



**CITY OF COVINGTON
SPECIAL MEETING AGENDA
CITY COUNCIL STUDY SESSION**

Council Chambers – 16720 SE 271st Street, Suite 100, Covington
www.covingtonwa.gov

Tuesday, July 28, 2015 – 6:00 p.m.

GENERAL INFORMATION:

The study session is an informal meeting involving discussion between and among the City Council, Commissioners, and city staff regarding policy issues. Study sessions may involve presentations, feedback, brainstorming, etc., regarding further work to be done by the staff on key policy matters.

CALL CITY COUNCIL STUDY SESSION TO ORDER

ROLL CALL

APPROVAL OF AGENDA

ITEM(S) FOR DISCUSSION

1. Funding Priorities (Bolli/Hendrickson)

PUBLIC COMMENT Speakers will state their name, address, and organization. Comments are directed to the City Council, not the audience or staff. Comments are not intended for conversation or debate and are limited to no more than four minutes per speaker. Speakers may request additional time on a future agenda as time allows.*

ADJOURN

Americans with Disabilities Act – reasonable accommodations provided upon request a minimum of 24 hours in advance (253-480-2400).

****Note* A Regular Council meeting will follow at approximately 7:00 p.m.***

SUBJECT: FUNDING PRIORITIES

PREPARED BY: Rob Hendrickson, Finance Director

RECOMMENDED BY: Regan Bolli, City Manager

ATTACHMENT(S):

- 1) Project List
- 2) Project cost timeline (general fund)
- 3) Forecast
- 4) Updated Funding Options

EXPLANATION:

With the number of on-going and one-time projects being brought before council, staff thought it would be prudent for council to see in total how these costs impact three funds in the future – General, Parks and Street Funds.

To accomplish this task, the City Manager asked the Directors to compile their top forward-thinking projects that had been presented to council. Staff then consolidated all projects into an extended forecast out to 2028. There are two benefits in doing this: 1) to analyze how the absence of debt service payments impacts the general fund, and 2) extending to 2028 allows for a better analysis of future trends.

With this in mind, the directors developed options based on what has been presented to council during various meetings. Along with the estimated project costs, associated revenues have been added. Those revenues span operating costs, bonds, and grants.

The goal for tonight’s discussion is threefold: 1) Review the impact of ongoing and one-time projects in relation to three funds: General, Streets and Parks; 2) Review and discuss future “big ticket” items that will need bond financing; and 3) Set priorities and begin developing a strategy for long range financing.

Forecasts are great tools for planning and decision making. What they are not: accurate nor complete. They are based on the best information currently available. Things inevitably change and when they change, they change rapidly. For this reason, this forecast should be considered a trend analysis to be used to set priorities and establish implementation strategies. Flexibility should also be built-in to allow for the aforementioned changes.

The long-range forecast takes into account the following elements:

- The forecast accounts for inflationary increases by inflating revenues and costs based on current knowledge and information. Keep in mind that revenues and expenditures inflate at different rates. Generally expenditures outpace revenues over time.

- No new personnel have been added.
- The base forecast leaves the levels of service the same.
- The reserve for the final Costco payment is funded in 2015 and the final payment will occur in 2016.
- As noted, the 2007 transportation bonds will be paid off in 2027.
- No accounting is being made for possible future legislative action.
- Current one-time revenues and expenditures have been removed from the forecast.
- Staff anticipates a recession occurring at some point along the continuum but it is not reflected in the forecast. Nor is accounting for major fluctuations in inflationary cycles.
- Maintenance costs are not included in the forecast but should be kept in mind as additional demands on resources.
- For purposes of the discussion a 20% fund balance target is utilized for the general fund.
- CIP projects are listed but not added to the operating funds. CIP project costs are in the millions and are outside the scope of operational revenue. Those projects need funding through voted bonds. The city does not have a dedicated revenue stream to support councilmanic bonds to this degree.

Looking ahead, the budget faces a number of challenges both internal and external. The city is growing and additional or enhanced services are inevitable to take care of the needs of an expanding and maturing city. Future legislative action may reduce state shared revenue while other sources are recovering from a still fluctuating economy.

While the fund balance of the general fund is currently healthy there are competing demands that may impact its future stability such as economic forces, legislative action, and potential fund subsidies for parks and streets.

As the council deliberates next steps it's important to take into account the process and how the ratings agencies might view this. Thoughtfully developing a spending strategy with specific goals in mind, working within traditional processes such as the budget and keeping the fund balance of the general fund at a 20%-25% level would be ideal and would not raise any concerns. Staff confirmed this strategic approach through the city's bond underwriter at Piper Jaffray.

As part of the discussion, staff will provide project descriptions as directed and a "real time" look at spending through spreadsheets and charts.

Staff is recommending that any spending decisions be deferred to the 2016 and beyond budget process. This will allow staff to review all spending and put it into the context of overall budget needs.

Fiscal impact:

There is no direct fiscal impact from tonight's ensuing discussion. However, any potential action by the city council will have impacts on future fund balances of street, parks and particularly the general fund. The potential goal of any council action is to move forward with the city's vision while working within the constraints of the financial policies and without adversely affecting future fund balances or bond ratings.

Staff Recommendation:

- 1) Fund ongoing expenditures with matching, ongoing revenues.
- 2) Select revenues that are:
 - a. councilmanic in nature, and
 - b. readily available.
- 3) Fund one-time expenditures with available fund balance when prudent and applicable.
- 4) Consider merging parks with the general fund. (Prior to 2006, this fund was part of general fund.)
 - a. Pros:
 - i. Streamlines the financial statements and audit process.
 - ii. Reduces audit costs.
 - iii. Keeps transparency through effective account numbering.
 - iv. Provides more a more effective and efficient accounting process through reduced transactions.
 - b. Cons:
 - i. Appearance of non-transparency.
 - ii. Perception of reduced responsibility.

CITY COUNCIL ACTION: Ordinance Resolution Motion Other

Ask questions of staff and discuss program and funding priorities.

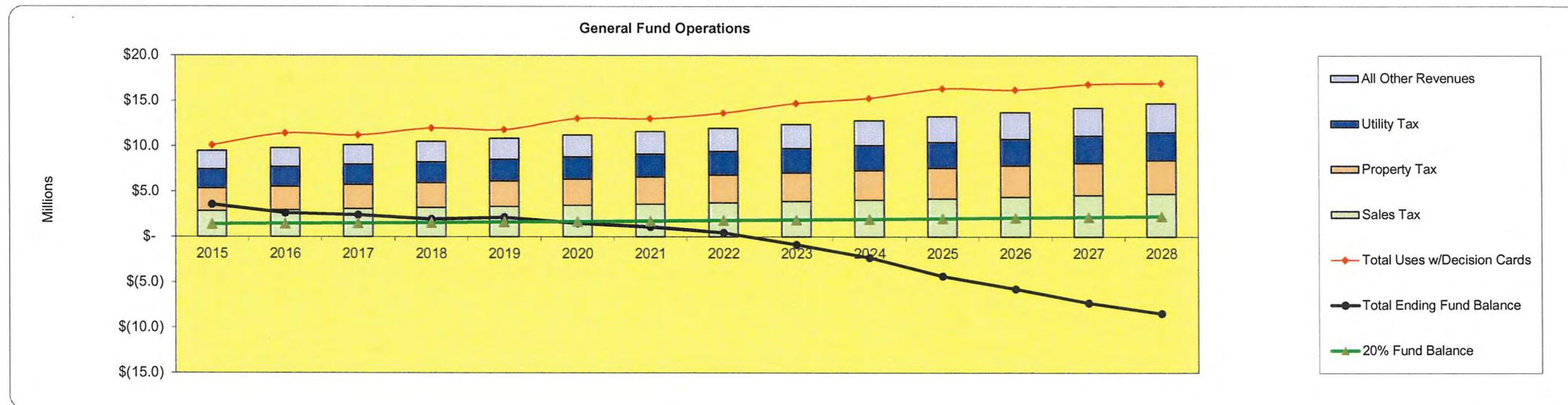
REVIEWED BY: City Manager, Community Development Director, Public Works Director, Parks Director

CITY OF COVINGTON
GENERAL FUND LONG RANGE FORECAST
 2015-2028 Analysis in 000s
 BASE BUDGET

	BUDGET				FORECAST									
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
BEGINNING FUND BALANCE	\$ 4,483	\$ 3,566	\$ 2,618	\$ 2,417	\$ 1,948	\$ 2,147	\$ 1,498	\$ 1,090	\$ 425	\$ (876)	\$ (2,312)	\$ (4,338)	\$ (5,763)	\$ (7,310)
REVENUES														
BASE BUDGET REVENUES	9,479	9,804	10,141	10,489	10,850	11,224	11,612	11,978	12,394	12,825	13,271	13,734	14,213	14,710
OTHER FINANCING SOURCES														
Budget Strategies	50	748	877	1,027	1,182	1,188	1,022	1,028	1,034	1,042	1,049	1,057	1,064	1,072
TOTAL OTHER FINANCING USES	\$ 50	\$ 748	\$ 877	\$ 1,027	\$ 1,182	\$ 1,188	\$ 1,022	\$ 1,028	\$ 1,034	\$ 1,042	\$ 1,049	\$ 1,057	\$ 1,064	\$ 1,072
TOTAL SOURCES	\$ 9,529	\$ 10,552	\$ 11,018	\$ 11,516	\$ 12,032	\$ 12,413	\$ 12,634	\$ 13,006	\$ 13,429	\$ 13,867	\$ 14,321	\$ 14,791	\$ 15,278	\$ 15,782
EXPENDITURES														
BASE BUDGET EXPENDITURES	9,209	9,066	9,380	9,705	10,044	10,395	10,761	11,141	11,535	11,946	12,373	12,817	13,278	13,760
Operating Surplus/Deficit by Year	\$ 320	\$ 1,486	\$ 1,638	\$ 1,811	\$ 1,989	\$ 2,017	\$ 1,873	\$ 1,866	\$ 1,893	\$ 1,921	\$ 1,948	\$ 1,974	\$ 1,999	\$ 2,022
OTHER FINANCING USES														
Decision Cards	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Ongoing</i>	-	764	812	836	861	888	915	944	1,642	1,700	1,760	1,822	1,887	1,955
<i>One-time</i>	-	685	130	546	32	882	494	720	696	810	1,523	940	1,075	1,217
Budget Strategies	-	-	-	-	-	-	-	-	-	-	-	-	-	1
Transfer to opportunity fund	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt Service Transfer	899	901	898	899	896	896	871	867	857	847	692	637	584	-
TOTAL OTHER FINANCING USES	899	2,350	1,839	2,281	1,789	2,666	2,280	2,530	3,195	3,357	3,974	3,399	3,546	3,173
Annual Surplus/Deficit	(579)	(864)	(201)	912	1,093	1,121	1,001	999	1,036	1,074	1,256	1,337	1,415	2,022
TOTAL USES	10,108	11,416	11,219	11,986	11,833	13,062	13,041	13,671	14,730	15,303	16,347	16,216	16,824	16,933
One-time Costco payout	337	84	-	-	-	-	-	-	-	-	-	-	-	1
Sources over Uses	(916)	(948)	(201)	(470)	199	(649)	(408)	(665)	(1,301)	(1,436)	(2,026)	(1,425)	(1,547)	(1,152)
TOTAL ENDING FUND BALANCE	\$ 3,566	\$ 2,618	\$ 2,417	\$ 1,948	\$ 2,147	\$ 1,498	\$ 1,090	\$ 425	\$ (876)	\$ (2,312)	\$ (4,338)	\$ (5,763)	\$ (7,310)	\$ (8,462)
Remainder of debt service reserve.	\$ 1,613	\$ 1,229	\$ 331	\$ (0)	\$ 0	\$ (0)	\$ (1)	\$ (0)	\$ (0)	\$ (1)	\$ (0)	\$ (0)	\$ 0	\$ 0
COSTCO RESERVE	\$ 84	\$ 0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
REPUBLIC SERVICES RESERVE	\$ 188	\$ 263	\$ 338	\$ 413	\$ 488	\$ 563	\$ 638	\$ 713	\$ 788	\$ 863	\$ 938	\$ 1,013	\$ 1,088	\$ 1,163
UNRESERVED FUND BALANCE	\$ 1,682	\$ 1,127	\$ 1,749	\$ 1,535	\$ 1,659	\$ 935	\$ 453	\$ (287)	\$ (1,664)	\$ (3,174)	\$ (5,276)	\$ (6,776)	\$ (8,398)	\$ (9,625)
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20% fund balance target	\$ 1,422	\$ 1,462	\$ 1,516	\$ 1,573	\$ 1,631	\$ 1,692	\$ 1,756	\$ 1,822	\$ 1,891	\$ 1,962	\$ 2,037	\$ 2,115	\$ 2,196	\$ 2,281
Fund balance policy	Meets 20%	Under 20%	Under 20%	Under 20%	Under 20%	Under 20%	Under 20%	Under 20%	Under 20%	Under 20%				
Margin above/below the 20% threshold	\$ 2,145	\$ 1,156	\$ 901	\$ 375	\$ 515	\$ (194)	\$ (666)	\$ (1,396)	\$ (2,767)	\$ (4,274)	\$ (6,375)	\$ (7,878)	\$ (9,506)	\$ (10,742)
Margin above the unreserved fund balance	\$ 260	\$ (335)	\$ 232	\$ (38)	\$ 27	\$ (757)	\$ (1,303)	\$ (2,109)	\$ (3,554)	\$ (5,137)	\$ (7,313)	\$ (8,891)	\$ (10,594)	\$ (11,905)

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Description	Current	Projected	Notes
COUNCILMANIC REVENUE:			
1	Extend utility tax councilmanically to water and sewer (unlimited)	N/A	Water - 1% = approximately \$38,000 Sewer Variable See <i>City of Wenatchee v. Chelan County Pub. Util. Dist. No. 1</i> ; could be feasible but there could be legal issues as well and pushback from local utilities and ratepayers. No appeal currently planned.
2	Councilmanic increase to SWM/Solid Waste/Cable TV Utility Tax (unlimited)	6%	Variable 1% = \$18,215 for SWM 1% = \$26,083 for Solid Waste 1% = \$51,083 for Cable TV Example: A 2% Increase to each category would net about \$190,000 annually.
3	Transportation Benefit District (TBD) - Vehicle License Fee (no voter approval needed) ¹	-	\$20 per tab per year = \$280,000 \$40 per tab per year = \$560,000 \$50 per tab per year = \$700,000 This estimate is per Department of Licensing (updated 2015). Per the recent Transportation package passed by the Legislature, if a city has a \$20 LF in place for 2 years then they can increase it to \$40; another 2 years after that it can be increased to \$50.
4	SWM rate increases ²	\$ 1,821,451	Variable Each 1% increase = \$18,215.
5	B&O tax	-	Variable PROS: Additional General Fund Revenue CONS: May not be supported by business community; enforcement arm would be needed to collect delinquent taxes; city would need to be prepared for negative feedback that could impact future election issues.
6	Business licenses/renewals - current fee is \$60	\$ 80,000	Variable Every \$10 increase could add about \$13,333.
7	REET - available in CIP (<i>one-time</i>)	\$	40,764
17	Park Impact Fee	-	Variable Discussed at Council meeting 1/27. To be established by Council policy.
VOTER APPROVED:			
8	Voter approved increase to utility tax (electricity, gas, telephone)	6%	Variable 1% = \$117,166 for Electric; 1% = \$58,666 for Gas; 1% = \$83,683 for Telephone PROS: Adds unrestricted revenue for unfunded projects and programs. CONS: Election risk.
9	Levy lid lift	-	Variable One way to increase property taxes by more than 1%. PROS: Can add needed revenue for operations. CONS: Election risk.
10	Unlimited General Obligation Bond Issues (<i>voter approved</i>)	-	Unknown PROS: additional revenue for the city. CONS: Election risk.
11	Metropolitan Parks District (MPD)	-	Variable - up to \$0.75/1,000 AV Based on the current AV of \$1.6 billion this could bring in up to \$1.2 million annually. PROS: This could fund a portion of operations or capital. CONS: Election risk.
12	Transportation Benefit District (TBD) - up to 0.2% sales tax option (<i>voter approved</i>) ³	-	variable up to \$780,000/yr PROS: Would provide funding to Streets to make them self reliant and return the General Fund subsidy. CONS: Election Risk.
NOT APPLICABLE:			
13	Lodging tax	N/A	N/A City currently does not have any lodging establishments. PROS: Promotes tourism. CONS: Does not provide any direct revenue to the general fund since it is a restricted revenue.
14	Gambling tax CMC 3.20 - 5% of gross revenues	-	N/A City currently does not have any gambling establishments.
15	Leasehold excise tax ⁴ - this does not currently apply to the city.	-	N/A
16	Admission tax CMC 3.50 - 2.5% of admission charge	-	N/A City currently does not have any places requiring admissions tax.
18	Local and Road Improvement Districts - LIDs/RIDs	-	Does not directly provide revenue to the city. Local and Road Improvement Districts (LIDs) are a means of assisting benefitting properties in financing needed capital improvements through the formation of special assessment districts. PROS: LIDs can play a very positive and powerful role in developing and enhancing the city's infrastructure. CONS: Can be labor intensive involving a number of staff over a long period of time, interim financing costs can be high, can be a PR nightmare if administered incorrectly.

This list represents revenue sources that are currently available either through councilmanic authority or voter approval.

Footnotes:

¹ Up to \$100 annual fee with voter approval; new legislation may be introduced that would increase the license fee up to \$50 without voter approval and make the .2% sales tax councilmanic.

² Based on 2013 sales tax collections.

³ It is a tax on the use of public property by private party. This tax is in lieu of the property tax.

⁴ Rate increase of 5% approved for 2015.