



City of Tacoma
City Manager

May 7, 2009

TO: Members of the City Council

FROM: Eric A. Anderson, City Manager

SUBJECT: Follow-up on questions related to the Finance & Economic Status Report

This memorandum provides responses to the questions asked at the April 28th Study Session regarding the Finance & Economic Status Report including the City's response to 2009-2010 economic trends.

City Manager's Office

Question: Is the City making budget cuts as a result of a budget deficit?

Answer: The City of Tacoma does not have a budget deficit. Because the City Council has been fiscally disciplined in the last two biennia and because the City adopted a conservative biennial budget for 2009-2010, the City is not in the difficult situation that many other governments are currently facing. However, recent economic trends suggest that the financial crisis may be deeper or last longer than anticipated. As a result, it is prudent to remove some of the uncertainty by being even more conservative than the adopted budget and reducing expenditures in a strategic way without impacting services to citizens. The proposed budget adjustments help ensure the City's expenditures remain within our revenues by the end of the biennium. We are planning to update the City Council after evaluating second quarter revenues and expenditures; nonetheless, we continue to monitor the economic conditions on a frequent basis and will inform City Council should significant issues arise.

Question: Will service levels be affected by these budget adjustments?

Answer: No. I have worked closely with the Senior Management Team to identify potential savings based on a tiered ranking system:

- ♦ Level 1: implement easily
- ♦ Level 2: high value, relatively low risk and low impact
- ♦ Level 3: may impact services
- ♦ Level 4: significant impact on services

The initial budget adjustments being made in this conservative approach only include opportunities identified as Level 1 or Level 2 that have been ranked as having very little to no service impacts to citizens. Generally, these are better management practices that have been identified during a close review of expenditures, expenses that can be temporarily deferred, or adjustments that may have an impact internally on staff but do not affect direct service delivery to citizens. In cases where filling a service position is being temporarily deferred, efficiencies and adjustments to work assignments will assure that direct service levels to citizens are maintained.

Question: When will the City's reserves be exhausted if the current economic crisis continues?

Answer: The budget adjustments presented during the Finance & Economic Status Report make no changes to the City's reserves. The adopted 2009-2010 budget included the allocation of nearly \$14 million from the City's reserves of \$27.5 million, leaving more than \$16 million of Unreserved Fund Balance. The \$14 million of budgeted cash has been appropriated and is included in the biennial budget. The budget adjustments that are being made are an effort to assure that the City will not have a budget shortfall and necessitate the further use of cash reserves. The City currently maintains sufficient Reserved Fund Balance according to City Council policy as well as additional Unreserved Fund Balance that has been set aside in the event that the economic crisis continues longer or is dramatically deeper than originally anticipated.

Question: When will the City begin to make more serious budget adjustments?

Answer: The City is taking a conservative approach to budget adjustments because recent economic trends suggest that the financial crisis may be deeper or longer than originally anticipated. However, economic trends are only available for the first quarter of 2009. The immediate budget adjustments are a conservative approach to these trends, but even more conservative adjustments will not be made until revenue collections and economic trends for the second quarter of 2009 are available. I will work with the Senior Management Team to closely monitor revenues and expenditures and provide a report to the city Council in July after the second quarter revenue collections are reported. The City of Tacoma is not in crisis mode and is still in front of potential revenue shortfalls. The proposed budget adjustments being made now reduces the probability of having to make dramatic budget adjustments at a later date. After second quarter revenue collections are reported, I will be prepared to propose any additional budget adjustments that may be necessary.

Question: What public process will be involved in making additional budget adjustments if necessary?

Answer: No detailed plans for public process have been made regarding potentially significant budget adjustments. If significant budget adjustments that impact service levels are necessary, the appropriate level of public input will be incorporated. However, the type of public process will depend on the nature of the budget adjustments that have to be made. All budget adjustments that impact service levels will be extremely difficult and challenging. I am currently working with the Senior Management Team to review the potential budget adjustments affecting service levels and making contingency plans, but I recommend determining the scope of budget adjustments before drawing the public into difficult and controversial conversations.

Community and Economic Development

Question: Can you provide additional information about the item that references not creating the regional center for business immigration assistance?

Answer: Tacoma was designated a Regional Center in June of 2008 by U.S Citizenship and Immigration Services, which comes with a certain level of federal funding. These funds would have been used to provide marketing materials supporting our work with American Life under the Regional Center EB-5 Pilot program. This federal program is designed for foreign investors interested in obtaining permanent resident status for themselves and their immediate families in the U.S. by investing at least \$500,000 in a business or development that will create jobs in higher-than-average unemployment areas in the U.S. A large area of Tacoma, including much of

the working definition of downtown, has been qualified to receive these funds. In trying to identify investment opportunities in Tacoma, funds would have been used for marketing Tacoma to foreign investors, printing materials, providing tours of the community and other miscellaneous expenses. Staff believes that it can avoid this expenditure for the balance of the biennium due to absence or slowing of clients during the recession. Staff will handle clients who do need assistance on a case by case basis and will continue to support the work of American Life.

Finance

Question: How will the Business and Occupation Tax Auditors result in revenues of \$800,000? And how will that impact businesses already struggling in the current economic conditions?

Answer: The estimated amount of revenue to be collected is based on other jurisdictions' collection ratio and Tacoma's revenue collection history from prior years. Auditors will use the two methods of compliance and discovery to determine the amount of tax owing. Tax owing can be under payment of tax from licensed businesses currently filing tax returns or tax owing from unlicensed businesses. Often businesses are simply unaware of local business tax due or they are paying their tax to the incorrect jurisdiction. Auditors will use information available from various reports, advertisements, internet and other business publications.

The focus will be on ensuring all taxpayers are paying the correct tax to maintain a fair and equitable treatment for all businesses. This will help prevent a business from gaining competitive advantage over another business. Most businesses have been audited by the State of Washington and are aware of the tax structure and the potential of an assessment for under payment of taxes.

Question: If the budget adjustments proposed by the City Manager are implemented, how much shortfall would remain in the context of the estimates assumed in the conservative approach?

Answer: The "conservative" approach presented to the City Council estimates a \$13.5 reduction in revenues for 2009-10. If our conservative estimates become true, we will have to look at an additional reduction of \$4.2 million of expenditures. The Senior Management Team will continue to search for cost savings to ensure that the budget remains in balance throughout the biennium.

Question: Please provide more information explaining the variance in projected Miscellaneous Revenues for the first quarter of 2009?

Answer: Our report on Miscellaneous Revenues showed a projection of \$1,042,000 with actual revenues of \$504,000 for a negative variance of \$538,000. There are two components to this category, interest income and minor billings to outside sources. The interest income variance is \$329,000 and the other variance is \$209,000.

Interest income has dramatically dropped from last year, and has continued to decline after our projections that were included in the 2009-10 budget. Our estimates for interest income were originally calculated at a two-year average of 3.75%; our revised estimates are 2.75% for 2009 and 2.25% for 2010, an average of 2.5%. If our more current estimates of 2.5% are realized in the market, we will have a 34% reduction in total interest income over the biennium. We are

carefully monitoring this revenue source and will update the projection for the second quarter revenue collection report.

The second component of this category is minor programs' billings. This represents revenues the City receives from events that occur during the biennium. For example, in 2007-08 we contracted with Metro Parks for a boat ramp project that resulted in \$1 million in revenue being recorded in this category. We will continue to monitor this revenue source.

Question: Could you provide more explanation for the variance in Gross Earnings Taxes?

Answer: Gross Earnings Taxes for the General Fund for the first quarter of 2009 were projected to be \$12.7 million. This projection is based on the last three biennia. Actual tax revenue totaled \$10 million, leaving a negative variance of \$2.7 million.

The original budget contains \$95.6 million in Gross Earnings Tax and our current estimates reduce that amount to \$87.6 million. This adjustment results in a revised March 31, 2009 budget projection of \$11.5 million and a revised variance of \$1.5 million. A large portion of the variance is due to the one-time refund related to the BPA Residential Exchange Credit program (nearly \$1.0 million).

The remaining variance of \$0.5 million is predominately from lower Power Gross Earnings Tax due to lower wholesale power prices and lower consumption.

Question: Is the budget impact for lost revenues related to brokered natural gas taken into account in the existing budget?

Answer: The budget specifically included a reduction of \$850,000 for the "GP Gypsum Refund." This is the amount that the State estimated the City of Tacoma could be at risk to repay from collections that occurred from 1996 to 2000. The matter is currently being adjudicated.

The 2007- 2008 budgeted amount for natural gas tax was \$2,667,000; however, the City collected \$2,824,000 in natural gas taxes in 2007-2008. As a result, the 2009-2010 Budget for natural gas tax was reduced to \$1,451,000.

Human Resources/Finance

Question: What risk will the City incur if it reduces its health insurance premiums by \$2,000,000?

Answer: Under the proposed budget adjustment, total revenue to the Health Insurance Premium Fund would be reduced by approximately \$6,114,000 for the biennium with approximately \$2,000,000 of the savings being realized by the General Fund. The majority of the savings would accrue to the City's enterprise funds like Power, Water, Solid Waste, Wastewater, and Surface Water.

In order to mitigate risks, self-insured health insurance plans typically purchase individual stop loss insurance and aggregate stop loss insurance. In the City's case, the individual stop loss insurance picks up coverage once an individual's medical expense for an occurrence exceeds \$150,000. This protects the City's self-insurance fund from large individual claims. The City's aggregate stop loss coverage begins when total claims exceed 200% of expected claims. Expected claims for 2009 are approximately \$41,250,000 which means the City could be

responsible for up to \$82,500,000 of medical claims for 2009. The risk to the City for reducing health insurance premiums is that current fund reserves and annual revenues are not sufficient to meet this potential risk.

Under the proposed changes, the City would change the aggregate stop loss coverage to 125% of expected claims on January 1, 2010, thereby lowering the City's aggregate exposure for medical claims to approximately \$58,300,000 (based on 2010 expected claims). By making this change, even with the lower revenues, the current fund reserves and annual revenues would exceed the maximum annual cost.

An additional test which the City's self-insured health fund must meet is a 2 ½ month expense reserve. As shown above the anticipated required reserve requirement at December 31, 2010 is \$11,130,000. Based upon expected claims, the anticipated December 31, 2010 fund balance of \$32,279,000 under the 2009-10 proposed plan would exceed this requirement. See Table 1 below:

Table 1 Health Insurance Premium Fund		
	2009-2010 Original	2009-2010 Proposed
Revenue	\$119,550,000	\$113,436,000
Claims	(\$87,860,000)	(\$87,862,000)
Administrative Expense	(\$13,392,000)	(\$13,295,000)
Revenue over Expense	\$18,395,000	\$12,279,000
Beginning Balance	\$20,000,000	\$20,000,000
Ending Balance	\$38,395,000	\$32,279,000
Required Reserve	\$11,130,000	\$11,130,000

Human Rights and Human Services

Question: Could you describe the impact of deferring the filling of the part-time Senior Center Coordinator Position?

Answer: The Senior Center Program Coordinator provides program planning, volunteer coordination and outreach services to seniors at both the Beacon and Lighthouse centers. In 2008, the program was expanded to offer a more diverse array of programming. Without this program coordinator, the program will go back to what it was in 2007. In the absence of the Program Coordinator, the Senior Center Supervisor has assumed those functions.

Information Technology

Question: Could you please provide the total budget and total General Fund budget for the Information Technology Department?

Answer: Table 2 below shows the Information Technology's budget for 2009-2010. This table divides Information Technology's budget into its component funds.

Table 2 Information Technology 2009-2010 Biennial Budget								
FUND NAME	ORIGINAL	TOTAL	General Government		General Government		TPU	
	APPROPRIATED AMOUNT	ALLOCABLE BUDGET *	General Fund (GF)	%	Non General Fund	%		
INFORMATION SYSTEMS FUND ¹	\$ 44,860,201	\$ 43,781,701	\$ 13,572,327	31%	\$ 14,885,778	34%	\$ 15,323,595	35%
<i>(Cumulative Total for 10 Service Areas/Allocation Methodologies)</i>								
COMMUNICATIONS SYSTEM FUND ³	\$ 3,842,199	\$ 3,097,471	\$ 1,672,634	54%	\$ 1,424,837	46%	\$ -	0%
RADIO COMM REVOLV FUND ²	\$ 5,752,521	\$ 5,214,339	\$ 4,380,045	84%	\$ 834,294	16%	\$ -	0%
GRAPHICS SVCS OPERATING FUND ¹	\$ 3,363,922	\$ 2,973,490	\$ 2,107,711	71%	\$ 865,779	29%	\$ -	0%
IT MUNICIPAL CABLE TV FUND ²	\$ 5,765,433	\$ 1,435,846	\$ -	0%	\$ 163,608	11%	\$ 1,272,238	89%
SPECIAL PEG** SUPPORT FUND ³	\$ 1,363,917	\$ -	\$ -	0%	\$ -	0%	\$ -	0%
Total	\$ 64,948,193	\$ 56,502,847	\$ 21,732,717	38%	\$ 18,174,296	32%	\$ 16,595,833	29%
		100%						
NOTE:								
* Allocable budget is original appropriated budget less amounts funded from beginning cash or outside revenues. This total represents allocations to internal City departments.								
**PEG=Public, Education, Government								
¹ Fund utilizes Beginning Cash to assist with appropriated expenditures, which decreases budget allocable to internal City departments.								
² Fund utilizes revenue received from external sources to assist with appropriated expenditures, which decreases budget allocable to internal City departments.								
³ Fund utilizes a combination of Beginning Cash and revenue received from external sources to assist with appropriated expenditures, which decreases budget allocable to internal City departments.								

Police

Question: How will Tacoma Police maintain service levels while deferring the filling of one Forensic Supervisor and one Animal Control Officer?

Answer: In regards to the Forensics Supervisor position, the position was intended to expand service levels. The forensics service level will remain as it is to date with coverage 24 hours a day, 5 days a week. A Forensics Supervisor would allow coverage to increase to 24 hours a day, 7 days a week.

In regards to the Animal Control Officer position, Animal Control is currently budgeted for one Supervisor and four Animal Control Compliance Officers. Three Animal Control Officer positions are filled and one employee is on light duty due to an injury and will be unable to continue employment in this position. This leaves two officers covering the City of Tacoma if the position is left unfilled. Once the light duty employee is separated from service, the Police Department will fill this position, so that there will be three Animal Control Officers covering the City. While this will not fill all four Animal Control Officer positions, the City will actually be providing additional service than the current situation because two Officers are handling the majority of calls. In addition, the Office Assistant for Animal Control and new equipment for Officers has been in place long enough that improved efficiency is being realized. All shifts will be covered and calls for service to Animal Control Officers will be answered in order of priority.

Public Works

Question: Do the budget adjustments include less expenditures for the Water Ditch Trail?

In the budget reductions plan reviewed with the City Council there were no proposed reductions to \$1.2 million budgeted for the Water Ditch Trail project.

Question: Do the budget adjustments include less expenditures for pothole repairs?

In the budget reductions plan reviewed with the City Council there were no proposed reductions to the \$4.2 million budgeted for the pothole repairs program work that is underway or to be completed in 2009.