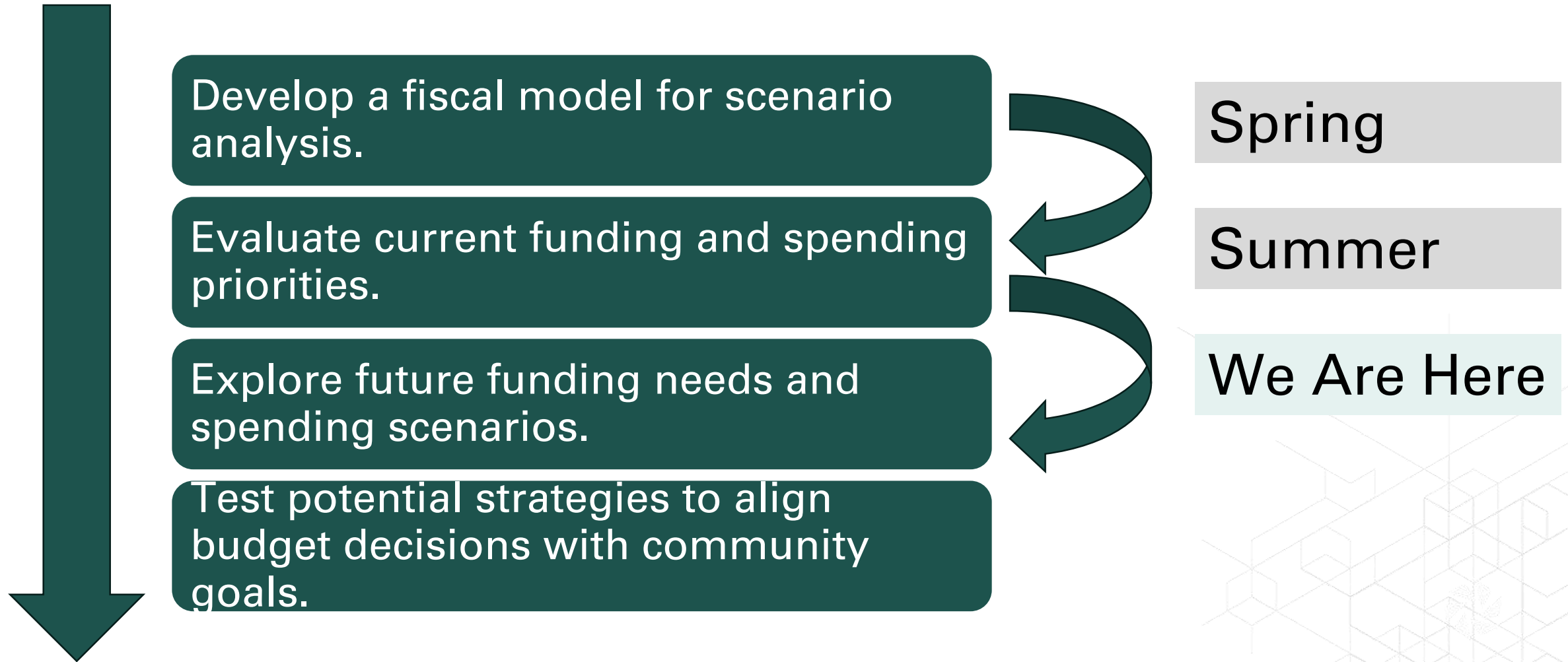


# Tumwater Fiscal Strategy Updates

Prepared for Tumwater  
City County

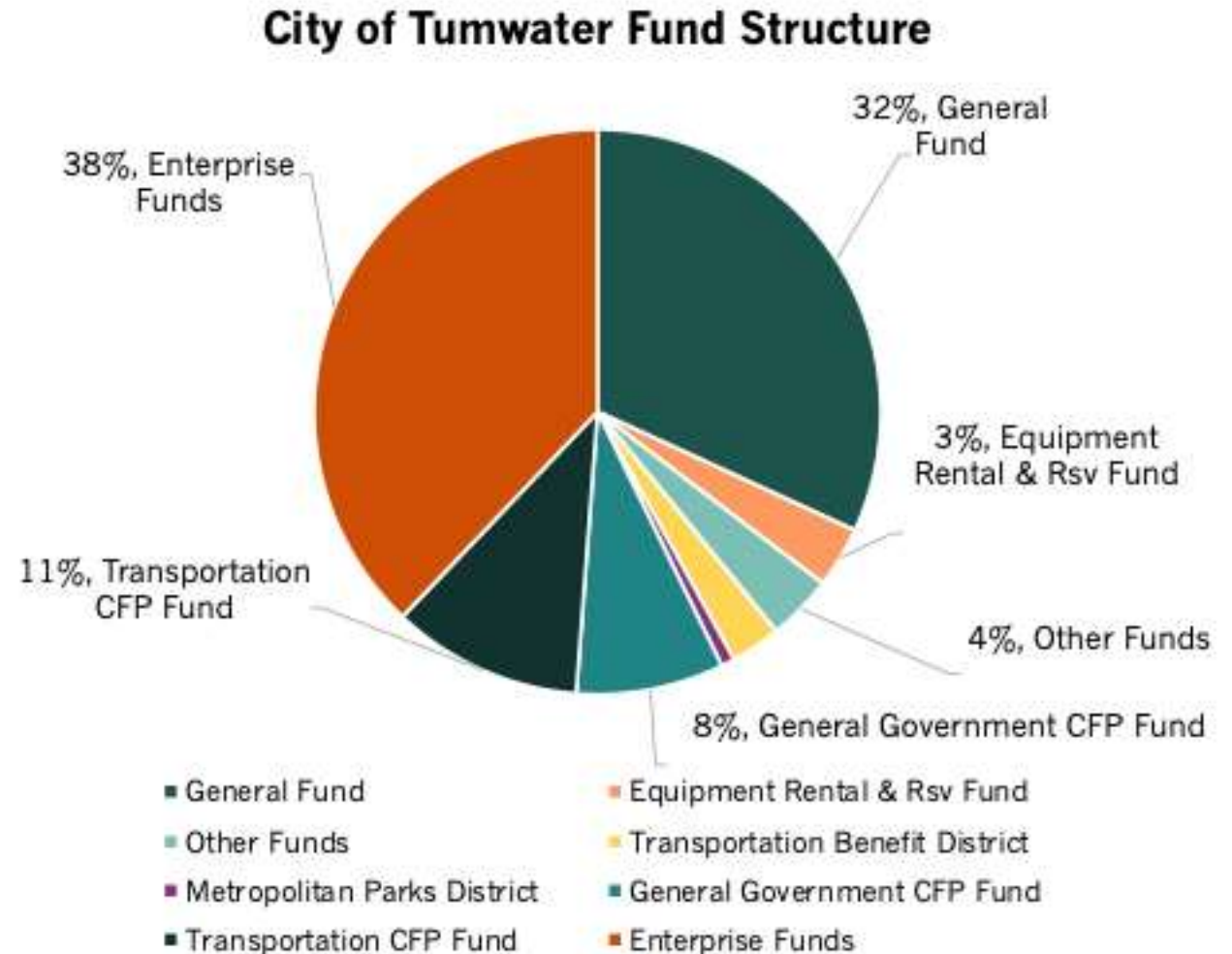
September 16, 2025



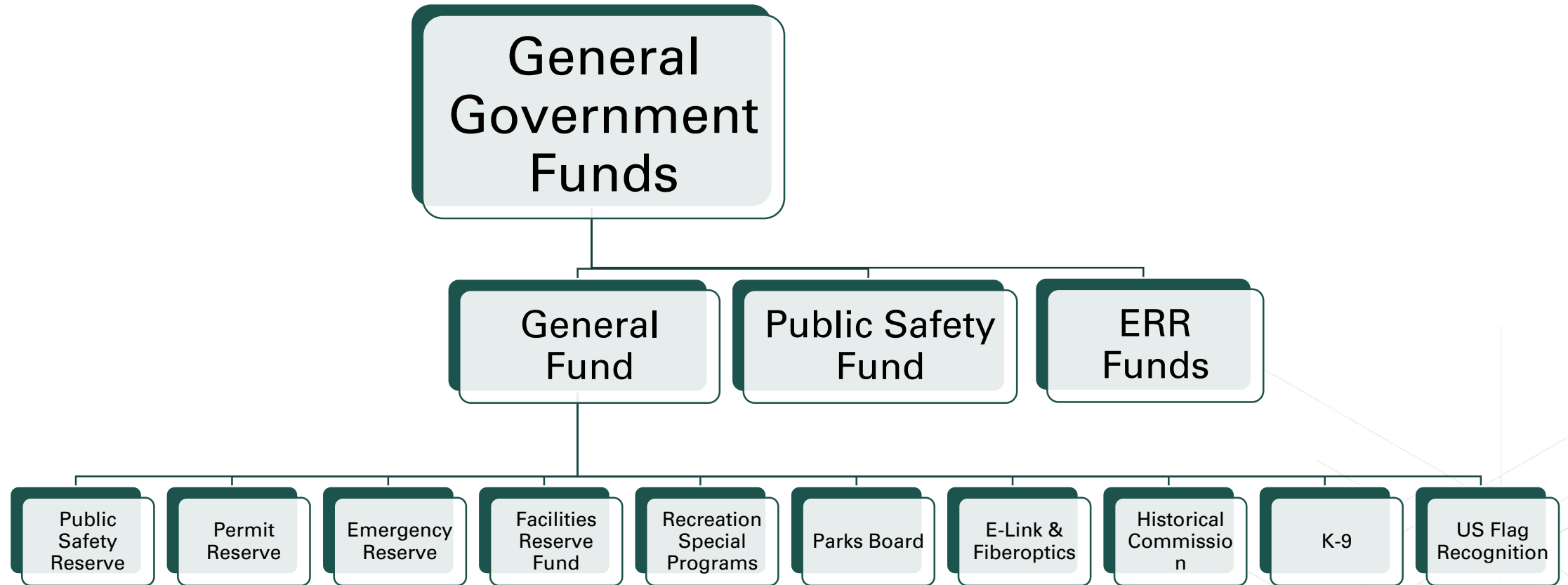
# General vs Enterprise Funds

Our scenario planning and financial modeling focuses on General Government Funds — where City Council has the most discretion and influence over service levels, staffing, and investments.

- **General Government Funds (approx. 60%)**
  - ◆ Supported primarily by tax revenues (e.g., property tax, sales tax, utility tax).
  - ◆ Funds core services like police, planning, parks, and administration.
  - ◆ Most budget tradeoffs and policy decisions happen here.
- **Enterprise Funds (approx. 38%)**
  - ◆ Self-supporting through user fees (e.g., water, sewer, stormwater).
  - ◆ Legally restricted to cover the cost of providing specific services.
  - ◆ Not typically available to fund general city services.

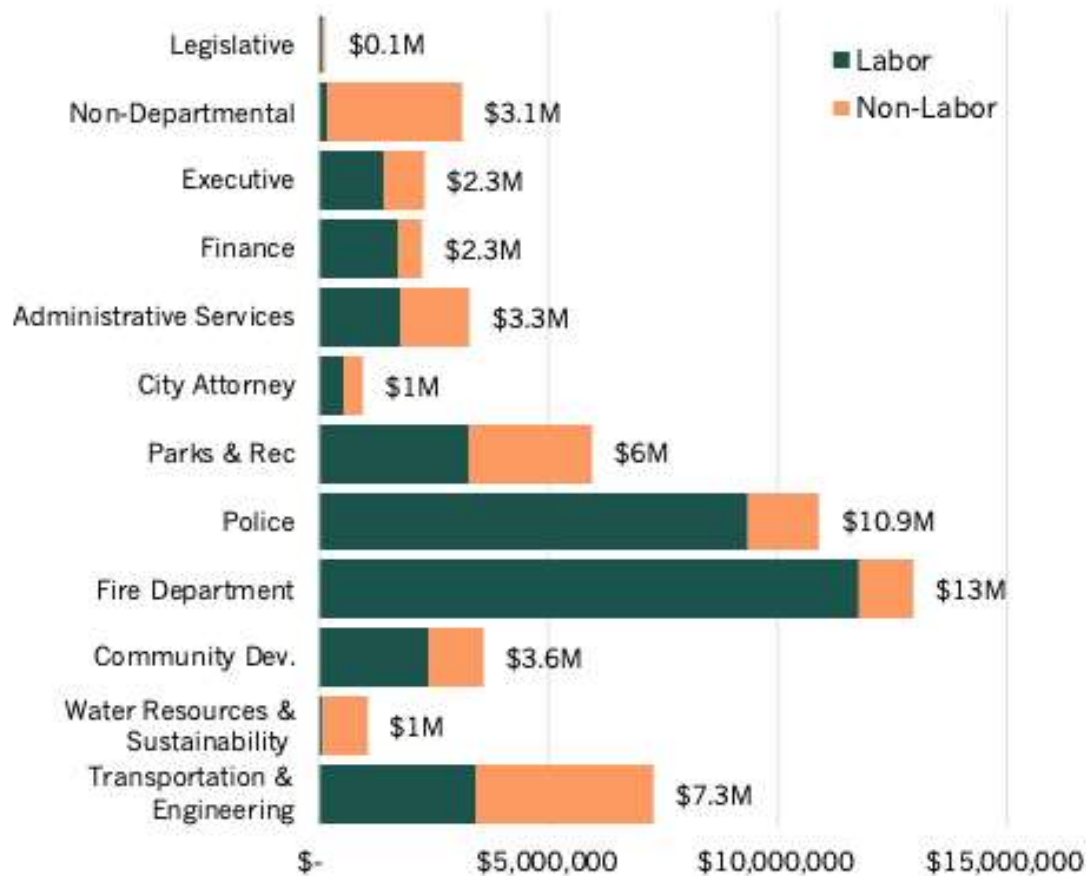


# General Government Funds

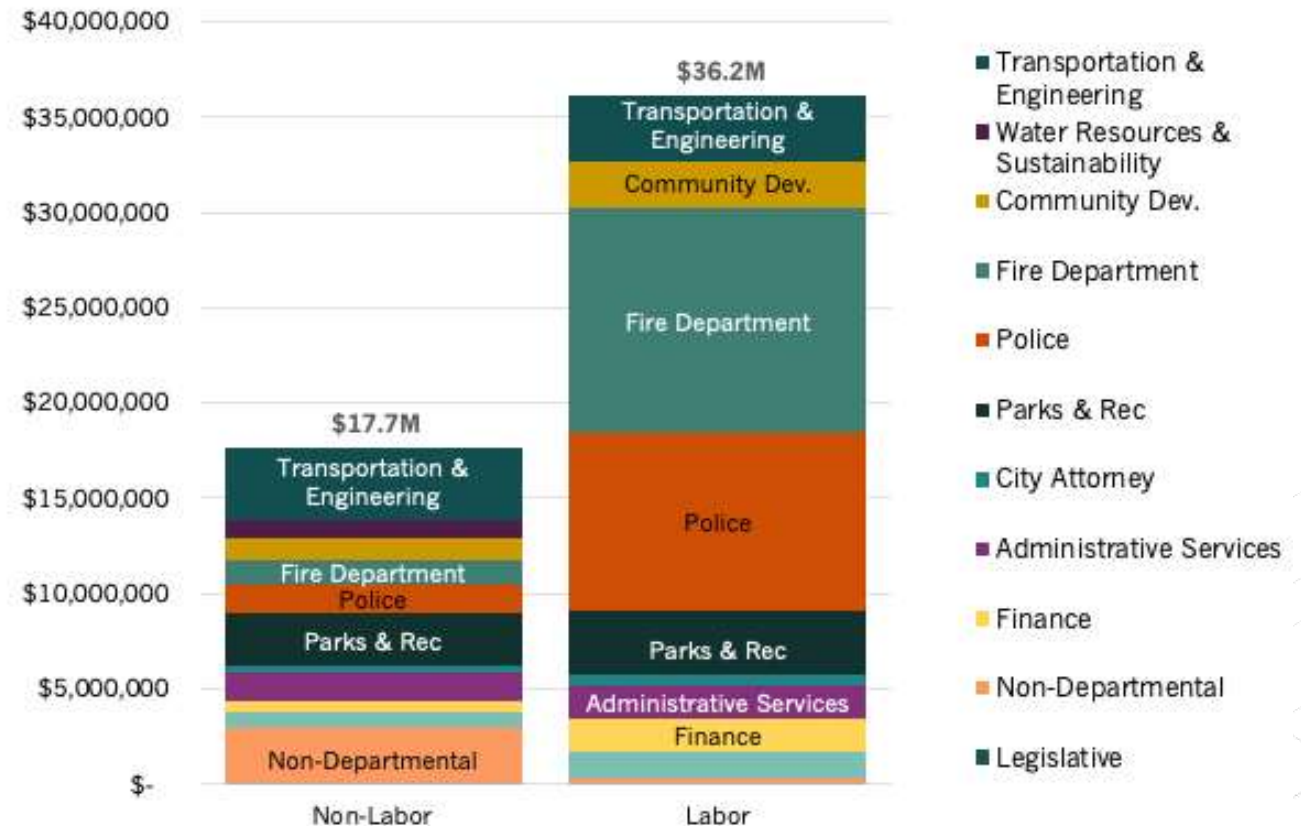


# 2025 Baseline – Status Quo

## 2025 Budget Baseline Costs by Department



## 2025 Budget Baseline



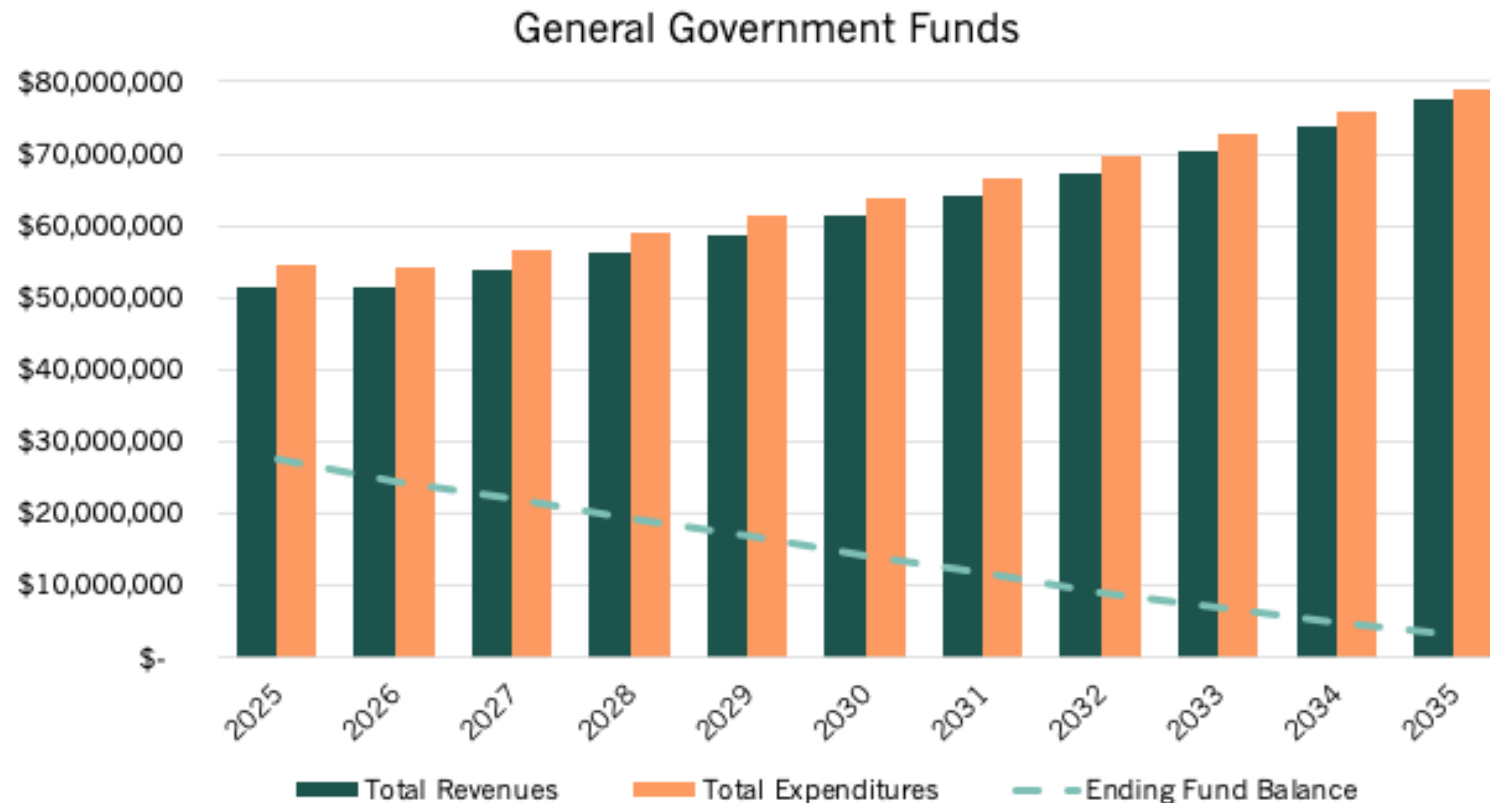
Note: This includes departmental spend through the General fund and Equipment Rental & Rsv funds.

# What's in the Baseline?

- Same balance of “doing more with less”
- No expansions or new initiatives
- No new debt obligations
- Doesn't account for unmet needs identified by departments
- No new requirements from state or federal
- Fiscal cliff looms (more or less) depending on rate of economic growth.

# Baseline Forecast – Trend Growth

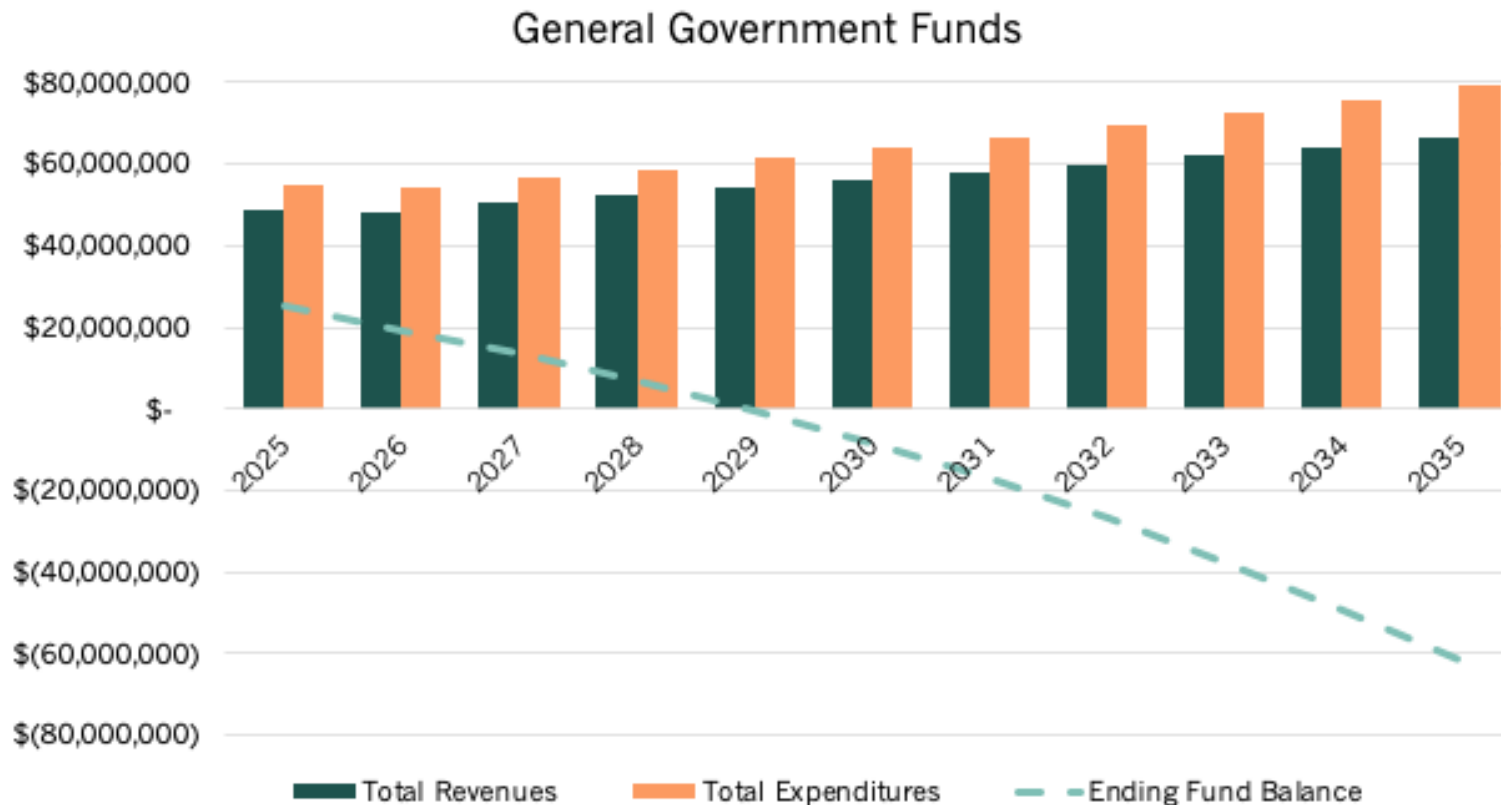
- If the **economic (tax base) growth** follows historic trends, the City is in a stronger fiscal position through 2035, with both revenues and reserves declining and manageable rate.
- This baseline outlook provides flexibility to pursue community priorities, provided future spending is aligned with sustainable revenues.





# Baseline Forecast – Slower Growth

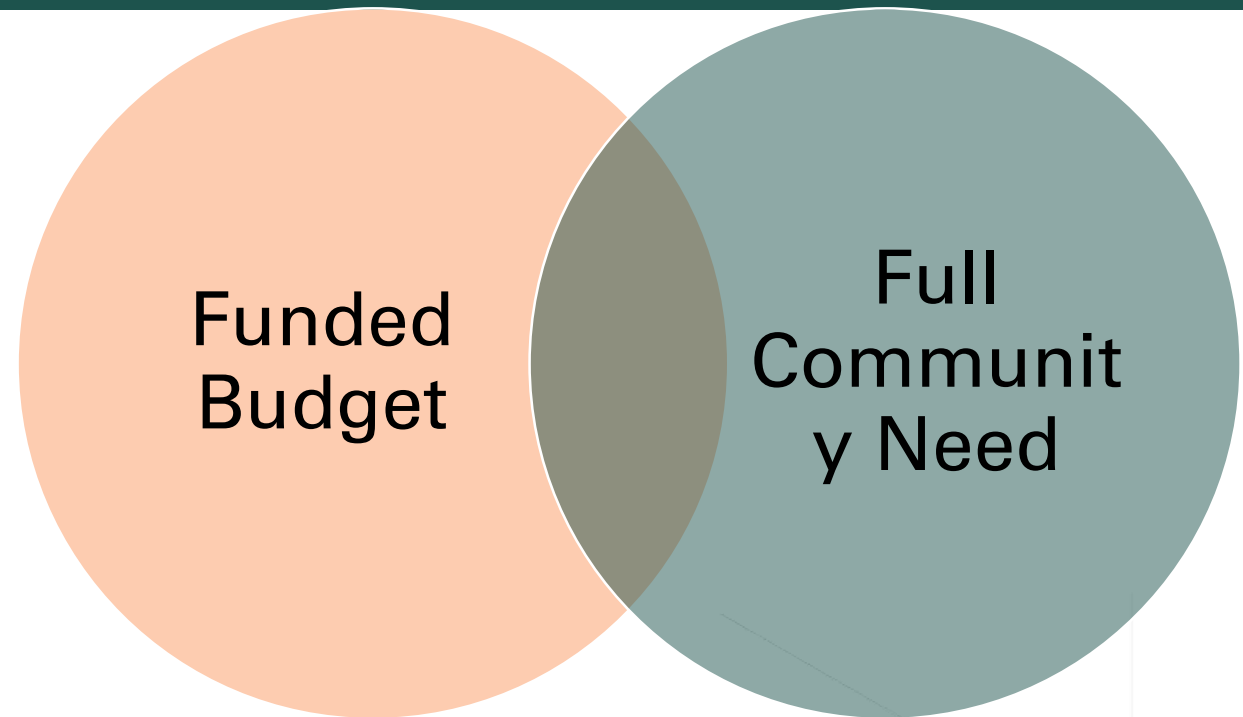
- If the **economic (tax base) growth** is lower than trend, the City maintains a positive fund balance for several years, providing a substantial cushion to delay or soften the impact of a future structural deficit.
- This gives Tumwater time to align service expectations and revenues thoughtfully, rather than reactively.





# Introducing the Shadow Deficit

- Gap between needed and funded services
- The flipside of “doing more with less”
- Includes staffing, service expansions, and unfunded capital needs



- What is included in the adopted budget: Staff, services, and projects with funding

- Staffing and services departments say are necessary
- Community expectations for service level and quality
- Capital needs identified but not funded

# Understanding the “Shadow Deficit”

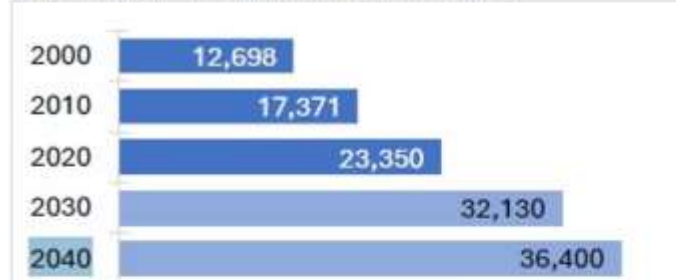
- **Definition:** The difference between community expectations or commitments and the resources currently available to meet them.
- **Examples include:**
  - ◆ Unfunded state or federal mandates.
  - ◆ Community desires for increased or improved services without additional funding.
  - ◆ Infrastructure maintenance or expansions that have been delayed due to budget constraints.
- **Implications:**
  - ◆ Without addressing the “shadow deficit,” the city risks ongoing gaps between expectations and reality, leading to deferred maintenance, reduced service quality, or budget shortfalls.

# Past Budget Presentations on Shadow Deficit

## Context – GROWTH!

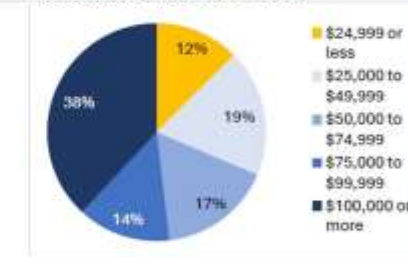
	2004	2024*
Number of FTEs	123	237.25
Acres of Parks	130	238
Permits Processed	968	1,900
FD Calls for Service	4,444	6,000
PD Calls for Service	9,700	17,700
Water Customers	5,458	10,121
Sewer Customers	3,986	7,676

### Population – Estimates & Projections

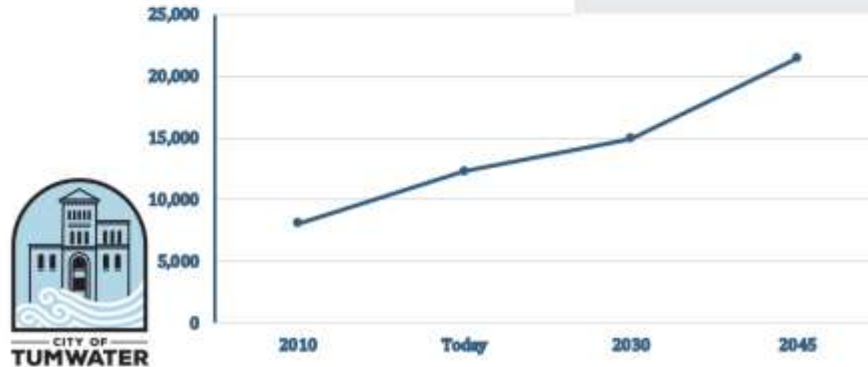


	2004	2024
Acres of Parks/Employee	32.5/1	43/1
Permits Processed/Employee	81/1	146/1
FD Calls for Service/Employee	153/1	113/1
PD Calls for Service/ Employee	346/1	412/1

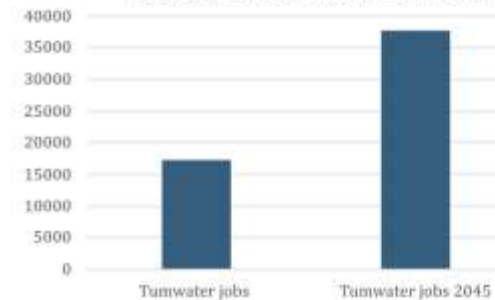
Households by Income (2017-2021)\*



### Housing unit growth over time



### Job Estimates Now and Future



Budget Presentation

5

# Budget Framework for Council Decision-Making

## 1. Core & Required Services

- Includes many essential services required by law or necessary for basic community function (e.g., public safety, regulatory compliance) but not all.

## 2. Existing Community Commitments

- Existing programs and services reflecting past community decisions and commitments (e.g., parks maintenance, library services).

## 3. Enhanced Service & Infrastructure Investments

- Proposed improvements or expansions in service quality, scope, or scale that would require new costs or increased revenues (e.g., infrastructure upgrades, expanded recreational facilities).

## Why Use a Three-Tier Budget Framework?

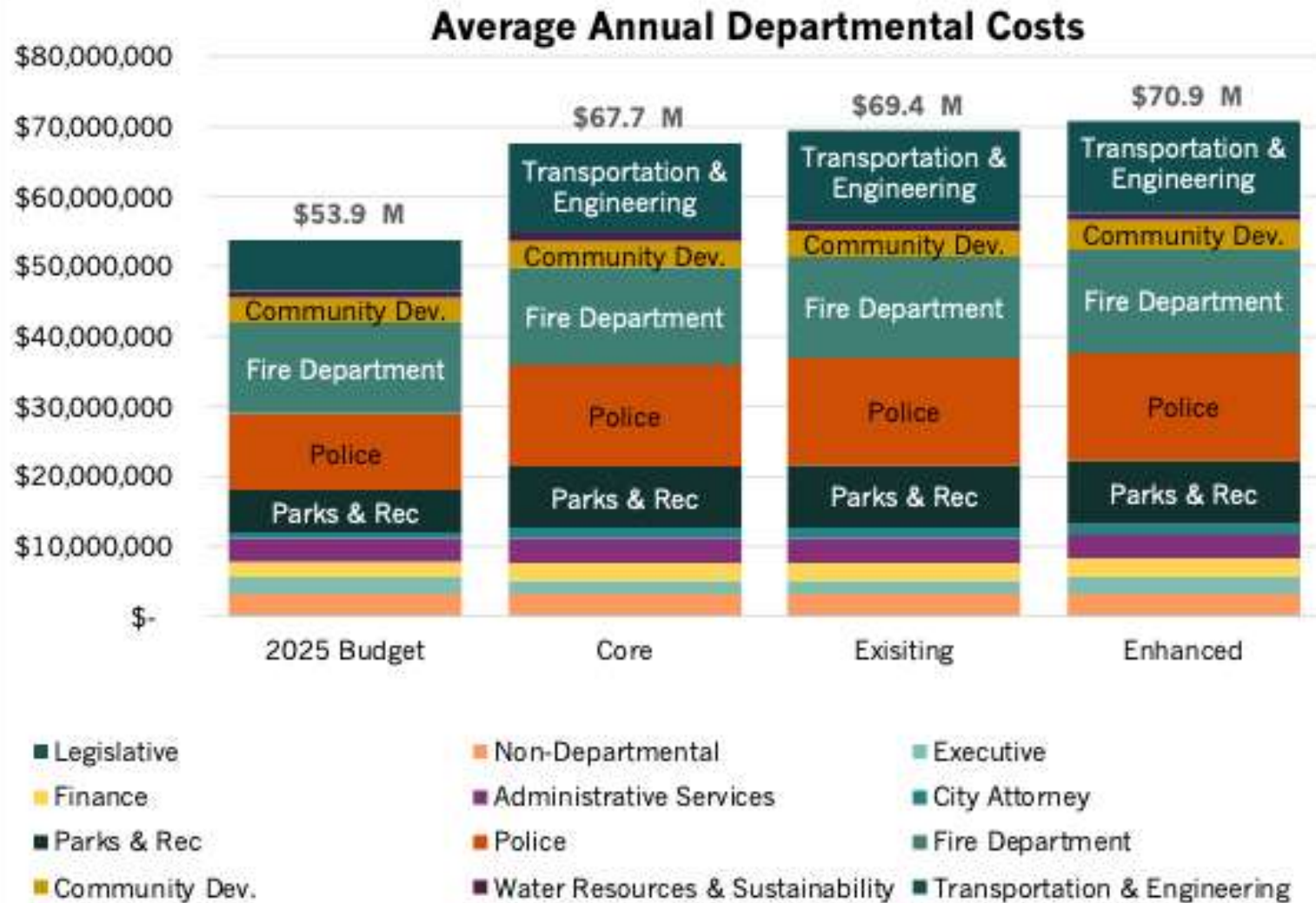
1. **Clarity:** It simplifies complex budget information by distinguishing essential, committed, and discretionary spending.
2. **Transparency:** It shows clearly how past and present decisions shape future financial needs.
3. **Priority Setting:** It helps the council prioritize choices, highlighting what must be funded versus areas where the city might invest more strategically.
4. **Revenue Awareness:** It illustrates why additional resources or new revenues may be needed to achieve community goals.

# Shadow Deficit Is Present In Most Communities

- This isn't a sudden "budget" shortfall—it's the cumulative effect of:
  - ◆ Population and service area growth outpacing staffing and infrastructure expansion.
  - ◆ Deferred maintenance and one-time fixes substituting for long-term solutions.
  - ◆ New community expectations and mandates added over time without proportional increases in base funding.
  - ◆ Longstanding structural constraints on revenue growth (e.g., 1% levy limit factor).

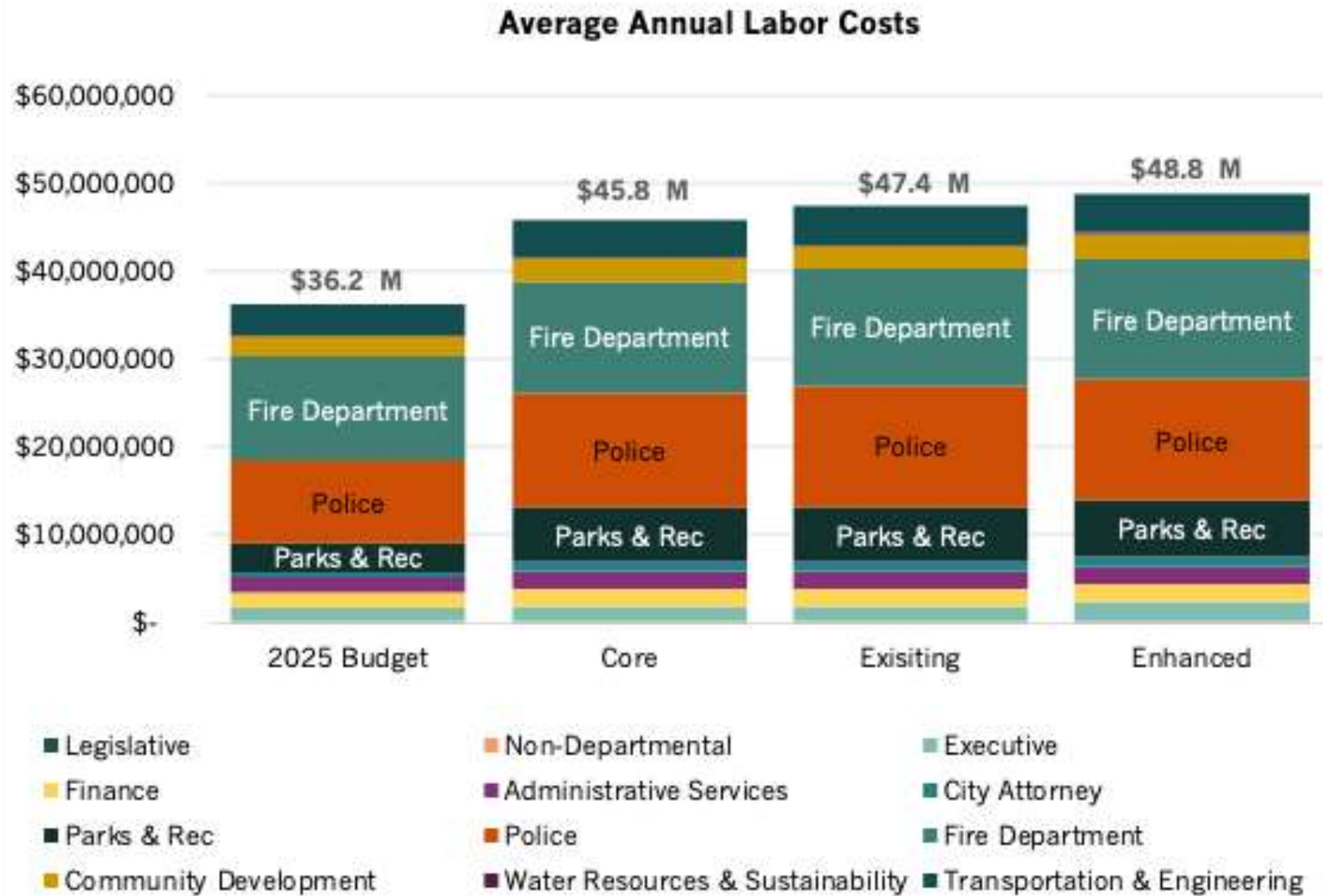


# Total Departmental Costs



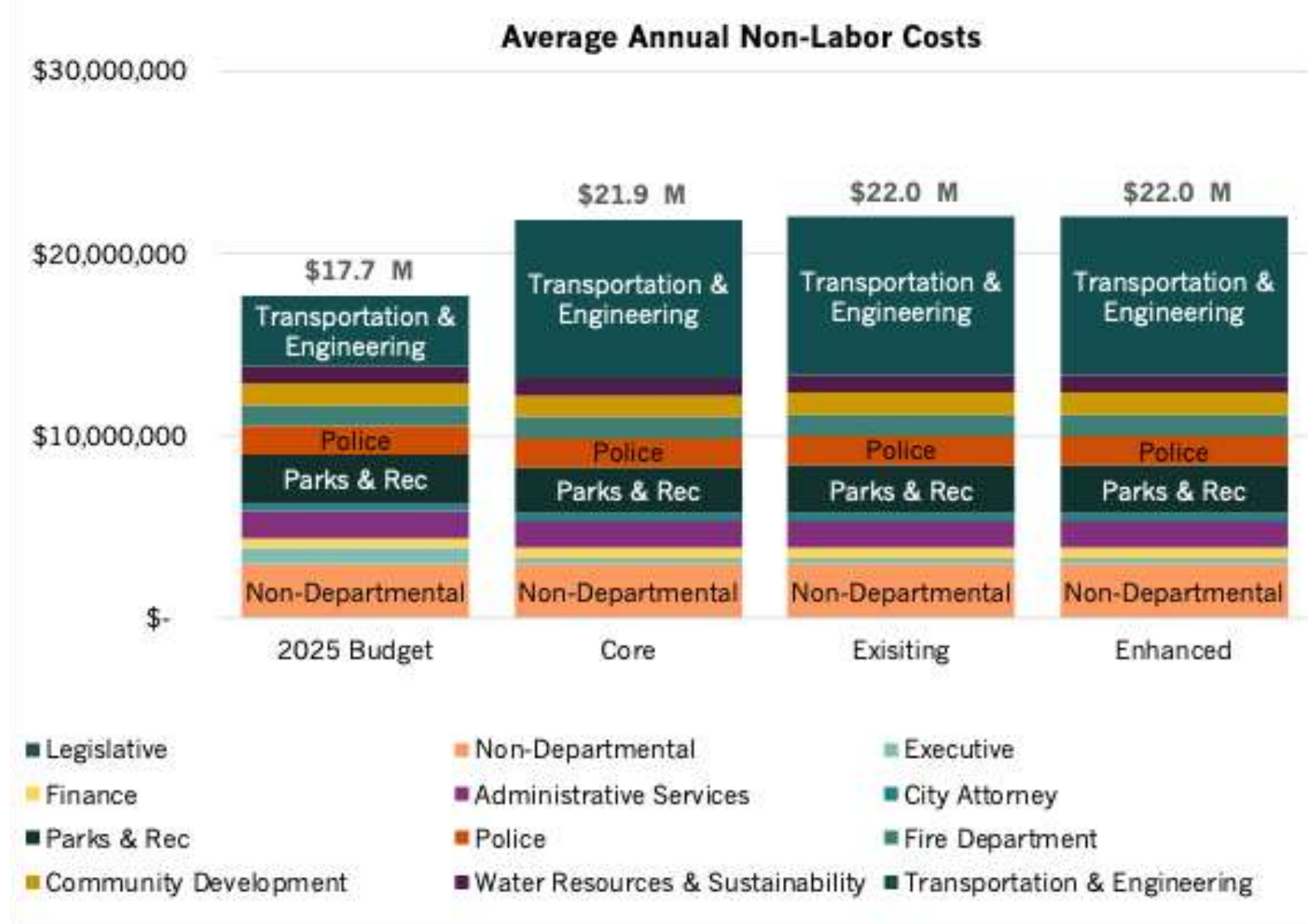
Note: This is the average annual cost from 2025-2035 not accounting for inflation, COLA adjustments, or standard raises.





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# Non-Labor Costs

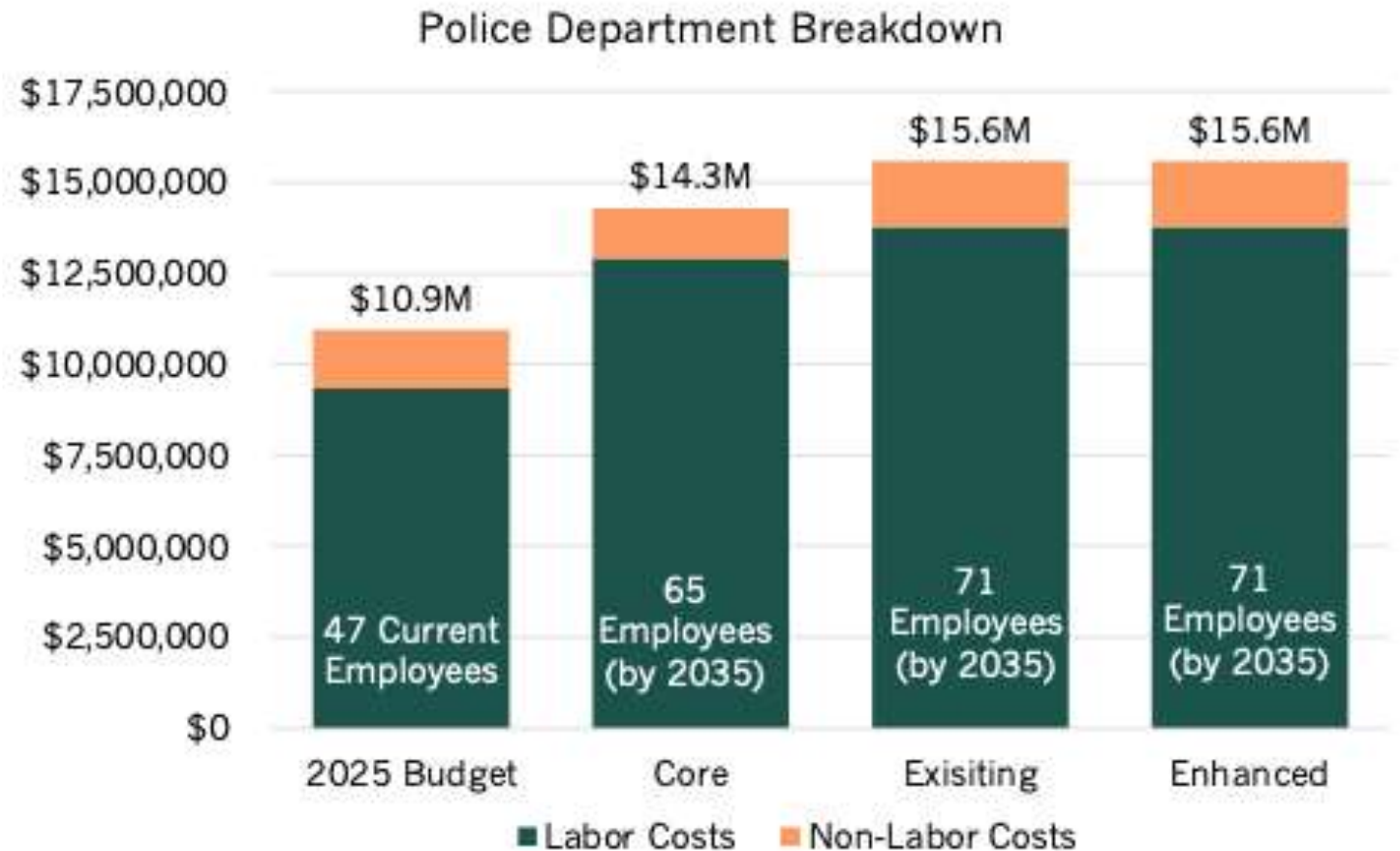


# Reflections – Results in Wider Context

- **Patterns Seen Across Many Cities:** The findings in Tumwater reflect broader challenges faced by cities statewide and nationally.
- **The 1% Levy Cap Pushes the Cliff Out:** Strong economic cycles (e.g., new construction, sales tax growth) have temporarily delayed—but not eliminated—the structural imbalance caused by Washington’s 1% property tax growth limit.
- **Austerity Limits Strategic Investments:** During lean years, cities often avoid adding new programs or staff, leaving long-term service gaps and deferred maintenance.
- **Shadow Deficit Is Structural and Cumulative:** The current gap in service and infrastructure isn’t new—it has slowly built over years or decades due to incremental underfunding of core and committed services.
- **Local Choices Drive Outcomes.** Each community ultimately sets its own priorities:
  - ◆ Some stay within existing resources and reprioritize internally.
  - ◆ Others use councilmanic tools (e.g., banked capacity, utility taxes).
  - ◆ Some ask voters to support service expansions through levies or bonds.

# Department-Level Views – Police Department

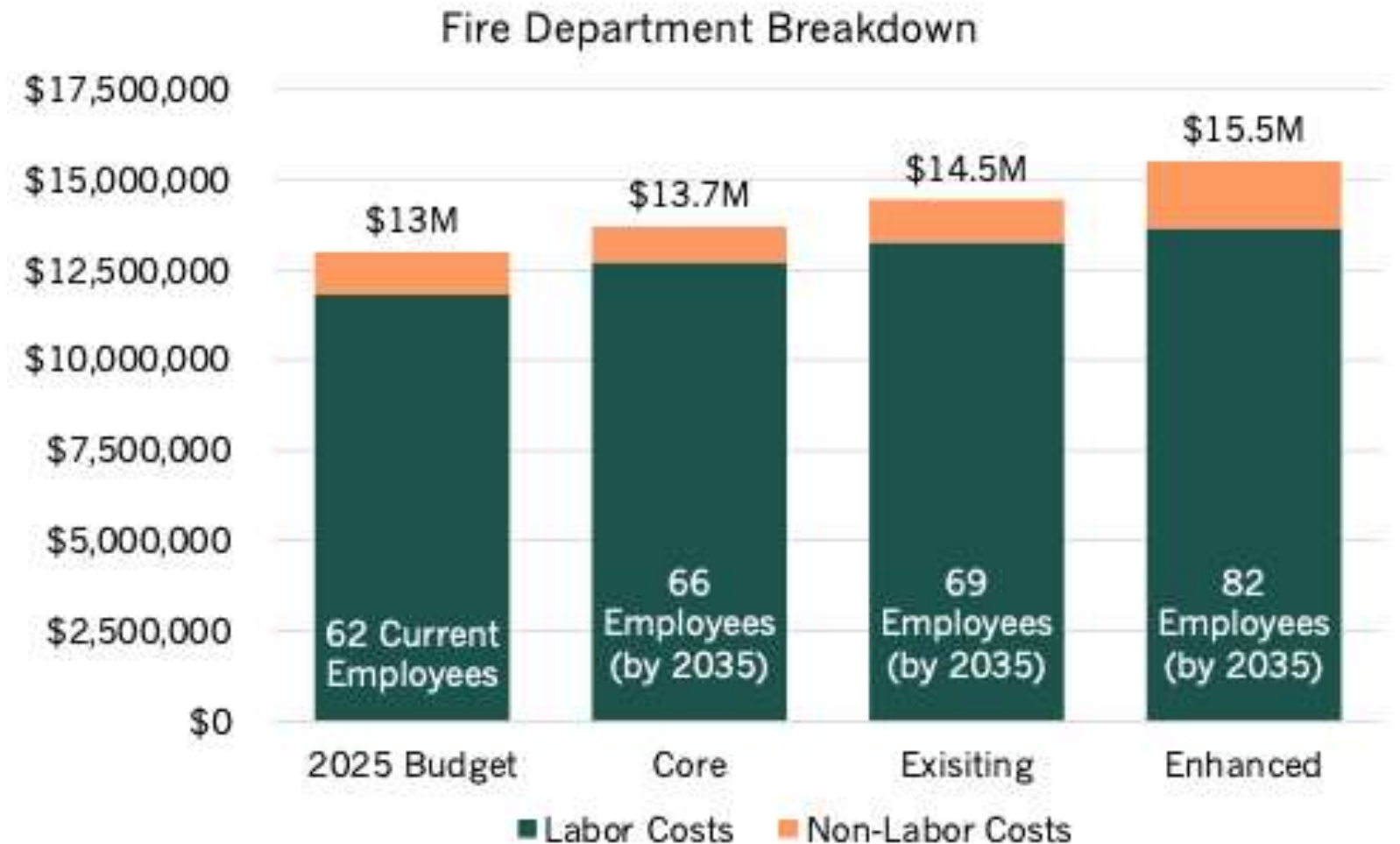
- The Police Department needs to add 36 staff over the next 10 years to meet existing commitments
  - ◆ Including 19 Police Officers and
  - ◆ 5 front office/non-commissioned staff
- With each additional staff member additional vehicle/equipment is needed.
- This figure **does not** include the cost of new facilities with greater staff capacity.



Note: This is the average annual cost from 2025-2035 not accounting for inflation, COLA adjustments, or standard raises.

# Department-Level Views – Fire Department

- The Fire Department needs to add 7 staff over the next 10 years to meet existing commitments.
  - ◆ Including 3 Firefighters
- Non-Labor costs include fire engine replacements, station remodeling, and more with the potential of being funded by a levy lid lift.

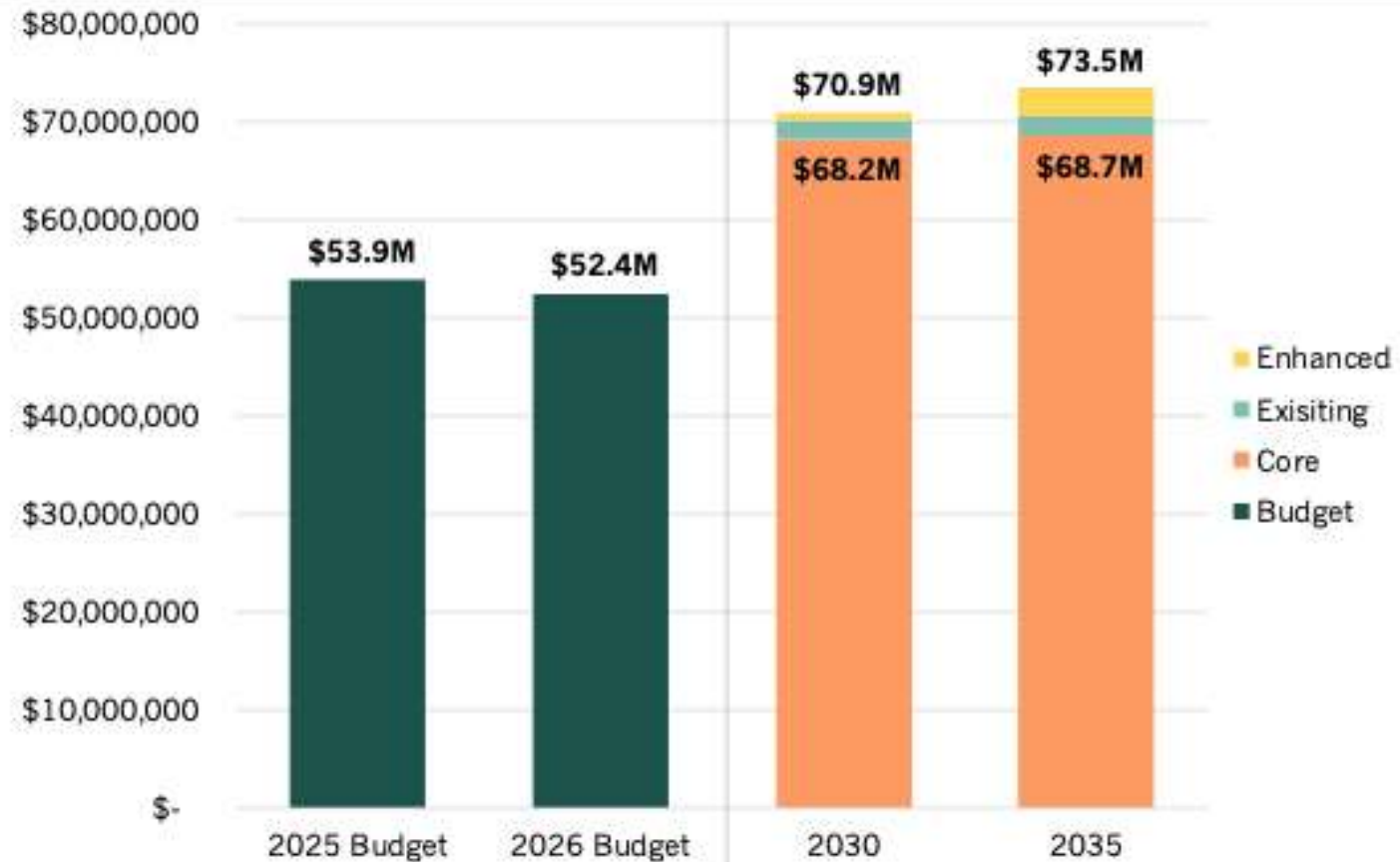


Note: This is the average annual cost from 2025-2035 not accounting for inflation, COLA adjustments, or standard raises.



# What This Means for the 2027–28 Budget

- The 2025 budget (\$53.9M) is significantly below what departments identified as necessary to sustain core and existing service levels into the future.
- This reveals a **persistent and growing** “shadow deficit” —the gap between what is budgeted and what is needed to fully deliver services and meet commitments.
- The City will need to make strategic tradeoffs: revisit commitments, assess capacity, or identify new resources to close this gap.



Note: This just the labor and non-labor costs from 2025-2035 not accounting for inflation, COLA adjustments, or standard raises.

# What This Means for the 2027–28 Budget

## Council Will Need/Want To:

### Reassess Current Commitments

- Reevaluate the sustainability of services that have been approved but may not be fully funded over the long term.

### Prioritize Enhancements Thoughtfully

- Identify which service expansions or infrastructure investments best reflect community priorities and justify new revenues.

### Bridge the Shadow Deficit

- Determine how to address the structural gap between desired service levels and current fiscal capacity—including staffing, operations, and capital needs.

### Build Long-Term Capacity

- Make strategic choices that create financial and operational space to adapt to future needs without compromising core services.



- Where is the shadow deficit most urgent?
  - ◆ Are there specific departments or services where the gap between need and funding is especially acute?
- Which commitments require near-term action?
  - ◆ Are there existing service levels or promises to the community that are underfunded or at risk?
- Is there interest in service expansion?
  - ◆ What's the council's appetite for investing in new or enhanced services or infrastructure?
- What principles should guide future budget scenarios?
  - ◆ Should we focus on equity, efficiency, growth, risk, or community demand when developing options?

# How Scenario Modeling Will Help

## Model different futures:

- Status Quo – Continue current services with existing funding
- Commitment Alignment – Fully fund existing commitments and obligations
- Vision-Driven Expansion – Pursue new or enhanced services tied to community goals

## Evaluate tradeoffs:

- Staffing levels and operational capacity
- Long-term fund balance health
- Revenue requirements, including potential tax rate changes

- Staff Leadership Team
  - ◆ Coordinate scenario design and strategic priorities
- Develop & Test Scenarios
  - ◆ Model financial and operational outcomes for different service strategies
- Return to Council
  - ◆ Share findings, gather feedback, and refine direction for the 2027–28 budget