

City of Shelton 2010 Budget



*“Building A Stronger Community
TOGETHER”*



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*"Building A Stronger Community
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2010 Budget Report

To: Shelton City Commission
From: Dave O'Leary, City Administrator
Date: December 7, 2009
Re: 2010 Budget

Opportunities for Success

In the coming years, the City of Shelton will accomplish long-standing goals and overcome significant challenges. For instance, we are nearing completion of our Satellite Sewer Plant. This new infrastructure will expand sewer service to industrial lands north of the City. It will eventually enable development of new commercial and residential lands in City limits west of highway 101, ensuring a vital and growing economy.

Other achievements will include fixing our aging sewer system. We have recently completed the second of two sewer line rehabilitation projects. In recent months we secured financing for the rehabilitation of our main sewer plant, which will allow us to escape the current building moratorium. We also have commissioned engineering and design work on another sewer line project, and have included plans to begin construction on it in this budget. Finally, we are making plans to include another sewer line rehabilitation project in the near future.

We are currently working on a new pump station, which will allow us to remove a gravity sewer main from the bottom of Goldsborough Creek, and mitigate surcharging sewage into Kneeland Park and the Stormwater system.

Our water utility includes plan/design work for the construction of 1,480 lineal feet of new 12" water line, replacing existing water line; installing a new pump station near an existing water storage tank; and taking initial steps toward construction of a new water storage tank.

The Mason County PUD and the City have recently contracted to provide water service into county jurisdiction along John's Prairie Rd. This will facilitate the development of job-based businesses in this area.

Within the next year, we should complete updates to both the sewer and water comprehensive plans. These plans will continue our work in bringing these systems to a healthy condition and keeping them that way.

Recent and Continuing Successes

In the past year, we have achieved much more. For instance, we recently updated our zoning and subdivision codes, which will make our development processes more transparent and predictable. We have established a new Parks and Recreation Advisory Committee whose members provide stakeholder input into these valuable City programs.

We have started construction on our new fire station. Soon we will have demolished the old sewer plant along SR-3. With the help of local donors, we are facilitating repair of the Tollie Express.

We have established Traffic Impact Fees so that the impacts of growth can be funded along with construction of the development.

We have replaced older technology traffic signal lights with new light emitting diode lights, which will save power consumption charges and reduce impacts on the energy system. We have also trained employees to take over maintenance of these systems, reducing reliance on expensive contract services for this program.

We have a new system picking up garbage one week and recycling the next; we have established yard waste recycling; and we have expanded recycling services to include multi-family residents. All this has decreased the amount of garbage hauled to the County transfer station.

We have had remarkable success in our water department. We have exceeded our water conservation goals through repairs to the system. This has also freed up capacity for growth through efficient use of our water resources. We also are completing an upgrade to our water telemetry system, enabling dependable delivery of pure domestic water to community residents.

Our Work is Vital to the Community

Our employees are engaged in important work, and they do a lot.

We provide and maintain water, sewer, garbage, and storm water systems, which are all supported by user fees. These programs exist so that people can live and work in a clean and healthy environment. Additionally, we provide the following tax supported services.

Criminal justice programs include police patrol, detectives, crime prevention, courts, criminal prosecution and indigent defense. We contract with Mason 5 for fire related programs including fire suppression, emergency rescue, emergency medical, and emergency management services. We house the 911 communications center and we pay to support its operation.

City employees perform animal control, parking enforcement and code enforcement services. We maintain 8 City parks and sponsor a wide variety of participant recreation programs. We built and continue to maintain the Shelton library building.

We provide development services programs to ensure that new subdivisions, commercial developments and industrial developments are approved and built according to state and local standards. We review plans and inspect new construction to ensure that it is ready for years of safe and healthy occupancy.

We appoint / provide support to 4 different standing citizen boards including the Arts Commission, Historic Preservation Commission, Library Board¹, and Parks and Recreation Advisory Committee.

We maintain 64 miles of City roads. Responsibilities include filling potholes, replacing and repairing signs, facilitating sidewalk repairs, paying the power bill for street lights and seasonal burning of Christmas Lights, sweeping the streets, grading gravel streets, mowing roadsides, maintaining traffic signals, snow and ice removal, annually striping streets and City parking lots, maintaining street trees and landscaping, and as we have the money, maintaining and rehabilitating street surfaces.

Finally we provide governance services so that each of these programs operates according to the law, and within the oversight of the elected City Commission.

To do all the above work and including the proposed cuts, we employ a total of 103 employees (77 in the 2010 General Fund budget) housed in 5 different buildings (or groups of buildings). Computer systems include support for 101 workstations and laptop computers.

Each of these programs is essential to our community as it exists today. Our financial situation places each one at risk.

Daunting Challenges Continue in Tax Supported Programs

Regardless of our successes, many in our utility funds, tax supported funds will continue to face enormous challenges. This is due to a combination of rising costs, shrinking tax collections, and mainly, unfunded mandates. Recently, the poor economy has undermined our revenues, making a challenging problem even worse.

¹ Staff support for the Library Board provided by Timberland Library, even though the City Commission appoints its members.

Year by year financial problems have grown in severity. In 2005 for instance, expenses exceeded revenues by \$400,000. In the 2008 and 2009 budgets, the City cut a total of \$712,257 from ongoing programs. The City also saved \$135,718 per year by canceling its library service contract with Timberland Regional Library. Regardless this 2010 budget includes another \$350,000 in cuts from the status quo budget in order to make revenues match expenses.

The City has addressed this problem proactively. We have a history of conservative fiscal management. And in 2008 the City Commission enacted new financial policies. Among other things, these policies set minimum operating reserves at 6.5% of the total general fund budget. These are the funds needed to cover our costs at times of the year when tax revenues are at their lowest point. These "cash flow reserves" need to be at least \$690,000, or we will have to borrow money to pay our bills.

The City's goal during these times has been to maintain our employees and programs. This goal has been elusive.

Our highest priority has been public safety services. Even though the above prior year cuts did include the elimination of one patrol position (through attrition) that was just 3% of the police budget. Other programs have been cut much more deeply.

In 2005, the City employed 8 senior level managers, reporting directly to the City Administrator. In 2009 there were 4. These cuts were made, mainly, by doubling up job duties. In other words, someone left and their job was assigned to someone who already had one. These are big jobs. The high expectations remain. Meeting the expectations has at times been impossible. The stress has been considerable.

No department or program has been left untouched by these cuts, but the Community Development Department has been most severely impacted. Over 2008 and 2009, their department was cut by \$184,500, or 29% of its total. And this 2010 budget includes another \$164,600 in cuts to this department.

While we have been losing capacity, expectations have actually increased. Year by year, the City has been sent one unfunded mandate after another. In each budget cycle we have diluted local discretionary programs to pick up the slack. For instance, this budget includes level of service reductions (approximately 50%) in our animal control and parking enforcement programs (see next section), even though these are local priorities.

Decision Details

As mentioned above, this budget includes cuts totaling \$350,000. It includes reductions in force of 4 persons. One is in Community Development and a second in Public Works. Remaining personnel in those areas are examining their processes and assessing their capabilities, trying to maintain service levels.

One patrol position is being eliminated in the Police Department. Our concern is that we may not be able to fill all of our shifts with two officers, so one can back up the other.

The last reduction includes reducing one full time equivalent from our Animal Control / Parking Enforcement programs. This will reduce levels of service in these programs.

The City Commission tentatively approved these cuts at the September 10, 2009 City Retreat.

Our Financial Future

In the coming years there will not be enough resources for business as usual. Without relief and assuming the City puts \$100,000 aside per year to rebuild the fund balance, our 5 year financial forecast includes the following additional cuts:

2011	\$674,000
2012	\$271,000
2013	\$144,000
2014	\$56,000

Although modest increases in taxes and permitting will help, the above impacts arise from a variety of *potential* losses to capacity, most occurring in the coming few years. These include²:

- Upcoming payments for our new fire station \$150,000 (Starting 2011)
- Expiration of the City's EMS levy \$260,000 (Starting 2011)
- Loss of Crime Prevention Grant \$177,865 (Starting 2012)
- Loss of Police Patrol Grant \$87,250 (Starting 2013)
- Continuing general inflationary cost increases \$105,000 +1% per year more³
- Continuing health benefit cost increases \$100,000 +10% per year more

The single largest impact on our financial capacity over time comes from the increasing costs of employee health benefits. In the year 2000, and assuming we had the same number of employees then as now, the cost to provide this package of benefits to City employees would have been about \$450,000. In 2010 the cost is budgeted to be \$1,282,674. This is the result of average annual cost increases of nearly 10%. If this same annual rate of increase is assumed over the next ten years, the cost in 2020 for the same number of employees will be approximately \$3,200,000.

Of course, with these annual cost increases, there will inevitably be fewer employees and lower levels of service. Without the recommended cuts, the 2010 budget would have included \$100,000 more for medical benefits coverage than in 2009. Of the four employees proposed to cut, one to two of them can attribute the loss of their job to this increased cost.

² Details on these are explained elsewhere in this report.

³ This conservative assumption is historically low, but recently a little high. A higher actual rate will put more pressure on financial capacity, unless the City receives new revenues to compensate for the impact.

In the year 2000 the City employed 89 people in tax supported programs. In the year 2010 there will be 77. Arguably, 7 former firefighters, who now work for Mason County Fire District No. 5 (Mason 5), are still being paid by the City through our fire services agreement. However, the others are gone mainly because of increased medical insurance premiums. Without changes, all future budgets will necessarily include annual layoffs to cover rising medical benefit costs. And with fewer people our capacity to meet community service expectations will shrink.

Other challenges include the scheduled loss of two law enforcement grants from the federal government. This year's budget includes federal stimulus grants totaling \$240,898 for law enforcement purposes. This has been very helpful and our cuts would have been much deeper if not for this new revenue. On the other hand, in January 2012, the first grant will end and a \$177,865 annual revenue stream will run dry. One year later, the second grant will end and approximately \$87,250 more will go away. Additionally, the grant obliges us to keep an associated patrol position in place until 2014, using local dollars.

National and global economic projections are sobering. Most economists are saying that effects of the recession will last 3 to 4 years. This means that we are unlikely to receive substantive new sales and B&O taxes until at least 2013 or 2014.

New commercial development could help. We have been working diligently for most of the past decade to establish a new commercial center. Regardless, there are many obstacles, not the least of which is the poor economy.

Potential Solutions

As we confront the challenges of this dismal financial situation, we will seek solutions.

Parks and Recreation

One of the cuts considered in the 2010 budget was the elimination of Parks Maintenance and Participant Recreation services. The net cost of these programs after adjusting for various fees, and taking the proposed 2010 cuts into account, is about \$270,000. Allowing that we would need to retain one person performing a caretaker role, the savings could be over \$200,000. On the other hand the Finance Committee was not ready to recommend this cut. Rather they recommended a ballot measure establishing a Metropolitan Parks District. That would provide a stable funding source for this set of services, and free up General Fund resources to cover other costs.

Collective Bargaining Gains

On September 29, 2009 City officials including department heads, City Administrator, and Finance Commissioner Mike Byrne met with leadership from each of the 5 City unions to discuss upcoming negotiations. The City explained the financial situation and asked the unions to consider reductions in pay / benefits to maintain employees and programs. Collective bargaining has proceeded from this starting point. It is too soon to determine the outcome.

EMS Levy

Currently the City of Shelton receives funding from the property tax to support firefighter response to medical emergencies. This levy lid lift will expire at the end of 2010. The 2010 income from this source is projected to be \$260,543. In order to continue into 2011, voters will need to approve a re-authorization early in 2010.

Annexation into Mason 5

In mid 2008, the City entered into a fire services contract with Mason 5. The goal of this arrangement was for Mason 5 to annex the City into their service area. The benefit for the City was reduced costs. The benefit for Mason 5 was improved economies of scale. Annexation will require an election with major results from both City and Mason 5 voters.

The contract provided time for the district and City to try out the district managed service for an interim period of time. Additionally, Mason 5's programs include an ambulance service. Shelton has a private ambulance provider. The contract requires that Mason 5 purchase this company, which would allow their business model to work in Shelton. Although Mason 5 has been working toward this purchase, progress has not been swift enough to meet City expectations. The City has given notice to cancel its contract with Mason 5 effective January 1, 2011. On that date and without changes to existing policy decisions, the City will either resume operations of its own fire service or will have already been annexed into Mason 5.

Sales Tax Increase Supporting Public Safety

Local decision makers are considering an increase in the sales tax rate. This would inject new dollars into City and County budgets, most of which must be dedicated to support public safety services. Depending on the new tax rate, and assuming citizens across Mason County voted to support the ballot measure, it could add up to \$630,000 to City revenues. Under state law, County Commissioners must propose this measure. Also, non-supplant language in state law implies that over time, this income source could be lost, as the underlying financial basis is not sustainable.

Sustainability

The above potential solutions will buy time. But the reality is that these financial challenges are hard wired into our business model. For instance state law caps property tax revenue growth at 1% per year. General inflation, which is used to set employee salary increases, has increased at approximately 2% to 3% per year. Another example (mentioned above) is that health benefit costs add about \$100,000 per year to the City's expenses. There are no corresponding increases in revenue to make up for these losses. The bottom line is that expenses cannot rise faster than income over time. The situation is not sustainable.

The community has a stake in this problem. As financial capacity shrinks, the City will have to make cuts, lowering service levels. Recently decision makers have considered the elimination of entire programs such as animal control, code enforcement, crime prevention, parking enforcement, parks maintenance, recreation, and even police patrol services. All of these choices will impact the community adversely.

The City should take a fresh and long term view of financial sustainability to find new ways of doing business, and as necessary make difficult choices. These decisions should be made strategically, and in full view of an invited public eye.

Other Programs and Activities

Library Services

In November 2008 the City voted to be annexed into the Timberland Regional Library District. Effective January 1, 2010 the City will stop paying its annual contract fees to Timberland, and Timberland will begin to collect property taxes directly from Shelton residents.

Also in 2008 City property was reassessed. Contract payments to Timberland have been based on their levy rate multiplied by the total assessed value in the City. This would have raised our 2009 contract payments. However, as consideration for deciding to allow annexation, Timberland offered to keep our 2009 payment the same as 2008, and accept payments plus 3% interest over three successive years for the difference. The total debt has been calculated to be \$86,721. The City will be making payments of approximately \$30,000 in 2010, 2011 and 2012 to satisfy this debt.

Sewer Utility

Presently the City is still working on its new City's Sewer Comprehensive Plan, which should be finished in mid 2010. In the mean time, staff has recommended incremental increases to the sewer fees, mainly to provide revenue to satisfy debt service for system improvements mentioned at the beginning of this report. These rising expenses have driven the need for extra scrutiny of operational expenses. The 2009 budget included funding for 7 sewer workers, even though the utility employs only 6. The City is considering whether to increase line staff in the sewer utility to handle the extra workload at the City's new satellite sewer plant. The 2010 budget retains the assumption that a 7th worker will be hired, but this will only be allowed following a full review of staffing needs.

Other projects were mentioned in the introduction, above.

Water Utility

The water utility is sound financially. Associated plans were mentioned in the introduction and elsewhere, above.

Storm Water Utility

The Storm Water fund is sound financially, except that there is insufficient revenue to execute the capital facility plan, as identified by our Stormwater Comprehensive Plan. 2010 plans include continued efforts to secure grants for large projects, and the completion of small projects (mostly not large enough to have been included in the capital facility plan) as funding allows.

New Financial Policies

In April 2008, the City Commission passed Resolution 953-0408, setting up new financial policies for the General Fund. These policies carry the following strategic directives:

1. Included a goal to establish a minimum fund balance of least 15%. This includes cash flow reserves totaling 6.5% and strategic reserves totaling 8.5%.
2. Obligated separate accounting for one-time revenues and expenses.
3. Directed that one-time revenues be used for one-time expenses only.
4. Directed that the City revenues match up with expenses.
5. Provided that only the City Commission could allow exceptions to these policies.

Currently the City has not made progress toward establishing a 15% fund balance. However, in the current budget cash flow reserves will not fall below the minimum level. Staff has begun to account for one-time expenses, but this budget does not set aside these as our policy demands.

The financial forecast mentioned above does include adding \$100,000 per year to the fund balance in the years 2011, 2012, 2013 and 2014.

Rebuilding reserves or setting aside one-time revenues would require even deeper cuts to the 2010 budget. Staff recommends that the Commission authorize exceptions to these policies, as part of the budget approval process.

Strategic Plan

In late 2006, the City Commission approved a 6-year strategic plan. This plan included a set of missions, visions and values. It also included a lengthy set of goals (new projects and programs) intended to facilitate the vision. Many goals have been met. However, numerous others were postponed - substantially because financial challenges have limited our capacity to accomplish them. At the September 10, 2009 retreat, City Commissioners and senior staff proposed changes. The Commission will consider these changes along with the budget.

Work Plan

Each year at budget time, the City compiles a list of the things it intends to accomplish in the coming year. This is the work plan. It covers all departments. It is both an extension of the strategic plan and an indicator of demands and ideas that have emerged since the strategic plan was originally approved.

This year's work plan was introduced at the September 10th retreat. Updates will have occurred since then. The Commission will be asked to approve Work Plan along with the budget.

2010 Final Budget

Fund Name	Expenditures and Other Uses	Revenues and Other Sources
General Fund	\$11,496,143	\$11,496,143
Street	1,994,005	1,994,005
Tourism	127,712	127,712
Bond	358,325	358,325
LID Guaranty	79,009	79,009
Capital Improvement	3,286,566	3,286,566
Water	2,374,236	2,374,236
Sewer	8,571,008	8,571,008
Solid Waste	1,992,799	1,992,799
Storm Drainage	1,125,287	1,125,287
Regional Water	345,434	345,434
Regional Sewer	17,116,894	17,116,894
Payroll Benefits	359,685	359,685
Equipment Maintenance & Rental	824,712	824,712
Firemen's Pension	450,185	450,185
Library Endowment	103,863	103,863
TOTAL	\$50,605,863	\$50,605,863

2010 Final Budget

General Fund Expenditures - by Department

Department Name	2010 Budget
Legislative	\$182,057
Judicial	395,307
Executive	160,427
Financial Services	770,825
Records Services	41,017
Risk Management	367,270
Legal	185,375
Personnel	90,310
Central Services	479,522
Other General Governmental Services	5,525
Law Enforcement	2,344,935
Fire Control	820,878
Detention and Correction	349,747
Emergency Services	36,215
Ambulance, Rescue, Emergency Aid	374,221
Dispatch	1,317,615
Natural Resources	4,041
Engineering	682,926
Animal Control	81,071
Community Information Services	29,421
Planning & Community Development	249,754
Housing & Community Development	223,713
Mental & Physical Health	2,330
Libraries	65,194
Spectator/Community Events – Arts	4,189
Participant Recreation	74,909
Cultural & Recreational Facilities	43,572
Park Facilities	251,001
Long Term Debt Costs	650
Operating Transfers	917,497
Subtotal	10,551,514
Contingency Account	185,734
Ending Fund Balance	758,895
Total	\$11,496,143