

Budget Balancing Strategies

This retreat discussion topic is regarding strategies for balancing the General Fund budget in light of continuing shortfalls in General Fund revenues. The General Fund has historically been dependent on sales and use tax revenues. The 2003 budget includes sales and use tax revenues of \$21.2 million, which is 43.5% of all General Fund revenues. From 1992 through 2000 the growth in this revenue source has been very strong and it has helped the City meet an increasing demand for services. Beginning with the fourth quarter of 2001 there has been a slowdown in the local, state and national economies. Growth in sales and use tax for 2001 was 7.3% but it had been over 11% through the first three quarters of the year. Through November of 2002 the sales and use tax has dropped 4.2% below 2001 collections. In building our 2003 budget we projected the 2002 collections to be down 3.8%; followed by growth of 4% in 2003. A failure to meet this level of collections will impact our ability to provide existing services. The intent of this topic is to examine ways that the City could react if such a scenario were to occur.

In examining the sales and use tax collections through November, the decrease of 4.2% can be attributed to a number of causes. The significant decreases in use tax have been in the area of construction/lumber and public utilities. These two areas have dropped over \$1.2 million and they alone drive the decrease in use tax of 14.3%. With 2002 revenues now presenting a lower base to compare to it is still hopeful that the use tax will level off somewhat in 2003. Sales tax has dropped 2.1% through November and it is spread over a number of categories. With prospects for the local economy dimmed by developments with the School District and major employers like Maxtor and United Airlines, we could very well experience further decreases in these revenues.

We have visited this topic at previous retreats in 1995, 1997 and 2002. At those retreats we have discussed the concept of a decision-making process in which all General Fund services, and the cost of providing those services, could be presented for analysis and prioritization by the Council and the community. The intent was for this process to be used if projected expenditures were to exceed projected revenues. No further development of this concept has taken place prior to the preparation of this paper.

We have completed drafts of Service Analysis Worksheets for seven individual General Fund services with at least one example from each of the departments. We continue to have staff generate these worksheets with the goal to complete one for each of the General Fund services by the end of January, 2003. The intention is for these worksheets to be used between February and April in a process of prioritization of services to determine where reductions would occur if necessary in 2003 or 2004. Either City staff could undertake this process or it could be conducted with the City Council at workshops or study sessions during that three month period.

In addition to prioritizing General Fund services, staff will be reviewing all other General Fund revenue sources in the first quarter of 2003 to determine if new fees or fee increases are merited.

Discussion Points:

Financial prospects for 2003 and the staffs plan to react.

The Financial Policy regarding the allocation of sales and use tax revenue between the General Fund and the Public Improvement Fund.

Questions about the information on the Service Analysis Worksheets and suggestions on how they could be improved.

Discussion of the service prioritization process including scheduling and who should be involved.

Does the City Council want to consider any new sources of revenue?

Attachments:

- Sales and Use Tax Collection History from 1984 to 2001.
- Financial Policy on the allocation of sales and use tax.
- Examples of Service Analysis Worksheets

Sales and Use Taxes

Fiscal Year	General Fund	Public Improvement Fund	Street Fund	Open Space Fund	Total	Percentage of Change
1984	\$ 5,558,270	\$ 1,852,756	\$ (a)	\$	7,411,026	
1985	5,217,678	1,739,529	(a)		6,957,207	-6.12%
1986	5,897,148	1,965,752	1,215,442		9,078,342	13.02%
1987	5,718,370	1,906,122	2,737,605		10,362,097	-3.03%
1988	6,088,425	2,029,475	3,011,907		11,129,807	6.47%
1989	6,311,643	2,104,170	3,104,915		11,520,728	3.67%
1990	6,429,667	2,143,218	3,212,007		11,784,892	1.87%
1991	7,674,714 (b)	1,354,361 (b)	3,385,903		12,414,978	5.32%
1992	8,542,442	1,506,812	3,769,379		13,818,633	11.30%
1993	9,826,882	1,734,156	4,335,389		15,896,427	15.04%
1994	10,704,416	1,889,014	4,722,538		17,315,968	8.93%
1995	11,547,190	2,037,737	5,094,347		18,679,274	7.87%
1996	12,663,383	2,234,715	5,586,786		20,484,884	9.67%
1997	14,133,223	2,494,097	6,235,245		22,862,565	11.61%
1998	15,960,210	2,816,508	7,041,269		25,817,987	12.93%
1999	16,795,534 (c)	3,504,118 (c)	7,612,369		27,912,021	8.11%
2000	20,114,999 (d)	4,266,818 (d)	9,143,181		33,524,998	20.11%
2001	21,299,654 (e)	4,863,962 (e)	9,811,356	2,601,749	38,576,721	15.06% (f)

(a) Collection of Sales and Use Tax in the Street Fund began 7/1/86.

(b) Distribution of tax rate between General Fund and Public Improvement Fund changed from 1.5cents/0.5 cents to 1.7cents/0.3 cents respectively.

(c) Distribution of tax rate between General Fund and Public Improvement Fund changed from 1.7/0.3 cents to 1.66/0.34 cents respectively.

(d) Distribution of tax rate between General Fund and Public Improvement Fund changed from 1.66/0.34 cents to 1.65/0.35 cents respectively.

(e) Distribution of tax rate between General Fund and Public Improvement Fund changed from 1.65/0.35 cents to 1.63/0.37 cents respectively.

(f) The percentage increase in sales and use tax in 2001 adjusted for the open space tax rate change is a 7.3% increase.

Sales Tax Receipts

The 2.95 cent sales and use taxes charged and collected by the City shall be split in the following manner: General Fund (1.624 cents); Public Improvement Fund (0.376 cents); Street System Maintenance and Improvement Fund (0.75 cents); and Open Space Sales Tax Fund (0.20 cents). Over the fourteen-year period (1999-2012), the distribution between the General Fund and the Public Improvement Fund will be returned to 1.5 cents/0.5 cents.

In the 2003 Budget, the allocation was moved from 1.61/.39 to 1.624/.376 to help balance the General Fund operating budget. It is still the intention of the City Council to restore the allocation to 1.5/.5 by 2012.

History of the allocation:

	<u>General Fund</u>	<u>Public Improvement Fund</u>
1975 (est) to 1990	1.50	.50
1991 to 1998	1.70	.30
1999	1.66	.34
2000	1.65	.35
2001	1.63	.37
2002	1.61	.39
2003	1.624	.376