

City of Shelton  
2011 Budget



*"Building A Stronger Community  
TOGETHER"*





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"Building A Stronger Community  
TOGETHER"

# 2011 Budget Report

**To:** Shelton City Commission  
**From:** Dave O'Leary, City Administrator  
**Date:** December 20, 2010  
**Re:** 2011 Budget

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## Progress on Budget Solutions

In recent years the City has made considerable cuts from tax supported programs in order to balance the General Fund budget. Early projections indicated that the City would need to trim about \$600,000 per year in annual spending to make the 2011 budget balance. To address this problem, the City proposed a variety of solutions. These included:

- Forming a Metropolitan Parks District (Est. annual savings \$270,000)
- Annexing the City into Mason County Fire Protection District No. 5 (Mason 5) (Est. annual savings \$200,000)
- Renewing the City's Emergency Medical Service (EMS) levy (Est. funds retained \$270,000)
- Securing reductions in employee costs through the collective bargaining process (Goal \$200,000 savings)

Our continuing goal has been to avoid cutting our programs and personnel. The idea behind these plans was that if 3 of the 4 proposals were accomplished, the \$600,000 gap could probably be closed.

Earlier this year, voters approved the Metropolitan Parks District, and in November renewed the EMS levy. On the other hand, the fire annexation election failed to win a majority vote. The City has negotiated a renewal of the fire services contract with the fire district. After adjustments for services that are not typical of contracts like of this nature, our

payments to them will roughly match the amount the district would have collected if the annexation had been approved. This should result in considerable savings.

This budget assumes that the City has final collective bargaining agreements with all 4 unions supported wholly or in part from the General Fund. All of the agreements include transferring medical insurance costs to the employees. All non-represented employees will also pay a comparable share of the health insurance premium.

Regardless, of these accomplishments, our financial condition has continued to deteriorate along with the economy. This budget message outlines the challenges and identifies viable solutions.

## **Tax Collections**

The outlook for taxes is bleak.

*Dropping General Taxes* - One of our assumptions in early 2010 was that tax collections would stabilize or grow modestly. They did not. During 2010 for instance, our sales tax actually dropped an estimated \$125,000 below 2010 budget projections. Although B&O taxes rose slightly, utility tax collections dropped, effectively canceling out the benefit.

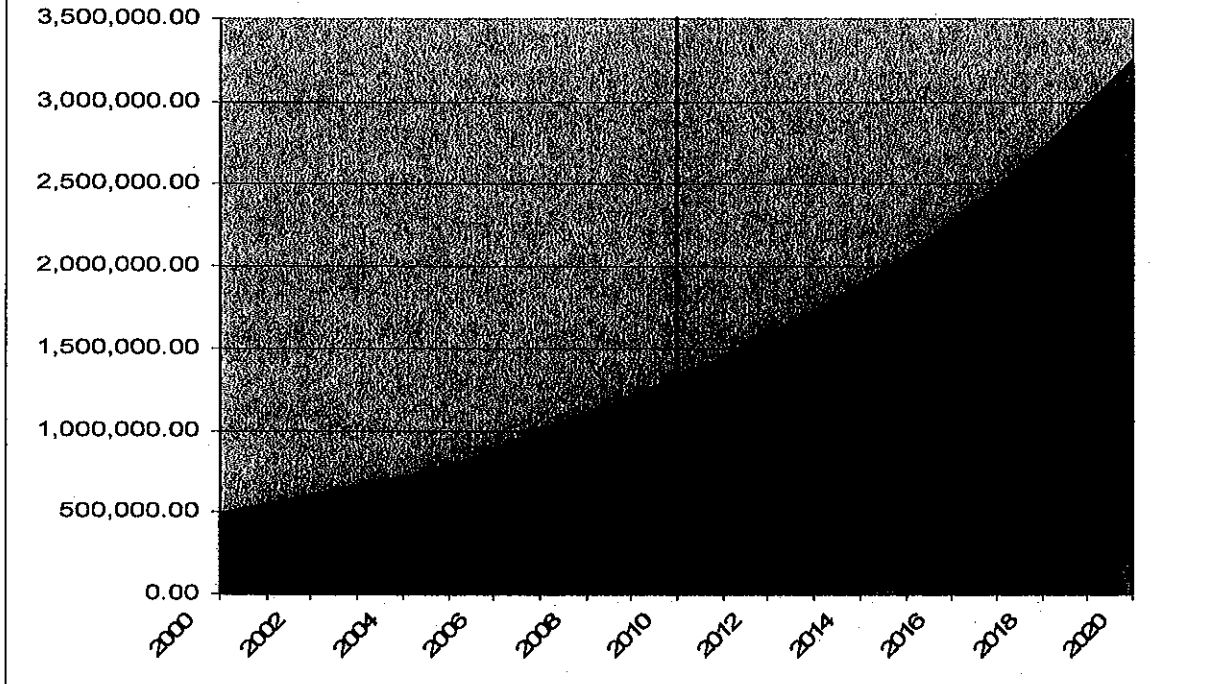
*PUD Excise Tax Refund* - We recently learned that PUD Excise Tax Collections were too high. Apparently recent court decisions reversed Department of Revenue practices, obliging a refund of taxes collected in recent years. Our preliminary assumption, based on conversations with the County, is that the refund will be credited against taxes that would have otherwise been collected in 2011, meaning that we could lose most of the 2011 collection (approximately \$60,000).

*Repealing Taxes on Candy and Bottled Water* - In November, voters approved I-1107 which repealed recently imposed taxes on Candy and Bottled Water. These taxes were adopted by the 2010 Legislature, attempting to close a state budget gap. Cities received a share of these revenues. The estimated loss is about \$9,000.

## **Health Insurance**

Among the most daunting long term challenges facing the City is the cost of employee health benefits. Over the past 10 years annual premium increases averaged about 10%. If we assume that we had the same number of General Fund supported employees in 2000 as today, the cost would have been about \$490,000. In 2010 the cost is estimated to be \$1.3 million. If we project the same number of employees forward to the year 2020, the cost will be about \$3.25 million. Clearly this is not sustainable. If not addressed, the result will be significant reductions in staffing along with comparable drops in service levels.

## Estimated Annual Health Premium Cost



We are attempting to address this problem proactively.

For 2011, we are working to move all employees to health plans with lower insurance premiums. In addition, we have asked all of our unions to take on a greater share of the premium costs along with higher insurance deductibles / co-pays. At this writing 3 of our unions have agreed to this transfer. The police union has a tentative agreement to the transfer. If for some reason, the contract is not approved, we are likely to need Interest Arbitration to secure the same outcome.

### One-time and Ongoing Revenues

The City has adopted a new General Fund policy that dedicates one-time revenues to one-time expenses. Resolution 953-0408 says that the City must account for one time revenues and expenses separate from ongoing revenues and expenses, and use one-time revenues for one-time expenses only. These systems are now in place. Resolution 953-0408 goes on to say that ongoing revenues must match ongoing expenses. This proposed budget attempts to keep faith with this standard. However, there are a variety of unknowns that may frustrate the attempt.

Another important provision of Resolution 953-0408 is that the City is to maintain reserves totaling 15% of the General Fund budget. Cash Flow (operating) reserves are 6.5%, and may not be used except for their intended purpose. They must also be fully replenished by the end of the year. The remaining 8.5%, Strategic Reserves, may sink below this level at year end but must be replenished within two years. This policy was adopted in 2008. Fund balance accounting since then is shown below:

<i>Year</i>	<i>Ending Fund Balance</i>	<i>General Fund Expenses</i>	<i>Percentage</i>
2008	\$1,155,296	\$ 9,253,956	12.5%
2009	1,319,709	10,393,433	12.7%
2010 ( <i>Estimates</i> )	884,293	10,462,736	8.5%

According to Resolution 953-0408, the City should increase the fund balance to 15% of the General Fund budget by year end. From 2009 to 2010 the increase should be \$685,117. Given that our ongoing sales tax income is trending to \$125,000 below projections, the fund balance is unlikely to meet this target.

On the other hand, 2011 may hold promise. Our fund balance may be restored from one-time revenue. Building permits on large projects and sales tax on new construction are significant sources of one-time revenue. One large industrial project is currently underway, which will yield one-time revenue that can be used to replenish our fund balance. A second project has submitted plans for purposes of securing a building permit. Two other projects are well into the planning stages. So long as all four projects proceed, the City should be able to meet the goal.

### **One Time Expenses**

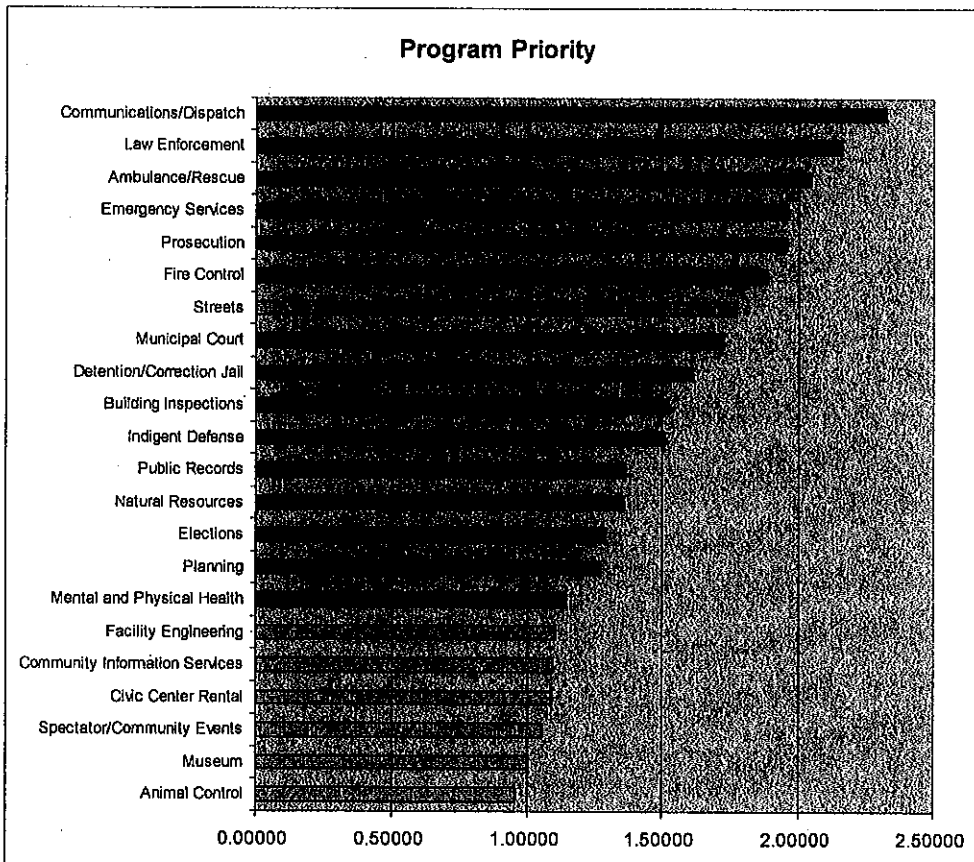
Written instructions to budget writers invited one-time expense requests. As mentioned above one-time revenues are likely to result from the above referenced large construction projects. Even so, it is very difficult to determine with certainty, how much money the projects will yield. The recommendation is to use these one-time revenues to restore our fund balance in accordance with the Resolution 953-0408 standard. We also would like to fund one time expense requests, depending on the amount of income that the projects yield.

### **Communications**

Throughout 2010 the City has been communicating with the public on budget challenges and solutions. In the spring our efforts were directed toward formation of the Metropolitan Parks District. We told voters that there were not enough dollars to maintain the service unless voters approved the measure - and as mentioned above, they did.

The City produced a new video on the City budget and an update to this video in late summer. The City Administrator accompanied by a City Commissioner, went on a speaking tour. The message focused on solutions we were proposing to help maintain services.

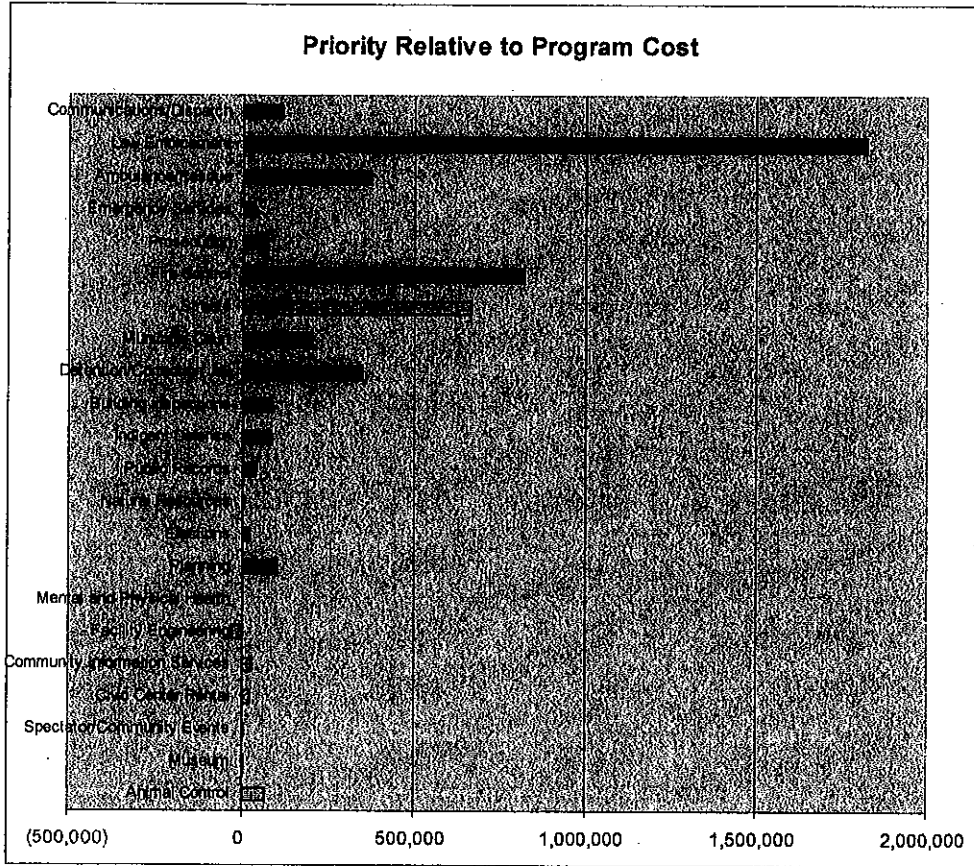
Another communications method was to collect feedback on citizen priorities. Staff handed out paper survey forms at the speaking opportunities, and made the same forms available at the front counter of the Civic Center. The survey asked respondents to rate the various City programs from "Not Important" = 0 to "Extremely Important" = 3. The idea was to rank the programs from the highest priority to the least. The same survey was posted on the City's web site, so it could be answered in electronic form. Since early June, and through November 30, 2010, 144 people responded to the survey. Average responses are below:



These results have presented a dilemma. All programs received average scores ranging from "Somewhat Important" to "Very Important". No single program found a majority of responses deeming the program to be "Not Important".

Additionally, the most popular programs tend to be the most expensive. Significant cuts are necessary to balance the budget. It will not be possible to close the gap by restricting cuts

to those programs that are not as favorably rated. The following chart retains the above ranking and includes the net amount of money budgeted or spent on each program in 2010. Note the relatively modest amount dedicated to the bottom rated programs.



**Work Plan**

The 2010 Work Plan was ambitious. The City has completed or is poised to complete 21 of 44 projects listed in the 2010 Work Plan. Completed projects are impressive. Examples include a reduction in property and business related crimes and formation of a Metropolitan Parks District. We completed or started sewer projects worth millions. We secured partnerships to help us do major expansions of our water system, and should complete by year's end an update to our water comprehensive plan. The majority of the uncompleted projects were not completed due to insufficient resources. Almost all of these are being rolled over into the 2011 Work Plan.

The 2011 Draft Work Plan is even more ambitious than the 2010 plan. Our philosophy is to reach far, celebrate the objectives we are able to meet, and not give up on our vision for the future, regardless of the financial challenges.

## **Strategic Plan**

In 2006 the City developed a Strategic Plan for adoption in 2007. It started as a 5 year plan that was recently extended to 6 years. Its 8 vision statements are supported with a variety of projects that when accomplished will demonstrate achievement of the vision.

A substantial majority of these projects are already completed and more will be completed before the end of 2012. Some of the projects may not be completed in the planning period, mainly due to funding limitations.

The City currently revisits and updates the Strategic Plan at least annually. Regardless, the planning period ends December 31, 2012. With most of the projects being completed or nearing completion, we should begin to think about the next plan. In 2012, we should revisit the basic premises of the plan and reset our course for the next 5-6 years.

## **Recommendations**

Based on input received at the November 15, 2010 public hearing, the Finance Committee has made changes to the original proposed budget, and where feasible is working on solutions to problems that were identified.

### *Police Patrol*

The original proposed 2010 budget included cuts in funding for one patrol officer. Ultimately, the City Commission approved funding to maintain this position for a six month period. In the second quarter of 2010, Chief Davenport identified unspent funds from the 2009 budget and asked the Commission to apply them to the position for the remainder of 2010. The Commission approved this plan.

Due to our deteriorating finances, the recommendation throughout the budget process has been that this position not be funded in 2011. Furthermore, it was recommended that another patrol position be funded for a 6-month period - and thereafter would be cut.

According to Chief Davenport, this would result in significant impacts on operations. These impacts include and are not limited to increased overtime costs, or alternatively, shifts with a single officer on patrol. Chief Davenport reports that single officer coverage will compromise officer safety and public safety. Another impact is the Police Department's compromised capacity to provide court security and prisoner transport.

Thankfully, recent union negotiations have yielded results that help alleviate this problem. The Police Union has agreed to a new contract that includes a 12% co-pay of the health insurance cost, and a switch to a less expensive plan. In addition, the Chief of Police has identified other cuts from the department's ongoing resources that help close the gap.

Recognizing these savings, the budget includes a recommendation that both patrol positions be funded through 2011.

In the mean time, City staff will work toward establishing video court capability, where prisoners can stay in the jail and appear in court through video hookup. This would result in considerable efficiencies because an officer will not be needed to move prisoners between the jail and courtroom in the Civic Center. This expense is not currently in the budget. Rather, it would be funded from one-time revenues, assuming they materialize.

#### *Animal Control / Code Enforcement*

The budget includes elimination of animal control services, except for the dangerous dogs program. The idea was to train the City's current code enforcement officer as an animal control officer. Even though ordinary animal control efforts would be suspended, the Code Enforcement Officer would maintain the shelter as a place for dangerous dogs following their apprehension. This would result in reduced code enforcement effort. However, it would maintain the most critical animal control service.

At the November 15, 2010 public hearing and in other communications, local citizens expressed strong support for the animal shelter, and said it was important for it to remain open. Some citizens have hinted that there may be community resources (such as volunteers) that would allow for a short term solution. At this time, City staff is communicating with local citizens about possible solutions. This report includes a recommendation that closure of the animal shelter be postponed until April 1, 2011. In the mean time staff will continue to work with local citizens toward a solution.

#### *Street Operator*

The proposed budget included elimination of funding for one position in the Street Department. This is expected to result in lower levels of services that local citizens are likely to notice. It is expected to impact our ability to provide service during adverse weather events such as flooding and heavy snowfall.

Regardless, the budget must be balanced. The budget continues to include elimination of funding for this position.

#### **Goal - Sustainability**

The past four budgets have all included reductions to ongoing tax supported services. A significant reason was to proactively manage our financial condition toward a point of sustainability. Essentially, we wanted to establish a financial model that would allow for predictable levels of employment and service from one year to the next, regardless of the usual variations in the national economy.

At this point, all the known adverse impacts are accounted for. One is the expiring law enforcement grants. One yields income of \$177,865 annually. It expires December 31, 2011. The other yields \$87,250. It expires December 31, 2012. Another problem is that we continue to fund operations by using reserves. However, the amount we have been using has been shrinking. The total for 2011 is about \$132,691. If we can find a way to replace these dollars, and assuming we see no major surprises, we will be very near our goal of financial sustainability.

## **Eye on the Future**

The past 3 years have been very trying. Incredibly, cuts/savings have totaled about \$1.8 million. Our energies have been necessarily focused on solutions to our immediate problems, and less directed toward the long term goals. The year 2011 offers an opportunity for us to shift our sights.

Regardless of our challenges, we have in recent years invested heavily in utility infrastructure. We have managed to maintain excellent public safety services. We have a core group of talented and dedicated employees. We have excellent policy leadership from our City Commission. We can leverage these strengths.

Economic developers need and appreciate all of this - especially utility infrastructure. We have it for them. We either have it in place, or have it under construction, or it is listed in our capital facility plans. Frankly, the welcome mat is out.

In 2011 we should begin a conversation on growth in Shelton. We should begin to talk less about what we cannot do and more about what we will do. We should make plans as though it is just around the corner.

We have opportunities to partner with organizations like the Chamber of Commerce, Economic Development Council, the Port of Shelton, Mason County and anyone else who shares a vision that our time is at hand.

In short, it is time to dust off our trousers, and move forward.

## **Gratitude to Our Dedicated Employees**

The last 3 years have been very challenging. We are now getting more done with fewer resources than I would have thought possible in late 2007, when we started this process. Our dedicated employees have made this possible. They are owed our enthusiastic gratitude for their commitment to the City through this difficult period.

To them I say, "Thank you." And, "Well done!"

## 2011 Final Budget

Fund Name	Expenditures and Other Uses	Revenues and Other Sources
General Fund	\$11,347,029	\$11,347,029
Street	956,544	956,544
Tourism	126,318	126,318
Bond	453,379	453,379
LID Guaranty	78,952	78,952
Capital Improvement	4,997,474	4,997,474
Water	3,900,739	3,900,739
Sewer	22,420,684	22,420,684
Solid Waste	2,055,348	2,055,348
Storm Drainage	1,502,183	1,502,183
Payroll Benefits	411,929	411,929
Equipment Maintenance & Rental	962,146	962,146
Firemen's Pension	417,403	417,403
Library Endowment	107,161	107,161
<b>TOTAL</b>	<b>\$49,737,289</b>	<b>\$49,737,289</b>

## 2011 Final Budget

### General Fund Expenditures - by Department

Department Name	2011 Budget
Legislative	\$183,535
Judicial	399,480
Executive	157,836
Financial Services	793,765
Records Services	47,933
Risk Management	295,818
Legal	185,657
Personnel	92,975
Central Services	544,330
Other General Governmental Services	5,522
Law Enforcement	2,363,394
Fire Control	381,400
Detention and Correction	354,358
Ambulance, Rescue, Emergency Aid	608,000
Dispatch	1,249,831
Natural Resources	4,003
Engineering	718,004
Animal Control	22,349
Community Information Services	28,306
Planning & Community Development	228,558
Housing & Community Development	197,806
Mental & Physical Health	2,180
Libraries	37,200
Spectator/Community Events – Arts	4,244
Participant Recreation	89,437
Cultural & Recreational Facilities	39,958
Park Facilities	293,795
Long Term Debt Costs	29,598
Operating Transfers	917,730
Subtotal	10,277,002
Contingency Account	185,734
Ending Fund Balance	884,293
<b>Total</b>	<b>\$11,347,029</b>





