

Fiscal Cliff & Financial Sustainability

Council Workshop June 20, 2017

Special Recognition to:

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Agenda

- Introduction
- Fiscal Cliff & Structural Imbalance
- Forecasts – Without Additional Revenues
- Not Just a General Fund Issue
- Potential Mitigations
- Forecast – With Additional Revenues
- Other Considerations
- Next Steps

Introduction

- Began talking about the fiscal cliff in 2015
- More than just a revenue issue
- Tough issue to talk about
- Information provided is jaw-dropping
- Need to incorporate fiscal cliff / structural imbalance as part of decision making

Fiscal Cliff

- Known and potential reduction/elimination of current revenue sources:
 - Annexation Sales Tax Credit ends 6/2020 \approx \$4.7m
 - At Risk in State Budget:
 - LEOFF2 Retirement Contribution \approx \$560k (2017)
 - Fire Insurance Premium Tax \approx \$225k (2017)
 - SST Mitigation \approx \$5m (2021)

Structural Imbalance

- Key Factors:
 - Ongoing loss of \approx \$7.7 m annually due to change from origin to destination based sales tax (2008)
 - Ongoing costs continuing 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 for Sustainable Funding)
- Estimated baseline adjustments to the General Fund 2018 adopted budget \approx \$2m

General Fund

2018 Budget Adjustments

2018 Adopted (Gap) / Surplus	4,040
Estimated Baseline Adjustments	(1,979,840)
Adjusted Baseline (Gap) / Surplus	(1,975,800)

Potential Impacts

LEOFF2 State Paid Retirement Contributions	(560,000)
Fire Insurance Premium Tax	(225,000)
Subtotal Potential Impacts	(785,000)

Adjusted (Gap) / Surplus	(2,760,800)
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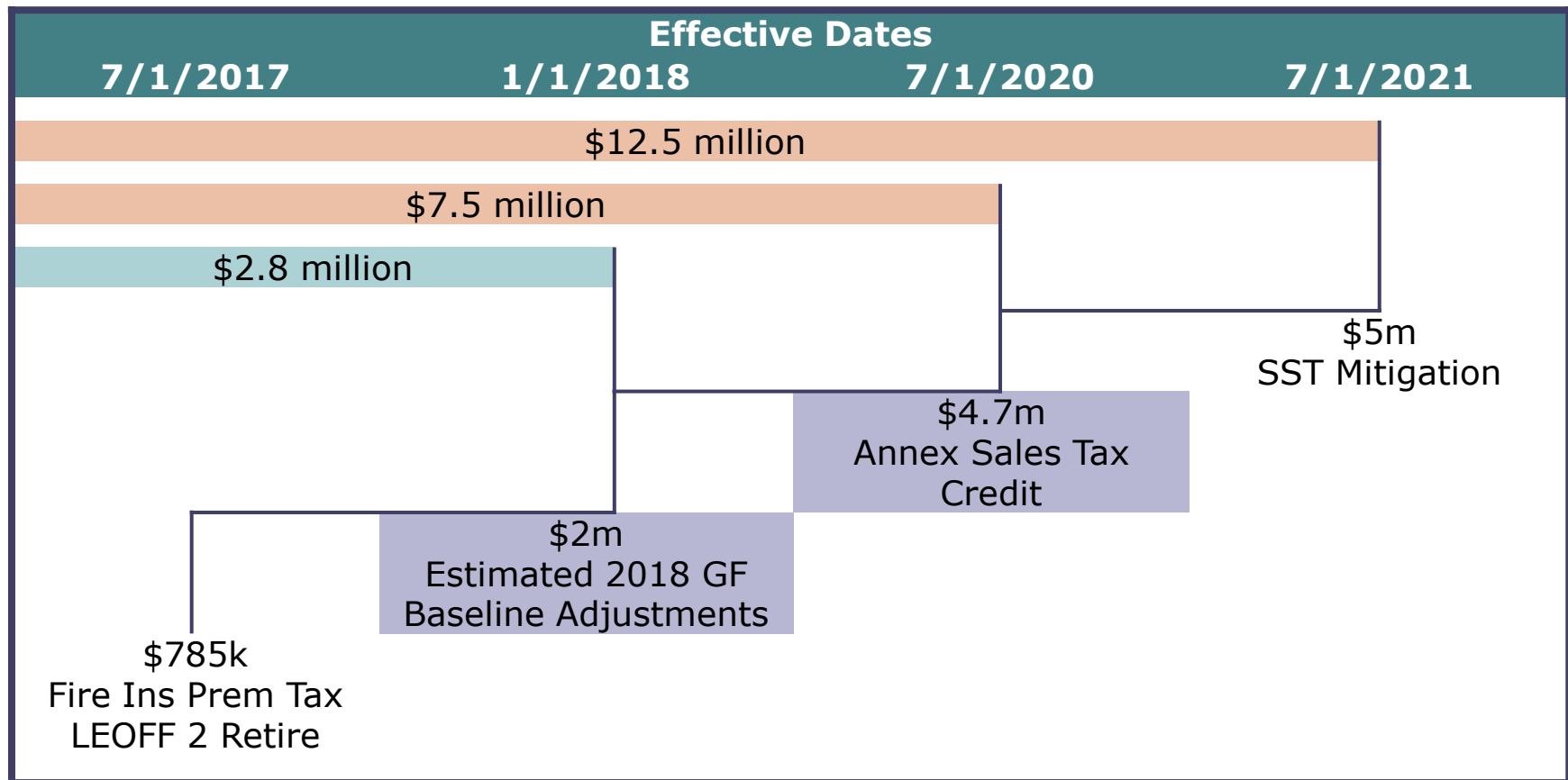
Strategic Goal: Sustainable Funding

(amounts in millions)

Year	Revenue	Expense	Gap Amt	How Filled	Fill Amt
2011	74.3	75.0	(0.7)	Use of fund balance	0.7
2012	71.3	73.4	(2.1)	Business license & permitting fees restructure	0.5
				Position reductions, inc. layoffs	1.6
					2.1
2013	72.5	73.5	(1.0)	Permitting fees to ~75% cost recovery	1.1
		Increase Reserves	(1.8)	Position and program reductions	1.2
			(2.8)	1% internal utility tax - fund balance	0.6
					2.9
2014	76.1	75.4	0.8		
2015	77.9	81.0	(3.2)	Sales Tax - 4% increase	1.0
				ECD Permits - fee increase	0.1
				Property Tax - banked capacity	1.0
				1% internal utility tax - reallocate to GF	0.6
				Use of fund balance	0.5
					3.2
2016	86.7	87.6	(0.9)	Sales Tax - increase	0.4
				Sales Tax - from CRF (one-time)	0.4
					0.9
2017	90.4	94.4	(4.0)	Sales Tax - from CRF (ongoing)	0.5
				Utility Tax - water/sewer rate increases	0.6
				Permitting fees to 100% cost recovery	0.9
				Use of fund balance – Parks Capital	2.0
					4.0

Average Annual Gap ≈ \$1.8million

Known & Potential Impacts



General Fund 6-Year Forecast

Original - 2017-2018 Adopted Budget page 266

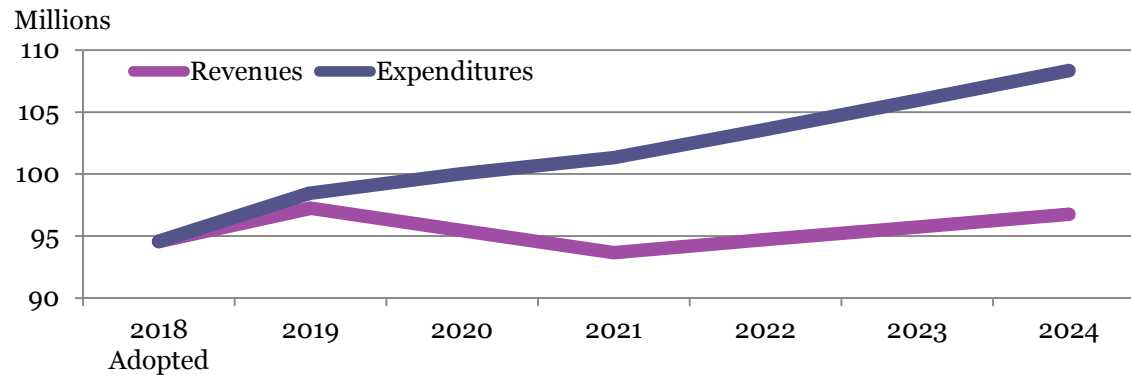
(amounts in thousands)

	Adopted		Six-Year Forecast					
	2017	2018	2019	2020	2021	2022	2023	2024
Beginning Fund Balance	19,705	17,708	17,712	16,498	11,900	4,242	(4,630)	(14,837)
Revenues	92,396	94,566	97,245	95,433	93,657	94,717	95,728	96,755
Expenditures	94,393	94,562	98,458	100,030	101,315	103,589	105,935	108,354
Change in Fund Balance	(1,997)	4	(1,213)	(4,597)	(7,658)	(8,872)	(10,207)	(11,599)
Ending Fund Balance	17,708	17,712	16,499	11,901	4,242	(4,630)	(14,837)	(26,436)

All forecasts include existing positions, but assume no new positions will be added.
 Average annual cost of a full-time position is \$115,000.

Includes:

- Loss of annexation sales tax credit in 2020



General Fund 6-Year Forecast

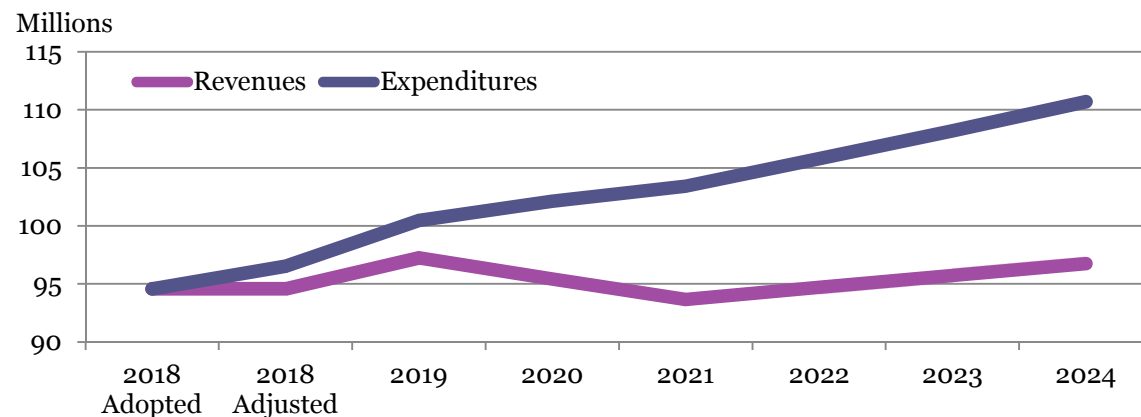
w/ 2018 Estimated Baseline Adjustments

(amounts in thousands)

	Adopted		Adjusted	Six-Year Forecast					
	2017	2018	2018	2019	2020	2021	2022	2023	2024
Beginning Fund Balance	19,705	17,708	17,708	15,732	12,518	5,829	(3,943)	(15,024)	(27,467)
Revenues	92,396	94,566	94,566	97,245	95,433	93,657	94,717	95,728	96,755
Expenditures	94,393	94,562	96,542	100,458	102,122	103,429	105,798	108,170	110,688
Change in Fund Balance	(1,997)	4	(1,976)	(3,214)	(6,689)	(9,772)	(11,081)	(12,442)	(13,933)
Ending Fund Balance	17,708	17,712	15,732	12,518	5,829	(3,943)	(15,024)	(27,467)	(41,400)

Includes:

- 2018 estimated baseline adjustments from slide #7 ≈ \$2m
- Loss of annexation sales tax credit in 2020



General Fund 6-Year Forecast

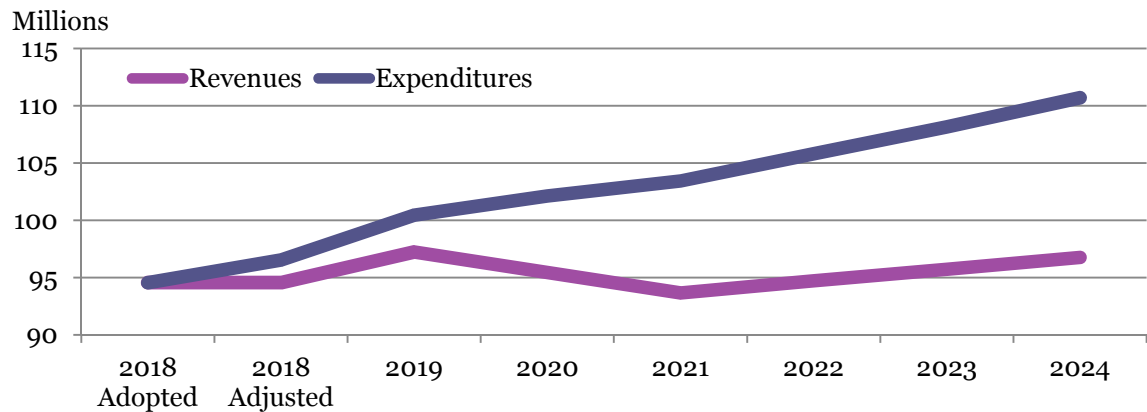
w/ 2018 Est Baseline Adjustments & Potential Impacts

(amounts in thousands)

	Adopted		Adjusted	Six-Year Forecast					
	2017	2018	2018	2019	2020	2021	2022	2023	2024
Beginning Fund Balance	19,705	17,708	17,708	14,947	10,931	3,424	(7,186)	(19,123)	(32,439)
Revenues	92,396	94,566	94,341	97,020	95,208	93,432	94,492	95,503	96,529
Expenditures	94,393	94,562	97,102	101,035	102,716	104,041	106,429	108,820	111,357
Change in Fund Balance	(1,997)	4	(2,761)	(4,015)	(7,508)	(10,609)	(11,937)	(13,317)	(14,828)
Ending Fund Balance	17,708	17,712	14,947	10,931	3,424	(7,186)	(19,123)	(32,439)	(47,267)

Includes:

- 2018 estimated budget adjustments from slide #7 ≈ \$2m
- Potential impacts from slide #7 ≈ 785k
- Loss of annexation sales tax credit in 2020



General Fund 6-Year Forecast

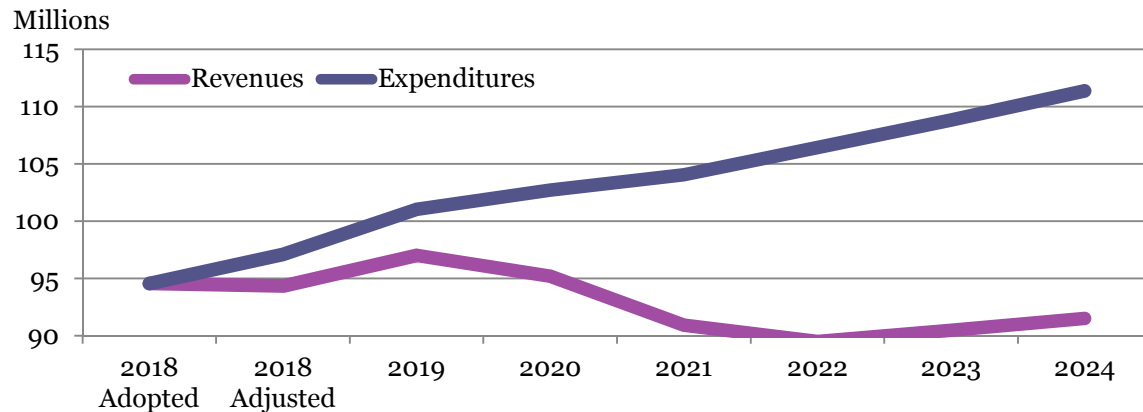
w/ 2018 Est Baseline Adjustments, Potential Impacts & SST

(amounts in thousands)

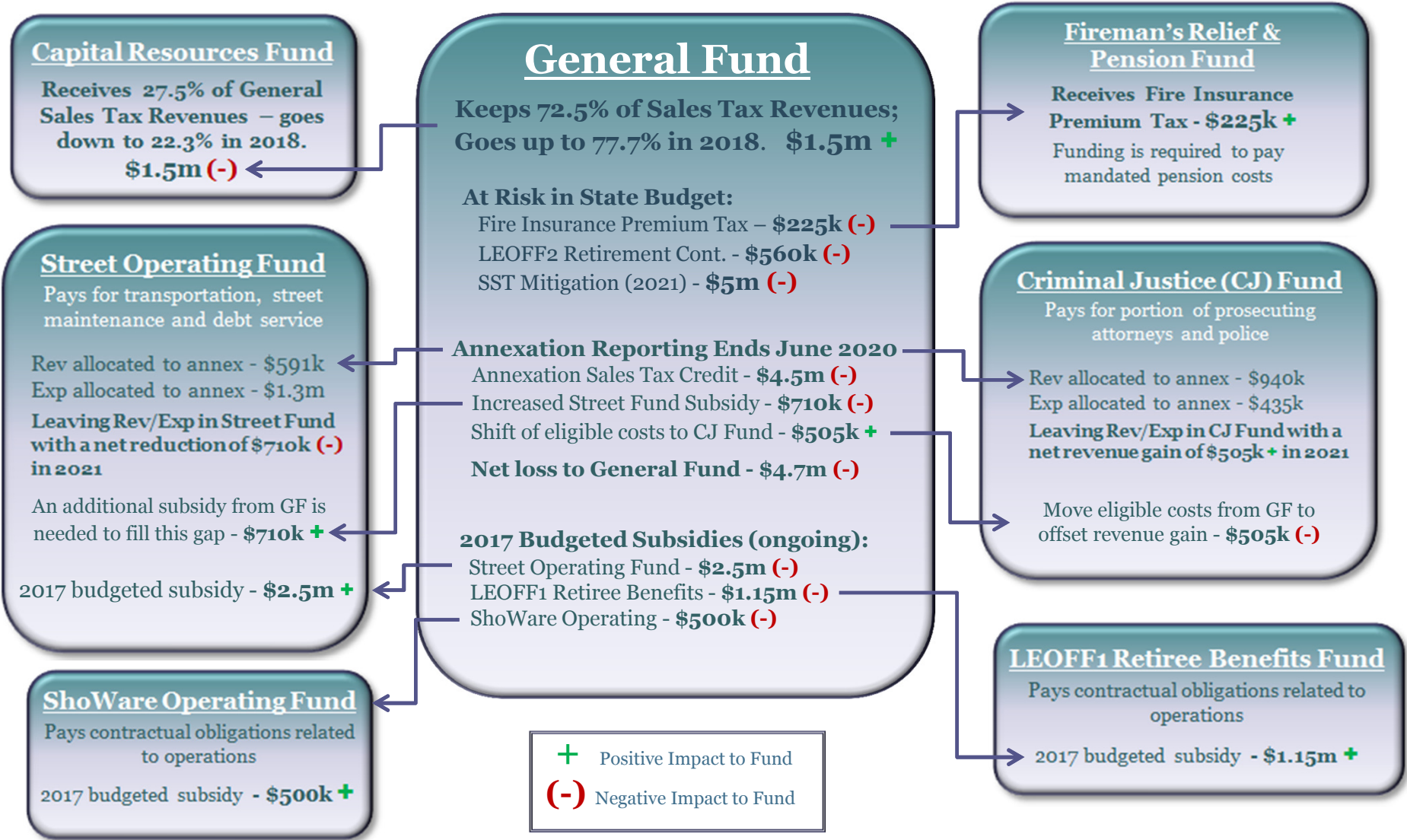
	Adopted		Adjusted	Six-Year Forecast					
	2017	2018	2018	2019	2020	2021	2022	2023	2024
Beginning Fund Balance	19,705	17,708	17,708	14,947	10,931	3,424	(9,686)	(26,629)	(44,964)
Revenues	92,396	94,566	94,341	97,020	95,208	90,932	89,486	90,484	91,497
Expenditures	94,393	94,562	97,102	101,035	102,716	104,041	106,429	108,820	111,357
Change in Fund Balance	(1,997)	4	(2,761)	(4,015)	(7,508)	(13,109)	(16,943)	(18,336)	(19,860)
Ending Fund Balance	17,708	17,712	14,947	10,931	3,424	(9,686)	(26,629)	(44,964)	(64,824)

Includes:

- 2018 estimated budget adjustments from slide #7 ≈ \$2m
- Potential impacts from slide #7 ≈ 785k
- Loss of annexation sales tax credit in 2020
- Loss of SST mitigation in 2021



Not Just a General Fund Issue



Potential Mitigations

- Policy Options for Current Revenues
 - Shift sales tax from capital as debt service is paid
 - CRF allocation to IT/Street capital (4% internal utility tax)
 - Continue 2% internal utility tax - \$1.5m (debt paid 2020)
 - B&O tax allocation
- New Revenue Options (tax/fee increases)
 - Banked Property Tax Capacity - \$6m
 - Transportation Benefit District (car tabs and/or sales tax)
 - B&O tax rates
 - Voter approved taxes
- Reduce expenses (forecasts assume no new positions)
- Strategic use of fund balance (one-time; maintain reserves per policy)

General Fund 6-Year Forecast-Updated

w/ 2018 Baseline Adjustments, Potential Impacts & Revenues

(amounts in thousands)

	Adopted		Adjusted	Six-Year Forecast					
	2017	2018	2018	2019	2020	2021	2022	2023	2024
Beginning Fund Balance	19,705	17,708	17,708	20,947	22,991	21,604	18,677	14,484	8,973
Revenues	92,396	94,566	100,341	103,080	101,328	101,114	102,236	103,309	104,398
Expenditures	94,393	94,562	97,102	101,035	102,716	104,041	106,429	108,820	111,357
Change in Fund Balance	(1,997)	4	3,239	2,045	(1,387)	(2,927)	(4,193)	(5,510)	(6,959)
Ending Fund Balance	17,708	17,712	20,947	22,991	21,604	18,677	14,484	8,973	2,015

Includes:

- \$6m banked property tax capacity in 2018
- Continuance of 2% internal utility tax in 2021 ≈ \$1.5m reallocated to general operations
- 2018 budget adjustments from slide #7 ≈ \$2.8m
- Loss of annexation sales tax credit in 2020

Does not include:

- 2021 potential loss of SST mitigation ≈ \$5m
- An allowance for new positions
- Any additional funding sources

Estimated 2018 Property Tax Impact

Estimated Assessed Valuation in thousands	17,152,474
Estimated Levy Rates	
Without Using Banked Capacity	1.36739
Using \$6m Banked Capacity	1.71719
Estimated Cost on Home Valued at \$300,000	
Without Using Banked Capacity	\$ 468
Using \$6m Banked Capacity	\$ 587
Estimated Impact	\$ 119

Other Considerations

- **Outstanding Budget Challenges:**
 - Parks capital
 - Police staffing
 - City campus space planning
- **Must Do:**
 - Resolve \approx \$2.8m baseline gap for 2018
- **Should Do:**
 - Address annual, ongoing structural imbalance
 - Begin to address \$4.7m annexation sales tax credit impact in 2018 mid-biennium budget process
 - Begin planning for potential SST mitigation loss in 2021

Next Steps

- Council Workshop on July 5th
 - 2018 mid-biennium budget update
 - Forecasts for Street and Capital Resources funds
 - Impact scenarios
 - Follow up on questions from today