City of Tukwila

Thomas McLeod, Mayor

INFORMATIONAL MEMORANDUM

TO: **Finance & Governance Committee**

FROM: **Marty Wine, City Administrator**

CC: **Thomas McLeod**

DATE: **April 22, 2025**

SUBJECT: **Budget Sustainability Project - Scope**

ISSUE
Briefing only. The Administration is conducting a comprehensive review of city programs, revenues and costs in preparation for the 2027/2028 budget development called the Budget Sustainability Project.

BACKGROUND
The purpose of this presentation is to remind the Council of the steps taken to develop and balance the 2025/2026 budget, which included the use of one-time funds and measures that would last for one two-year budget cycle.

In an effort to build a future General Fund biennial budget that is more sustainable over a longer term (6 years), and to acknowledge that fundamentally the city's costs grow at a rate that exceeds revenue growth, the Budget Sustainability Project is underway to achieve longer-term financial sustainability (in which regularly occurring expenditures exceed regularly occurring revenues).

Five work groups are reviewing all the dimensions of the city budget to make recommendations to the Mayor (and ultimately, the City Council with the 27/28 budget) for changes to revenues and expenditures. Some of the recommendations will be included in a report to Council about the revenue changes requested in the 2025-26 budget proviso. Other changes could include immediate and efficiency changes that can be implemented now; potential changes to salary and benefits policies; ways to manage operating expenses that may achieve savings; and what is needed from the City's General Fund to maintain and improve capital facilities and utilities.

DISCUSSION
The Committee will receive a briefing and status report about the scope of the project, and committee members will be asked to provide ideas and contributions to what should be considered

FINANCIAL IMPACT
The results of this review and the Budget Sustainability Project will shape how the General Fund 2027/2028 Proposed Budget will be developed.

RECOMMENDATION
Information and discussion only.

ATTACHMENTS
PowerPoint

BUDGET SUSTAINABILITY PROJECT

FINANCE AND GOVERNANCE COMMITTEE

SEAL OF TUKWILA WASHINGTON 1908

April 28, 2025

The City of opportunity, the community of choice.

How We Built the 2025-26 Budget

- Return some property tax capacity from RFA annexation
- Meet established financial and reserve policies
- Avoid major staffing changes or layoffs
- Budget enhancements limited to available resources
- Maintain ‘23-24 cuts to positions, services & supplies
- No planned debt issuance

- No tax rate increases
- Return Fleet fund management to replacement cost model
- Defer GF transfers to capital for 2025/26
- Use one-time funds as needed to balance budget
- Aim for sustainable budget model; review issues in 2025
- Trade-offs: service levels and new investment

Recap of Commitments

To Review in 2025

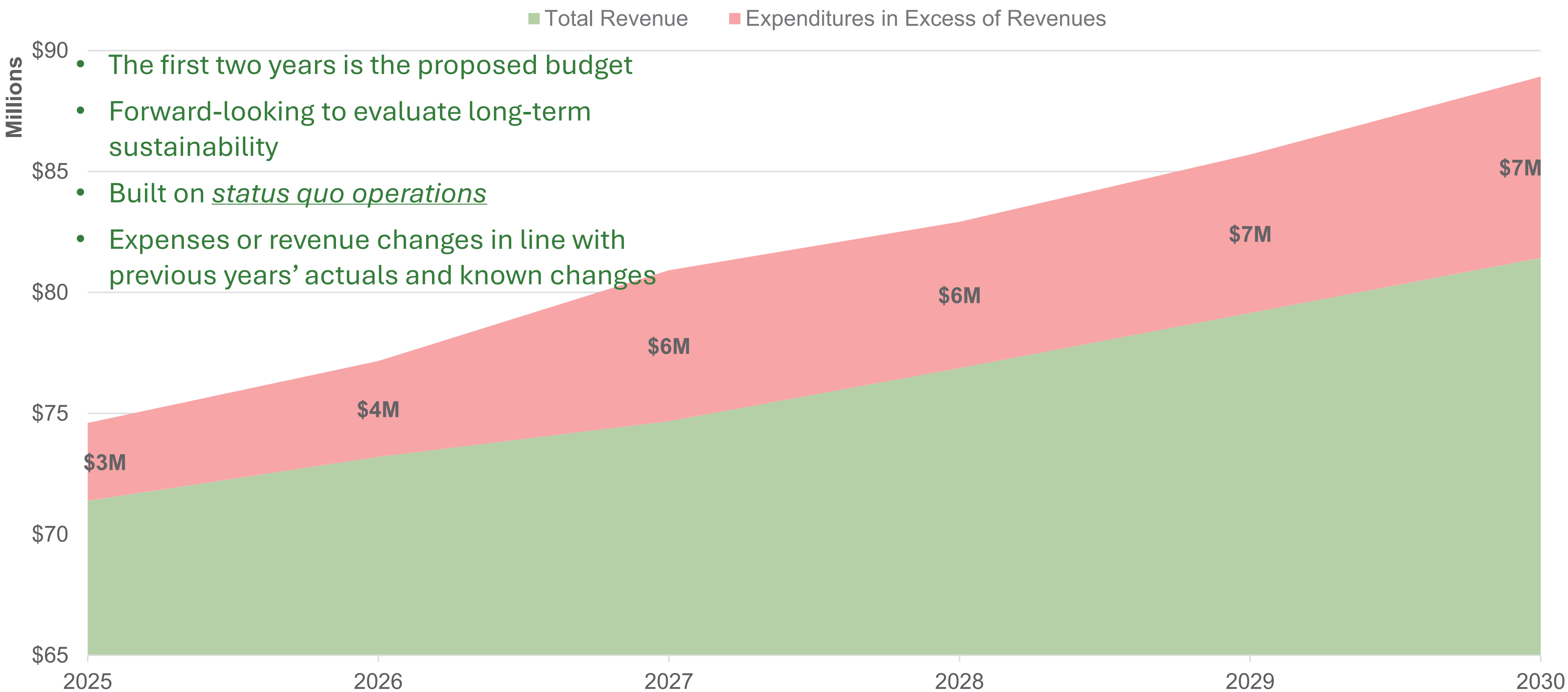
- Explore revenue opportunities/options (B&O, REET, other)
- Update compensation policy (Res 1951)
- Continued evaluation of Finance Enterprise system
- Implement Financial Sustainability Committee recommendations: operational audits, continuous improvement, lean process
- Consider operational changes and impacts of service changes
- Revisit capital repair/replacement needs
- Refresh Financial policies, Indirect Cost Allocation model
- Other

The Challenge

- Like most local governments, Tukwila has a budget sustainability challenge: our normally occurring expenses outpace our normally occurring revenues.
- Past actual annual revenues increase by an average of 2.7%, while expenses are forecast to increase by 3.6%.
- **Without using one-time revenues to cover operational expenses in 25/26, the City's General Fund would be out of balance by $3.6 & $5.4M respectively, and the forecasted gap in the General Fund continues to increase by roughly $1.0M annually**
- We balanced the 25/26 Budget by using one-time revenue to support on-going operations, a budget model that is not sustainable over more than just a few years.
- While the City is legally required to adopt a balanced budget, we need either increased revenue, reduced expenses, or a combination of the two, or the financial standing of the City will continue to erode.

Tukwila's 2025-2030 Forecast
Expenditures in Excess of Revenues, <u>Excluding</u> Property Sales

- The first two years is the proposed budget
- Forward-looking to evaluate long-term sustainability
- Built on *<u>status quo operations</u>*
- Expenses or revenue changes in line with previous years' actuals and known changes



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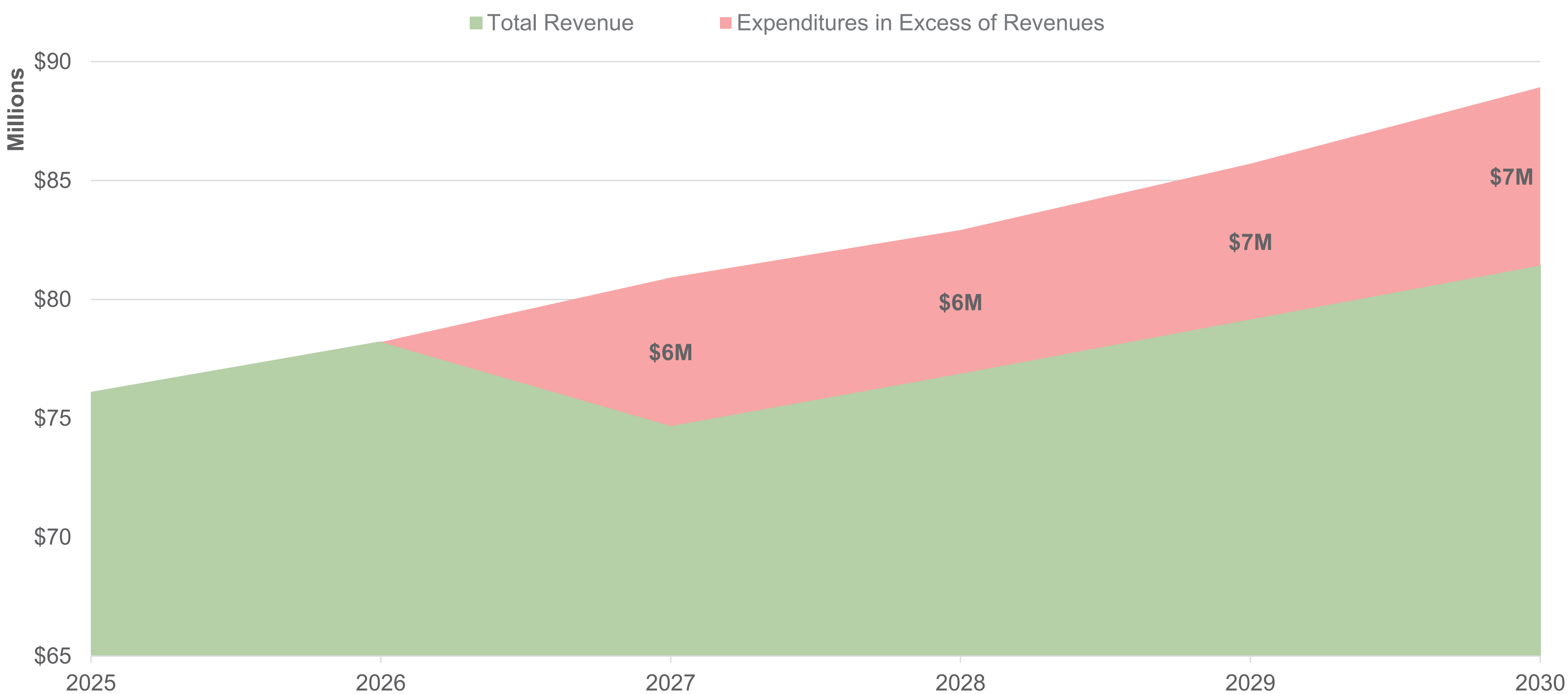
Tukwila’s 2025-2023 Forecast
Expenditures in Excess of Revenues — <u>Includes</u> Property Sales



Financial Policies (Res. 2096)

- One-time revenue for one-time expenditures
- 6-year expenditure & revenue forecasts; revenues estimated conservatively
- Revenues diversified and stable
- General Fund unassigned balance to equal or exceed 18%
- Contingency Fund reserve balance to equal or exceed 10% of previous year GF revenue
- Surplus = One-Time annual Revenue Reserve of 10% of prior year one-time revenue

- Unrestricted Enterprise Fund balances equal or exceed 20% of prior year revenue
- GF support should not be relied upon for funding capital projects
- Utility fund expenditures fully supported by their own rates/fees
- Utility rates structured for adequate infrastructure development & replacement
- Rate increases: small, applied frequently, staggered to avoid burdensome increase

Budget Sustainability Project

Purpose

Draft Mayor's proposed 2027-28 budget so that the City's General Fund regularly-occurring revenues annually exceed general fund expenditures for operations and capital maintenance for 2027 through 2032. Target range of cost savings or net new revenues is about $6M per year.

- **Identify key goals and principles**
- **Include Council, community, and employee input**
- **Identified by the Mayor as the City's highest priority for 2025-26**

Budget Sustainability Review- 5 Areas

Immediate Changes

Efficiency Improvements

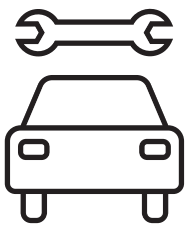
Out of the Box

Revenue Options

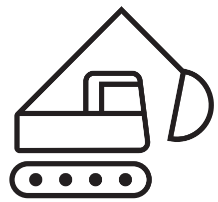
(Budget Proviso Work Group)

Salary and Benefit Policies

Budget Sustainability Review- 5 Areas



Operating Expenses



Capital & Utilities

Maintenance & Improvement Expenditures

Timeline

- Most areas: recommendations to Mayor by end of 2025 to include in 2027-28 budget development
  - *Immediate Changes/Efficiencies/Out of the Box Work Group- explore for 2025-26 and beyond*
- Revenues: Budget proviso work group will report in July
- Include Council (work sessions), community, and employee input

Next Steps

- Council engagement
- Community engagement
- Revenue Proviso Presentation
- Update on progress of Work Groups