



# City of Medina

## 2024 Preliminary Budget Memo





## 2024 Budget Calendar City of Medina, Washington

<b>Statutory Dates</b>	<b>Planned/Actual Dates</b>	<b>2024 Budget Process</b>
No legal requirement	September 11, 2023	Council holds <b>Public Hearing</b> to gather input on 2024 Preliminary Budget.
Oct 2, 2023	September 11, 2023	City Manager provides City Council with 2024 Revenue projections for the current year. City Manager provides a 2024 Preliminary Budget showing 2022 Revenue and Expenditures by Department.
No legal requirement	Sept 25, 2023	City Council holds a study session on 2024 Preliminary Budget. <i>Balancing decisions made if necessary.</i>
Nov 2, 2023	October 9, 2023	City Manager files 2024 Updated Preliminary Budget & Budget Message with the City Clerk and the City Council.
Prior to November 25, 2023	October 9, 2023	City Council holds Preliminary <b>Public Hearing</b> on 2024 Budget & Revenue Sources (Property Tax Levy)
No later than Nov 2, through Nov 20, 2023	Dates as needed prior to Nov 8 <sup>th</sup> meeting	City Clerk publishes notice of filing of 2024 Budget and publishes notice of public hearing on final budget once a week for two consecutive weeks.
Nov 21, 2023	Nov 13, 2023	Copies of 2024 proposed final budget are made available to the public at the Regular City Council meeting.
Nov 30, 2023 (KC due date) (Hearing due date 12/4/23)	Nov 13, 2023	Council holds <b>Final Public Hearing</b> and sets the 2024 Property Tax Levy to certify property tax levy to King County Assessor's Office
Dec. 31, 2023	Nov 13, 2023	Council adopts Final 2022 Budget at the Regular Monthly City Council meeting.
After Adoption	After Adoption	Copies of 2024 Final Budget Ordinance are filed with the Washington State Auditor's Office, MRSC and AWC.



To the Community and Council of the City of Medina, staff is proud to present the 2024 preliminary budget memo. Please note a more comprehensive overview will be provided alongside the budget workbook prior to the deep dive at the second September Council meeting.

Included with the memo is an overview of the 2019 passed property tax levy lid lift, with an updated financial forecast through 2031.

Lastly, the overall preliminary summary of the 2024 budget, along with a brief description and highlights for visibility before the deep dive.

### **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.

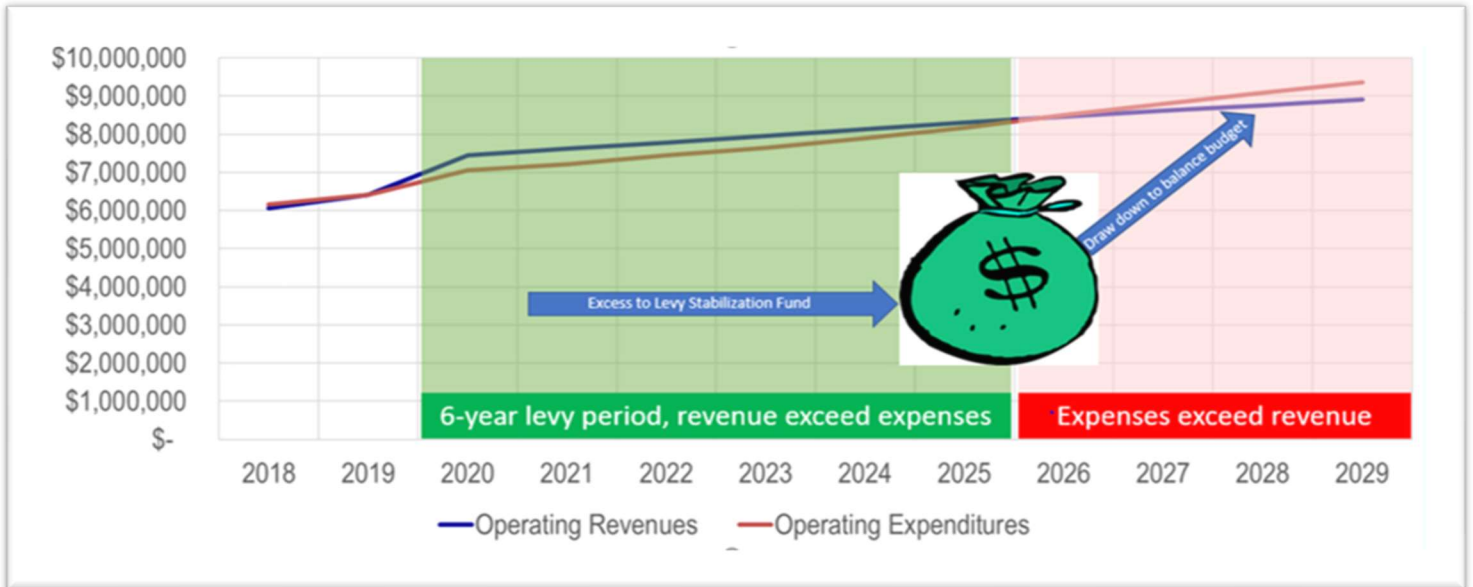
**-Restore the City’s measures of financial health:**

- 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**

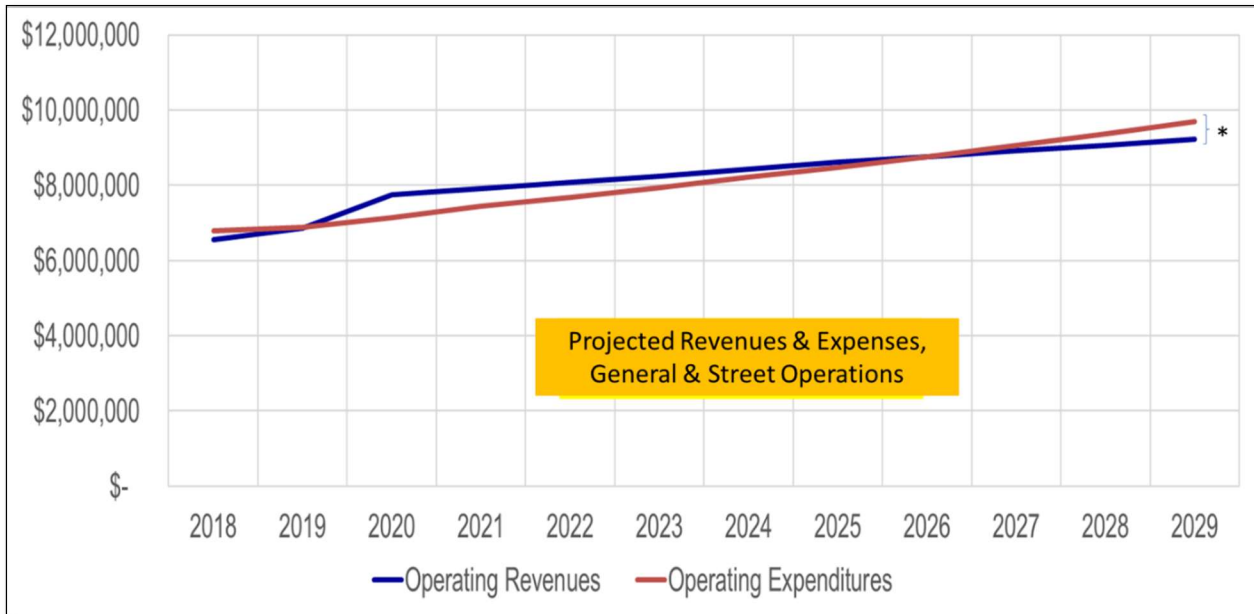
The levy’s structure was designed to have an initial increase of no more than \$0.20 per \$1000 assessed value (example \$2M AV home = additional \$400/year). In 2020 this gave the City an additional 12% of revenue towards General Fund and Street Operations, \$941,572. For the next five years (2021-2025) 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 subsequent annual increases of no more than 1% (unless another levy lid lift is approved by voters).

Year	Amount of Increase	Total	Notes
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



## Forecasting for the Future

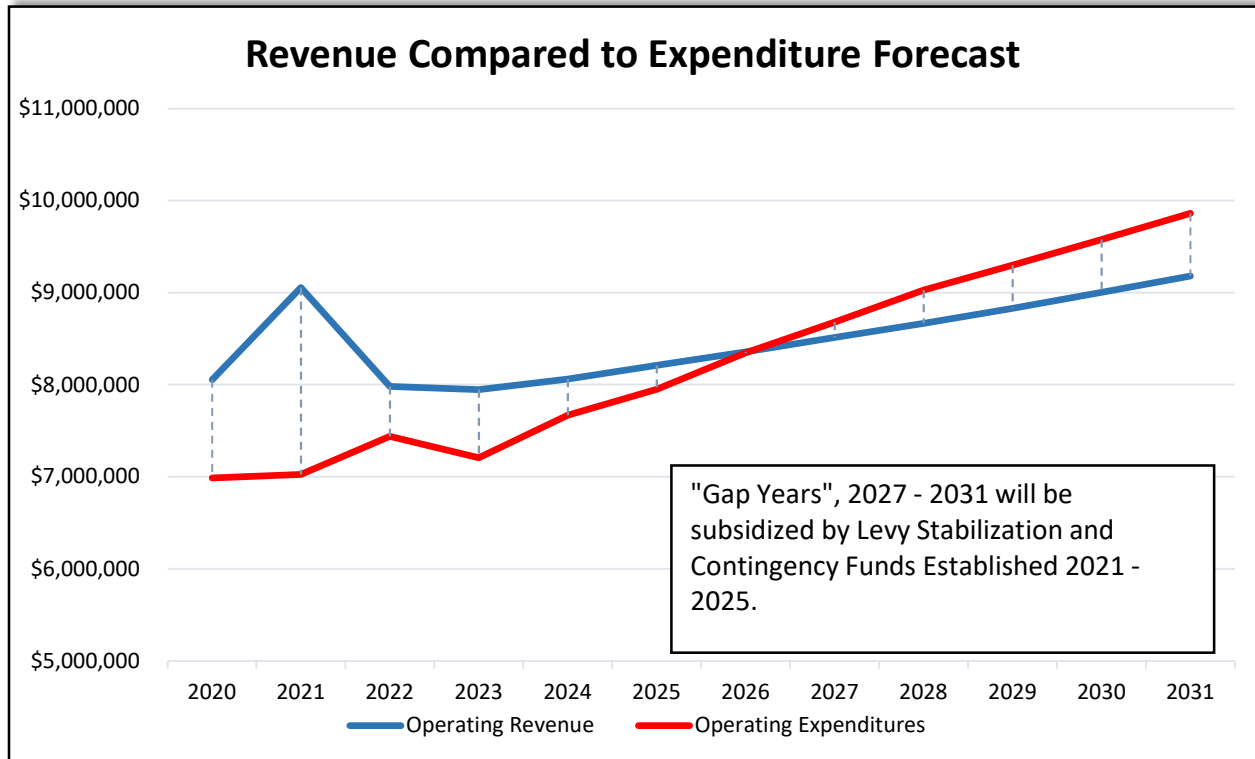
After the Levy passed, former Finance Director Julie Ketter prepared the following report to compare forecasted operating revenues to expenditures over the life of the Levy and beyond. She predicted a crossover point of 2027, where expenditures would surpass revenue and the City would then have to dip into the stabilization fund.



Now that we are preparing for the 2024 Budget, a new forecast is imperative to track the financial stability of the City and to prepare for the future. When the prior model was created, there was no way to predict the impact that the COVID 19 pandemic would have on the City and its finances. With a halt to projects and a stay-at-home order in effect, the City saw a decrease in expected expenditures in 2020 and 2021 while subsequently seeing an increase in sales tax revenue. This would not last however as 2022 and 2023 have seen an inflationary increase across the board, only somewhat mitigated by the increase in investment interest revenue. These increases are expected to impact the 2024 budget, before a predicted gradual return to pre-pandemic levels within 2-5 years.



The below graph shows that while revenue and expenditure numbers differ from the 2020 model, the crossover to deficit spending is still on track for 2027 with the Levy stabilization amount predicted to supplement the general fund until at least 2031.



## 2024 Preliminary Budget Summary

With high inflation raising prices across the board for almost every department, I must thank staff for their conservative approach, to allow us to bring a balanced preliminary budget to both Council and the community. First an overview of the total preliminary numbers across the board for 2024, followed by key items by department and fund. Please note that this is a working document, and all numbers are subject to change as additional information and feedback is given.



<b>City of Medina 2024 Budget - General Fund</b>			
Revenue			
Total Revenue		\$	8,120,957.04
Change		\$	302,188.47
Expenditures			
Department	2023 Adopted Budget	2024 Prelim. Budget	Delta
Exec.	281,185	\$ 292,970.00	\$ 11,785.00
Finance	568,879	\$ 683,422.48	\$ 114,543.55
Central Services	1,261,218	\$ 1,256,642.94	\$ (4,574.62)
Police	2,669,889	\$ 2,805,734.55	\$ 135,845.30
Fire	827,788	\$ 934,285.00	\$ 106,497.00
Parks	605,610	\$ 608,414.79	\$ 2,804.59
Rec Services	48,500	\$ 48,500.00	\$ -
Legislative	70,500	\$ 70,500.00	\$ -
Municipal Courts	62,000	\$ 62,000.00	\$ -
Legal	327,200	\$ 347,200.00	\$ 20,000.00
Social and Env. Services	42,058	\$ 52,648.00	\$ 10,590.00
Transfers	940,000	\$ 860,000.00	\$ (80,000.00)
<b>Total General Fund Exp.</b>		<b>\$ 8,022,317.77</b>	<b>\$ 317,490.82</b>
<b>City of Medina 2024 Budget Capital Fund</b>			
Revenue			
Total Revenue	\$		1,300,000.00
Change	\$		46,735.46
Expenditures			
Total Capital	\$		1,220,000.00
Total Stormwater	\$		350,000.00
<b>Total Capital Fund Exp.</b>	<b>\$</b>		<b>1,570,000.00</b>
Change	\$		405,000.00
Variance between Capital revenue and Capital expenditures due to NE 12th Sidewalk project being carried over from 2023.			
<b>City of Medina 2024 Budget Dev Services Fund</b>			
Revenue			
Total Revenue	\$		1,121,500.00
Change	\$		113,962.00
Expenditures			
Total Expenditures	\$		1,013,936.00
Change	\$		138,107.24



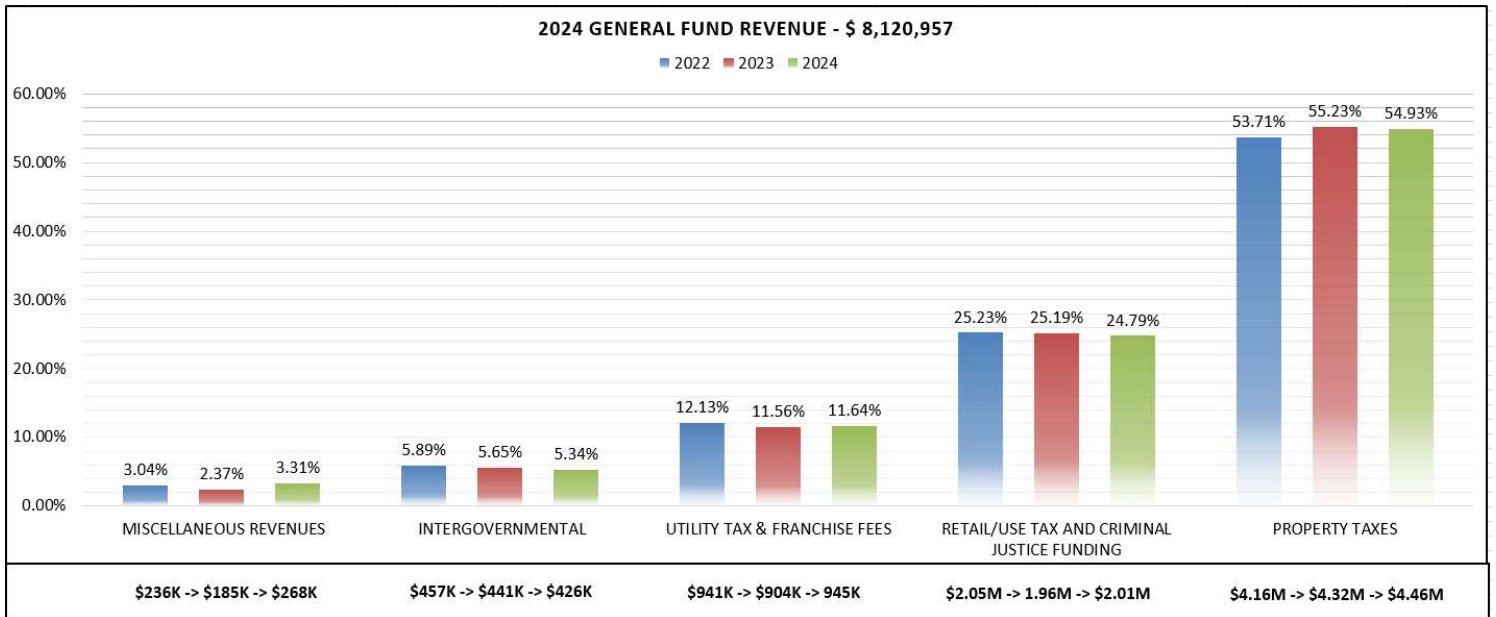


**2024 General and Street Fund, (\$8,227,745), 76% of Total City Budget**

From a financial standpoint, the General Fund makes up the largest portion of the City’s budget. The General Fund includes the Police Department, Central Services, Finance, Parks, Fire Services, and more (Green Tabs on Workbook). Please note while the Street Fund is separate on the accounting side, it has been included as over 75% of the fund’s revenue consists of transfers from the General Fund.

**Revenue Notes:**

- Property tax revenue increase of 3.3% per the Levy Lid Lift and legacy portions.
- Sales tax budgeted at a 2% increase from 2023 predicted with a rise in inflation.
- Intergovernmental income estimated by MRSC, expected to drop as Medina’s population fell from 2022 to 2023.
- With the increase in interest rates, interest earning income in 2024 is predicted to increase substantially over what was budgeted for in 2023.



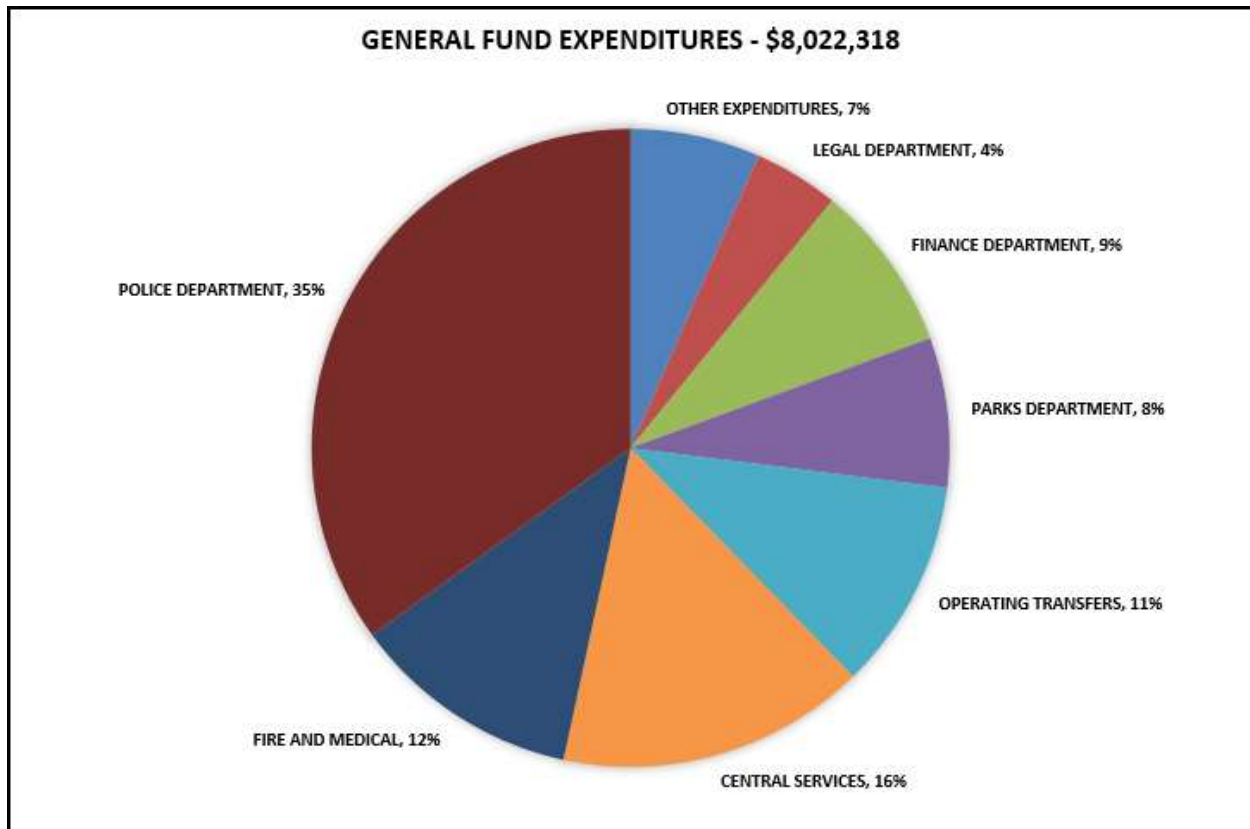


## Employee Salary and Benefits

- With the CPI above the max COLA increase, employee salaries will increase by 4% with a 4.6% increase for law enforcement.
- Medical benefits are predicted to increase by 4.1% for 2024 with Dental and Vision staying flat. While still waiting on some additional rates, a conservative 5% total increase will act as a placeholder.
- The additional cost of adding Juneteenth as a recognized Holiday for the City has been added to the budget, awaiting Council discussion and direction.

## Fixed Cost Increases for 2024

- ARCH, the City's portion to support transitional and low-income housing will increase in 2024 to cover the admin costs (\$8.5K increase).
- With a heavy increase in employee compensation and the new Station 10 being built, Bellevue Fire has increased their service cost by 13.35% for 2024.
- For the second year in a row, WCIA has increased their insurance cost significantly to replenish their fund drained by heavy payouts by other jurisdictions. Medina's portion has risen by 29% for 2024.
- Our IT managed services are expected to increase by 10% for 2024.





## Highlighted Department Notes and Asks for 2024

- **Transfers**
  - o 4.6% increase to Street fund to cover rising costs and the replacement plow.
  - o \$400K allocated to the Levy Stabilization Fund per Council direction.
- **Legal**
  - o \$20K increase to Special Counsel, to cover legal fees associated with WSDOT lid discussions and new Teamsters Labor Contracts.
- **Police Department**
  - o Body worn cameras and tasers, both would be leased and set at a fixed annual cost of \$32K.
  - o Increased costs for 2024 include replacement uniforms, and inflationary increases to vehicle repairs, Shredder Day, educational brochures, and NORCOM.
- **Finance**
  - o Increased cost of financial software and first full year of new HR/Payroll system, conservatively budgeting for \$10K more for software.
- **Central Services**
  - o Cut Public Storage costs by 2/3rds as staff works to streamline public records.
  - o Reduction in building maintenance and capital outlay, as projects moved to Capital Fund.
  - o \$20K carried over from 2023 for consulting on Laserfische and public records.
- **Public Works**
  - o Replacement plow truck moved to 2023 item providing availability for this winter.
  - o Various increases of supplies and utility costs due to inflation.

## 2024 Development Services Fund (\$1,114,936), 10% of Total City Budget

2022 was the first year of the Development Services Enterprise Fund. Unfortunately, this coincided with a reduction of residential work within the city, which saw permitting revenue fall under what was forecasted. So far in 2023, we have seen a return to expected work within the city, keeping the city's Development staff busy. Please note that an increase in permitting work does lead to an increase in expenditure. However, some of the costs can be passed through to residents and contractors through the advanced deposit process.



## Notes for 2024

- Based on 2023 actuals, staff are forecasting an 11% increase in revenue from permitting for next year.
- 10% increase in building plan review consultant rates for 2024, similar workload to 2023. This directly correlates with building permit revenue.
- Increase in postal expenses for code enforcement with staff more active in community over violations.
- \$45K budgeted for fuel efficient replacement vehicle for Building Official, to visit job sites without use of personal vehicle.

### **2024 Capital and Tree Funds (\$1,600,000), 14% 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 (\$1,125,000 or 86% 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 several years but more recently, while still active, it has been heavily weighted towards small, older homes often on larger lots. 2024's anticipated REET revenue of \$1.125M 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 2024, city staff will continue to look at options for federal funding going forward.





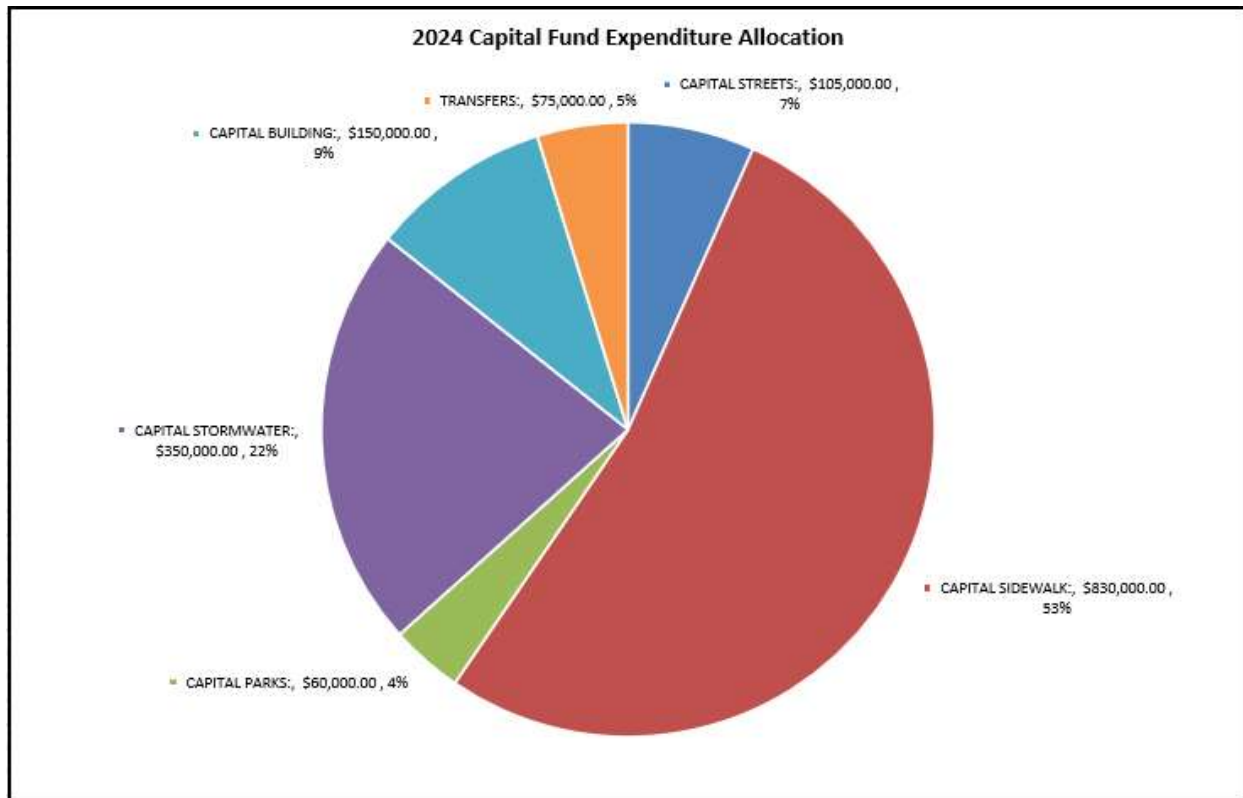
King County Parks Levy (\$50,000 or 4% of total) is the voter approved levy to improve parks county-wide. Medina’s allocation from that levy that will be received each year, 2020-2025;

Investment Earnings (\$125,000 or 10% 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 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.

### 2024 Projects

- \$105K for 88<sup>th</sup> Ave NE Overlay.
- \$830K for NE 12<sup>th</sup> and NE 10<sup>th</sup> repairs and Improvements.
- \$150K for City Hall and Post Office Maintenance and Improvements.
- \$200K for NE 2<sup>nd</sup> Place and 78<sup>th</sup> Ave NE Stormwater Improvements.
- -\$30K set aside for tree planting and potential hazardous tree removal.





## **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. Additional funds are planned to be transferred in 2024.