

**SULTAN CITY COUNCIL  
BUDGET RETREAT  
AGENDA ITEM COVER SHEET**

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ITEM: Budget Retreat - 3

DATE: June 20, 2009

SUBJECT: General Fund Assumptions – Five Year Forecast

CONTACT PERSON: Laura Koenig, City Clerk/Deputy Finance Director  
Deborah Knight, City Administrator

**ISSUE:**

The issue before the City Council is to review the 2010 General Fund Assumptions and five year forecast.

**STAFF RECOMMENDATION:**

Review the Five Year Forecast and General Fund Assumptions and direct staff to areas of concern.

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**SUMMARY:**

In accordance with the report from the Washington State Economic and Revenue Forecast Council (Attachment A), the U.S. economy has been in recession since December 2007. Washington State lagged behind other areas in the recession but it is anticipated the state will come out of it about the same time. The key to recovery is consumer spending. The recession is expected to end in late 2009 with weak growth into the middle of 2010. The report provides detailed graphs on housing, jobs, construction and personal income.

Based on this information, staff has been very conservative in revenue estimates for 2010 anticipating a 1% increase in property tax, utility tax and general charges for service.

**General Fund**

The General Fund anticipates receiving \$1,796,263 in revenues for 2010. Due to the downturn in the housing market and the current state of the economy, staff anticipates no increase in General Fund revenues in 2010 over 2009. 2009 revenues included \$116,000 for the COPS grant.

Expenditures are estimated to decrease by \$88,439 from \$1,937,998 in 2009 to \$1,849,559 in 2009 as a result of reductions in cost for Law Enforcement services.

2010 Anticipated Revenues	\$1,796,263
2010 Anticipated Expenses	<u>\$1,849,559</u>
Anticipated Ending Fund Balance	\$ (53,296)

The first estimates will leave the General Fund with a \$53,296 negative fund balance. Staff will be preparing detailed budget reports over the next three months and will address the shortfall.

## **GENERAL FUND REVENUES**

### **Revenue Forecasts**

The attached Five-Year Forecast provides a historical look at the last three years (2006 to 2008) and a prospective look forward to 2012. Future years are based on the 2008 estimated budget as well as the forecast level of development activity.

**City staff estimate a total of \$1,796,263 General Fund revenues for 2010**

General fund revenues are broken into six categories:

1. Taxes	\$ 1,423,156	
2. License and Permits	\$ 30,725	(Based on 5 building permits)
3. Intergovernmental	\$ 162,057	
4. Charges for Services	\$ 31,825	
5. Fines and Penalties	\$ 57,000	
6. <u>Miscellaneous</u>	\$ 91,950	

**Total** **\$1,796,263**

For the most part, revenues are not expected to increase. Key changes in the revenue forecast in 2009 that will continue in 2010 include investment interest and rents and royalties

The City expects to receive 5 building permit applications in 2010 and have limited land use applications. An application for a \$5,000 CTED planning grant will be made in 2009.

### **Investment Interest**

Code cities may now apportion some investment earnings from funds commingled for investment purposes to the general fund rather than the participating funds unless restricted by law (RCW 35.39.034). Utility funds, bond covenants or other provisions may require that the interest be allocated to the utility fund.

In 2007 the City Council adopted a policy of allocating investment interest. The 2010 budget estimates \$35,000 in investment interest which is a decrease from prior years due to the current earning rate of less than 1%.

## **GENERAL FUND EXPENSES**

Anticipated expenditures in the General Fund are based on a CPI rate of 3.5%. If the CPI is higher and benefit costs increase significantly, the City will need to determine what programs or expenditures can be eliminated or reduced.

### Cost of Living Adjustment

The City's bargaining agreement with public works and clerical staff will not expire until December 2010.

The cost of living adjustment for 2010 is estimated at 3.5%. Based on the current economic downturn, this could possibly be a negative figure.

### Benefit Costs

#### Medical, Dental and Vision Coverage

Medical premiums increased by 14.8% in 2008 and by 10% in 2009. This is a significant impact the General Fund as well as the Street Fund and enterprise funds (water, wastewater, garbage, cemetery, and storm water).

AWC Benefit Trust has not provided information on any potential increases for 2010. A significant (10% or more) increase in medical benefit costs will require the City Council to cut expenses in other areas of the budget.

Medical premium increases will affect the public works and clerical workers contract negotiations in 2010. A premium cost share agreement will help the City control rising health care costs.

#### Public Employees Retirement System (PERS) - Pension Contribution Rates

PERS contribution rates for employers have been increasing quite significantly over the last couple of years. There was a jump to 8.31% effective July 1, 2008. A projected 9.10% increase will take effect in 2009 and a 9.12% increase is projected for each year from 2011-2013.

### ENTERPRISE FUNDS:

#### Revenues:

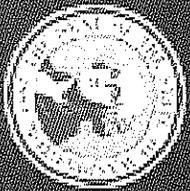
The Council took action in 2009 to increase Water, Sewer and Garbage rates. Effective in 2010, water rates will go up 11.5%, sewer will go up based on the CPI (3.5% anticipated) and garbage will stay the same. Garbage was increased by 20% in 2009.

#### Expenditures:

Water Fund: The City needs to move forward with the east side reservoir project. The change over in the chlorinator costs will increase operational costs 200%. The rate increase anticipated the additional costs for water treatment.

Sewer Fund: Major expenses for 2010 include replacement of the auto dialer, major repair to the screw pumps and an additional bank of UV lights for the disinfection system.

Garbage Fund: The City needs to include funds to complete a rate study. In 2009, the County raised dumping fees by 20%. Staff has not received any notice of increases for 2010.



# Summary

- The U.S. economy has been in recession since December 2007
- WA lagged the U.S. into recession but will come out of it at about the same time
- The key to both a national and state economic recovery is a return to normalcy in credit markets, and a return of confidence
- State revenues are dependant on consumer expenditures, so revenues will recover only when consumer spending recovers

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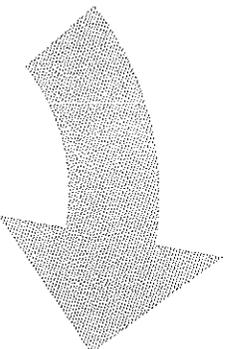
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# The banking sector holds the key to the recovery

- Access to credit?
- Equilibrium price?
- Foreclosures?

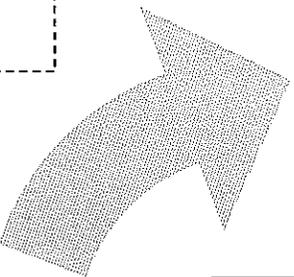
**HOUSING**



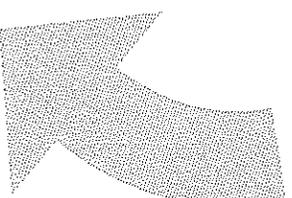
**BANKING**

- Toxic assets on bank balance sheets?
- Return of private investors in secondary loan markets?

**Return of Confidence ???**



**JOBS**



- Private spending?

- Stimulus Package?

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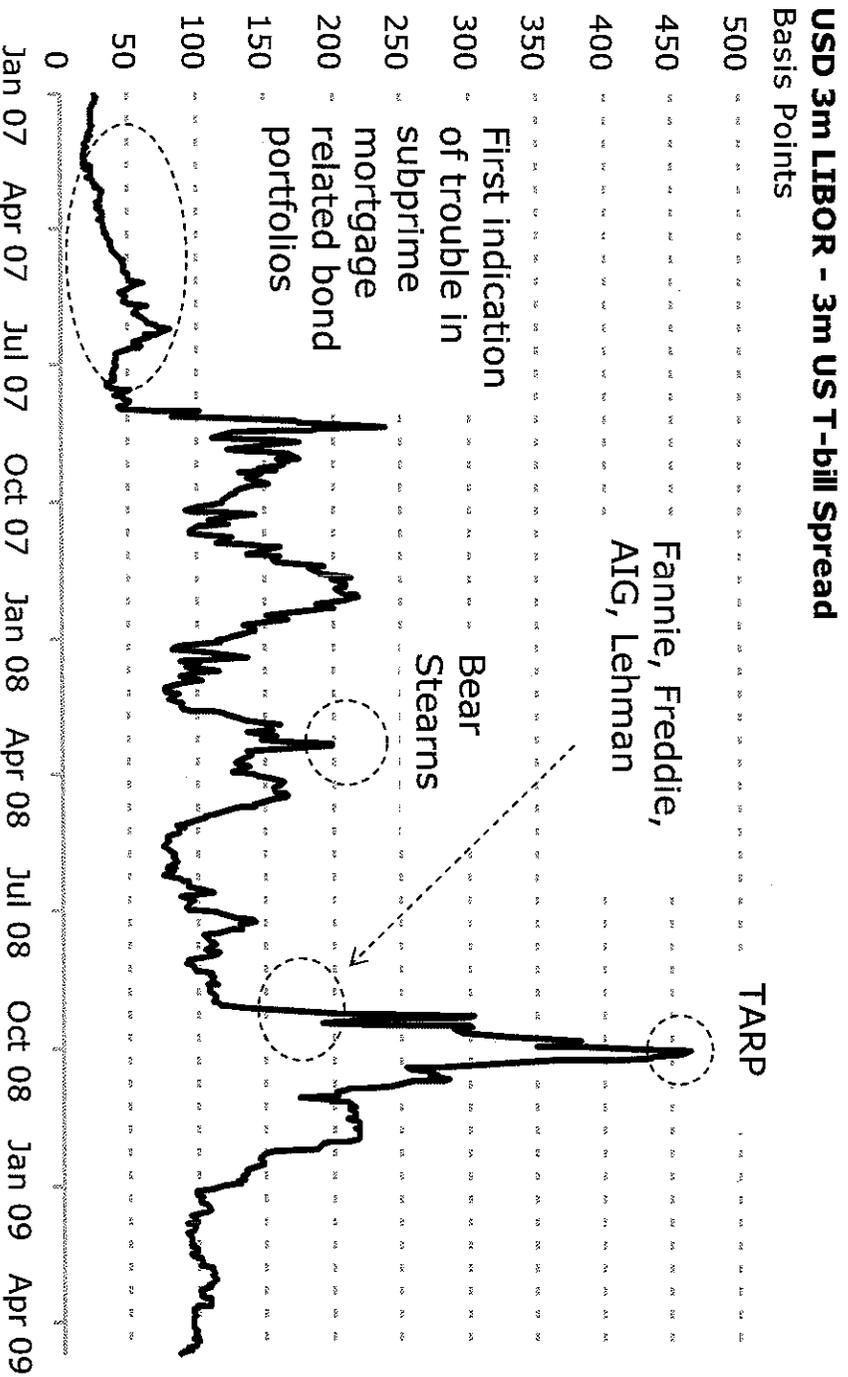
The spread indicates the premium banks have to pay to borrow from each other

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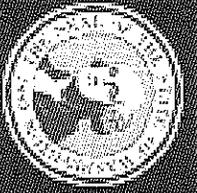
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# Inter-bank lending has stabilized



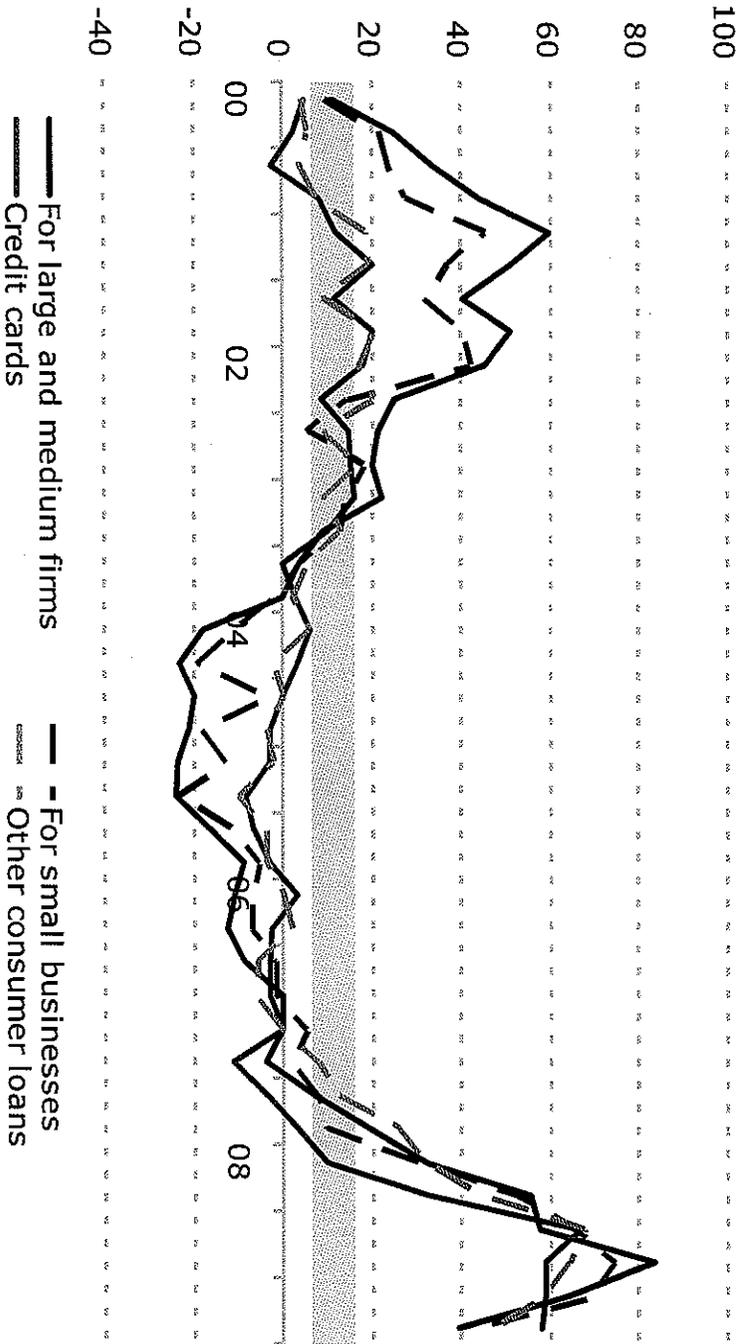
Source: British Bankers Association, US Federal Reserve Bank, ERFEC; data through May 1, 2009

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# Lending to businesses and consumers remains tight

Net Tightening minus Easing  
Percent

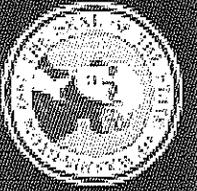


Source: Federal Reserve Board, Senior Loan Officers Quarterly Survey, data through April 2009 survey

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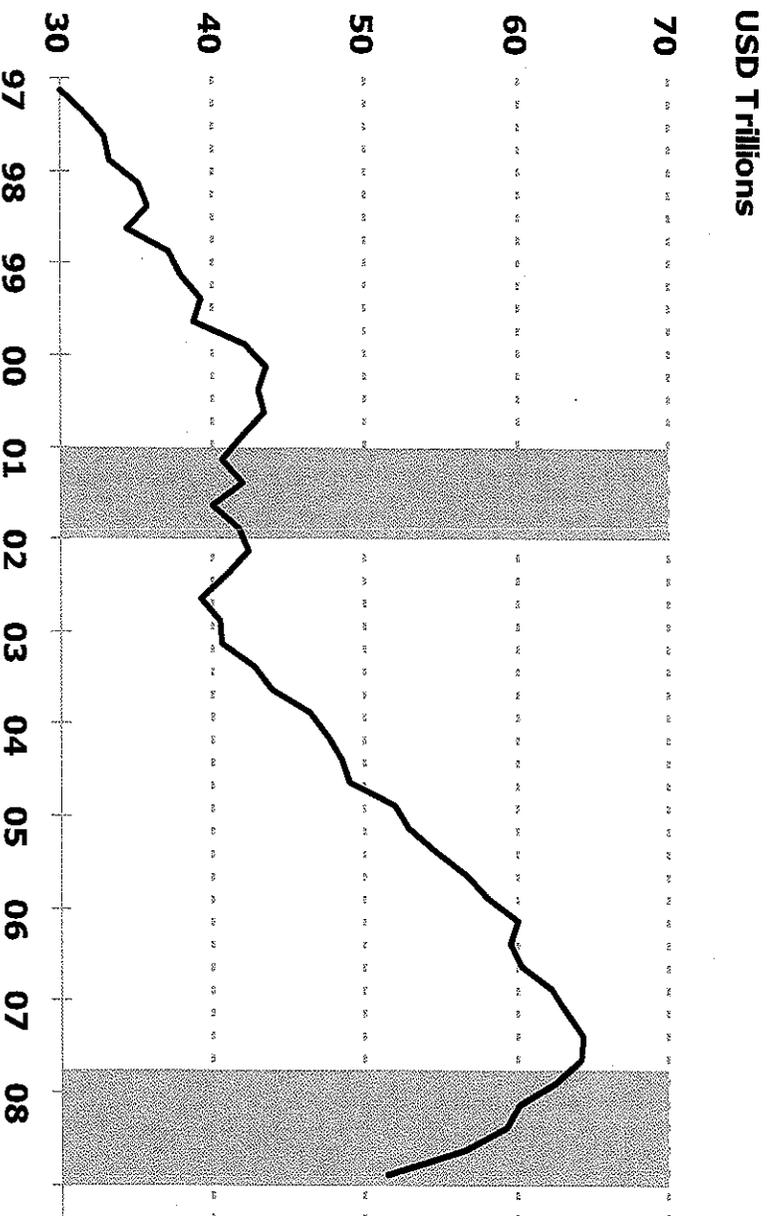


# Household net worth has declined rapidly

Household net worth at the end of 2008 was down 20% from its peak in late 2007

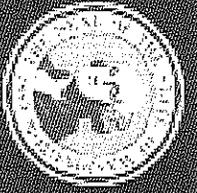
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Source: Federal Reserve Board, data through 2008 Q4

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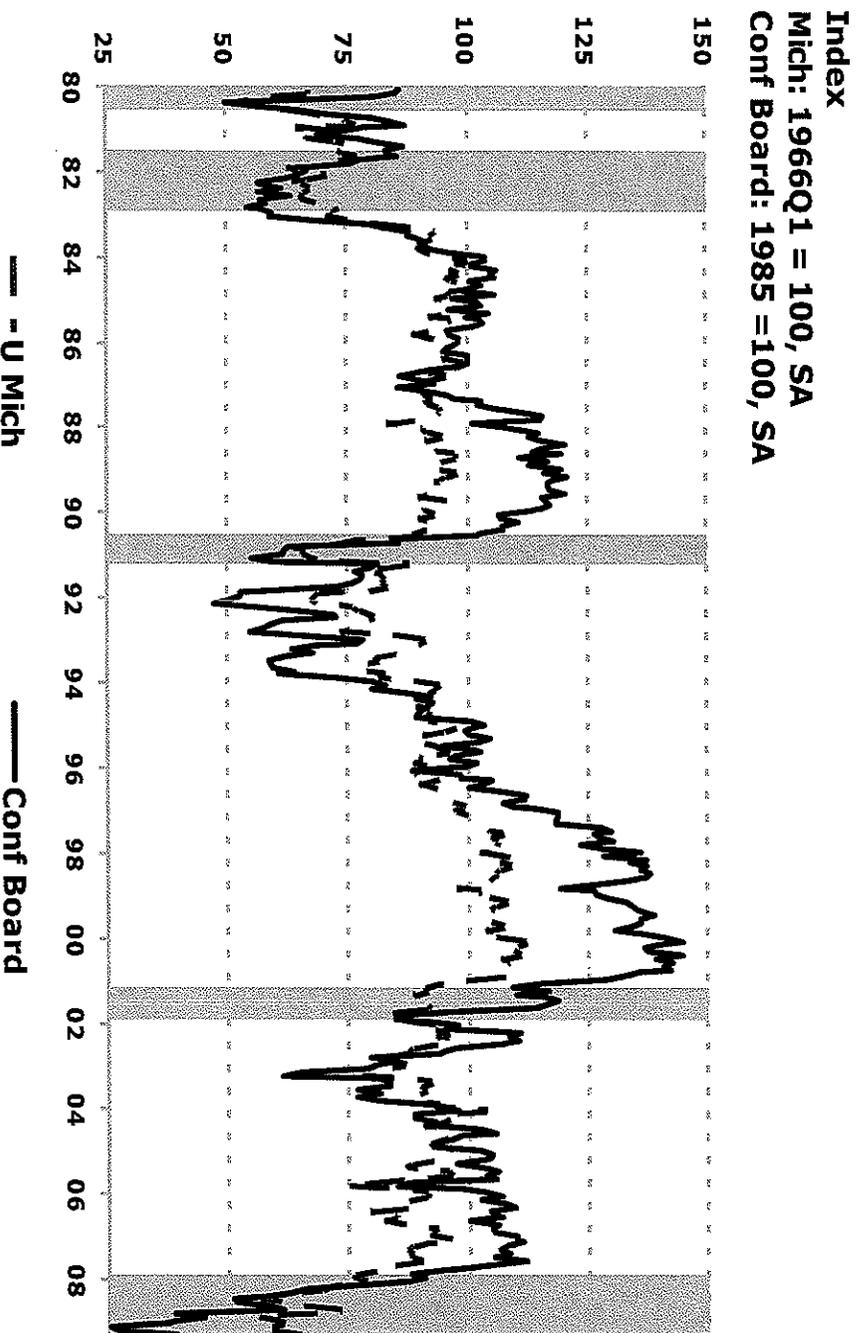


# Consumer sentiment reflects lingering uncertainty about the economy

Conference Board measure is still near its record low

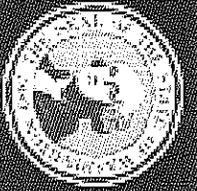
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Source: University of Michigan, data through April final; Conference Board, data through April 2009.

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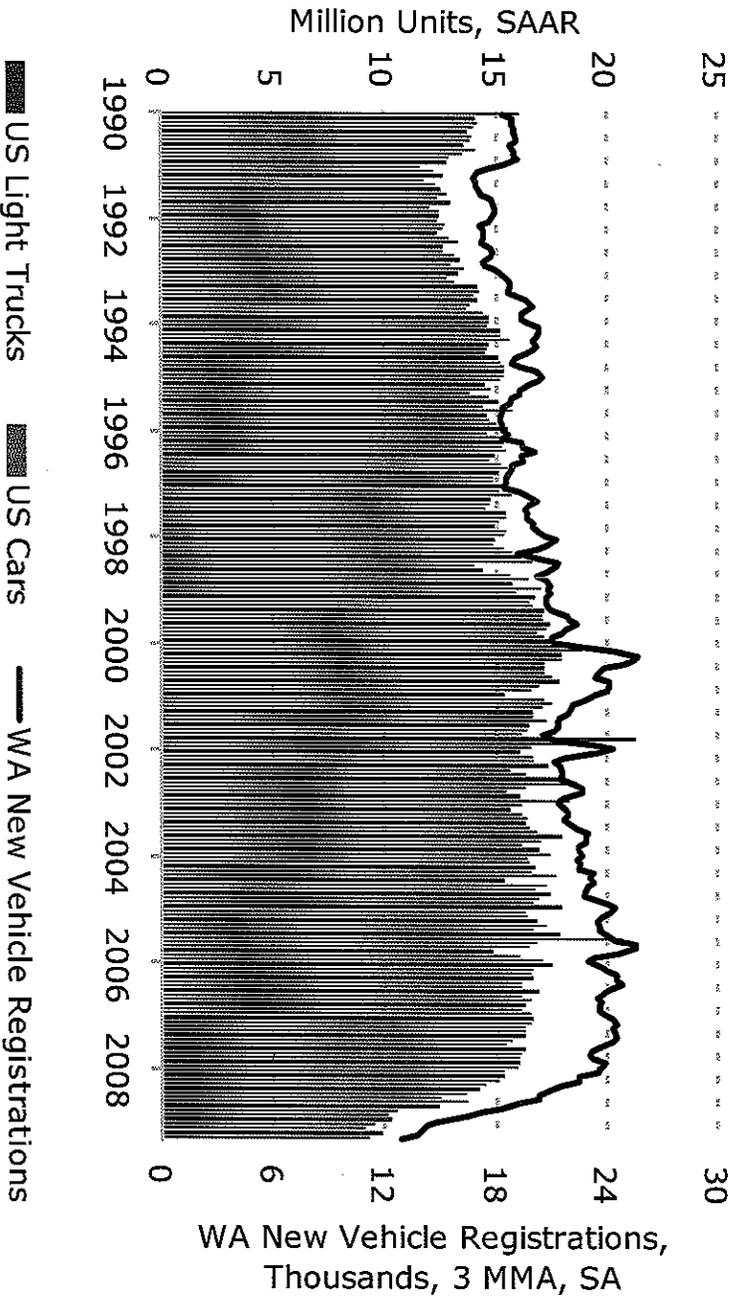
# Automotive sales have tumbled nationally, and in Washington

New car and truck sales in WA were 39% below year ago levels in April

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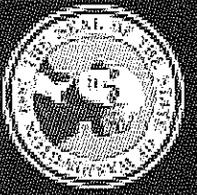
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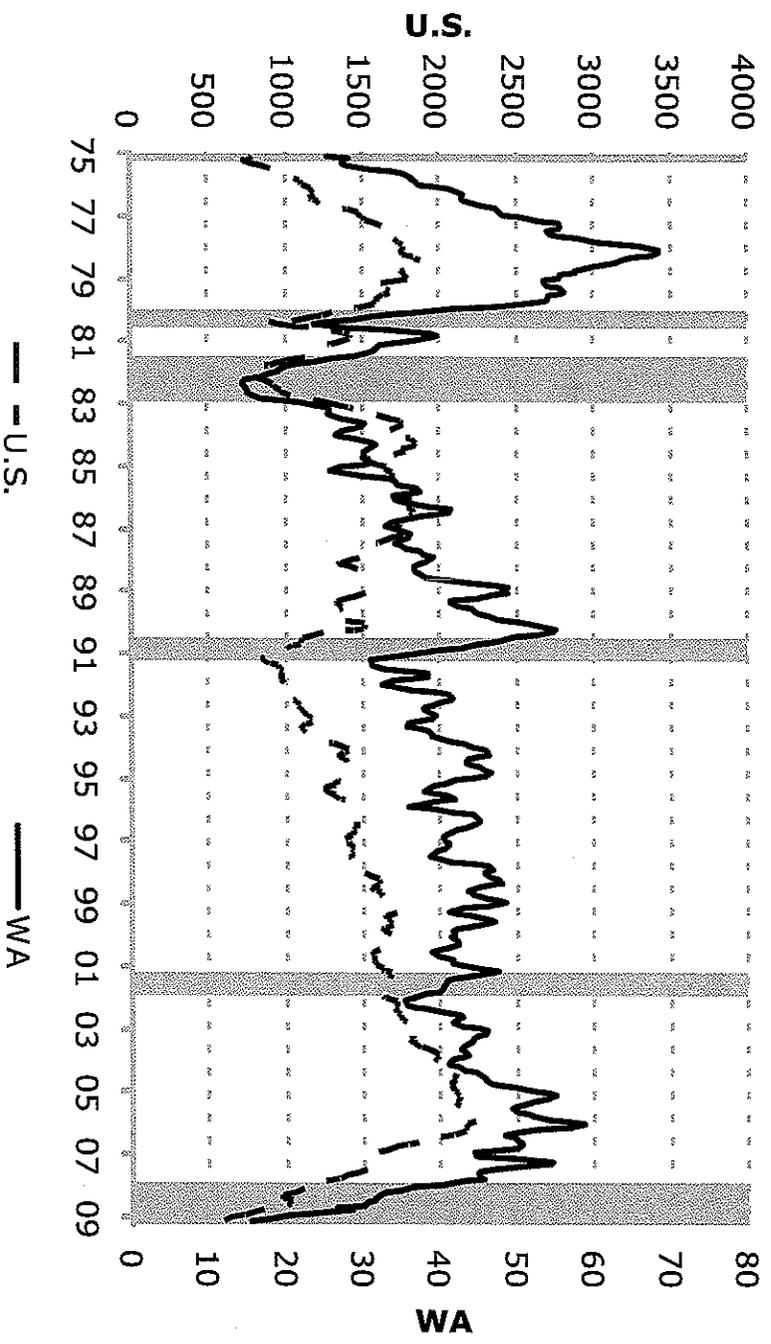
Source: Autodata Corporation, WA DOL; data through April 2009

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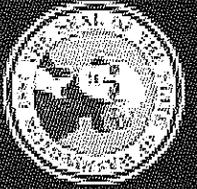
# State housing permit activity lagged the nation, but has now slowed sharply

Thousands, annualized units, 3 MMA, SA



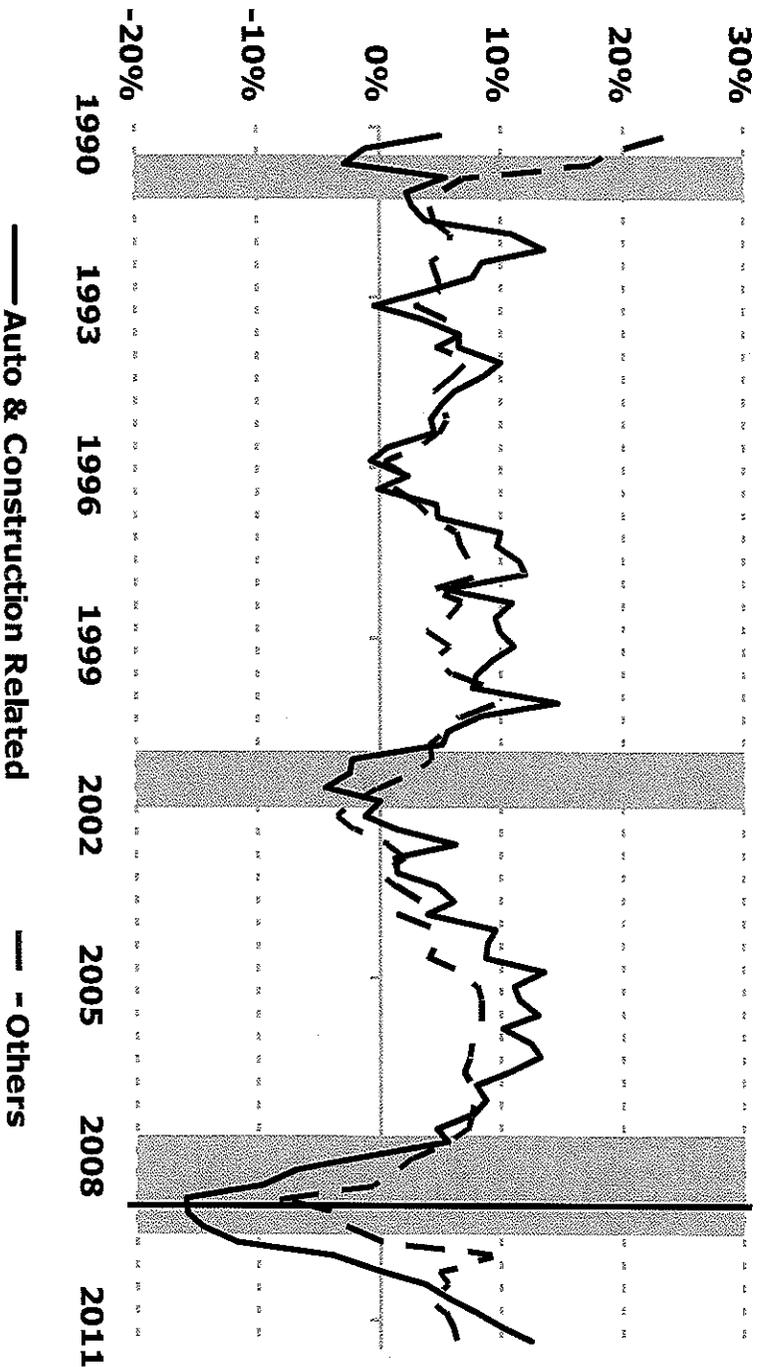
Source: Census Bureau, data through March 2009

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# The decline in taxable activity is mostly in the automotive and construction related sectors

Percent change, Year ago



Source: ERFC March 2009 forecast; actual data through 2008Q4

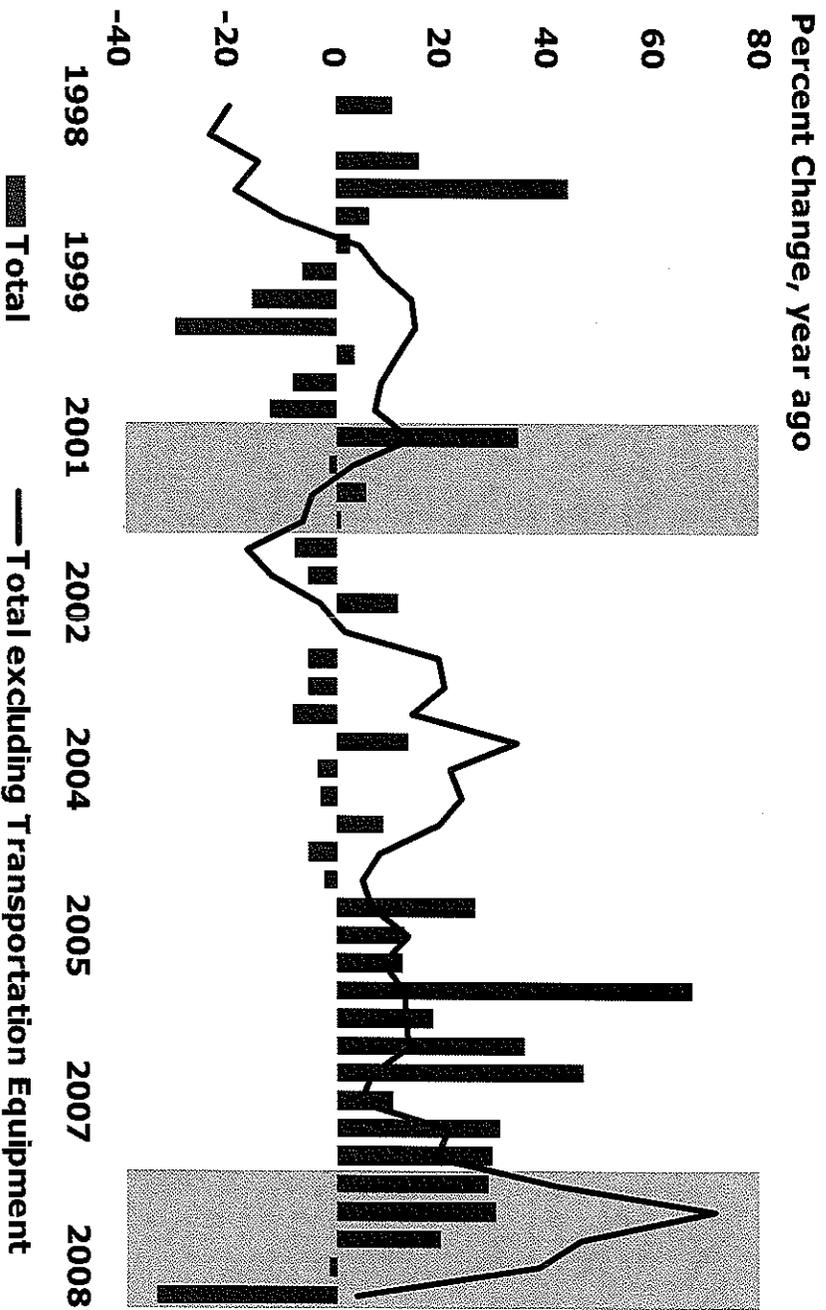


# WA exports are plummeting

2008 Q4  
decline in  
transporta-  
tion  
equipment  
reflects  
impact of  
Boeing  
strike

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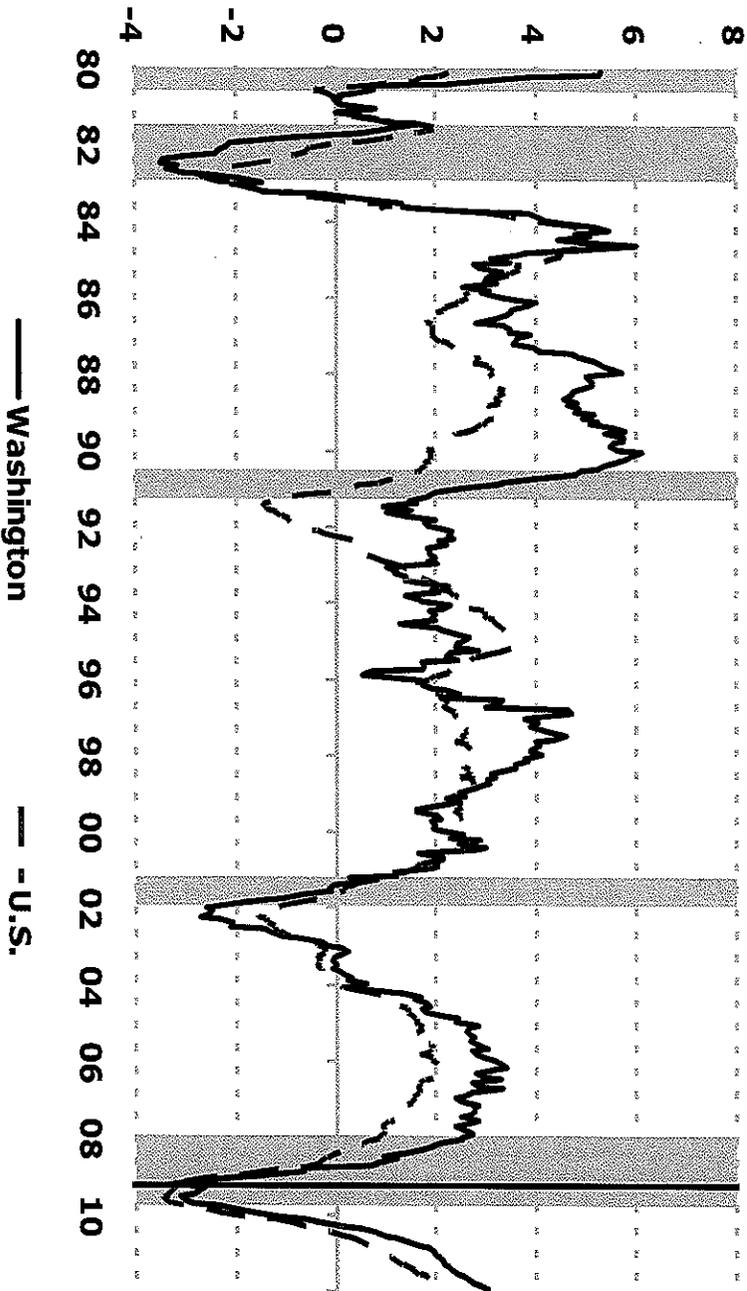


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# WA employment will recover at about the same rate as the nation

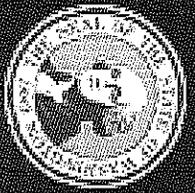
Percent change, Year ago



Source: ERFC March 2009 forecast, actual through March 2009

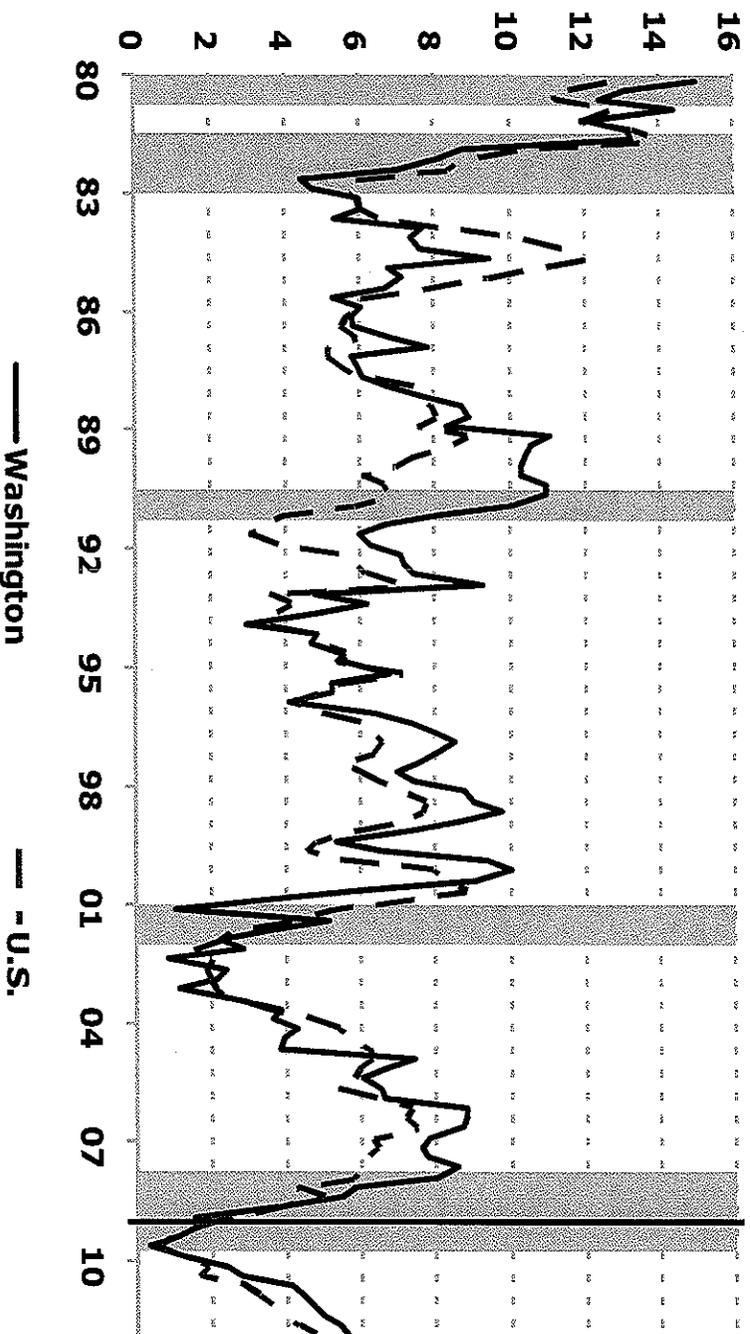
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# The recovery in WA personal income growth is expected to match the nation's

Percent change, Year ago

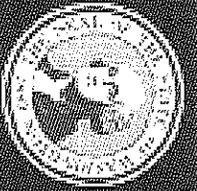


Source: ERFCC March 2009 forecast; actual data through 2008Q4

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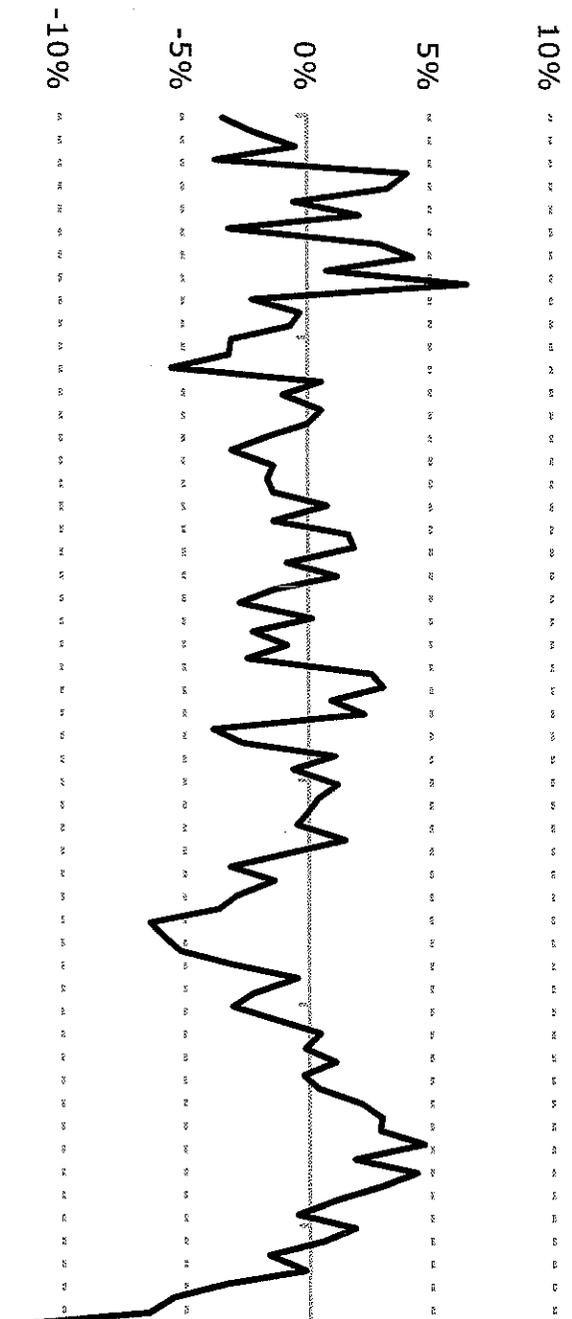
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# Revenue growth relative to income continues to drop

Growth in Net Revenue Act Collections\* Relative to Growth in State Personal Income



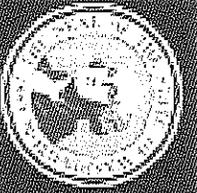
Source: ERFC; data through 2008Q4

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\* Adjusted for new legislation and special factors

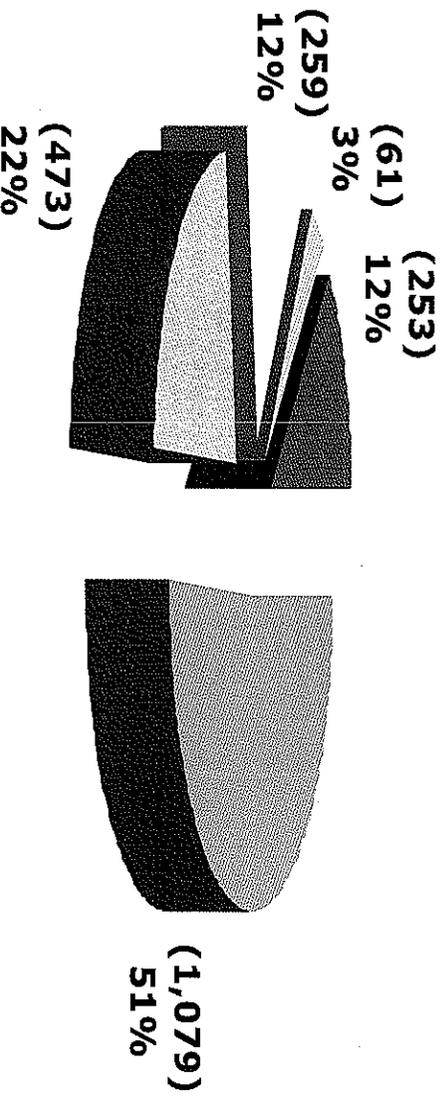
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# Composition of the forecast change for the 2009-11 biennium

USD Thousands



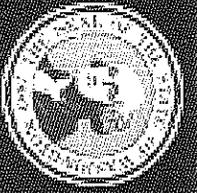
Total  
change  
from  
November  
forecast:  
  
**(\$2.1 bill.)**

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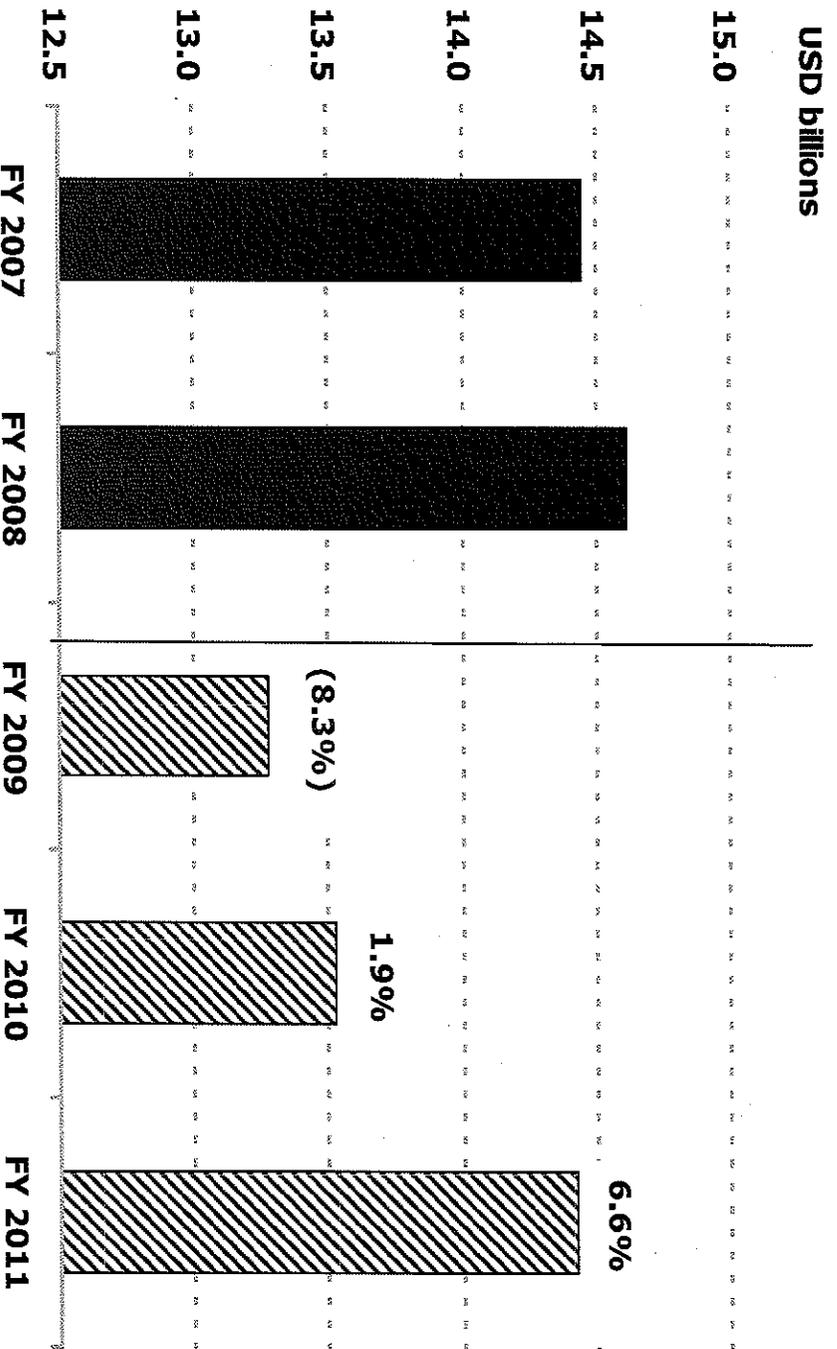
Source: ERFC forecast, March 2009

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# General Fund forecast by fiscal year



Source: ERFCC forecast, March 2009

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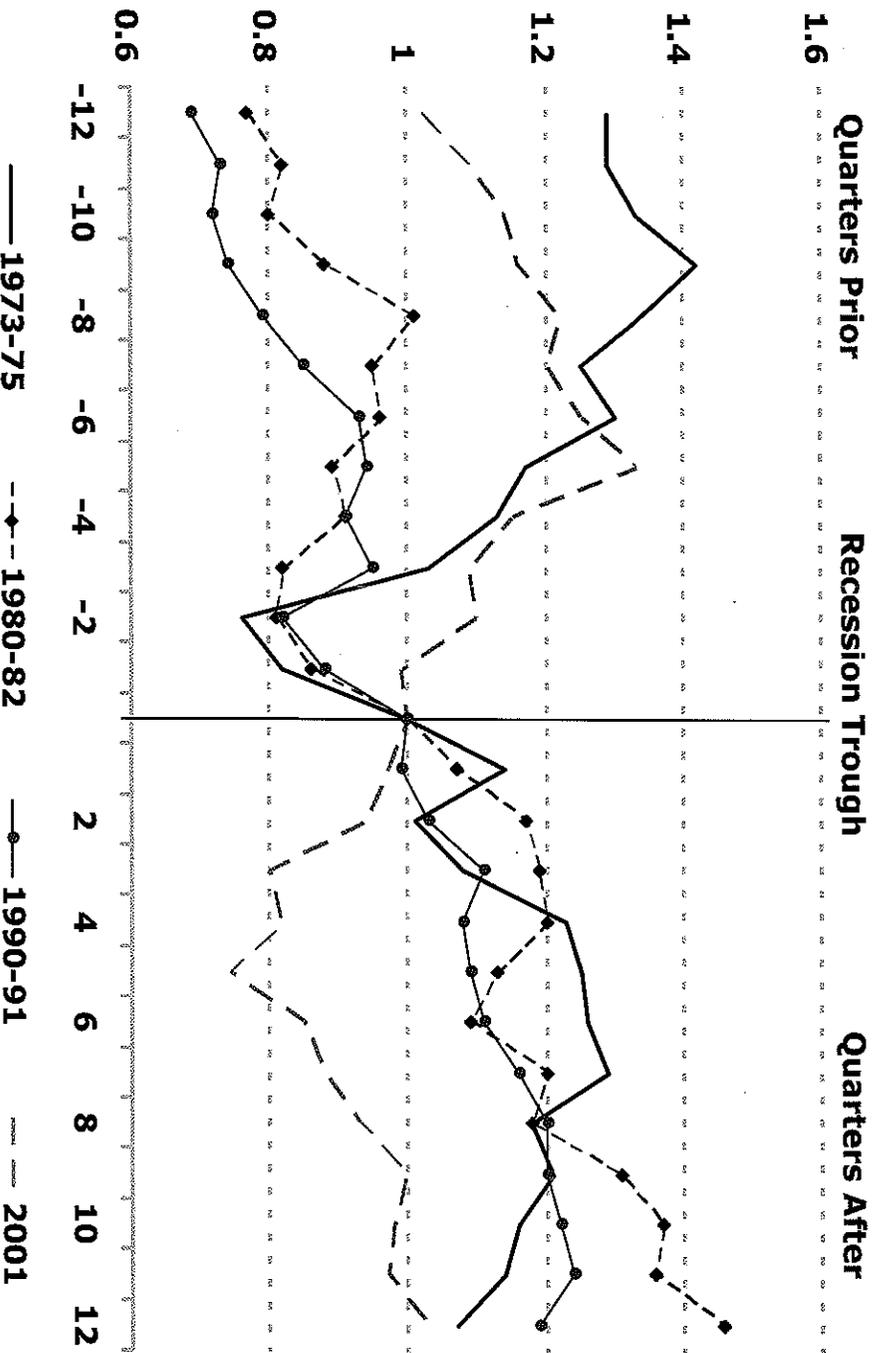


# The S&P 500 typically turns up two quarters prior to the recession trough

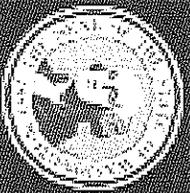
For each recession, the S&P 500 index has been normalized to 1 at the recession trough

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# Conclusion

- Washington's economy is expected to recover at the same time as the U.S. economy – we no longer expect us to lead the nation
- The recession is expected to end in the third quarter of 2009, followed by weak growth into the middle of 2010.
- Job losses are expected to continue into the recovery
- The key to the recovery, and the source of the greatest downside risk to the forecast are the assumptions about a return to some kind of normalcy in credit markets around the third quarter of this year.

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