City of Bellingham

General Fund Forecast and Sustainability Strategies

February 22, 2016

FCS GROUP
Solutions-Oriented Consulting

Study Objectives

- Refine the City’s forecast
- Concentrate on General Fund costs
- Identify potential revenue strategies for making the General Fund revenues and expenditures sustainable (Other strategies include reducing levels of service or eliminating some services)
- Identify the impacts of implementing the different revenue strategies
- Forecast the General Fund and its fund balance over 10 years

Status Quo

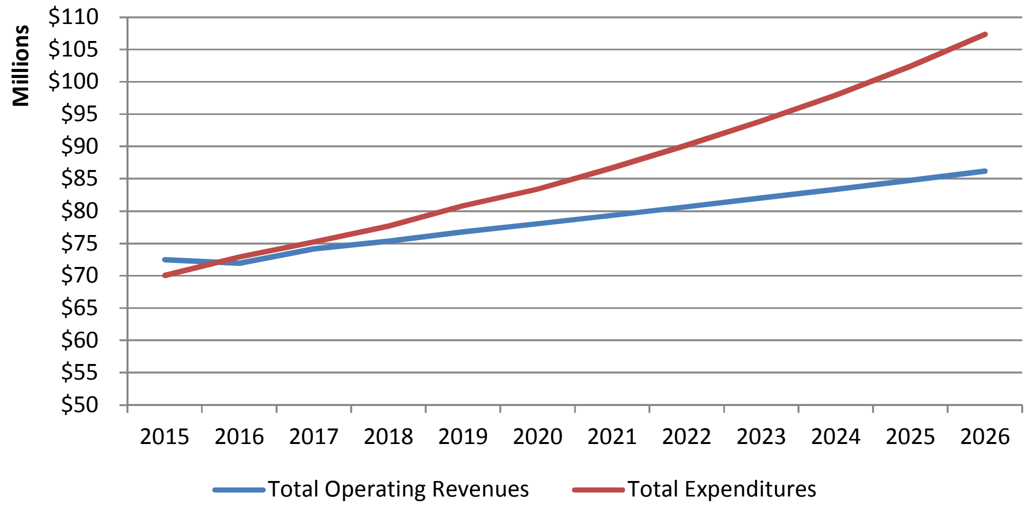
- **Key Assumptions:**
  - Total City expenses and capital costs increase at current forecasted rate through 2020, then at a five-year average starting in 2021
  - No new or added services
  - Revenues will increase at the City's forecasted rate through the study period
- **Current and Potential Impacts:**
  - General Fund support has been reduced for streets and is currently not funding all needed street overlays and resurfacing projects
  - Deferred maintenance on City facilities is increasing
  - Many departments are currently not at desired levels of service and have additional needs
  - Annual deficits increase every year
  - Fund balance reserves are used to offset deficits

Status Quo

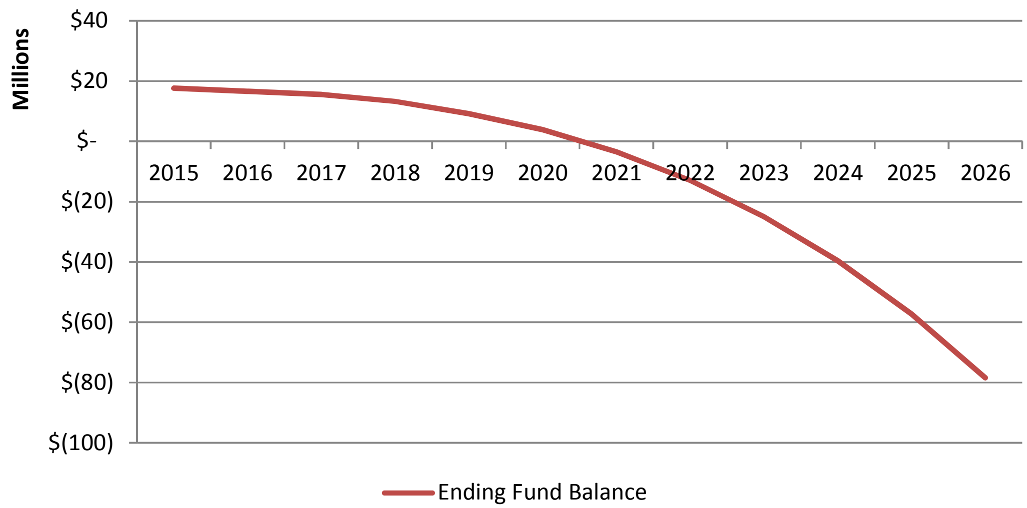
- **Opportunities:**
  - Does not require a tax increase for City residents for at least five years
- **Challenges:**
  - The City's levels of service will eventually need to be reduced
  - Fund balance reserves will be depleted in five years
  - The City will still need to take some action to balance the budget in future years: tax and revenue increases and/or service/expenditure reductions
- **Key Policy Issues:**
  - Would the City's residents rather reduce services and not increase taxes or should taxes and fees be increased to maintain the current levels of service?
  - Are there services that can be reduced or eliminated?

Status Quo Forecast

- **Revenue/Expenditures**



- **Fund Balance Reserves**



Potential Strategies

- **Maintain the status quo, address during every budget process**
  - Reduce or eliminate some services
- **Reduce costs**
  - Reductions for the General Fund supported departments
- **Increase revenues**

  Potential Approaches:
  - Levy lid lift
  - Ambulance utility
  - EMS Levy
- **Create New Taxing And Service Jurisdictions**

  Potential Approaches:
  - Regional Fire Authority
  - Metropolitan Parks District
- **All strategies will require public support and involvement**

Key Forecast Assumptions and Factors

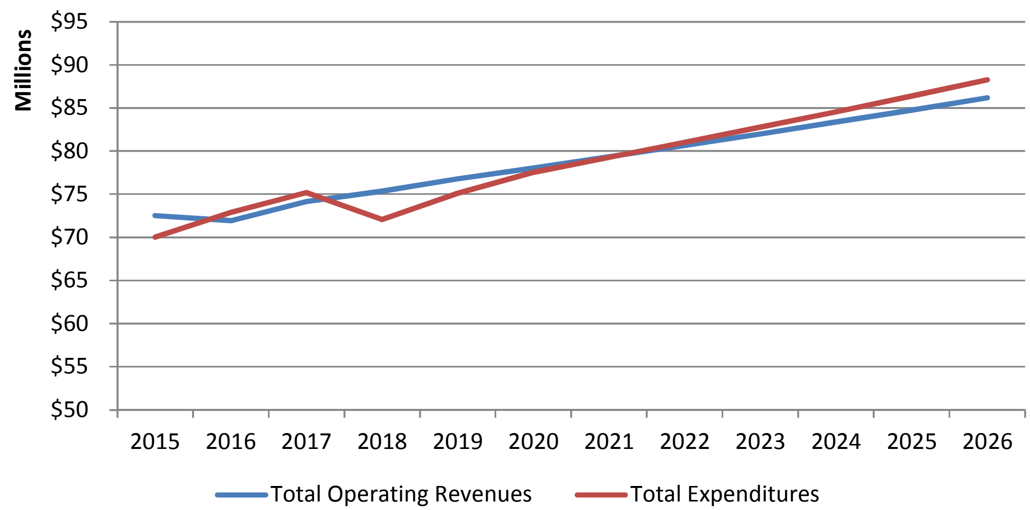
- Inflation is based on the November, 2015 Washington State Economic and Revenue Forecast Council's forecast to 2019, and after 2019 on the average of the previous five years
- Total City expenses and capital costs increase at the City forecasted rates and then at inflation
- Revenues projected at City forecasted rate then after 2020 the rate is based on the average increases from 2017-2020
- The Greenways Levy will be renewed in 2016, Affordable Housing Levy will also be renewed in 2019
- Property tax revenues are expected to increase 1% annually
- New construction base valued at $71,000,000 in 2015
- Assessed valuation and new construction to increase at 1.4% annually based on the historical City average over the past three years
- A part of the ending 2015 fund balance is reserved for retroactive pay
- Any annual surpluses are available to spend on other General Fund services and maintain an adequate fund balance
- A 12% fund balance reserve is the City's goal

Scenario 1 – Budget Reductions

- **Sustainability Strategies:**
  - Implement a $5.6 million General Fund reduction in 2018
- **Potential Impacts:**
  - Significant reduction in existing services
  - Reserves increase between 2018-2021, but annual deficits reoccur starting in 2022
  - City might still need to take some additional action in 2022 to balance the budget, but could use reserves between 2022 and 2026
- **Opportunities/Challenges:**
  - No tax increase to City residents
  - Levels of service are reduced starting in 2018

Scenario 1 – Budget Reductions

- **Revenue/Expenditures**



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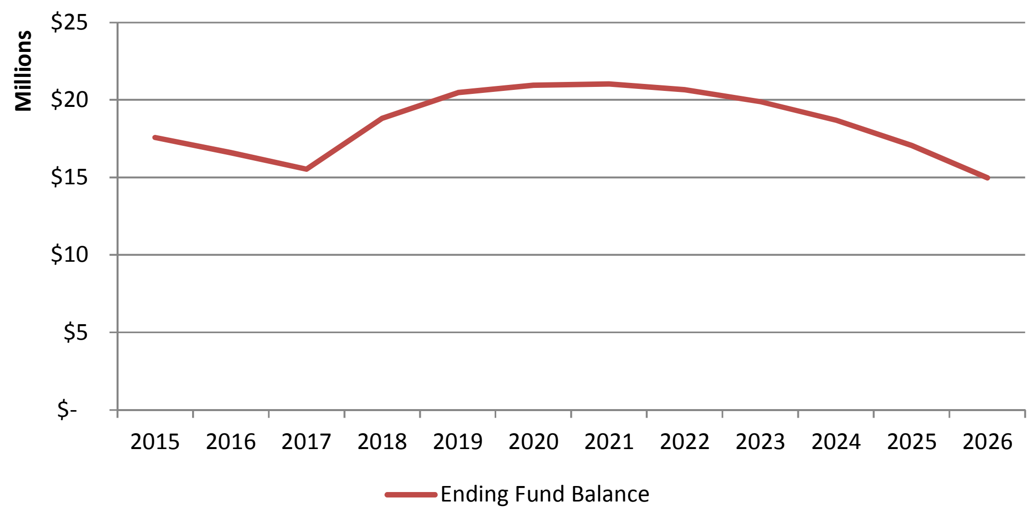


Scenario 2 – Ambulance Utility, EMS Levy

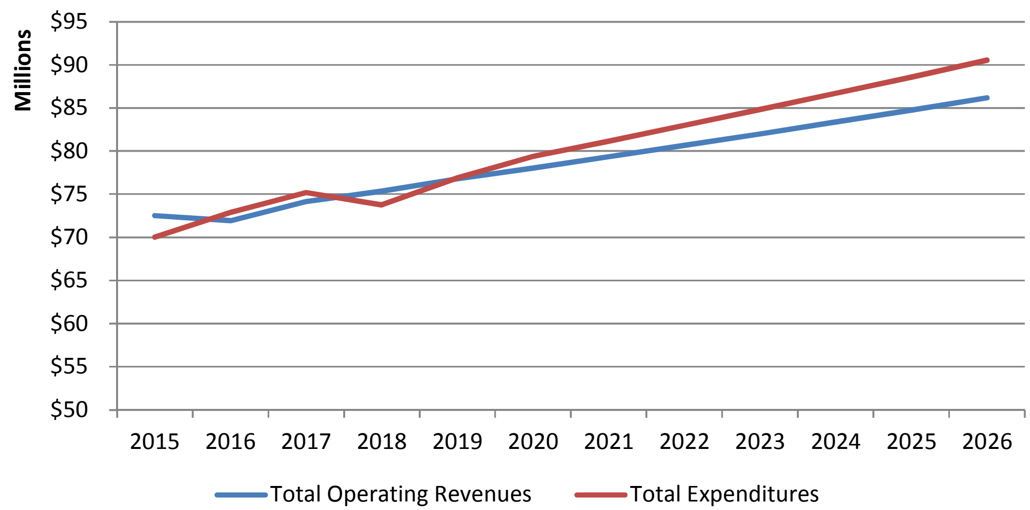
- **Key Assumptions:**
  - Assumes EMS services are also provided by engine companies currently funded by the General Fund fire budget
  - Current Affordable Housing District levy uses part of EMS levy capacity
- **Sustainability Strategies:**
  - Ambulance utility rate implemented in 2018 to cover $1,203,244 Medic One General Fund contribution, and rate increases at inflation in the future
  - $0.28 EMS Levy starting in 2018 equal to $2,675,869, and revenues increase 1% annually
  - City and County are currently working toward a joint EMS levy
- **Potential Impacts:**
  - Maintains EMS services without General Fund support
  - Creates surplus in 2018, but deficits reoccur starting in 2019
  - Requires City to still take some action in 2019 to balance the budget
  - Saves an estimated $3.8 million for the 2018 General Fund
  - Allows reserves until 2025 before they are depleted

Scenario 2 – Ambulance Utility, EMS Levy

- **Opportunities:**
  - Ambulance utility fee does not effect levy capacity
  - Medic One will no longer require General Fund support
  - City still maintains EMS services
  - Previous General Fund support could be used to support other services
- **Challenges:**
  - City residents will pay more taxes/fees with an ambulance utility rate
  - City residents must vote to approve an EMS levy
  - Cannot implement full $0.50 EMS levy because of lack of levy rate capacity
  - At the proposed rate and funding levels, there is not enough savings to be sustainable and allow the City to operate without deficits

Scenario 2 – Ambulance Utility, EMS Levy

- **Revenue/Expenditures**



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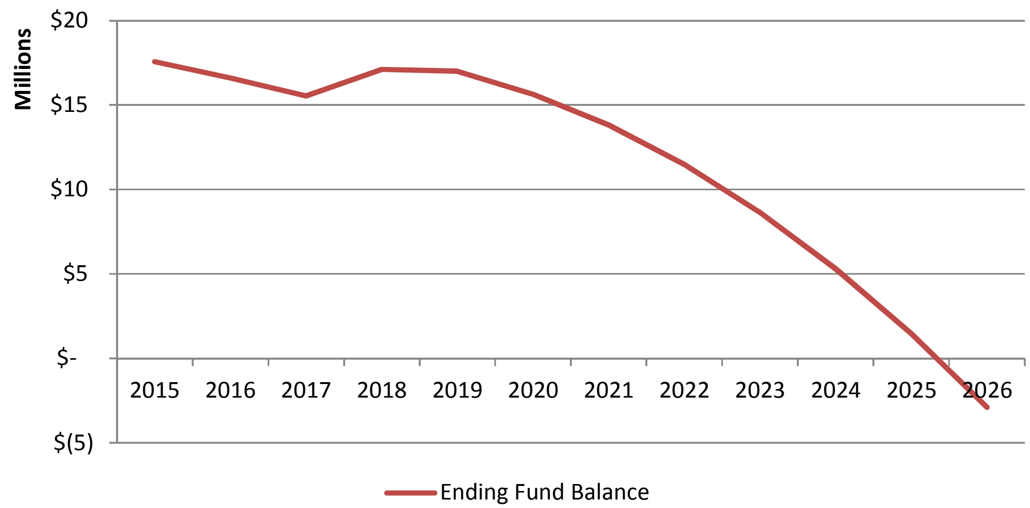
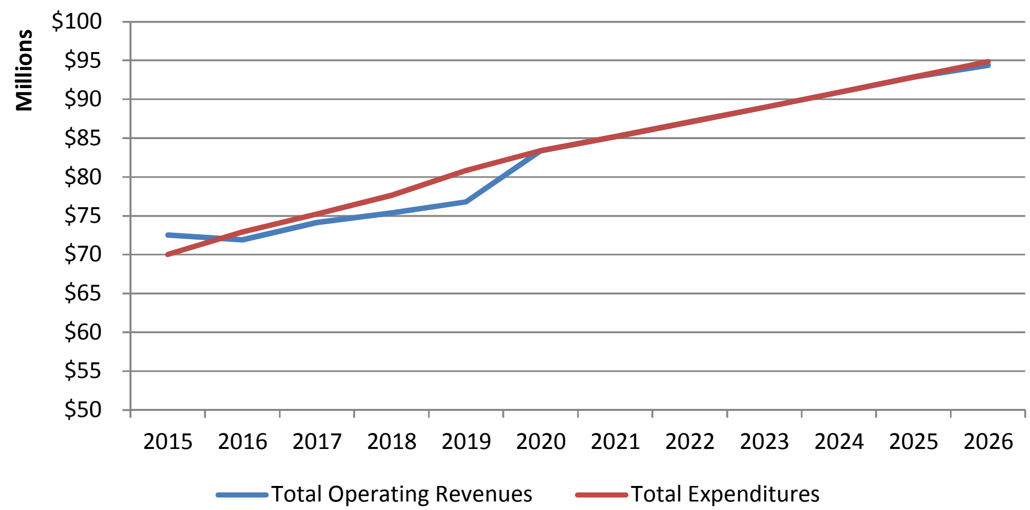


Scenario 3 – Permanent Levy Lid Lift

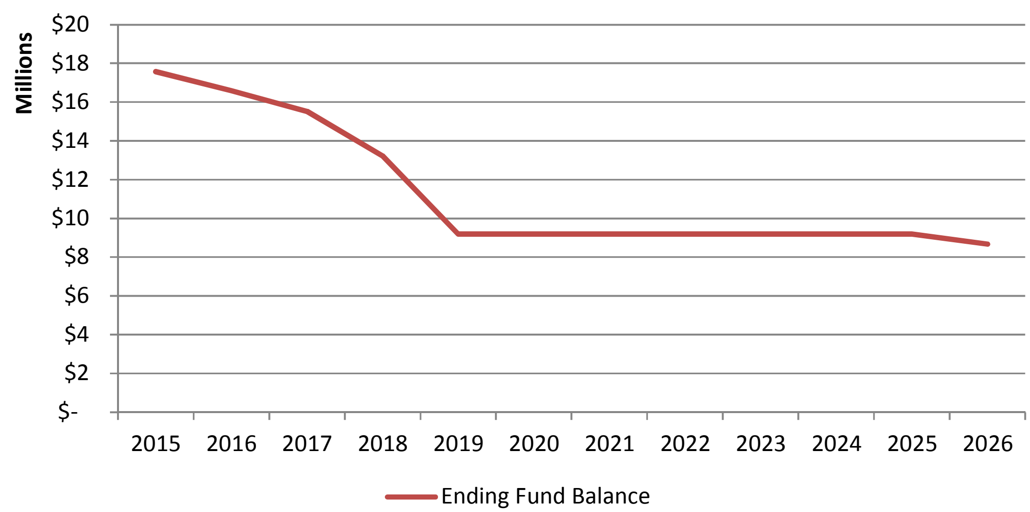
- **Sustainability Strategies:**
  - Six year levy lid lift starting in 2020 set to cover annual deficits ($5.3 million - $8.1 million)
  - Levy lid lift remains permanent after the six years
- **Potential Impacts:**
  - Levy allows the City to keep existing levels of service
  - The budget is balanced from 2020 to 2025, but a deficit occurs in 2026
  - The fund balance reserves stay at about 10% after 2020
  - The lid lift reduces levy capacity for future excess levies
- **Opportunities/Challenges:**
  - Reduces levy capacity
  - Increases property taxes for City residents

Scenario 3 – Permanent Levy Lid Lift

- **Revenue/Expenditures**



- **Fund Balance Reserves**



Scenario 4 - Regional Fire Authority (RFA)

- **Formation: (RCW 52.26.030)**
  - Establish a planning committee consisting of three elected officials from each jurisdiction
  - Develop and adopt a regional fire authority fire protection plan
  - Recommend revenue sources (e.g. Primarily property tax and fire benefit charge)
  - Each jurisdiction must approve sending the plan to the ballot
  - Majority vote is needed if revenue is only property tax; 60% if benefit charge is included
  - City Officials can still have a role in determining fire and Medic One services
- **Levy Rate:**
  - Maximum of $1.50 per $1,000 of assessed value
  - Maximum of $1.00 per $1,000 of assessed value plus benefit charge
  - Benefit charge revenue cannot be more than 60% of operating budget
  - Benefit charge needs to be approved every six years

Scenario 4 - RFA

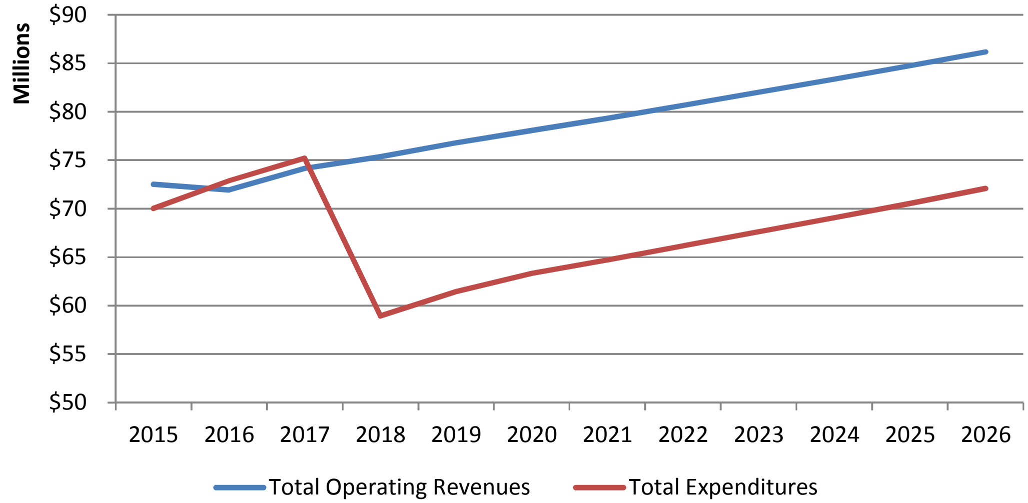
- **Sustainability Strategies:**
  - Form a Regional Fire Authority with District #8 in 2018
  - $1.00 levy plus benefit charge of up to 60% of operating budget (46% in 2018)
- **Potential Impacts:**
  - Eliminates the need to reduce fire and Medic One services
  - Eliminates City fire department and Medic One expenditures starting 2018
  - Creates a separate entity to provide fire and EMS services, but City is represented on the RFA board
  - Saves the General Fund $18.8 million in 2018
  - Cost savings are $18.8- $22.9 million over the period and could be used for other City needs annually
  - The City may have one time payments to establish the RFA, such as for the accrued vacation and sick leave for the Department's staff
  - Increases property taxes significantly unless the City decides to make the change more revenue neutral by reducing the property or other taxes
  - Non-single family properties might pay more in taxes plus the benefit charge compared to a having only a regular property tax

Scenario 4 - RFA

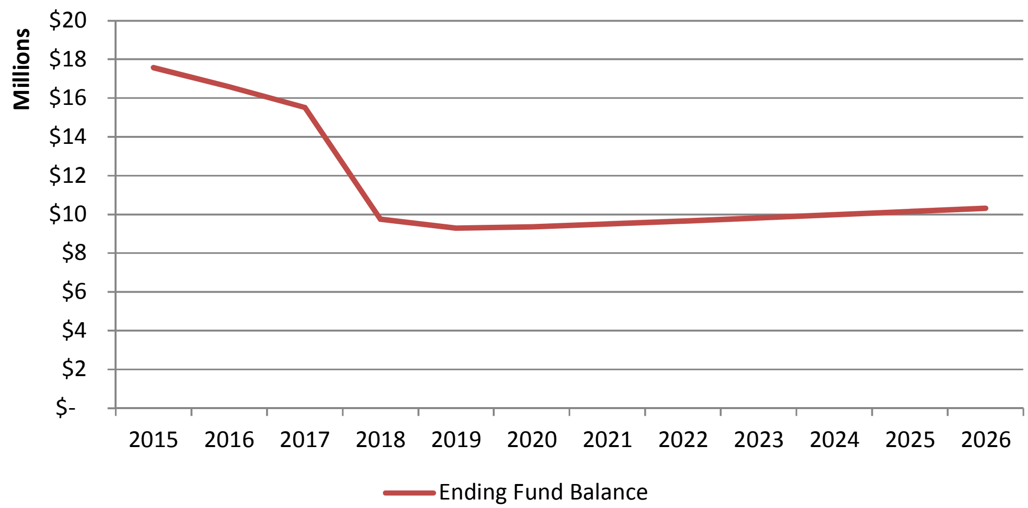
- **Opportunities:**
  - Provides a separate funding source for fire and EMS services that can still allow City oversight
  - Reduces General Fund expenses and generates surpluses starting in 2018
  - Average additional funding of $15 million annually available for other uses
- **Challenges:**
  - Establishes a $1.00 levy plus a benefit charge
  - Reduces the City's excess levy capacity
  - Increases property taxes as well as adds a benefit charge to City property owners
  - Benefit charge needs to be approved every six years
  - Benefit charges generally impact multi-family and commercial properties more than single family properties
  - Residents might see frequent RFA levy lid lifts or higher benefit charges in the future from the RFA

Scenario 4 - RFA

- **Revenue/Expenditures**



- **Fund Balance Reserves**



Scenario 5 - Metropolitan Park District

- **Purpose:** To provide for the management, control, improvement, maintenance, and acquisition of parks, parkways, boulevards, and recreational facilities (RCW 35.61.010)
- **Formation: (RCW 35.61.020)**
  - May include territory located in portions of one or more cities or counties
  - Initiated by a petition of at least fifteen percent of the registered voters residing within the described area or by a resolution of the governing bodies of each city or county that include a portion of the district
  - Establish a board of five commissioners, or the City may serve as the metropolitan park board
  - Requires a majority voter approval
- **Levy Rate:**
  - Two regular property tax levies available: $0.50 per $1,000 of Assessed Valuation, and $0.25 per $1,000 of Assessed Valuation
  - Additional $0.25 levy is subject to property tax limits and rationing

Scenario 5 – Metropolitan Parks District

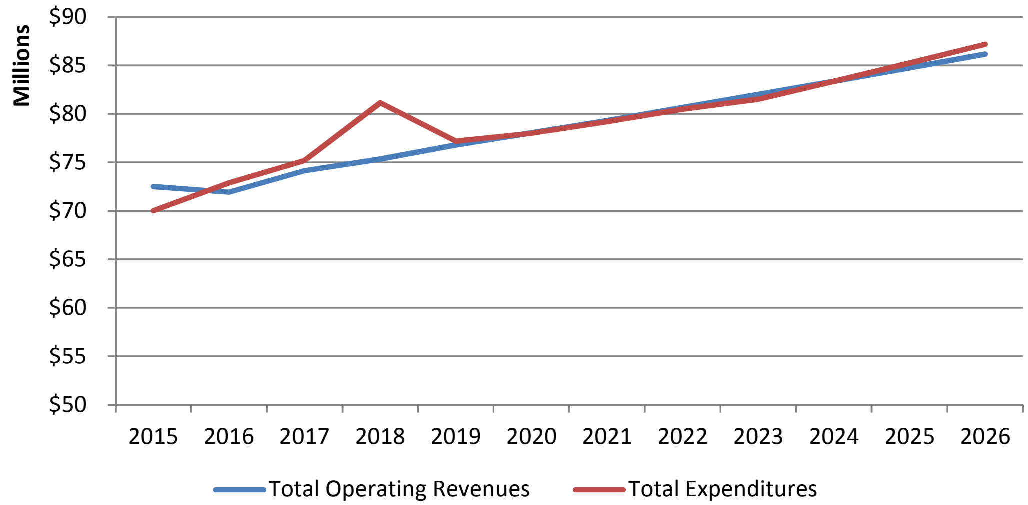
- **Key Assumptions:**
  - Greenways Levy continues
  - District is only formed within the City boundaries, which means City elected officials can act as the district board
  - The City still contributes General Fund to the District ($1.1 million in 2018 - $2.4 million in 2026) to keep the funding level the same as in 2016
- **Sustainability Strategies:**
  - Form Metropolitan Parks District in 2018
  - $0.75 levy in 2018, and revenues increase at 1% annually
- **Potential Impacts:**
  - Saves $7.1 - $7.7 million over the period and could be used for other City needs
  - Increases reserves, but deficits start occurring in 2025
  - Requires the City to still take some action in 2025 to balance the budget
  - Increases property tax rates unless the City decides to make the change more revenue neutral
  - Still requires the General Fund and Greenways Levy to maintain current service levels
  - Fund balance stays above 12%

Scenario 5 – Metropolitan Parks District

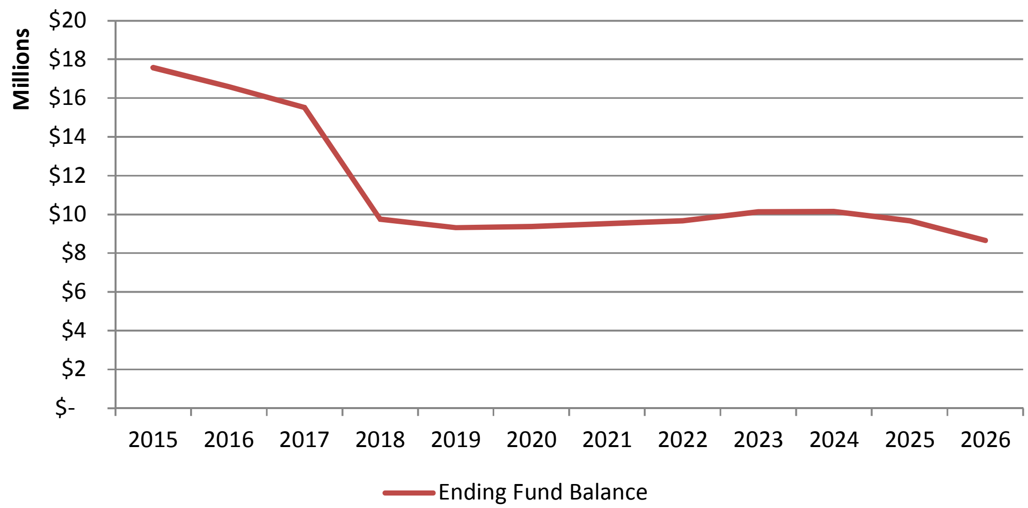
- **Opportunities:**
  - Provides a separate funding source that can still allow City oversight
  - Allows the City to build reserves
  - Makes additional General Fund support available for other City services
- **Challenges:**
  - Limits excess levy ability
  - Increases property taxes to City residents
  - Requires the City to still spend General Fund money to support the same level of service

Scenario 5 – Metropolitan Parks District

- **Revenue/Expenditures**



- **Fund Balance Reserves**



Observations

- The City needs to take some action in the near future to reduce costs and/or increase revenues
- The City's voters can determine whether they should increase property taxes and keep existing services or have the City reduce the levels of service
- A $5.6 million budget reduction in the General Fund only eliminates the deficits until 2022, but reduces the levels of service
- A limited ambulance utility rate and an EMS levy do not generate enough revenue to prevent future deficits
- The three more effective strategies are a permanent levy lid lift, an RFA, or a Metropolitan Parks District
- The RFA has the most impact on the property owners but can provide significant General Fund savings unless the City agrees to make it more revenue neutral so the net tax increase paid by a resident is limited

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