



LYNNWOOD WASHINGTON

Date: September 14, 2020

To: City Council

From: Mayor Nicola Smith
Sonja Springer, Finance Director

Subject: Proposed Preliminary Budget and Report on 2021-2022 Revenue Estimates

INTRODUCTION

The budget development process is well under way for the 2021-2022 biennial budget. As called for by Chapters 35A.34 RCW and 2.72 LMC, and Resolution 2020-02, preliminary revenue and expenditure estimates have been forecasted for the City's General and Street Operating funds and are presented and explained below. The 2019-2020 revised budget information is also displayed below. This information constitutes the proposed preliminary budget for the 2021-2022 biennium. A more comprehensive and detailed proposed 2021-2022 Biennial Budget with all revenues and detailed expenditures for all the City's funds will be presented during the October 12 Council meeting.

Due to the impact of COVID-19, the revenues reflect a net decrease of almost \$7.8 million from the previous biennium. City departments have prepared a "bare bones" budget for 2021-2022 and many have reduced staff and other essential items to allow for the reduced revenues included in the 2021-2022 budget. An Executive Summary of the reductions made by departments is included and will be explained further during future meetings.

City staff have worked diligently to advance the use of Budgeting for Outcomes (BFO) principles throughout this budget process. It is typical for governments to implement BFO incrementally, and Lynnwood's third BFO-based biennial budget will reflect our greater acumen using BFO concepts. Public hearings have been scheduled for September 28 and November 9.

GENERAL FUND REVENUES

Property Tax. Considering the current economic situation of Lynnwood residents and businesses, the City does not want to burden the community with a property tax increase in 2021. Instead, the average homeowner will see a decrease in their 2021 property taxes paid to the City. Property tax revenues have been budgeted at a flat amount of \$4,300,000 in 2021—the same amount as the levy for 2020. This amount equates to a levy rate of approximately \$0.54 per \$1,000 of assessed value. The levy rate for 2018, 2019 and 2020 was \$0.57 per \$1,000 of assessed value. For 2022, this budget assumes a property tax levy of \$4,500,000, with the expected new development taking on a significant portion of the \$200,000 increase in 2022.

The Snohomish County Assessor's office has estimated that Lynnwood's total assessed value will increase by 5.77% over 2019. This includes the impact of estimated new development in 2020. The estimated impact of the proposed general operating levy of \$4.3 million in 2021 to the average homeowner will be an approximately a **\$2 decrease** in annual general operating property taxes paid to Lynnwood in 2020. The chart below shows the proposed General Operating Property Tax Levies for 2021 and 2022 and how they compare to the current 2020 General Operating Property Tax Levy. Levying the General Operating Property Tax at these levels fulfills the City's Strategic Priority #2 of ensuring financial stability and economic success. The City of Lynnwood no longer has a special property tax levy for EMS services.

Property Tax Levy	Current 2020 Levy	Proposed 2021 Levy	Proposed 2022 Levy
Assessed Value	\$7,503,483,372	\$7,936,766,873 (Est. 5.77% Increase)	\$8,492,340,554 (Est. 7.0% Increase)
Levy Amount	\$4,300,000	\$4,300,000	\$4,500,000
Average Home Value	\$420,600	\$441,630	\$463,712
Tax Paid by Average Homeowner	\$241	\$239	\$246
Increase (Decrease) from Previous Year	\$20.00	(\$2.00)	\$7.00

Sales Tax. With regards to sales tax revenue, the upcoming biennium will be "new territory" with the impact of COVID-19. Sales tax revenues in 2020 are forecasted to be 21% less than sales tax received in 2019. This trend is expected to continue in 2021, with sales tax not returning to 2019 levels until 2022.

Utility Tax. Most utility tax revenue estimates for 2021 and 2022 assume a 2-3% growth factor from actual utility tax revenues received in 2019. City utility taxes received from water, sewer and storm water billing are based upon estimated utility revenues from rates already set by the City Council. The budget for telephone utility taxes have decreased 31% from \$2,105,395 in 2019-2020 to \$1,456,763 to reflect recent reductions in actual telephone tax revenues.

Business License Fees: Business license fees for 2021 and 2022 assume a 0.5% - 1% growth from what typical actual revenues should be in a normal year. General fund revenues from business licenses are approximately \$964,000 per year and are forecasted to increase by 0.5% per year, while the per employee business license fees total approximately \$2.1 million per year and are forecasted to increase by 1% per year. The City does not collect a Business and Occupation (B&O) tax.

Permit Fees: With the assistance of the director of Development and Business Services (DBS), development services revenues are forecasted based upon actual and probable development projects coming up in 2021 and 2022. Development fees as specified in the Fee Schedule are forecasted to increase to better align with the actual costs of processing permits, plan review, and inspection services. The growth expected with development services revenues is forecasted to offset the reduction in sales tax over the next two years.

Other: Recreation revenues are forecasted based upon estimated program fees and facility rental fees provided by the Parks, Recreation and Cultural Arts Department. These revenues have been negatively impacted by COVID-19 and are forecasted to be 13.5% below the 2019-2020 budget. Revenues from fines and forfeitures are forecasted to remain flat in 2021, with a small increase in

2022 from actual 2019. State shared and intergovernmental revenues are based upon the revenue estimates from MRSC. The big drop (\$845,123) from the 2019-2020 state shared and intergovernmental revenues to the 2021-2022 proposed budget reflects the one-time CARES Act funding of \$968,000 that will be received in the General Fund in 2020.

Table 1 below includes a summary of General Fund revenues received in 2019 and projected to be received in 2020, as well as the Proposed Preliminary Budgeted revenues for 2021-2022.

Table 1. General Fund Revenue History and Projection

	2019-2020 Revised Budget	2019 Actual	2020 Projected	2021-2022 Proposed	Increase or (Decrease) 2021-22 vs. 2019-20
Beginning Fund Balance	\$ 5,962,407	\$ 5,430,869	\$ 4,125,559	\$ 3,519,143	\$ (2,443,264)
GENERAL FUND					
OPERATING REVENUES:					
Taxes:					
Property Tax (General)	8,300,000	3,991,045	4,300,000	8,800,000	500,000
Sales Tax	47,512,736	22,556,266	17,843,117	44,684,959	(2,827,777)
Utilities Taxes	10,186,560	4,531,197	4,589,754	9,397,524	(789,036)
Utility Taxes (City's own)	2,601,876	1,338,590	1,378,748	2,882,824	280,947
Gambling Tax	273,696	154,214	111,595	224,866	(48,830)
Admissions & Other Taxes	1,468,568	705,753	351,034	1,439,271	(29,297)
Business & Other Licenses	6,268,995	1,836,596	4,616,220	6,608,348	339,353
Development Services	5,003,074	1,644,727	3,265,886	8,521,669	3,518,596
Recreation Fees	6,622,278	2,873,626	1,093,088	5,624,900	(997,378)
Fines & Forfeitures	9,141,660	4,763,375	3,918,319	9,622,018	480,358
Franchise Fees	999,251	442,681	451,535	930,342	(68,909)
State Shared & Intergovtl	9,105,995	4,221,192	4,928,696	8,260,872	(845,123)
Investment Interest	306,864	(24,316)	116,000	236,544	(70,322)
Other Misc Revenues	592,291	181,655	188,850	307,304	(284,987)
Total Operating Revenues	\$ 108,383,845	\$ 49,216,601	\$ 47,152,841	\$ 107,541,440	\$ (842,406)
One-Time ST2 Revenues	2,727,256	465,641	2,261,615	1,100,000	(1,627,256)
One-Time GEMT Revenues	1,217,193	1,164,794	-	-	(1,217,193)
Transfer from Rev Stab.	-	-	2,607,039	-	-
Other Transfers In	1,671,610	5,805	205,805	15,627	(1,655,983)
Total Resources	\$ 119,962,311	\$ 56,283,710	\$ 56,352,859	\$ 112,176,210	\$ (7,786,102)

GENERAL FUND EXPENDITURES

More detailed expenditure information will be provided beginning with the preliminary budget message that will be presented at the October 12 City Council meeting. Included in the proposed budget is the continuation of the \$1.1 million transfer per year to fund Capital, as called for by the City's Financial Policies. The transfer to the Street Operating fund included in the 2021-2022 budget is over \$1 million per year.

The City's Proposed Preliminary Budget assumes a need to utilize \$2.6 million of financial reserves in 2020 to offset the impact of COVID-19 on the City's revenues. The current proposed 2021-2022 budget does not include funds to replenish this as it is difficult to predict how long the COVID-19 pandemic will affect the City's revenues. This may mean that restoring General Fund reserves is expected to occur sometime after the 2021-2022 biennium.

Table 2. General Fund Expenditure History and Projection

	2019-2020 Revised Budget	2019 Actual	2020 Projected	2021-2022 Proposed	Increase or (Decrease) 2019-20 vs. 2021-2022
GENERAL FUND					
OPERATING EXPENDITURES:					
Legislative	\$ 872,547	\$ 406,546	\$ 416,001	\$ 877,072	4,525
Executive	1,881,717	871,851	909,366	2,295,434	413,717
Municipal Court	2,871,854	1,291,421	1,376,433	2,835,573	(36,281)
Legal	3,348,654	1,713,925	1,634,729	2,751,400	(597,254)
Human Resources	1,916,267	778,378	829,527	1,825,526	(90,741)
Administrative Services	7,645,789	3,586,525	3,742,264	7,246,356	(399,433)
Information Services	5,244,292	2,375,484	2,468,808	4,911,171	(333,121)
Non-Departmental	1,168,000	-	1,168,000	195,233	(972,767)
Police	43,826,031	21,350,443	21,075,588	41,883,029	(1,943,002)
Fire	2,276,882	1,176,835	900,047	1,927,489	(349,393)
Parks & Recreation	17,261,088	8,019,155	6,929,434	16,542,992	(718,096)
Public Works	8,693,624	3,116,857	3,475,767	6,270,117	(2,423,507)
Street Operating Fund (Transfer)	2,090,900	1,045,450	945,450	2,041,065	(49,835)
Development Business Services	-	-	-	10,596,383	10,596,383
Community Development	6,982,765	2,554,275	2,530,490	-	(6,982,765)
Economic Development	1,227,586	510,527	513,559	-	(1,227,586)
Total Operating Expenditures	\$ 107,307,996	\$48,797,672	\$ 48,915,463	\$102,198,840	\$ (5,109,156)
OTHER USES					
One-Time Sound Transit	\$ 2,727,256	\$ 465,641	\$ 2,261,615	\$ 1,000,000	\$ (1,727,256)
Transfer to Capital	2,200,000	1,100,000	-	2,200,000	-
Transfers to Other Funds (Debt)	3,451,476	1,794,838	1,656,638	3,313,026	(138,450)
Total Other Uses	8,378,732	3,360,479	3,918,253	6,513,026	(1,865,706)
Total Expenditures and Other Uses	\$ 115,686,728	\$52,158,151	\$ 52,833,716	\$108,711,866	\$ (6,974,862)
GENERAL FUND					
Reserves per Financial Policy	\$ 3,519,143	\$ 4,049,727	\$ 3,519,143	\$ 3,464,155	\$ (54,988)
Unreserved	756,440	75,832	(0)	189	(756,251)
TOTAL ENDING FUND BALANCE	\$ 4,275,583	\$ 4,125,559	\$ 3,519,143	\$ 3,464,344	\$ (811,239)
TOTAL EXPEND, OTHER USES					
AND ENDING FUND BALANCE	\$ 119,962,311	\$56,283,710	\$ 56,352,859	\$112,176,210	\$ (7,786,102)

STREET OPERATING FUND REVENUES & EXPENDITURES

The source of revenues for the Street Operating fund are the City's share of the State's motor vehicle fuel tax, right of way permit fees, and transfers from both the General Fund and the Transportation Benefit District (TBD) Fund. MRSC provided estimates for the City's share of the

motor vehicle fuel tax for 2021 and 2022. Tables 3 and 4 below summarizes the Street Fund Preliminary Proposed Budget for 2021-2022.

Table 3. Street Operating Fund Revenue History and Projection

	2019-2020 Revised Budget	2019 Actual	2020 Projected	2021-2022 Proposed	Increase or (Decrease) 2019-20 vs. 2021-22
Beginning Fund Balance	\$ 122,208	\$ 122,208	\$ 259,415	\$ 357,021	\$ 234,813
STREET OPERATING FUND					
OPERATING REVENUES:					
Taxes:					
Motor Vehicle Fuel Tax	\$ 1,792,600	\$ 926,375	\$ 600,000	\$ 1,865,123	\$ 72,523
Right of Way Use Permits	256,250	174,842	75,000	300,000	\$ 43,750
Intergovernmental Revenues	25,000	4,050	4,050	25,000	-
Miscellaneous Revenues	-	4,715	-	-	-
Intvestment Interest	1,000	51	600	1,000	-
Total Operating Revenues	\$ 2,074,850	\$ 1,110,033	\$ 679,650	\$ 2,191,123	\$ 116,273
Transfer from General Fund	2,090,900	1,045,450	945,450	2,041,065	(49,835)
Transfer from TBD Fund	600,000	300,000	300,000	760,000	160,000
Total Transfers	2,690,900	1,345,450	1,245,450	2,801,065	110,165
Total Resources	\$ 4,887,958	\$ 2,577,691	\$ 2,184,515	\$ 5,349,209	\$ 461,251

Table 4. Street Operating Fund Expenditure History and Projection

	2019-2020 Revised Budget	2019 Actual	2020 Projected	2021-2022 Proposed	Increase or (Decrease) 2019-20 vs. 2021-22
STREET OPERATING FUND					
OPERATING EXPENDITURES:					
Transportation Administration	\$ 514,654	\$ 264,638	\$ 193,203	\$ 636,856	\$ 122,202
Transportation Services	172,849	98,060	27,812	85,706	(87,143)
Road Maintenance	1,268,211	701,833	573,710	1,710,008	441,797
Snow and Ice Control	39,000	9,650	-	39,000	-
Street Cleaning	-	3,661	6,857	-	-
Roadside Maintenance	46,000	15,175	-	113,500	67,500
Traffic Control	149,000	59,022	27,579	130,000	(19,000)
Traffic/Street Lights	874,967	500,265	263,804	874,063	(904)
Traffic Calming	50,000	-	-	50,000	-
Pedestrian Maintenance	6,000	1,447	-	3,600	(2,400)
Sidewalk Maintenance	16,000	-	-	30,000	14,000
ADA - Sidewalks	100,000	-	-	20,000	(80,000)
Pedestrian Maint/Traffic Control	1,561,815	664,525	734,529	1,583,343	21,528
Total Expenditures	\$ 4,798,496	\$ 2,318,276	\$ 1,827,494	\$ 5,276,076	\$ 477,580
ENDING FUND BALANCE	89,462	259,415	357,021	73,133	(16,329)
TOTAL EXPEND, OTHER US	\$ 4,887,958	\$ 2,577,691	\$ 2,184,515	\$ 5,349,209	\$ 461,251
AND ENDING FUND BALANCE					

OTHER FUNDS PRELIMINARY PROPOSED BUDGET

The City's Utility Fund will continue to be separated into two different funds for the 2021-2022 budget; one fund for the Utility operating costs, and a new fund that will include the Utility's

Capital budget. The detail proposed budget for these two funds will be presented beginning with the Preliminary Budget and budget message to be delivered at the October 12 Council meeting.

Included in the 2021-2022 Preliminary Budget will be two years of the City's capital project budget. The capital budget is currently being finalized and more detailed information on the City's proposed capital budget will be presented on October 12, along with all other funds not addressed here.

Upcoming Council budget meetings include the following:

Date	Topic
Monday, September 28	Public Hearing on Budget Priorities
Monday, October 12	Mayor's Preliminary Budget Presented
Monday, October 19	<u>Department Budget Presentations:</u> Executive, Administrative Services, Legal, Legislative
Wednesday, October 21	<u>Department Budget Presentations:</u> Development & Business Services, Information Technology, Human Resources, Public Works
Monday, October 26	<u>Department Budget Presentations:</u> Parks, Recreation & Cultural Arts, Police, Municipal Court, Capital Funds
Monday, November 2	Council Discussion on Budget
Monday, November 9	Public Hearing on 2021-2022 Budget Public Hearing on 2021 Property Tax Levy
Monday, November 16	Council Discussion and Deliberation
Monday, November 23	Council Deliberation and Adoption of: 2021 Property Tax Levy 2021-2022 Budget

We look forward to ***IMPROVING, TRANSFORMING AND ACHIEVING*** with the City Council throughout the remainder of this 2021-2022 Biennial Budget process.