

**SULTAN CITY COUNCIL
AGENDA ITEM COVER SHEET**

ITEM NO: Consent C 1B
DATE: December 2, 2010
SUBJECT: Council Meeting Minutes

CONTACT PERSON: Laura Koenig, Clerk/Deputy Finance Director

SUMMARY:

Attached are the minutes of the October 28, 2010 and November 18, 2010 Public Hearings on the 2011 Budget as on file in the office of the City Clerk.

RECOMMENDED ACTION:

Approve as submitted

CITY OF SULTAN COUNCIL MEETING – October 28, 2010**PUBLIC HEARINGS:**

The Public Hearing on the 2011 Preliminary Budget was called to order by Mayor Eslick. Councilmembers present: Pinson, Slawson, Neigel, Davenport-Smith, Blair and Beeler.

Staff:

The issue before the city council is to hold a public hearing on the 2011 Preliminary Budget. The public hearing will be opened at the meeting on October 28, 2010 to review the general fund, street fund, enterprise funds and capital budget. The public hearing will be continued to the meeting on November 18, 2010 to review the debt service funds, bond funds, and other miscellaneous accounts such as the cemetery trust fund, investment fund and community improvement fund.

General Fund. The General Fund collects taxes, permit and use fees. Revenues are used to fund general governmental services including:

- Legislative (council and mayor)
- Executive (city administrator)
- Finance
- Grants and Economic Development
- Code enforcement, community development, and building
- Law enforcement and legal services
- Parks

Street Fund. The Street Fund collects taxes and utility taxes from electric, gas and telephone services. Revenues are used to fund street maintenance including sign maintenance, street sweeping, and snow and ice removal; street repair including grading and pot hole repair; and minor street and sidewalk improvements.

Since the budget retreat on October 9, 2010 anticipated property tax revenues have decreased by approximately \$60,631. This is a result of a reduction in assessed value that in turn caused the city to reach its maximum levy rate of \$1.60/\$1,000 of assessed value.

City staff recommend maintaining the general fund portion of the property tax levy at the \$584,046 and reducing the property tax allocation to the street fund from \$81,300 to \$36,676.

Enterprise Funds. The Enterprise Funds include water, sewer, garbage, cemetery and stormwater. Revenues are generated through rates or fees adopted by the city. Expenditures are incurred to maintain facilities and systems associated with city utilities.

Cemetery: Continuing to maintain Sultan's beautiful cemetery has been a goal of the Sultan Staff. Revenues were down by 50% in 2010. The 2010 budget anticipates \$37,200 in revenues, cuts were made accordingly. City staff recommend increasing cemetery rates 50% across the board. The city is partnering with Koppenburg Enterprises to construct a niche wall.

Water Fund: This fund is for the operation and maintenance of the water treatment and distribution system, which includes a 360 acre Watershed. The water department supplies water to approximately 1700 households and businesses in the Sultan area. The water department will continue with the fire hydrant program and the meter replacement program in 2010. New case law requires the city general fund to pay for the fire hydrant repair and maintenance program.

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The city will be transferring \$122,000 from water reserve fund to cover debt service on the 2003 plant upgrade. The remaining \$22,000 will be transferred from the Water Reserve Fund.

Sewer Fund: Provides an outstanding service to the citizens of Sultan, keeping the discharge water from the treatment plant pristine. In 2009 the staff at the wastewater treatment staff received an award from the Department of Ecology for no violations of discharge from the wastewater treatment plant.

There is \$67,000 set aside to complete the General Sewer Plan and rate study in 2011.

Debt service payments will continue being a problem in the sewer fund in 2011 and 2012 until the \$1,000,000 Public Works Trust Fund Loan is repaid.

The plant has several pieces of equipment, pumps, motors, and bearings, at or nearing the end of its useful life. The plant staff identified \$249,800 in needed equipment replacement and repair. Because of debt service payments being transferred from operating fund the request for repair and maintenance was reduced to \$42,200. The \$30,000 in capital outlay for building is to replace the roof which is deteriorating.

Currently the fund shows a negative balance of \$161,566. This will need to be covered by the rate increase discussed by the city council at the budget retreat on October 9, 2010.

Garbage Fund: Sultan provides garbage service to the citizen's three days per week, Monday, Thursday, and Friday. The city has a franchise agreement with Allied Waste for recycling which is critical in the waste stream flow in Sultan as well as Snohomish County. The garbage fund is balanced due to Council's decision to raise rates in the 2009/2010 rate study. 2011 rate increase = \$1.37 on July 1

Stormwater Fund: Stormwater utility became a reality in the city at the end of 2008 and started collecting fees in 2009. Revenues in the stormwater utility were forecast be to \$100,000 the actual collected was \$80,000. The 2010 budget was cut proportionally further cuts maybe required. The Stormwater fund is balanced.

2011 Capital Budget

The 2011 Capital Budget outlines the proposed project expenditures and funding sources for the capital projects the city will be working on in the coming year. Capital project expenditures for 2011 must be included in the city's adopted 2011 Budget.

The policy question for the city council is whether the capital projects, proposed expenditures, and revenue sources address the city's short- and long-range capital investment priorities. In other words, are these the projects council wants to focus on in the coming year, are the expenditures adequate for the level of work, and are the funding sources appropriate?

City staff have reviewed the proposed capital project expenditures against available revenues. Attachment A provides a detail of capital fund beginning balances for 2011, expected revenues for each fund, and the proposed project expenditures. The proposed expenditures are from existing and available resources. The ending fund balances are sufficient to start the 2012-2017 6-Year Capital Improvement Plan (CIP).

Council Comments:

Good news that the General fund is balanced and the City is maintaining levels of service. Sales tax remains constant. Volunteers make a difference in helping to cut expense. Street fund will be reduced and projects delayed. Elimination of the two park workers did not reduce the budget by

\$30,000 due to the reallocation of wages. There is a need to find additional funding for building maintenance.

Public Input

None

On a motion by Councilmember Slawson, seconded by Councilmember Davenport-Smith, the public meeting was continued to November 18, 2010. All ayes.

Carolyn Eslick, Mayor

Laura J. Koenig, City Clerk

CITY OF SULTAN COUNCIL MEETING – November 18, 2010**PUBLIC HEARINGS:**

The continued Public Hearing on the 2011 Preliminary Budget was called to order by Mayor Eslick. Councilmembers present: Pinson, Slawson, Neigel, Blair and Beeler.

On October 28, 2010, the city council opened the public hearing on the 2011 Budget. At the public hearing the city council considered revenues and expenditures in the General Fund, Enterprise Funds and Miscellaneous Public Works Funds.

City staff have made two changes to the General Fund Budget:

1. Added \$56,000 to revenues for liquor excise tax and liquor profits
The General Fund was developed with the expectation that Initiatives 1100 and 1105 would pass and the city would not receive its share of liquor profits and liquor excise tax. The anticipated revenue loss was approximately \$56,000. Voters rejected both initiatives. City staff have added the revenues back into the budget. This has increased the ending fund balance in the General Fund from \$5,805 to \$62,108. City staff recommend reserving the ending fund balance which may be needed to pay a portion of the debt service on the community center if Real Estate Excise Tax (REET) falls short of projected levels.

2. Add \$56,030 to revenues for the siren grant.
The city is a partner in a UASI grant for emergency sirens through Snohomish County DEM. The project was originally scheduled to be completed in 2010. Do to coordination issues with the vendor, installation has been postponed to January 2011.

There is an off-setting expenditure in the emergency services budget in the general fund.

The General Fund budget was adjusted before the public hearing on October 28, 2010 to account for privatization of workers compensation. The voters also rejected this initiative. However, the effect to the General Fund budget was less than \$10,000. City staff have not recalculated salaries in the General Fund or Enterprise Funds. Any excess revenues over budgeted salary and benefit expenses will further increase the ending fund balance.

Miscellaneous funds

The City has several reserve and special purpose funds included in the annual budget. The following is a summary of the funds:

		2011 BUDGET SUMMARY	
Fund	Fund Name	RESOURCES	EXPENSE
100	General Fund Contingency	\$13,000.00	\$0.00
150	General Fund Reserve	\$0.00	\$0.00
107	Drug Enforcement Fund	\$4,825.00	\$1,091.00
109	Community Improvement Fund	\$1,500.00	\$1,500.00
114	IT Fund	\$38,558.00	\$33,108.00
	TOTALS	\$57,883.00	\$35,699.00

In 2006 the City established a General Fund Contingency and General Fund Reserve Fund with the intent of providing for reserves and an emergency fund. The first year the City had excess funds was in 2008 and a transfer of \$14,785 was made into the Contingency Fund. This was the

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excess amount of sales tax and building permits over the budgeted amount. \$14,585 was transferred in 2009. The current fund balance is \$29,270

The specific dollar amounts in SMC 3.48.080 and 3.48.090 limits the flexibility necessary to balance the General Fund budget. Staff would recommend the Council amend the code to be consistent with current city budgetary practice. Current practice is to transfer funds in excess of the adopted budget amounts for sales tax into the Contingency fund on an annually basis.

In 2009, the City began the process of standardizing the computers and servers in all city departments. The City contracts with Iron Goat Inc. to provide internet and web page service. In 2010, the City created the IT fund to track all costs for information technology and to fund reserves for future equipment replacement. The operating funds transferred \$30,400 into the fund in 2010. It is anticipated the fund balance will be \$15,000 at the end of 2010. The goal is to create reserve funds for future software and hardware upgrades.

Council briefly discussed the Springbrook conversion to V7 which is not included in the 2011 budget.

Reserve funds

The City has several reserve funds included in the annual budget. The purpose of the reserve funds is to provide future funds for capital projects and equipment purchases.

The following is a summary of the funds:

2011 BUDGET SUMMARY			
Fund	Fund Name	Resources	Expense
104	Equipment Reserve	\$115,700.00	\$0.00
108	Transportation Impact Fund	\$61,360.00	\$61,360.00
112	Park Impact Fees	\$12,700.00	\$0.00
301	Real Estate Excise Tax REET 1	\$64,500.00	\$64,500.00
302	Real Estate Excise Tax REET 2	\$64,500.00	\$64,500.00
404	CR Sewer Reserve Fund	\$30,000.00	\$30,000.00
405	CR Water Reserve fund	\$215,000.00	\$192,000.00
621	Cemetery Perpetual Care Trust	\$1,500.00	\$0.00
TOTALS		\$565,260.00	\$412,360.00

REET funds are being used to make the Community Center bond payments. The city council should note that REET funds collected may not be sufficient to cover the debt service payments on the community center. Staff recommends reserving the ending fund balance in the General Fund to supplement REET if necessary to cover a shortfall.

The bond payments are due in December. City staff will be working with bond counsel on potentially refinancing the bonds at a lower interest rate and restructuring the loans to lower the annual payments. Staff will return to council in the first quarter of 2011 with alternatives for council consideration.

Fund 404 Sewer Reserves will use \$30,000 of the reserves to “buy-down” the PWTF Loan debt service. This is a council policy decision. Staff recommends retaining \$20,000 in reserves for sewer emergencies. Council could leave the entire amount but it would further increase sewer rates.

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Council briefly discussed paying off the interfund loan from General Fund to increase reserves in the fund 404 Sewer Reserves for potential emergencies. Park and Street impact fees must be spent within 6 years of receipt. The Council requested a detailed report on the status of the funds.

Debt Service funds.

The City has General Obligation debt bonds for construction of the Community Center issued in 1999 and Police Equipment. The City pledges the assets of the city (property taxes) to pay the general obligation bonds for the Community Center. The Police equipment bonds were a voted issue and additional property tax is assessed to make annual payments.

The Water and Sewer Funds have revenue bonds and Public Works Trust Fund (PWTF) loans for capital projects. The assets of the Water and Sewer Utility are pledged to make payments. The source of funding for payments is user fees for rate payments, connection fees and reserve funds.

In 2011, there are two bond funds that will have difficulty making their annual payments from historic revenue sources:

1. GO Limited Tax Bond Fund – Community Center/Library. The payment of \$127,742 due for 2011 for principal and interest are pledged obligations of the General Fund.
2. Sewer Debt Service. Sewer Debt Service fund has payments of \$465,959 due for 2011.

Fund	Fund Name	Resources	Expenses
203	Limited Tax Bond GO	\$128,500.00	\$128,242.00
205	Unlimited Tax GO Bond	\$29,838.00	\$29,838.00
207	LID Guaranty Fund	\$325,800.00	\$324,200.00
403	Water Revenue Bond Fund	\$130,200.00	\$127,073.00
412	Water System Debt Fund	\$173,900.00	\$143,926.00
413	Sewer System Debt Fund	\$504,700.00	\$465,959.00
	TOTALS	\$1,292,938.00	\$1,219,238.00

Public comments:

Susie Hollenbeck: Wanted to let the Council know that many people appreciate all the hours and hard work they put in and a balanced budget is good achievement in these days.

On a motion by Councilmember Slawson, seconded by Councilmember Neigel, the public hearing was closed.

Carolyn Eslick, Mayor

Laura Koenig, City Clerk