunate members as evidenced by the need for the social services that we provide through the YFS organization. This levy lift on top of the most recent 18% increase in property taxes could be devastating to this group of people, as well as to those who are "property rich" but on fixed incomes, as may be the situation for many of our seniors.

2. The cost containment program should be a program that first prioritizes the goals and then develops a bottom up budget that keeps costs in line with revenue increases. The front line city employees and directors are the most qualified to develop this budget. This should be implemented with a goal of minimizing the impact of reduced service levels. High priority goals/services should be maintained and lower priority service levels should be reduced first. You should examine the recent increase in FTE's (12.2% increase from 2011 to 2018 7 years, the previous 12 years 1999 to 2011 only had a 4.1% increase). In 2011 the resident satisfaction level was (70.5%) in 2016 the latest survey it was 66%.

3. In any $65 million dollar organization, entropy takes over and every so often, there needs to be a formal cost reduction program implemented. This was done in 2005-06 with a documented savings of over $1 million dollars. In addition, although there have been many instances of cost reduction, many of the examples that were presented in the videos were from the 2005-06 program. Before we ask our residents to pay more in property taxes we owe it to them to request the city implement a formal cost reduction program before raising taxes. We will be derelict in our duty if we do not request that this be the first step.

4. The city is asking us to make this request for a levy lift based on a six-year forecast. The conservative nature of the cities forecasts since 2001 have consistently raised the concern that expenses will out run revenue, but it has never been the case. As it turns out the revenue forecasts were understated and the expenditure forecasts were overstated as illustrated in **fig.1**. Over this six-year forecast, the accumulated ***deficit*** was forecast to be ($5 million) and in actuality, we had a $9 million ***surplus.*** Because forecasts have consistently understated revenues and overstated expenses, it is irresponsible, and without reasonable basis, to ask for a levy lid lift to address a problem that has been predicted in the past but which has never materialized.

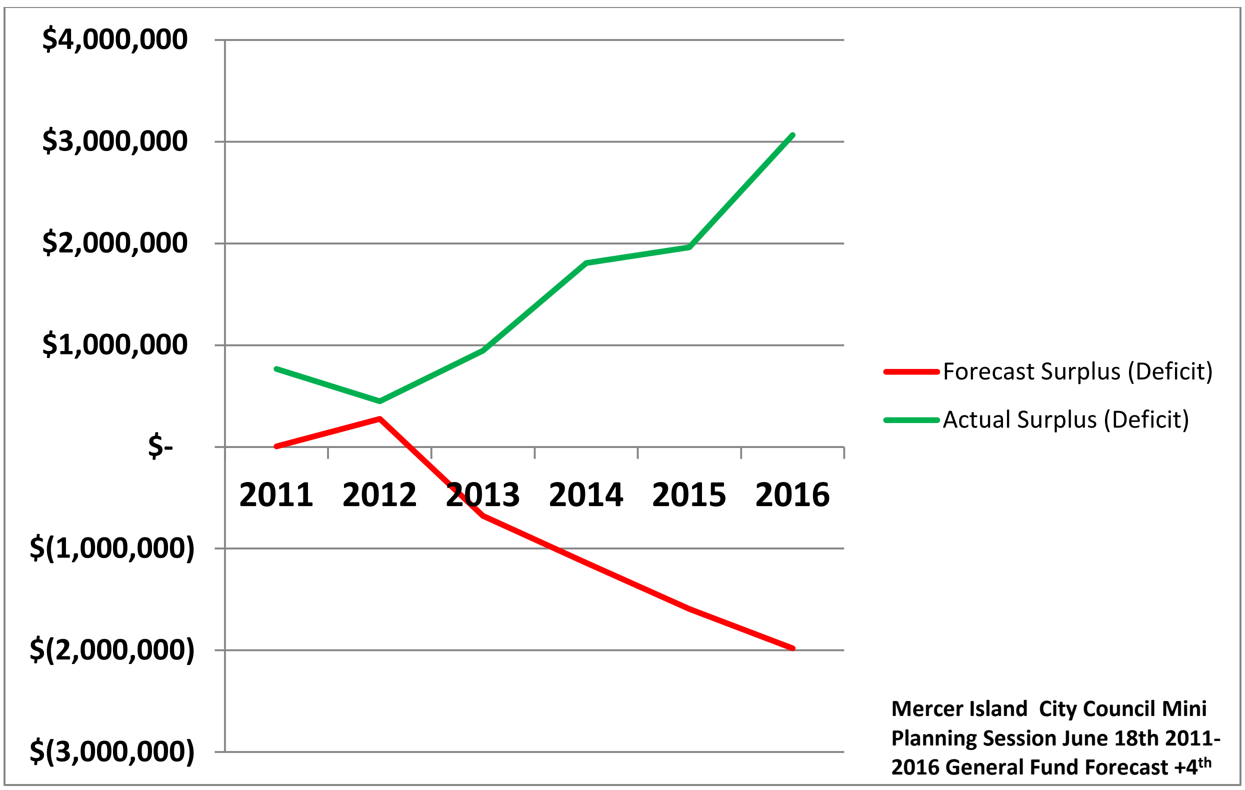

Fig. 1

5. Fund balances have increased significantly over time from $25 million in 2010 to over $40 million in 2016. Although there is a call on most of these funds, there is enough in discretionary balances to fund

the cities forecast deficits through the 2019-2020 biennial budgets. This is not a solution to the long-term problem but it is a pad until the efficiency measures are implemented . If the city is still unable to contain expenditures to match revenues then put the Levy lift on the November 2020 ballot. At that time, the city can demonstrate to the residents that the levy lift is needed, their forecast is accurate and they have implemented a cost reduction program. Hopefully that will not be the case and we will follow our historical pattern of balancing the budget.

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