

October 15, 2012

Subject: 2013-2014 Preliminary Biennial Budget

To:

Matthew Larson, Mayor

Bob Larson, City Administrator

Debra Whalawitsa, Administrative Services Director

Jodi Warren, City Clerk

City Council

Dear Folks:

The 2013-14 Preliminary Budget is submitted for your review. Also attached with this document is the updated CIP for 2012-2018, a list of CIP street and utility projects which we propose as candidates for a new, revenue bond issue (discussed below), the Mayor's budget message and a short survey of utility rates from neighboring communities.

The two year budget is presented on an Excel spreadsheet as usual. I have preserved the fund color coding used in recent periods.

Tabs across the bottom of the sheet allow readers to access a summary of each fund. These include a description of the fund and major changes for the upcoming years.

Following the short narratives, a link to more budget detail is included in [blue lettering](#). Clicking on these links moves readers to line-by-line detail of expense and revenue descriptions--- expanded, where necessary to provide more data. Use of "Excel" comments (the red arrow in Excel cells) has been improved but are not used in all line items---especially those that have obvious descriptions in the account title. "Medicare", for example, is self-explanatory.

As in the past, there are numerous summaries available to reviewers among the bottom tabs on the worksheets.

The CIP is also an Excel worksheet. But we have produced a work book with project descriptions that is available electronically.

Overall Budget 2013-2014

The 2013-2104 preliminary budget is summarized as follows (this is the "All Funds" tab on the worksheet):

<i>2013-2014 Preliminary Budget</i>						
<i>ALL FUNDS</i>						
	2010	2011	2012	2012	2013	2014
FUND TYPE	Actual	Actual	Adopted Budget	Estimated Year-End	Preliminary Budget	Preliminary Budget
BEGINNING FUND BALANCE	15,508,450	13,021,062	17,930,055	17,736,071	16,827,185	19,666,333
REVENUES						
GENERAL FUNDS	9,850,130	12,758,312	10,947,912	11,255,151	11,656,138	12,814,445
SPECIAL REVENUE FUNDS	3,476,423	3,901,680	3,374,814	4,955,092	6,814,761	4,172,682
DEBT SERVICE FUNDS	276,840	597,657	627,890	634,087	572,867	574,361
CAPITAL PROJECT FUNDS	3,730,847	7,723,632	4,992,551	1,466,781	2,917,459	726,000
UTILITY FUNDS	8,648,357	6,644,195	7,821,631	7,639,893	15,784,523	8,545,517
INTERNAL SERVICE FUNDS	2,411,186	2,619,881	2,979,471	2,968,700	3,198,166	3,179,228
TRANSPORTATION BENEFIT DISTRICT	-	95,317	106,000	135,000	139,000	143,000
TOTAL REVENUES	28,393,783	34,340,674	30,850,269	29,054,704	41,082,914	30,155,233
EXPENDITURES						
GENERAL FUNDS	9,557,993	12,877,705	11,637,273	11,396,830	11,980,469	12,921,123
SPECIAL REVENUE FUNDS	4,121,548	3,539,115	4,476,277	5,482,060	7,653,724	4,184,654
DEBT SERVICE FUNDS	275,875	396,450	627,290	627,290	622,445	620,495
CAPITAL PROJECT FUNDS	3,593,054	3,284,223	10,612,743	2,677,132	7,156,698	325,232
UTILITY FUNDS	11,367,330	7,208,233	7,174,740	7,075,406	7,491,318	7,943,015
INTERNAL SERVICE FUNDS	1,960,148	2,314,721	2,824,140	2,699,872	2,985,613	2,818,341
TRANSPORTATION BENEFIT DISTRICT	5,224	5,218	5,700	5,000	353,500	5,500
TOTAL EXPENDITURES	30,881,171	29,625,666	37,358,163	29,963,589	38,243,767	28,818,360

The total, preliminary expenditure budget for the City is \$38,244,000 in 2013; \$28,818,000 in 2014. The quite precipitous drop in 2014 is attributed to the exhaustion of capital project funds currently on the books. This could change if grants for large projects like Tokul Roundabout, Snoqualmie Parkway reconstruction and Phase II of the Downtown Improvement Project materialize. I have typically adhered to the practice of not appropriating grants until they are approved.

If Council approves the new revenue bond proposed below, this, too, will increase capital project budgets. Please note that the rate impact and bond proceeds are included in this budget under fund #413 (yellow), "2013 utility bond construction".

The large swings between all three years in a high level summary like this are due mainly to movement between the years of grants and capital projects---some of which were not appropriated in the current year or, in the case of capital improvements, not finished in the year planned and re-budgeted or carried over to a succeeding fiscal period.

Estimated 2012 expenditures, for example, are \$29,964,000 or \$7 million under budget. This figure is worthy of explanation.

General fund departments (Green) expect to spend \$240,000 less than the 2012 budget---about 2% under.

The Special Revenue funds (blue) show an apparent over- expenditure of \$1 million. This is because the new FEMA home elevation grants were not appropriated in the

2012 budget (they were not approved at time of adoption). This will be corrected with a budget amendment later this fall.

The Capital Project funds (brown) are under budget \$8 million. These are capital projects that, while budgeted in 2012, will not be completed this year. The 2011 bond project “Cedar to Falls Avenue” at \$3.7 million and HAWK traffic signal (\$370,000) are the largest. A \$355,000 loan from the Pedestrian Bridge fund to the Jeanne Hansen Park fields will not be done this year. Similarly, the Parks Improvement fund, which has the bulk of the Jeanne Hansen Park field construction, will not be spent this year. The project has been re-scheduled for 2013.

Lastly, the Community Center acquisition---budgeted at \$3.8 million had expenses of only \$1.3 million. This is because the largest portion of the acquisition income, developer mitigation fees, was paid directly to escrow and did not run through City accounts.

The largest swing in the Utility funds (yellow) is due to the \$500,000 third pump installation at Kimball Creek. Some of this project will carry over into 2013.

The General Fund In Particular

The general fund has several issues in the bi-enium. A summary of the total fund may be viewed on the worksheet under the tab, “[General 001 Object](#)”. (The following notes do not compare to the table above as I am discussing GF revenues—excluding “revenues” to the reserve funds—which are included in the summary table, above).

General fund revenues are budgeted at \$10,619,000 in 2012 but I estimate they will come in at \$10,854,000 an increase of \$235,000 (the reference here is line #20 on the “General 001 Object” tab on the worksheet). The principal increase comes from regulated gas and electric utilities repaying some \$270,000 in under-reported utility taxes. This occurred because the company took deductions from gross income that was not permitted under the model tax ordinance adopted by most cities in 2008. But some of this is offset by loss of liquor revenue.

2013 revenues are \$10,860,000---this looks almost equal to 2012 because the PSE tax payment “wears” off but adjusting for this, revenues are up about \$260,000. In the main, \$185,000 comes from the 1% levy and new construction property tax revenues and a boost to B and O income from the two, new major businesses. I moved sales tax receipts up 2-3% generally confirming an improved outlook, higher personal income and keying off regional forecasts.

We lose \$70,000 in utility taxes from the garbage contract—although I am looking into this further. It suggests a decline in sales of 30% which seems high. Also, a transfer of \$215,000 from reserves to fund IT and capital building maintenance this year is reduced

by \$170,000 in 2013. I have proposed that only \$42,000 be transferred from reserves to fund a like amount of one-time capital in the 2013 general fund budget.

Lastly, the impact of utility taxes on the proposed utility rate adjustment (\$34,000)---discussed below---are included for ¾'s of 2013---assuming the new rates would take effect in spring next year.

2014 general fund revenues are up \$600,000 (from \$10,860,000 to \$11,465,000) over estimated 2013. \$200,000 comes from property taxes---assuming the continued certification of our 1% entitlement and \$50 million in new construction valuation---this has been the average for the past few years. Of course, new construction would be assessed at \$2.92 versus the current levy rate of \$2.75. This assumes that assessed value will begin growing in 2014 from its dip forecast in 2013.

At this writing, preliminary new construction value is \$46 million while total assessed value is \$1.7 billion---down from the current \$1.8 billion.

Another \$225,000 is produced from sales tax receipts. In 2014, this would require that the City's retail taxable base move from its current \$210 million to \$230 million—a 9.5% expansion in two years. The City receives about .84% of this base in taxes. In 2014, we get to “keep” more of the sales taxes in the operating budget as the amount of one-time diverted sales tax will be less (just tax revenue from Ridge construction as the hydro project will be over; refer to the discussion on revenue diversion, below)).

B and O taxes add \$30,000 as I am counting on a good showing from Motion Sports and Spacelabs---offsetting the loss of tax income from the hydro project. 2014 will be their first full year of operation for these firms in Snoqualmie.

Another \$70,000 is attributed to utility tax increases (gas, power, telephone and cable) while \$30,000 comes from liquor taxes that will be fully “restored” by the State (just the taxes—not liquor profits which have a different future).

Utility taxes on the proposed revenue bond rate increase are included for the full year in 2014.

On the expense side, Departments forecast they will under spend their **2012** budgets by \$240,000 or \$11,100,000 against a budget of \$11,320,000 (line 34).

The Mayor's recommended budget for **2013** is \$11,239,000 an increase of %1.3% over 2012 estimated expenses.

In **2014**, the general fund proposed operating budget is \$11,703,000 or \$464,000 over 2013--an increase of 4%. The principal cost adjustments are in salaries and benefits (+\$280,000), inter-fund services (charges for IT and equipment rental +\$76,000) and transfers to support Street and Development Services (+\$66,000).

It should be noted that the City switched to a cheaper medical plan in 2012. The announced premium increase in 2013, which is now known, is 6%---the first time that plan costs have dipped below double digits in years. In **2014**, however, we returned to a more pessimistic view. Costs for active group medical plans may increase as more features of the Affordable Health Care Act are implemented. City management has been exploring new options for medical plan delivery that may have a favorable impact on plan costs. Of course, these changes are subject to collective bargaining.

The bi-ennial budget incorporates all known adjustments from collective bargaining agreements through 2014; as well as salary adjustments of 2% and 3% respectively in 2013 and 2014 for non-represented personnel (wages for these positions were frozen in 2012).

Reorganization of Parks Under Public Works

The Mayor and Administrator will propose that the former Parks Department be consolidated under Public Works and managed at a cost below the level of a department director. This budget retains fiscal flexibility to accomplish this.

Diversion of Non-Recurring Revenue

The diversion of non-recurring revenue is summarized as follows:

- 1) The 2012 sales tax on the hydro project could reach \$400,000. I had estimated \$300,000 based largely on 2010 sales from the project. I suspect this is due to the fact that the project—now in its mature stages-- is installing more expensive, capital equipment.
- 2) In 2013, I have identified the following as non-recurring income:
 - a. \$130,000 hydro project sales taxes (assumes the project ends March 1, 2013---which may not be the case).
 - b. \$20,000 B and O taxes against the hydro project---this is their first quarter estimated returns in 2013
 - c. \$200,000—or the sales tax on the residential home construction on the Ridge.
- 3) In 2014, \$250,000 is proposed to be diverted from sales taxes on Ridge construction.

Utility Rates

I believe it is time to consider another revenue bond issue in order to begin paring down some of the utility CIP projects over the next five years. The unfunded portion of the utility CIP is \$14.4 million through 2018.

I included a \$7 million issue in the 2013 and '14 budgets to be sold in spring, 2013. The debt service on such an issue will be between \$500,000 and \$550,000 and require an 8.5% rate increase.

The average combined (water, storm and sewer) residential utility bill would increase \$8-\$9.50 per month plus the effect of state and local excise and utility taxes.

Interest rates are very low. If sold today, the issue would be priced at 2.7%. In spring of next year, I expect the issue could be still at sub-3%. The "essential purpose" nature of these bonds is very attractive to investors.

Water and Sewer rates were frozen in 2008 and 2010 and increased only 3% this year. Because debt payments are fixed and level, I continue to support the notion that bond costs should also be recovered through a fixed surcharge---as we have done with the 2011 issue.

The following table (also attached as an Excel file so you can read my notes) shows how this decision would affect the competitiveness of our rates compared to neighboring utilities. I have included notes (second to last line) about prospective increases that I garnered through conversations with each City.

For water, I have calculated cost at 1,000 cubic feet---quite a high level of usage.

Snoqualmie Residential Rates--Inside City limits				Neighboring Communities				
Utility	2012	Snoqualmie		Duvall	Issaquah	North Bend	Redmond	Redmond Ridge
		8.5% inc	3.0% inc					
Water								
Base	\$ 25.45			\$ 23.33	\$ 12.78	\$ 17.42	\$ 12.85	\$ 16.32
Consump/100 cu. '	\$ 2.45							
Cost/1000 Cu. '	\$ 45.05	\$ 48.88	\$ 46.40	\$ 62.93	\$ 42.96	\$ 51.35	\$ 37.65	\$ 57.80
Capital Surcharge	\$ 1.20	\$ 1.20	\$ 1.20	NA	NA	NA	NA	NA
Total: 1000 cu ft	\$ 46.25	\$ 50.08	\$ 47.60	\$ 62.93	\$ 42.96	\$ 51.35	\$ 37.65	\$ 57.80
Sewer								
Flat Rate	\$ 38.40	\$ 41.66	\$ 39.55	\$ 64.35	\$ 46.51	\$ 67.94	\$ 48.67	\$ 65.12
Capital surcharge	\$ 1.20	\$ 1.20	\$ 1.20	NA	NA	NA	NA	NA
Total Bill	\$ 39.60	\$ 42.86	\$ 40.75	\$ 64.35	\$ 46.51	\$ 67.94	\$ 48.67	\$ 65.12
Storm								
Flat Rate	\$ 11.10	\$ 12.04	\$ 11.43	\$ 17.46	\$ 14.08	\$ 12.36	\$ 16.56	\$ 16.53
Capital Surcharge	\$ 0.75	\$ 0.75	\$ 0.75	NA	NA	NA	NA	NA
Total Bill	\$ 11.85	\$ 12.79	\$ 12.18	\$ 17.46	\$ 14.08	\$ 12.36	\$ 16.56	\$ 16.53
Total All Utilities	\$ 97.70	\$ 105.74	\$ 100.54	\$ 144.74	\$ 103.55	\$ 131.65	\$ 102.88	\$ 139.45
		\$8.76/mon	\$3.96/mon					
Planned 2013 Inc:				2.70%				
2013 est rate				\$ 147.63	\$ 107.20		\$ 107.58	\$ 147.74

The green shaded rows show the effect of 8.5% and 3% rate adjustments. Even at the higher rate, Snoqualmie stays pretty close to the cities of Issaquah and Redmond---the lowest of the sample.

I have attached candidate projects for your review that were extracted from the CIP by Dan and Mike.

Please note that the rate impact and bond proceeds are included in this budget under fund #413 (yellow), "2013 utility bond construction".

Solid Waste Fund

This fund---which has collected revenue from a margin on garbage rates, has outlived most of the purposes which created it. I have recommended that the fund balance be declared as surplus and, as noted below, suggested that a large share of it be used to restore a working fund balance in the Development Services (Planning and Building Departments) fund.

The recurring revenue in the Waste fund is now a straight administrative assessment on the garbage hauling contract. As such, it is a general revenue and I have proposed to divert it to the Street fund.

Street could use another fund source. The garbage contract is a street and alley surface activity and the Street fund is the nearest thing to a fund source for managing the contract by Public Works personnel—who, of course, do not have a general purpose fund of their own. The measure would relieve the general fund of some burden of covering the Street funds' revenue gap.

Development Services

The toughest challenge of this budget is the sharply shrinking ratio between Building and Planning revenues and expenses. Together, the departments generate \$735,000 in re-curing revenue against budgets of \$1.4 million (this excludes the “pass through” costs to development but does include the captured of Planning staff time reimbursed from projects). The general fund typically supports Development Services with \$300,000 in general revenue. It has taken much more than that to balance the fund in this budget.

I have been too shortsighted with this fund---transferring only enough general fund cash to clear the red ink each month. The large “account receivable” balances from the developer pass through bills---occasionally create good enough cash flow that these transfers are minimized. Done to conserve general fund resources; this practice is really a band aid.

Unfortunately, the Development Services funds' financial shape has declined since \$775,000 of the balance was transferred to cover a portion of the City Hall construction--a decision that cannot be undone. The solution today augers in favor of restoring part of that balance. In that light, I am left with suggesting that most of the idle Solid Waste surplus fund balance (discussed above) be credited this fund to get it through 2013-14 “on paper”. As will become obvious in this budget, added support from the general fund is not feasible.

In the interim, this budget proposes a reduction in staff (1 FTE in '13 and '14), cuts to the operating budget, a 10% increase in building permit fees, plan check fees (plus annual CPI adjustments) and re-institution of fire inspection fees.

Planning staff are contemplating pulling some of the consulting work in-house and increasing the amount of planning time recovered from future projects. One Planning position is reduced to .6 FTE for the rest of 2012 and half of 2013.

These adjustments get Development Services to a zero fund balance by the end of 2014. This is also not workable but allows time to craft and react with other solutions.

The amount of detailed analysis of the funds forecast has been greatly improved this year---we know much more about the dynamics of money flowing through it. Unfortunately, the diagnosis is not a solution.

The City needs to define what will be considered, "General Planning" or those functions that are independent of growth paid by growth. I believe the intent of establishing Building and Planning in a special revenue fund was to isolate them from impacting the general fund---or, in other words, making them self-sufficient. That is not possible unless we devise a means of subsidizing general planning costs through permit fees or other types of assessments.

North Bend Police Services Contract

This historic agreement is memorialized in a new special general fund department (014-011). The contract adds new costs and revenues to our budget---but each balances the other out. The agreement will take effect March 1, 2014 but start-up costs will be incurred in latter 2013.

It is apparent from news this week that North Bend may request seven instead of six officers in the ILA. This would require an adjustment to the preliminary budget.

Jeanne Hansen Park Synthetic Fields

Certainly, one of the more important projects on the horizon in 2013 is construction of the Jeanne Hansen Park. Its most interesting feature is the trade of three grass playing fields for two synthetic surfaces. This investment increases playing time and capacity for youth athletics by an impressive margin. The labor savings in maintenance between the two surfaces is equally significant---and quite obvious as artificial turf requires neither water nor mowing.

These facts lead the Council to authorize discussions with Pulte, who must build the Park, to convert to artificial surfaces. The City would receive a large credit from Pulte for the difference in construction costs; the City, who would get these fields at 60% of their cost, must finance the difference.

The financial analysis approved by Council requires an inter-fund loan of \$355,000 to complete financing. The loan, which I have proposed from the revolving reserve, would be re-paid from REET over eight years or less.

Although unresolved at this writing, there is a possibility that the City's share of the project may increase \$200,000---or, the effect may be that Pulte would have to increase its construction credit for the project by a like amount. The issue may be traced to costs for part of the sub-grade field drainage which may have been left out of Pulte's original

estimate for grass field installation. This budget allows for an extra contribution from REET should this be necessary.

Other Capital Projects

Apart from the new utility bond proposed next year, capital projects in '13 and '14 are dominated by the last of the 2011 infrastructure bond projects (Cedar/Falls Ave. street and underground utility improvements), the Hawk pedestrian signal, third pump at the Kimball Creek lift station, Jeanne Hansen Park construction, FEMA home elevation projects, the Gateway Sign proposal and \$500,000 in REET-funded improvement projects for Parks.

Design for reconstruction of two intersections on the Snoqualmie Parkway will begin this year while a grant to rebuild the Parkway surface is pending.

Design for the Tokul Roundabout and Phase II of the Downtown Improvement Projects are all but completed and awaiting the outcome of several grant applications for construction.

Few Enhancements

It will surprise no reader at this juncture that the budget contains only a small portion of budget enhancements (\$48,000) requested by departments in 2013 or 2014 ("enhancements" are new capital, services or equipment purchases requested by Departments). The allocation in 2013 is for special equipment to maintain artificial playing surfaces contemplated in the Jeanne Hansen Park complex, discussed above. But the cash comes from the Capital Mitigation fees collected rather than the general fund. The City accumulates \$600 per new single family home but has both expenditure and time restrictions on use of the receipts. Purchase of equipment across all departments is an allowable use.

Other Pressures on the Budget

Loss of liquor taxes; Limit on Liquor Profits: The City loses nearly half of its liquor taxes this year and all but \$9,800 of in 2013. Normally, this is a \$50,000 annual revenue. The tax distributions are restored to us in the third quarter of 2013---unless a new legislature, which this year kept the funding to help balance State budgets---withholds it again. If it does not, our share will be about \$40,000 annually.

Liquor “profits”---the moniker retained by the liquor Board for initiative 1183 revenue, will be limited to the amount cities received in Q4 2010 plus Q1-3 in 2011. For us, this is \$76,000. However, while the “pot” is fixed state-wide, it is partially distributed on a per capita basis and Snoqualmie may get a larger share of it in '13 and '14.

An extra \$10 million will be split with local governments for “enhanced public safety” (whatever that is). We must begin isolating this portion (estimated at 20% of the distribution) beginning in September 2012. Our September payment was \$25,000. 20% of this or \$5,000 (\$20,000/year) must be saved for the public safety purposes.

Beyond these limits, the State has assumed that it can keep any growth in 1183 money thus foreclosing on cities participating in revenue appreciation if liquor privatization is successful. Reversal of this decision, however, is an Association of Washington Cities (AWC) legislative priority in 2013.

Drop in garbage tax revenue: Mentioned above, the first quarter utility tax payment by Waste Management is well under the equivalent averages for the former contract holder. The tax is based on sales 30% lower than Allied---a much larger drop than the decline in rates between old and new contracts suggests. This matter is being reviewed.

Legal Costs: City budgets are impacted by a number of legal issues. First, the State Supreme Court has adopted new (higher) standards for representation of indigent defendants. Standards took effect October 1st but the economic changes---essentially higher per case costs, take effect in fall 2013. There is no definitive way to estimate impact but case costs may double. The City pays \$150 per case. Doubling that on our current caseload adds \$40,000 to our budget. This is a general fund item.

In an agreement approved by Council earlier this year, Issaquah Municipal Court has increased its filing fees by 17% (though this is the first increase in years). This adds about \$15,000 per year to our costs based on current caseload of 1100 annually.

The National Wildlife Federation has filed suit against FEMA seeking to end issuance of new building permits in flood zones. The suit, in the interest of downstream salmon, would imperil our home elevation projects and possibly other flood control construction. The City has joined a coalition of other cities on this litigation. Legal costs are expected to be \$15,000 over the next two years.

Lastly, Council has approved joining other similarly situated utilities in appealing onerous provisions of the City’s National Pollutant Discharge Elimination System (NPDES) Phase II permit. The challenge will cost \$15,000 in 2012.

I am pleased at this first attempt at a two year budget. It has been as challenging as it has been beneficial. The exercise forced us into two year thinking and identified economic issues in sufficient time that we may react to them.

If the levy lid lift is unsuccessful, balances in the general fund at the end of 2014 gives some flexibility of muster into 2015.

I appreciate the wonderful help I have had in getting this far!!

Rob Orton