

City of Port Townsend, WA



Final 2013 Budget

2013 Budget Executive Summary

Introduction

This document presents the 2013 budget for the City of Port Townsend, Washington. Although we have faced financial difficulties, we have also accomplished many goals established by the current and previous City Councils.

We also believe that if we maintain the financial limitations set forth in this budget, and do not encounter more unforeseen problems, we will avoid the issues noted by the Washington State Auditor's Office (SAO) in their last two audit reports of our city; specifically to maintain a strong general fund balance and to exceed our reserve requirements. The SAO reports are available on the city's website.

This budget is based on the following assessment:

- Ending balances in all funds in 2012 are critical to projections for 2013
- Based upon the response to lost revenue the General Fund will be stable
- Real estate activity is improving but still at a reduced level through 2013 and 2014
- The 2012 assessment of the Water and Sewer Fund shows that the 2013 projection will be compromised absent any change in policy
- The Capital Program is shifting to larger single utility projects that will generate higher overhead collections for the General Fund through 2015.
- It will be necessary to adjust the City's 2013 finances to maintain a sustainable path going into 2014 and 2015.

This executive summary details the challenges we have faced; actions to meet these challenges; our recent accomplishments; and our goals for 2013. Following the Executive Summary, are sections showing numeric details for the city's budget including: 1) fund comparisons for all Funds shown in programmatic and object format, 2) line item detail for all Funds with a five year history, 3) capital projects for 2013 and those planned from 2014-2018.

Financial Challenges

The year 2012 challenged us in several ways. Real estate sales still lagged well below pre-recession rates and related permit activity reflected the same. The City was also hit by a retailer miscoding their sales tax reports. A late-breaking concern of the State Department of Health Drinking Water Division is threatening our forward momentum on achieving secondary disinfection of the City's water.

The budget plan for 2012 was on track with our goals until we received word from the Washington State Department of Revenue that a major sales tax account had been miscoded. This late news of a \$200,000 miscoding in the last quarter of the year was devastating to say the least. However, it forced a complete comprehensive assessment of the status of the current year, as well as the future budget forecast for 2013 and beyond.

This analysis demonstrated that we were dealing with several concurrent issues. First was the direct impact the loss of the sales tax would have on the General Fund. Second, the forecast for the Utility Funds demonstrated that the trends showed a loss in sales and an erosion of reserves unless a significant rate adjustment was approved. Added to this is the anticipated rate adjustment to fund the mandated capital improvements that are required to be funded in this budget cycle.

Making matters worse, the City has several outstanding issues that carry with them significant consequences. This includes the resolution of the status of the future renewal of the Prop 1 tax sharing with the County; the matter of the condition of the pool and the lease terms for Mountain View; the final resolution of the City/Port litigation; and the status of the State Drinking Water Division of the Department of Health's concerns on the City's method of compliance with the secondary disinfection mandate.

Other issues that need to be monitored closely will be potential State Legislation starting in 2013. In addition there needs to be an active involvement by the City with the situation at Fort Worden and the State Ferry system. Either one of these could have impacts to the finances of the City.

Actions to Meet these Challenges

To meet these financial challenges, we identified three issues that directly impacted the budget in the next few years. First was the sudden loss of General Fund revenue due to miscoding; second, the need to balance our engineering staffing to the project management needs; and third, the need to adjust the budget for the utilities based upon our rate forecast. Bear in mind the City only had three months to respond to the 2012 revenue miscoding.

1. Miscoding of Revenue in 2012

Our response to this issue was multifaceted. Since the revenue loss directly impacts the General and Community Services Funds, we focused on the following actions to address the majority of the impact:

- Freeze on current spending
 - Estimate \$150,000 savings
- Adjusted payroll to match year end projection
 - Estimate \$30,000 savings
 - Invoice Police Overtime for Festivals to Lodging Tax \$16,000
 - Lodging Tax spending freeze yielded a \$20,000+- savings
- Suspended the Police Vehicle Replacement
 - \$184,000 savings (ERR Fund)
 - Additional savings possible from ERR reassessment
- Suspended current projects
 - 1% Arts
 - Parkside Park Development
- Adjusted Payroll for the Pool to meet Year End projection
 - Adjust Nov/Dec Payroll
 - Currently estimate is \$20,000/month
 - Current Budget is one month short of funding
 - Adjust Payroll for November/December maintenance closing
- Energy and Fuel Cost
 - Adjust line items as needed

- Discovered an accounting miscode within Facilities Budget that offset an additional supplemental request

2. Balance our Engineering staffing:

This issue involved balancing the staffing plan for Engineering to match the future project management needs. The projection for yearend demonstrated that full cost recovery was not possible and a deficit was projected for the Engineering Fund. Also, the project management needs for 2013 were going to change considerably and a reduction in staff support was necessary. The balance needed to reduce the deficit position was to adjust project priorities to focus the remaining staff time on billable projects to maximize cost recovery.

- Final adjustment for Engineering Overhead Allocations for Capital
 - Projected \$58,000+- Non-recoverable
 - Currently reconciling project accounts
 - Balance due will be offset by a payroll savings projected to be \$20,000+-

3. Adjust the 2013 Budget for the Utilities

On this issue, our efforts to prepare for the rate forecast to address the cost recovery of the mandated capital improvements demonstrated that the Utility financial stability was at risk unless steps were taken. Sales of water are down 18% which impacts revenue and expense balance. This combined with the City's overhead allocation policy proved to be an unsustainable financial model. This condition alone would require a significant rate adjustment which would be added to the anticipated adjustment to fund the mandated capital projects. The budget for 2012 is maintained; however, the budget plan for 2013 addresses this condition.

A new policy is recommended that assesses the City's overhead assessment to Funds that operate independent of the General Fund. But in the case of the Utility Funds that are subject to a General Fund 10% tax, the 10% to recover the cost of General Fund related overhead expenses would not apply. Our review of this

policy change demonstrated a sustainable balance on cost recovery for the General Fund through 2015 and a stabilization of the reserve positions in the Utility Funds.

Accomplishments:

The accomplishments of this and previous City Councils were too numerous to detail here. However, a question that citizens have repeatedly asked is what was accomplished by the general bond issues of 2008 and 2010? Because of this, we developed a schedule showing the 2008 and 2010 Capital Bond Allocation by Project with Matching Funds.

In summary, for 17 capital projects, total bond commitment was \$11.3 million with matching grants/donations totaling \$29 million. You will find details on the City's web site: <http://cityofpt.us/CurrentProjects.htm>

Goals for the 2013 Budget Year

The goals for 2013 include projects that we started but did not complete in 2013; projects that will require voter approval; and depending on obtaining the necessary funding, new projects.

Possible projects that we believe will require voter approval include: 1) establishing a park district to maintain the city and county parks, 2) public library expansion, and 3) fire district annexation. The City Council will be determining if and when these projects will become ballot measures.

Projects that were started but not completed in 2012 that are carried forward in 2013 include: 1) determining the status of the Mountain View property, 2) police vehicle replacement, 3) developing the neighborhood park on Parkside Drive, and 4) one percent funding for the arts.

New projects that received special funding at the close of 2012 include: 1) extension of Howard Street, 2) sidewalks and bicycle lanes on Sheridan Street. Also in 2013 the City will need to address other mandated compliance with new BARS Code and financial reporting requirements. We also will work with Jefferson Transit on several projects to improve our transit system.

In summary, we believe that the 2013 budget will be a transition year for the city to regain its strong financial condition. We also believe that we will be able to fund important projects not completed in 2013, start a major utility upgrade mandated by Federal Government through Washington State, and depending on funding and voter approval, initiate several new projects that citizens have requested.

Please also see other updates and various reports available on the City's web site: www.cityofpt.us.

How to read the Budget:

Summary Budgets:

Programmatic Budget Presentation; this approach summarizes the budget and shows revenues to expense that are related or restricted for a purpose. There are city departments that generate revenue from permits and fees that relate to the service they provide. This approach tracks this relationship and accounts for the dollars raise to the service provided. A good example of program budgeting by department is Development Services. This department earns operating revenue from permits and fees. What this shows is total revenue generated by these sources against the expense of providing the service. It also shows how much the services are subsidized from other sources of city income. Another form of a programmatic budget is by Fund. A good example of this is the Levy Lid Property Tax dollars. They are restricted for the operation of the Library. So a program budget matches these dollars to the Library expenditures. Another is the Street or Utility Fund.

This budget model helps maintain compliance and transparency in accounting for restricted dollars.

Object Code Budget Presentation; this approach differs in that it breaks the expenses down by "object code" or another way to say this; by what the expenses consist of. Examples are Personnel, office supplies, or other summarized group of expenses. This format allows you to see how a particular budget breaks down.

This budget model helps you assess how the expenses of a service are allocated: i.e. more is allocated for labor or supplies.

Line Item Detail; this is the most detail and possibly the hardest to understand since it consists of so many separate detail accounts and activities.

This is how the budget is managed and reported in accordance with state law.

Capital Improvement Plan (CIP):

This is a five year projection and is the city's "best guess" at the future. Most projects in a CIP are multi year and will move back and forth based largely on the moneys made available. This is a planning tool. Projects that are funded in the current year appear in the Capital Improvement Fund (CIF).

Common Terms:

Fund: A "Fund" is a budget center and is used to account for a collection of related revenues and expense. Each separate "Fund" is its own budget. The combination of all the "Funds" makes up the City's Budget.

Department: Departments are a subset of a "Fund" and account for the separate activities within that "Fund".

Line Item: A "Line Item" is the detail of each expense category of a "Department".