

**CITY COUNCIL AGENDA ITEM**  
CITY OF SHORELINE, WASHINGTON

<b>AGENDA TITLE:</b>	10 Year Financial Sustainability Plan Update: Strategy #7 – Levy Lid Lift Renewal
<b>DEPARTMENT:</b>	Administrative Services
<b>PRESENTED BY:</b>	Sara Lane, Administrative Services Director
<b>ACTION:</b>	<input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution <input type="checkbox"/> Motion <input checked="" type="checkbox"/> Discussion <input type="checkbox"/> Public Hearing

**PROBLEM/ISSUE STATEMENT:**

The 10 Year Financial Sustainability Plan (10 YFSP) accepted by Council on June 16, 2014, prioritized seven target strategies to reduce projected future operating revenue and expenditure gaps. The plan established a Base Financial Model and includes seven strategies (or tools) for the City to use to maintain financial resiliency and sustain existing services. The model allows the City to store historical financial data, update projections with actual results, use the information to inform the City’s annual budget process, and model the effects of changing conditions.

Strategy #7 of the 10 YFSP states, “Monitor the City’s progress in relation to the Financial Sustainability Model. In 2016 or later, engage Shoreline residents in a discussion regarding the possibility of renewing the property tax levy lid lift.” The 2022-2024 Council Goals and Work Plan Goal #1, Action Step #12 directs staff to “pursue replacement of the City’s Levy Lid Lift, expiring in 2022, to ensure the ability to deliver valued public services to the Shoreline community.” The purpose of tonight’s discussion is to provide Council with an update on replacing the 2016 Levy Lid Lift.

**RESOURCE/FINANCIAL IMPACT:**

The operating budget 10-year forecast chart from the 10 YFSM projects potential budget gaps to occur beginning in 2024 with a cumulative size totaling \$22.937 million over the 10-year forecast period. These potential budget gaps will not materialize as the City of Shoreline is required to pass a balanced budget and does so each year within the following policies:

- Current revenues will be sufficient to support current expenditures.
- Resources (fund balance) greater than budget estimates in any fund shall be considered “One-time” and shall not be used to fund ongoing service delivery.

As such, expenditure reductions (service reductions), revenue increases, or a combination of the two will be required to achieve the legally required balanced budget.

There is no immediate financial impact associated with tonight's discussion. The ultimate financial impact will be measured as part of the biennial budget process, with the results reported to City Council during those budget presentations.

**RECOMMENDATION**

Staff recommends that Council direct staff to prepare legislation and other materials necessary for placing a Levy Lid Lift on the November 2022 General Election ballot. Staff is seeking direction from Council on the services that should be included in the Levy, which will impact the Levy tax rate.

Approved By:           City Manager ***DT***   City Attorney ***MK***

## **INTRODUCTION**

The 10 Year Financial Sustainability Plan (10 YFSP) accepted by Council on June 16, 2014, prioritized seven target strategies to reduce projected future revenue and expenditure gaps. More information on the 10 YFSP can be found here: [Acceptance of the 10-Year Financial Sustainability Plan](#). An update to the 10 YFSP can be found on pp. 59-60 of the 2021-2022 Adopted Biennial Budget book, which can be found here: [Executive Summary: 2021-2022 Adopted Biennial Budget and 2021-2026 Capital Improvement Plan \(CIP\)](#).

The purpose of tonight's discussion is to provide Council with an update on replacing the 2016 Levy Lid Lift.

## **BACKGROUND**

In 2012, the City Council adopted their 2012-14 Goals. Goal #1 was to "Strengthen Shoreline's economic base," with Action Step #3 to "Develop a 10-year Financial Sustainability Plan to achieve sufficient fiscal capacity to fund and maintain priority public services, facilities, and infrastructure." To implement this Goal and Action Step, over two years, the City went through a comprehensive 10-year financial sustainability process, which included staff review and analysis and Council oversight and direction. Throughout this process, City staff developed a 10 Year Financial Sustainability Model (10 YFSM) that stores historical financial data, is updated to convert projections into actual results, is used to inform the City's annual budget process, and models the effects of changing conditions. Changing conditions can include economic events, unexpected cost increases, the results of implementing one or a combination of the sustainability strategies, etc.

In 2014, the City Council formed a subcommittee to study the information developed by City staff and develop a 10 YFSP. The purpose of the 10 YFSP is to strengthen Shoreline's economic base by prioritizing seven strategies (or tools) for the City to use to maintain financial resiliency and sustain existing services.

The seven strategies outlined in the original 10 YFSP are as follows:

1. Achieve the development of an additional 160 units of multi-family residential housing and 7,500 square feet of retail redevelopment annually, beginning in 2014.
2. Reduce the expenditure growth rate to 0.2% below the average projected ten-year growth rate and attempt to maintain existing service levels, beginning in 2015. Continue to seek out efficiencies and cost-saving strategies.
3. During 2014, research ways to increase investment returns by 100 basis points (1%) per year and implement strategies to accomplish this.
4. During 2015, perform a study that will evaluate higher cost recovery percentages for an appropriate combination of fee-based programs. The results will be reviewed, with target implementation beginning with the 2016 budget.
5. In 2014, begin to identify ways to replace the \$290,000 transfer from the General Fund to the Roads Capital Fund with another dedicated source of funding.

6. In 2016 or later, engage the business community in a discussion regarding the possible future implementation of a Business and Occupation (B&O) Tax.
7. Monitor the City's progress in relation to the Financial Sustainability Model. In 2016 or later, engage Shoreline residents in a discussion regarding the possibility of renewing the property tax levy lid lift.

The 10 YFSP was accepted by Council on June 16, 2014. More information on the 10 YFSP can be found here: [Acceptance of the 10-Year Financial Sustainability Plan](#).

**Updates on Strategies #1-6**

While the focus of tonight's discussion will be on updating Council on Strategy #7: Renewing the property tax levy lid lift, the following provides a brief overview of the status of the other six strategies identified in the 10 YFSP.

**Strategies #1-3: Economic development, Reducing the Expenditure Growth Rate, and Increasing Investment Returns**

The City continues to be engaged in achieving the first three targets in the 10 YFSP: economic development, reducing the expenditure growth rate, and increasing investment returns. The City's Economic Development Manager tracks the total number of housing units in Shoreline, and the City has exceeded its goal, on average, of at least 160 new multi-family (townhomes or multi-family apartments) annually as demonstrated in the following tables.

***Shoreline Housing Stock***

	2015	2016	2017	2018	2019	2020	2021	Average
<b>Number of housing units</b>	23,581	23,650	23,838	24,250	24,517	24,709	25,247	24,256
<b>Increase over prior year</b>	88	69	188	412	267	192	538	250

In addition to new housing, the City tracks progress toward the goal of 7,500 sq. ft. of new retail/commercial space annually:

***Retail/Commercial Development***

	2015	2016	2017	2018	2019	2021	2021	Average
<b>New Retail/Commercial (sq. ft.)</b>	7,154	8,835	11,903	429	3,563	3,320	252,572	41,111
<b>Remodeled Retail/Commercial (sq. ft.)</b>	6,411	24,643	6,937	2,810	1,645	4,240	6,872	7,651

City staff continually seeks cost savings as an ongoing practice and researches ways to increase investment returns by 100 basis points (1%). Significant cost savings have materialized by managing jail housing costs through the utilization of jail alternatives that are cheaper than the King County Jail, continuing a joint supervision program between Shoreline's and Kenmore's police departments, and the Parks, Fleet and Facilities Division partnering with the Police Department to close park gates.

#### **Strategy #4: Evaluate Cost Recovery for Fee-Based Programs**

Evaluation of the City's Cost Recovery objectives for Recreation and Permitting were identified as Strategy #4. In 2016, the Parks, Recreation and Cultural Services Department conducted a study to evaluate cost recovery percentages for an appropriate combination of fee-based programs with targeted implementation beginning with the 2016 budget. To that end a Cost Recovery/Fee Setting Framework was developed that consists of:

1. Established cost recovery guidelines;
2. An appropriate price setting strategy to determine a fee proposal;
3. Review and evaluation of the effect of the fee on the customer and service provided; and,
4. Determination of the final fee.

More information on the final report can be found here: [Shoreline Parks, Recreation and Cultural Services Cost Recovery/Fee Setting Framework](#).

In late 2015, the Planning and Community Development Department worked with the Administrative Services Department and FCS Group to conduct a Permitting and Inspection Cost of Service and Cost Recovery Analysis. The purpose of the study was to develop policies for setting new fees and rates for permitting and inspection services.

The City completed a Cost of Service and Cost Recovery evaluation of the Permitting and Inspection fee revenues in 2016. Staff presented recommendations on proposed permitting cost recovery objectives on April 26, 2016, and those recommendations were incorporated in the 2017 Fee Schedule. An update to this study will be incorporated in the 2023-2024 biennial budget. More information on the Permitting and Inspection Cost of Service and Cost Recovery Analysis Report can be found here: [Discussion of the 10 Year Financial Sustainability Plan Permitting and Inspection Cost of Service and Cost Recovery Study](#).

#### **Strategy #5: Replace General Fund Support of Roads Capital Fund**

The 10 YFSP sought to replace the \$152,000 General Fund annual contribution to the City's Curb Ramp, Gutter and Sidewalk Maintenance Program with an ongoing revenue source. After extensive evaluation to develop the City's Americans with Disabilities Act (ADA) Transition Plan, identifying over \$110 million of necessary repairs, City Council adopted [Ordinance No. 822](#) to increase the Vehicle License Fee (VLF) by \$20 per vehicle per year, to a total of \$40, to provide revenue to support the repair and maintenance of the City's sidewalk network.

#### **Strategy #6: Possible Implementation of a Business & Occupation Tax**

A Business & Occupation (B&O) Tax is a tax on gross business receipts with a maximum rate of 0.2%. B&O Taxes can be set based on the class of business (retail,

wholesale, etc.) and can be used for any governmental purpose. Exploring the implementation of a B&O Tax was first discussed with the 10 YFSP Subcommittee at its [January 28, 2014, meeting](#) and with the City Council during the [10 YFSP Update provided on February 24, 2014](#). The 2014 Citizen Satisfaction Survey indicated over 54% of respondents would support exploring a B&O Tax.

The 10 YFSP directed staff to engage the business community in a discussion regarding the possible future implementation of a B&O Tax. Staff engaged the business community in this discussion in 2016 with the objectives of:

1. Educating the business community on the City's services and the long-term financial sustainability of current revenue sources;
2. Measuring support for potential imposition of a B&O Tax to support current service levels; and,
3. Identifying business interests in developing exemptions and filing threshold policies should Council choose to implement a B&O Tax.

In 2016, the FSCAC encouraged the City to continue to explore the possible implementation of this revenue option. The City Council adopted [Ordinance No. 808](#) providing for a B&O Tax on December 4, 2017. The Tax was implemented in 2019.

### **Background on Strategy #7: Levy Lid Lift Renewal**

In November 2001, Washington State voters passed Initiative 747. This limited the increase in the City of Shoreline's levy by the lesser of one percent or the percentage increase in the implicit price deflator (IPD). Even though this ballot measure was found to be unconstitutional, the State met in a special session and reinstated the one percent/IPD limitation (Ch. 1, Laws of 2007, sp. sess.).

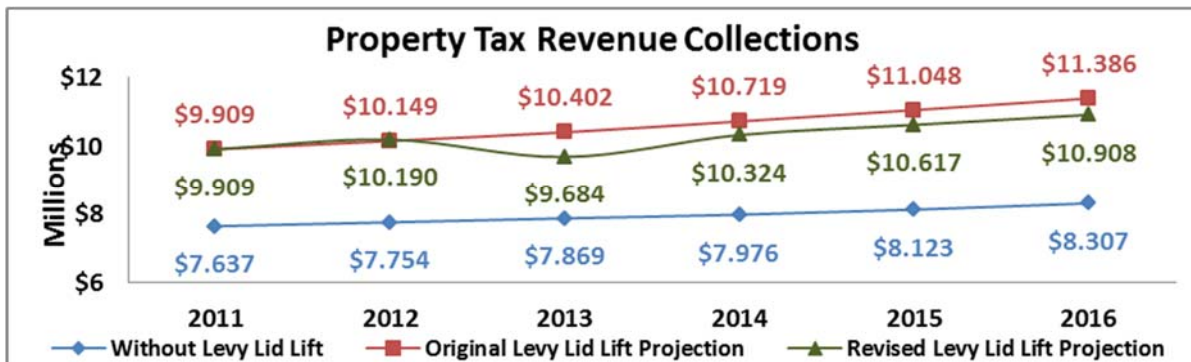
Since the IPD percentage increase has been more than one percent in most years since the legislature reinstated the one percent limit, the effective limit has been one percent. One exception to the one percent rule is the levy lid lift, as follows:

- Purpose of lid lift: It may be done for any limited purpose, but the purpose(s) must be stated in the title of the ballot measure.
- Length of time of lid lift: The lid may be "bumped up" each year for up to six years.
- Subsequent levies: The "lift" for the first year must state the new tax rate for that year. For the ensuing years, the "lift" may be a dollar amount, a percentage increase amount tied to an index such as the Consumer Price Index (CPI), or a percentage amount set by some other method. If the amount of the increase for a particular year would require a tax rate that is above the maximum tax rate of \$1.60, the assessor will levy only the maximum amount allowed by law.
- Majority Vote: The levy lid lift requires a simple majority vote by the residents of Shoreline. The election date must be the August primary or the November general election.

In the November 2010 General Election, Shoreline voters approved a six-year maintenance and operations levy for basic public safety, parks, recreation, and community services that set the tax rate for 2011 at \$1.48 and allowed the lid for the ensuing years to be "lifted" each year by a percentage increase tied to the CPI-U for the

Seattle, Tacoma and Bremerton area. Setting the rate at \$1.48 per \$1,000 assessed valuation (AV) in 2011 generated \$2.272 million in additional property tax revenues and was expected to generate an additional \$3.079 million by 2016. Unfortunately, Shoreline shared the hardships of the recession with the rest of the nation and its AV temporarily declined in 2012, essentially “ratcheting down” property tax revenue in 2013. As a result, collections were \$1.980 million less than the original projection, but still exceeded cumulative projections without the Levy Lid Lift by nearly \$13.966 million.

### 2010 Levy Lid Lift Property Tax Revenue Collections



The rate was expected to drop to \$1.28 by 2016; however, it only dropped to \$1.33.

### 2010 Levy Lid Lift Property Tax Levy Rate



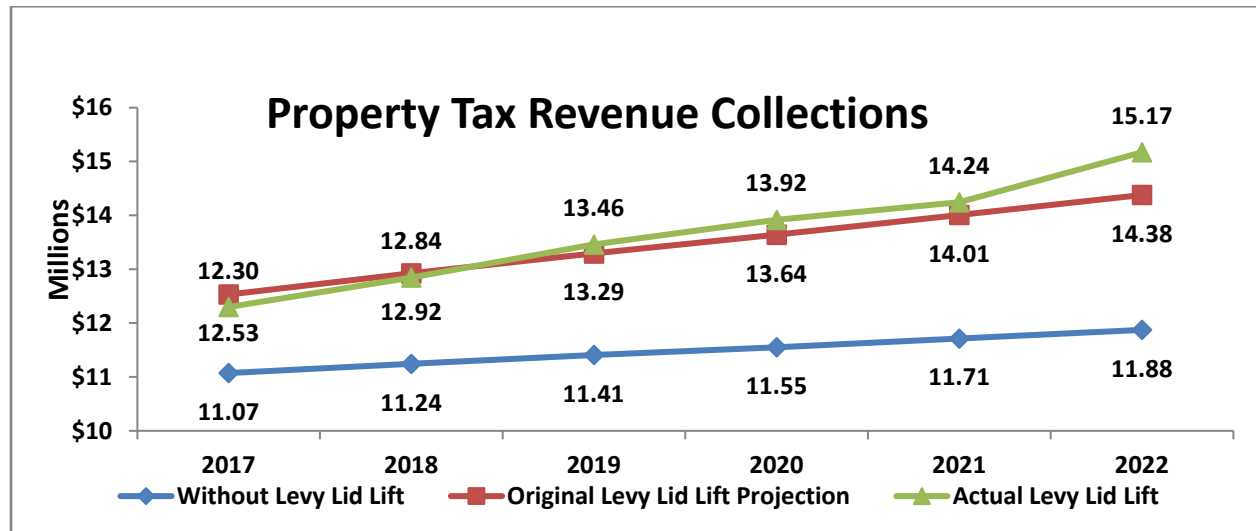
In 2016, the City Manager engaged a Financial Sustainability Citizen Advisory Committee (FSCAC). The charter of the FSCAC’s required it to “...complete its work with a recommendation to the City Manager on how to best provide the financial resources that will ensure the long-term delivery of basic services to the Shoreline community.” The FSCAC helped evaluate alternatives including: 1) Reviewing the strategies adopted in the City’s 10 YFSP; and 2) Identifying services that should be maintained, increased, and/or reduced to meet the needs of the Shoreline community.” The FSCAC met seven times between February 11 and May 12.

In the November 2016 General Election, Shoreline voters replaced the six-year maintenance and operations levy for basic public safety, parks, recreation, and community services that set the tax rate for 2017 at \$1.39 and allowed the lid for the ensuing years to be “lifted” each year by a percentage increase tied to the CPI-U for the



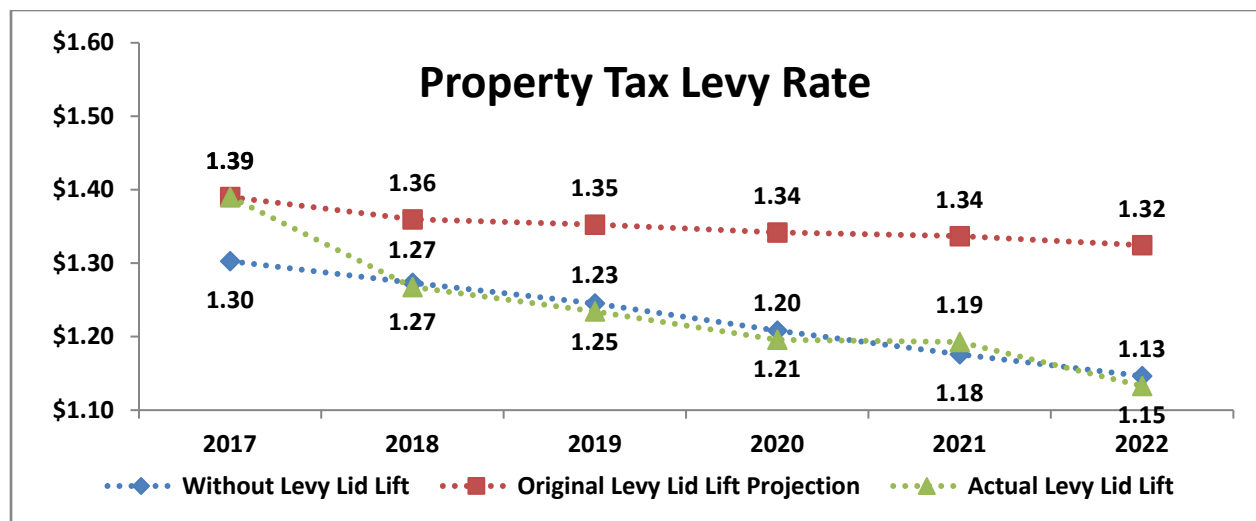
Seattle, Tacoma and Bellevue area. Setting the rate at \$1.39 per \$1,000 assessed valuation (AV) in 2017 generated \$1.3 million in additional property tax revenues and has generated an additional \$14.4 million between 2017 – 2022, over the six-year life of the levy lid lift.

**2016 Levy Lid Lift Property Tax Revenue Collections**



The increase in assessed values due to a strong residential housing market lowered the property tax levy rate to about what was projected without the 2016 Levy Lid Lift.

**2016 Levy Lid Lift Property Tax Levy Rate**



During Council’s 2022 Goal Setting Workshop, Council reviewed the 10 YFSP based on the 10 YFSM that was last updated during the 2021-2022 Mid-Biennial Budget Process in November 2021. At the conclusion of that discussion, Council directed staff to explore a possible Levy Lid Lift for the November 2022 General Election ballot. Council later adopted its [2022-2024 Council Goals and Work Plan](#), which included Goal #1, Action



Step #12: “Pursue replacement of the City’s Levy Lid Lift, expiring in 2022, to ensure the ability to deliver valued public services to the Shoreline community.”

The purpose of tonight’s discussion is to provide Council with an update on replacing the 2016 Levy Lid Lift.

## **DISCUSSION**

Council most recently reviewed the 10 YFSP based on the forecast provided by the 10 YFSM last updated in November 2021 for the 2021-2022 Mid-Biennial Budget Process. Since that time, the 10 YFSM has been updated to consider the most up to date revenue data and trends related to construction, B&O tax, King County Sheriff’s Office contract, King County Assessor’s Office update on property assessed values, sales tax, and criminal justice tax. There have been additional updates to include base expenditure budget adjustments for the King County Sheriff’s Office contract, including increases to liability insurance, projected Police inflationary wage changes (COLA), and expenses related to body worn and police car cameras.

This information was not available for use during the Financial Sustainability Advisory Committee’s work, however it was the basis for the analysis included in this staff report. Staff may update the 10 YFSM after receiving the July report from the Puget Sound Economic Forecasters, which is the typical source of updates for the 10 YFSM annually. There will be other base budget increases that will be included in the 2023-2024 biennial budget process. Between the July report and these base budget increases, it is possible that the fall forecast presented to Council with the 2023-2024 biennial budget process may look different.

### **Community Engagement**

In anticipation of the Council’s direction to pursue replacement of the City’s Levy Lid Lift, the City Manager engaged the Financial Sustainability Advisory Committee-2022 (FSAC-22) in early 2022. The charter of the FSAC-22 required it to “...help evaluate alternatives and consider whether the City should seek replacement of the 2016 levy lid lift on the November 2022 General Election ballot.” The Committee completed its work by issuing a recommendation to the City Manager regarding the replacement of the City’s Levy Lid Lift. FSAC-22 met six times between March 10 and May 19.

At its first three meetings the FSAC-22 met with directors from Police; Planning and Community Development; Recreation, Cultural and Community Services; Public Works; and, Administrative Services, as well as the program managers of Parks Operations, Economic Development, and Communications.

In its remaining meetings FSAC-22 members focused on the levy lid lift using the November 2021 forecast. At the April 21 meeting, staff reviewed revenue options available to the City and answered additional FSAC-22 committee member questions. The City presented what level of funding is needed in the future to maintain existing services and expand services to meet emerging issues.

After the April 21 meeting, Committee members completed a short poll to collect their feedback on if Council should place a Levy Lid Lift on the ballot, and, if so, what services it should include. In its remaining meetings, FSAC-22 members discussed these topics further. There was consensus that Council should place a Levy Lid Lift on the ballot. Several Committee members noted that a high level of service and resulting quality of life are things that either attracted them to the city or keep them here and they support continuing these essential services. Committee members agreed that the City has a responsibility to communicate to its residents the cost of our level of service and that a property tax levy lid lift is one of the primary vehicles to fund it. This interest in maintaining existing services was balanced by the FSAC-22's sensitivity for the impact of property taxes on Shoreline residents, especially on low income or fixed income residents in a currently volatile housing market.

The FSAC-22 reached consensus on several recommendations to the City Manager. The following is a summary of those recommendations with staff discussion, and the full report is included as Attachment A.

1. **The City Council should place a measure on the November 2022 ballot for a Levy Lid Lift.** A few key messages the Committee recommends the City share include the following:
  - Why the levy lid lift is needed and what services it buys
  - It is a replacement levy to continue funding services we know residents want and value (through Resident Satisfaction Survey and other opportunities for input)
  - The City is fiscally responsible, has a reserve policy, and is responsive to community priorities
  - The City's approach to surplus budget funds and how they are allocated
2. **The Levy Lid Lift should seek to maintain the current level of City services.** As staff has previously shared with the City Council, there is a need to increase staffing resources in our support service areas, such as Human Resources, Purchasing, Payroll, Information Technology, and Legal, to maintain the City's current portfolio of services. The maintain scenario is about ensuring that the City can continue to deliver its current service level commitments by ensuring that appropriate level of support service staffing is in place to support operating programs. In a few instances, growth in external activity levels (i.e., code enforcement cases/calls for service, recreation participants, etc.) or in assets to maintain (i.e., park acres, landscaped median strips, etc.), will necessitate the addition of staffing resources to maintain service levels.
3. **Committee members had differences of opinion on if the Levy Lid Lift should expand services to address emerging issues.** Emerging issues presented and discussed by the Committee included expanding services related to human services, the mobile crisis response team (current RADAR program), urban forestry, and recreation. Generally, the Committee agreed that the services may be needed and/or desired by residents. However, they encouraged the Council to consider the cost of services and the impact to the levy rate.

4. **The Committee did not come to an agreement on a recommended first year Levy Lid Lift rate.** As noted earlier, the services proposed for expansion were generally supported by the Committee in that they reflect community priorities. However, there was concern that adding these services would result in a levy reset rate that is much higher than the current rate and might not be approved by voters in November. Committee members also shared concerns about adding to the tax burden given inflation, the recently passed 2022 school levies and parks bond, and increasing property taxes. Concerns are related to levy fatigue and a household’s ability to pay. The Committee expressed concern about homeowners with fixed incomes or others who may struggle to afford to stay in (or move to) Shoreline.

No FSAC-22 member supported the No Action option of not placing a renewal of the levy lid lift on the ballot.

**Alternatives Analysis**

The Council may decide to seek a renewal of the Levy Lid Lift with an annual escalator alone or additionally seek to reset the 2023 levy rate to a specific rate up to \$1.60. The City’s current financial forecast, which is a “No Action” scenario, projects potential budget gaps, where costs to maintain existing services will exceed projected revenue resources, to occur beginning in 2024 with a cumulative size totaling \$22.937 million over the six-year period for 2023 through 2028.

The following describe the impacts of four options as compared to a “No Action” scenario. The No Action scenario assumes the 1% annual levy increase limitation.

**No Action Alternative**

If Council took no action (or the Levy Lid Lift failed to pass), the new tax levy rate for 2023 would be calculated based on the City’s AV for the 2023 tax year (currently projected to be \$1.02) and the lid for the ensuing years would be limited to one percent. Due to a projected shortfall starting in 2024, there would need to be significant reductions in service delivery across many General Fund funded departments, including Police; Recreation, Cultural and Community Services; Planning and Community Development; Public Works, Administrative Services (Finance, IT, and Parks, Fleets, and Facilities); and City Manager’s Office (Clerks, Code Enforcement/Customer Response Team, Communications, Economic Development, Intergovernmental Relations).

Estimated impact to the median homeowner if the Levy Lid Lift is not replaced.						
Year	Assessed Value	Per \$1,000 (AV/\$1,000)		Levy Rate		City Assessment
2023	\$630,100	\$630	X	\$1.02	=	\$642
2024	\$647,700	\$648	X	\$1.01	=	\$657
2025	\$662,900	\$663	X	\$1.00	=	\$662
2026	\$681,700	\$682	X	\$0.99	=	\$674
2027	\$703,900	\$704	X	\$0.97	=	\$684

<b>2028</b>	\$726,300	\$726	X	\$0.95	=	\$691
<b>Total over 6 Year Period 2023-2028</b>						\$4,011

**Option 1 – Enhance Program Service Levels to Address Emerging Issues and Fully Fund Support Services for Current Operational Programs**

This option would fund emerging issues aligned with current Council goals and provide funding to maintain current operational program service levels including the needed increase in support service resources. Emerging issues that would be added include Human Services and Housing Support, enhancing the RADAR Program for the North King County Regional Mobile Crisis Response Program to provide 24/7 coverage in Shoreline, adding recreation programming, and enhancing the City’s urban forestry program. Maintaining program service levels would add positions for code enforcement, recreation, and park maintenance. Support service levels would add positions in information technology, human resources, legal, and finance. In order to fund Option 1, the new tax rate for 2023 would be set at \$1.49 and the lid for the ensuing years would be “lifted” each year by a percentage increase tied to the Consumer Price Index (CPI). This will generate approximately \$146.540 million of property tax revenue over the six-year period, which would result in \$50.297 million more than that generated if no action were taken. It is estimated that a homeowner of a median assessed valued home (estimated for 2023 to be \$630,100) will pay \$2,131 more than under the No Action alternative over the six-year period, or an increase on average of \$355 per year/\$30 per month. This option would increase revenues beginning in 2023 and would eliminate the potential budget gap projected to occur in 2024 through 2028.

<b>Option 1 (All Emerging Issues/Current Program Service Levels): Estimated impact to the median homeowner with Levy Lid Lift rate reset to \$1.49 and CPI-U Increase through 2028</b>								
<b>Year</b>	<b>Assessed Value</b>	<b>Per \$1,000 (AV/\$1,000)</b>		<b>Levy Rate</b>		<b>City Assessment</b>	<b>Difference to No Action (1% Limit)</b>	<b>Monthly</b>
<b>2023</b>	\$630,100	\$630	X	\$1.49	=	\$937	\$295	\$25
<b>2024</b>	\$647,700	\$648	X	\$1.52	=	\$985	\$327	\$27
<b>2025</b>	\$662,900	\$663	X	\$1.52	=	\$1,010	\$348	\$29
<b>2026</b>	\$681,700	\$682	X	\$1.53	=	\$1,041	\$367	\$31
<b>2027</b>	\$703,900	\$704	X	\$1.52	=	\$1,072	\$387	\$32
<b>2028</b>	\$726,300	\$726	X	\$1.51	=	\$1,097	\$406	\$34
<b>Total over 6 Year Period 2023-2028</b>						\$6,142	\$2,131	

**Option 2 – Add Regional Mobile Crisis Response Program to Serve North King County Cities, Partial Funding of Support Services to Maintain Operational Programs and Increased Park Maintenance Staff in Conjunction with New Park Properties to Maintain Level of Service (Staff Recommendation)**

This option increases the City’s investment in the Regional Mobile Crisis Response Program to Serve North King County Cities (current RADAR Program) to allow for 24/7

coverage in Shoreline, would fund approximately half of the needed support services staff, and will maintain park maintenance level of service as new park properties are developed. It would not provide funding to maintain service levels in other areas such as code enforcement and recreation and would only fund a portion of the identified support service needs. The new tax rate for 2023 would be set at \$1.39766, close to the same rate that was established in the first year of the 2016 levy lid lift, and the lid for the ensuing years would be “lifted” each year by a percentage increase tied to the Consumer Price Index (CPI). This will generate approximately \$137.658 million on property tax revenue over the six-year period, which would result in \$41.414 million more than that generated if no action were taken. It is estimated that a homeowner of a median assessed valued home will pay \$1,759 more than under the No Action alternative over the six-year period, or an increase on average of \$293 per year/\$24 per month. This option would increase revenues beginning in 2023 and could eliminate the potential budget gap projected to occur in 2024 through 2028.

<b>Option 2 (Regional Mobile Crisis Response, 50% Support Service, and Park Maintenance): Estimated impact to the median homeowner with Levy Lid Lift rate reset to \$1.40 and CPI-U Increase</b>								
<b>Year</b>	<b>Assessed Value</b>	<b>Per \$1,000 (AV/\$1,000)</b>		<b>Levy Rate</b>		<b>City Assessment</b>	<b>Difference to No Action (1% Limit)</b>	<b>Monthly</b>
<b>2023</b>	\$630,100	\$630	X	\$1.40	=	\$881	\$239	\$20
<b>2024</b>	\$647,700	\$648	X	\$1.43	=	\$925	\$268	\$22
<b>2025</b>	\$662,900	\$663	X	\$1.43	=	\$948	\$287	\$24
<b>2026</b>	\$681,700	\$682	X	\$1.43	=	\$978	\$304	\$25
<b>2027</b>	\$703,900	\$704	X	\$1.43	=	\$1,007	\$322	\$27
<b>2028</b>	\$726,300	\$726	X	\$1.42	=	\$1,031	\$340	\$28
<b>Total over 6 Year Period 2023-2028</b>						\$5,770	\$1,759	

**Option 3 – Maintain Current Budgeted Program and Support Service Levels (Reset Rate to Balance Budget Through Six-Year Levy)**

This option would balance the City budget over the six-year period but not provide any new services. No additional positions for program or support levels would be included and as such some service levels would effectively decrease due to increasing costs and demand for services, increases in City assets to maintain (i.e., park properties), and implementation of new and updated regulations. This option would reset the tax rate for 2023 to \$1.35 and the lid for the ensuing years would be “lifted” each year by a percentage increase tied to the Consumer Price Index (CPI). This will generate approximately \$133.390 million in property tax revenue over the six-year period, which would result in \$37.147 million more than that generated under a No Action alternative. It is estimated that a homeowner of a median assessed value home will pay \$1,580 more than under the No Action alternative over the six-year period, or an increase on average of \$263 per year/\$22 per month. This option would increase revenues beginning in 2023 and could eliminate the potential budget gap projected to occur in 2024 through 2028.

**Option 3 (Balance Budget for 6-Year Period): Estimated impact to the median homeowner with Levy Lid Lift rate reset to \$1.35 and CPI-U Increase.**

Year	Assessed Value	Per \$1,000 (AV/\$1,000)		Levy Rate		City Assessment	Difference to No Action (1% Limit)	Monthly
2023	\$630,100	\$630	X	\$1.35	=	\$853	\$211	\$18
2024	\$647,700	\$648	X	\$1.38	=	\$896	\$239	\$20
2025	\$662,900	\$663	X	\$1.39	=	\$919	\$257	\$21
2026	\$681,700	\$682	X	\$1.39	=	\$948	\$274	\$23
2027	\$703,900	\$704	X	\$1.39	=	\$976	\$291	\$24
2028	\$726,300	\$726	X	\$1.38	=	\$999	\$308	\$26
<b>Total over 6 Year Period 2023-2028</b>						\$5,591	\$1,580	

**Option 4 – Lift by CPI Only**

Under this option, the new tax rate for 2023 would be calculated based on the City’s AV for the 2023 tax year (currently projected to be \$1.07578) and the lid for the ensuing years would be “lifted” each year by a percentage increase tied to the Consumer Price Index (CPI). This will generate approximately \$106.576 million in property tax revenue over the six-year period, which would result in \$10.332 million more than that generated under a No Action alternative. However, this would create a \$12.605 million shortfall over the six-year period starting in 2024, which would need to be addressed by budget reductions, use of one-time fund balance contributions, or a combination of both. It is estimated that a homeowner of a median assessed value home will pay \$430 more than under the No Action alternative over the six-year period, or an increase on average of \$72 per year/\$6 per month.

**Option 4 (Lift by CPI Only): Estimated impact to the median homeowner if the Levy Lid Lift is replaced with CPI-U Increase.**

Year	Assessed Value	Per \$1,000 (AV/\$1,000)		Levy Rate		City Assessment	Difference to No Action (1% Limit)	Monthly
2023	\$630,100	\$630	X	\$1.08	=	\$678	\$36	\$3
2024	\$647,700	\$648	X	\$1.10	=	\$712	\$55	\$5
2025	\$662,900	\$663	X	\$1.10	=	\$730	\$68	\$6
2026	\$681,700	\$682	X	\$1.10	=	\$753	\$79	\$7
2027	\$703,900	\$704	X	\$1.10	=	\$775	\$91	\$8
2028	\$726,300	\$726	X	\$1.09	=	\$793	\$102	\$9
<b>Total over 6 Year Period 2023-2028</b>						\$4,441	\$430	

The following table shows a comparison of the four options against the No Action option using a median assessed value home:

**Comparison of Levy Lid Lift Options by Rate (Using Median Assessed Value Home)**

Option	Levy Rate	Increase by CPI-U (y/n)	Six-Year Annual Avg. Difference to No Action (1% Limit)	Six-Year Monthly Avg. Difference to No Action	Six-Year Contribution to Surplus/(Deficit)
1	\$1.49	Y	\$355	\$30	\$15.856M
2	\$1.40	Y	\$293	\$24	\$15.119M
3	\$1.35	Y	\$263	\$22	\$14.209M
4	\$1.08	Y	\$72	\$6	(\$12.605M)
<b>No Action</b>	\$1.02	N	\$0	\$0	(\$22.937M)

The following table shows a comparison of the program and support service levels included in each of the options:

**Comparison of Levy Lid Lift Options by Service Levels**

	Option 1	Option 2	Option 3	Option 4
<b>Code Enforcement</b>	1.0 FTE			
<b>Recreation</b>	1.0 FTE			
<b>Parks maintenance</b>	1.0 FTE	1.0 FTE		
<b>IT services</b>	2.75 FTE	1.5 FTE		
<b>HR services</b>	1.0 FTE	1.0 FTE		
<b>Legal services</b>	1.0 FTE			
<b>Finance services</b>	1.0 FTE			
<b>Regional Mobile Crisis Response Program</b>	24/7 program	24/7 program		
<b>Housing and Human Services Program</b>	1.0 FTE			
<b>Enhanced Recreation</b>	1.0 FTE			
<b>Urban Forestry</b>	1.0 FTE			

**City’s Use of General Fund Budget Surplus**

A budgeted surplus in any given fund results from budgeted resources that exceed budgeted expenditures for that year or biennium. The reserves that are built in these circumstances are used to support one-time expenditures, such as those for design and construction of capital projects, required updates such as the comprehensive and related functional plans and replacement of vehicles and equipment.



When a surplus has been generated from the Levy Lid Lift for the General Fund, these funds have been approved by Council to be used for one-time expenses and to support capital programs such as the City’s Maintenance Facility. Examples of one-time costs include the Americans with Disabilities Act (ADA) Parks Assessment and Transition Plan Development, annual snow response, demolition of Highland Plaza and pool facilities, and enterprise software replacements and upgrades. By paying for these costs using one-time surplus funds instead of budgeting for them, the City keeps the levy rate lower for property taxpayers. The City Maintenance Facility has an estimated total project cost of \$34.5M as of January 2022. Phase 1 bids for the Ballinger Maintenance Facility are coming in significantly higher than the original estimate and budget. The project budget will be updated as part of the 2023-2029 CIP budget development this year. Currently the General Fund contribution to the project is estimated at 47% and the Streets Fund contribution is 40%. However, because the General Fund is a primary supporter of the Streets Fund, the General Fund will likely need to cover at least \$30M of the project cost. Council has been designating \$1M per year of surplus to set aside for this purpose and has currently contributed or designated a total of \$8M for this project through the end of 2021. The City’s General Fund will need to contribute at least an additional \$24M to fully fund this project, which is not eligible for grants.

The City maintains a budgeted cash flow reserve, budget (operating) contingency, and insurance.

**Next Steps**

If Council would like to discuss a potential Levy Lid Lift Replacement Resolution for the November 8, 2022, General Election, Council would need to address it according to the following calendar:

Date	Item	Action
<b>June 27, 2022</b>	Council Discussion of Potential Levy Lid Lift Replacement Resolution	Discussion
<b>July 11, 2022</b>	Council Action of Potential Levy Lid Lift Replacement Resolution	Action
<b>July 25, 2022</b>	Council appointment of three members to serve on the Pro and Con Committees	Action
<b>November 8, 2022</b>	General Election	N/A

**COUNCIL GOALS ADDRESSED**

This item addresses the 2022-2024 City Council Goal 1, Action Step 12:

- Goal 1: Strengthen Shoreline’s economic climate and opportunities
  - Action Step 12: Pursue replacement of the City’s Levy Lid Lift, expiring in 2022, to ensure the ability to deliver valued public services to the Shoreline community.

**RESOURCE/FINANCIAL IMPACT**

The operating budget 10-year forecast chart from the 10 YFSM projects potential budget gaps to occur beginning in 2024 with a cumulative size totaling \$22.937 million

over the 10-year forecast period. These potential budget gaps will not materialize as the City of Shoreline is required to pass a balanced budget and does so each year within the following policies:

- Current revenues will be sufficient to support current expenditures.
- Resources (fund balance) greater than budget estimates in any fund shall be considered “One-time” resources and shall not be used to fund ongoing service delivery programs.

As such, expenditure reductions (service reductions), revenue increases or a combination of the two will be required to achieve the legally required balanced budget.

There is no immediate financial impact associated with tonight’s discussion. The ultimate financial impact will be measured as part of the annual budget process, with the results reported to City Council during the budget presentations. If various strategies in the 10 YFSP are used, they will cause a financial impact that can be both estimated and measured against initial estimates.

### **RECOMMENDATION**

Staff recommends that Council direct staff to prepare legislation and other materials necessary for placing a Levy Lid Lift on the November 2022 General Election ballot. Staff is seeking direction from Council on the services that should be included in the Levy Lid Lift, which will impact the Levy tax rate.

### **ATTACHMENTS**

Attachment A: FSAC-22 Final Report

# Introduction

In February 2022, the City of Shoreline began a process of soliciting community members interested in participating on a Financial Sustainability Citizen Advisory Committee (Committee). Twenty-two (22) applications were received by the deadline and the City Manager selected 13 members from a diverse cross section of Shoreline neighborhoods with a broad range of interests and backgrounds.

The purpose of the Committee was to provide input to the City Manager as the City prepares to put a measure on the ballot to replace the 2016 Property Tax Levy Lid Lift that supports maintenance and operations levy for basic public safety, parks, recreation, and community services. The current levy lid lift expires in 2022.

The Committee met six times from March to May 2022 to learn more about the City’s budget and to hear from the Department Directors about what services are paid for with funds from the current levy lid lift. Department directors shared two scenarios in their presentations: a *maintain* scenario, which described what would be funded if current service levels continued; and an *enhancement* scenario, which described what community priority services could be funded with a higher levy rate. See **Appendix A** for the Committee’s Work Plan.

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## Committee Roster

- Lisa Brock, Hillwood
  - Lincoln Ferris, Richmond Highlands
  - Jonathan Malo, Parkwood
  - Robin McClelland, Richmond Highlands
  - James McCurdy, Richmond Beach
  - Sierra Ranier, North City
  - Suzan Shayler, Highland Terrace
  - Joseph Smith, Jr., Meridian Park
  - Sam Stimpson, Ridgecrest
  - Mary Ellen Stone, Richmond Beach
  - John Thielke, Richmond Beach
  - Cindy Tran, Meridian Park
  - Linda Tsai, Richmond Beach
- 

# Background

## Core Revenues

Property taxes and sales taxes are for Shoreline, like most other cities and counties in the state, the two largest revenue streams that fund much of the City’s operations. However, the City also generates business & occupation (B&O) and utility tax revenues. Sales tax revenues fluctuate depending upon local economic activity, and growth of property tax revenues are restricted by the Washington State Constitution. In November 2001, Washington State voters passed Initiative 747 limiting the increase in the City’s levy by the lower of the Implicit Price Deflator (IPD) or 1%. One exception to these limits is to seek a voter approved levy lid lift. Approval of a levy lid lift requires a simple majority (50% plus one) and allows cities to tie property tax increases to an index. A voter approved levy lid lift is valid for six years at which time it can be placed on the ballot again. In addition to the annual growth limit, Shoreline’s rate cannot exceed \$1.60 per \$1,000 assessed valuation (AV).

## 10-Year Financial Sustainability Plan

On June 16, 2014, after a comprehensive two-year evaluation and a Council engagement process, City Council approved a 10-Year Financial Sustainability Plan (10YFSP) for the City’s General and Street Funds.<sup>1</sup> The 10YFSP was developed to strengthen Shoreline’s economic base by prioritizing seven strategies (or tools) to help maintain financial resiliency and sustain existing services. This effort is supported by the creation of a 10-Year Financial Sustainability Model (10YFSM). The 10YFSM models the impacts of all ongoing revenues and expenditures to forecast financial sustainability over the decade. At this time, all the strategies identified in the 10YFSP are in use. More background and an update to the plan is included on pp. 58-66 of the 2021-2022 Proposed Biennial Budget Book.<sup>2</sup>

### Shoreline’s Levy Lid Lift History

- In the November 2010 General Election, 56.5% of Shoreline voters approved Shoreline Proposition No. 1, the City’s first levy lid lift as a six-year maintenance and operations levy for basic public safety, parks, recreation, and community services. Proposition No. 1 set the levy rate for 2011 at \$1.48 per \$1,000 AV and allowed the lid for 2012-2016 to be “lifted” each year by the June-to-June percentage increase of the Consumer Price Index for All Urban Consumers for the Seattle/Tacoma/ Bellevue Area (CPI-U).
- Prior to the Council placing a measure to renew the levy lid lift on the November 2016 General Election ballot, the City Manager formed a Financial Sustainability Citizen Advisory Committee (FSCAC). The FSCAC reviewed the strategies of the 10YFSP with a particular focus on providing input to the City Manager as the City prepared to put a measure on the ballot to renew the levy lid lift.<sup>3</sup>
- In the November 2016 General Election, 66.5% of Shoreline voters approved Shoreline Proposition No. 1. This set the levy rate for 2017 at \$1.39 per \$1,000 AV and allowed the lid for 2018-2022 to be “lifted” each year by the June-to-June percentage increase of the CPI-U. Levy lid lift rates for the 2017-2022 period are shown below.

#### Levy Lid Lift Rates 2017-2022

	2017	2018	2019	2020	2021	2022
Rate per \$1,000 AV	\$1.39	\$1.27	\$1.23	\$1.20	\$1.19	\$1.13

<sup>1</sup> The staff report is available at the following link: <https://www.shorelinewa.gov/home/showdocument?id=19755>

<sup>2</sup> Budget Book is available at: <https://www.shorelinewa.gov/home/showpublisheddocument/49800/637382783374100000>

<sup>3</sup> More information about the FSCAC is available on the City’s website at: <https://www.shorelinewa.gov/government/departments/administrative-services/ten-year-financial-sustainability-project/financial-sustainability-citizen-advisory-committee>

# Committee Recommendations

Following the four meetings that featured staff presentations and the revenue options overview, the Committee completed a poll that asked four questions to gauge thinking up until that point and what outstanding questions they had going into the discussion at Meeting 5. This section is organized by the questions asked and includes some general principles that emerged from the discussion with respect to thinking about the levy rate and communications to the public. The Committee's recommendations were made with the information shared at the time of the meetings, some of which has been updated since.

## 1. Should the City Council place a measure on the November 2022 ballot for a Levy Lid Lift?

There is consensus that the Council should place the measure on the November 2022 ballot. Several Committee members noted that a high level of service and resulting quality of life are things that either attracted them to the city or keep them here and they support continuing these essential services.

There was a question raised as to the timing of the levy and whether it could be delayed. Staff explained that most of the cost drivers are price and labor increases and not tied to a growing population and need to be addressed as soon as possible. Based on current model projections, the funding gap occurs as soon as 2024 that gap would widen if the levy were delayed.

Committee members agreed that the City has a responsibility to communicate to its residents the cost of our level of service and that a property tax levy lid lift is one of the primary vehicles we have to fund it. They also shared thoughts on key messages to include in materials and communications around the levy lid lift:

- Why the levy lid lift is needed and what services it buys
- It is a replacement levy to continue funding services we know residents want and value (through Resident Satisfaction Survey and other opportunities for input)
- The City is fiscally responsible, has a reserve policy, and is responsive to community priorities
- The City's approach to surplus budget funds and how they are allocated
- Other ways the City generates revenues and controls expenses
- Ensure that information about deferral programs for certain seniors, persons with disabilities, and disabled veterans to apply for property tax relief are communicated in all materials along with some caveats about significant delays for such application review and approval
- Be sensitive about current difficult economic and social conditions including the ongoing pandemic

## 2. If Council places Levy Lid Lift on the ballot, should it maintain the current level of City services? This would mean adding positions needed (HR, IT, etc.) to keep up with the expanding portfolio of service needs but not adding new services.

City of Shoreline Staff clarified that over the course of the current six-year levy, service levels have effectively decreased due to increasing costs and demand for services, implementation of new and updated regulations, and added costs for maintenance after property is acquired.

The maintain scenario is about restoring the baseline level of service, which could entail adding program support positions (in IT, HR, finance, and legal) as well as program positions (code enforcement, recreation programs, and park maintenance). Staff clarified that there is flexibility, and it is unlikely all identified positions would be added.

The Committee supports maintaining the level of service for reasons mentioned under question 1.

**3. If Council places a Levy Lid Lift on the ballot, should it expand services to address any of the following emerging issues (click on all that apply)?**

- a. Yes, include the Human Services expansion (add a Housing and Human Services Program Manager): 5 (one comment that this is essential); 1 maybe
- b. Yes, include the Alternative Police expansion (expand the current RADAR alternative responder program which addresses people in crisis): 7 (one comment that this is essential)
- c. Yes, include the Urban Forestry expansion (add 0.5 FTE GIS/arborist position): 4 (one commented that this is nice to have)
- d. Yes, include Enhanced Recreation Program expansion (2.0 FTE recreation positions): 7 (one comment that this is nice to have)
- e. No: 1
- f. I don't know: 1

Committee members had differences of opinion on the options. Generally, the Committee agreed that the services may be needed and/or desired by residents. However, they encouraged the City Council to consider the cost of services and the impact to the levy rate. This could be done by ensuring that new services replace ones that are no longer needed or that the increase is incremental enough and the service valued enough that voters will support it.

Some expressed concerns around public safety and a desire to support the community policing model through expansion of RADAR. A few Committee members commented that expansion of the RADAR program and Human Services work are essential services and should be prioritized over increased recreational services. One Committee member added that while many people may state a preference for services on a survey that does not mean they have the ability or willingness to pay for them with higher taxes.

Committee members asked for clarification around the need for service expansion and whether it is based on projected population growth. Staff clarified that some services are tied to population growth. These include services such as recreation programming, development permitting and inspection services, code enforcement, and parks maintenance staff related to new parkland and amenities coming online. Others are not necessarily tied to growth but workload within these departments has changed. For example, support services such as human relations, IT support, and finance are not keeping pace with current work demands due to changes with employment laws, demands of IT support for software services, and demands regarding payroll and accounts payable in addition to increased workload due to staffing increases elsewhere in the organization.

**4. If Council places a Levy Lid Lift on the ballot, do you have a recommendation for the levy rate at this time? If yes, use the comment box to share the rate. You may also include other comments related to the rate if you have them at this time.**

Committee members found this a difficult question to answer. Some Committee members specified rates ranging from \$1.20 to \$1.58 per \$1,000 of assessed value. Others noted that they either didn't have the information to suggest a rate or deferred to staff on the appropriate rate. There was, however, good discussion on how to approach rate setting.

As noted earlier, the services proposed for expansion were generally supported by the Committee in that they reflect community priorities. However, there was concern that adding these services would result in a levy reset rate that is much higher than the current rate and might not be approved by voters in November.

Committee members also shared concerns about adding to the tax burden given inflation, the recently passed 2022 school levies and parks bond, and increasing property taxes. Concerns are related to levy

fatigue and a household's ability to pay. The Committee expressed concern about homeowners with fixed incomes or others who may struggle to afford to stay in (or move to) Shoreline. For example, if property owners pass the cost onto renters and rents increase, it could lessen affordability. While programs exist to support certain property owners with either [tax relief or deferral](#) (waiver with lien on property), lack of awareness of the programs could lead some voters to reject a levy lid lift initiative. It was also noted that increases in assessed value often trail increases in property values and an economic downturn and/or continued impacts from the pandemic could make a levy lid lift feel less affordable to many residents.

Acknowledging affordability concerns, a few Committee members also expressed a desire to get out in front of emerging issues and ensure the city has the infrastructure to support future growth and address current community concerns.

Individual Committee members also shared some guidance:

- City Council should calculate what rate of levy lid lift would provide the necessary funds to cover the City's budget for its current level of services and reduce the levy lid rate to a lower figure, so Shoreline property owners get some financial relief while still fully funding the City's budget. Concerns for affordable housing apply to current residential property owners, too.
- Knowing that the current rate is \$1.13 this year (2022) and that property assessment values may continue to increase, the City should keep the rate as low as possible for the sake of the taxpayers - yet at an optimal level that would help to bridge the shortfall.
- Re-calculate the levy lid lift rate factoring in the surplus for 2021 (not the deficit shown to the Committee) for the Human Services and Alternative Police/RADAR. If Urban Forestry and Recreation Program expansion don't increase the rate significantly then add those as well.
- Ensure that voter materials clearly explain what services will be provided with a levy lid lift.
- Communicate to the public how the City's 2021 \$8.491 million budget surplus affects the levy lid lift.
- Avoid a fear-based approach to persuade people to pass the levy lid lift. RADAR is a great program to share as an enhancement that is a cost-effective way to address community concerns.
- Request to look at all revenue sources and focus on economic development with a goal of increasing sales and business tax revenue.
- Explain that revenue from the combination of residential and retail development takes time. The multifamily tax exemption defers property taxes on the structure (but not on the land) for 12 years to promote creation of affordable housing units.

## Conclusion

Throughout the process the Committee was committed to understanding the City's finances and service delivery to residents and businesses, especially those that are currently funded with the levy lid lift.

While the Committee represents diverse perspectives, discussions generated agreement that the City Council should place the levy lid lift on the ballot and at a minimum maintain the current level of service. The Committee is grateful for the opportunity to serve and to learn more about the issues and share our input on this important decision. The Committee appreciated the commitment, support, and responsiveness of staff throughout the process.



As the city grows, the Committee wants to ensure that residents and businesses enjoy the same level of services as currently provided. The Committee recognizes that this is a significant moment in the evolution of the City of Shoreline.

# Appendix A: Committee Work Plan

Date	Agenda Topics
3/10/2022	<b>Meeting 1:</b> Welcome, introductions, Charter, and schedule review; Why we are here; Budget highlights; 2020 Resident Satisfaction Survey
3/24/2022	<b>Meeting 2:</b> Services Overview: Police; Planning & Community Development; Economic Development
4/7/2022	<b>Meeting 3:</b> Services Overview: Parks, Recreation, Cultural & Community Services; Public Works; Support Services
4/21/2022	<b>Meeting 4:</b> Recap of Revenue Options and questions ahead of poll sent 4/22/2022
5/5/2022	<b>Meeting 5:</b> Recommendations development based on poll results
5/19/2022	<b>Meeting 6:</b> Finalize recommendations to City Manager

All meetings were held from 6:00 – 8:00 pm via Zoom.