

# City of Medina 2023 Preliminary Budget



To the Community and Council of the City of Medina, staff is proud to present the 2023 preliminary budget.

Included with the proposed budget, is the below memo to give an overview of the 2019 passed property tax levy lid lift, along with what to expect for 2023 and beyond at the department level.

### **2019 Property Tax Levy Lid Lift**

*The promises that were made to the voters, if they passed the measure, are the foundation this budget was built on.*

Why did we go to the ballot? The City was at a financial crossroads. Rising costs were making it difficult for the City to provide the level of services our community has come to expect. Until 2019, the City had been able to balance the budget through aggressive cost-savings measures, identifying additional revenue sources and dipping into reserves. But in looking long-term, the City determined it could no longer find efficiencies without impacting service delivery.

The 1% rule: While property values continue to rise, the City's tax revenues don't rise in tandem. This is because the City's tax revenues are not based on a percentage of Medina property value; instead, the City is authorized to collect a predetermined amount of property tax each year, and each homeowner pays a proportional share of that predetermined amount. Since 2001, local governments (like Medina) are not allowed to raise their portion of the property tax levy beyond one percent (1%) a year without a vote of the public. For context: In 2019, the City's total 2019 property tax income was set by state law at \$2.8 million in total, and a 1% increase would only yield an additional \$28,000 for the City in 2020, not nearly enough to cover the rising cost of services. (Fire services alone increased by nearly double that amount in 2019.)

Asking the voters to decide: In the fall of 2019, the question of how to maintain Medina went to voters. Because the levy lid lift was approved, the City has funds to continue current service levels without significant cuts.

99% of all Medina's General Fund & Street Operations spending is for services that are state-mandated or essential support functions to the mandated services. However, the state doesn't dictate the level of services to be provided. For example, a city must provide law enforcement, but the state doesn't dictate staffing levels, how often patrols are scheduled, or whether lifeguards are required for public beaches. After nearly 20 years of budget trimming, Medina was facing the need to cut into service levels that would be noticeable in every area, including public safety. In 2018, City Council and staff started a 2-year process of long-term financial planning, exploring options and public engagement surrounding a levy lid lift measure. These promises were born from those conversations and must be kept:

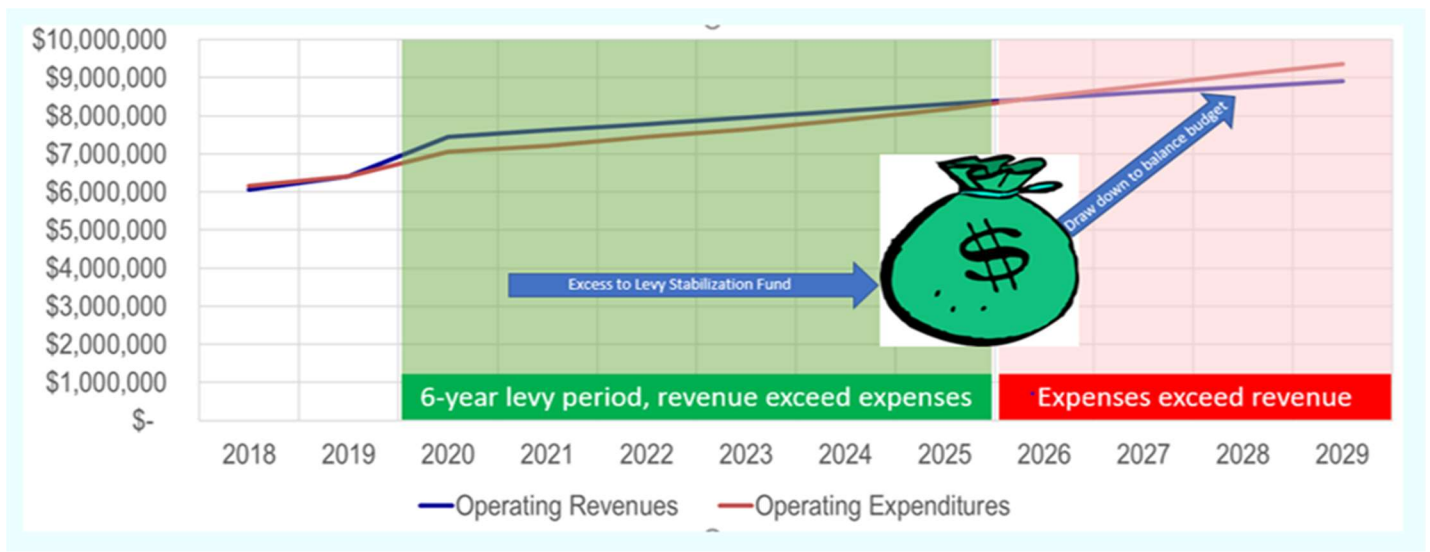
**-Maintain the same LEVEL of services as before the levy lid lift.** Remember, these were already trimmed service levels. This dictates a service level, status-quo budget. So, no additions or reductions from the promises made in 2019.

**-Restore the City’s measures of financial health:**

- Start each new year with the full General Fund required balance to cover first quarter expenses. This is something the State Auditor looks for, as well as creditors. It allows us to continue to pay the bills while waiting for our major source of funding (property taxes) that only get paid to the City in portions every 6 months.
- Engaged Finance Committee.
- Continual long-term financial planning, always looking ahead 10 years.
- Contingency Fund rebuilt.
- \*Develop community friendly financial statements.

**-Make the “bump” from the 6-year levy last at least 10-years.**

Levy year 1 (2020) filled the gap and allowed services to continue without reduction. Years 2-6 (2021-25) will have budgeted transfers to a *Levy Stabilization Fund* in amounts that will build a minimum operating reserve of \$2M to draw on for at least another 4 years. 2023’s budget reflects a \$500K transfer into this fund. See illustration below.



**SPECIFICS ABOUT THE LEVY**

The levy’s structure was designed to have an initial increase of no more than \$0.20 per \$1000 assessed value (example \$2M AV home = additional \$400/year). In 2020 this gave the City an additional 12% of revenue towards General Fund and Street Operations, \$941,572. For the next five years (2021-2025) the City will be allowed to increase this amount by 5%, see



projected table below. In 2026 the previous year’s levy total will roll into the regular property taxes, which is limited to an annual increase of no more than 1%.

How Much Extra Funds is the Levy Lid Lift Creating Each Year?				
Projected Revenues, 2020-2029				
	Amount of Increase	Total		
2020	\$ 941,572	\$ 941,572	Initial "bump"	
2021	\$ 47,079	\$ 988,651	} +5% each year	
2022	\$ 49,433	\$ 1,038,083		
2023	\$ 51,904	\$ 1,089,987		
2024	\$ 54,499	\$ 1,144,487		
2025	\$ 57,224	\$ 1,201,711		
2026	\$ 12,017	\$ 1,213,728	} +1% each year	
2027	\$ 12,137	\$ 1,225,865		
2028	\$ 12,259	\$ 1,238,124		
2029	\$ 12,381	\$ 1,250,505		
		\$ 11,332,713	10-year total	

## 2023 Preliminary Budget, By Fund

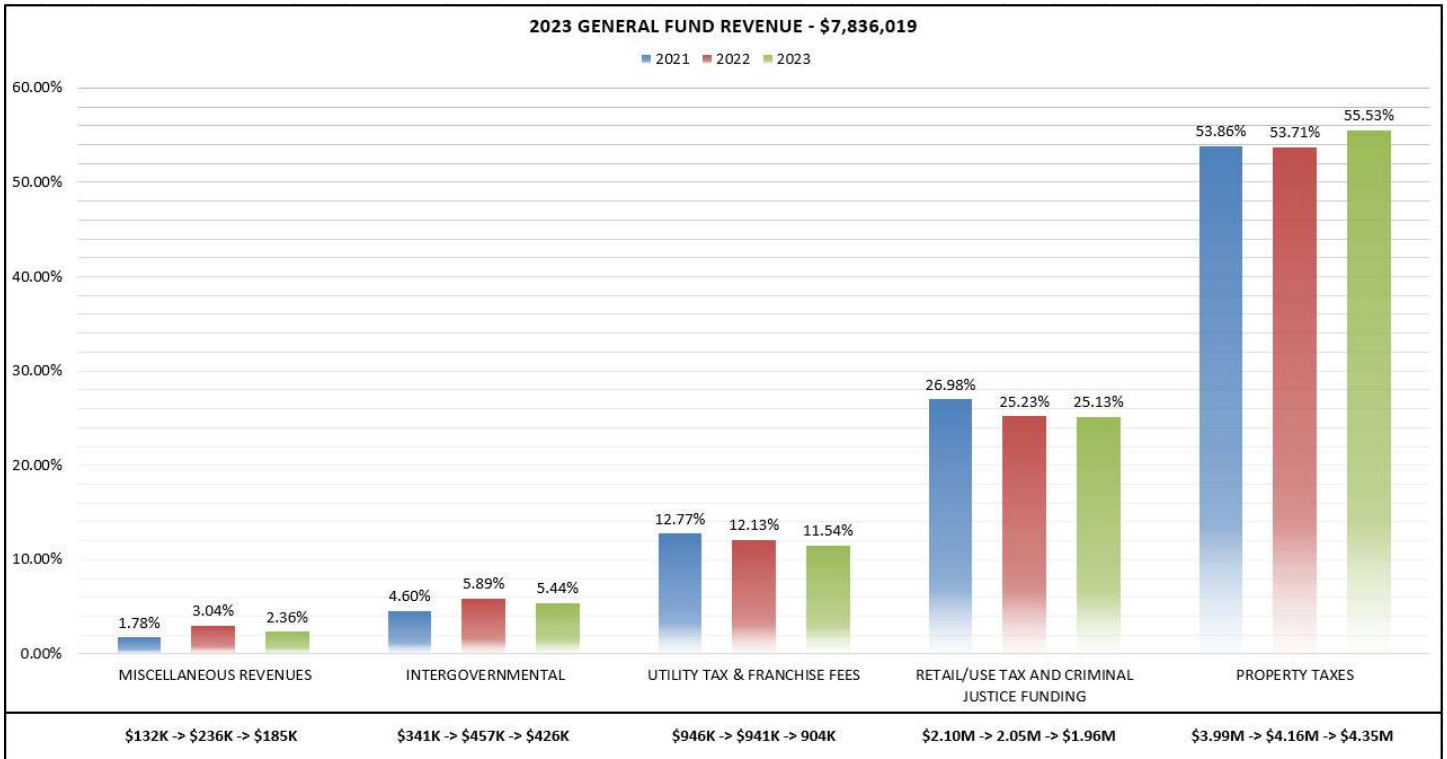
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### General Fund and Street Fund (\$8,403,011), 79.7% of Total City Budget

General Fund revenue makes up a large portion of what the city brings in each year, and with the good majority of city departments falling within the fund, most of Medina’s expenditures as well. The general fund includes the Police Department, Central Services, Finance, Parks and more (green tabs on excel budget sheet). Please note while the Street Fund is separate on the accounting side, it has been included here as over 75% of its revenue consists of transfers from the General Fund.

Revenue Notes:

- Property tax revenue increase of 5% per the Levy Lid lift and legacy portions
- Sales tax is budgeted at a 5% decline looking at rolling YTD numbers and expecting a drop-off of construction-oriented sales tax collection and some post-COVID return to the mall to shop, reducing destination-based internet sales taxes
- Intergovernmental income is predicted to decrease by MRSC with the decrease in Medina’s population over the years
- Passport Services will return to normal, the predicted one-time revenue and expenditure here for 2022 did not occur
- With interest rates steadily rising, interest earning income in 2023 is predicted to surpass 2022 helping to offset the conservative revenue numbers elsewhere



Expenditure Notes:

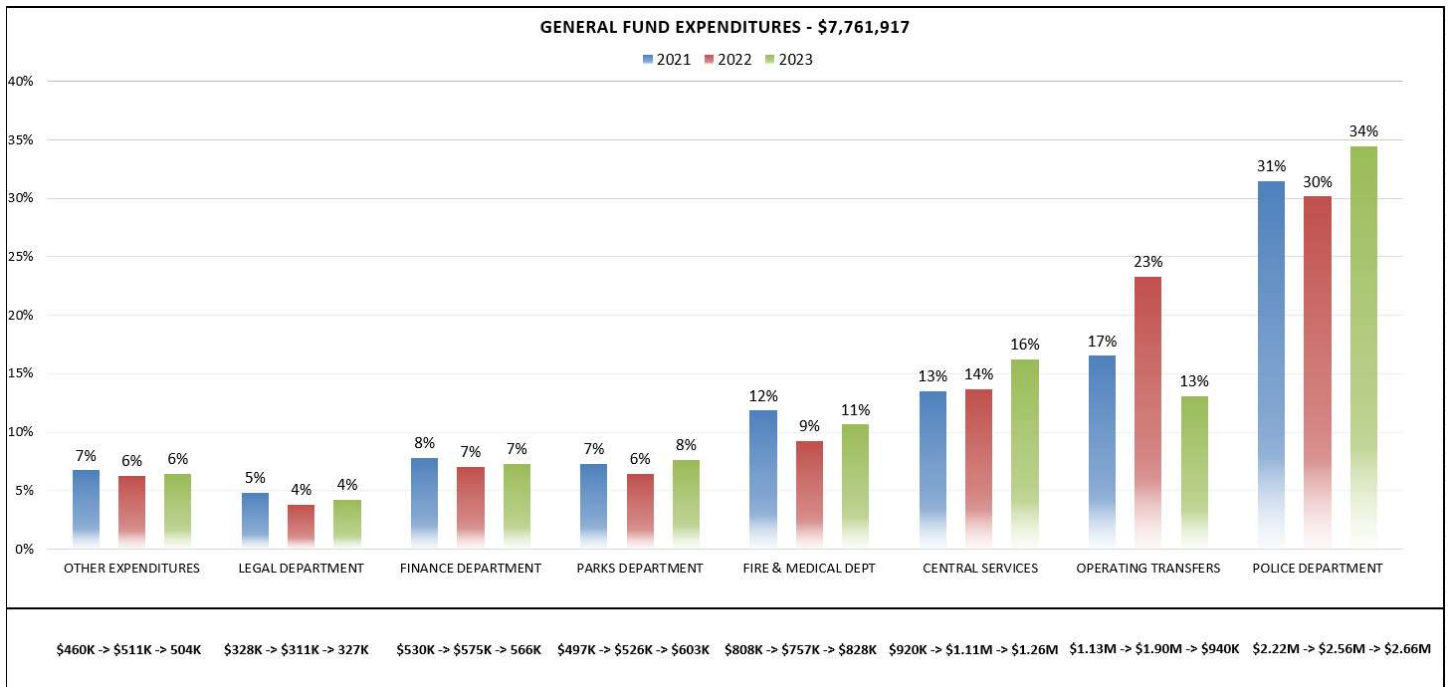
-51% (\$4.28M) of General Fund and Street Operations spending is on labor from direct staff members. Completed salary schedule detailed by position, will be included alongside the final budget presented to Council at the first November meeting. Please note that our current City Manager Steve Burns, alongside former City Manager Mike Sauerwein and Finance Director Julie Ketter worked diligently to negotiate fair labor agreements during a challenging time. Direct staff’s COLA adjustments are based on the following:

- Police Guild Contract (8 FTEs), 5%-- contract expiring 12/31/2026. New contract includes a physical fitness incentive of 2% which can be trained for and passed by each officer.
- Teamsters Clerical Contract (6 FTEs), 4%-- contract expired 12/31/2024.
- Teamsters Public Works Contract (4 FTEs), 4%-- contract expired 12/31/2024.
- Unrepresented Employees, including City Manager (7.7 FTEs), based on June 30<sup>th</sup> CPI-W (Seattle-Tacoma-Bellevue) of 10.1%, capped at a 4% increase.

Department Specific Notes

-**Legislative** nominal spend in 2022, Finance Committee recommended an increase of funds with the return of Medina Days for the city to help cover fireworks.

- Executive** 2023 is reduced from 2022’s project actual due to new City Manager and removal of Finance Director Consultant.
- Finance** reflects a 24% increase in insurance expense from \$208K to \$259K, despite an overall rate decrease of 1.6%, due to new Finance staff and removal of overlapping Director salaries from Q1 2022.
- Legal’s** 5% increase in fees associated with increased attorney rates and usage.
- Central Services** expenses are budgeted to increase 12.8% due to the following
  - Comp Plan
  - Increased IT Services
  - Replacement of PD and City Staff Computers and Electronics
- Police’s** 3% increase is mainly due inflationary rates for necessary expenditures such as NORCOM, Marine Patrol, Ammo, and Gasoline
- Fire Services** 9% (From \$757K to \$828K) increase from 2022 as Bellevue Fire returns to pre-Covid fees, also pays its employees CPI which was 10.1% June to June 2022.
- Public Housing** reflects additional amounts collected in Sales Tax that must pass through to fund affordable housing (ARCH).
- Recreational Services (lifeguard program)** Same as 2022.
- General Fund Transfers Out** Transfers include \$500K to the Levy Stabilization Fund as promised to the Voters during the 2019 vote. \$440K transferred to the Street Fund to counter expenditures.
- Street Fund** 23% increase (\$520K to \$641K) due to inclusion of another .5 FTE as the Deputy Building Inspector is now split between Development Services and the Street Fund. \$19K increase to the Capital Outlay section for Asset Essentials Licensing.



### **Tree Fund (\$40,000), 0.4% of Total City Budget**

Revenues to this fund come from fees collected under the tree code and can only be used on certain tree planting or canopy restoration. Each year the City anticipates minor fee collection but occasionally receives a single, large amount which keeps enough of a fund balance to support a larger project. 2023 anticipates \$3,075 in revenues and plans to use part of \$75K fund balance towards \$40K of hazardous tree removal and replanting.

### **Development Services Fund (\$1,011,407), 9.6% of Total City Budget**

2022 was the first year of the Development Services Department's enterprise fund. Development Services is a State Mandated program which funds itself through fees and occasional grants. \$400K was allocated from the General Fund at the beginning of 2022 to start the fund. Revenues look like they will fall well below what was budgeted for in 2022, therefore 2023 shows much more conservative predictions based on trends and contractor feedback. With the decrease in revenue, staff has done a good job limiting unnecessary spending to make sure to carry a positive fund balance into 2023.

57% of Development Services Fund spending is on direct staff labor and benefits. Another 32% of the total budget is spent on contracted labor.

### **Capital Fund (\$1,090,000), 10.3% of Total City Budget**

Capital Fund revenues come from five sources, each coming with restrictions of what it can be used for:

Real Estate Excise Tax -REET (\$1,133,065 or 90.4% of total) is generated from the selling of real estate within the community. It is the most restrictive source as it can only be used for large capital improvement projects. The State strictly defines those projects and its use is audited thoroughly each year. Since the real estate market goes through boom-to-bust cycles over time, this revenue source mirrors it. Medina has been enjoying a robust local real estate period for a number of years but more recently, while still active, it has been heavily weighted towards small, older homes often on larger lots. 2023's anticipated REET revenue of \$1.13M has been budgeted conservatively. It assumes there is a finite amount of developable inventory within the city as well as available local industry and customers with an appetite to take on the types of homes that we have seen built.

Grant Funds/Intergovernmental (0% of total) Grants can come from a variety of sources. In Medina they typically come from the State Transportation Improvement Board. While nothing is expected from TIB in 2023, city staff will continue to look at options for federal funding going forward.

King County Parks Levy (\$50,000 or 4% of total) is the voter approved levy to improve parks county-wide. Medina’s allocation from that levy that will be received each year, 2020-2025; none was recognized in 2022 but instead is being rolled over into 2023.

Investment Earnings (\$70,200 or 5.6% of total) from the balance kept in this fund. The capital fund is projected to start 2023 with a fund balance of almost \$5.2M. This balance has been built over the recent real estate boom in order to continue with needed projects once the market cools and REET receipts decline.

Donations from the community for capital projects, especially park improvements are the fifth source of funding. The community has been generous over the years but this is not a source we include in budget planning.

### **Year End Carryover Balances**

As is the case with a lot of smaller organizations, Medina does not use accrual accounting methods, instead it operates on a cash basis. Accrual accounting means revenue and expenses are recognized and recorded when they occur, while cash basis accounting means these line items aren't documented until cash exchanges hands. A result of this is that known future expense obligations are not reflected on financial reports. This distinction is important when it comes to viewing the City’s year end carryover balances. Fund balances remaining at the end of each year, especially in the General Fund can be mistakenly assumed to be discretionary “reserves”. In reality, it is similar to a personal checkbook balance that is needed to pay bills that will come due before you get paid again. Since the majority of Medina’s funding for general day-to-day operations doesn’t come in until the spring it is our policy, based on auditor & financial advisory organizations recommendations, that we start each year with a 25% carryover balance to cover those 1<sup>st</sup> quarter expenses. When unexpected General Fund revenues or cost savings happen, it will be staff’s recommendation to Council--based on Finance Committee’s set policy--to direct that amount into rebuilding the City’s drained Contingency Fund. The first transfer of this kind was made in 2021 from 2020’s ending fund balance carryover excess.

For additional information including the detail version of the 2023 budget, please visit our website:

<https://www.medina-wa.gov/finance>



