

**Special Meeting - City Council Workshop
Budget Environment
Thursday, June 14, 2012, 6:00 p.m.
City Hall – Council Chambers**

CALL TO ORDER

ROLL CALL

Mayor Scott Dudley	Larry Cort, Interim City Administrator
Five Members of the Council,	Doug Merriman, Finance Director
Rick Almberg	Steve Powers, Development Services Director
Beth Munns	Cathy Rosen, Public Works Director
Danny Paggao	Ray Merrill, Fire Chief
Joel Servatius	Rhonda Severns, Water Services Lead and Downtown
Bob Severns	Merchant's Liaison

Councilmembers Jim Campbell and Tara Hizon were absent and formally excused from this workshop.

Mr. Merriman lead this meeting and noted this was Council's first budget meeting, as identified in the budget resolution and budget calendar, with this meeting introducing the current budget environment. Mr. Merriman's PowerPoint presentation is attached to the minutes as Exhibit A and covered these general topics:

- Global and regional economic dynamics
- Regional economic trends impacting Oak Harbor
- Current Oak Harbor trends

Though the GDP is up 2%, the job market is lagging which affects discretionary spending. There is also a broader-based reduction in sales tax; sales tax revenues are -8.9% behind budgeted projections. Actual cash receipts are -8.3% lower than 2011. In addition to Mr. Merriman's discussion of each PowerPoint slide, Mr. Merriman specifically talked about business and utility taxes (the City's number three revenue source), building permits (reflecting the first quarter; may increase in April), and the two revenue sources from liquor (control board and excise tax - the City will receive half of its prior excise tax which will amount to \$105,000 in both 2012 and 2013 even though it was meant to be cut for a one-year period).

Council Discussion

Discussion followed regarding the Navy base and the stability it provides, the Case-Shiller data for building permits based on the Seattle market, and the amount of time it takes for the construction industry to recover from a recession (it can be three flat years followed by three years of recovery). There is not enough information for 2012 to make an exact prediction; home starts and sales remain flat.

Discussion continued regarding the use of zero on the Building Permits chart (Case-Shiller data), use of the year 2000 as the baseline in this chart, and the cash flow jumps in the historical cash flow chart with the traditional jump in April reflecting property taxes.

The key is to notice where the City is starting out in each of the years shown on this chart.

Discussion followed regarding the City's minimum fund balance and the Other Items sheet in the PowerPoint slide with note that 2011 total revenues were 97.43% of the budget (this percentage was calculated using actual dollars and not percentage averages). The PowerPoint's summary sheet holds two items that are unknown quantities at this time: the impact of archaeological work on utilities and the impact of operations on the 2012 ending fund balance.

Discussion continued regarding the monetary impact of department heads who have been fired (currently at \$500,000 - \$600,000 but could top out at \$1 million), how this amount will be covered (from different reserves), and the nature of one-time costs and impact on ending fund balances.

Mr. Merriman's last slide listed a 90-page booklet titled, " Recommended Budget Practices" which he encouraged Council to review via the website link www.gfoa.org/services/nacslb/. Mr. Merriman will be focusing on some of the recommendations, not the full 90 pages, in future budget workshops.

Questions

Discussion followed about the concept of creating a stabilization account and the benefit of such an account. Mr. Merriman talked about GASB 54 and Council's approval of a minimum fund balance set at 16.67%. A stabilization account offers a formalized plan of additional procedures if the City falls below the minimum fund balance and it becomes a commitment by the City Council which benefits the City's financials, bonding, and shows that an extra level is in place. Regarding bonding, an analyst would include it with the City's "attitude" - the extra steps the City takes: 1% property tax increase, rate studies, and stabilization account. Although there is no action at this evening's meeting, Council can bring this matter forward as a motion during a regular Council meeting.

Discussion continued regarding end-of-the-year budget adjustments, the impact of weak sales tax revenue, financial contingency plans, how financial figures are presented - whether as a weighted average, above and below figures, or the percentage of budget. Mr. Merriman noted that he presents a six-year look forward in the budgeting process, and when that is laid out, the first two years are then adopted. Mr. Merriman talked about revenue projections, living within the budget, establishing the revenue base and matching expenses to it, the pitfall of looking at the general fund and asking for an across the board reduction since each department is different in size, and consideration of Council's goals (established during the retreat) and how they can be prioritized.

ADJOURN

With no other discussion coming forward, the Mayor adjourned the workshop at 6:50 p.m.

Connie T. Wheeler
City Clerk

Economy Environment
City of Oak Harbor
June 14, 2012

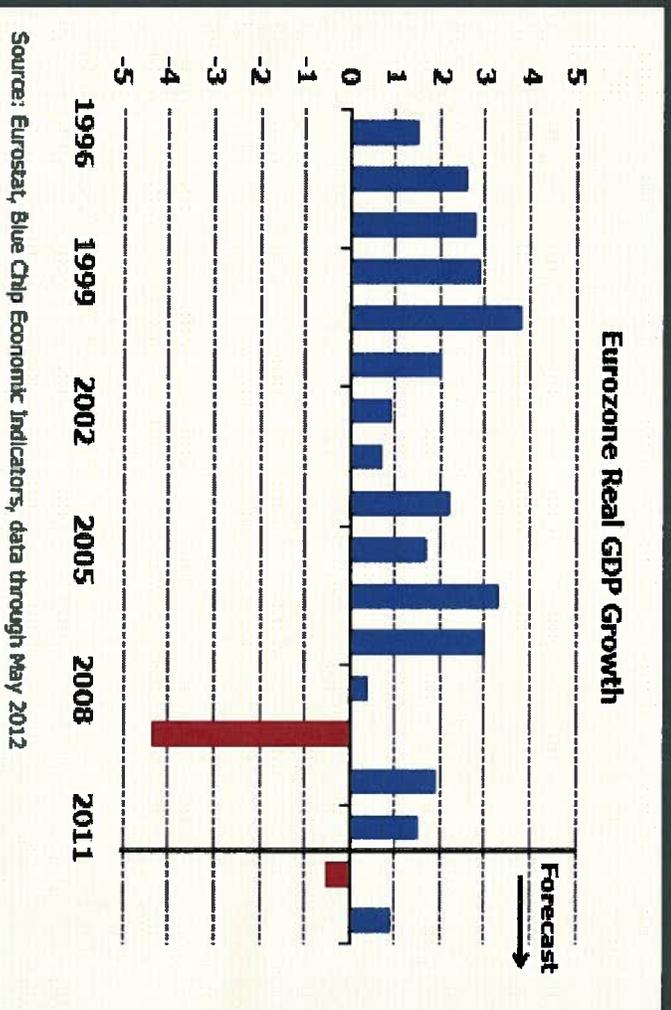
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Economy Environment

- Global and regional economic dynamics
- Regional economic trends impacting Oak Harbor
- Current Oak Harbor trends

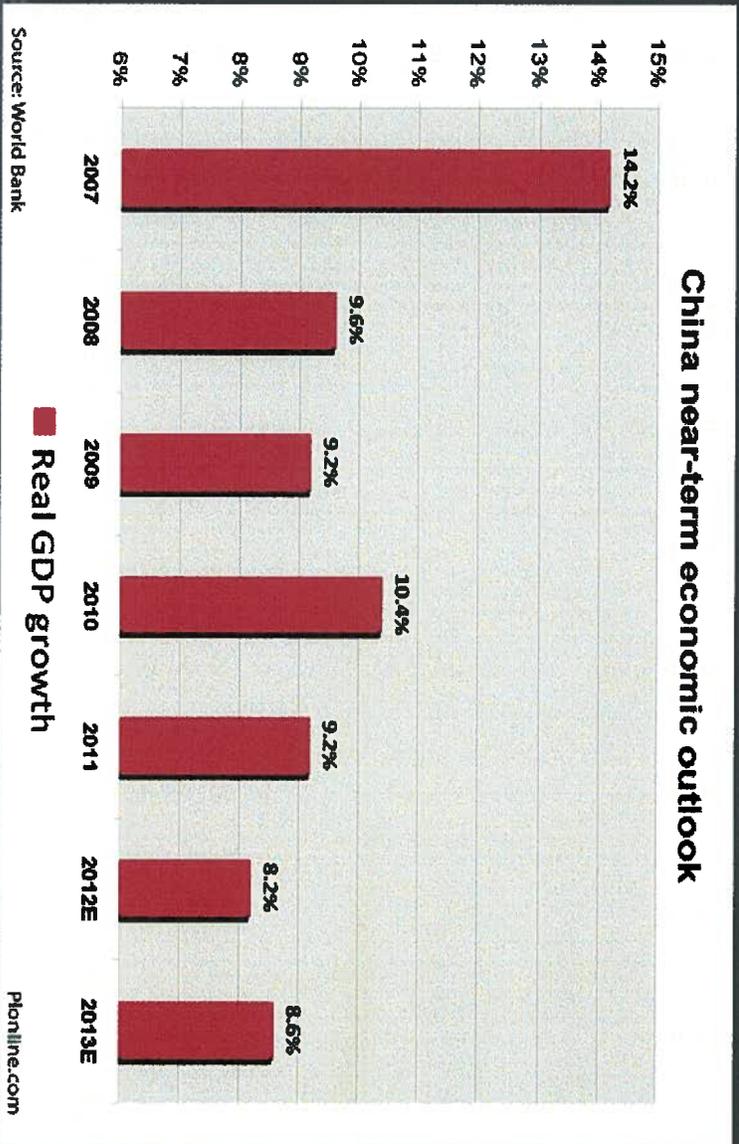
Current events in Eurozone:

- Upcoming membership vote in Greece
- Debt and economic issues in Spain
- Recessionary trends in GDP Growth

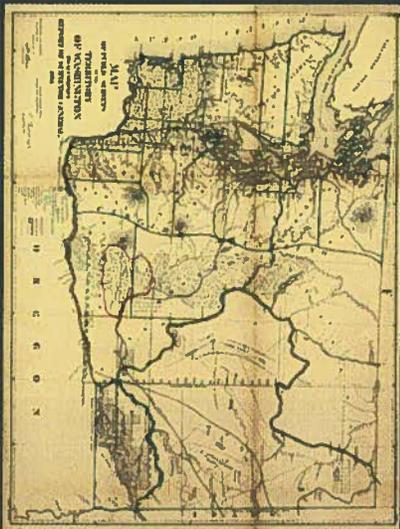


Current events in China:

- First rate cut since 2008
- Inflationary fears.

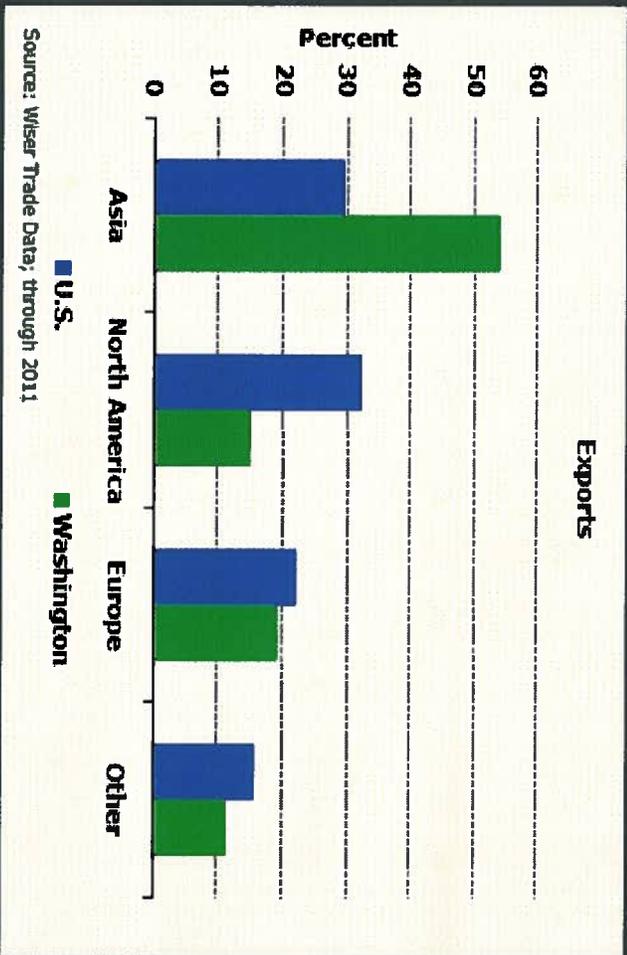


How does this impact Washington State?



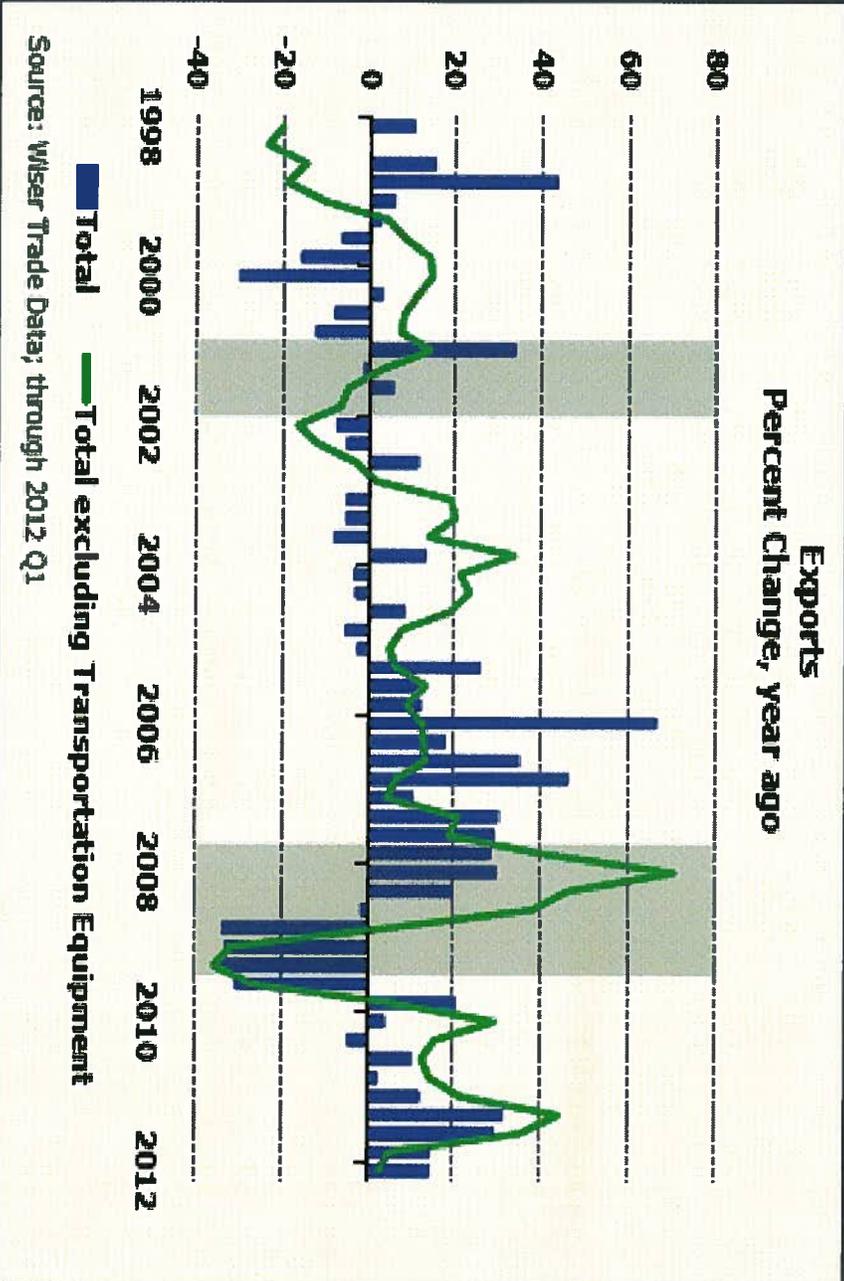
Why important?

- 22% of Washington exports are with Eurozone
- 53% of Washington exports are with Asia



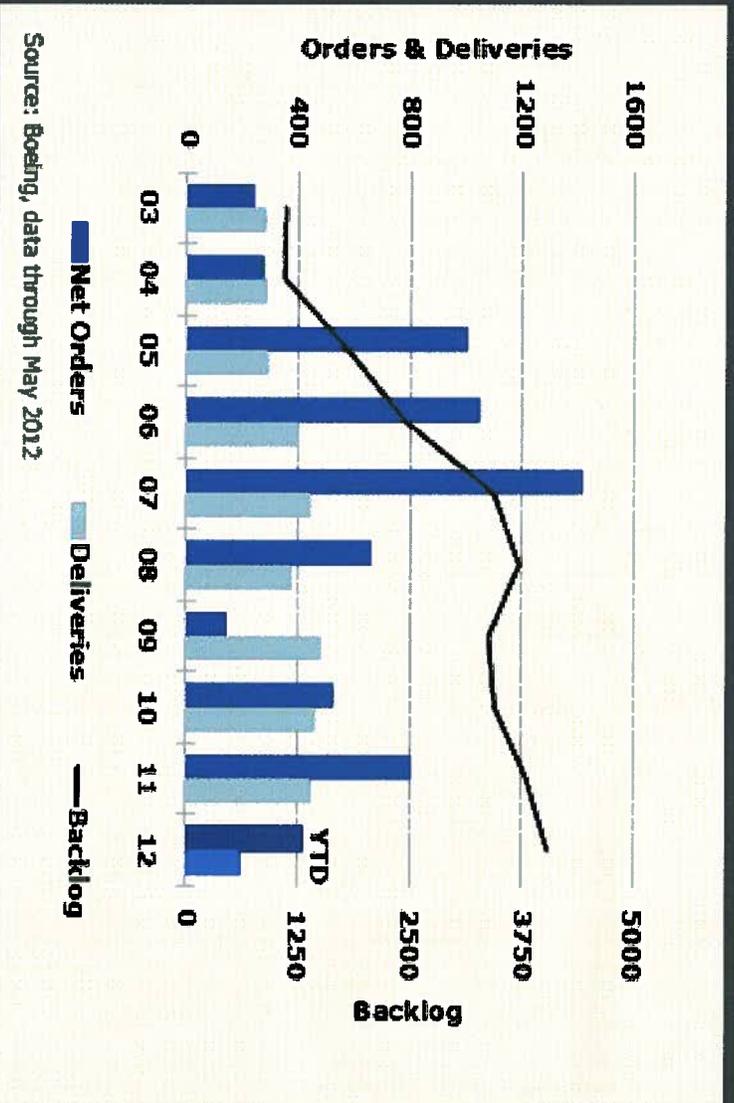
Washington State Exports

Total exports from Washington are slowing



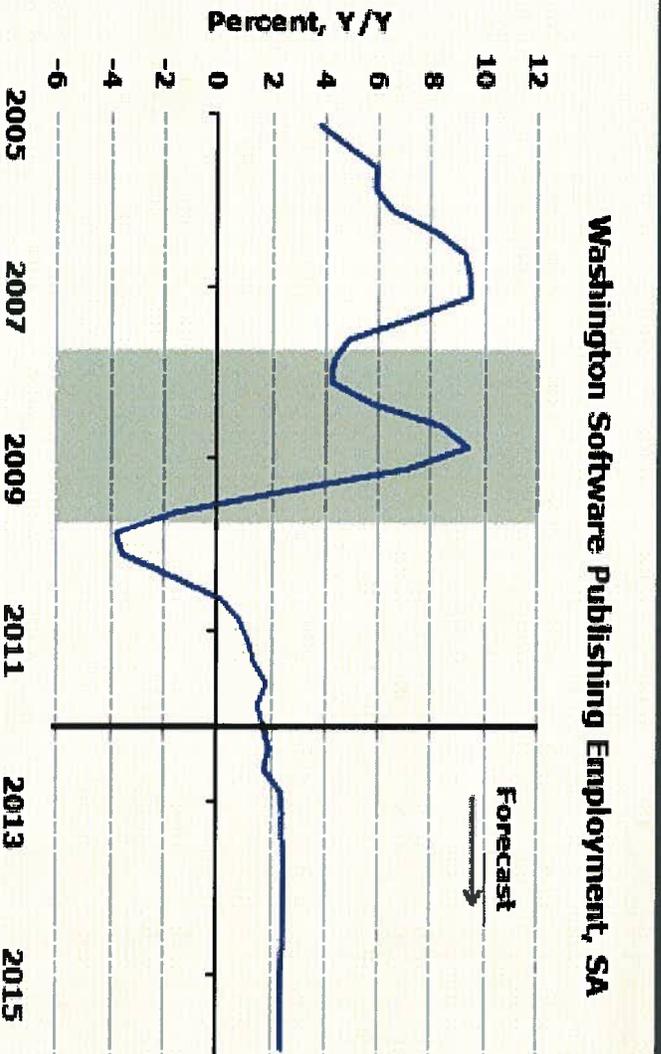
Washington State Economy

Boeing has 7 years of backlog on commercial orders



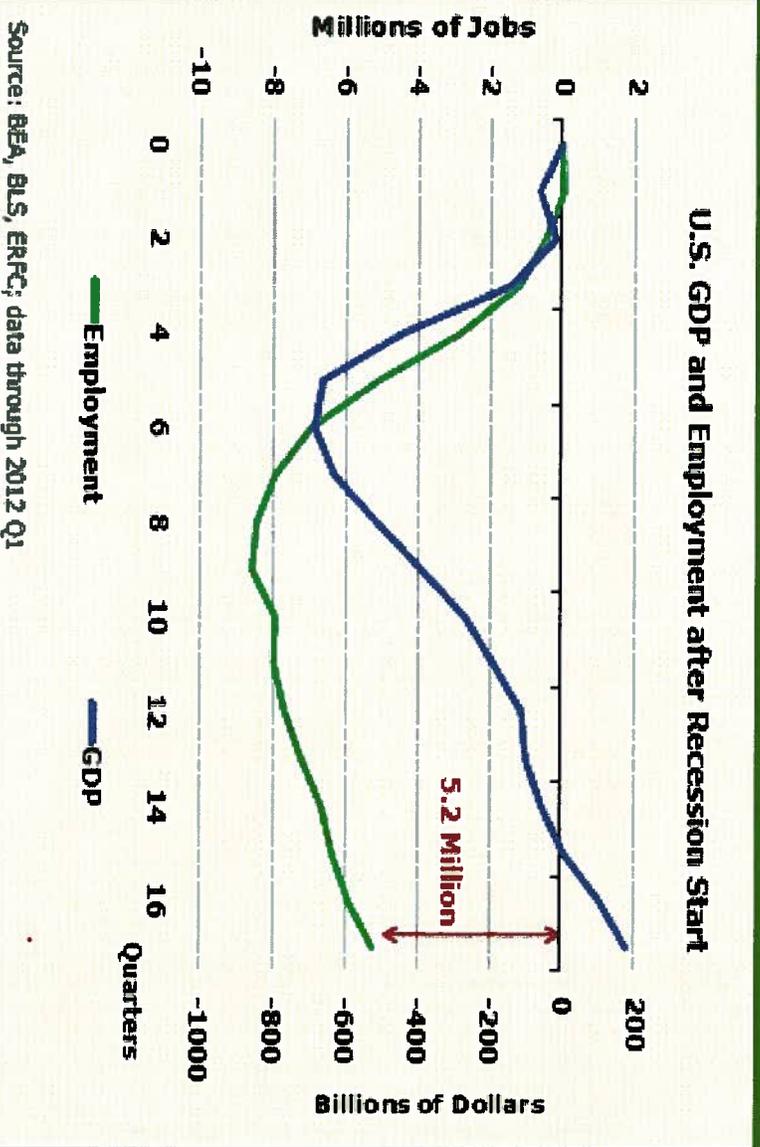
Washington State Economy

Software employment is projected to be flat.



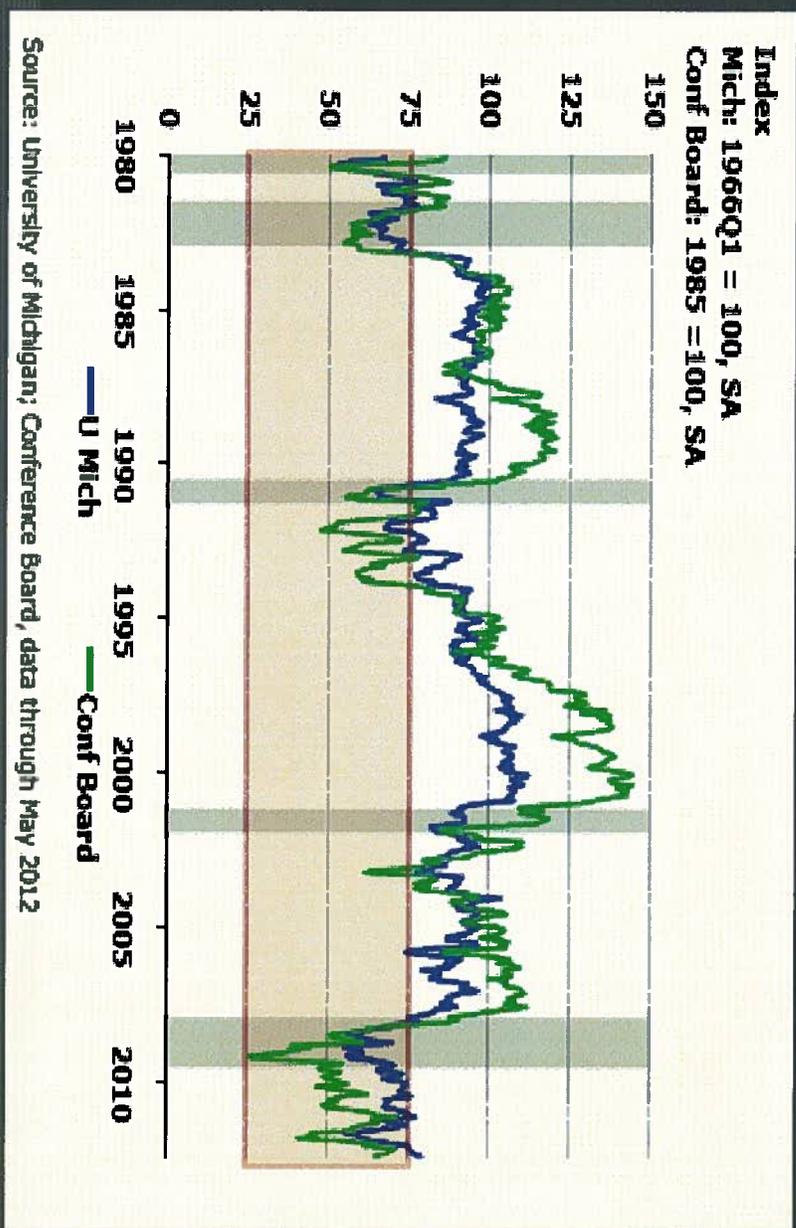
Source: ERFC June 2012 Preliminary forecast; actual data through 2012Q1

The economy is now producing more than its pre-recession output with fewer jobs



Consumer confidence

Level has firmed up but still weak comparatively.



How does this impact Oak Harbor?

Regional discretionary spending is lower as:

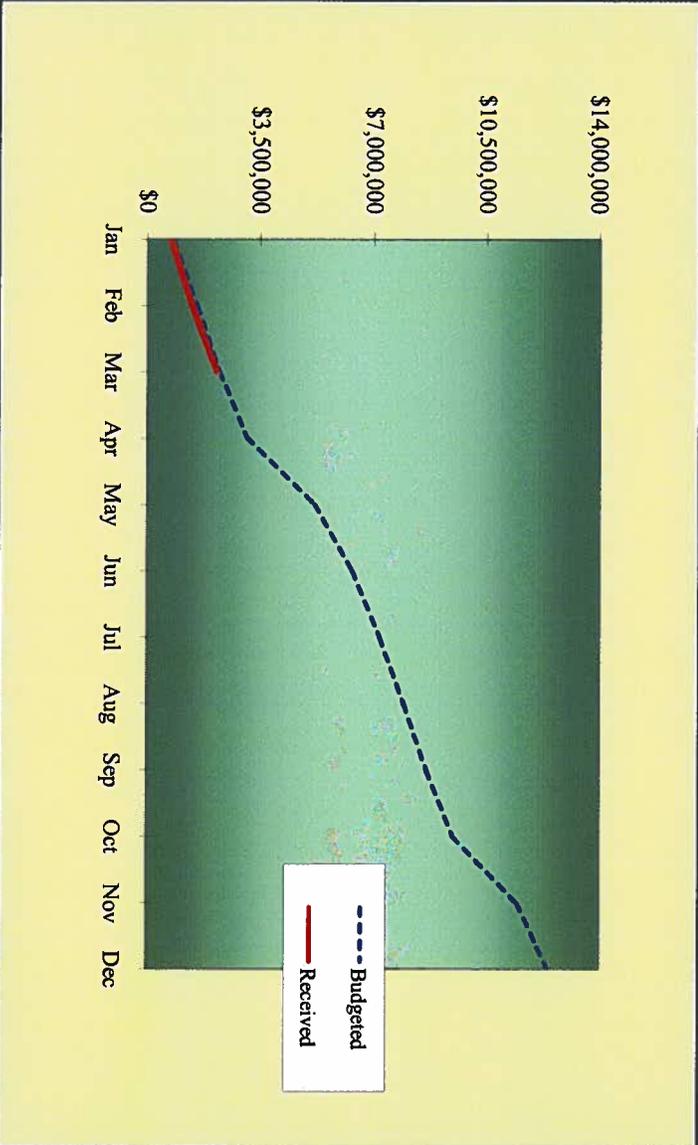
- 1) Job market has tightened
- 2) Economic activity is by impacted global economies
- 3) Consumer confidence in economy has waned
- 4) Impact of fuel prices on everyday living

Decreased spending impacts City's Sales Tax

- Tourism
- General business activity levels

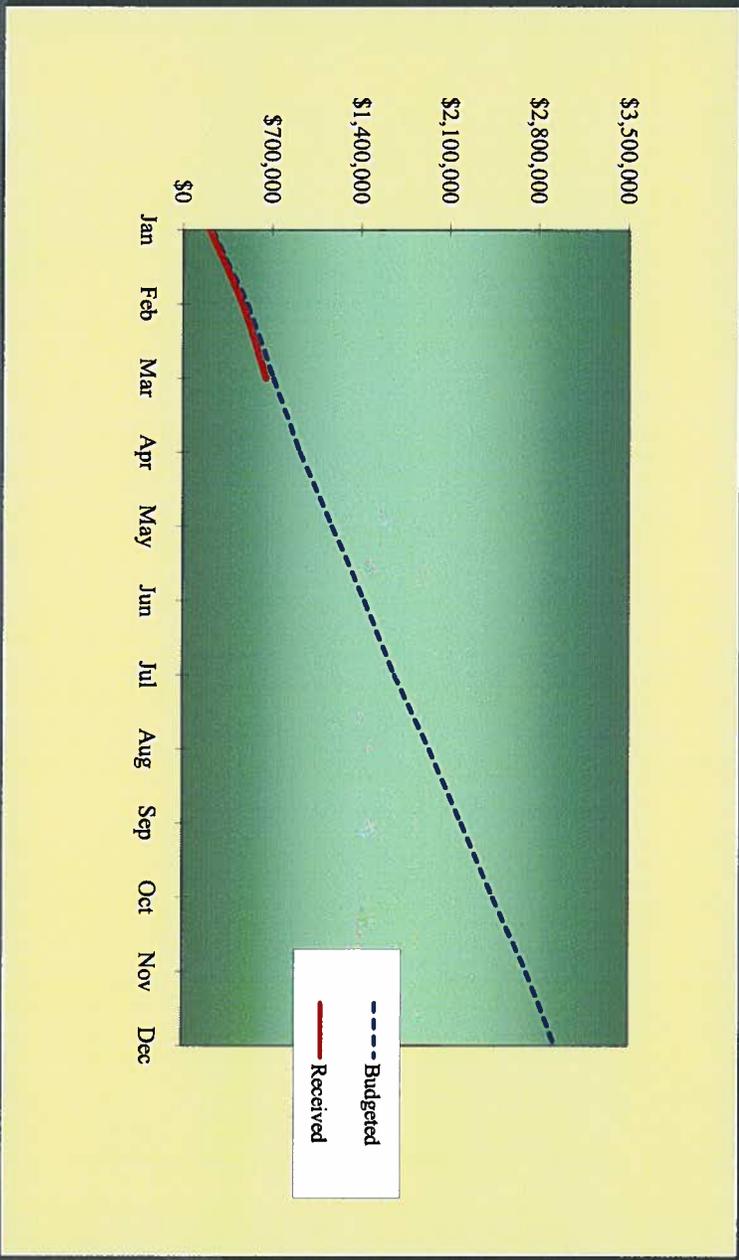
2012 Total General Fund Revenues

- Actual revenue receipts are 3.6% behind budgeted projections.
- Equates to \$81,000



Sales Tax Revenues

- Revenues are -8.9% behind budgeted projections
- Actual cash receipts are -8.3% lower than 2011



Sales Tax Revenues – May 2012

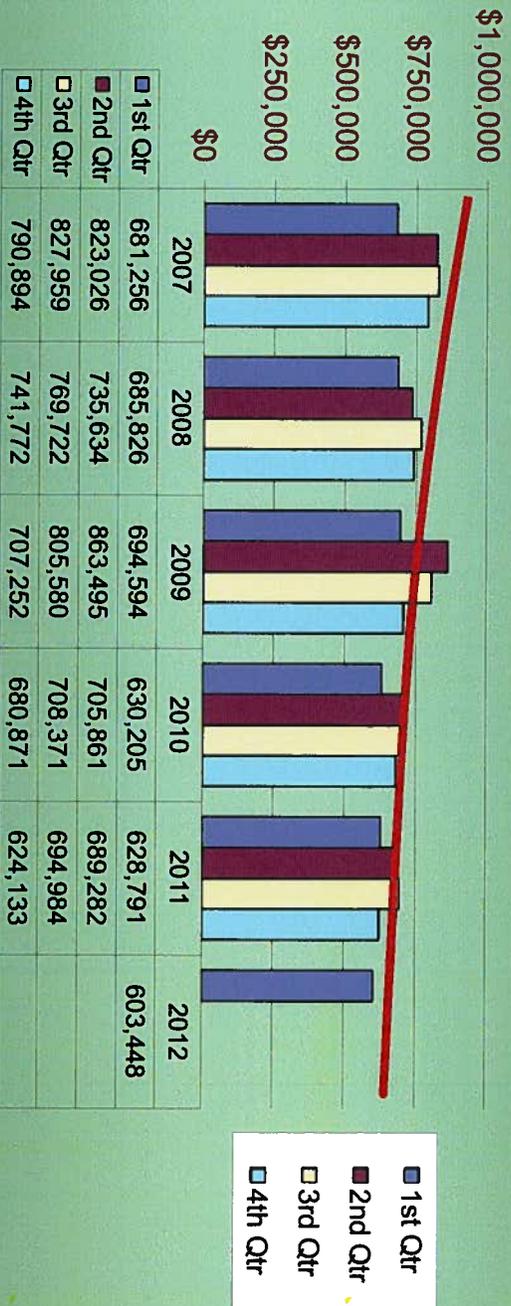
Top 10 Standard Industry Sectors

<u>Sales tax sector</u>	2012		<u>% Change</u>	<u>% Total</u>
	<u>This year</u>	<u>Last Year</u>		
General Merchandise	\$162,534	\$166,675	-2.48%	
Food services	127,142	129,603	-1.90%	
Building material and garden	83,949	79,952	5.00%	
Motor vehicles and parts	64,681	68,622	-5.74%	
Food and beverage stores	50,945	49,317	3.30%	
Specialty trade contractors	34,149	50,095	-31.83%	67.36%
Telecommunications	41,410	39,621	4.52%	
Miscellaneous store retailers	44,693	49,504	-9.72%	
Nonstore retailers	41,838	35,024	19.46%	
Construction of buildings	25,408	53,545	-52.55%	
All others	327,936	373,697	-12.25%	32.64%
	\$1,004,685	\$1,095,655	-8.30%	100.00%

Sales Tax Revenues

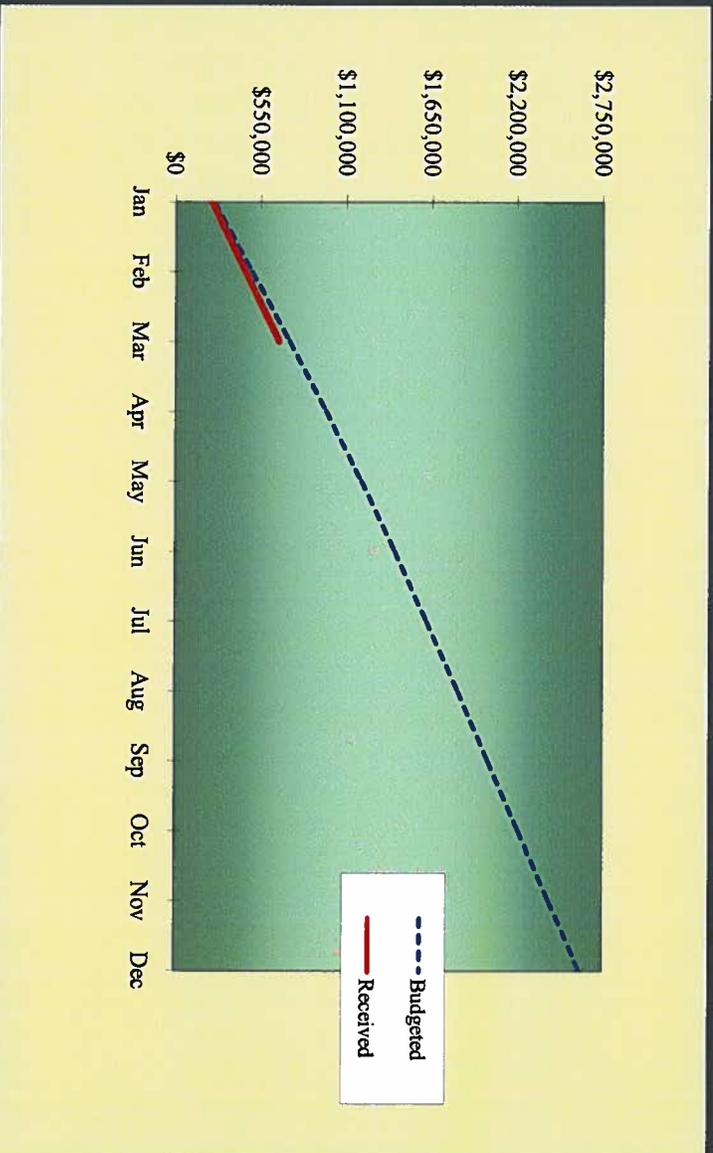
- If trend continues, revenues will be (\$261,000) behind projections by end of year.

Sales Tax Revenues - By Year



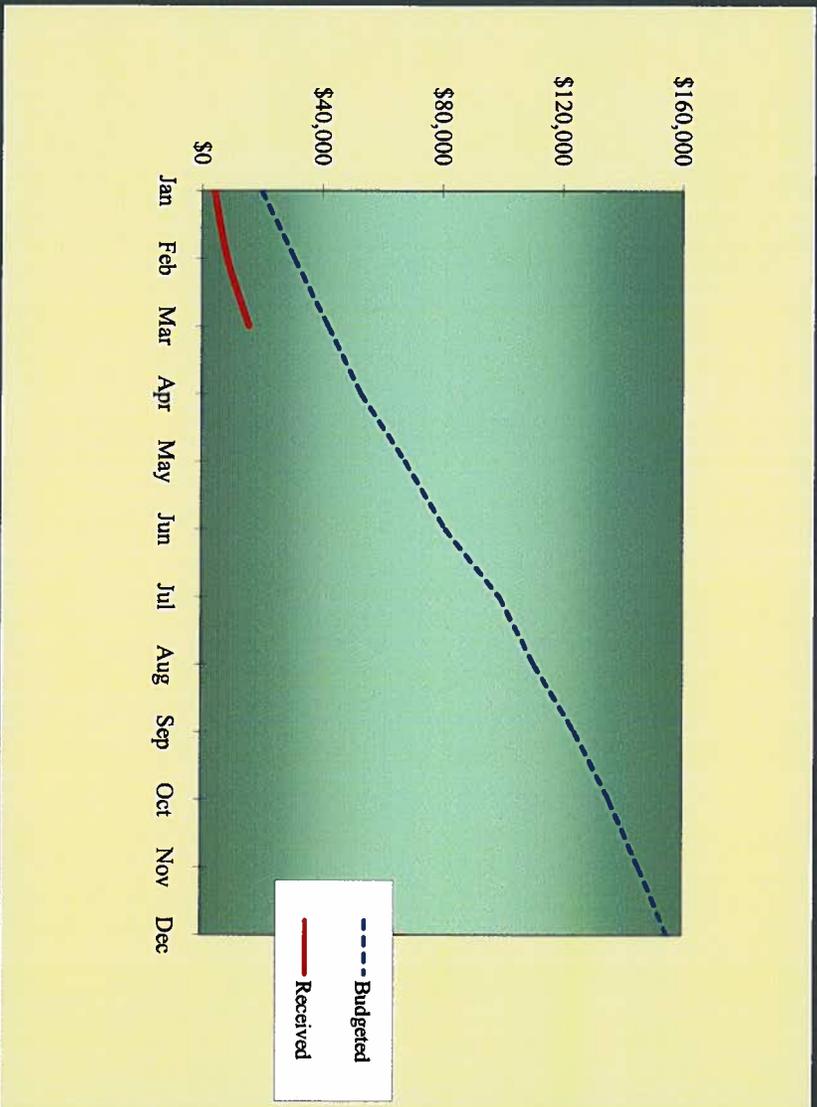
Business and Utility Taxes

- Receipts are running -8.75% behind budgeted projections.
- Utility taxes on wireless, phone, and other utilities.



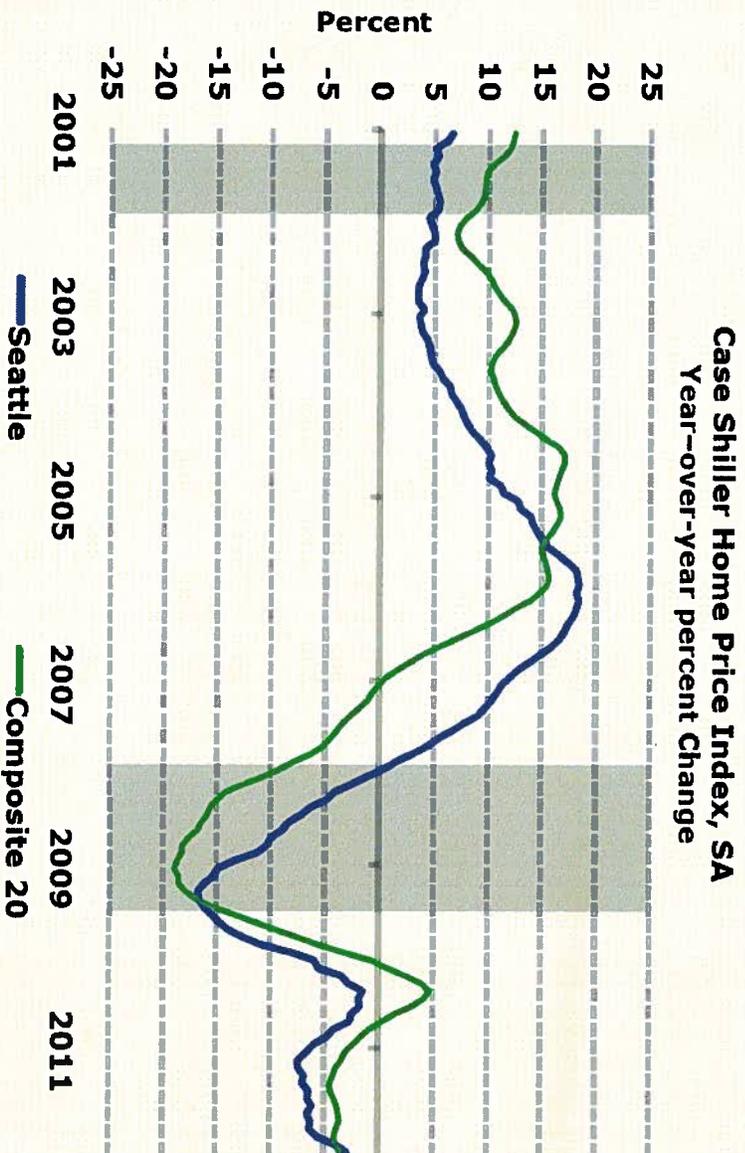
Building Permits

- Receipts are running -62.8% behind budgeted projections.



Building Permits

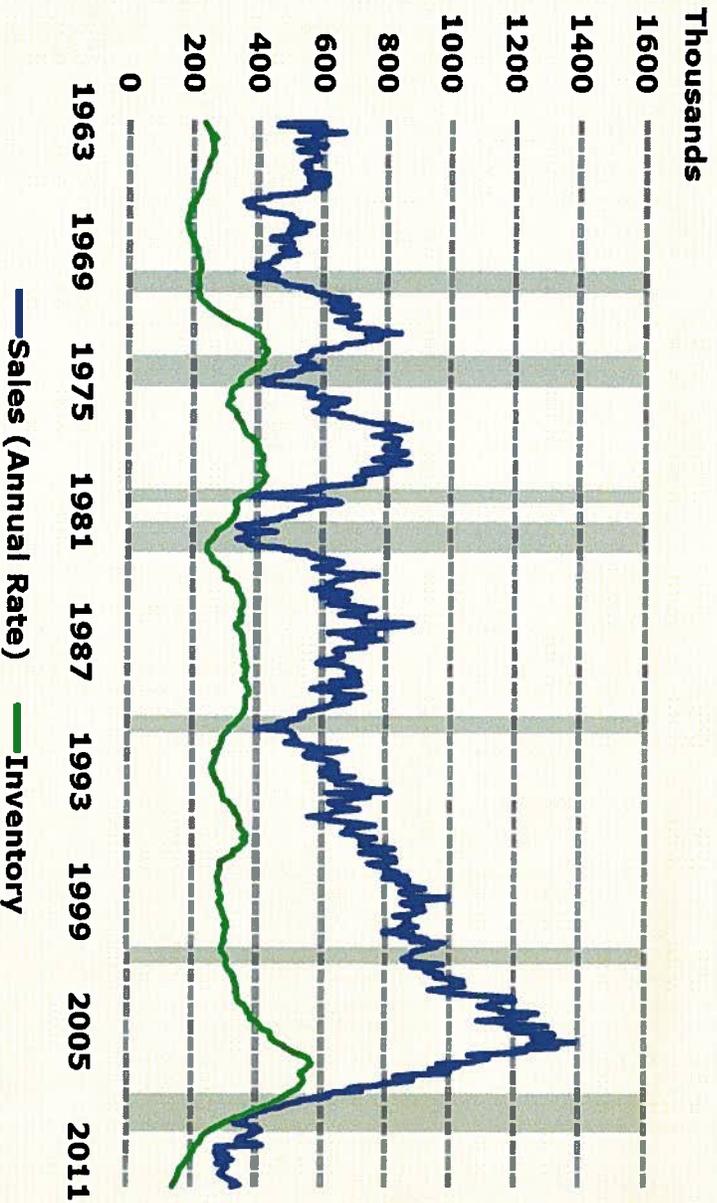
- Single family home prices have leveled off.



Source: S&P/Case-Shiller; data through February 2012

Building Permits

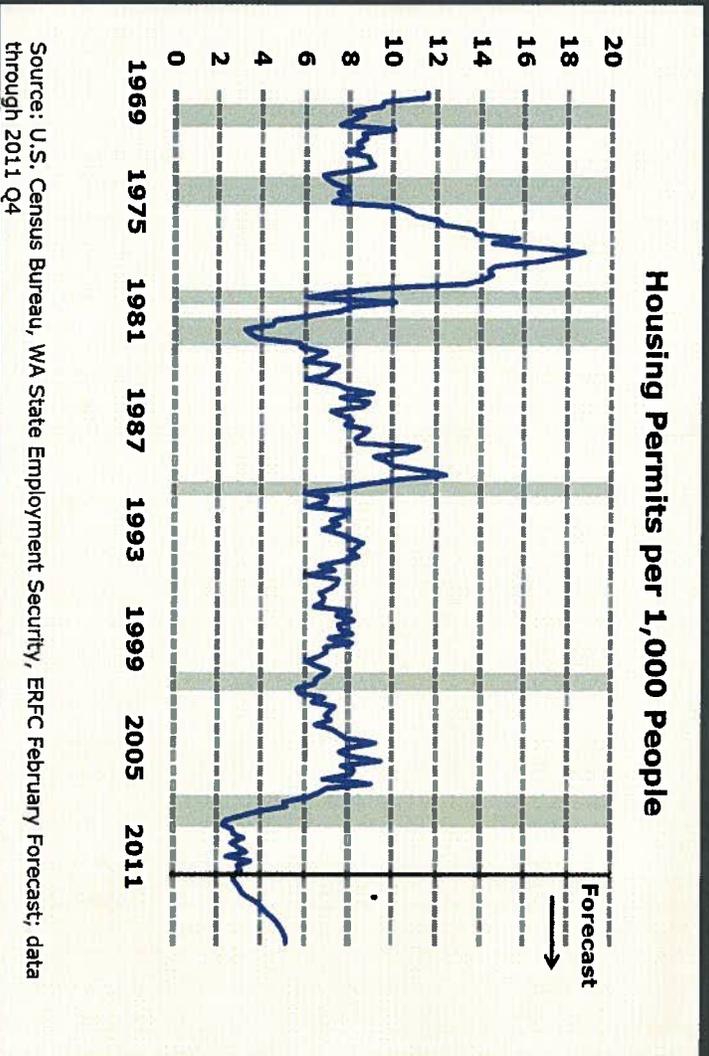
- Builders have reduced inventory of new homes..



Source: Bureau of the Census data through March 2012

Building Permits

- Housing permits relative to population will remain lower than historical levels



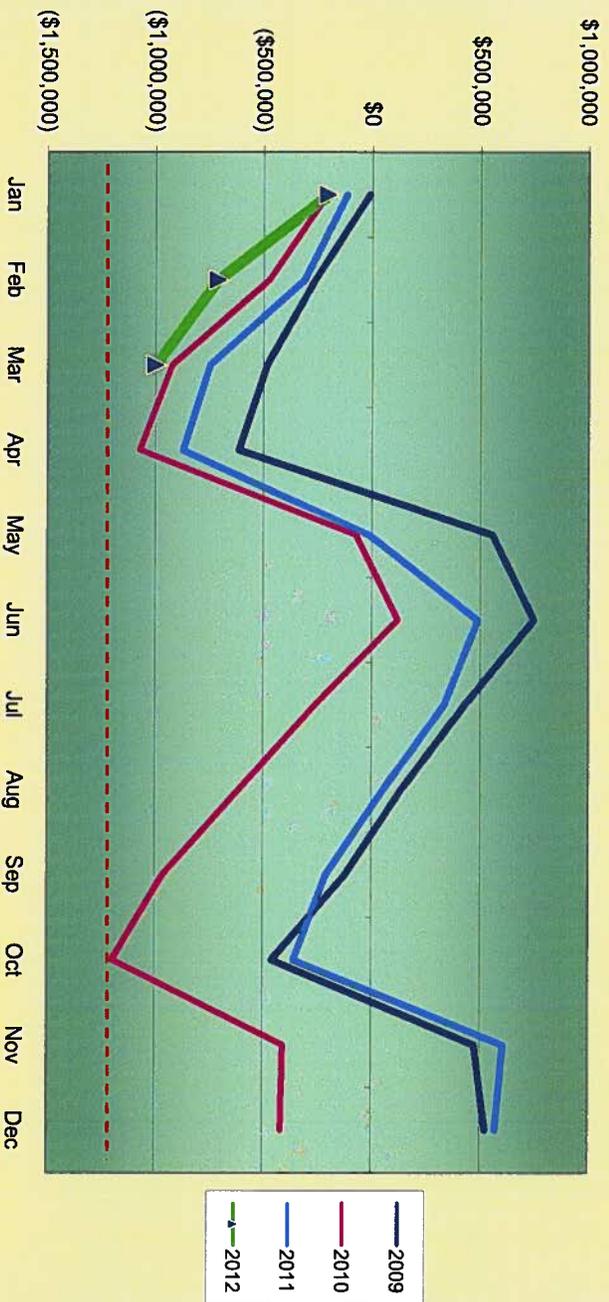
Liquor Excise Taxes

- 1) Eliminated for cities effective 7/1/2012
- 2) Elimination period is for 12 months
- 3) Annual budget 2012 : \$105,000
- 4)
- 5) Equates to an annual revenue loss for both 2012 and 2013 of \$52,500

Historical Cash Flow:

- Cumulative effect on cash

4-Year Historical Cash Flow Pattern



Other items:

- All utility funds are within budget and on track for revenues.
- CAPRON funds and motor vehicle fuel tax: 104%
- Transportation Impact Fees: 191%
- Park Impact Fees: Averaging about 60% of budget
- REET Funds (real estate excise tax) 68% of budget
- 2011 total revenues were 97.43% of budget

Summary:

- Revenue issues for 2012 and into 2013:

Projected sales tax loss:	\$261,000
Projected Liquor tax loss:	<u>52,500</u>
Total Projected loss:	<u>\$313,500</u>

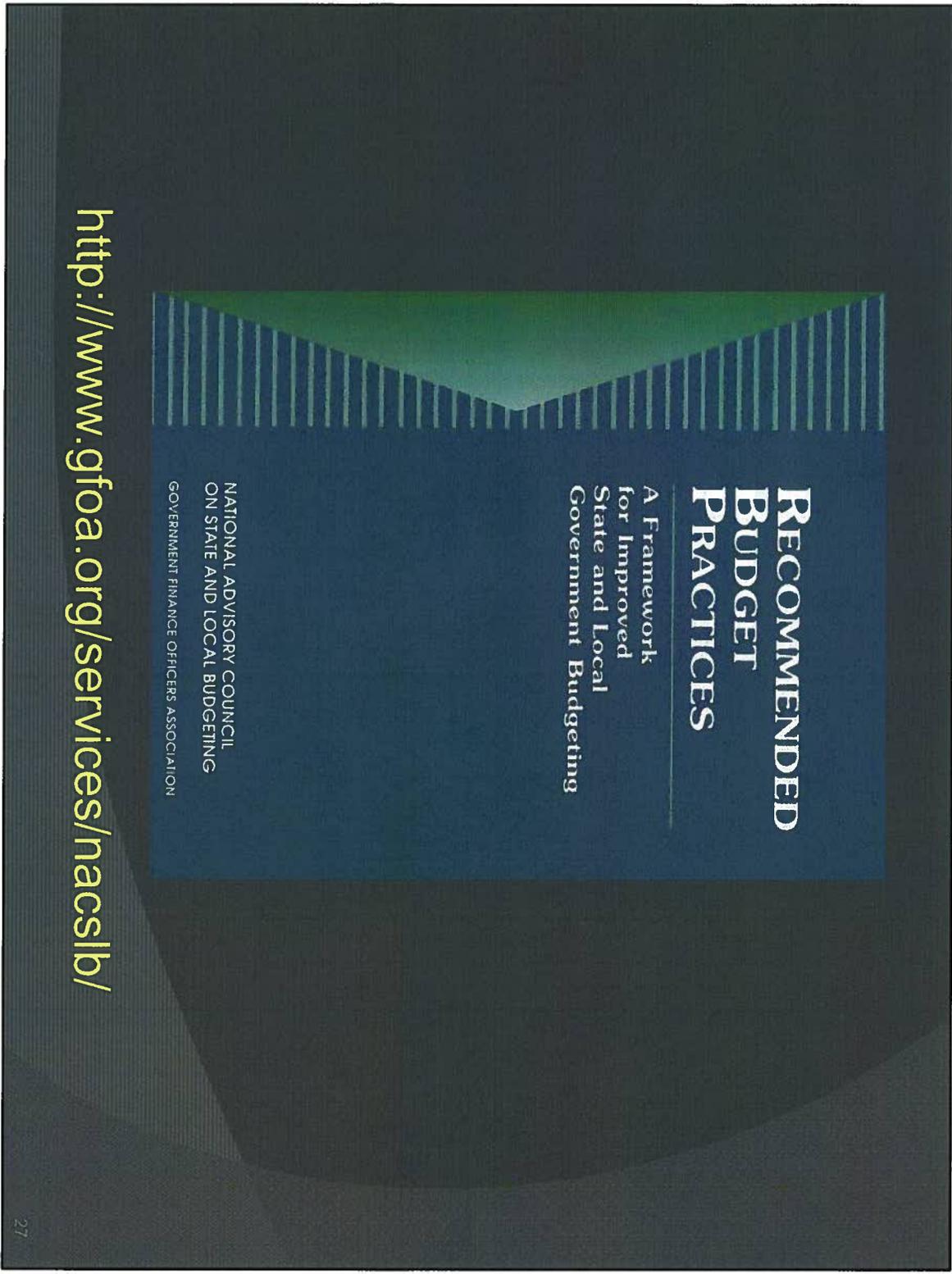
- Inflation: running at 2.7% (Seattle CPI-U)
- Inflationary cost on 2013 budget compared to 2012: \$322,500
- Impact of archeological work on utilities
- Impact of operations on 2012 Ending Fund Balance

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<http://www.gfoa.org/services/nacslb/>

Questions or comments