



EXECUTIVE DEPARTMENT

1
2 **Date: November 18, 2009**
3 **To: All Department Directors**
4 **City Council Members**
5 **From: Don Gough, Mayor**
6 **John Moir, Finance Director**
7 **Subject: Second Adjustments to the 2009-10 Biennial Budget**
8

9 Introduction

10 **Fall 2008 Development of the 2009-10 Biennial Budget.** Development
11 of the biennial budget for 2009-10 in the fall of 2008 presented a series of
12 unprecedented challenges for both our city and the State of Washington overall.
13 With a great deal of uncertainty about the deteriorating economic conditions in
14 Fall 2008, normal trend analysis budget estimates of revenues was quite “iffy” at
15 best. The Washington State Economic and Revenue Forecast Council in its
16 March 2009 major forecast mentioned that such unprecedented challenges also
17 meant no historical trending was useful. Our objective in developing our 2009-10
18 budget was to do the best we could given the unique circumstances, and then
19 make adjustments as needed in 2009, knowing that more up-to-date, timely, and
20 credible information would be forthcoming in the early stages of the biennium in
21 2009.

22 **Budget Adjustment Guidelines – Common Sense.** The most learned
23 advice to cities, our experience, and common sense, dictate three basic
24 overarching approaches to developing and making adjustments to our city’s
25 2009-10 biennial budget:

- 26 1. Ensure that decision-making is based upon the most up-to-date and
27 credible information, together with reasonable projections.
- 28 2. Determine what type of economic and fiscal situation we are in.
- 29 3. When that information, those projections and analysis are available,
30 then make the best decisions we can, keeping in mind the best long-
31 term interests of our city.

32 **1. The Most Up-to-Date Decision-Making Information and** 33 **Reasonable Projections.**

34 The City Council was briefed on the following dates and had the
35 opportunity to ask questions and become informed as to the status of, and
36 reasonable projections of city budget revenues and expenditures:

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- 1 A. **Monday, March 30, 2009**, including what was learned from the
2 Washington State Economic & Revenue Forecast Council report on
3 March 19, 2009. All Council Members were present for the
4 discussion.
- 5 B. **Wednesday, April 15, 2009**, which included receiving council
6 comments on potential expenditure reduction approaches identified
7 by the Finance Director, Mayor and department directors. Five
8 Council Members were present.
- 9 C. **Wednesday, April 29, 2009**. The Finance Director was present to
10 do additional briefing and discussion on budget reduction
11 approaches, etc., however, the City Council could not gather a
12 minimum quorum that evening to conduct a meeting and therefore,
13 cancelled the meeting. See Council agenda.

14 After April 29, 2009, the Finance Director and Mayor developed over the
15 next 21 days a series of projections and decisions about reducing expenditures
16 because of the economic recession and thus, reduced 2009-10 revenues. The
17 projections included an *initial first time sales tax forecasting model* just for the
18 City of Lynnwood, based off of both actual city and state sales tax over the last
19 10 years. Also, Governor Gregoire's action on signing and vetoing legislative
20 bills, including the state budget, was not completed until May 19, 2009. Several
21 matters in the state budget directly and significantly affected our Lynnwood
22 budget.

23 City departments were advised of their pro-rata portion of 3.5%
24 expenditure reductions on May 22, 2009. Department heads requested that they
25 be given until Friday June 12, 2009, in which to determine their respective
26 strategies for reductions. Proposed reductions were reviewed by the Finance
27 Director with departments, and with the Mayor. A set of reductions by
28 department was prepared for briefing to the City Council as follows;

- 29 D. **Monday, July 6, 2009**. All city department heads presented to the
30 council, and answered questions about, their respective
31 expenditure reduction plans.
- 32 E. **Monday, July 13, 2009**. The City Council adopted Resolution
33 2009-15, requested by Judge Moore in regard to all component
34 parts of the judicial process working to reduce jail commitment and
35 probation time.
- 36 F. **Monday, July 20, 2009**. The City Council was again afforded an
37 opportunity to be briefed by the Finance Director and to ask
38 questions of him regarding any department expenditure reductions.
- 39 G. **Wednesday, August 19, 2009**. A council agenda item included a
40 Finance Director discussion, however, he was ill and could not
41 attend. The item was re-scheduled.

1 H. **Wednesday, September 9, 2009**. Another opportunity to go over
2 the department budget reductions and to do the “mid-year financial
3 review” was conducted on September 9, 2009.

4 **2. The Most Up-to-Date Decision-Making Information - State Level.**

5 **State Capital & Operations Budgets.** Getting the most up-to-date
6 information includes what’s in, or out of, the FY 2010-11 state budget which
7 affects our city directly. The Washington State Legislature adjourned on Sunday,
8 April 26, 2009. Governor Gregoire finished signing (and vetoing) many bills
9 including both the state Capital Budget, and Operations Budget, on May 19,
10 2009. These important state items directly affecting our city were in those
11 budgets:

- 12 A. Streamlined sales tax mitigation remains fully funded in the budget.
13 B. The city contribution rate for pensions was reduced for all systems,
14 except LEOFF1. That saves our city an estimated \$418,000 during
15 our biennium.
16 C. The state budget provided matching funds for two (2) capital
17 projects: (a) development of Doc Haggeman \$500,000; and (b)
18 development of Stadler Ridge Park \$350,000. Approval of Stadler
19 Ridge is good news, however, it directly reduces the size of the
20 available Strategic Investment Plan (SIP) match pool by about one-
21 third.

22 **3. The Most Up-to-Date Decision-Making Information & Reasonable**
23 **Projections – Sales Tax.**

24 **Sales Tax - General.** The most intriguing factor in the current revenue
25 situation has been the degree to which sales tax collections appear to be
26 affected by the economic recession to a higher degree in Lynnwood than in the
27 state overall. We believe that is due to the heavy concentration of retail stores in
28 Lynnwood. Second, at the state level it’s a “macro” look state-wide, where in
29 Lynnwood the reduction in business activity, or for that matter the complete
30 closing of a store, shows up more pronounced in local city revenues. Our recent
31 historical data says that when state sales tax revenues decline Lynnwood sales
32 tax revenue decline even more. Our very conservative ***initial*** sales tax 2009-10
33 budget projections which were based off of the full 2008 year for comparison,
34 have been adjusted ***downward*** as of May 14, 2009, to reflect this impact per our
35 *first new* sale tax projection model.

36 **Sales Tax – Lynnwood Revised Model.** Since May 2009, the
37 Finance Director has continued to improve upon the ***initial*** sales tax revenue
38 model to sync it to projected state trends and actual city sales tax receipts.
39 Totally new to the projection modeling process is the fact that instead of having
40 retail stores enduring reduced revenues during a recession, then recovering and
41 returning to previous or higher revenue levels, a number of big and small stores

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1 have gone completely out of business. And, for those stores the sale tax
2 revenue now and in the future goes to “ZERO” and will not “recover.”

3 Earlier this year sales tax collections were under our estimates. In May, the
4 Finance Director revised the sales tax projections to reflect the impact of closed
5 businesses (a reduction of \$1.3 million per year). Since that time through
6 October, we have received about 3.5% more than projected.

7 Constant monitoring of state and local sales tax information will continue
8 as it has every month.

9 **PLEASE NOTE:** On the City of Lynnwood website we show monthly
10 nearly 40 pages of financial and budget information available to everyone,
11 including city councilmembers. It covers all tax, fees, charges, and other
12 revenue sources, and includes department-by-department expenditures. It also
13 includes a “**General Fund Cash**” graphic showing the recent past, current, and
14 anticipated status, of cash flow throughout the biennial budget period. It includes
15 a specific comparison to last year’s cash flow. Most all of the information in
16 these reports are in both numeric and graphic form with appropriate comparative
17 prior period information, too.

18 To check on city tax revenues of all kinds, and on department-by-
19 department expenditure trends please go to the City of Lynnwood website
20 located at: www.ci.lynnwood.wa.us, and on the home page in the upper right
21 corner click on *Quick Links* – “City Finances,” then click on “Current Budget
22 Reports.”

23 **Sales Tax - Information Availability – State.** Even if the economic
24 and revenue projections by the state forecast council are correct, actual data
25 showing and confirming those new trends has, and will continue to, be slow in
26 coming. The September (end of third quarter) and October actual state sales tax
27 receipts and other state level information will not be available until mid-October
28 2009. Actual October state level information will not be available until mid-
29 November 2009.

30 **Sales Tax - Information Availability – City.** The lag of actual
31 revenue data at the city level is longer due to the normal 45-60 day delay. Actual
32 city sales tax receipts through the third quarter of 2009, i.e. September 2009, will
33 not be in our hands until at least mid-November. October 2009 actual city
34 receipts will not arrive until at least mid-December.

35 **What Type of Economic & Fiscal Environment is Our City in?**

36 **Economic Outlook – Early 2009.** The Washington State Economic &
37 Revenue Forecast Council (Forecast Council) on March 18, 2009, summarized
38 the economic outlook for 2009 as follows:

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1 “Our new baseline forecast assumes that the U.S. and Washington
2 economies will be in recession for most of this year *flattening out*
3 *sometime late in the third quarter.*”¹ Italics and underline added.

4 In terms of GDP growth the state Forecast Council stated:

5 “The forecast expects a 2.6 percent decline in real GDP this year [2009]
6 before recovering to 1.9 percent in 2010 and 3.4 percent in 2011.”²

7 The Forecast Council’s March 2009 statement also noted, however, that:

8 “The collateral damage to real economic activity has been
9 greater than anticipated.”³

10 The overall national and state economies were projected to “flatten out” and
11 stabilize late in the third quarter of 2009 (i.e. July-September), and we believed at
12 that time that it might continue possibly into October 2009. As we stated in
13 Spring 2009 and during Summer 2009, both verbally and in writing, to everyone
14 that cared or wanted to listen:

15 *“As noted, growth in the national and state economies is not expected to*
16 *begin again until late in the fourth quarter of this year. While the Forecast*
17 *Council indicates that economic and revenue projections estimate a*
18 *“bottoming” of the economic recession late in the third quarter of 2009,*
19 *and the beginning again of economic growth and therefore a revenue*
20 *“rebound” starting in the fourth quarter of 2009, overall it will take some*
21 *time, and likely a couple years in fact, for tax revenues to come back up to*
22 *recent levels.”*⁴

23 The Forecast Council had meetings and issued economic and revenue,
24 analysis and projection reports in both June and September.

25 **Economic Outlook – Currently – November 2009.** To cut to the bottom
26 line we’re including excerpts of the November 2009 economic and revenue
27 reports, as available. By “fast-forwarding” to the November 2009 economic
28 report you’ll note it contains a substantially more upbeat analysis and forecast
29 compared to March 2009. The November 6, 2009, Forecast Council “Economic
30 Review” provides the following:

31 **National Economy – General.** “The economy returned to growth in the
32 third quarter as we had expected and the focus of the recovery has now
33 shifted to labor markets. ... At the national level, we believe that the jobs
34 recovery will be quicker than we experienced in either of the two
35 previous recessions in 1990-91 and 2001. ... We continue to expect a U-

¹ See Washington State Economic & Revenue Forecast Council’s March 2009 Economic Forecast at 4.

² Ibid. at 2.

⁴ See May 22, 2009, Memorandum entitled, “Adjustments to be made to 2009 Biennial Budget” at page 3.

1 shaped recovery, which means we'll be crawling along the bottom for a
2 while before a robust return to growth becomes evident.”⁵

3 **“Gross Domestic Product (GDP)” Rate.** “Third quarter real GDP
4 growth was 3.5% on a seasonally adjusted annual basis.”⁶

5 The Forecast Council identified 3 major factors creating this 3.5%
6 growth:

7 “... 1% was the contribution of ... the cash-for-clunkers (CARS)
8 program that has now been discontinued.”

9 “... personal consumption expenditures accounted for [1.4]”

10 “New housing construction added 0.5% to overall GDP growth”

11 “Our forecast for fourth quarter growth is therefore 2.4%, which is
12 lower that it was in the third quarter.”⁷

13 **Washington State Economy & Jobs.** “The Washington economy is
14 likely to have turned the corner in the third quarter of this year though
15 employment in the state has continued to decline through September.
16 The rate of job loss, however, has slowed sharply since the freefall stage
17 of the recession. We expect employment in Washington to bottom out
18 early in the fourth quarter of this year ...” The Washington recovery, like
19 the national recovery, will be slow and U-shaped.”⁸

20 “Initial unemployment claims in Washington appear to have peaked and
21 continue to trend downward. The state’s unemployment rate also
22 appears to be leveling off in recent months after rising sharply to late last
23 year [2008] and early this year. The unemployment rate inched up to
24 9.3% in September from 9.0% in August. ... We expect the
25 unemployment rate to peak at 9.8% in the second quarter of 2010.”⁹

26 **Consumer Confidence.** “Consumer confidence remains weak and is
27 unlikely to improve until the job situation improves. Consumers
28 continue to reduce revolving credit, paying down debt and saving
29 more.”¹⁰

30 **Housing.** “As we expected in September, the second quarter appears
31 to have been the bottom for housing in Washington as measured by
32 building permits. ... The [housing] recovery will be slow, hampered by
33 oversupply, low consumer confidence, and difficulty arranging
34 financing. Nevertheless, housing will now begin to add to growth

⁵ See report “*Economic Review: November 6, 2009, Executive Summary*” at page 1.

⁶ Ibid. at 1.

⁷ Ibid. at 1.

⁸ Ibid. at 2.

⁹ Ibid. at 2.

¹⁰ Ibid. at 1.

1 rather than detract from it which is a *huge turnaround* compared to the
2 last few years.”¹¹ Underline and italics added.

3 **Inflation.** “Inflation as measured by the Seattle Consumer Price Index,
4 remains weak. Consumer prices rose at only a 0.6% seasonally
5 adjusted annual rate from June to August. Core inflation was also low
6 at 0.8%. So far this year (December 2008 to August 2009), core
7 inflation is rising at only a 0.8% rate and overall inflation [at] only 1.1%.
8 ... We expect Seattle inflation will remain moderate throughout the
9 forecast period, i.e. into mid-2011.”¹²

10 **Manufacturing.** “The state’s manufacturing sector is poised for a
11 rebound.”¹³

12 **Boeing.** “Boeing’s recent announcement that its second 787 line will
13 be located outside the state does not affect our current forecast for this
14 biennium. We had not assumed a second line in any of our earlier
15 forecasts.”¹⁴

16 **Credit.** Credit conditions continue to slow down the recovery.
17 Regional and local banks remain vulnerable because of their
18 disproportionately higher exposure to commercial real estate.”¹⁵

19 The Forecast Council set the “downside risk” probability of their economic
20 forecast being too optimistic at 10%. Likewise, it set the “upside risk” probability
21 of their forecast being too pessimistic at 5%.

22 The Forecast Council has only one remaining forecast meeting scheduled
23 for November 19, 2009, which will focus on the revenue picture for the state.
24 This meeting which will be the last economic and revenue forecast projections for
25 calendar 2009, and the last before the state Legislature convenes in January
26 2010. If you wish further information, or to read the full Economic & Revenue
27 Forecast Council reports, please go to: www.erfc.wa.gov and then to “Economic
28 and Revenue Update” for the selected meetings and reports dates you wish to
29 read.

30 **Summary.** The answer to the question, “What Type of Economic & Fiscal
31 Environment is Our City in?” is a *slow, post steep-recession recovery* for which
32 we’ll be “*crawling along*” just above the bottom of the Great 2009 recession for
33 a while yet. For Lynnwood, one very important factor is *consumer confidence*.
34 This lagging indicator is being buffeted quite severely by the overarching
35 unemployment figure of 10+% nationally, and 9+% here in Washington State.
36 Consumer spending comprises at least 2/3 of the economy. Economic growth

¹¹ Ibid. at 3.

¹² Ibid. at 3.

¹³ Ibid. at 2.

¹⁴ Ibid. at 2.

¹⁵ Ibid. at 1.

1 may be forthcoming in the near future, but that too will be slow, even if it
2 materializes.

3 Our revenues projections have been, and continue to be, on target. The
4 assumptions underlying our financial approach have been correctly conservative
5 compared to actual economic "growth." As we have **repeated and repeated**
6 the last six to seven months, our reduction strategy assumed a merely "off the
7 bottom economic growth" occurring late in the 3Q of 2009, maybe into October
8 2009. The fact the economy bottomed during -- and not late in the 3Q is fine with
9 us. Our self imposed budgetary discipline to wait for at least one month plus
10 (October/November) after completion of the 3Q economy to allow for a shaking
11 out of both national and state economic analyses of the real status of the
12 economy through the 3Q, i.e. through September, has proved a good "time
13 buffer." The series of conflicting economic signals are starting to dissipate and a
14 clearer picture (and consensus) has formed. However, consumer spending has
15 not recovered, and accordingly, that factor means further expenditure reductions,
16 or other strategies, must now again come into play. The timing of the state law
17 "window" for mid-biennial budget changes fits well with our timing strategy and
18 availability of economic and revenue information. As we laid out our approach
19 and timing last spring, we said that we needed to follow the best advice, use our
20 experience, and use our common sense to:

- 21 "1. Ensure that decision-making is based upon the most up-to-date
22 and credible information, together with reasonable projections.
23 "2. Determine what type of economic and fiscal situation we are in.
24 "3. When that information, those projections and analysis are
25 available, then make the best decisions we can, keeping in mind
26 the best long-term interests of our city.

27 We've put ourselves in a strong position to make the best decisions possible for
28 our city.

29

30 **What are the Decisions to be Made Now and**
31 **Through the End of the 2009-10 Biennium?**

32 The balance of the memorandum is designed to specifically recount what
33 has been done and to outline what next steps should be taken over the next 4
34 quarters of 2010 of the biennium to reduce expenditures to match available
35 revenues.

36 First, however, a brief review is in order of voter and administrative budget
37 related decisions and actions which have occurred so far in 2009

38

1 **2009 Budget Actions Completed or Needed to**
2 **Implement the 2009-10 Biennium Budget**

3 The City Council placed the Emergency Medical Services Property Levy
4 on the November 2009 General Election ballot. It is passing by an 85% 'Yes'
5 vote. The levy allows the resetting of the property tax rate to 50 cents per \$1,000
6 Assessed Value (AV).

7 The administration has implemented a 3.5% reduction in expenses for
8 each department. Those reduction actions were briefed to the council in July
9 2009.

10 These 2009 actions were assumed and included in Fall 2008 during
11 development of the 2009-10 biennial budget, and City Council action on these
12 topics is assumed in this memorandum.

- 13 • A property tax 1% increase as allowed by state citizen initiatives for
14 2010. Normally a vote establishing the general property tax levy is
15 taken in December 2009 for collection in 2010.
- 16 • The Council will establish the voted EMS property tax levy at the
17 maximum of 50 cents per \$1,000 Assessed Value (AV) as approved by
18 the voters on November 3, 2009.

19 If these actions are not going to be supported by the Council, we will need to
20 increase the targeted expenditure reductions as set forth below.

21 **Part I: Budget Issues & Required Remedial Action**

22 **Overview of Administrative Budget Reduction Actions**

23 Our last set of expenditure reductions was 3.5%. Each department's
24 expenditure reductions were provided in writing to the Council in the July 6, 2009,
25 packet. Each department made a brief presentation and councilmember
26 questions were asked at that meeting, and subsequently.

27
28 There are many factors to consider and objectives to achieve while going
29 through budget adjustments/reductions. The top five are mentioned here.

30 **Financial Policies.** First, we will continue to adhere to existing city
31 Financial Policies which include discerning the type and use of "on-going," "one-
32 time," and "reserve," revenue sources.

33 **General Fund Balance.** Second, it is essential that the General Fund
34 current beginning balance and its projected ending biennium balance show
35 stability within the parameters of existing city financial policies. It is noted that
36 the Sales Tax Streamlining "reserve" of \$500,000 established in the 2007-08

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1 budget (Program Development) was transferred to the General Fund to ensure
2 cash flow stability, and to offset the steep decline in SST mitigation revenue,
3 while closing the 2007-08 biennium books.

4 **Revenue Stabilization Fund #198.** Third, the stated purpose of Fund
5 #198 Revenue Stabilization Fund (LMC 3.53.020, Ord. 2224, 1998) is:

6 **LMC 3.53.020:** "Into the revenue stabilization fund shall be placed
7 monies appropriated or budgeted from time-to-time, which are
8 determined reasonable and necessary to accumulate a balance of at
9 least \$2,000,000, and that the funds be expended only for the
10 purposes of revenue stabilization. Revenue stabilization includes:

11 A. Funds for the payment of approved expenditures due to a **cash**
12 **flow shortage in the general fund;**

13 B. Financial reserves to provide a cushion for an unexpected
14 shortage in tax revenue receipts;

15 C. Reserves for expenditures deemed necessary by the city
16 council;

17 D. **Temporary short-term interfund loans** made consistent with
18 BARS Manual regulations."

19 Under current economic, revenue, and cash flow conditions, Fund #198 may be
20 appropriately used for all purposes in subsections .020 (A), (B), (C), and
21 subsection (D) pursuant to the provisions of LMC 3.53 regarding inter-fund loans.
22 Fund #198 was designed for exactly these economic, revenue, and cash flow
23 conditions.

24 Revenue stabilization is a budget technique designed to deal with the classic
25 "bridging" situation, meaning that reserve funds may be included in the budget as
26 revenue to offset reduced revenues caused by factors which "de-stabilize"
27 revenues, i.e. our economy going through a deep recession. The purpose is to
28 *bridge, or fill, the gap* between where a city is now on the downside of the
29 revenue curve and to a future point when the other side of the revenue curve is
30 recovering.

31 **All City Funds Involved.** Fourth, the primary focus of budget reductions
32 is on the General Fund, although **all city funds** will be subject to budget
33 reductions regardless of revenue source(s).

34 **Street Fund.** Fifth, the other program which has been specifically
35 addressed is the Street Maintenance and Repair Program, including overlay
36 projects.

37 **Specific Biennial Budget Issues Requiring Remedial Action**

38 **Decreased Revenues.** The City Council has been briefed on projected
39 biennial city revenues. The updated summary of those biennial revenue
40 estimates are:

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1	• Reduced Sales Tax	\$3,856,165
2	• Reduced Sales Tax Streamlining Mitigation	\$2,960,000
3	• Reduced Fee Revenues: Rec. Center Closure 2010	\$1,033,226
4	• Reduced EMS Transport fees	\$ 320,000
5	• Reduced Fees & Forfeitures	<u>\$ 400,000</u>
6	Total Reductions	\$8,569,391

7
8 *For the purposes of this memorandum the summary of reductions
9 is rounded to \$8.6 million.

10 Other revenues sources appear relatively stable compared to the Fall '08
11 budget estimates.

12 **Increased Expenditures.** The City Council has been briefed on
13 increased expenditures separately, and in conjunction with various policy actions
14 taken by them. The updated summary of those increased expenditures is as
15 follows:

16	• School Speed Cameras – Police Dept.	\$ 570,250
17	• School Speed Cameras – Muni. Court	\$ 80,000
18	• Urban Design Highway 99 Corridor Project – Com. Dev.	\$ 131,910
19	• Healthy Communities - One-time ACHIEVE Grant – P&R	\$ 30,000
20	• Compensation Study – AFSCME negotiations	\$ 70,000
21	• Intelligent Transportation System Project – Public Works	\$ 402,600
22	• Cost of Union Labor Agreements – Salaries & Benefits	\$1,901,167
23	• Computer Software and Hardware Maintenance	<u>\$ 500,000</u>
24	Total Increased Expenditures	\$3,685,927

25
26 **Specific Remedial Actions Authorized & Required**

27 Department directors have suggested a series of categories of budget
28 reductions. The Council has been briefed on April 15, 2009, on those
29 suggestions and consulted on any additional thoughts or suggestions they had.
30 That advice and those thoughts are very much appreciated.

31 To meet the estimated revenue shortfall of \$8.6 million in the 2009-10
32 Biennial Budget, the following reductions, offsets, and actions, are being taken or
33 are required.

34 **Budget & Financial Actions**

35	1. Temporary use: 2010 Utility Tax for Solid Waste	\$ 235,000
36	2. On-going: Fines: Red Lght + Sch. Speed Cams.	\$2,627,000
37	3. One-time: ACHIEVE Grant	\$ 30,000
38	4. Trfr: Rev. Stabilization to Gen. Fund (up to amt.)	<u>\$1,250,000</u>
39	Total Revenue	\$4,142000

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1	On-going: No Transfer '09 Lib. Cont. Rev. to CapDev.	\$1,000,000
2	1. Decreased Exp.: Pension Pymts – St. Leg. 4/26	\$ 418,000
3	2. Dept. B09-10 Budg. Reduc. (est. 3.5%)	\$3,220,958
4	3. Dept. B09-10 Budg. Reduc. (est. 1.6%)	<u>\$1,350,000</u>
5	Total Expend. Reduction	\$5,988,958
6		

7 • **Administrative Actions**

8 1. **Capital Facilities (CFP) - Strategic Investment Plan (SIP).**

9 Approximately \$1.2 million in SIP projects that were put on “Hold”
10 have now been cut. That means that no further work will be done
11 on those projects, except to the extent some funding remains.

12 Putting a hold on SIP projects does not directly affect the General
13 Fund, because the funding for SIP projects are mostly from REET
14 #1 and #2 funds, Capital Development, state and federal grants,
15 and other non-General Fund sources. There is one exception and
16 that is the transfer of \$1 million per year in General Fund monies to
17 the SIP which in the past would have gone before to pay the old
18 library services contract. The Council budget agreement was that
19 after the Library was annexed into the Sno-Isle Regional system,
20 the former library contract payments would go to fund city capital
21 projects. That was done for 2008 and is shown clearly on the
22 2007-08 SIP. For 2009, the transfer will not occur, thereby keeping
23 that \$1 million in the General Fund to help offset the revenue
24 shortfall. For 2010, the transfer is **tentatively** planned to continue
25 as in 2008.

26 2. **Program Development Fund (F#199).**

27 All of the programs and services included in the Program
28 Development Fund budget will be reviewed again by each
29 respective department as part of the budget reduction process.
30 Further actions to reduce expenditures and/or to items on “Hold”
31 will remain in that status until further notice to Departments.

32 3. **Department 2009-10 Budget Reduction Adjustments.**

33 Each city department has planned reductions for 3.5% based upon
34 May 2009 direction. Overall, 40% of reductions needed to come
35 from 2009 expenditures and about 60% needed to come from 2010
36 expenditures.

37 Our latest revenue estimates, economic, and other related
38 information point clearly to the need for further reductions of 1.6%.
39 Departments will need to submit their budget reduction plans and
40 other related information and work, together with their specific
41 program or service reduction amounts to the Finance Director by

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1 next week. Departments together with their employees may
2 determine budget cuts in any manner they choose. Please use the
3 budget reduction strategies in Exhibit A.

4 Departments will need to review their past efforts and budget
5 reduction plans and put together the following items:

- 6 A. A listing and narrative re: department programs and
7 services, including the level of service adjusted.
- 8 B. A plan to freeze positions consistent with the “Flexible Hiring
9 Freeze” guidelines.
- 10 C. An overtime budget reduction plan.
- 11 D. A narrative of budget reductions and revenues, including a
12 review of decision packs from 2008, to address:
 - 13 1) What programs and services can the department
14 choose to stop doing;
 - 15 2) What programs and services can be done differently,
16 restructured, process redesigned, or other techniques
17 to reduce now, and in the long run too, expenditures.
 - 18 3) What suggestions, together with some basic data and
19 analysis, are there to create, increase or enhance
20 revenues to the city.
- 21 E. A priority listing of High (H), Medium (M), or Low (L) listing of
22 all department programs, services, and activities. See
23 Exhibit B as an example from Administrative Services of
24 what this should look like.

25 4. **“Flexible” Hiring Freeze.** To assist departments in developing a
26 budget reduction plan and specific targeted budget reductions and
27 targets, a “Flexible Hiring Freeze” shall be formally instituted using
28 the following criteria and guidelines which shall apply to **all**
29 departments:

- 30 A. Do not fill positions that are not critical to the delivery of high
31 priority services.
- 32 B. Hold the position open until further notice.
- 33 C. Moving some position(s) from full-time to part-time.
- 34 D. Allowing “seasonal” part-time employee staffing for
35 important program and services, especially where revenue
36 generation occurs to offset those seasonal staff expenses.

37 All requests to fill new positions, existing positions, or formerly
38 occupied positions, but which are now becoming vacant or which

1 are desired to be fill for any reason, shall be submitted to the
2 Finance Director for review within the criteria and guidelines above.

3 • **One (1) City Council Action Required**

4 There is one action that the council needs to do. That is to authorize the
5 transfer of up to \$2,000,000 from the Revenue Stabilization Fund #198 to
6 the General Fund #011.

7 **Part II: Further Remedial Actions Planned**

8 The April and May 2009 analysis and discussions of further needed remedial
9 actions that might be needed, were written up in the May 22, 2009 memorandum.
10 They are reprinted here for your information. The only change is the added sub
11 part B(a)(1) about repaying any interfund loans by the General Fund.

12 **A. If economic, and therefore, financial and budget revenue instability
13 persists then the following actions will be instituted commencing
14 January 1, 2010.**

- 15 1. Reduce General Fund cash flow reserve by \$1 million to the \$5 million
16 “policy level.”
- 17 2. Further Department budget reductions:
- 18 a. Additional cuts to each department will be instituted.
- 19 b. Employee layoffs will be put into effect to assist in achieving
20 departmental budget cuts, unless alternative employee
21 furloughs are negotiated with employee group representatives
22 to assist in achieving departmental budget cuts.

23 **B. If economic, and therefore, financial and budget revenue conditions
24 stabilize, and then (maybe) begin to improve, the following is the
25 anticipated actions for financial and budget reconstruction:**

26 A review of options for restructuring, new/revised process designs, and
27 other techniques, etc. to cut short term and long-term on-going costs will
28 be fully reviewed and instituted BEFORE any of the actions in items b-e
29 below, begin:

- 30 a. Replace “Reserves” separately, or simultaneously, as needed
31 according to future circumstances:
- 32 1) Repay inter-fund loans used for the General Fund “cash
33 flow” reserve; and/or
- 34 2) Replace used revenue stabilization funds in increments.
- 35 b. Replace department budget cuts.
- 36 c. Release or reduce the flexible hiring freeze.

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- 1 d. Release the “hold” on one or more Strategic Investment Plan
- 2 projects.
- 3 e. Release the “hold” on one or more Program Development
- 4 programs or service enhancements.

5 The budget direction contained in this memorandum applies to **ALL** departments
6 and **ALL** funds of the City.

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Exhibit A

2009-10 Biennial Budget Balancing Strategies

These strategies should be used by ALL departments, as applicable:

- Reduce “on-call” third party service contracts
- Delay and/or reduce department decision-packages
- Delay, phase, modify Strategic Investment Plan projects
- Reduce travel, training and memberships
- Reduce staff overtime costs
- Flexible Hiring Freeze, including attrition management
- Examine all program and services to see what can be done differently, restructured, process redesigned, and other techniques, including what the city could choose to not do.
- What suggestions are there to create, increase, or enhance revenues, but not tax increases.

These strategies will be applied by the Administrative Services Department:

- Draw down the Revenue Stabilization Fund #198
- Temporary use of Solid Waste Utility tax revenues

These processes will be deferred until necessary:

- Furloughs requiring modification of labor contracts
- Layoffs pursuant to labor contracts

These budget strategies will be examined by appropriate departments:

- Jail cost controls
- Construction inspections assumed by city employees
- Review of Equipment Rental & Reserve Accts.
- Reduce payroll costs by moving to a monthly or bi-monthly paycheck
- In-house full-time City Attorney, Prosecutor & support staff

Note: The legislature reduced pension contributions by \$418,000.

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Exhibit B

Treasury and Records Division Ranking of Level of Service

Level of Service By Service Element

Alternative Service Delivery

High

Cash Receipting
Business Licensing
Tax Payments
Accounts Receivables
Public Phone Calls
Public Greeting
Management of Staff

E-payments--Utility Bills
Biennial business licenses
Required for budget planning and management
Required for revenue management
Shift to desktops
Shift to cashier counter & PW counter
Required for performance management

Medium

Bank Account Reconciliation
Petty Cash Reconciliation
Refunds
Investments
Debt Service Payments
Journal Entries
Policies & Procedures & Compliance

Eliminate payroll checks & use ACH payments to vendors
Use Pro Cards
Use Accounts Payable process
Use Local Government Investment Pool only
Required for maintenance of credit rating
Required for accounting and financial management
Required for employee direction

Low

PFD Banking & Investments
Performance Bond Reconciliation
LID Reconciliation
CFP Preparation

Transfer to PFD & retain \$1 million debt service reserve
Required for internal control
Required for financial management
Use budget system (Questica)

City Clerk/Records/Mail--Essential

High

Publishing Legal Notices
Public Records Requests
Advanced Travel Requests
Mail Delivery
Records Scanning

Required by law
Required by law
Eliminate & process through Accounts Payable
Outsource functions
Outsource functions, other than upfront scanning

Medium

LMC Maintenance
Risk Management
Mail Special Delivery
Records-Accessioning
Records-Destruction

Cease updates of LMC books by using website
Outsource functions
Departments process bulk mailings/deliveries
Required by state law (transfer records to depository)
Required to reduce storage for unnecessary documents

Low

None