October 31, 2014

To: Councilmembers
Cc: Department Directors
From: Mayor Nicola Smith

Subject: Transmittal of Mayor’s Preliminary Budget for the 2015-2016 Biennium

There are no quick fixes when reinventing government to sustain long-term prosperity. The budget process for 2015-2016 has not solely been about dollars and cents; it has also addressed normalizing a budget process for the city. There has been a lot of hard work put into this budget from the City Council, Department Directors and other City staff, our Boards and Commissions, and many engaged citizens.

This collaborative approach to building a budget that truly reflects the wants and needs of our residents is not the easy way to create a budget, but it is the right way. The Preliminary Budget that I present to you for the 2015-16 Biennium was created with more than the next two years in mind. It was created looking forward into the future and positioning us for 2017-18 and beyond.

Since September 8, 2014 when I delivered my Proposed Preliminary Budget, the City Council has heard a presentation from each Department Director outlining their overall budget. These presentations also addressed budget pressures that Departments are currently experiencing and/or are anticipating in the near future. Finance Director Lorenzo Hines has presented to City Council detailed information on this Budget’s anticipated revenues and expenditures, as well as the City’s Financial Policies. The Executive Budget Balancing Group continues to meet with me, the Council President and Council Finance Chair. The collaboration seen during this budget process is a testament to Lynnwood becoming a regional model that is a great deal more.

Priorities

In addition to creating a sustainable and collaborative budgeting process and following the City’s Financial Management Policies, I approached this budgeting process with the following priorities in mind:

- Develop the budget with the Community Vision priorities in mind, and with an eye towards 2025 including future regionalization of services.
- Grow and diversify Lynnwood’s economic base to include making investments in infrastructure and making improvements to the City’s local and regional transportation system.
- Implement process improvements to create a more business friendly Lynnwood.
- Move towards public safety education and connections with the community.
- Increase diversity training and address the need to diversify the city workforce.
• Increase the physical attractiveness and safety of Lynnwood and bring back City celebrations and events.
• Reposition staff resources to address priority issues such as code enforcement, public records requests, technology, etc.
• Strive to balance financial revenues in conjunction with current levels of service.

Fix It’s
The theme to this budgeting process has been, “Fix It, Refresh It, Grow It.” Flat revenues and the continually increasing cost of doing business has created a gap that if not addressed properly in this budget, will only get bigger and more painful to overcome. I have proposed a series of “Fix It’s” in this Preliminary Budget.

• Transfer $2.8 Million from General Fund Balance to the Revenue Stabilization Fund. This transfer would put us ahead of schedule per the City’s Financial Policy of having $5 Million in the Revenue Stabilization Fund by 2016.
• Allocate $300,000 to the Capital Fund. The commitment to fund needed capital development was made during the voter approved annexation into the Sno-Isle Library system. There have been no transfers to the Capital Fund since 2007. Although $300,000 is less than the stated commitment, it is a starting point from which we will build the Capital Fund.
• Conduct a series of efficiency studies in 2015-16 to review repositioning and/or alternative service delivery options for some of our most costly city services. These are not elimination studies. These studies are a means for us to break free from the old adage, “that’s the way we’ve always done it.” Lynnwood is not alone in experiencing the expenditure vs. revenue gap. There is a growing trend among cities across the nation to strategically realign services to be more cost efficient. We have already begun an efficiency study in our Information Services division. We will also be looking holistically at the feasibility of Impact Fees in order to determine what cost recovery tools are available to us. In order to provide credible, defendable and accountable services to our community, we must know the real costs of our services. We have to know our real costs before we can establish attainable goals.
• Proposed is a small amount, $5,000, in the on-going Decision Packages to address our Federal requirements of Title VI of the Civil Rights Act to provide language access to our constituents. Lynnwood has a diverse citizenry. This amount will cover the translation of critical city documents and interpretive signs. A Decision Package was approved in the 2013-14 budget as one-time funding for this purpose, yet this is a requirement that demands continuous attention and must be included in on-going funding.
• Included in the base budget are five on-going staff positions which have previously been paid for with one-time funding. These five positions are serving in key roles directly aligned to moving our Community Vision forward. This proposal does not increase the annual cost for these positions.
As previously reported, there are anticipated budget pressures looming from rising jail costs, court costs and public defender fees. The actual cost for these increases is unknown at this time. To help address these costs, a $1.1 Million allocation has been included into the base budget. This addition is an adjustment from the Preliminary Proposed Budget. This is a significant cost increase that needs to be accounted for in the base budget, however this causes a significant pressure to the gap between expenditures vs. revenue.

**Final Proposed Revenue Enhancements**

We have proposed a set of modest revenue enhancements for the City Council’s consideration. These increases are not a ‘tax to the max’ approach. Small, incremental increases help maintain current levels of service without presenting a sudden undue burden. We have heard over and over again from citizens and businesses that they would much rather see smaller and manageable tax increases versus severe and sporadic jumps in taxes. This allows the taxpayers to better predict and budget for increasing costs.

- Proposed is an increase in staffing costs for the Parks, Recreation & Cultural Arts Department in order to increase hours of operation at the Recreation Center. This proposal is revenue positive and the anticipated revenue from this change is anticipated to be $235,000.

- Proposed is a restoration of the Utility Tax back to the 2013 level of 6%. This restoration would increase revenues by an estimated $705,000. Last year’s decision to cut back the Utility Rate to 4% had a minimal effect on the individual homeowner, yet had a significant impact on the general fund’s revenues to the tune of $550,000. Resetting the rate back to the 2013 level would have minimal effect on the individual homeowner, yet help stabilize City revenues.

- In addition to restoring the Utility Tax, it is proposed to increase the Utility Tax rate by an additional 1%, for a total Utility Tax Rate of 7%. Moving the Utility Tax Rate from its current 4% to 7% rate would increase the average single family residential monthly utility bill by about $4.00, which is approximately $0.13 per day. Lynnwood’s Utility Bill would remain about $30.00 below the average home based upon a survey conducted by the Alderwood Water District. This small increase would help mitigate the increased base budget costs of $1.1 Million needed to deal with rising jail costs and public defender fees.

- Proposed is the institution of a 1% increase in the Property Tax plus the use of available banked capacity on Property Tax. This small, incremental increase will help the City to keep up with rising costs without having to call for larger increases in the future. This proposal increase is anticipated to increase the City’s revenues by $659,050 and the actual increase to a typical homeowner is approximately $1.08 a month or $0.04 per day.

- Proposed is an amendment to the current Business Licenses Head Count methodology. The decision made by City Council in late 2013 to amend the methodology to Business License Head Count had a significant impact on the City. The current method takes up more staff time to administer and there is no practical way to enforce compliance. This new proposal, initially introduced by Council Vice President Roberts, calls for any employee whom works 14 hours or
less per week, to be charged at a rate of $48.50, and any employee who works 14
hours or more to be charged at the full rate of $88.50. This methodology change is
anticipated to net $620,000 to the General Fund.

Changes From Proposed Preliminary Budget

The following adjustments have been made from the Proposed Preliminary Budget:

- A small amount, $10,197, was transferred from Non-Departmental to
  Administrative Services. There is a cover sheet detailing the increase to
  Administrative Services budget, however this does not affect the bottom line of
  the General Fund.
- A small amount, $23,339, was transferred from Legislative to Executive. There is
  a cover sheet detailing the increase to the Executive budget, however this does not
  affect the bottom line of the General Fund.
- Community Development’s CD7 one-time decision package has increased from
  $25,000 to $47,000. This increase covers the cost of one year’s license to run the
  online permitting/electronic plan review software. This amount was originally
  included in the on-going decision package list for $22,000, however it was
determined that the fees generated from the use of this software will cover the
  ongoing license fee.
- There was an increase in the Legal budget due to the anticipated increase of
  $500,000 in public defender costs.
- There was an increase to the Police Department’s budget of $600,000 for the
  anticipated rising jail costs.
- And finally, I added an on-going decision package to retain the Training Fire
  Captain position, which was cut during the Proposed Preliminary Budget due to
  budget constraints. This position plays a key role in ensuring that our Fire
  Department’s staff are trained to the highest level to be able to provide exemplary
  life safety services to our community.

Balanced Funds: The Finance Department has reviewed projections and adjusted
expenditures to ensure that the following funds are now balanced or revenue exceeds
expenditures. Those funds are:

- Transportation Fund 111 (Street Fund)
- Golf Course Fund 460
- Vehicle Services Fund 511 (ERR Fund)
- Maintenance Shop Fund 513
- Self-Insurance Fund 515

Base Budget Bottom Line

The budget presented to City Council this evening encompasses $2.2 Million in cuts that
our Departments have already taken coupled with the revenue enhancements mentioned
previously. If this proposal is not acceptable there is the possibility that further cuts will
be made, thereby eroding the service levels of the city.
Decision Packages

One-Time: These one-time decision packages are determined to be key initiatives in moving our City towards our community vision. They are one-time costs that will have lasting benefits for our City Departments and the community. The following list is presented in order of the Administration’s priority:

1. AS/EXEC: Cost of Service Efficiency and Delivery and Regional Solutions - $300,000
2. PRL-1: Recreation Center Claim Settlement/Remediation - 104,493
3. CD-7: On Line Permitting/Electronic Plan Review - 47,000
4. E-4: Community Vision Initiatives - 200,000
5. AS-4: Document management, i.e. Public Records - 200,000
6. E-3: Personal Services-Intergovernmental Services - 80,000
7. CD-3: Code Enforcement Revolving Loan Fund - 100,000
8. PW-6: Major Appliance Replacement at Fire Stations 15/14 - 62,000
9. AS-2: Limited Term part Time Help with Procurement, Acct, PRR, Audit - 250,000
10. PRCLS-1: Park Maintenance ERR - 30,000
11. PRCLS-4: Landscape Renovation/Beautification Program - 12,000

Total One-Time - $1,385,493

Cost Efficiency Studies:
Please take note that the $300,000 for Efficiency Studies is indicated as Administration’s top priority of the one-time decision packages. As stated earlier in this letter, we cannot set attainable budget goals before knowing the real cost of doing business. We must take a critical analysis of our City services to ensure that we are being good stewards of public funds. To create a sustainable budget, it may be necessary to streamline, reinvent, or even divest in certain areas. It may be realized that some things are running efficiently and the recommendation is to carry on as usual. We cannot truly provide our community with credible, defendable and accountable services without knowing the real cost of our services. The one-time cost for these studies will reap numerous benefits to the City.

Community Vision Initiatives: City Council has requested further details in regards to the proposed Community Vision Initiatives. This proposed decision package of $200,000 will address my number one budget priority which is to develop the budget with the top community vision priorities in mind. This decision package will fund initiatives such as: Community Outreach Meetings for issues such as Sound Transit, potential annexations, and Citizen/Neighborhhood summits; Celebrate Music & Dance Festival and/or other special events; community partnerships and sponsorships; volunteer engagement opportunities; Arts Commission projects; and community emergency preparedness. By packing these initiatives together in a single decision package, it will give City staff the ability to leverage the funds in the most appropriate manner after further research has been done and community partnerships have been developed. City Council will be kept up-to-date in the development and funding of these initiatives.

On-Going: These on-going decision packages have not been included in the base budget. These decision packages have been identified by Administration to be top priorities for our City in order to address level of service, creating an environment of excellence and
moving our City towards our community vision goals. City Council action is required to fund these packages. The following list is presented in order of the Administration’s priority:

<table>
<thead>
<tr>
<th>#</th>
<th>Code</th>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>227</td>
<td>E-5</td>
<td>City-Wide Translation Service</td>
<td>$5,000</td>
</tr>
<tr>
<td>228</td>
<td>PD-2</td>
<td>Jail Medical Program</td>
<td>360,000</td>
</tr>
<tr>
<td>229</td>
<td>CD-2</td>
<td>Reviewer/Building Inspector</td>
<td>195,000</td>
</tr>
<tr>
<td>230</td>
<td>HR-1</td>
<td>Labor Relations Services</td>
<td>50,000</td>
</tr>
<tr>
<td>231</td>
<td>E-1</td>
<td>Increase Mayor Executive Assistant to Full Time from 0.5 FTE</td>
<td>70,000</td>
</tr>
<tr>
<td>232</td>
<td>FD</td>
<td>Retain Fire Training Captain</td>
<td>309,690</td>
</tr>
<tr>
<td>233</td>
<td>ED-2</td>
<td>Economic Growth: New Business Liaison Position</td>
<td>205,000</td>
</tr>
<tr>
<td>234</td>
<td>AS-8</td>
<td>Increase Acct Tech to 0.3 FTE</td>
<td>36,668</td>
</tr>
<tr>
<td>235</td>
<td>HR-2a</td>
<td>Employee Training and Development</td>
<td>40,000</td>
</tr>
<tr>
<td>236</td>
<td>HR-2b</td>
<td>Linked in Recruiter License</td>
<td></td>
</tr>
<tr>
<td>237</td>
<td></td>
<td>Total On-Going</td>
<td>$1,294,358</td>
</tr>
</tbody>
</table>

If these decision packages are funded, Administration will be judicious in the spending of these decision packages by proceeding with initiatives only as revenues are determined to be satisfactory.

**Budget Pressures and Considerations**

As mentioned before, six of Lynnwood’s *bargaining units* will be up for contract negotiations in 2016. This is an unknown pressure that will be placed on the biennial budget. We will evaluate this matter and the budget impacts during the mid-biennium adjustments. The implications of contract negotiations will present on-going costs for future budgets.

**Conclusion – “Fix It, Refresh It, Grow It”**

The 2014 Citizen Survey results have been delivered to City Council and later this evening you will see a presentation on the key survey results. It is clear to me that overall Lynnwood is an exceptional place to live. In general, our services provided to city residents were rated as excellent or good by a majority of individuals. What is most concerning is the fact that Lynnwood ranked poorly in areas such as overall city image, sense of community, opportunities to participate, volunteer, and attend activities and events. My budget aims to address these issues head on. The base budget ensures that our current level of services remain intact so that we can ensure our residents continue to have positive feelings of the city services they receive. The one-time and on-going decision packages have a direct connection to improving Lynnwood’s sense of community, overall image and opportunities for community participation.

Although it was hard work creating the 2015-16 ‘Fix It budget’, and tough decisions had to be made, I can truly say that our community is worth the effort. The ‘Refresh It’ process that will begin next year is an opportunity for us to analyze our true cost of doing business, nurture a relationship with our community, and position our city for true growth in 2017-18 and beyond in order to make Lynnwood a community with...*a great deal more!*
### 2015-2016 Preliminary Budget
**General Fund Budget Worksheet**
November 3, 2014

<table>
<thead>
<tr>
<th>Revenue</th>
<th>2015-16 Proposed Preliminary Budget</th>
<th>2015-16 Dec Packs (Ongoing)</th>
<th>2015-16 Transfer to Capital Dev.</th>
<th>2015-16 Dec Packs (One time)*</th>
<th>Total 2015-16 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund</td>
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<td>$300,000</td>
<td>$1,385,493</td>
<td>$101,453,650</td>
<td></td>
</tr>
<tr>
<td>Restoration of 6% GF utility tax increase + 1%</td>
<td>1,058,691</td>
<td></td>
<td></td>
<td>1,058,691</td>
<td></td>
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<tr>
<td>Business License Restoration</td>
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<td></td>
<td></td>
<td>620,000</td>
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<tr>
<td>Additional Recreation Center Revenues</td>
<td>235,610</td>
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<td></td>
<td>235,610</td>
<td></td>
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<tr>
<td>Annual 1% increase in Property Tax</td>
<td>394,952</td>
<td></td>
<td></td>
<td>394,952</td>
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<tr>
<td>Inc. Associated w/Property Tax Banked Capacity</td>
<td>264,098</td>
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<td></td>
<td>264,098</td>
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<tr>
<td>Annual 1% increase in EMS-Property Tax</td>
<td>22,021</td>
<td></td>
<td></td>
<td>22,021</td>
<td></td>
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<tr>
<td><strong>Total Revenue</strong></td>
<td>$102,363,529</td>
<td>-$</td>
<td>$300,000</td>
<td>$1,385,493</td>
<td>$104,049,022</td>
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<table>
<thead>
<tr>
<th>Expenditures</th>
<th></th>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>General Fund</td>
<td>$102,247,285</td>
<td>$300,000</td>
<td>$1,385,493</td>
<td>$103,932,778</td>
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<tr>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td><strong>Total Expenditures</strong></td>
<td>$102,247,285</td>
<td>-$</td>
<td>$300,000</td>
<td>$1,385,493</td>
</tr>
</tbody>
</table>

| Difference (Surplus/Deficit) | $116,244                           | -                           | -$                              | -                               | $116,244             |

| One-Time use of Fund Balance | $1,385,493                         |                             |                                |                                |                      |

* For detail of Decision Packages see individual department sections
## 2015-2016 Preliminary Budget
### Decision Packages
Revised 11/03/2014

### One-Time

<table>
<thead>
<tr>
<th>Decision Pkg#</th>
<th>Title/Description</th>
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<td>AS/EXEC</td>
<td>Cost of Service Efficiency and Delivery and Regional Solutions</td>
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<td>200,000</td>
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<td>E-3</td>
<td>Personal Services-Intergovernmental Services</td>
<td>80,000</td>
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<td>CD-3</td>
<td>Code Enforcement Revolving Loan Fund</td>
<td>100,000</td>
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<td>PW-6</td>
<td>Major Appliance Replacement at Fire Stations 15/14</td>
<td>62,000</td>
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<td>AS-2</td>
<td>Limited Term part Time Help with Procurement, Acct, PRR, Audit</td>
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<td>PRCLS-4</td>
<td>Landscape Renovation/Beautification Program</td>
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**Total One-Time $1,385,493**

### On-Going

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<td>City-Wide Translation Service</td>
<td>$5,000</td>
</tr>
<tr>
<td>PRELS-2</td>
<td>Extended Recreation Center Hours*</td>
<td>-</td>
</tr>
<tr>
<td>PRELS-3</td>
<td>Increased Hours for Aquatics Staff*</td>
<td>-</td>
</tr>
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<td>Jail Medical Program</td>
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**Total On-Going $1,294,358**

*While PRELS-2 (Cost $79,194/Revenues $120,000) and PRELS-3 (Cost $76,398/Revenue $76,968) have initial costs both proposals are projected to generate revenues in excess of these cost, therefore these proposals are considered cost neutral.*

**All decision package narratives have been provided to Council, except for FD-2, which is attached.