

**SULTAN CITY COUNCIL  
AGENDA ITEM COVER SHEET**

ITEM #: Action A 1

DATE: December 16, 2010

SUBJECT: Ordinance 1096-10 - 2011 Budget

CONTACT PERSON: Laura Koenig, Clerk/Deputy Finance Director

**ISSUE:**

The issue before the Council is the adoption of Ordinance 1096-10 (Attachment B) to adopt a budget for the 2011 fiscal year. The ordinance was introduced at the December 2, 2010 Council meeting and the Council moved to reduce the park maintenance hours in the General Fund from 1712 hours per year to 1040 hours per year.

**SUMMARY:**

The General Fund budget has been amended to include the reduction in park maintenance working hours from 1712 hours per year to 1040 hours per year. This resulted in reduction of \$6,216 in expenditures in the General Fund. The ending fund balance in the General Fund is \$68,324. The balance may be needed to make the debt service payment on the Community Center in 2011.

The detailed budget and department reports were prepared and submitted to the Council during the public hearing process on October 28, 2010 and November 18, 2010.

At the November 18, 2010 meeting, the Council introduced Ordinance 1098-10 to increase sewer rates effective December 1, 2010 and to postpone the increase in stormwater rates from January 1, 2011 until June 1, 2011.

The Sewer Operating fund (Fund 401) had a negative balance of \$107,066. The sewer rate increase provided the additional revenue needed to cover debt service payments for 2011 and 2012. The Sewer fund budget was amended to include the additional revenue and the fund is balanced.

There are no other changes to the fund budgets. The following is a summary of the recommended budgets for 2011:

<b>2011 BUDGET SUMMARY</b>				
Fund	Fund Name	REVENUE	EXPENSE	RESERVE
001	General Fund	\$1,875,528.00		
	Legislative		\$14,705.00	
	Executive		\$31,296.00	
	Finance/Administration		\$46,520.00	
	Grants		\$24,140.00	
	Legal		\$85,944.00	

	Other Governmental		\$50,240.00	
	Law Enforcement		\$995,009.00	
	Law Enforcement - Court		\$115,400.00	
	Emergency Management		\$60,840.00	
	Code Enforcement		\$25,413.00	
	Planning and Community Development		\$162,522.00	
	Building		\$55,157.00	
	Public Health		\$1,500.00	
	Library		\$6,200.00	
	Park/Recreation		\$77,102.00	
	Miscellaneous (Transfers Out)		\$55,216.00	
	Total Expenditures		\$1,807,204.00	\$68,324.00
100	General Fund Contingency	\$13,000.00	\$0.00	\$13,000.00
101	Street Fund	\$247,657.00	\$245,369.00	\$2,288.00
103	Cemetery Fund	\$37,500.00	\$29,961.00	\$7,539.00
104	C.R. Equipment Fund	\$115,700.00	\$0.00	\$115,700.00
105	Park Improvement Fund	\$0.00	\$0.00	\$0.00
107	Drug Enforcement Fund	\$4,825.00	\$1,091.00	\$3,734.00
108	Street Impact Fee Fund	\$61,360.00	\$61,360.00	\$0.00
109	Community Improvement Fund	\$1,500.00	\$1,500.00	\$0.00
112	Park Impact Fee Fund	\$12,700.00	\$0.00	\$12,700.00
113	Building Maintenance Fund	\$69,700.00	\$46,330.00	\$23,370.00
114	Information Tech Fund (IT)	\$38,558.00	\$33,108.00	\$5,450.00
203	Limited Tax Bond GO	\$128,500.00	\$128,242.00	\$258.00
205	Unlimited Tax GO Bond	\$29,838.00	\$29,838.00	\$0.00
207	LID Guaranty Fund	\$325,800.00	\$324,200.00	\$1,600.00
301	Capital Project Fund REET 1	\$64,500.00	\$64,500.00	\$0.00
302	Capital Project Fund REET 2	\$64,500.00	\$64,500.00	\$0.00
303	Street Improvement Fund	\$1,418,360.00	\$1,418,360.00	\$0.00
307	LID Project Fund	\$30,000.00	\$30,000.00	\$0.00
400	Utility Water Fund	\$922,000.00	\$921,331.00	\$669.00
401	Utility Sewer Fund	\$1,255,552.00	\$1,255,552.00	\$0.00
402	Utility Garbage Fund	\$762,810.00	\$739,501.00	\$23,309.00
403	Water Revenue Bond Fund	\$130,200.00	\$127,073.00	\$3,127.00
404	C.R. Sewer Utility Fund	\$30,000.00	\$30,000.00	\$0.00
405	C.R. Water Utility Fund	\$215,500.00	\$191,900.00	\$23,600.00
406	Storm Water Utility	\$100,000.00	\$99,833.00	\$167.00
407	Sewer System Improvement Fund	\$385,000.00	\$365,000.00	\$20,000.00
409	Water System Improvement Fund	\$170,000.00	\$170,000.00	\$0.00
410	Stormwater System Improvement Fund	\$100,000.00	\$100,000.00	\$0.00
412	Water System Debt Fund	\$173,900.00	\$143,926.00	\$29,974.00
413	Sewer System Debt Fund	\$504,700.00	\$465,959.00	\$38,741.00
621	Cemetery Trust Fund	\$1,500.00	\$0.00	\$1,500.00
	TOTALS	\$9,290,688.00	\$8,895,638.00	\$395,050.00

RECOMMENDATION:

Move to adopt Ordinance 1096-10 adopting the 2011 Budget.

ATTACHMENTS:

- A. Mayor's Budget Message
- B. Ordinance 1096-10 - 2011 Budget
- C. Fund 001 General Fund Detail



## Vision and Budget Themes

In the city's September newsletter I shared with you a set of values that I believe we all support – knowing your neighbor, giving from our gardens, hosting neighborhood potlucks and block parties, and working together to make Sultan a great place to live and raise a family.

In that message I suggested that “keeping it local” could make a difference. Despite the downturn in the economy, the entrepreneurial spirit is alive and well in Sultan. In the last twelve months several new businesses have opened their doors on Main Street including Text UR Tacos, Dangles, and Scarecrow Magic. Recently, Sahara Pizza and Arco AM/PM welcomed visitors and residents to their new locations on US 2. I encourage you to visit these businesses and keep your tax dollars local. I believe it is these individual investments in Sultan and throughout the United States that will lead us to economic recovery.

Toward this goal, the 2011 budget is constructed within a framework that balances internal needs with community expectations and economic conditions. The local context is one characterized by a generally weakened economy. Development activity slowed in 2008 from the boom levels of prior years. The City of Sultan has adjusted expenditures downward each year while maintaining services. This has been accomplished by outsourcing services such as police and building inspection to Snohomish County while retaining planning, finance, and maintenance services in-house.

The 2011 budget invests your property and sales taxes in projects and programs that will prepare Sultan to move ahead when the economy recovers. The city council met in June to set budget priorities. The council adopted a set of budget themes to guide the city's investment of your tax dollars for the next three years. These investments include:

- Focusing police efforts on further reducing incidents of crime
- Maintaining the city's existing public buildings, parks and streets
- Planning for economic development at Old Owen Road and Rice Road
- Completing capital improvements to meet future infrastructure needs
- Paying off existing loans and reducing the city's outstanding debt
- Setting aside money in the rainy day (contingency) fund.

## Budget by the Numbers

We will achieve these shared goals by carefully managing your money. We are watching every penny we spend to ensure we are getting the best value for your tax dollar. To meet this objective, the city's budget is divided into several funds. The city will collect approximately \$9.3 million in revenues and spend approximately \$8.9 million. By comparison, the City of Monroe has a \$63 million budget. The City of Gold Bar has a \$1.7 million budget.

The planned expenditures in each budget fund are summarized below:

- **General fund** \$1,807,204 – Revenues are from property taxes, sales taxes, utility taxes, permit fees and services. Revenues pay for general city services such as police and jail

expenses, park maintenance, building inspection and plan review, animal control and code enforcement.

- **Reserve funds** \$301,000 – “Savings” accounts for public improvements and equipment replacement.
- **Debt Service funds** \$1,218,000 – Accounts for collecting transferred revenues from reserve funds, enterprise funds and the general fund for making payments on long-term debt.
- **Enterprise funds** \$3,289,000 – These are the separate funds for utility services provided by the city including water, sewer, garbage, stormwater, cemetery and street repair.
- **Capital Improvement funds** \$2,242,000 – Revenues are collected from state and federal grants and enterprise operating funds to make major repairs and improvements to the city’s streets and sidewalks, water system, sewer system and stormwater system.

## General Fund

The 2011 general fund budget is built on a very conservative revenue forecast. The city plans to collect \$1,875,528 in general fund revenues. Revenue sources consist of property taxes, sales taxes, utility taxes, payments for services and grants.

2011 will be particularly challenging. Assessed values in Sultan have declined by almost \$92 million over the last two years from a high of \$477 million in 2009 to \$385 million in 2011 (a 19% decrease over the 2-year period). As a result, in 2011 the city will reach its maximum levy rate of \$1.60/\$1,000 of assessed value. This means the city anticipates collecting \$60,000 less in property taxes in 2011 than in 2010.

Other revenues including sales tax, utility taxes and building permit revenues will be stagnant for another year. Overall, general fund revenues have fallen per capita from \$562 per person in 2000 to \$410 per person in 2011, a 27% decrease. Fortunately, major expenditures for legal services and long-range planning have declined since 2006.

We estimate building and development activities and revenues will continue at the rock bottom level of the last three years. Although the city has over 400 platted lots, we have processed only 15 new single-family residential building permits and 2 new commercial permits since 2008. This doesn’t mean that building activity has completely stopped. Many people are taking this opportunity to make improvements to their existing residence or recently purchased short-sale or foreclosed home. The city has approved a total of 81 building and land use permits in 2010.

The 2011 budget anticipates \$1,875,528 in revenues and \$1,807,204 in expenditures. This leaves the budget with a \$68,324 ending fund balance. The ending fund balance is necessary to cover any short-fall in real estate excise taxes needed to pay the debt service on the community center. Making annual debt service payments may continue to be a challenge until the economy fully recovers. You can read more about the city’s debt payments below.

## Reserve Funds – Saving for a Rainy Day

For the fourth straight year, the city is budgeting to rebuild the contingency fund depleted in 2006. At the end of 2011, the contingency fund should have a \$55,000 balance. This is possible because the city council and staff have kept a close watch on city expenditures. We have learned to live within our limited means.

Important activities and maintenance of the city's streets, parks, and wastewater treatment plant are deferred for another year. At some point, deferred maintenance of publicly owned facilities will need to be addressed.

The good news is that the city is setting aside money for the second year in a row to cover the cost of building maintenance on existing public structures. The city is also saving money to replace computer equipment and pay annual software maintenance fees.

The city's goal is to save a little each year for repair and replacement of existing assets rather than suddenly needing larger sums of money when a piece of equipment is on its last leg. For example, the city has already set aside \$120,000 to replace the garbage truck in 2015. A portion of monthly garbage rates goes towards saving the remaining \$240,000 over the next four years to purchase the new garbage truck and totes.

## **Debt Service – Managing a Heavy Load**

The city's total debt burden for 2011 is \$893,736. The city borrowed money in the past to construct the community center in 1999, to make utility improvements at the wastewater treatment plant and water treatment plant, and upgrade police equipment.

Total debt is only 2.3% of the city's total assessed value. This is well within the city's maximum levy capacity allowed by state law. However, the economic slowdown will make it difficult for the city to make loan payments in 2011 and 2012.

The debt service burden will decline from \$893,736 to \$683,272 after 2012 when the last payment on the \$1,000,000 Public Works Trust Fund Loan will be made. By 2017, the city's total debt service will be reduced to \$432,000 when the last payment on the waste water treatment plant upgrade from 1996 will be paid.

### **Community Center Bonds.**

Because of the level of foreclosed homes on the market, real estate excise tax (REET) revenues have declined from a peak of \$395,000 in 2007 to \$110,000 in 2010. In the past, the city has used REET funds to pay the \$120,000 annual debt service payment on the bonds used to finance the construction of the community center where city hall and the library are located.

In 2011, the general fund will need to contribute a portion of the loan (debt service) payment if real estate sales remain stagnant or foreclosed homes sell at less than assessed value. The city has reserved a \$68,000 ending fund balance in the general fund to assist with the bond payment if necessary.

### **Public Works Trust Fund Loan.**

In 2007, the city borrowed \$1,000,000 from the state Public Works Trust Fund to upgrade the city's waste water treatment plant to serve anticipated growth. The \$1,000,000 loan was used to fund the plant design. In 2009, the city council made the decision to postpone the design due to the economic recession. The city paid the \$300,000 loan payment in 2008 and 2009 from a combination of operating funds (sewer rates), reserve funds and sewer connection fees paid by new development. In 2010, the city worked with the Trust Fund Board to renegotiate the loan to lower the annual payment to approximately \$210,000.

Unfortunately, the sewer reserve fund is almost depleted. The fund had a \$300,000 balance in 2008. Today the fund has less than \$60,000. Current sewer utility rates alone are not sufficient to cover the loan payment in 2011. The city council discussed several rate increase alternatives during the budget process. The council voted to increase sewer base rates by \$6.64 in 2011 and \$3.00 in 2012. The council also reduced sewer reserves by \$30,000 and operating expenses by \$50,000 to lower the impact to rate payers.

## Enterprise Funds – Utility Rates Increase

While property taxes paid to the city are declining, the funding needed to manage the city’s utilities has continued to increase. This is in part because of the city’s desire to save money to make plant repairs and purchase new equipment without borrowing money.

In addition to the sewer rate increase planned for 2011, the city council approved increases to water and garbage rates. The city council postponed the stormwater increase from \$6.75 to \$8.00 from January 1, 2011 to June 1, 2011.

<b>Based on Current Ordinances for each Utility</b>	<b>Water</b>	<b>Sewer</b>	<b>Garbage</b>	<b>Recycle</b>	<b>Storm water</b>	<b>Total Monthly Base</b>	<b>Total All Utilities Monthly Increase</b>
2010 Adopted Monthly base rate	28.09	64.83	20.08	9.25	6.75	129.00	
2011 Adopted Monthly base rate	31.25	64.83	20.46	9.35	8.00	133.89	4.89
2011 Monthly Increase	3.16	0	0.38	0.10	1.25		4.89
<b>Proposed Rate Alternatives</b>							
Alternative 2	31.25	71.47	20.46	9.35	6.75	139.28	10.28
2011 Proposed Monthly Increase	3.16	6.64	0.38	0.10	0.00		10.28

## Capital Improvements

The city collects transportation impact fees, park impact fees and utility rates to fund capital investments to city streets, parks, water system, sewer system and storm water system. Property taxes and sales tax revenues are not used to support capital improvements.

Sultan does an outstanding job of leveraging city funds with state and federal grants to complete major capital projects. Since 2006, the city has received more than \$3,000,000 in grants to support capital improvements. That is more than \$1,875 per household.

The city anticipates spending approximately \$2.2 million on capital improvements – major repairs and new construction in 2011. The focus for 2011 is to complete capital projects started in 2010.

Half the funding (\$1,000,000) is to start construction on the third and final phase of the Sultan Basin Road improvements. This is a state and federal grant funded project to extend Sultan Basin Road from US 2 south to the Burlington Northern railroad tracks at Skywall Drive. The project will serve the industrial area and support efforts to attract commercial businesses. The project will also remove a safety hazard and provide controlled access to US 2 for delivery vehicles.

In 2010 the city received a \$335,000 legislative proviso (grant) from the state to remove bottlenecks at the city's waste water treatment plant. Removing the bottlenecks is part of the long-term strategy to increase plant capacity. The money is earmarked to add Ultra Violet lights and a third intermediate screw pump.

Other improvements include 2<sup>nd</sup> Street Reconstruction between Birch and Date and First Street Sidewalks between High Street and Willow.

## In Closing

The 2011 budget for the City of Sultan retains an adequate, steady level of service to the citizens of the community. This is a substantial achievement in a tough time of economic uncertainty. The 2011 budget includes no new initiatives or levels of service. The focus for 2011 is to complete strategic projects started in 2010.

The economic climate we are in is unprecedented for most of us. With non-general fund money, the budget does provide for important investments in the community's future. It is a responsible plan, which will help the City weather a difficult year.

*Mayor Carolyn Eslick*

**CITY OF SULTAN  
SULTAN, WASHINGTON  
ORDINANCE NO. 1096-10**

**AN ORDINANCE ADOPTING THE BUDGET FOR THE CITY  
OF SULTAN WASHINGTON FOR THE FISCAL YEAR ENDING  
DECEMBER 31, 2011; PROVIDING FOR SEVERABILITY; AND  
ESTABLISHING AN EFFECTIVE DATE**

WHEREAS, the Mayor of the City of Sultan, Washington, completed and placed on file with the City clerk a proposed budget and estimate of the amount of moneys required to meet the public expenses, bond retirement and interest, reserve funds and expenses of government of said City for the fiscal year ending December 31, 2011, and notice was published that the Council of said City would meet on October 28, 2010 for the purpose of making and adopting a budget for said fiscal year and giving taxpayers within the limits of said City an opportunity to be heard upon said budget; and

WHEREAS, the Council continued the public hearing to November 18, 2010 for the purpose of making and adopting a budget for said fiscal year and giving taxpayers within the limits of said City an opportunity to be heard upon said budget; and

WHEREAS, the said City Council did meet at said times and did then consider the matter of said proposed budget; and

WHEREAS, the said proposed budget does not exceed the lawful limit of taxation allowed by law to be levied on the property within the City of Sultan for the purposes set forth in said budget, and the estimated expenditures set forth in said budget being all necessary to carry on the government of said City for said year and being sufficient to meet the various needs of the City during said period.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF SULTAN DO ORDAIN as follows:

Section 1: The budget for the City of Sultan, Washington for the year 2011 is hereby adopted in its final form and content as set forth in the document entitled City of Sultan 2010 Budget, three (3) copies of which are on file in the office of the City Clerk.

Section 2: Estimated resources, including fund balances or working capital for each separate fund of the City of Sultan, and aggregate totals (net of transactions between funds) for all such funds combined, for the year 2011 are set forth in the summary form below, and are hereby appropriated for expenditures during the year 2011 as set forth below:

**2011 BUDGET**

Fund	Fund Name	REVENUE	EXPENSE
001	General Fund	\$1,875,528.00	
	Legislative		\$14,705.00
	Executive		\$31,296.00
	Finance/Administration		\$46,520.00
	Grants		\$24,140.00
	Legal		\$85,944.00
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	Park/Recreation		\$77,102.00
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407	Sewer System Improvement Fund	\$385,000.00	\$365,000.00
409	Water System Improvement Fund	\$170,000.00	\$170,000.00
410	Stormwater System Improvement Fund	\$100,000.00	\$100,000.00
412	Water System Debt Fund	\$173,900.00	\$143,926.00
413	Sewer System Debt Fund	\$504,700.00	\$465,959.00
621	Cemetery Trust Fund	\$1,500.00	\$0.00
	TOTALS	<u>\$9,290,688.00</u>	<u>\$8,895,638.00</u>

Section 3: The City Clerk is directed to transmit a certified copy of the budget hereby adopted to the Division of Municipal Corporations in the Office of the State Auditor and to the Association of Washington Cities.

Section 2. Severability. Should any section, paragraph, sentence, clause or phrase of this Ordinance, or its application to any person or circumstance, be declared unconstitutional or otherwise invalid for any reason, or should any portion of this Ordinance be pre-empted by state or federal law or regulation, such decision or pre-emption shall not affect the validity of the remaining portions of this Ordinance or its application to other persons or circumstances.

Section 3. Effective Date. This Ordinance shall be published in the official newspaper of the City, and shall take effect and be in full force five (5) days after the date of publication.

**ADOPTED** BY THE CITY COUNCIL AT A REGULAR MEETING THEREOF ON THE \_\_\_\_ DAY OF \_\_\_\_\_, 2008.

CITY OF SULTAN

\_\_\_\_\_  
Carolyn Eslick, Mayor

ATTEST/AUTHENTICATED:

\_\_\_\_\_  
Laura Koenig, City Clerk  
Approved as to form:

\_\_\_\_\_  
Margaret J. King, City Attorney  
Date of Publication:  
Effective Date: