

City of Snohomish Strategic Plan

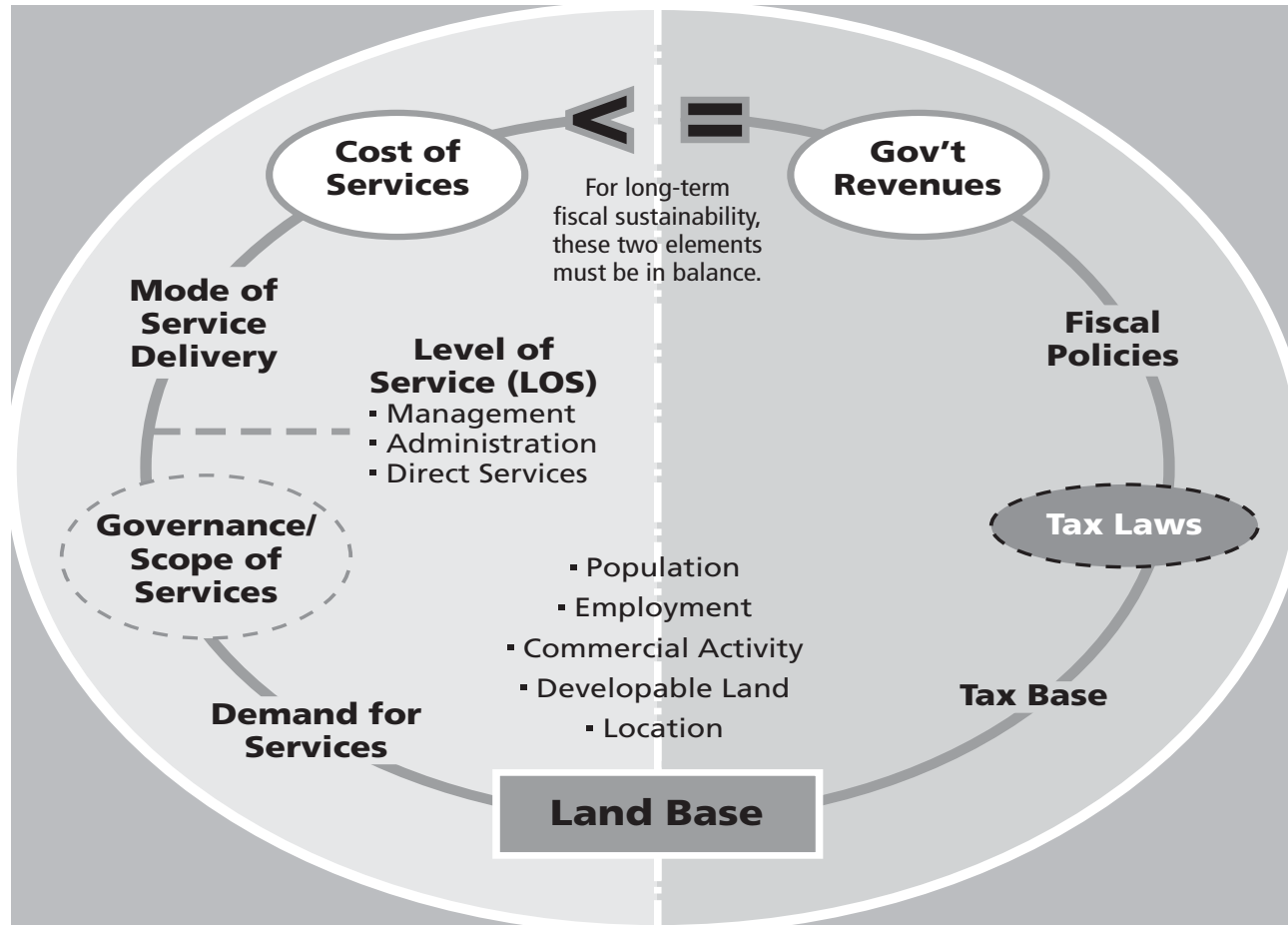


Base Fiscal Analysis

**Presented to
Community Advisory Committee
June 22, 2006**

Fiscal Balance Framework

The long-term fiscal sustainability challenge is to balance land use, fiscal policies and effective delivery of municipal services.



- Land base changes will have an impact on both revenues and cost of services.
- Due to tax laws, commercial lands generally provide a greater potential fiscal benefit than residential properties.
- Higher value residential can “pay its way” in fiscal terms
- Under current tax framework, retail development offers the best fiscal return

Base Fiscal Analysis

As the City and its citizens embark on the comprehensive strategic planning effort to guide the City's future, the key to successful planning effort is the understanding of the current situation and future trends. The knowledge of fiscal challenges ahead will help in setting and prioritizing short- and long-term objectives for the City.

The long-term fiscal outlook forecasts **core operating revenues and costs** that the City of Snohomish may face if it pursues the fiscal path it is on today, i.e. relying on the same revenue sources and spending on the same types and categories of expenditures.

This analysis paints a picture of the City's fiscal future if no changes are made to the financial and service policies in place.

Key assumptions that drive the projected future fiscal gap include **population growth estimates** and impacts of fiscal challenges that the City has already begun to encounter, including **Initiative 747 effects** and impacts of **rising costs of doing City business**. With understanding of these future challenges, the City can develop options for a fiscal strategy that will enable the City to develop the most fiscally sustainable course of action.

Core Operating Revenues

- Core operating revenues include all revenues that accrue to the City's general and street funds, including:
 - Sales tax revenues
 - Property tax revenues collected from the general and police levy rate
 - Utility tax revenues
 - Other Revenues (state-shared revenues, fines & forfeits, charges for services, revenues from Licenses & permits, other misc. revenues)
- Estimated by applying existing tax and fee policies to City land base and tax bases over time
- Capture the likely effects of 1% levy limit on property tax revenues

Core Operating Costs (Cost of Services)

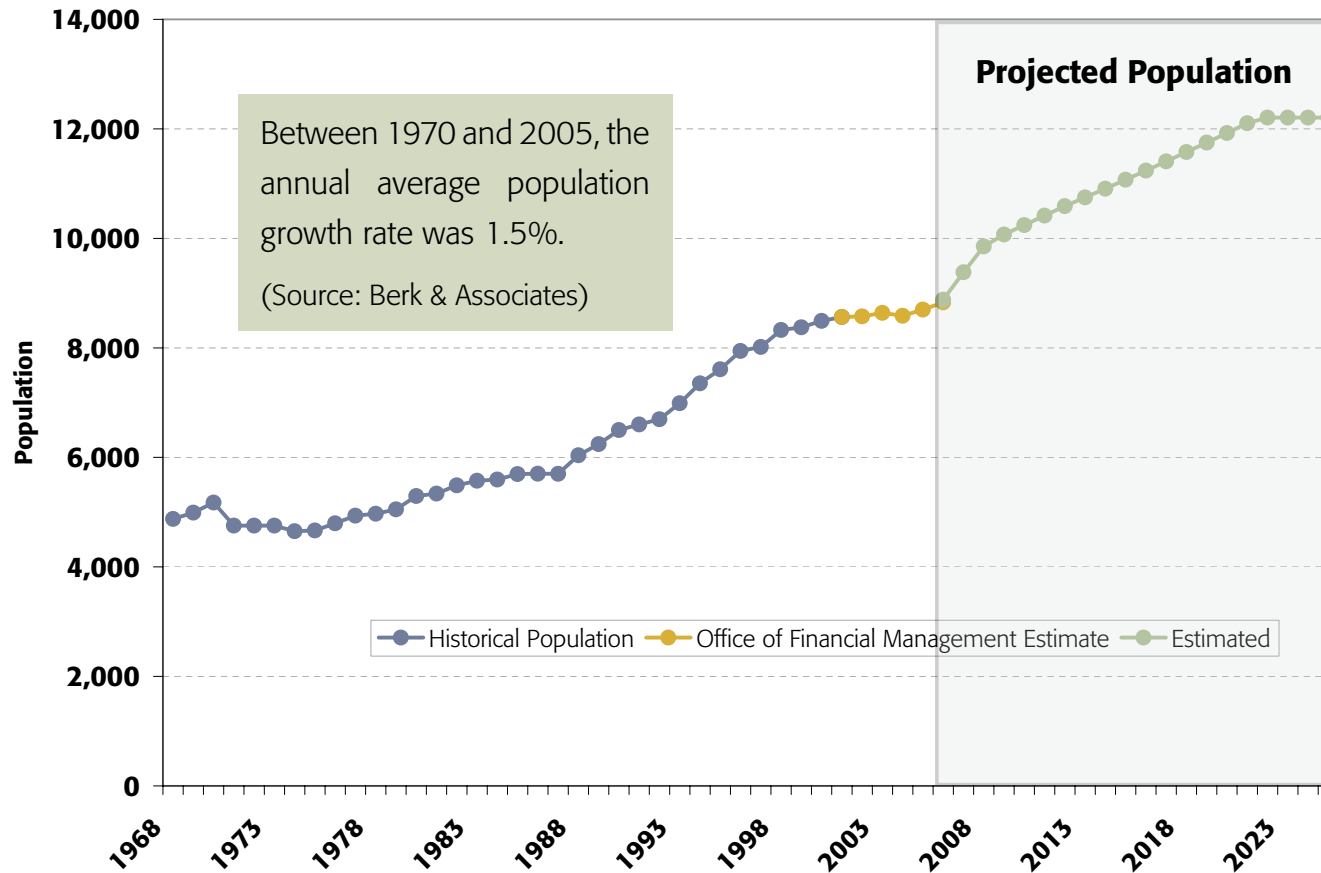
- Core costs include all day-to-day operating expenditures that are funded from the City's general and street funds, including:
 - City Council
 - City Manager's Office
 - Support Services
 - Law Enforcement
 - Public Works (only partially funded from general fund)
 - Planning
 - Nondepartmental

Estimated future cost of services are based on:

- Level of service and mode of service delivery
- Fund structure and budget policies
- Drivers for key cost variables such as labor agreements, health care costs
- Increase in demand (population growth)

Population Growth

Historical and Projected Population



- Population growth rate serves as one of the drivers for revenue and cost estimates
- 2006 population: approximately 8,880
- 2025 target build-out: 12,205 (per Comp Plan)
- Population increase in 2007-12 due to construction of new housing units (Snohomish Station and other planned residential)
 - Population reaches build-out in 2022

Proposed Development Assumptions

Snohomish Station

Phase I:

- Approximately 315,000 sf
- Anchored by Fred Meyers, plus some smaller retail
- 113 town homes and flats
- Open between Fall of 2007 and Fall of 2008

Phase II:

- Approximately 145,000 sf
- Possibly Home Depot, plus some smaller retail

Sewer Trunk Line Development

Segment 1 (Lower Cemetery Creek trunk line):

- Runs north-south in the Western part of Snohomish
- Approximately 40 acres could be subdivided and redeveloped into single family housing (minimum 7,200 sf lots)
- Approximate completion of trunk line: by the end of July 2007

Segment 4 (Bickford trunk line):

- Zoned commercial with multi-family allowed
- Approximate completion: by the end of 2006

Proposed Development	2006	2007	2008	2009	2010	2011	2012
Commercial (SF)							
Snohomish Station Big Box Retail		165,000	135,000				
Snohomish Station Misc. Retail		150,000	10,000				
Other (office - professional)	30,000	6,000					
Total Commercial	30,000	321,000	145,000	0	0	0	0
Single Family Residential (units)							
Platted Residential		91	98				
Assumed due to Trunk Line			43	43	43	43	43
Total Single Family Residential Units	0	91	141	43	43	43	43
Multi-family Residential (units)							
Snohomish Station		113					
Platted		10					
Assumed due to Trunk Line		24	24	32			
Total Mutli-family Units	0	147	24	32	0	0	0
Total New Population due to Development	0	461	430	167	122	122	122

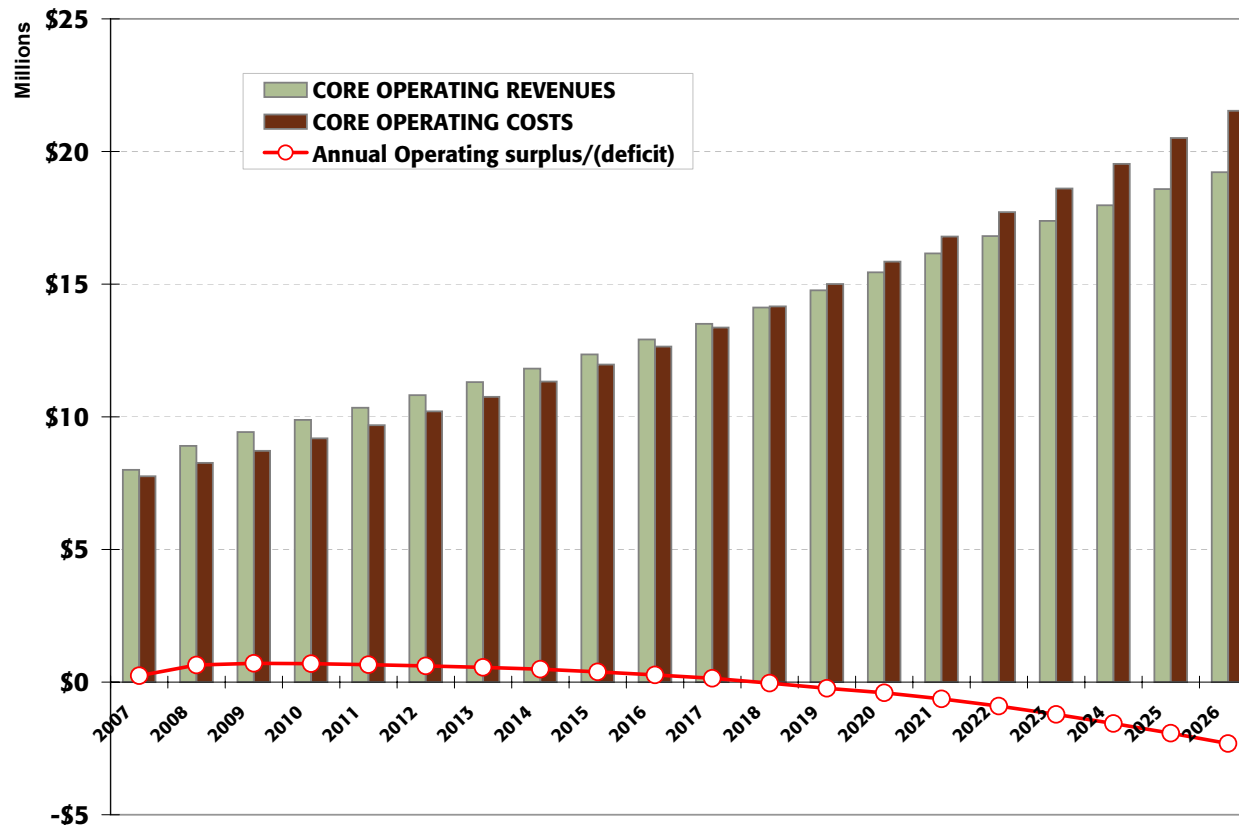
Baseline Projections

- Revenue and expense forecasts are based on 2005 actual and to a certain extent, 2006 budgeted numbers.
- Revenues do not include beginning General Fund Balance
- Analysis includes proposed development assumptions (Snohomish Station and trunk line-influenced development)

Annual Average Growth Rate (2005-2025):

- Core Revenues: 5.1%
- Core Expenses: 5.7%

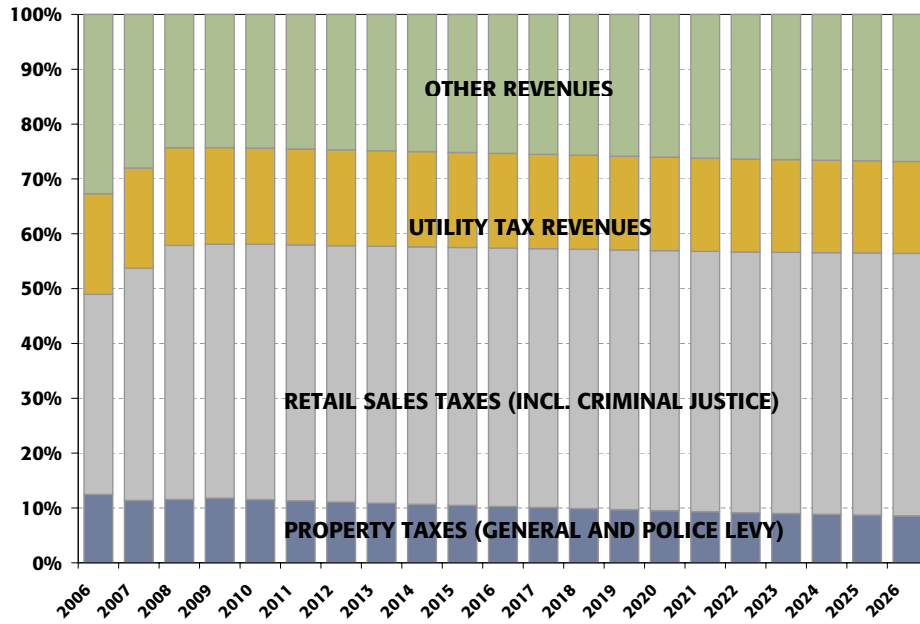
Expenses are outpacing Revenues



The City would see fiscal deficits much sooner if there were no proposed development to provide one-time and ongoing revenues

Baseline Projections

Relative Share of City Revenues Over Time



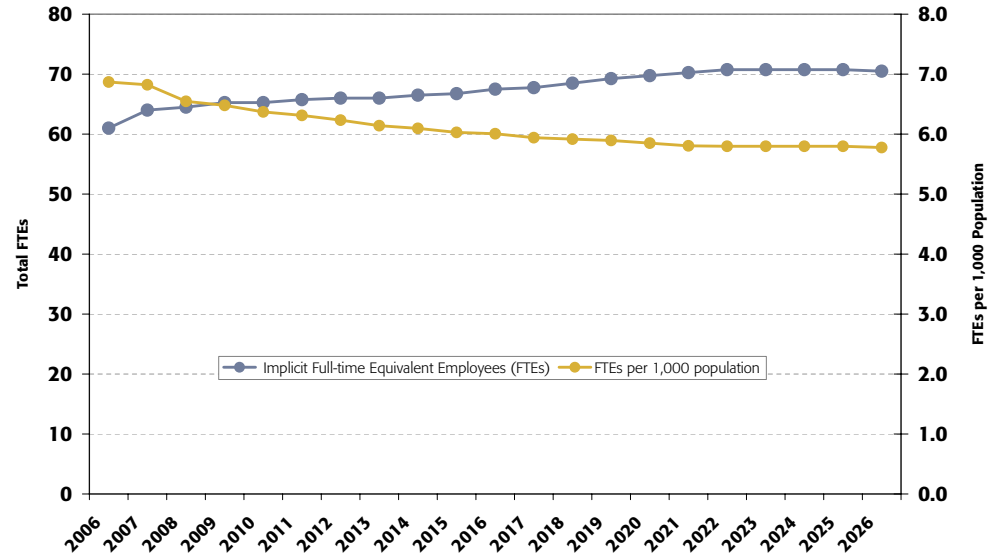
One-time Revenues from Proposed Development:

- Property tax revenues from new construction assessed value (not subject to 1% limit)
- Revenues from taxable retail sales on construction
- Permit and plan check fees

Ongoing Revenues from Proposed Development:

- Revenues from taxable retail sales (commercial properties)
- Utility tax revenues from new households and businesses

Total Projected Implicit FTEs and FTEs per 1,000 Population



The change in total implicit FTEs and FTEs per 1,000 population is primarily the result of change in population

Impact of Proposed Development:

- Property taxes as percent of total revenues are relatively stable through 2010, start declining thereafter (due to 1% limit)
- The share of retail sales tax revenues as percent of total revenues increases - due to new retail center (Snohomish Station)
- "Other revenues" increase in 2006-07 (include permit and plan check fees)

Fiscal Challenges

Most fiscal challenges stem from recent series of statewide initiatives that have eroded most cities' financial support from taxes and fees. Most damaging blows:

- I-695 (ending collection of the State's motor vehicle excise tax [MVET])
- I-747 (limiting the growth of property tax levies on a city's existing property to less than the rate of inflation)
 - In Snohomish, the share of property tax revenues is about 14% in 2006, mostly due to City being part of the Fire District 4. This shifts the impacts of I-747 on the w (but can also be a risk to fire LOS).
 - With the recent court ruling invalidating I-747, there is new uncertainty about the future impacts of this initiative.

Another fiscal challenge is **increasing costs of doing City business**: throughout the region personnel costs (the principal cost of providing city services) are growing at a rate that exceeds inflation. These costs are driven by:

- (1) big annual increases in the costs of health care and
- (2) wage increases that exceed the rate of general inflation (driven by long-term increases in worker productivity in the private sector).

The Sustainability Challenge

For most jurisdictions, achieving sustainability will require a mix of strategies. The most successful organizations will find a way to effectively integrate **planning** (vision/forward looking), **management** (implementation) and **budgeting** (allocation of scarce resources) functions in service of a shared vision of the community and the role of municipal government.

Revenue Focused Strategies

- **Assess current tax policies.** Consider options for new taxes or increased tax rates, including the role of future levy lid lifts, voter-approved bond measures, B&O tax and others.
- **Economic development planning.** Identify ways of growing non-residential tax base.
- **“Growth pays for growth.”** Review impact and development fees.
- **New special purpose districts or dedicated funding.** Create dedicated funding for parks or public health so these do not have to compete with general government services.
- **Local improvement districts.** Assess beneficiaries for the cost of new capital.
- **Review user fees.** Maximize fee utilization to reduce general fund demands (parks & recreation, current planning).
- **Seek new taxing mechanisms.** Work with AWC and others to expand list of funding options (TIF, local option taxing authority).
- **Review land use policies.** Review land use mix in Comp Plan to optimize revenue generating capacity and demand for service and infrastructure.

Cost of Service Focused Strategies

- **Process redesign.** Review how services are being delivered - look for efficiencies, make effective use of technology.
- **Establish performance measures and benchmarks.** Manage toward measurable objectives.
- **Review LOS standards.** Assess current service standards and practices.
- **Focus on core business areas.** Assess and prioritize demands for scarce resources.
- **Zero-based or outcome-based budgeting.** Consider alternative approaches to budgeting.
- **Labor policy review.** Assess the role of labor agreements in growth of public service costs (COLA's, step increases, health care costs, work rules).
- **Partnering opportunities.** Further pursue opportunities to partner with other entities, including nonprofits and community groups. Existing partnerships include Lake Stevens, Snohomish County, Adopt-A-Park program, and others.
- **Contracting opportunities.** Identify opportunities to use the private sector.
- **Review land use policies.** Assess the cost implications of current land use policies.

Baseline Fiscal Scenario Assumptions

Most assumptions are based on 2001-2005 actual revenues and expenditures

Assumed annual population growth rate (historical growth rate, 1970-2005, net of annexations)	1.50%				Assumed rate of increase (on a per resident basis)
2025 Population build-out according to Comp. plan	12,205				
Assumed General Inflation	2.5%				
Core Operating Revenues					
Property Tax (incl. Police Levy)					
Levy growth limit	1.0%				
Assumed annual AV growth rate for existing property	4.0%				
Assumed annual new construction value as % of total AV	1.5%				
Discount on value of new construction AV and contracting TRS when the max build-out is reached	50.0%				
Sales Tax					
City share of local sales tax	0.84%				
Total assumed annual growth rate for current taxable retail sales	3.4%				
<i>Assumed annual growth rate for current TRS, inflation adjusted (based on historical per capita TRS growth - 1990-2002)</i>	0.9%				
<i>Plus inflation</i>	2.5%				
City share of Retail Sales Tax - Criminal Justice	0.04%				
PUD Excise Tax					
Assumed percent of Electric Utility revenues <i>(Based on historical average - 2001-2005)</i>	12.0%				
		Gambling Taxes			3.5%
		Utility tax			
		Electric Utility			3.0%
		Gas Utility			3.0%
		Telephone Utility			3.0%
		Water/Sewer/Garbage Utility Tax			4.0%
		State Shared Revenues			1.0%
		State Shared Revenues - by Application			1.0%
		Cable TV Franchise Fee			4.0%
		Fines & Forfeits			2.5%
		Permit and Plan Check Fees			
		Business Licenses			4.0%
		Building Permits			4.0%
		Misc Permits (dog, gun, bike)			2.5%
		Operating Transfers			5.0%
		Charges for Services			
		Plan Checking Fees and Development Fees			4.0%
		Other Charges for Services			2.5%
		Other core revenues (Misc.)			2.5%

Core Operating Expenses

	Assumed rate of increase (unit costs of service)	Assumed rate of increase in resources for each 1% increase in population
City Council	5.0%	0.00%
City Manager's Office	5.0%	0.25%
Support Services - Finance	5.0%	0.50%
Public Works	5.0%	0.50%
Planning and Development Services	5.0%	0.50%
Non-departmental	5.0%	0.30%
Law Enforcement	5.0%	2.3 officers per 1,000 population; after population is over 10,000, 2.0/1,000 population