

**SEQUIM CITY COUNCIL
AGENDA COVER SHEET**

MEETING DATE: September 13, 2010

FROM: Karen F. Goschen, Administrative Services Director KFG
Initials

SUBJECT/ISSUE: Review of Long Range Financial Plan for General Fund and Street Operations

Discussion dates	04-12-10, 04-26-10	05-10-10, 07-26-10	09-13-10	
CATEGORY	<input type="checkbox"/> City Manager Report	<input checked="" type="checkbox"/> Information Only		Time Needed for Presentation
	<input type="checkbox"/> Public Hearing	<input type="checkbox"/> Consent Agenda		
	<input type="checkbox"/> Unfinished Business	<input type="checkbox"/> New Business		
Reviewed by			Initials	Date
Steve Burkett, City Manager			SCB	9-8-10
Craig Ritchie, City Attorney				

PROBLEM/ISSUE STATEMENT:

The City of Sequim does not have a long range financial plan (6 year plan) for General Fund and Street Operations. This future-oriented look provides insight into whether the mix and level of resources are likely to be sufficient to cover future service levels. Long range planning reduces the likelihood that current budgets and operations will result in future crises in resource allocations.

LIST OF ATTACHMENTS:

1. City of Sequim [Long Range Financial Plan presentation](#)

DISCUSSION/ANALYSIS:

The long range financial plan is a tool to help position the City to remain effective over the long term. The financial plan estimates the City's revenues and expenses based on a set of factors, such as: population growth, development growth, employment, property valuation, tax levy, inflation, and so forth. As these factors change, so does revenue, the demand for services, and the cost of providing those services. The long range financial plan is a strategy tool to help assess whether revenue sources and the mix of revenues will be sufficient to continue to provide the current level of services or be able to fund the change in demand for services. If revenues are not sufficient to cover expenses, the model can be used to test scenarios of changing controllable revenues (such as utility B&O tax) and expenses (salaries and benefits) in order to determine how those changes impact the outcome over time. Scenarios can also be developed to show the

impact of faster or slower growth of various factors, such as, population, development, inflation, and so forth.

The budget, in contrast to the long range financial plan, is a short-term operational plan. The long range financial plan and next year's budget are likely to be similar, but not the same, for the following reasons:

- The long range plan is developed using a base year that is representative of typical operating revenues and expenditures.
 - One-time revenues and expenses or other anomalies are removed from the base model.
 - The mix of revenues and expenses are based on a snapshot in time, the city may grow differently than the current mix of revenues and expenses.
- Assumptions used for revenues and expenses are focused on change over the entire six year period, regardless of whether that change is evenly spread or occurs in steps. The budget considers how the change occurs in 12 month increments or less.
- The model increases staffing and other costs in partial increments based on demand for services, for example, a partial FTE is included in the model as needed, but in reality, most employees are hired as full-time.

The presentation will review the assumptions and structure of the model as well as the results. It is important to understand that the model is used for long range financial planning and is not a replacement for budgeting. The next steps are:

- Gather feedback on the assumptions and the model and incorporated as appropriate.
- Consider various scenarios from the base model to identify strategies to reduce the projected deficit.

The long range plan includes both General Fund and Streets Operations as a combined unit, since most of the funding for Street maintenance comes from the General Fund. During the preparation of the long range plan, it was determined that Criminal Justice tax dollars and state shared revenue, along with related expenses, should be part of the General Fund since these monies have been used to fund police vehicles, which is an operational expense. Therefore, the Criminal Justice revenues and associated expense have been move to the General Fund. There was a net surplus of approximately \$200k added to the General Fund for the periods of 2008 through 2010, since expenses have been less than revenues due to spending reductions during these difficult economic times. (The non-operational grant and donation funded services were not moved. The Criminal Justice Fund is being renamed to Police Restricted Projects).

FINANCIAL IMPLICATIONS:

The long range financial plan will provide guidance in reviewing current and proposed revenues and expenses for General Fund and Street Operations. Strategies to reduce any deficits will involve reducing expenditures, increasing revenues or some of both.

RECOMMENDATION: For information purposes.

MOTION: None at this time.