

# Introduction

This report answers a recent question from a City employee. Essentially, she asked how we got in our current financial situation. The short answer is in the executive summary on the next page. The details are on subsequent pages.

I have set up this report with four sections, including this Introduction. Following the executive summary, the report covers our revenue losses. The next section addresses growing costs / expectations. We are caught in the squeeze between these two realities. The last section summarizes our problem.

In essence, our ability to deliver services has been compromised by a local government financial model that does not work. The tax system yields insufficient revenues to provide services. At the same time, the state of Washington and others have ratcheted up costs and service expectations.

This analysis starts generally in 2000. The year 1999 marks the voters approval of I-695. As you can see, we have been losing ground ever since.

Up until this year, we have used sales tax from building activity to fill in the gaps. When there were no developments to provide this money, we drew from our reserves. This year, the reserves are depleted, and there are no ongoing projects generating sales tax. Large new developments are poised, but yet ripe to proceed. When they move forward, we should be able to restore our programs - at least until the next economic downturn.

Essentially, the current financial troubles could be considered as temporary, but only so far as we can rely on economic development activity to help fund our programs. This situation sets us up to use one-time money for ongoing programs, and it is not fiscally sound. In the future we will have to decide whether to provide lower levels of service in order to avoid these disruptions arising from poor economic conditions.

All of our tax-supported programs have struggled to maintain service levels recently. We need to pat ourselves on the back, because we are now providing higher levels of service than in 1999 and we are doing it with about 20% fewer resources.

Department heads and others have brought considerable creativity to help find solutions and we have benefited from their ideas. However, we are running out of rabbits to pull from our hats.

## Executive Summary

Since 1999 Washington State voters have approved two initiatives that eliminated \$264,451 in annual revenue the City would have otherwise been able to collect. Also a State court decision led to the elimination of our Street Light utility, costing the City another \$51,000 per year. If not for these events, the City would have been able to bank or spend \$1,716,800 during this time.

City departments have been challenged. General Administration, Finance and Police have all seen increases in workload, due largely to unfunded mandates. Simultaneously, most have seen decreases in the resources needed to fulfill their mission. None have received what they need to get their jobs done.

The Fire Department has seen unfunded mandates oblige a reduced number of volunteers and more paid firefighters. This has added approximately \$250,000 in expenses that would not have been necessary but for these mandates.

In 2006 the Community Development (Planning) Department had to spend approximately \$205,000 for consultants to meet State mandates. In anticipation of significant growth, we are completing a \$125,000 project to build a traffic impact model, so we can be compensated for road improvements that will be necessitated by these developments. Both these expenses were pulled from reserves, as there were no other funding sources.

One strategy for our financial problems is to secure dollars from new development. Maintaining staffing levels will enable us to process pending large developments, which will spin off hundreds of thousands in new sales tax revenue, but only after they start up.

In 2004 our Storm Water Fund received approximately \$.5 million from our General Fund reserves. The fund had borrowed this amount from other City funds to pay for emergency projects. In order to secure support needed to raise the rates to make the fund self-sustaining, City Commissioners paid the debt using General Fund reserves.

Since 2000, the City's annual cost to provide health insurance to General Fund employees has increased \$650,946. Also in just the past year, the City's 2008 jail costs have increased by \$71,121.

# Loss of Taxing Authority / Revenue

## Passage of I-695

In 1999 Washington State voters approved I-695. This initiative restricted license renewal fees to \$30. Previously, renewal fees were tied to the value of the vehicle being licensed, and generally were much higher. Cities received a share of the license fees from the State of Washington. Shelton received \$159,551 in 1999. This revenue evaporated. Although the Supreme Court declared I-695 to be unconstitutional, the Legislature reinstated it. Had we been collecting this all along, we would have banked or spent an accumulated total of \$891,000.

## Loss of Streetlight Utility

In 1995, the City of Seattle lost a lawsuit, and their street light utility was outlawed. The City of Shelton had a similar utility. Local residents challenged its continuation, and in 2001 the City Commission did away with it. The bills for street light expenses kept coming in and the street department absorbed this annual \$51,000 revenue shortfall. Had we been collecting this all along, we would have banked or spent an accumulated total of \$368,000. Although we account for streets separately, the Street Fund still gets the majority of its operational funds from the General Fund. To the extent that it loses revenues, the General Fund either makes up the difference or allows lower levels of service.

## Passage of I-747

In 2001 Washington State voters approved I-747. This measure limited the increase in the local regular property tax levies to 1% per year (with a maximum levy rate of 3.60 per 1,000 assessed valuation), regardless of the rate of inflation. If the City had been able to increase property taxes at the previous 6% per year (with the same max levy rate) we would be receiving \$104,900 more in property taxes in 2008. Had we been collecting this all along, we would have banked or spent an accumulated total of \$457,800. Although the Supreme Court recently declared I-747 to be unconstitutional, the Legislature reinstated it in late 2007 in a special session.

## Summary of Income Losses

	Annual Impact	Accumulated Impact
I-695	159,551	891,000
I-747	104,900	457,800
Street Light Utility	51,000	368,000
	=====	=====
<b>Totals</b>	<b>315,451</b>	<b>1,716,800</b>

## Expenses

What follows is a description of recent (and significant) changes in our general fund supported programs. As with revenues, these changes are tracked generally over the past 7-8 years.

### General Administration

In 2000 the City had its current set of senior managers (ie, department heads) plus a Human Resources Director and a Special Projects Manager.

The Human Resources Director left in 2003, and her position was not re-filled. Prior to that the Special Projects Manager left, and a person who was trained as an attorney was hired to replace him. That person later resigned to become the Shelton City Attorney, leaving the Special Projects Manager position vacant. Our new City Attorney also assumed risk management duties, which had previously been the former HR Director's responsibility.

In 2004, City departments were doing work previously handled by the HR Director and Special Projects Manager. Department Heads asked for help so we created the new position of Management Assistant. This person took on duties that previously had been the responsibilities of two separate employees (the Project Manger and Human Resources Director).

Subsequently our Management Assistant resigned in order to become the City's Public Works Director. Our City Clerk was hired into this position, and proposed yet another consolidation of duties. She proposed that the duties of the Management Assistant and City Clerk be consolidated.

Essentially, we ended up with three senior level positions being consolidated into a single position.

To get the work done, the Management Assistant asked for and was authorized to add two new clerical support personnel to help with the considerable workload. The estimated annual savings from consolidation of these responsibilities is approximately \$26,000.

We used an in-house attorney for approximately 3 years, but then went back to a contract for legal services. Coordination of legal services and risk management reverted back to administration.

While working through these staffing changes, the following new responsibilities were added to the department:

Computer Management: In 2004, an outside party managed our computer systems. We had recently lost valuable records and there were no backups. We were not tracking software installed on our computers, and were running the risk that we would be sued / prosecuted for copyright violations. (This had recently happened to the City of Issaquah.) In addition, computers were not standardized, making their maintenance very challenging. The City Clerk was given the responsibility to straighten out the mess, and set up a new system, with better tech support and improved oversight in areas of potential liability. We also set up a regular computer replacement schedule, so old computers are cycled out and new one in, to improve reliability.

Records Officer: In 2005, state law obliged us to appoint a “records officer” whose responsibility was to oversee compliance with the state Records Act, including new mandated processes. The Management Assistant was given this duty.

City Website: In 2007, the City contracted for the development of a new City of Shelton Web Site. Continued development, maintenance, and review of content are the responsibilities of the Management Assistant.

Human Resources: During the past three years, we have updated all City HR Policies, and job descriptions. (Both of these were woefully out of date.) We set up a performance appraisal system. (This is a strong recommendation of our insurance carrier.) We have set up a new employee orientation program and an exit interview program. Also included was administrative representation in labor negotiations for all six of the City’s bargaining units. Finally, we have established mandatory anti-harassment training. (This is a requirement of our insurance carrier.)

In summary, the department has been given significantly more responsibility and fewer resources to get the job done. The department has compensated by eliminating upper level managers, and replacing them with line staff.

## Finance

In 2000 the Finance Department had 9 FTEs. Today they have 10. In this time the following responsibilities have been added to their workload.

1. Took over cash receipting and balancing for the Public Works, Community Development, Parks & Recreation, and Community Center rental departments.
2. Implemented "GASB #34" (Governmental Accounting Standards Board rule #34) for the City, which included completely capitalizing general funded infrastructure, preparing additional government-wide financial statements using accrual accounting for all of the government's activities, and creating a new annual report feature called the "Management Discussion and Analysis" that highlights the City's financial accomplishments and standing.
3. Added three new Funds (Silos): Regional Water, Regional Sewer and the 911 Communications Fund. Each fund is a separate accounting entity.
4. Experienced substantial increase to Accounts Receivable due to the Regional Projects. This included billing and tracking all of the partners' costs according to the Interlocal agreements as well as grant billings for the City's portion. This workload continues to increase as we proceed further into this project.
5. Implemented two model B&O Ordinances.
6. Began new program to accept Visa & Mastercard payments on site for all City payments.
7. Implemented a new indirect cost plan to fully fund overhead activities in the General Fund, while charging fair and equitable rates to the City programs.
8. Established a donation program to help needy citizens pay their City utility bill, called SOS (Support Our Sheltonians).
9. Conducted tax audits for the City, to ensure maximum collections.

## Police Department

### Police Services

In 1999, the Shelton Police Department was staffed with 20 commissioned police officers. These were their specific assignments:

Administration	2
Detectives	4
School Resource	1
Crime Prevention	1
Patrol Division	12

Also during 1999, officers responded to 11,934 calls for service.

From 2002 through 2004, budget cuts led to the elimination of the crime prevention position, leaving the City with 19 officers. On the other hand, calls for service increased to 12,937.

In 2005, the police department saw fewer numbers again, and 18 officers responded to the highest number of calls for service ever, 14,164.

In 2006, the police department staffing was restored to 20 commissioned police officers. The Crime Prevention program was re-vitalized and for the first time in six years, calls for service saw a reduction to 12,616.

Although 2007 saw a reduction of police staffing to nineteen (19), the Crime Prevention position remained. We did experience a reduction in calls for service to 12,369.

When the 2008 budget was approved, the Police Department had two officer vacancies. The City Commission authorized the hiring of one new officer, and will re-evaluate the City's financial picture mid-year concerning the remaining unfilled position.

Today, the Police Department has fewer officers than 8 years ago. At the same time we have seen an increase in requests for service. This has been accompanied by an ever-increasing set of expectations. New and un-funded mandates for instance require: polygraph and psychological testing for all newly hired police officers, twenty-four (24) hours of criminal justice related training per officer per year, and WCIA (Insurance Company) liability training. We have also seen increased costs for ammunition, training supplies and tuitions. Finally, the volatile petroleum market has increased our estimated annual fuel costs by \$32,427.43.

Police Department staff has used their creativity to fill the needs. For instance, the department has found used vehicles to replace the aged and

worn out patrol fleet. They also secured numerous grants to purchase equipment necessary for the daily operations. These efforts have kept the wolf away from the door, but it has been very challenging.

#### School Resource Officer

Up until 2008, the Shelton School District provided funding to support the salary of a School Resource Officer. In 2008 they decided to cut funding for this service. Essentially, we understood that they were ready to end the program if we did not share the expense. Ultimately the City kept the program, and had to make up \$21,422 in lost revenue.

#### Emergency Communications

In 1999 one 1 director, 1 clerk and 11 dispatchers handled 203,339 (911) calls. Due to budget cuts in 2001, staffing levels were reduced to one supervisor, a ¾ time clerk and 10 dispatchers who fielded 210,001 calls. That level of staffing remained in effect through 2007 with calls reaching 227,609. In 2008, SHELCOM and FIRECOM dispatch centers were consolidated thus making an efficient operation.

#### Animal Shelter

Animal shelter personnel are responsible for the care and feeding of animals that have been impounded seven days a week. In 1999, 3 employees staffed the shelter. That level of staffing continued through 2003. Due to budget cuts, staff was reduced to 2 employees and still remained responsible for the care and feeding of impounded animals 7 days a week. As a result of an agreement with the maintenance department, custodial staff feeds and cares for impounded animals on Sundays while they are performing their normal maintenance duties at the shelter.

### Fire Department

In 2000 the Fire Department had 7 professional firefighters and a corps of volunteers whose numbers varied from about 20 to 30. A crucial element of our staffing was a resident volunteer program, where students could live at the firehouse for free, so long as they filled shifts.

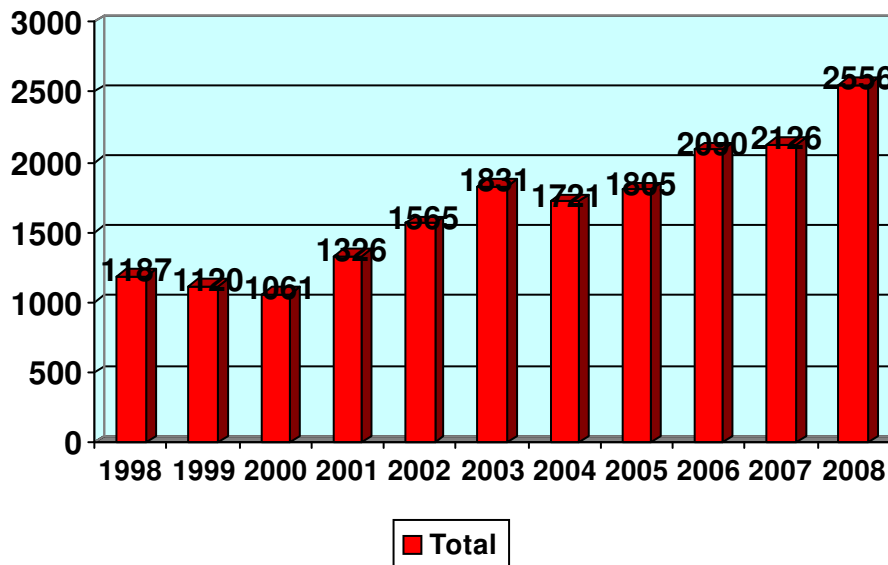
This system worked well until black mold was discovered at the fire station, which was then vacated (except for the truck bays). Essentially, the resident program went away, because there was no space for resident firefighters. In addition, state standards for training volunteers has become more and more stringent. Currently, it takes up to 9 months of training before a volunteer can be qualified to help put out a fire. As volunteers have come and gone, it has been increasingly more difficult to backfill with newcomers, because of the significant commitment necessary to become qualified. Over time, our volunteer numbers have



slipped considerably. We now maintain between 2 and 4. We still need a new fire station. Our Firefighters are currently housed in two mobile homes. Our trucks and other fire equipment are still housed in the old fire station - regardless of the black mold that infests other parts of the building.

As our volunteers have gone away, we have not been able to afford to replace them with professional firefighters. Also in 2002, one of our firefighters resigned. With the loss of revenue associated with the passage of tax limitation initiatives, their position was not replaced. The number of professional firefighters went from 7 to 6.

During this same period, the number of calls has increased substantially. In 2000, our firefighters responded to 1,061 emergency calls. In 2007, they responded to 2,126. Based on recent activity, Chief Ghiglione estimates that in 2008, his department will respond to 2,556 calls.



In 2007 the State Department of Labor and Industries cited and penalized us for violating fire suppression mandates. Essentially, we must have 3 (or more) persons on site before a firefighter can enter a burning building. This is to ensure that someone stays outside who can rescue the others if they get into trouble. In this case, we put out the fire, regardless of the rule, and got into trouble.

Keep in mind that we only had 6 firefighters covering 3 shifts. That means that if all the firefighters took no vacations, or were never sick or out because they were hurt on the job, they would still have only 2 people covering their shifts, one less than needed to put out a structure fire.

PUTTING OUT FIRES IS OUR FIRE DEPARTMENT'S MISSION. It is not acceptable that we cannot consistently perform our mission.

In 2000 we also employed a Public Education Specialist. Her main job was to help train City employees and local citizens. She also did clerical work and helped support the City's Emergency Management effort. When she vacated her position, the position was not re-filled. In 2005, the City authorized creation of a clerical position, in order to handle administrative duties being performed by the higher salaried Chief and Assistant Chief. Subsequently, the City also authorized creation of a summer-hire program, where volunteers could be hired on a temporary basis to cover shifts of vacationing or sick firefighters. Finally, in 2007, the City authorized hiring 3 additional firefighters, bringing the total to 9.

The cost for our new firefighters and the summer hire program is approximately \$250,000 per year. Although the summer hire program and backup support from administrative personnel helps, we still do not have all our shifts covered with sufficient personnel to fulfill our mission consistently.

We are now planning the construction of a new fire station. This will probably help the situation, because we will be able to reestablish our resident volunteer program.

One excellent solution is to get out of the fire service entirely. If we annexed into a neighboring fire district, we would have to relinquish a portion of our property tax levy to the district. However, the fire department budget is higher than the lost property tax revenue. In other words, the net result is that we would have more money for other programs. We are now working with Mason County Fire District #5 toward a possible annexation. However, there are many details to sort out before this can be accomplished. Voters in both Shelton and District #5 must approve any annexation plan. Regardless of whether the annexation is successful, we still need a new fire station.

### Community Development (Planning) Department

In mid 2006, the City had made two applications to the Public Works Trust Fund for low interest loans. One was to build a new sewer plant next to Sanderson Field and another was to build a new sewer pump station next to Goldsborough Creek. Before the loans were approved, the State Department of Community, Trade and Economic Development (CTED) reviewed our status for compliance with the Growth Management Act, and determined that we were not compliant. This stopped our low interest financing.

Subsequently, we set to work to get ourselves compliant. Essentially, we were obliged to spend \$108,480 for consultant services to meet the state's GMA mandate. This funding came from our reserves.

Also during 2006, another state mandate obliged us to write and adopt a new "Critical Areas Ordinance." Critical areas within Shelton are generally steep slopes and shorelines. Development regulation must include an analysis of the "best available science," and of course, we have no scientists working for the City. We spent \$88,038 for consultant services in order to meet this mandate. Again these funds came from our reserves.

In the past year four large project developers have made applications or presented preliminary designs for developments totaling over 3,000 residential units. The largest of these developments is 1,500 units.

We expect that these developments will be built over the next 10 to 20 years. We just don't know when they will start. Recent economic troubles in the housing markets have discouraged these developers. Regardless, when they do start up, they will spin off considerable finances, and help us close our budget gap.

Although this growth will help, it will also come with tremendous costs to keep our roads from clogging up. In 2007, we funded a project to help us set up systems that will help. We hired a consultant to create a traffic model for Shelton. The goal is to establish transportation impact fees on new all development. This project was not finished in 2007, but carried over into 2008. It is expected to be finished mid year. The total cost over 2007 and 2008 will be approximately \$125,000. Once again these dollars have been or will be spent from City reserves.

Since 2000 we have added only ½ an FTE to the Community Development Department. We have actually added planning and building inspection staff. However, we have also reduced maintenance, recreation and code enforcement personnel.

New economic development is vital to help restore our financial health. When it is ready we must have staff on board to process development applications.

Finding professional staff in our Community Development Department has been challenging. When there is lots of development activity, Planners and Building Inspectors are in high demand. Cities and Counties compete for a limited number of qualified applicants. We worked for 2 years to staff the team we currently have in the Planning

Department. The Current staff will be extremely busy, and necessary, as the large development applications are submitted for processing.

These employees are adding value today. Many of our land use ordinances are woefully out of date. They carry numerous inconsistencies, because we have not done a comprehensive review in many years. Our employees can undertake this review, which will help us significantly in the future, particularly as development is proposed in the Shelton UGA.

These staff members are also doing an excellent job with code enforcement. For instance, part of the departmental strategy is to clean up the entrances to the City, again to help stimulate economic development opportunities.

## Storm Water

In 2005 our storm water utility was running in the red. Although there was sufficient revenue to fund day-to-day operations, there was not enough money to fund emergency repairs and projects, so the fund borrowed from other funds when it got into trouble. The practice continued over the years and the debt grew, until it neared almost \$.5 million. Community members said they would support a rate increase, but not if the new money was to be used for paying off the debt. The choice was to allow the storm fund to continue its downward spiral, or rescue it using dollars from General Fund reserves. The City Commission's choice was to dedicate \$482,867 to the Storm Water Fund from the General Fund. Under Washington law it is legal for the General Fund to give money to other funds. However, it is not legal for the dollars to go the other way. Although it would be possible for the General Fund to borrow from other funds, this sets us up for similar problems that we experienced with the Storm Water Fund, except no other funds can bail us out.

## Streets

We have been able to make substantial progress on our streets. For instance, we have been able to find grant dollars for the Olympic Hwy South project and for reconstructing Northcliff Rd. We have also secured grant dollars to accomplish maintenance on Olympic Hwy North and Wallace-Kneeland Blvd.

Regardless, many of our streets are in poor condition, and have been in this condition for many years. Past estimates indicate that we need more than \$1 million per year in order to restore our residential and non-residential streets.

The street fund gets most of its money from the General Fund. If we want to put more money into streets, without new taxes, our only choice is to get it from tax supported programs such as those listed herein. There has not been enough money to adequately fund these programs, let alone to fix the streets.

### Other Departments

Other departments have not received any significant new resources since 2000. Regardless, they are doing more with less, just like the departments who have been covered in greater detail in this report.

### Other Impacts

#### Health Insurance

Since 2000 the annual cost of health insurance to the General Fund has gone up from \$444,068 to \$1,095,014 - a \$650,946 increase.

#### Jail Contract

In 2007 the City budgeted \$240,000 per year to house prisoners sentenced to jail by the Shelton Municipal Court. For the 2008 budget year, we were obliged to budget \$311,121. \$56,180 of this \$71,121 increase came from higher fees charged to us by Mason County.

# Summary

As you can see above, our City is providing considerably more service with fewer resources than just 8 years ago.

The following table summarizes the total financial impact of the foregoing document. The bottom line is that since 1999, our City has seen cuts in revenues and increases in expenses we are obliged to make.

## Annual Impacts

Revenue Losses	
Loss of Street Light Utility (2001)	51,000
I-695 (1999)	159,551
I-747 (2001)	104,900
Expenses	
Health Insurance	650,946
School Resource Officer	21,422
Jail Costs	71,121
Fire Protection (Unfunded Mandate)	250,000
	=====
<b>Total Impact each year</b>	<b>1,308,940</b>

## One-time Impacts

Storm Water Fund	482,867
GMA Compliance	108,480
Critical Areas Ordinance	88,038
Impact Fees	125,000
	=====
<b>Total Impact to Fund Balance</b>	<b>804,385</b>