



OCT 31 2014

MEMORANDUM

CITY OF LYNNWOOD
FINANCE DIRECTOR
& City Clerk's Office 12:15pm
JLK

1 October 31, 2014

2
3 To: Councilmembers
4 Cc: Department Directors
5 From: Mayor Nicola Smith *N Smith*
6 Subject: Transmittal of Mayor's Preliminary Budget for the 2015-2016 Biennium
7
8

9 There are no quick fixes when reinventing government to sustain long-term prosperity.
10 The budget process for 2015-2016 has not solely been about dollars and cents; it has also
11 addressed normalizing a budget process for the city. There has been a lot of hard work
12 put into this budget from the City Council, Department Directors and other City staff, our
13 Boards and Commissions, and many engaged citizens.
14

15 This collaborative approach to building a budget that truly reflects the wants and needs of
16 our residents is not the easy way to create a budget, but it is the right way. The
17 Preliminary Budget that I present to you for the 2015-16 Biennium was created with
18 more than the next two years in mind. It was created looking forward into the future and
19 positioning us for 2017-18 and beyond.
20

21 Since September 8, 2014 when I delivered my Proposed Preliminary Budget, the City
22 Council has heard a presentation from each Department Director outlining their overall
23 budget. These presentations also addressed budget pressures that Departments are
24 currently experiencing and/or are anticipating in the near future. Finance Director
25 Lorenzo Hines has presented to City Council detailed information on this Budget's
26 anticipated revenues and expenditures, as well as the City's Financial Policies. The
27 Executive Budget Balancing Group continues to meet with me, the Council President and
28 Council Finance Chair. The collaboration seen during this budget process is a testament
29 to Lynnwood becoming a regional model that is *a great deal more*.
30

31 **Priorities**

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

- 35 • Develop the budget with the Community Vision priorities in mind, and with an
36 eye towards 2025 including future regionalization of services.
- 37 • Grow and diversify Lynnwood's economic base to include making investments in
38 infrastructure and making improvements to the City's local and regional
39 transportation system.
- 40 • Implement process improvements to create a more business friendly Lynnwood.
- 41 • Move towards public safety education and connections with the community.
- 42 • Increase diversity training and address the need to diversify the city workforce.

- 43 • Increase the physical attractiveness and safety of Lynnwood and bring back City
- 44 celebrations and events.
- 45 • Reposition staff resources to address priority issues such as code enforcement,
- 46 public records requests, technology, etc.
- 47 • Strive to balance financial revenues in conjunction with current levels of service.

48 **Fix It's**

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

- 53
- 54 • Transfer \$2.8 Million from General Fund Balance to the Revenue Stabilization
- 55 Fund. This transfer would put us ahead of schedule per the City's Financial Policy
- 56 of having \$5 Million in the Revenue Stabilization Fund by 2016.
- 57 • Allocate \$300,000 to the Capital Fund. The commitment to fund needed capital
- 58 development was made during the voter approved annexation into the Sno-Isle
- 59 Library system. There have been no transfers to the Capital Fund since 2007.
- 60 Although \$300,000 is less than the stated commitment, it is a starting point from
- 61 which we will build the Capital Fund.
- 62 • Conduct a series of efficiency studies in 2015-16 to review repositioning and/or
- 63 alternative service delivery options for some of our most costly city services.
- 64 These are not elimination studies. These studies are a means for us to break free
- 65 from the old adage, "that's the way we've always done it." Lynnwood is not alone
- 66 in experiencing the expenditure vs. revenue gap. There is a growing trend among
- 67 cities across the nation to strategically realign services to be more cost efficient.
- 68 We have already begun an efficiency study in our Information Services division.
- 69 We will also be looking holistically at the feasibility of Impact Fees in order to
- 70 determine what cost recovery tools are available to us. In order to provide
- 71 credible, defensible and accountable services to our community, we must know
- 72 the real costs of our services. We have to know our real costs before we can
- 73 establish attainable goals.
- 74 • Proposed is a small amount, \$5,000, in the on-going Decision Packages to address
- 75 our Federal requirements of Title VI of the Civil Rights Act to provide language
- 76 access to our constituents. Lynnwood has a diverse citizenry. This amount will
- 77 cover the translation of critical city documents and interpretive signs. A Decision
- 78 Package was approved in the 2013-14 budget as one-time funding for this
- 79 purpose, yet this is a requirement that demands continuous attention and must be
- 80 included in on-going funding.
- 81 • Included in the base budget are five on-going staff positions which have
- 82 previously been paid for with one-time funding. These five positions are serving
- 83 in key roles directly aligned to moving our Community Vision forward. This
- 84 proposal does not increase the annual cost for these positions.
- 85

- 86 • As previously reported, there are anticipated budget pressures looming from
87 rising jail costs, court costs and public defender fees. The actual cost for these
88 increases is unknown at this time. To help address these costs, a \$1.1 Million
89 allocation has been included into the base budget. This addition is an adjustment
90 from the Preliminary Proposed Budget. This is a significant cost increase that
91 needs to be accounted for in the base budget, however this causes a significant
92 pressure to the gap between expenditures vs. revenue.
93

94 **Final Proposed Revenue Enhancements**

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

- 101 • Proposed is an increase in staffing costs for the Parks, Recreation & Cultural Arts
102 Department in order to increase hours of operation at the Recreation Center. This
103 proposal is revenue positive and the anticipated revenue from this change is
104 anticipated to be \$235,000.
- 105 • Proposed is a restoration of the Utility Tax back to the 2013 level of 6%. This
106 restoration would increase revenues by an estimated \$705,000. Last year's
107 decision to cut back the Utility Rate to 4% had a minimal effect on the individual
108 homeowner, yet had a significant impact on the general fund's revenues to the
109 tune of \$550,000. Resetting the rate back to the 2013 level would have minimal
110 effect on the individual homeowner, yet help stabilize City revenues.
- 111 • In addition to restoring the Utility Tax, it is proposed to increase the Utility Tax
112 rate by an additional 1%, for a total Utility Tax Rate of 7%. Moving the Utility
113 Tax Rate from its current 4% to 7% rate would increase the average single family
114 residential monthly utility bill by about \$4.00, which is approximately \$0.13 per
115 day. Lynnwood's Utility Bill would remain about \$30.00 below the average home
116 based upon a survey conducted by the Alderwood Water District. This small
117 increase would help mitigate the increased base budget costs of \$1.1 Million
118 needed to deal with rising jail costs and public defender fees.
- 119 • Proposed is the institution of a 1% increase in the Property Tax plus the use of
120 available banked capacity on Property Tax. This small, incremental increase will
121 help the City to keep up with rising costs without having to call for larger
122 increases in the future. This proposal increase is anticipated to increase the City's
123 revenues by \$659,050 and the actual increase to a typical homeowner is
124 approximately \$1.08 a month or \$0.04 per day.
- 125 • Proposed is an amendment to the current Business Licenses Head Count
126 methodology. The decision made by City Council in late 2013 to amend the
127 methodology to Business License Head Count had a significant impact on the
128 City. The current method takes up more staff time to administer and there is no
129 practical way to enforce compliance. This new proposal, initially introduced by
130 Council Vice President Roberts, calls for any employee whom works 14 hours or

131 less per week, to be charged at a rate of \$48.50, and any employee who works 14
132 hours or more to be charged at the full rate of \$88.50. This methodology change is
133 anticipated to net \$620,000 to the General Fund.
134

135 **Changes From Proposed Preliminary Budget**

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

- 137 • A small amount, \$10,197, was transferred from Non-Departmental to
138 Administrative Services. There is a cover sheet detailing the increase to
139 Administrative Services budget, however this does not affect the bottom line of
140 the General Fund.
- 141 • A small amount, \$23,339, was transferred from Legislative to Executive. There is
142 a cover sheet detailing the increase to the Executive budget, however this does not
143 affect the bottom line of the General Fund.
- 144 • Community Development's CD7 one-time decision package has increased from
145 \$25,000 to \$47,000. This increase covers the cost of one year's license to run the
146 online permitting/electronic plan review software. This amount was originally
147 included in the on-going decision package list for \$22,000, however it was
148 determined that the fees generated from the use of this software will cover the
149 ongoing license fee.
- 150 • There was an increase in the Legal budget due to the anticipated increase of
151 \$500,000 in public defender costs.
- 152 • There was an increase to the Police Department's budget of \$600,000 for the
153 anticipated rising jail costs.
- 154 • And finally, I added an on-going decision package to retain the Training Fire
155 Captain position, which was cut during the Proposed Preliminary Budget due to
156 budget constraints. This position plays a key role in ensuring that our Fire
157 Department's staff are trained to the highest level to be able to provide exemplary
158 life safety services to our community.
159

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

- 163 ○ Transportation Fund 111 (Street Fund)
- 164 ○ Golf Course Fund 460
- 165 ○ Vehicle Services Fund 511 (ERR Fund)
- 166 ○ Maintenance Shop Fund 513
- 167 ○ Self-Insurance Fund 515
168

169 **Base Budget Bottom Line**

170 The budget presented to City Council this evening encompasses \$2.2 Million in cuts that
171 our Departments have already taken coupled with the revenue enhancements mentioned
172 previously. If this proposal is not acceptable there is the possibility that further cuts will
173 be made, thereby eroding the service levels of the city.
174
175

176 **Decision Packages**

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

181
182

183	AS/EXEC	Cost of Service Efficiency and Delivery and Regional Solutions	\$300,000
184	PRL-1	Recreation Center Claim Settlement/Remediation	104,493
185	CD-7	On Line Permitting/Electronic Plan Review	47,000
186	E-4	Community Vision Initiatives	200,000
187	AS-4	Document management, i.e. Public Records	200,000
188	E-3	Personal Services-Intergovernmental Services	80,000
189	CD-3	Code Enforcement Revolving Loan Fund	100,000
190	PW-6	Major Appliance Replacement at Fire Stations 15/14	62,000
191	AS-2	Limited Term part Time Help with Procurement, Acct, PRR, Audit	250,000
192	PRCLS-1	Park Maintenance ERR	30,000
193	PRCLS-4	Landscape Renovation/Beautification Program	12,000
194		Total One-Time	\$1,385,493

195
196 **Cost Efficiency Studies:**

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

206
207 **Community Vision Initiatives:** City Council has requested further details in regards to
 208 the proposed Community Vision Initiatives. This proposed decision package of \$200,000
 209 will address my number one budget priority which is to develop the budget with the top
 210 community vision priorities in mind. This decision package will fund initiatives such as:
 211 Community Outreach Meetings for issues such as Sound Transit, potential annexations,
 212 and Citizen/Neighborhood summits; Celebrate Music & Dance Festival and/or other
 213 special events; community partnerships and sponsorships; volunteer engagement
 214 opportunities; Arts Commission projects; and community emergency preparedness. By
 215 packing these initiatives together in a single decision package, it will give City staff the
 216 ability to leverage the funds in the most appropriate manner after further research has
 217 been done and community partnerships have been developed. City Council will be kept
 218 up-to-date in the development and funding of these initiatives.

219
220 **On-Going:** These on-going decision packages have not been included in the base budget.
 221 These decision packages have been identified by Administration to be top priorities for
 222 our City in order to address level of service, creating an environment of excellence and

223 moving our City towards our community vision goals. City Council action is required to
 224 fund these packages. The following list is presented in order of the Administration's
 225 priority:

226			
227	E-5	City-Wide Translation Service	\$5,000
228	PD-2	Jail Medical Program	360,000
229	CD-2	Reviewer/Building Inspector	195,000
230	HR-1	Labor Relations Services	50,000
231	E-1	Increase Mayor Executive Assistant to Full Time from 0.5 FTE	70,000
232	FD	Retain Fire Training Captain	309,690
233	ED-2	Economic Growth: New Business Liaison Position	205,000
234	AS-8	Increase Acct Tech to 0.3 FTE	36,668
235	HR-2a	Employee Training and Development	40,000
236	HR-2b	Linked in Recruiter License	<u>23,000</u>
237		Total On-Going	\$1,294,358

238
 239 If these decision packages are funded, Administration will be judicious in the spending of
 240 these decision packages by proceeding with initiatives only as revenues are determined to
 241 be satisfactory.

242
 243 **Budget Pressures and Considerations**

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

249
 250 **Conclusion – "Fix It, Refresh It, Grow It"**

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

262
 263 Although it was hard work creating the 2015-16 'Fix It budget', and tough decisions had
 264 to be made, I can truly say that our community is worth the effort. The 'Refresh It'
 265 process that will begin next year is an opportunity for us to analyze our true cost of doing
 266 business, nurture a relationship with our community, and position our city for true growth
 267 in 2017-18 and beyond in order to make Lynnwood a community with...*a great deal*
 268 *more!*

**2015-2016 Preliminary Budget
General Fund Budget Worksheet
November 3, 2014**

Revenue	2015-16 Proposed Preliminary Budget	2015-16 Dec Packs (Ongoing)	2015-16 Transfer to Capital Dev.	2015-16 Dec Packs (One time)*	Total 2015-16 Budget
General Fund	\$ 99,768,157		\$ 300,000	\$ 1,385,493	\$ 101,453,650
Restoration of 6% GF utility tax Increase + 1%	1,058,691				1,058,691
Business License Restoration	620,000				620,000
Additional Recreation Center Revenues	235,610				235,610
Annual 1% increase in Property Tax	394,952				394,952
Inc. Associated w/Property Tax Banked Capacity	264,098				264,098
Annual 1% increase in EMS-Property Tax	22,021				22,021
	-				-
Total Revenue	\$ 102,363,529	\$ -	\$ 300,000	\$ 1,385,493	\$ 104,049,022
<hr/>					
Expenditures					
General Fund	\$ 102,247,285		\$ 300,000	\$ 1,385,493	\$ 103,932,778
	-				-
	-				-
	-				-
	-				-
Total Expenditures	\$ 102,247,285	\$ -	\$ 300,000	\$ 1,385,493	\$ 103,932,778
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

Decision Pkg#	Title/Description	Amount
AS/EXEC	Cost of Service Efficiency and Delivery and Regional Solutions	\$ 300,000
PRL-1	Recreation Center Claim Settlement/Remediation	104,493
CD-7	On Line Permitting/Electronic Plan Review	47,000
E-4	Community Vision Initiatives	200,000
AS-4	Document management, i.e. Public Records	200,000
E-3	Personal Services-Intergovernmental Services	80,000
CD-3	Code Enforcement Revolving Loan Fund	100,000
PW-6	Major Appliance Replacement at Fire Stations 15/14	62,000
AS-2	Limited Term part Time Help with Procurement, Acct, PRR, Audit	250,000
PRCLS-1	Park Maintenance ERR	30,000
PRCLS-4	Landscape Renovation/Beautification Program	12,000
Total One-Time		\$ 1,385,493

On-Going

Decision Pkg#	Title/Description	Amount
E-5	City-Wide Translation Service	\$ 5,000
PRELS-2	Extended Recreation Center Hours*	-
PRELS-3	Increased Hours for Aquatics Staff*	-
PD-2	Jail Medical Program	360,000
CD-2	Reviewer/Building Inspector	195,000
HR-1	Labor Relations Services	50,000
E-1	Increase Mayor Executive Assistant to Full Time from 0.5 FTE	70,000
FD-2	Retain Fire Training Captain**	309,690
ED-2	Economic Growth: New Business Liaison Position	205,000
AS-8	Increase Acct Tech to 0.3 FTE	36,668
HR-2a	Employee Training and Development	40,000
HR-2b	Linked in Recruiter License	23,000
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.