

FISCAL SUSTAINABILITY

Council Retreat – February 3, 2018

Agenda

- ▣ **Structural Imbalance & the Fiscal Cliff**
- ▣ **Considerations**
- ▣ **Current Fund Forecasts**
- ▣ **Possible Approaches**
- ▣ **Adjusted Forecasts**
- ▣ **Other Possible Revenue Sources**
- ▣ **“Kitchen Sink” Forecasts**
- ▣ **General Fund Expenditure Reduction**
- ▣ **Reminders & Decision Points**

Structural Imbalance

▣ Key Factors:

- **On-going loss of at least \$7.7m annually due to the change from origin to destination-based sales tax (2008)**
- **Expense drivers continue to increase at a much faster pace than ongoing revenues**
- **No specific mechanisms in place to compensate for lost revenues and increased costs (out of alignment with strategic goal of Sustainable Funding)**

The Fiscal Cliff

- ▣ **Known on-going reduction/elimination of current revenue sources:**
 - ▣ **SST Mitigation from State Budget ends October 2019**
 - ≈ \$1.25m (2019)
 - ≈ \$5.0m (2020)
 - ▣ **Annexation Sales Tax Credit ends June 2020**
 - ≈ \$2.3m (2020)
 - ≈ \$4.7m (2021)

Considerations

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- ▣ A three-legged-stool approach to addressing the Fiscal Cliff is necessary
 - **Increase Revenues**
 - Reduce Expenditures
 - **Re-allocate Revenues and/or Expenditures between Funds**
- ▣ Requires a Combination – there is no one solution

Current Fund Forecasts

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General Fund Eight-Year Forecast - Status Quo FY 2019 - 2026

(in thousands)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Est Act	Adjusted	Eight-Year Forecast							
BEGINNING FUND BALANCE	19,705	18,674	17,430	16,970	14,430	5,410	(4,770)	(16,260)	(29,110)	(43,360)
Total Revenues	100,302	102,677	106,910	103,940	98,510	99,660	100,750	101,850	102,990	104,130
Total Expenditures	101,333	103,923	107,370	106,480	107,530	109,840	112,240	114,700	117,240	119,850
Change In Fund Balance	(1,031)	(1,246)	(460)	(2,540)	(9,020)	(10,180)	(11,490)	(12,850)	(14,250)	(15,720)
ENDING FUND BALANCE	18,674	17,428	16,970	14,430	5,410	(4,770)	(16,260)	(29,110)	(43,360)	(59,080)
	18.4%	16.8%	15.8%	13.6%	5.0%	N/A	N/A	N/A	N/A	N/A

- Does not include any new full-time, part-time, or limited-term positions
- Fund Balance Policy requires a minimum ending fund balance of 18% of budgeted expenditures

Current Fund Forecasts

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Capital Resources Fund Eight-Year Forecast - Available for General Capital - Status Quo FY 2019 - 2026

(in thousands)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Est Act	Adjusted	Eight-Year Forecast							
BEGINNING FUND BALANCE	8,227	11,557	4,430	1,500						
Total Revenues	16,163	14,957	11,500	8,890	8,990	9,090	9,200	9,310	9,420	9,530
Total Debt Service	9,533	9,706	7,450	5,910	4,180	3,740	3,670	3,750	5,370	3,880
Total Available for Capital	3,300	12,377	6,980	2,980	4,810	5,350	5,530	5,560	4,050	5,650
Change In Fund Balance	3,330	(7,126)	(2,930)	-	-	-	-	-	-	-
ENDING FUND BALANCE	11,557	4,431	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500

- Fund Balance Policy requires a minimum ending fund balance of \$1.5m

Current Fund Forecasts

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Street Fund Eight-Year Forecast - Status Quo FY 2019 - 2026

(in thousands)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Est	Act								
	Eight-Year Forecast									
BEGINNING FUND BALANCE	2,394	3,241	2,040	1,460	1,086	926	572	591	679	1,501
Total Revenues	8,972	8,410	8,410	8,890	9,390	9,600	9,810	10,030	10,251	10,472
Total Transfers In	2,394	3,074	2,710	2,460	2,210	2,250	2,300	2,350	2,400	2,450
Total Expenditures	10,519	12,687	11,700	11,723	11,760	12,203	12,091	12,292	11,828	11,389
Change In Fund Balance	847	(1,204)	(580)	(373)	(160)	(354)	19	87	822	1,533
ENDING FUND BALANCE	3,241	2,037	1,460	1,086	926	572	591	679	1,501	3,034
	30.8%	16.1%	12.5%	9.3%	7.9%	4.7%	4.9%	5.5%	12.7%	26.6%

Criminal Justice Fund Eight-Year Forecast - Status Quo FY 2019 - 2026

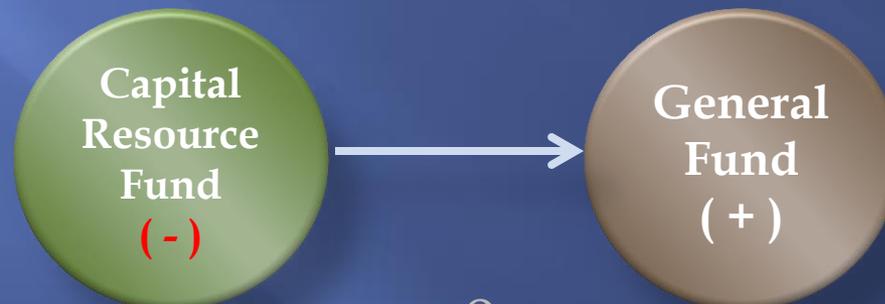
(in thousands)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Est	Act								
	Eight-Year Forecast									
BEGINNING FUND BALANCE	5,413	6,266	5,980	5,620	5,310	5,090	4,830	4,540	4,200	3,840
Total Revenues	3,115	2,662	2,710	3,140	3,590	3,660	3,730	3,800	3,880	3,950
Total Expenditures	2,262	2,948	3,070	3,450	3,810	3,920	4,020	4,140	4,240	4,370
Change In Fund Balance	853	(285)	(360)	(310)	(220)	(260)	(290)	(340)	(360)	(420)
ENDING FUND BALANCE	6,266	5,981	5,620	5,310	5,090	4,830	4,540	4,200	3,840	3,420
	277.0%	202.9%	183.1%	153.9%	133.6%	123.2%	112.9%	101.4%	90.6%	78.3%

* Criminal Justice Fund does not include the upcoming vote on a 2% Utility Tax Increase

* Both Street & Criminal Justice Fund require an ending balance of 16% of budgeted expenditures per City Policy

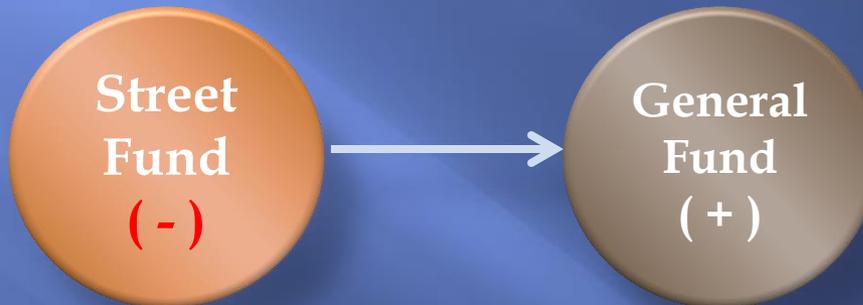
Possible Approaches

- ▣ Shift sales tax from capital as debt service is paid maintaining ~\$2.5m in CRF
- ▣ **Continue 2% internal utility tax - \$1.45m annually (Anticipate debt paid in 2018)**
 - ▣ **Requires Council action**
- ▣ Reduce or eliminate CRF allocation to IT/Street capital (4% internal utility tax) as needed to maintain operations

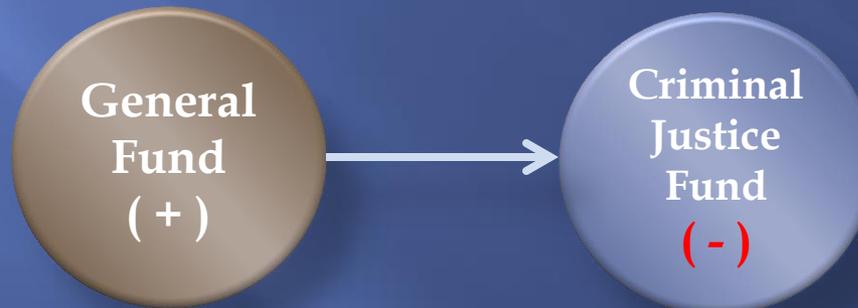


Possible Approaches

- ▣ Reduce GF subsidy of Streets Fund as debt is reduced (maintaining required fund balance)



- ▣ Move eligible costs to Criminal Justice Fund
 - ▣ ~\$300k per year beginning in 2020



Adjusted Fund Forecasts

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General Fund Eight-Year Forecast - Adjusted FY 2019 - 2026

(in thousands)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Est	Act Adjusted	Eight-Year Forecast							
BEGINNING FUND BALANCE	19,705	18,674	17,430	19,260	19,140	16,130	12,010	7,070	810	(7,480)
Total Revenues	100,302	102,677	108,360	106,440	101,820	103,250	104,340	105,440	105,110	107,720
Total Expenditures	101,333	103,923	106,530	106,560	104,830	107,370	109,280	111,700	113,400	115,290
Change In Fund Balance	(1,031)	(1,246)	1,830	(120)	(3,010)	(4,120)	(4,940)	(6,260)	(8,290)	(7,570)
ENDING FUND BALANCE	18,674	17,428	19,260	19,140	16,130	12,010	7,070	810	(7,480)	(15,050)
	18.4%	16.8%	18.1%	18.0%	15.4%	11.2%	6.5%	0.7%	N/A	N/A

Adjusted scenarios include all items mentioned in slides 9 & 10 as follows:

- 2% Internal Utility Tax beginning in 2019
- Sales Tax (less \$2.5m) to GF beginning in 2020
- Eliminates 4% Internal Utility Tax to CRF in 2021
- Moves eligible costs to Criminal Justice Fund beginning in 2020
- Reduction of Street Fund subsidy beginning in 2021

Adjusted Fund Forecasts

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Capital Resources Fund Eight-Year Forecast - Adjusted FY 2019 - 2026

(in thousands)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Est Act	Adjusted	Eight-Year Forecast							
BEGINNING FUND BALANCE	8,227	11,557	4,430	2,970	1,500	1,500	1,500	1,500	1,500	1,500
Total Revenues	16,163	14,957	10,250	7,840	4,480	4,200	4,200	4,200	5,670	4,200
Total Debt Service	9,533	9,706	7,450	5,910	4,180	3,740	3,670	3,750	5,370	3,880
Total Available for Capital	3,300	12,377	4,260	3,400	300	460	530	450	300	320
Change In Fund Balance	3,330	(7,126)	(1,460)	(1,470)	-	-	-	-	-	-
ENDING FUND BALANCE	11,557	4,431	2,970	1,500						

- Total Available for Capital includes \$300k annually for ShoWare Lifecycle maintenance

Adjusted Fund Forecasts

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Street Fund Eight-Year Forecast - Adjusted FY 2019 - 2026

(in thousands)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Est Act	Adjusted								
BEGINNING FUND BALANCE	2,394	3,241	2,040	1,870	1,880	1,880	1,950	1,930	1,960	1,890
Total Revenues	8,799	8,243	8,410	8,890	9,390	9,600	9,810	10,030	10,250	10,470
Total Transfers In	2,567	3,241	3,120	2,840	2,370	2,660	2,240	2,260	1,480	830
Total Expenditures	10,519	12,687	11,700	11,720	11,760	12,190	12,070	12,260	11,800	11,370
Change In Fund Balance	847	(1,204)	(170)	10	-	70	(20)	30	(70)	(70)
ENDING FUND BALANCE	3,241	2,037	1,870	1,880	1,880	1,950	1,930	1,960	1,890	1,820
	31%	16%	16%	16%	16%	16%	16%	16%	16%	16%

Criminal Justice Fund Eight-Year Forecast - Adjusted FY 2019 - 2026

(in thousands)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Est Act	Adjusted								
BEGINNING FUND BALANCE	5,413	6,325	6,040	5,680	5,090	4,580	4,030	3,430	2,780	2,100
Total Revenues	3,115	2,662	2,710	3,140	3,590	3,660	3,730	3,800	3,880	3,950
Total Expenditures	2,203	2,948	3,070	3,730	4,100	4,210	4,330	4,450	4,560	4,690
Change In Fund Balance	912	(285)	(360)	(590)	(510)	(550)	(600)	(650)	(680)	(740)
ENDING FUND BALANCE	6,325	6,040	5,680	5,090	4,580	4,030	3,430	2,780	2,100	1,360
	287%	205%	185%	136%	112%	96%	79%	62%	46%	29%

* Criminal Justice Fund does not include the upcoming vote on a 2% Utility Tax Increase

* Both Street & Criminal Justice Fund require an ending balance of 16% of budgeted expenditures per City Policy

Other Revenue Sources

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▣ B&O Taxes

▣ Eliminate B&O Tax Restrictions

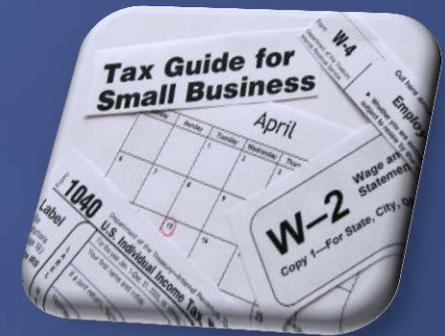
▣ B&O Tax Rate Increase

▣ Currently we are at

- ▣ 23% of our maximum allowable rate in **Manufacturing & Retail**

- ▣ 76% of our maximum allowable rate in **Services & Wholesaling**

- ▣ If we increased rates to the maximum allowed, we would see an estimated \$8.7m increase annually



Other Revenue Sources

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▣ New Revenue Sources

- **Transportation Benefit District**
 - ▣ Car Tabs - Councilmanic
 - **\$20 car tab (estimated new revenues ~\$1.66m)**
 - ▣ Sales Tax Increase (requires vote)
 - **Up to 0.2% increase (estimated new revenues ~\$5m)**
- **Levy Lid Lift (Simple majority vote by residents)**
- **Franchise Fees for Utility Districts**
 - ▣ Water District #111
 - ▣ Highline Water District (Negotiations not complete)
 - ▣ Midway Sewer District (Negotiations not complete)
 - ▣ Soos Creek Water & Sewer District (Negotiations not commenced)
- **Tax on sweetened beverages**
 - ▣ Excise tax on distribution of sweetened beverages (not a sales tax)

Other Revenue Sources

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▣ New Revenue Sources (cont.)

■ **Marijuana ~\$390k annual revenues**

- ▣ Sales Tax ~\$330k annually
- ▣ B&O Tax ~\$15k for 3 stores
- ▣ Excise Tax ~\$45k - \$0.35 per capita for 2018 (per MRSC.org State Shared Revenue Estimator)
 - ▣ Auburn (\$27k), Renton (\$36k), Bellevue (\$49k), Covington (\$7k) for 2018

■ **Cardrooms ~\$100k annually (50% of Great American Casino)**

- ▣ Washington cities may tax up to 20% of cardroom gross receipts, but most tax between 9% & 11%
- ▣ The industry entered a downward spiral in 2006 as the state's new smoking ban went into effect, a change that doesn't apply to tribal casinos

“Kitchen Sink” Forecasts

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General Fund Eight-Year Forecast - Kitchen Sink FY 2019 - 2026

(in thousands)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Est	Adjusted	Eight-Year Forecast							
BEGINNING FUND BALANCE	19,705	18,674	17,620	19,230	19,350	18,590	18,170	16,460	13,490	8,200
Total Revenues	100,302	102,871	109,410	106,610	103,030	104,650	105,830	106,960	106,650	109,290
Total Expenditures	101,333	103,923	107,800	106,490	103,790	105,070	107,540	109,930	111,940	114,480
Change In Fund Balance	(1,031)	(1,052)	1,610	120	(760)	(420)	(1,710)	(2,970)	(5,290)	(5,190)
ENDING FUND BALANCE	18,674	17,621	19,230	19,350	18,590	18,170	16,460	13,490	8,200	3,010
	18.4%	17.0%	17.8%	18.2%	17.9%	17.3%	15.3%	12.3%	7.3%	2.6%

Includes all items previously added plus the following:

- \$20 Car Tabs (Reduces GF expenditures starting in 2021)
- Marijuana annual revenues
- Cardroom annual revenues
- Market Place Fairness revenues (DOR Estimates)

“Kitchen Sink” Forecasts

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Capital Resources Fund Eight-Year Forecast - Kitchen Sink FY 2019 - 2026

(in thousands)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Est Act	Adjusted	Eight-Year Forecast							
BEGINNING FUND BALANCE	8,227	11,557	4,430	2,970	1,500	1,500	1,500	1,500	1,500	1,500
Total Revenues	16,163	14,957	11,500	8,890	5,900	4,200	4,200	4,200	5,670	4,200
Total Debt Service	9,533	9,706	7,450	5,910	4,180	3,740	3,670	3,750	5,370	3,880
Total Available for Capital	3,300	12,377	5,510	4,450	1,720	460	530	450	300	320
Change In Fund Balance	3,330	(7,126)	(1,460)	(1,470)	-	-	-	-	-	-
ENDING FUND BALANCE	11,557	4,431	2,970	1,500						

“Kitchen Sink” Forecasts

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Street Fund Eight-Year Forecast - Kitchen Sink FY 2019 - 2026

(in thousands)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Est	Adjusted								
BEGINNING FUND BALANCE	2,394	3,241	2,040	1,870	3,160	2,480	1,950	1,930	1,960	2,230
Total Revenues	8,799	8,243	8,410	10,550	11,080	11,320	11,560	11,810	12,070	12,330
Total Transfers In	2,567	3,241	3,120	2,460	-	340	490	480	-	-
Total Expenditures	10,519	12,687	11,700	11,720	11,760	12,190	12,070	12,260	11,800	11,370
Change In Fund Balance	847	(1,204)	(170)	1,290	(680)	(530)	(20)	30	270	960
ENDING FUND BALANCE	3,241	2,037	1,870	3,160	2,480	1,950	1,930	1,960	2,230	3,190
	31%	16%	16%	27%	21%	16%	16%	16%	19%	28%

Criminal Justice Fund Eight-Year Forecast - Kitchen Sink FY 2019 - 2026

(in thousands)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Est	Adjusted								
BEGINNING FUND BALANCE	5,413	6,266	5,980	5,660	5,110	4,640	4,130	3,570	2,960	2,320
Total Revenues	3,115	2,662	2,750	3,180	3,630	3,700	3,770	3,840	3,920	3,990
Total Expenditures	2,262	2,948	3,070	3,730	4,100	4,210	4,330	4,450	4,560	4,690
Change In Fund Balance	853	(285)	(320)	(550)	(470)	(510)	(560)	(610)	(640)	(700)
ENDING FUND BALANCE	6,266	5,981	5,660	5,110	4,640	4,130	3,570	2,960	2,320	1,620
	277%	203%	184%	137%	113%	98%	82%	67%	51%	35%

* Criminal Justice Fund does not include the upcoming vote on a 2% Utility Tax Increase

* Both Street & Criminal Justice Fund require an ending balance of 16% of budgeted expenditures per City Policy

THEORETICAL IMPACT ON EXPENDITURES

General Fund Expenditures not tied to Public Safety

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Department	FTE	Department Total Expenditures	% of Total GF Expenditures
Mayor's Office/City Clerk	11.8	2,874,430	3.4%
Economic & Community Dev *	42.8	6,634,790	7.9%
Finance	20.4	2,376,730	2.8%
Human Resources	13.6	2,108,610	2.5%
Law (Civil)	6.0	1,388,360	1.7%
Parks, Recreation & Comm Svcs *	78.7	17,108,710	20.4%
Total	173.2	32,491,630	38.7%

Note: The average FTE in the GF is \$120k

* Cuts could have a possible corollary effect on revenues

Theoretical Impact on Expenditures

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General Fund Eight-Year Forecast - Adjusted FY 2019 - 2026

(in thousands)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Est Act	Adjusted	Eight-Year Forecast							
FTE Reduction per Year					(7)	(13)	(7)	(8)	(11)	
BEGINNING FUND BALANCE	19,705	18,674	17,430	19,260	19,140	18,440	18,460	18,740	18,990	19,010
Total Revenues	100,302	102,677	108,360	106,440	101,820	103,250	104,340	105,440	105,110	107,080
Total Expenditures	101,333	103,923	106,530	106,560	102,520	103,230	104,060	105,190	105,090	106,760
Change In Fund Balance	(1,031)	(1,246)	1,830	(120)	(700)	20	280	250	20	320
ENDING FUND BALANCE	18,674	17,428	19,260	19,140	18,440	18,460	18,740	18,990	19,010	19,330
	18%	17%	18%	18%	18%	18%	18%	18%	18%	18%

Starting in 2021, Reduce:

- Positions
- Supplies by 10%
- \$1m in Services

Reminders

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- ▣ All scenarios presented:
 - **Do not include new expenditures or positions**
 - Do not account for the upcoming vote by residents on a 2% Utility Tax increase for Public Safety
 - **Assume consistent revenue growth**
 - Assume no significant changes to property tax constraints (1% limit)

Path Forward

Council Retreat
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- ▣ **Council Preference for:**
 - **Increased Revenues**
 - **Reduced Expenditures**
 - **Re-allocated Revenues and/or Expenditures between Funds**