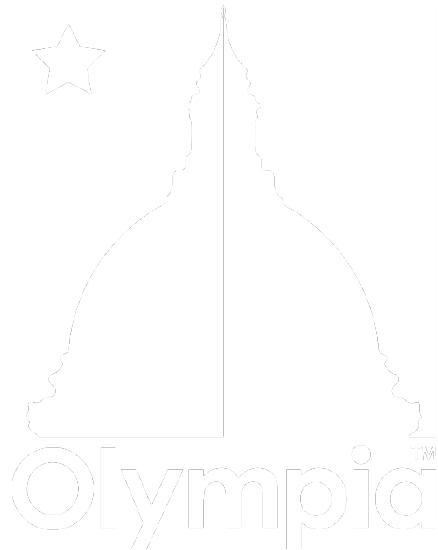




City-wide Budget Drivers

Utility Advisory Committee
June 6, 2024



Agenda Items:

- Introductions
- General Fund Budget Sustainability
- Indirect Costs
- Utility Tax Review
- Utility Billing Process

Budget Sustainability

Fund Comparison Review

- General Fund:
 - Largely unrestricted resources which can be used for any good governmental purpose.
 - Bulk of taxes are accounted for here to fund General Fund services.
 - Funds government services such as city-wide leadership, city-wide administration, public safety (Police, Fire, Courts), parks/rec/arts, etc.
- Utility Funds:
 - Restricted and funds may only be used for utility purposes.
 - Governmental enterprise fund(s) designed to run like a business.
 - Fees/rates need to cover operational and capital expenses.

Sustainable Budget

- Budget in which normally occurring earned resources match or exceed expenses.
 - One-time resources are used for one-time expenses.
- Fund Balance use: \$3M in 2023, \$7M budgeted 2024
- Expenses increase each year at a rate that exceeds earned revenue.
- Examples of cost drivers:
 - Salary/benefits, unfunded mandates, local and regional changes in economic conditions, less than full cost recovery.

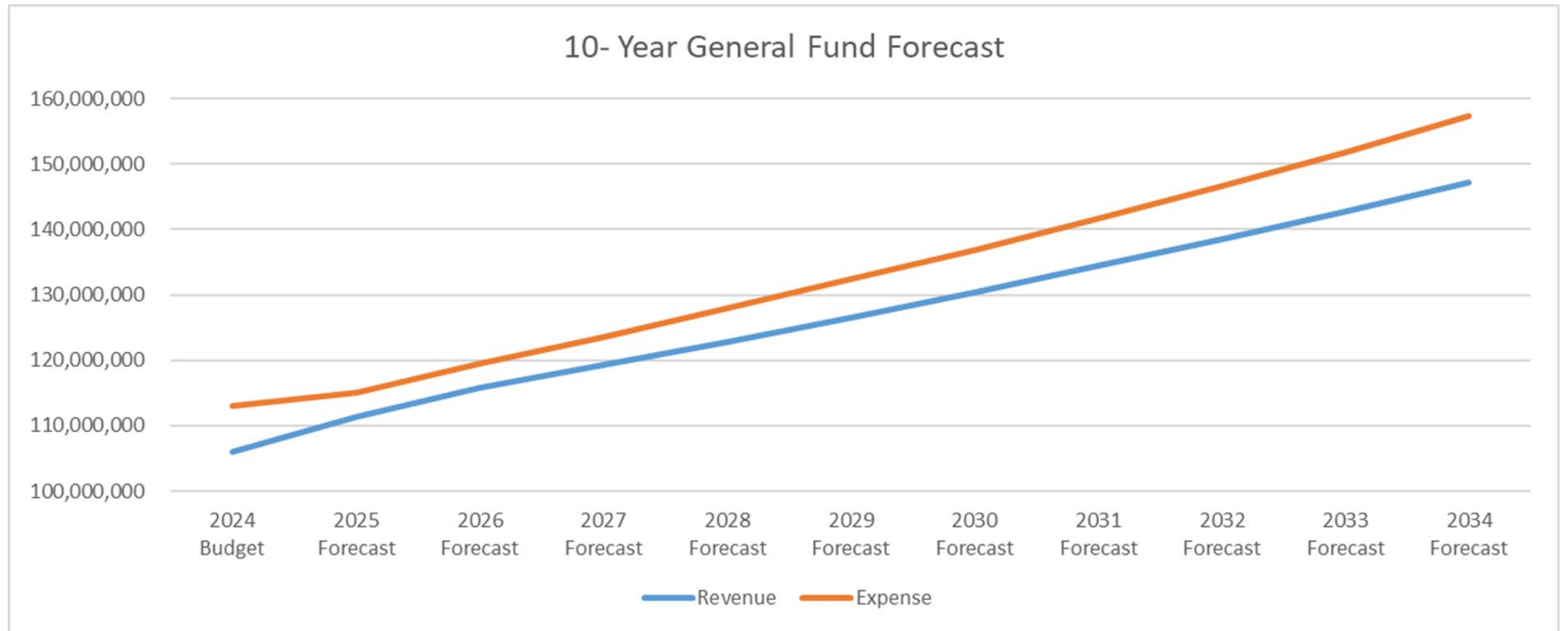
General Fund Forecast

- Long-term forecasts is a tool for business decisions by focusing on long-term objectives and future impact of current decisions.
- City updates our 10-year forecast each year after the most recent fiscal year closes.
- Key forecast factors:
 - Assumptions are built using five-year look-back with outliers excluded.
 - Base year is current year budget.
 - Status quo operations:
 - No new positions.
 - No new programs.

Identified Risks

- **Staffing & Service Levels:**
 - Forecasts assume flat staffing levels in the forecasted years.
 - Unlikely that existing staffing will be able to keep pace with necessary additional service levels over time.
- **Infrastructure Repair and Maintenance:**
 - City has had difficulty fully funding necessary infrastructure repair and maintenance.
 - Lack of ongoing sustainable funding may result in deterioration of infrastructure, especially in the General Fund.
- **Economic Recession & Slowdowns:**
 - City's General Fund is heavily dependent on taxes, which are volatile and impacted by the economy.
 - Forecast uses a five-year trend and growth may not be sustained and decline, or increase at a slower rate, than projected further impacting the City's ability to fund services.
- **Legislative Changes:**
 - Unfunded mandates and changes in federal, state, and county priorities or their fiscal position may impact shared revenues and sources.
 - City is at risk of being negatively impacted by downstream revenue changes and reduced service levels from other levels of government.

10-Year Gen Fund Forecast: 2024



2025 Operating Budget

- Labor/benefit adjustments based on contracts/rates.
- Hold the line on non-labor expense items.
- No enhancements without offsetting revenue or unless mission critical.
- Look for efficiencies.
- Maximize grant opportunities.

Cost Allocations

Cost Allocations

- City uses two types of cost allocations:
 - Indirect costs: costs not easily associated with a specific activity.
 - Direct costs: costs that can be associated to a specific activity.
- Are used to fairly distribute costs of the organization to benefitting programs/departments.
- Help better determine the true and full cost of the services provided by programs/departments.
- Allows for the determination of an indirect cost rate to be applied for full cost recovery of services provided.

Updated 2024 Model

- Calculations based on actuals instead of budget (best practice).
- New allocation metrics for calculating departments/funds fair share of indirect costs.
 - The plan averages the allocation metrics over a 5-year span to help smooth sharp changes from year to year.
- Costs are spread across a larger number of City departments or funds.
- Allows us to look at particular costs and determine whether they should be excluded from the model.

Updated ICAP Allocation Metrics

Expenses (Cost Pools)	2023 Allocation Method	2024 Allocation Method					
City Council	Number of Employees	Total Actual Expenditures	50%	# of agenda items	50%		
City Manager's Office	Number of Employees	Total Actual Expenditures	50%	FTEs	50%		
Climate Program	Percentage of Budget	Total Actual Expenditures	70%	FTEs	30%		
Office of Performance Innovation	Percentage of Time	Total Actual Expenditures	100%				
Billing and Collection - Accounting	Percentage of Budget	Total Actual Expenditures	80%	# of Invoices Initiated	20%		
Accounting - General Accounting	Percentage of Budget	Total Actual Expenditures	100%				
Accounting - Budget/Admin/Project	N/A	Total Actual Expenditures	100%				
Accounting - Payroll	Number of Employees	FTEs	40%	Union Contracted FTEs	60%		
Human Resources	Number of Employees	FTEs	35%	Union Contracted FTEs	45%	# of Recruitments	20%
OSI Assistant City Manager	Percentage of Budget	FTEs	100%				
OCV Assistant City Manager	Number of Employees	FTEs	50%				
Strategic Communications	Percentage of Time	Percentage of Time	75%	Total Actual Expenditures	25%		
Billing and Collection -Utility Billing	Percentage of Time	Percentage of Time	100%				
Legal (General Counsel only)	Number of Employees	# of Legal Work Requests	100%				
Information Technology	Percentage of Time	# of devices	80%	# of IT tickets	10%	GIS % time	10%
City Clerk	Number of Employees	# of agenda items	50%	# of PR Requests	50%		
Visual Production & Design	Percentage of Time	N/A (incl. with Strat. Comm.)					
Economic Development	Percentage of Budget	N/A					
Ambassadors	Percentage of Budget	N/A					

Direct Cost Allocations

- Examples of direct cost allocations:
 - City Hall and Maintenance Center Rent
 - Engineering Rate
 - Fleet: Capital Replacement, Operating & Maintenance, Fuel
 - PC User Rate and Replacement Rate
 - Property and Liability Insurance
 - Workday Subscription and Workiva License

Utility Tax

Excise Taxes

- Excises taxes are an indirect tax, generally ad valorem (percentage based), on specific goods at the time they are purchased.
 - Indirect tax: The seller or producer may choose to pass the tax to the purchaser by increasing costs/rates to cover the tax burden.
- Authority to tax is provided by RCW 35A.82.020.
- An excise tax is a general tax on the privilege of conducting business and is not a sales, use, or other tax.

Excise Tax: Public & Private Utilities

- State law imposes a maximum tax rate for certain types of utilities of 6%. An increase in the 6% maximum requires a simple majority voter approval.
- Maximum rates:
 - Electricity, natural gas, telephone, and cell phone (excludes data/internet) = 6% (RCW 35.21.870)
 - Broadcast satellite TV & internet = may not be taxed (Federal 47 U.S.C. 152).
 - Cable TV = tax rate may not be “unduly” discriminatory (Federal 47 U.S.C. 542).
 - Sewer, Solid Waste, Stormwater, Water = no limit prescribed by state or federal law.

Municipal Utility Tax Changes since 1993

City Utility	1993	2010	2014	2019	2020	2022
Water	7.00%	12.00%	10.00%	10.50%	11.50%	12.50%
Sewer	7.00%	10.00%*	10.00%	10.50%	11.50%	12.50%
Solid Waste	7.00%	10.00%	10.00%	10.50%	11.50%	12.50%
Storm Water	7.00%	10.00%	10.00%	10.50%	11.50%	12.50%
* Rate change in December, others in January						

City's that impose a tax on their utilities must disclose the tax rate to its customers. In line with RCW 35.92.460, the City includes a statement on utility bills that the amount billed includes a utility tax. Rates are on the City website.

2024 Municipal Utility Tax Budget

<u>Utility</u>	<u>Tax Rate</u>	<u>2024 Budget</u>
Water	12.5%	\$ 1,906,250
Sewer	12.5%	2,864,583
Solid Waste	12.5%	1,797,917
Storm Water	12.5%	<u>853,125</u>
Total		\$ 7,421,875

Municipal Utility Tax collections are split between the General Fund (12%) and Housing Fund (0.5%).

Utility Billing

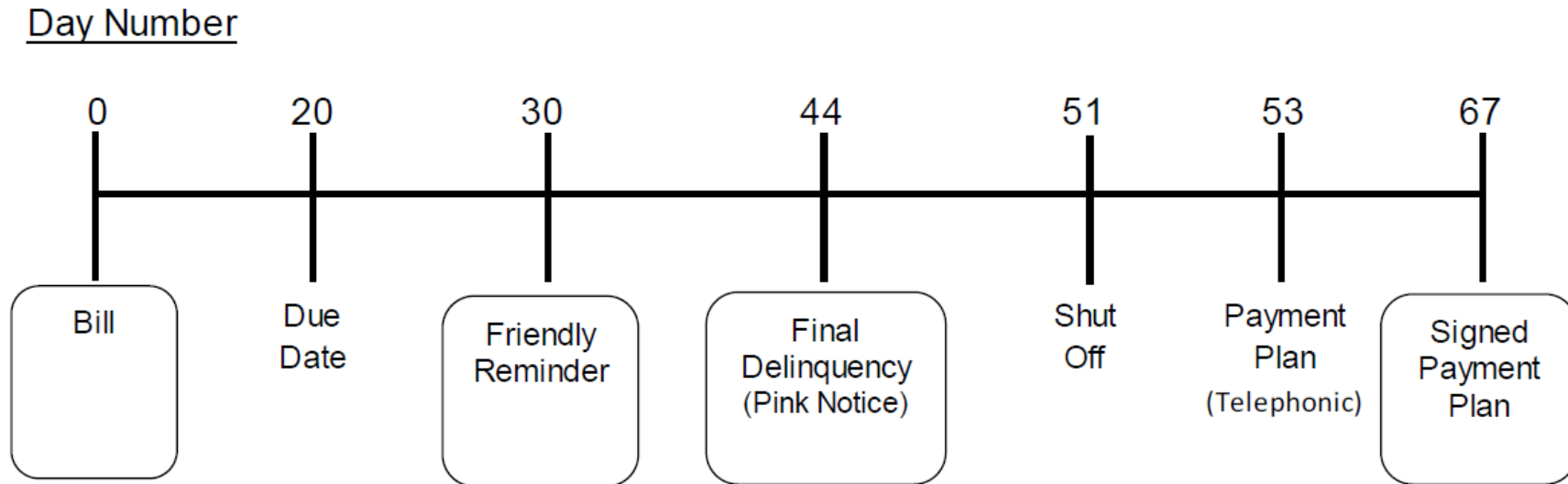
Utility Billing

- Approximately 21,500 Customers are billed on a Bimonthly basis
- Approximately 134,000 bills are generated annually
- Each week ~ 2,700 bills are produced
- There are 8 weeks to each bimonthly billing cycle

Utility Billing – Payment Methods

- Online
- Bill Payer
- Over the Counter
- Mail
- Automated Phone Payment (IVR)

Billing to Off Cycle



- **Monthly Averages**

- Customer Billings = 11,100
- Friendly Reminders (1st Notice) = 1,580 (14% of Billed)
- Final Delinquency (2nd Notice) = 421 (4% of Billed; 27% of 1st Notice)
- Shut Offs = 132 (1% of Billed; 31% of 2nd Notice)

Customer Assistance Programs

Utility Assistance Programs with detailed information are provide on the City's Web site.

- Lifeline = 50% discount rate
- Helping Neighbors

Additional Customer Assistance Programs

Additional assistance programs listed on our web site are:

- The Department of Commerce - Low-Income Home Energy Assistance Program (LIHEAP): 360.725.2857
- Olympia Union Gospel Mission: 360.709.9725
- Sacred Heart: 360.923.0929
- St. Vincent De Paul: 360.352.7554
- Community Care Services: 360.352.3410
- The Salvation Army: 360.352.8596
- City Gates Ministries: 360.705.0291
- Community Action Council: 360.438.1100
- [Washington Water Assistance](#) (WA Dept. of Health)
- [Washington Water Assistance's partner program LIHEAP.](#)
- [Commerce Utility Assistance](#)

Questions?