

General Fund

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The proposed 2015-2016 general fund budget is in balance, and actually is budgeted to increase by \$65,980, from \$1,614,615 on January 1, 2015 to \$1,680,595.31 on December 31, 2016. There were several factors that contributed to the balanced budgeted, including:

1. **Library Annexation Passed** – The voters of Stanwood approved the library annexation ballot measure that was on the November 4, 2014 general election. The annexation does not become effective until 2016, so the budget includes a final annual contract with Sno-Isle Library District in 2015 totaling \$316,000.

In 2016, under annexation, the citizens will pay a library levy of up to \$0.50 / \$1,000 assessed value directly to Sno-Isle, and the city will save the annual library contract (\$316,000 and climbing).

2. **Property Tax Allocation to Street Fund** – With the savings on the library contract in 2016, the city will be able to allocate 8% of property taxes directly to the Street Fund, which will no longer have to rely on an annual transfer of about \$100,000 to balance the budget. It is estimated that the street will receive about \$172,000 of property taxes in 2016 ($\$2,150,000 \times 8\% = \$172,000$).

3. **Increase in the Police Contract** – The city recently renewed its contract for police services with the Snohomish County Sheriff for five (5) years, from 2014 to 2018. Due primarily to negotiated salary and benefits increases for Sheriff staff, the annual contract will increase by \$88,746 (6%) in 2015 from \$1,478,296 to \$1,567,042. There is yet another large increase (\$89,461 or 5.7%) scheduled for 2016.

The Sheriff's Office did make some small concessions last year to the contract to save the city money, including staff and training reductions, but the overall impact was less than \$10,000 per year. Council approved maintaining then current service levels for the 5-year contract period.

4. **Reduction in Building Permits and Associated Revenues** – Building permit and associated community development revenues tend to be very cyclical and volatile. While 2013 was a banner year for residential housing permits (61 single family residential housing permits were issued), the city does not anticipate any residential housing permits this year (2014) or next year (2015). It is not until 2016 that the city expects residential building to pick up again. For budget purposes the city assumes zero residential permits in 2015 and then fifty (50) in 2016.

SUMMARY STATEMENT

Key Initiatives

The city council adopted 2015-2016 key initiatives at the July 10, 2014 regular council meeting. These initiatives have been translated into budget priorities:

- Public Safety
- Economic Development
- Financial Sustainability
- Place Making and Public Spaces
- Regional Partnerships

After the budget is adopted in December, the budget priorities will become the foundation of the 2015 and 2016 work plans. The city council should review the previously adopted key initiatives (Attachment A) to ensure the city is focused on its highest priorities.

Revenue and Expenditure Assumptions

City staff have completed the revenue and expenditure assumptions for the 2015 General Fund Budget. Overall revenues remain flat. The city expects to collect nearly \$5.8 million in general fund revenues in 2015. There is a 6.4% increase in revenues between 2014 and 2015 (\$350,000). \$271,000 (77%) of the increase is the anticipated \$300,000 Integrated Planning Grant (IPG) from the Department of Ecology for the Raplee and Hamilton properties.

On the positive side, budgeted property taxes will increase about \$70,000. Much of this increase (\$65,000 year to date) is due to construction, which accounts for about 12.8% of all city sales tax. Through the first eight (8) months of 2014 the city is 6% ahead of the prior year in sales tax.

Actual sales tax for 2014 is expected to come in at about \$1,115,000, which is \$85,000 more than budget, due in part to construction sales. The 2015 budgeted sales tax is \$1,100,000 (slightly less than 2014 projected) to reflect continued slow growth and uncertainty in the economy next year.

Table 1 – General Fund Revenue Summary

Description	2013 Actual	2014 Budget	2015 Estimated	2016 Estimated	Comment
Beginning Cash & Investments	\$ 1,860,614	\$ 1,833,377	\$ 1,614,615	\$ 1,568,224	Reserved \$967k, per policy
Taxes	\$ 4,290,141	\$ 4,438,400	\$ 4,615,585	\$ 4,520,300	8% of ppty tax to Streets in 2016
License & Permits	\$ 305,927	\$ 211,120	\$ 160,500	\$ 239,050	0 SFR permits in 2015 and 50 in 2016
State Revenues	\$ 224,820	\$ 229,730	\$ 501,000	\$ 198,200	\$300k IPG grant from DOE in 2015
Charges for Service	\$ 613,230	\$ 522,789	\$ 496,150	\$ 525,550	conservative CD revenue projections
Fines & Forfeitures	\$ 34,575	\$ 40,350	\$ 34,850	\$ 35,150	Lowered Ct fines by \$7,400
Misc Revenues	\$ 50,401	\$ 6,000	\$ 13,700	\$ 13,700	mostly interest
Total Funds Available	\$ 7,379,708	\$ 7,281,766	\$ 7,436,400	\$ 7,100,174	

*Made 5 quarterly Sheriff payments in 2013, otherwise the beginning operating reserve amount would have been \$350,000 higher, or almost \$2.2 million.

The "5 Year Budget Comparison" report (Attachment C) provides a line-item comparison between 2011 and 2016. The "comments" column on the far right gives details on the assumptions used to develop the draft budget.

Also, when the full-time senior accountant left the city last year, the position was replaced with a 0.75 FTE senior accountant, which saved the city about \$13,200 in salaries and benefits.

Table 2 – General Fund Expenditure Summary

Description	2013 Actual	2014 Budget	2015 Estimated	2016 Estimated	Comment
Clerk & City Council	\$ 236,541	\$ 143,492	\$ 149,093	\$ 151,456	Transferred Admin II position to Admin in 2014
Judicial	\$ 22,530	\$ 30,000	\$ 47,000	\$ 47,000	Doubled the amount of Public Defense
Mayor	\$ 19,150	\$ 23,012	\$ 24,369	\$ 24,600	
Administration	\$ 495,140	\$ 628,106	\$ 600,916	\$ 641,335	Savings from .75 FTE Sr Accountant
Legal	\$ 75,070	\$ 80,000	\$ 70,000	\$ 70,000	Reduced to fund Public Defense
Buildings & Grounds	\$ 84,069	\$ 124,943	\$ 138,949	\$ 142,421	Includes same 0.80 FTE staff
Gen Gov't Services	\$ 71,868	\$ 60,514	\$ 62,200	\$ 62,400	
Law Enforcement	\$ 2,062,283	\$ 1,796,866	\$ 1,886,933	\$ 1,985,649	6% increases in 2015 and 2016
Fire Control/EMS	\$ 1,287,340	\$ 1,297,609	\$ 1,296,937	\$ 1,297,320	No contract increase until 4/1/17
Jail	\$ 37,813	\$ 66,000	\$ 40,000	\$ 40,000	
Community Development	\$ 557,934	\$ 818,133	\$ 895,001	\$ 618,845	\$300k IPG exp offset by DOE grant in 2015
Substance Abuse	\$ 1,215	\$ 1,000	\$ 1,400	\$ 1,400	
Library	\$ 263,868	\$ 301,200	\$ 328,000	\$ 12,000	Contract increase based on AV
Parks	\$ 171,913	\$ 195,939	\$ 209,041	\$ 214,816	1.61 FTE staff + 973 hours seasonal
Transfers	\$ 159,596	\$ 100,337	\$ 118,337	\$ 110,337	\$65k to water (hydrants) and \$35k to streets (lighting)
Total	\$ 5,546,330	\$ 5,667,151	\$ 5,868,176	\$ 5,419,579	

DISCUSSION

General Fund Revenues

- Property tax revenues are projected to increase by about \$36,000 (1% plus new construction). The assessed value for 2015 is estimated to be about \$690 million, which is up about \$51 million from the year before. As AV goes up, property tax rates go down (inverse relationship). Because of the large AV increase, property tax rates should decline about 20 cents, from \$3.21 to \$3.01.
- The EMS levy budget will increase by \$24,700 due to the 8% increase in assessed valuation (AV). The EMS levy is limited to \$0.50 per \$1,000 AV, so the levy is calculated at \$345,000 ($\$690,000,000 \text{ AV} \times \$0.50 / \$1,000 = \$345,000$). This assumes that the city will use about half (\$32,500) of its banked capacity, leaving the remaining \$30,000 to use in future years.
- Sales tax for 2014 was budgeted very conservatively at \$1,030,000. For the first eight months of this year, sales tax revenues are \$727,713, which is up \$41,225 (6%) from the first eight months of 2013. Construction sales tax has remained flat at about \$88,000, so all of the \$41,225 increase is the result of increased retail sales activity. At the current rate, sales tax for 2014 should be about \$1,115,000 (\$990,000 retail sales + \$125,000 construction sales). The 2015 sales taxes are conservatively projected to be about \$1.1 million, or slightly less than 2014 actual.
- Electric utility tax is expected to increase \$14,200 (4.8%) based on the PUD overall 2.7% rate increase that became effective last year and higher usage.
- Water/sewer/drainage utility tax is anticipated to increase by \$13,900 based on the next 5% increase in water rates and 3.5% increase in sewer rates effective on January 1, 2015.
- Building permit revenue continues to be a big unknown factor in next year's budget. Last year the city issued sixty (60) residential building permits for \$152,206. This year the city budgeted for thirty (30) residential permits (\$87,000), but so far has only received less than \$20,000 in building permit revenue. The assumption for 2015 is zero residential permits, with a rebound to fifty (50) in 2016. This is based on anticipated building permits for Jasper Junction, Valley View Estates and Mineral Point.

General Fund Expenditures

○ Salaries and Benefits.

- **Teamster's Contract COLA.** The Teamsters' 3-year contract expires at the end of 2014. The city and the union are currently negotiating the next contract, which would begin on January 1, 2015. Last year there was a 2% cost of living adjustment (COLA) for represented employees. This year the budget assumption is 1.8%, which is 90% of the CPI-W – US Cities Average from June 2013 to June 2014 as calculated by the Bureau of Labor Statistics.
- **Non-Represented Employees.** The finance committee is still working on a compensation survey for non-represented employees. The decision must be made whether to hire a consultant or to do this work with existing staff. The budget assumes a 1.8% COLA plus a performance pool to create a new 5-step plan to replace the current salary range (just high and low) concept.
- **Benefits.** AWC has announced 5% premium increase estimates for 2015 based on continued cost savings due to the fact that AWC became self-insured effective January 1, 2014 (last year there was no increase in medical premiums). Based on a premium base of about \$500,000, the increase will cost the city about \$25,000. As usual, the city will apply for the 2% Wellness Plan discount, which it has successfully achieved in the past several years.
- **Part-time Planner.** In 2014 the city hired an additional part-time planner for about \$50,000 per year to help with the additional workload in the community development department as a result of increased building permit activity and long range planning.

This position is continued in the 2015 general fund budget to handle Community Development projects and workload.

The recommendation is to reassign the planner position to specific projects in the public works department (capital projects and utilities) to reduce consulting costs. The goal is to ensure the city provides outstanding customer service as the economy continues to recover.

○ Finance Department Staff Reduction

Last year the vacant senior accountant position was replaced by a 0.75 FTE employee. This move saved the city about \$13,200 per year in salary and benefits.

○ Contracts for Service.

The city contracts for library, police and fire/EMS services. While revenues have declined over the past several years and property assessed values have fallen, the city is locked in by contract to pay higher rates for contract services.

- **Library contract.** Library annexation was on the November 4, 2014 general election ballot and it passed by a wide margin. The city will annex into the Sno-Isle Library District effective January 1, 2016, so the city will continue to have a contract with Sno-Isle in 2015.

The library contract with Sno-Isle will cost the city \$316,000, plus the city will pay utility costs of about \$12,000, for a total 2014 library budget of \$328,000. The mayor has approached the library district asking for no increase in 2015, which would save the city \$26,800. The city should know soon whether Sno-Isle will honor the city's request for a contract freeze.

- **Police contract.** The new 5-year police contract that began January 1, 2014 will run for 5 years (through December 31, 2018).

The city was hit with large increases due primarily to recently negotiated Sheriff pay and benefit increases. A summary of the 5-year deal can be found on the table below. The city may want to consider decreasing levels of service for police to help balance the budget.

Table 3 – Summary of 5-Year Police Contract

Year	Annual Contract	Increase	Percentage Increase
2013	\$ 1,401,694		
2014	\$ 1,478,296	\$ 76,602	5.5%
2015	\$ 1,567,042	\$ 88,746	6.0%
2016	\$ 1,656,503	\$ 89,461	5.7%
2017	\$ 1,666,371	\$ 9,868	0.6%
2018	\$ 1,717,688	\$ 51,317	3.1%

- **Fire contract.** The city agreed to pay \$2.00 per \$1,000 assessed value, with 2011 assessed valuation established as a contract floor. In 2011, when the contract was established, the city's assessed valuation was \$639,969,397.

Based on the contract formula of \$2 per \$1,000 /AV, the original 2012 annual contract amount was set at \$1,279,939 ($\$639,969,397 \times \$2 / \$1,000 = \$1,279,939$).

Per the contract, annual rates shall remain flat at \$1,279,939 for the first 5 years, from April 1, 2012 through March 31, 2017. By April 1, 2015, the city must provide written notice to the fire district if it intends to reopen negotiations. This should be a topic of discussion at the January 2015 council workshop.

- Transportation Benefit District. The city will receive about \$250,000 per year in sales tax revenues to pay for much-needed street projects, including:
 - 270th between Florence Road and 88th
 - 92nd from the bowling alley to 276th

The Transportation Benefit District Board will meet in October to review the TBD budget.

- Economic Development. The community development budget includes \$32,500 for economic development as follows:
 - \$15,000 support generated from the \$15/year business license increase
 - \$7,000 marketing materials
 - \$6,000 incentives for Process Solutions water/sewer costs
 - \$3,000 holiday promotion
 - \$1,500 small grant program for special events

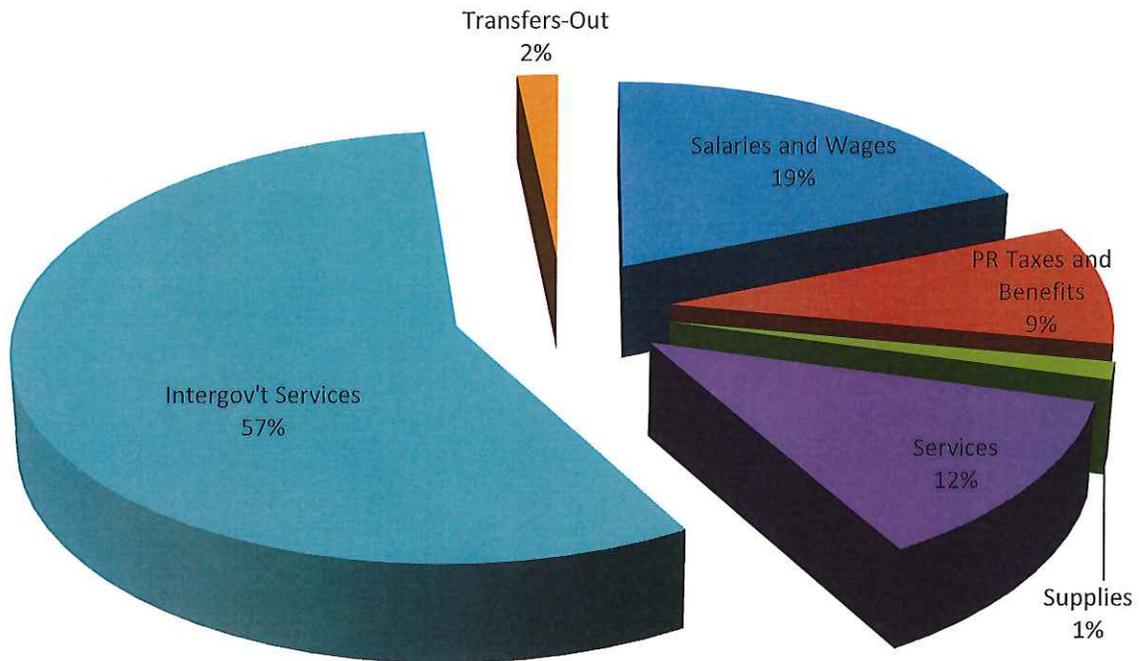
- **Street Fund (Fund 101)**

As discussed extensively with council in the past, the city street fund does not have an adequate funding source. Its largest source of revenue is the motor vehicle excise tax (MVET) which amounts to about \$130,000 per year. For the past several years the street fund has relied on transfers of real estate excise tax (REET) ranging from \$62,000 to \$120,000 per year in order to balance.

If the library annexation passes, the city will be able to dedicate 8% of its property taxes to the street fund, beginning in 2016. The approximately \$172,000 that would be transferred would enable the city to stop transferring REET revenues to the street fund for operations, and use those funds for capital projects instead.

Since the annexation would not take effect until 2016, the 2015 street budget still assumes a final \$120,000 infusion of REET funds.

GF & Street Fund 2015 Budget



Stanwood is a “Contract City”

From the chart above and the detail as presented below in the two tables, the City of Stanwood is clearly a “contract city,” meaning the majority of the services it provides to its citizens are purchased from other governmental entities (57%). This is an important concept to remember when reviewing for cost savings and budget reductions; most of the potential cost savings are in the cities contracts with other governments. Since library annexation passed, the city will save about \$316,000 per year by no longer having a contract for services with Sno-Isle. This change would become effective in 2016, and the savings would be used to balance the street fund and maintain service levels in public safety.

Table 4 – 2015 GF and Street Fund Budgeted Expenditures

Expenditure Object	Amount	Percent
Salaries and Wages	\$1,033,641	18%
PR Taxes and Benefits	\$ 540,992	9%
Supplies	\$ 79,200	1%
Services	\$ 743,175	13%
Intergov't Services	\$3,381,710	58%
Transfers-Out	\$ 100,337	2%
Total	\$5,879,055	100%

Table 5 – 2015 Budgeted Intergovernmental Expenditures

Election Services	\$ 4,000
Voter Registration	\$ 9,000
Cascade Court	\$ 15,000
Public Defense	\$ 32,000
State Audit	\$ 10,000
Prosecuting Attorney	\$ 10,000
AWC Dues	\$ 4,000
Puget Sound Regional Council	\$ 2,007
Snohomish Co Tomorrow	\$ 1,118
Puget Sound Clean Air	\$ 3,009
B&O Taxes	\$ 380
Narcotics Task Force	\$ 1,644
Police Contract	\$ 1,567,042
Sno Pac Dispatch	\$ 80,485
SERS Maint & Operating	\$ 19,662
Animal Control	\$ 2,000
Fire Contract	\$ 1,279,400
EMPG Grant Pass Thru	\$ 11,080
County Jail	\$ 40,000
DEM	\$ 7,129
Sno Co Interlocal	\$ 52,300
Liquor Board Excise Tax	\$ 1,000
Sno-Isle Library	\$ 316,000
Total	\$ 3,468,256