

Budget History

September 2018

- A structural deficit identified in the 2019/2020 Biennial Budget
- \$4M transfer in 2020 from cumulative reserve fund

June 2019

- BERK Consulting hired
- Confirmed fiscal sustainability issue
- Identified several options for helping fill the gap

March 2020

- Council retreat - Identified a multi-pronged, phased approach

September 2018

We have two types “reserves”

- Ending Fund Balance, which is our working cash for the general fund
 - Target balance is 8-12% of expenditures = 6.8 – 10.2million
- Cumulative Reserve Fund
 - Target Balance is 5-10% - 4.2M - 8.5M

To balance the 2019/2020 budget we had to budget a \$4m transfer from cumulative reserve to GF to maintain the minimum FB in the GF

BERK STUDY

Expenditure growth is expected to outpace revenue growth

- Average annual revenue growth projection: 2.1%
- Average annual expenditure growth projection: 5.5%
- \$10M-\$12M imbalance EACH year beginning 2021

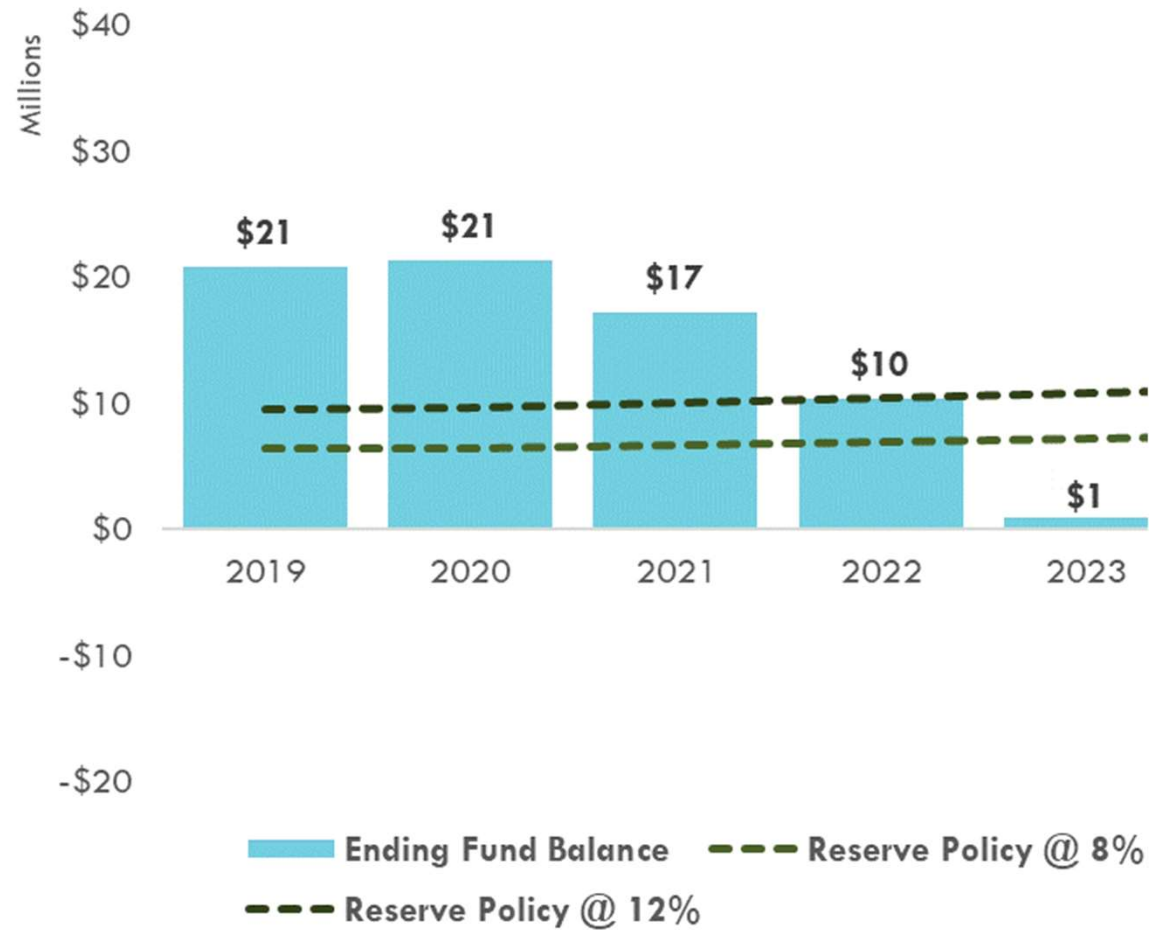
Constraints and elimination of major revenue sources

- 1% limit on property tax
- Sunset of streamlined sales tax mitigation (\$2M annually)
- Sunset of annexation sales tax credit (\$2M annually)
- Uncertain economic conditions limit expectations for sales tax growth
- Charges for services only supplements the budget, it is not a 100% cost recovery, so as costs increase, there is more reliance on the other revenue source (property tax, sales tax and utility tax)

BERK STUDY

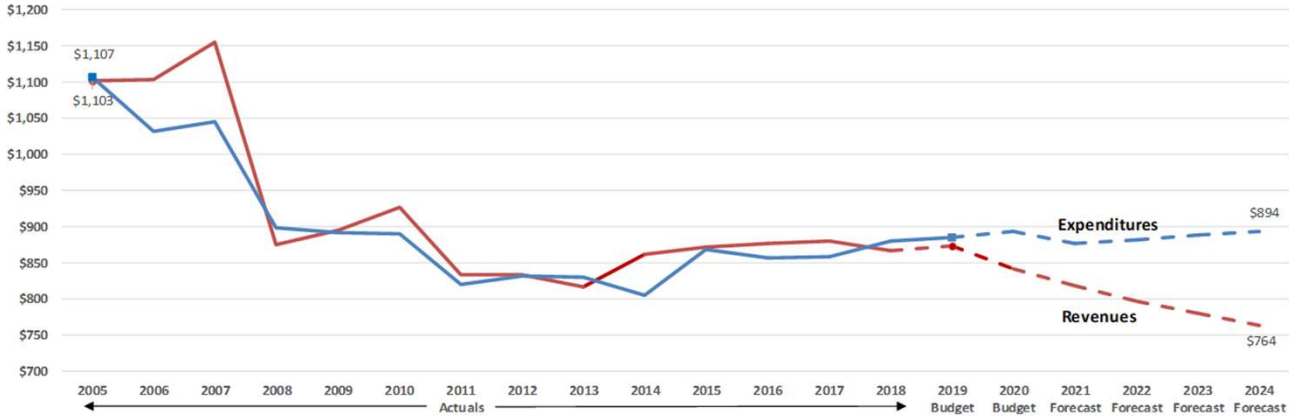
General Fund balance dips below the 12% reserve target in 2022 and below the 8% reserve minimum in 2023

Ending fund balance turns negative in 2024



Fiscal Condition - History

General Fund Revenues versus Expenditures
Per Capita (in 2018 Dollars)



Notes: Expenditures in 2019 through 2024 are reduced by projected "under-expenditures".
Revenues in 2020 exclude one-time \$4 million transfer from the Cumulative Reserve Fund.
Revenues and expenditures adjusted in 2005 through 2007 to take out Fire Department.

March 2020

Identified a multi-pronged, phased in approach

- Review service delivery/reduce costs - **NOW**
- Update cost recovery model - **NOW**
- Increase UT - **2021**
- B&O Tax - **2022**
- Property Tax Levy Lid Lift – when needed, **2024?**

2021/2022 Budget Goals

- Restore employee salary and benefits: VEBA contributions, furloughs (\$445k)
- Restore and maintain staffing: lift hiring freezes (16 frozen positions and layoffs of temporary employees = \$1.5M)
- Restore and preserve service levels (\$1.5M in non-payroll cuts to delay projects and/or defer maintenance and service contracts)
- End 2022 meeting **minimum** reserve balances:
 - \$6.8 million in General Fund
 - \$4.2 million in Cumulative Reserve Fund

General Fund Departments – Business and Occupation Tax

Requires council to adopt an ordinance

The ordinance must follow certain provisions and language in the State's Model Ordinance

- Most centers around legal definitions of business activity and defining nexus

Ordinance discretion is left to the City to:

- Set rates by industry (not to exceed .2%)
- Exemptions for gross receipt thresholds (protect small business)
- Exemptions for certain business types (adult family homes, day care provided by churches, child care services provided by non-profits, credit unions, agricultural farmers, long-term housing rental income, liquor sales)
- Deduction for certain activities (retail or wholesale sales delivered outside of the city, credits or bad debts sustained by sellers)
- Credits (new business tax credit, BIA payments)

General Fund Departments – Business and Occupation Tax

Generate **\$3.2M - \$4.1M** annually matching Kent's rates

- Based on gross income figures reported to Department of Revenue
- A retail business generating \$1.5M in gross sales would pay \$690 per year
- A service provider (100% of business taking place in Auburn) generating \$500,000 in gross sales would pay \$760 per year

Difficult to get a precise estimate:

- Apportionment calculation for service industry
- Businesses that have nexus in Auburn (i.e. suppliers to Auburn manufacturers) that don't have business licenses in Auburn or an Auburn address

	Rates					Threshold	B & O Estimate
	Retail	Wholesale	Services	Manufacturing	Other	Annual Income	Annual
Maximum Rates	0.200%	0.200%	0.200%	0.200%	0.200%	No exemptions	\$6.5-\$8.3M
Rates matching Kent	0.046%	0.200%	0.152%	0.046%	0.046%	\$250,000	\$3.2-\$4.1M
Rates matching Renton	0.050%	0.085%	0.085%	0.085%	0.085%	\$500,000	\$2.0-\$2.6M
Rates matching Shoreline	0.100%	0.100%	0.200%	0.100%	0.100%	\$500,000	\$3.3-\$4.2M
Max for wholesale only	0.150%	0.200%	0.150%	0.150%	0.150%	\$500,000	\$5.1-\$6.5M

General Fund Departments – Business and Occupation Tax

5,788 businesses with Auburn addresses total gross income of \$7.7B

\$250,000 minimum threshold:

- Reduce total taxpayers to 1,468 business (75% would be exempt)
- Estimated \$3.2M - \$4.1M in tax generated

\$500,000 minimum threshold:

- Reduce total taxpayers to 991 businesses (83% would be exempt)
- Estimated \$3.1M - \$3.9M in tax generated

Adding a Square Footage Fee to wholesaling activity would:

- Increase revenue by \$2.3M
 - Assumes \$.10 per square foot fee
 - Wholesaler with 50,000 square feet of wholesale space would pay an additional \$5,000 per year

For Discussion

Higher rates and higher thresholds vs. Lower rates and lower thresholds

Feedback on reporting thresholds?

Rates? Higher rates and enhanced services to business areas? Keep rates as low as possible?

Other potential considerations we should make?