

# OVERVIEW OF COV FINANCIAL SITUATION

City of Vancouver Council Retreat ♦ March 26, 2010

Prepared by the Budget Office

# Agenda

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- Budget Overview
- General, Street, Fire Spring Forecast 2011-16
  - ▣ City Expenditure and Revenue Drivers
  - ▣ Budget Assumptions
- Budget Challenges and Implications in Absence of Policy Changes
- Next Steps

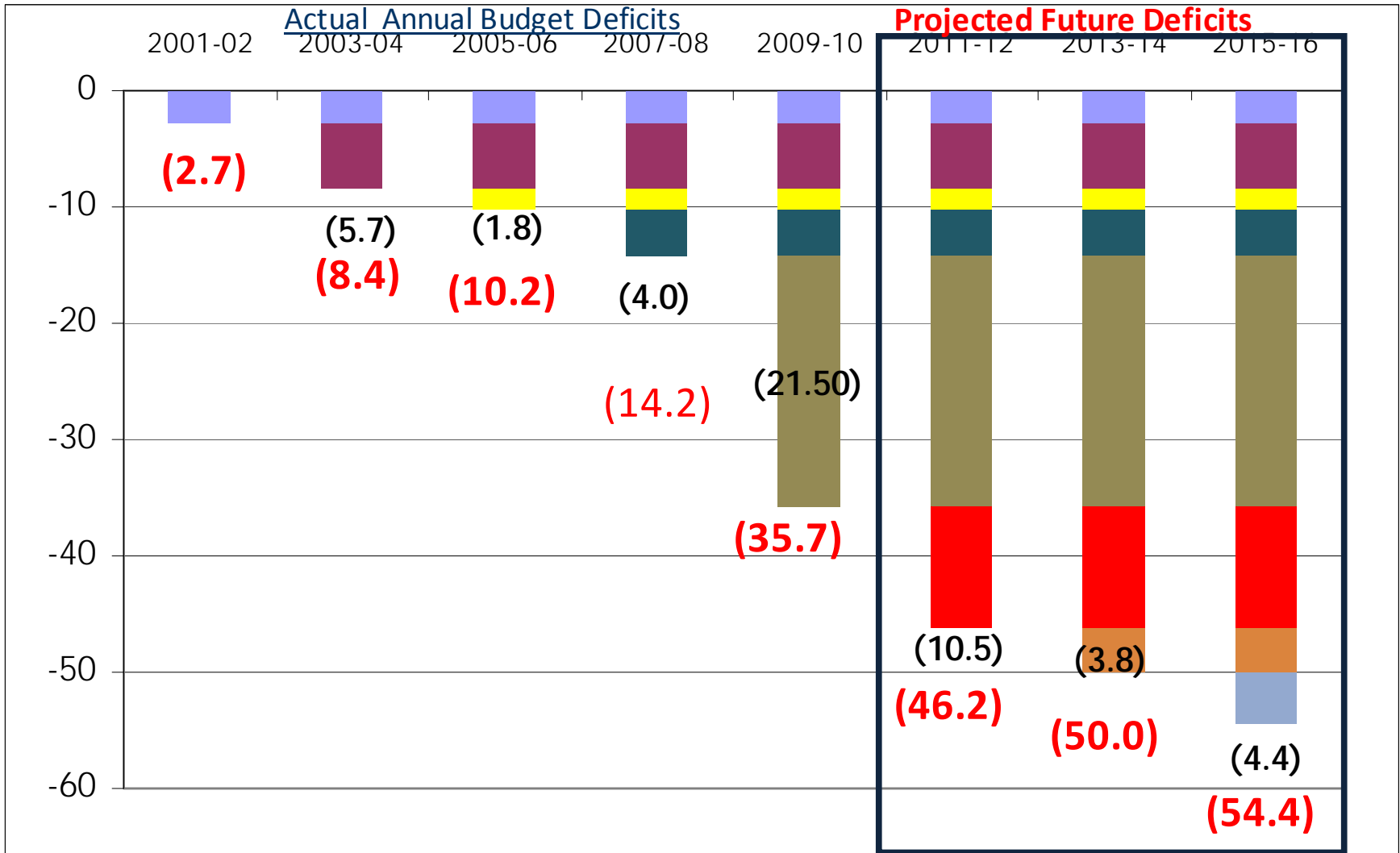
# Financial Summary 2009-10

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- **To date, the City has managed the critical financial situation, which has been deepened by the recent Great Recession**
  - Sufficient operating balances
  - Emergency reserve is maintained at policy level
  - Bond rating remains high
  - Clean audits
  
- **Yet the structural deficit remains**

# Past and Projected Annual Deficits in the General, Street and Fire Fund

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# 2011-16 Fiscal Challenge

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- **\$10 million annual operating budget deficit in 2011, growing to \$18.5 million by 2016**
- **Existing revenues growing at an average rate of 2.8% annually**
- **Existing expenditures growing at an average rate of 4.4% per year**

# Budget Overview

- COMPONENTS OF THE CITY BIENNIAL BUDGET
- PORTION OF THE BUDGET THAT IS DISCRETIONARY

**Total City of Vancouver 2009-10  
Budget Appropriation  
\$909.5 mil**

# Total City of Vancouver 2009-10 Budget Appropriation \$909.5 million

8

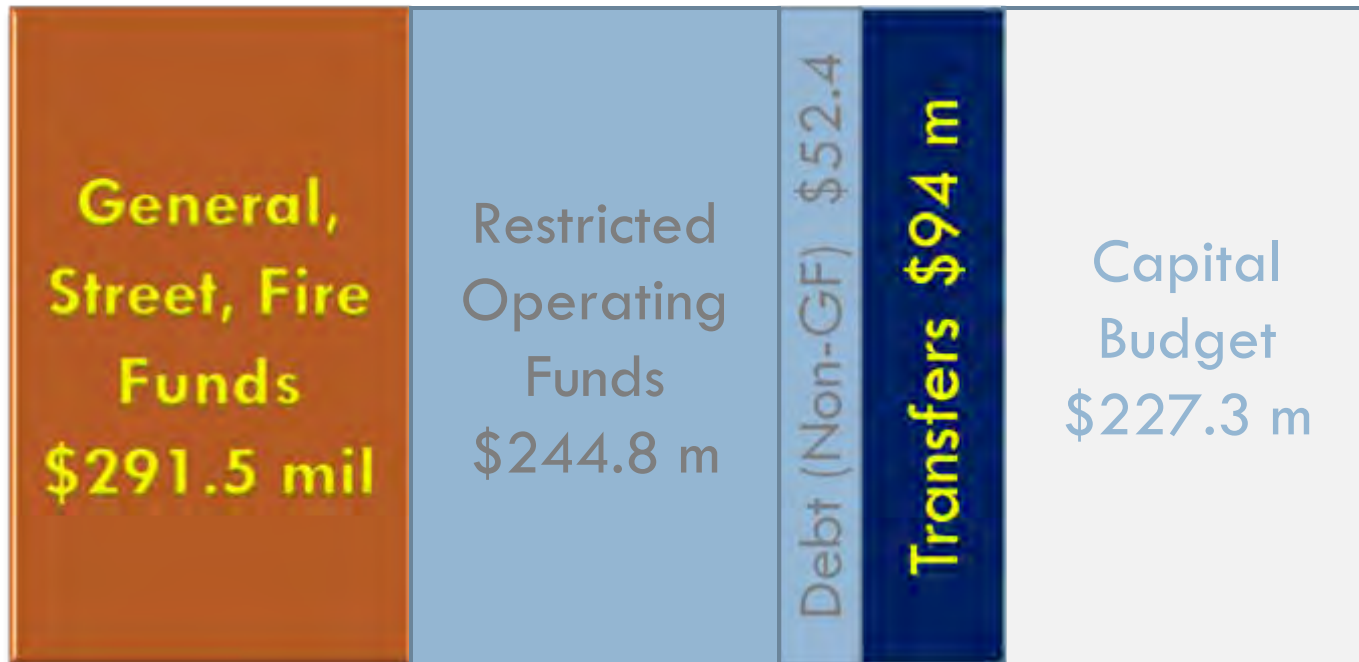


- Transportation, Parks, Utilities and General Capital Projects Budget
- Funding transfers from funding sources: Special funds (PIF, TIF), operating Utility funds and bonds

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# Total City of Vancouver 2009-10 Budget Appropriation \$909.5 million

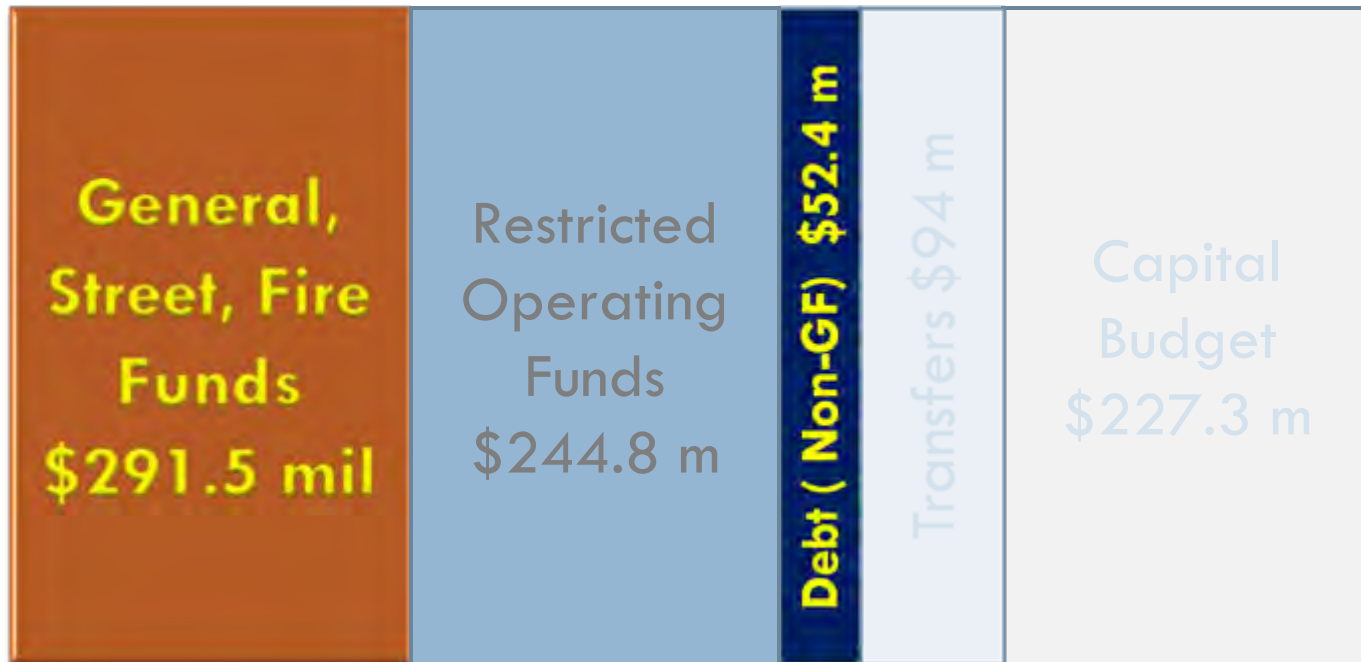
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- Transfers between operating funds

# Total City of Vancouver 2009-10 Budget Appropriation \$909.5 million

10

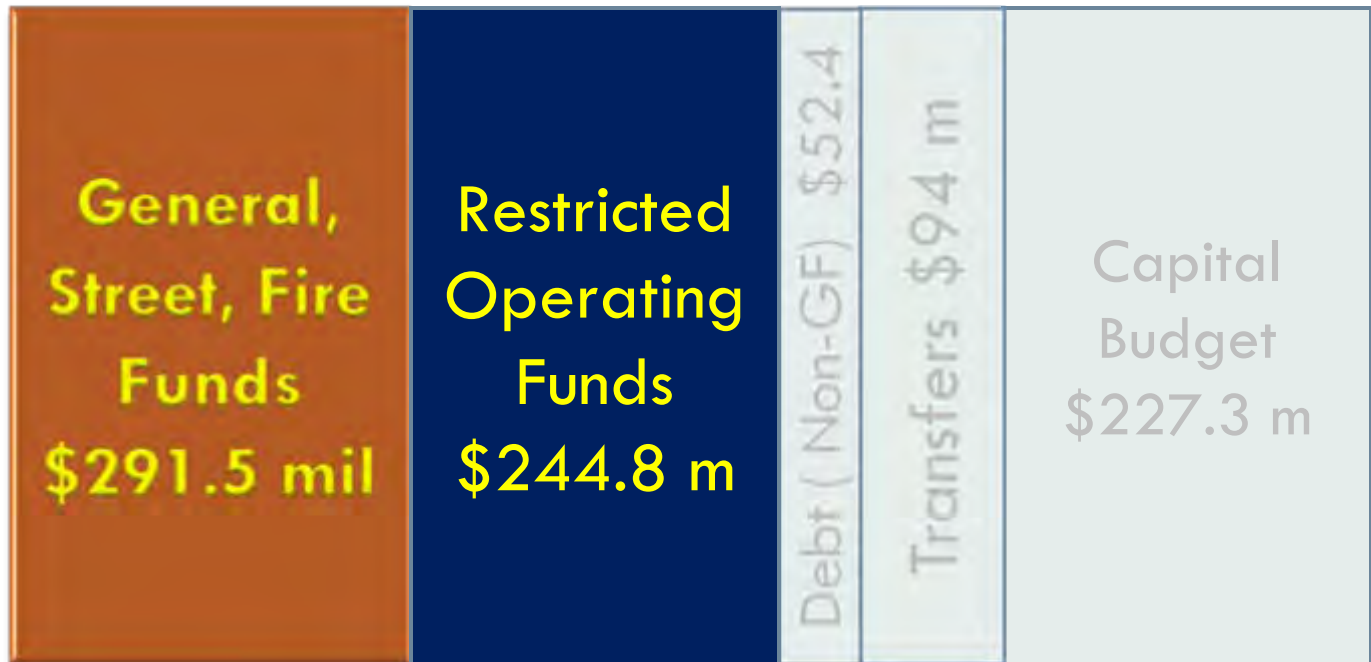


- Debt payments on issues prior to 2011 for General Capital, Transportation and Utilities Capital

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# Total City of Vancouver 2009-10 Budget Appropriation \$909.5 million

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- Enterprise Funds: Water, Sewer, Drainage, Solid Waste, Building, Tennis, Parking
- Internal Services: Equipment Replacement, Risk, Benefits
- Special Funds: Tourism, VNHR, Parks Donation

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# Total City of Vancouver 2009-10 Budget Appropriation \$909.5 million

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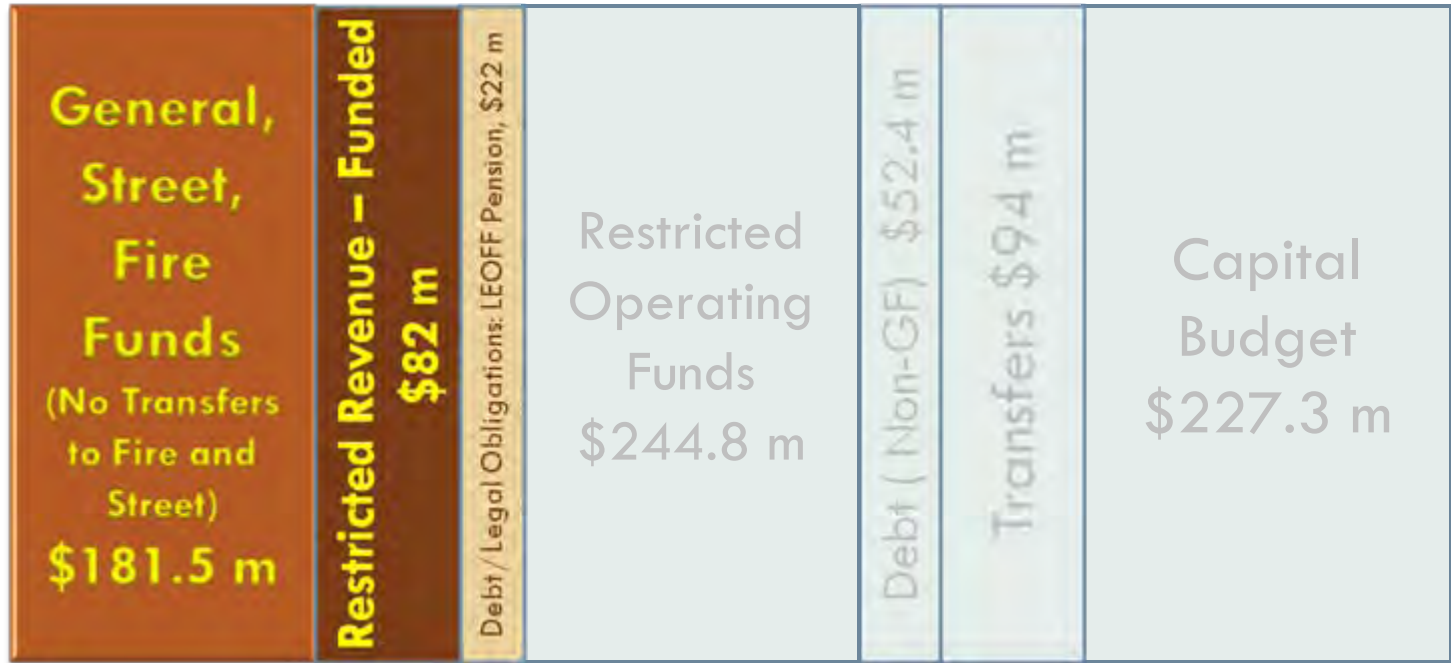


- Debt supported by the General Fund: Transportation, West Precinct, Evidence Center, Fire Stations

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# Total City of Vancouver 2009-10 Budget Appropriation \$909.5 million

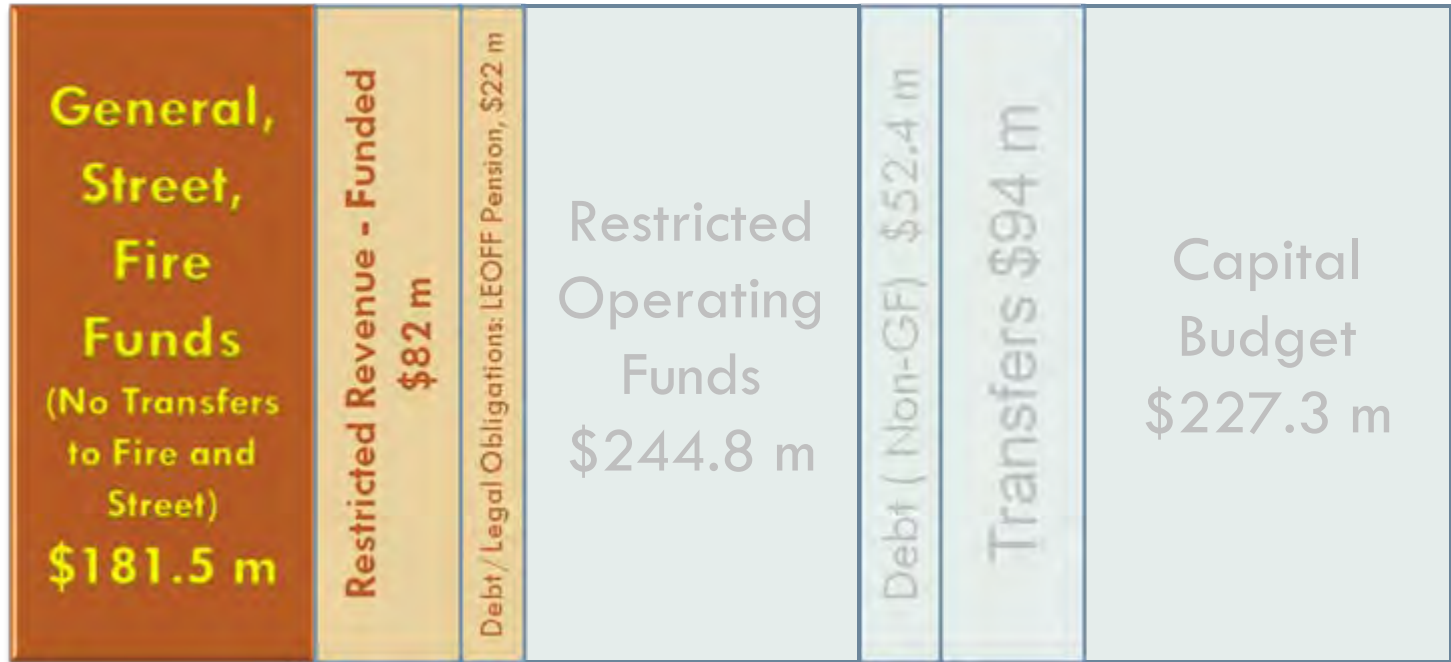
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- Expenditures funded by restricted or cost reimbursement-type revenues such as MVFT, REET –(Pavement Mgt), rec. fees, indirects

# Total City of Vancouver 2009-10 Budget Appropriation \$909.5 million

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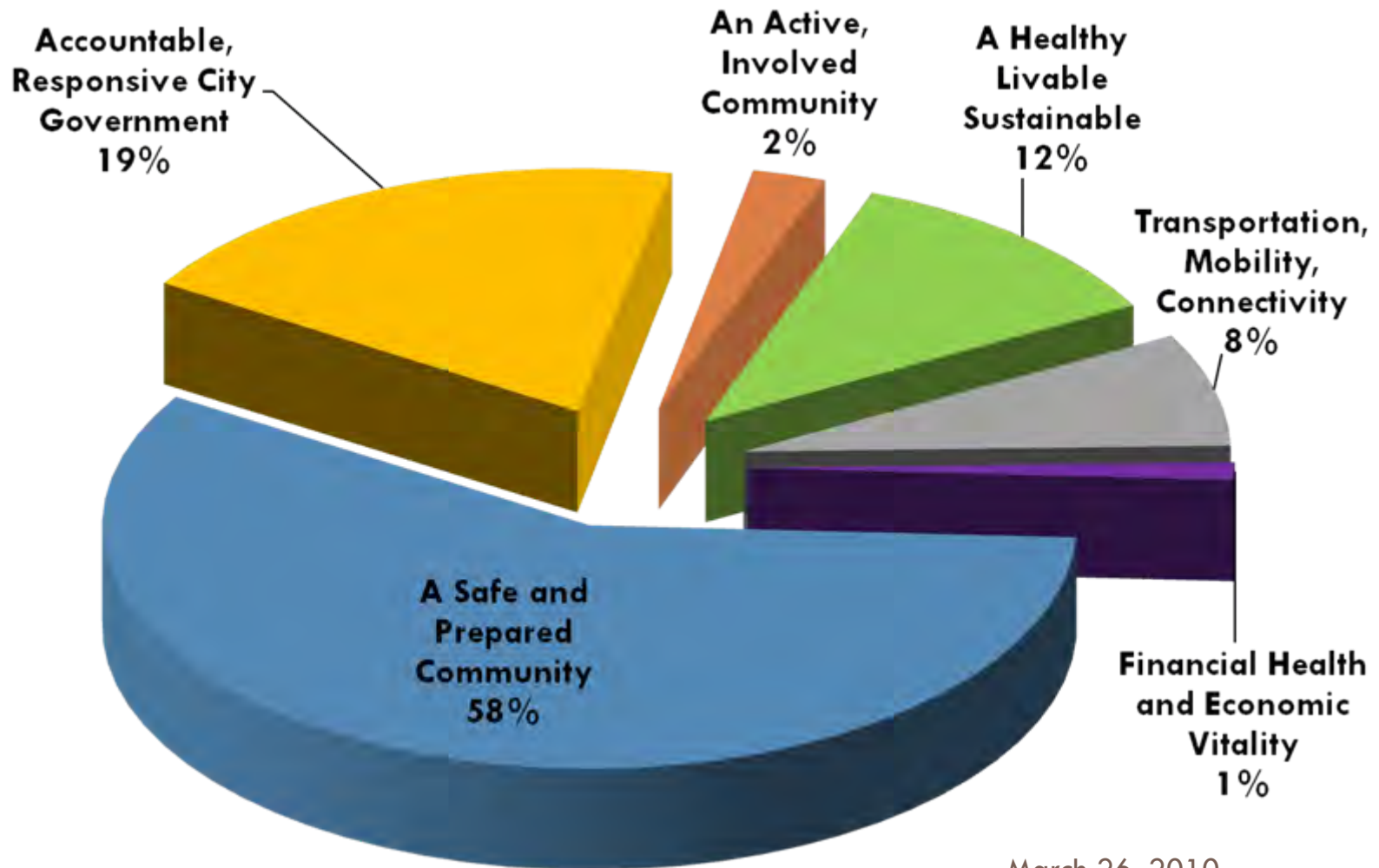


- City budget funded by discretionary dollars

# Total General, Street, Fire Fund \$181.5 million

(Transfers to Street, Fire, Debt are excluded, Restricted Revenue funded expenses removed)

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# Total General, Street, Fire FTEs by Department and Strategic Commitment

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| Department                                | A Healthy, Livable, and Sustainable Vancouver | A Safe and Prepared Community | Accountable, Responsive City Government | An Active, Involved Community | Financial Health and Economic Vitality | Transportation, Mobility, and Connectivity | Grand Total  |
|---|---|-------------------------------|---|-------------------------------|--|--|--------------|
| CMO & Council                             |   |                               | 15.6                                    | 4.5                           | 0.4                                    |  | 20.5         |
| Development Review                        | 9.0   | 4.0                           | 12.5                                    |                               |  |  | 25.5         |
| Economic Development                      |   |                               |   |                               | 3.0                                    |  | 3.0          |
| Financial Management Svcs                 |   |                               | 40.0                                    |                               |  |  | 40.0         |
| Facilities                                |   |                               | 14.0                                    |                               |  |  | 14.0         |
| Human Resources                           |   |                               | 11.3                                    |                               |  |  | 11.3         |
| Information Tehcnology                    |   |                               | 12.0                                    |                               |  |  | 12.0         |
| Law                                       |   | 16.8                          | 11.9                                    |                               |  |  | 28.7         |
| Media                                     |   |                               | 2.9                                     | 2.0                           |  |  | 4.9          |
| Parks and Recreation                      | 52.9  | 2.2                           | 7.1                                     | 5.9                           |  |  | 68.0         |
| Planning                                  | 4.0   |                               | 3.0                                     |                               | 0.4                                    |  | 7.4          |
| Police                                    |   | 220.5                         | 11.0                                    | 1.0                           |  |  | 232.5        |
| PW: Grounds Maintenance                   | 23.0  |                               | 0.6                                     |                               |  |  | 23.6         |
| Transportation                            |   |                               | 6.5                                     | 0.9                           |  | 14.2                                       | 21.5         |
| PW: Street Maintenance                    | 3.8   | 2.0                           | 1.9                                     |                               |  | 23.5                                       | 31.2         |
| Transportation: Pavement Mgt              |   |                               |   |                               |  | 2.0  | 2.0          |
| Fire                                      |   | 194.0                         | 7.0                                     | 2.0                           |  |  | 203.0        |
| <b>GF, Street, &amp; Fire Total</b>       | <b>92.7</b>                                   | <b>439.5</b>                  | <b>157.2</b>                            | <b>16.2</b>                   | <b>3.8</b>                             | <b>39.7</b>                                | <b>749.0</b> |
| Equipment Services Operations Fund        |   |                               | 9.6                                     |                               |  |  | 9.6          |
| Equipment Services Capital Fund           |   |                               | 0.6                                     |                               |  |  | 0.6          |
| Computer Repair & Replacement             |   |                               | 5.6                                     |                               |  |  | 5.6          |
| Self Insurance Fund                       |   |                               | 3.4                                     |                               |  |  | 3.4          |
| Print Shop & Mail Services                |   |                               | 1.0                                     |                               |  |  | 1.0          |
| <b>Total General Fund Supported FTE's</b> | <b>92.7</b>                                   | <b>439.5</b>                  | <b>177.4</b>                            | <b>16.2</b>                   | <b>3.8</b>                             | <b>39.7</b>                                | <b>769.2</b> |

# Budget Overview Summary

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- Of the total biennial City budget of \$909.5 million ~ 20% or \$181.5 million represents discretionary budget
- Currently, it is allocated among the six Strategic Commitments, ranging from 1% spent on Financial Health and Economic Vitality to 58% spent on Safe and Prepared Community

# Questions?

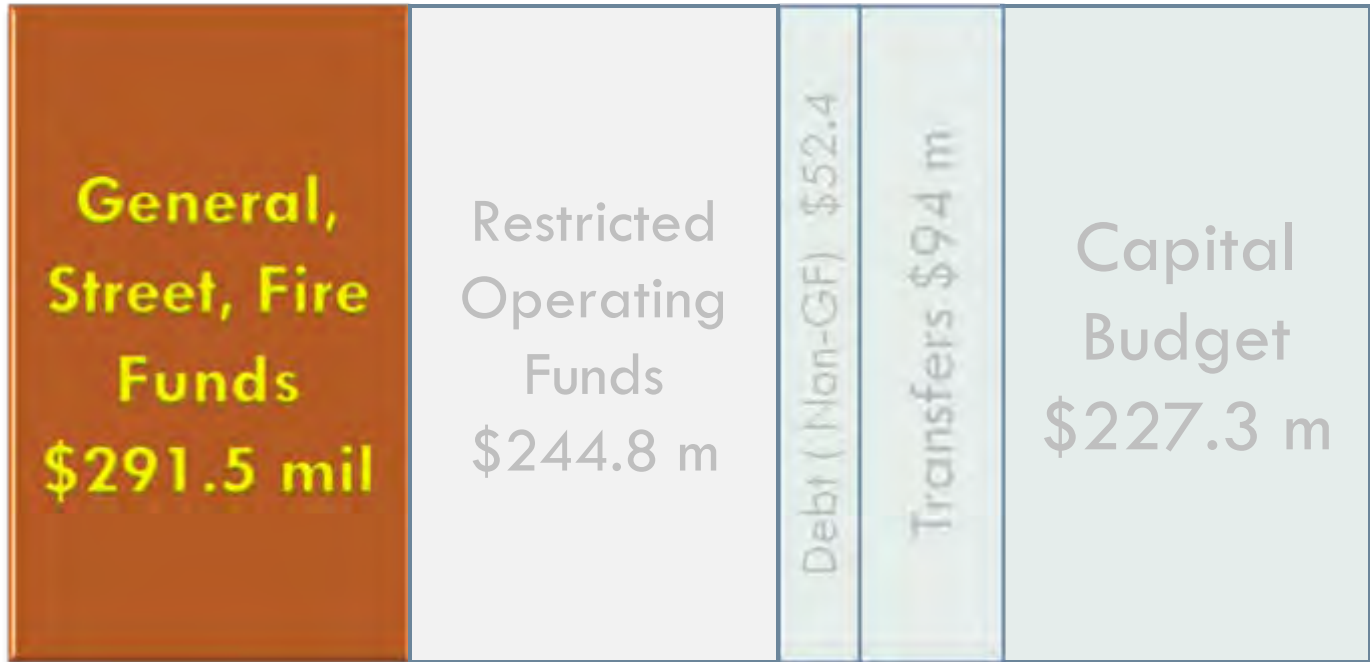
# 2011-16 General, Street, Fire Fund Forecast

MAJOR REVENUE AND EXPENDITURE ASSUMPTIONS

PROJECTED BUDGET GAPS FOR 2011-16

# Total City of Vancouver 2009-10 Budget Appropriation \$909.5 million

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The forecast is applicable to this portion of the total appropriation

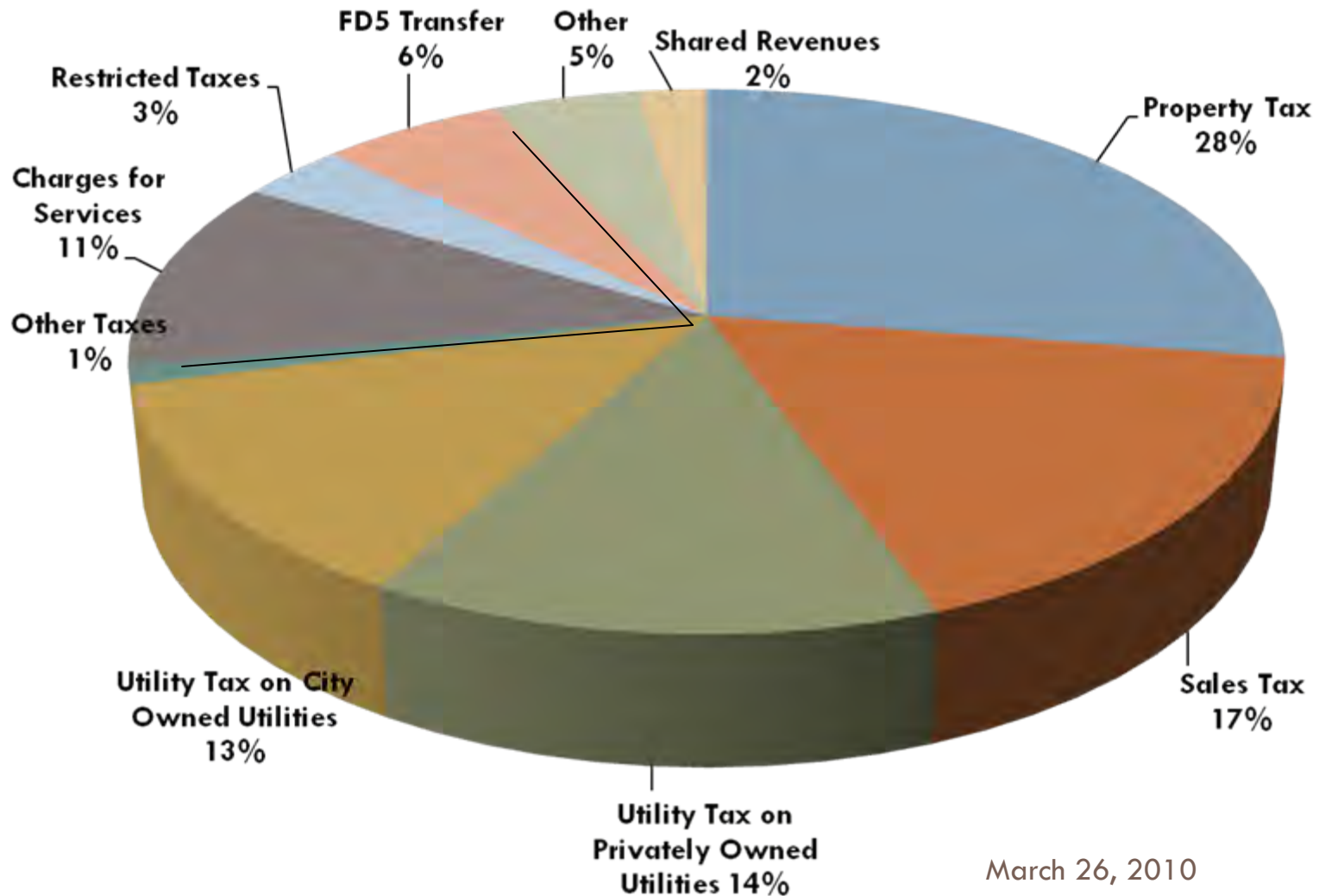
# Major Revenue Drivers

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- Citizen Initiatives
- Economic Impacts
  - ▣ Consumption changes
- Council Actions
  - ▣ Tax rates
  - ▣ Cost recovery targets (DRS, Recreation)
  - ▣ New sources of revenue
    - Councilmanic
    - Voted

# Forecast: General, Street and Fire Fund Major Sources of Revenue 2011-12

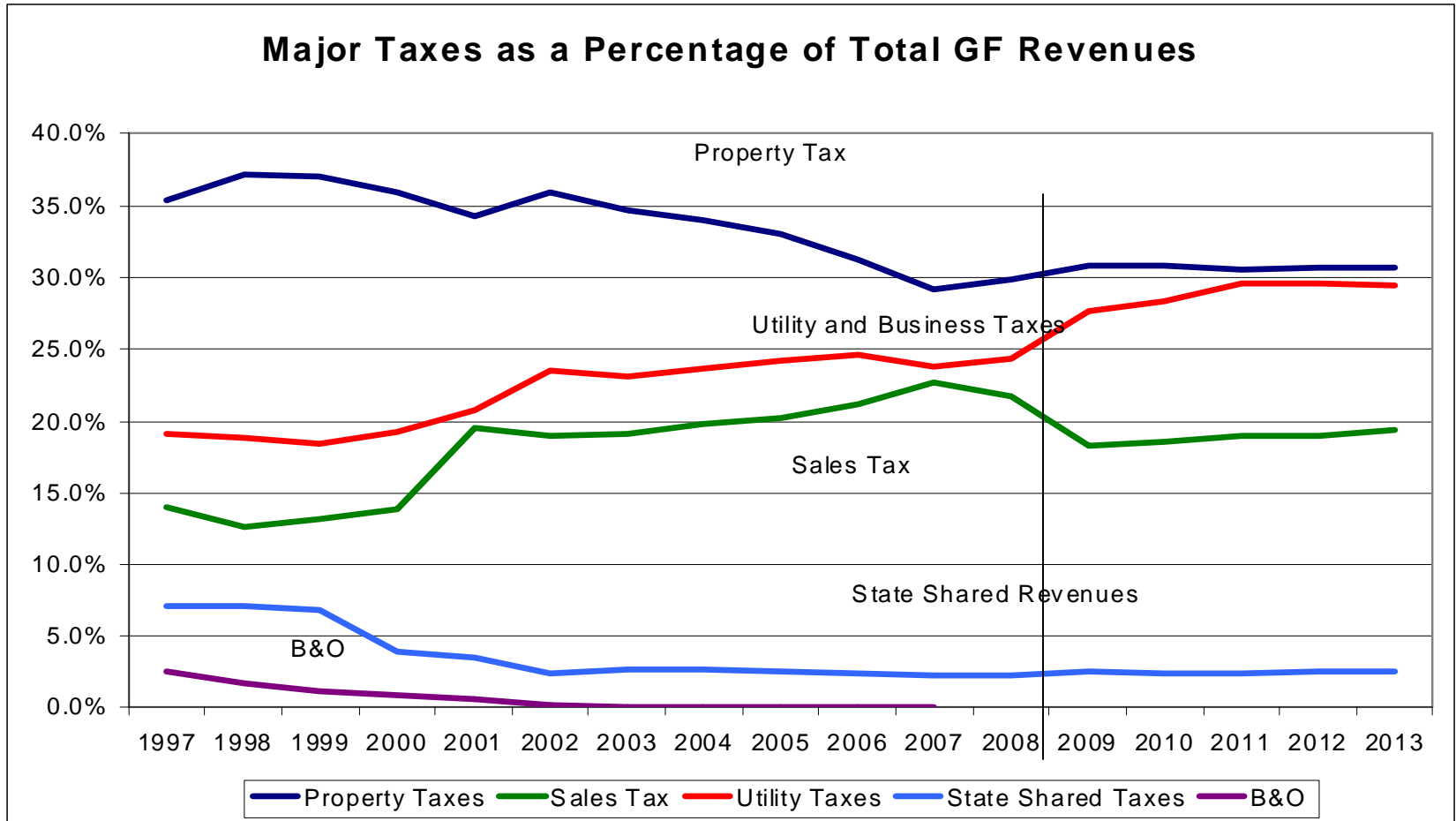
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# General Fund Reliance on Major Taxing Sources

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# 2011-2016 Revenue Forecast

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## □ Revenue Assumptions: No New Taxes

### Non-Restricted Revenues:

- **Property Tax Revenue** will grow 1% per year plus new construction
- **Sales Tax:** 2.6% to 5.5%
- **External Utility Taxes** 2.6%
- City will resume receiving **Brokered Natural Gas** tax in 2010
- **Internal Utility Taxes** 10% rate increase, 2% growth rate
- **Overall non-restricted revenue will grow 2.7% - 4.9% per year**

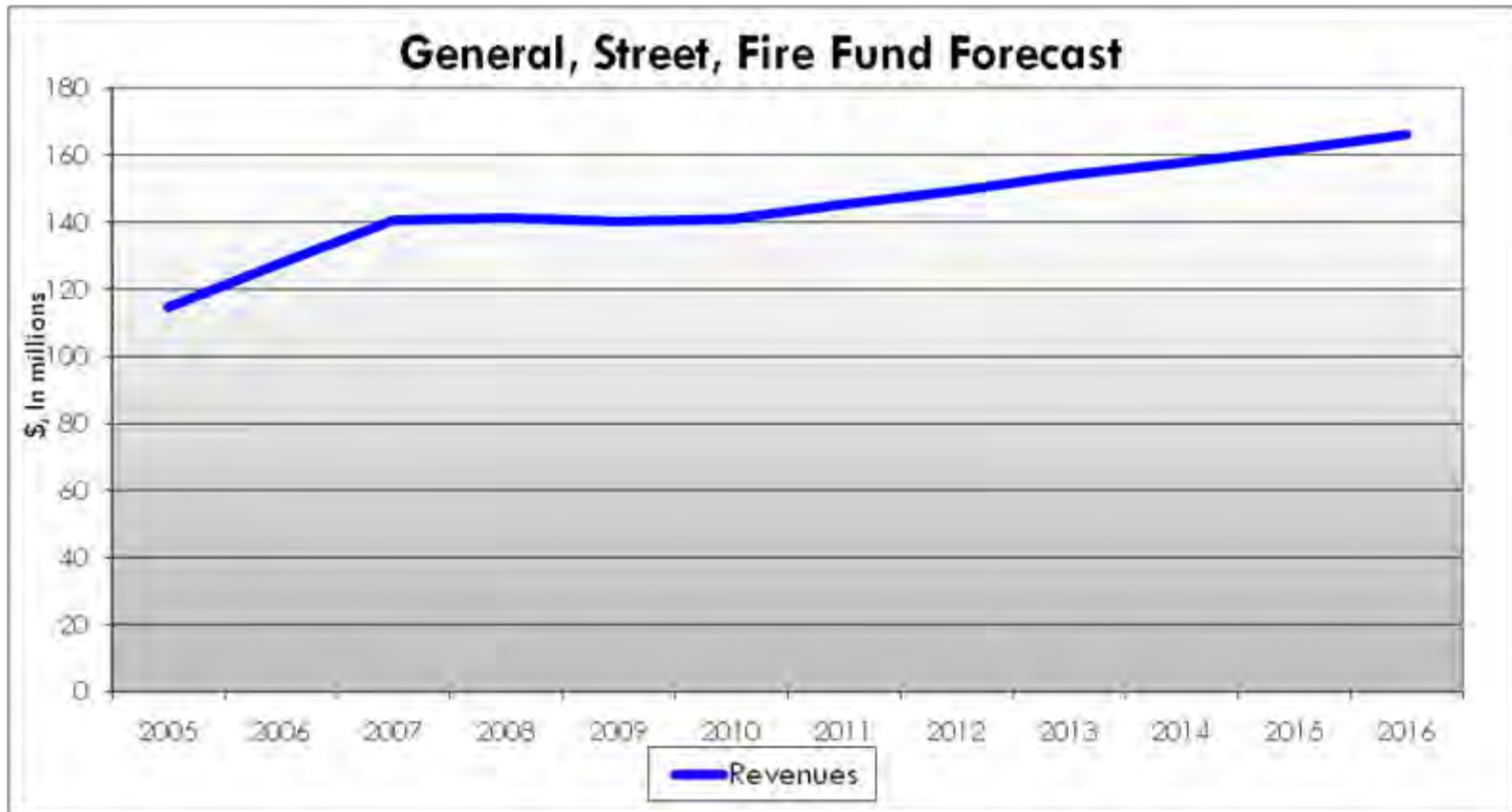
### Restricted Revenues

- **Recreation** 3-4% rate increases every other year
- **REET** will recover to pre-bubble level by 2013, then grow at historically sustainable rates

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# General, Street, Fire Fund 2011-2016 Forecast: Revenues

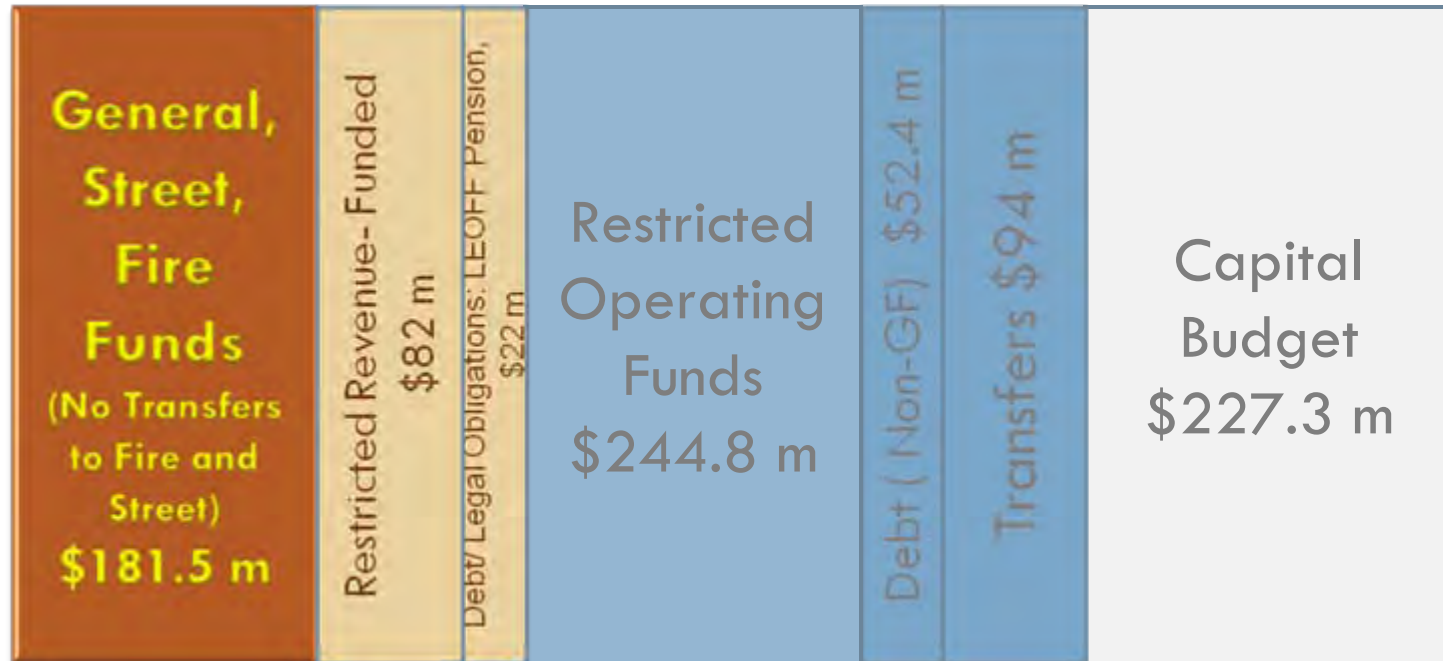
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- **Overall General, Street and Fire Revenues will grow at a rate of 2.4% to 3.1% over the forecasted period**

# Total City of Vancouver 2009-10 Budget Appropriation \$909.5 million

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- Discretionary City budget

# General, Street, Fire Fund Expenditures

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## General, Street, Fire Fund Discretionary Spending by Category

(Transfers to Fire, Street and Debt are excluded)



# Expenditure Drivers

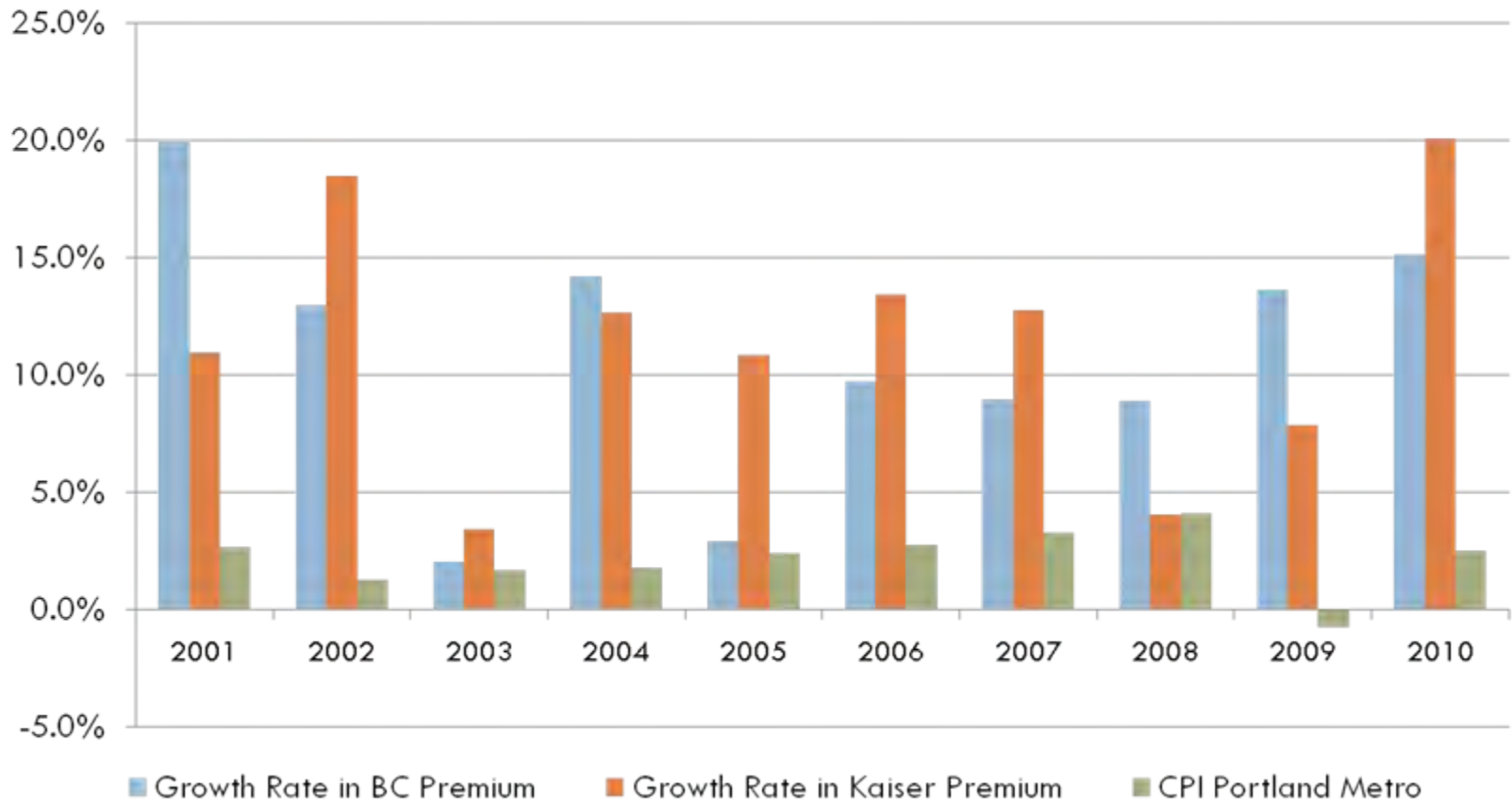
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- Total Compensation Structure
- Intergovernmental Contracts
- State Mandates
  - PERS
  - LEOFF I Pension

# City of Vancouver: Health Insurance Costs

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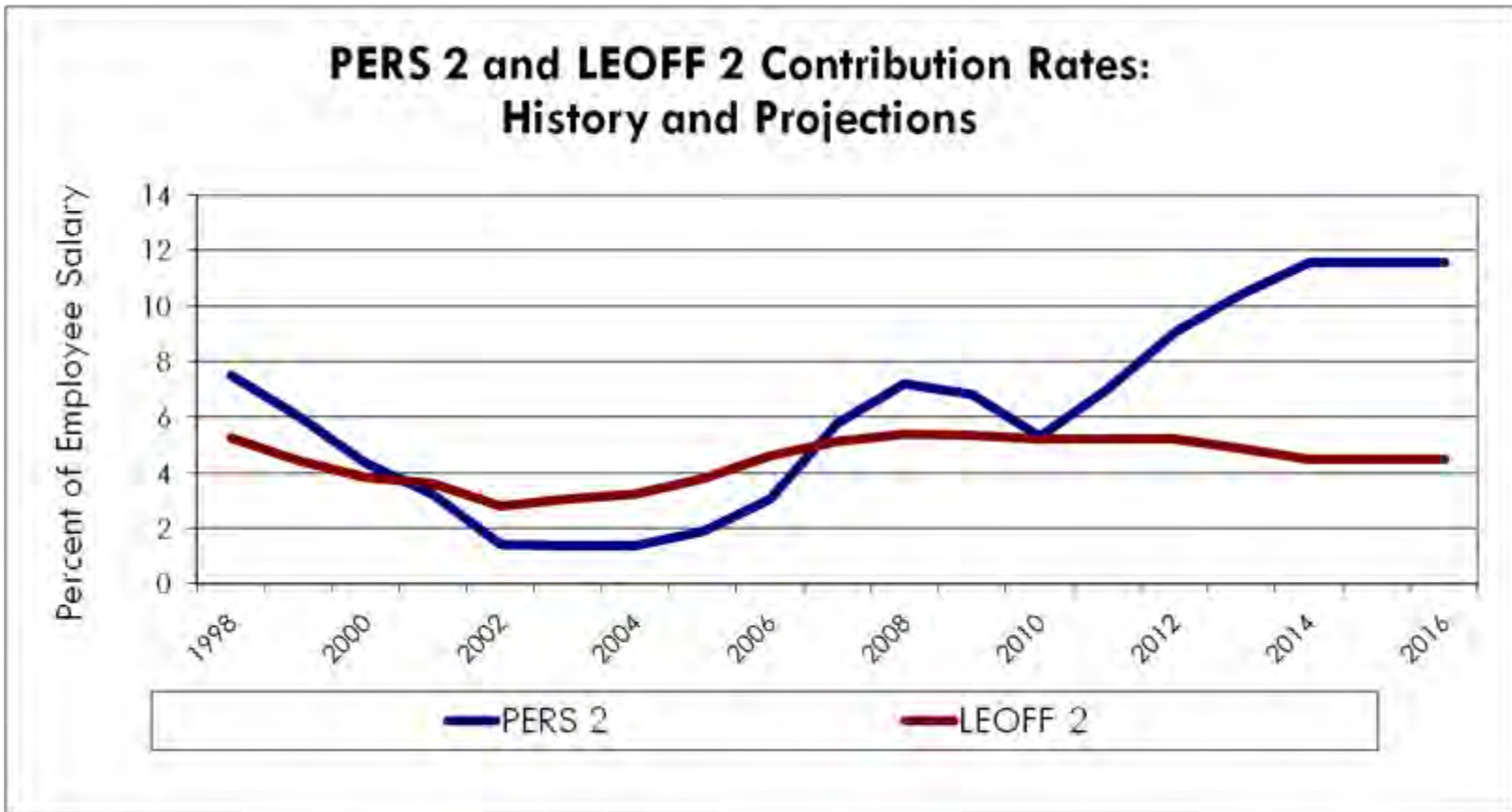
## Annual Growth Rate in Health Insurance Premiums



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# Retirement Contribution Rates

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*Note: Projections are based on the Washington State Office of the State Actuary's Employer Contribution Rates (Revised 1/8/2010)*

# Total Compensation Structure

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- **Forecast Assumptions:**
  - **Steps** (ranging from 3.5% to 5%)
  - **COLAs** equal to CPI-W, or minimum as outlined in the union contracts (2%-2.1% - WA OFM)
  - **Market adjustment** to equity with comparable agencies
  - **Health insurance** increase (14%-10% over 2011-16)
  - **PERS** rate increase per State of Washington Actuary
- Based on these assumptions, the underlying growth rate of salary and benefits in 2011-16 is anticipated to range between **4.5%** to **6.9%** annually

# Other Expenditure Assumptions

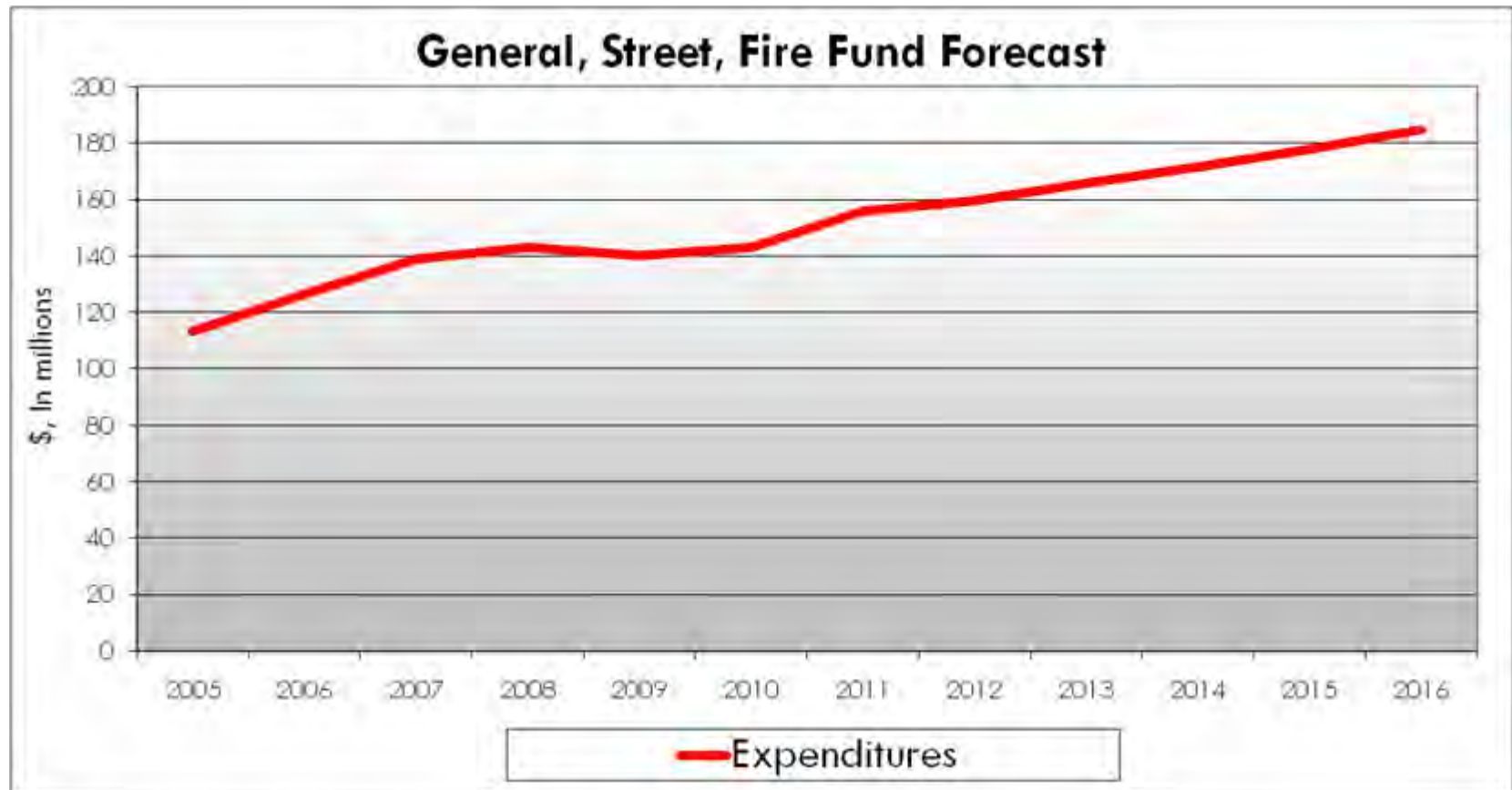
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- **No new FTEs** (to address population growth)
- **Intergovernmental:** based on historical averages
- **Supplies and Services:** flat through 2012, then CPI
- **Pavement Mgt:** funded to policy level
- **Brokered Natural Gas:** one-time repayment of \$3.6 million included in 2011 (with \$1 million payment in 2010)
- **GF Recreation support:** continues above policy levels
- GF to begin funding water system capacity for **Fire Suppression** in 2011
- GF will fund **debt** service on Firstenberg and Marshall Community Centers when **REET** revenue is not sufficient

# General, Street, Fire Fund

## 2011-2016 Forecast: Expenditures

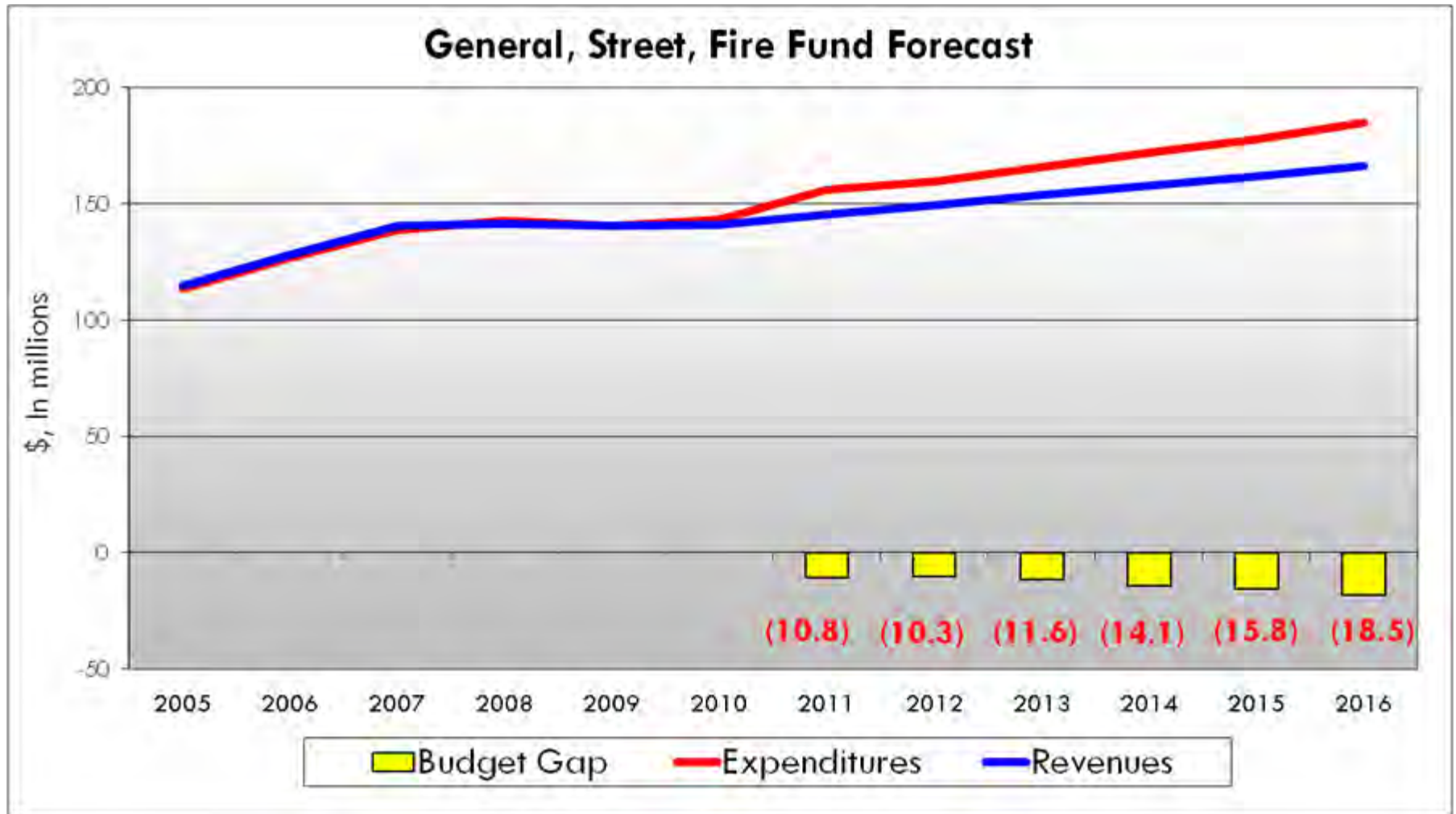
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- Personnel Costs will grow at a rate between 4.5% and 6.9% per year
- Total Expenditures are anticipated to grow at a rate of 3.5% to 4.7% /year

# General, Street, Fire Fund Forecast 2011-2016

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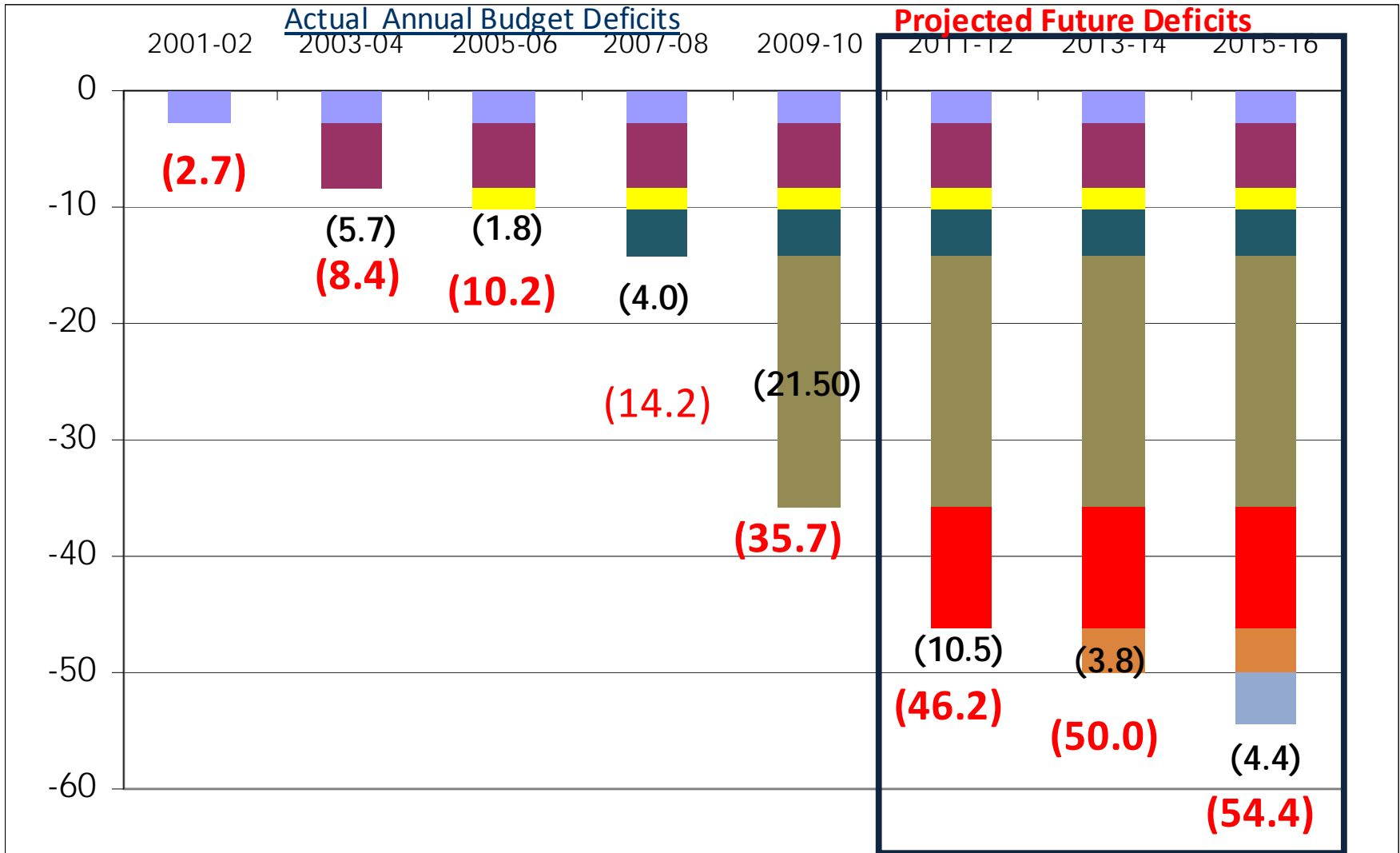
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# Financial Summary 2009-10

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  - Sufficient operating balances
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- **Yet, the structural deficit remains**

# Past and Projected Annual Deficits in the General, Street and Fire Fund



# 2011-16 Fiscal Challenge

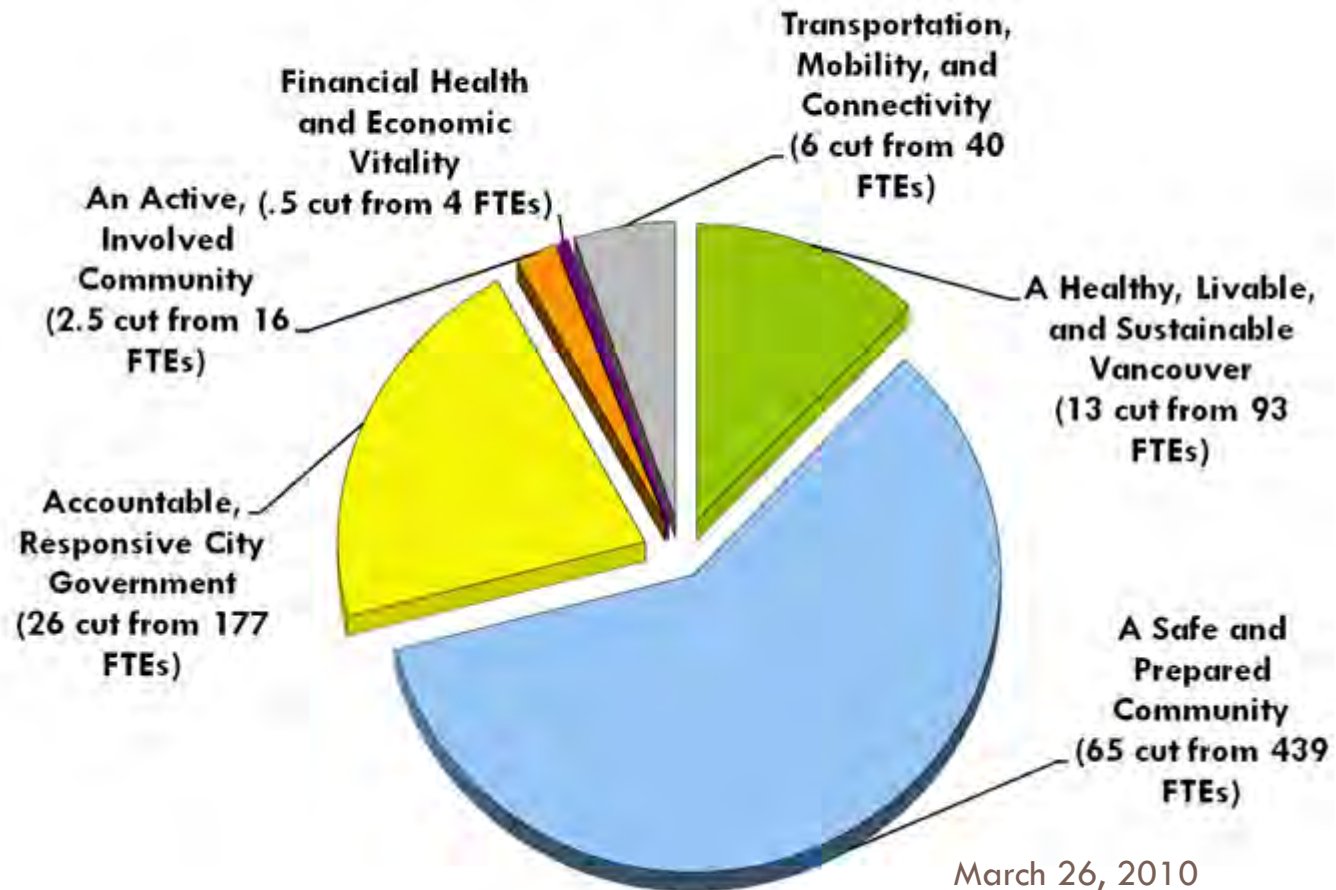
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- **\$10 million annual operating budget deficit in 2011, growing to \$18.5 million by 2016**
- **Existing revenues growing at an average rate of 2.8% annually**
- **Existing expenditures growing at an average rate of 4.4% per year**

# Budget Reductions by Strategic Commitment

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## FTE Reductions by Strategic Commitment if No Policy Changes are Made



# Continuum of Potential Solutions

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# Operating Budget Options

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- **Budget Reductions – mainly FTE reductions**
  - ▣ **Program eliminations**
  - ▣ **Service level reductions**
  - ▣ **Compensation reductions**
  - ▣ **Organizational flattening, reorganizations**
  - ▣ **Service delivery alternatives**
- **Revenue Increases**
  - ▣ **Councilmanic or Voted**
    - **Higher cost recovery targets**
    - **New Taxes, Tax Rate Increases**

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# Summary

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- With no changes, the 2011-12 Budget reduction of \$10 mil/year: 110-120 FTEs will need to be eliminated (1 out of every 7) and an additional 90 FTEs eliminated over the 2013-16 period
- **This is the challenge before us**

Questions?

# Focusing on the Future

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- Questions for Discussion:
  - ▣ What is the role of City government in the community?
  - ▣ What services should the City provide?
  - ▣ How will the City provide those services?

# Goal of the Retreats

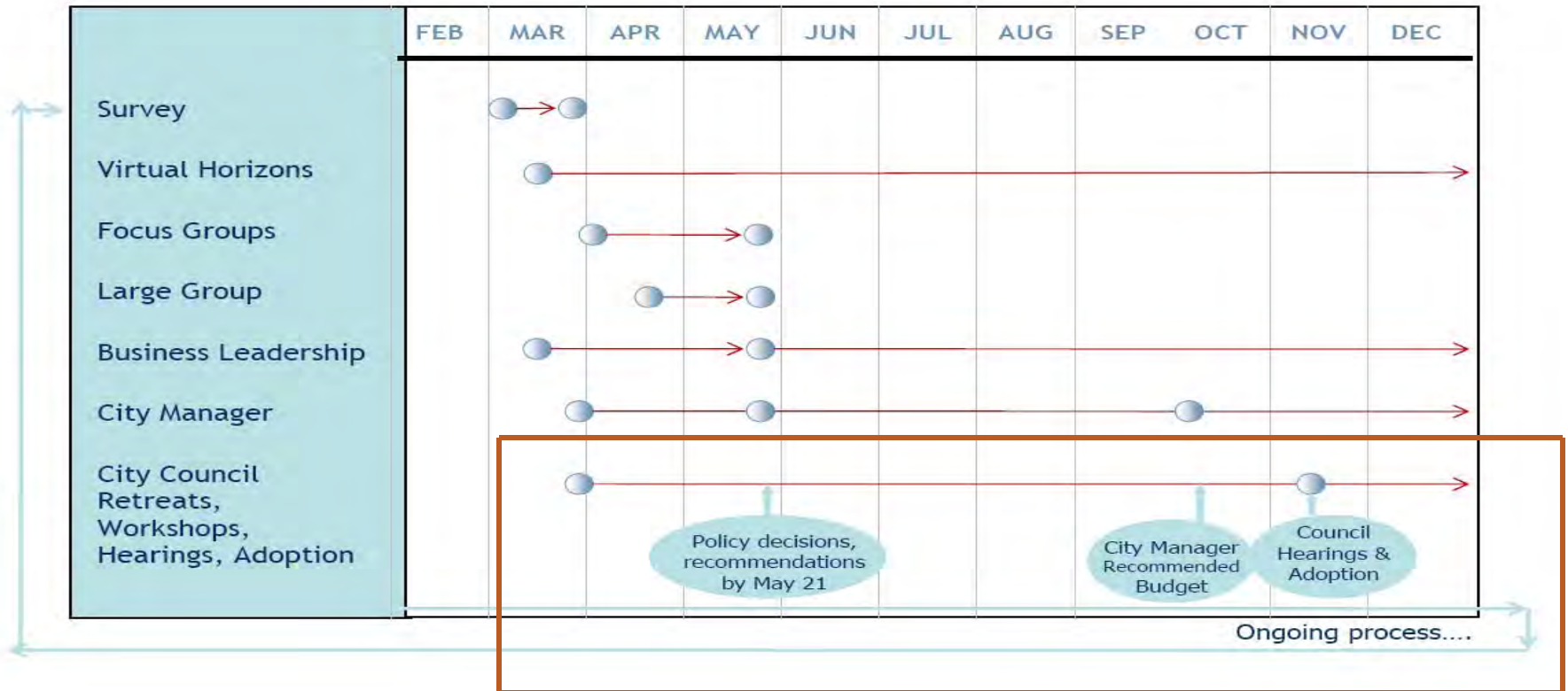
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- Provide leadership and policy direction to the City Manager and staff for 2011 budget and beyond
- ... By the end of MAY 2010

# Horizons and Budget Timelines

## Horizons Engagement Timeline - 2011 & Beyond

Ongoing, Evolving, Dynamic Process



**“[Men] wanted for hazardous journey. Small wages, bitter cold, long months of complete darkness constant danger. Safe return doubtful. Honor and recognition in case of success.”**

**Ernest Shackleton, Transpolar Explorer  
in a reputed want ad for crew members  
cir. 1914.**



# Questions?