

MEMO:

July 2, 2007

To: City Council, Mayor Darlene Kordonowy and Mary Jo Briggs, City Administrator

From: The Bainbridge Resource Group. Document prepared by: Bob Fortner, Patty Fielding, Daniel Smith, Dennis Vogt, Nancy Fortner and Elise Wright.

Subject: **Observations and recommendations on City Budget Process**

**Introduction:**

Last week we observed the Council discussions on the Budget Ordinance and were struck by the shift in focus from council, with some exceptions, from the discussion of the obvious fiscal issues addressed by the Ordinance to “changed minds,” “policy concerns,” and statements that seemed couched in innuendo. We were amazed that Council did not seek, nor receive, verification from Administration on the accuracy of the accompanying documents, nor distressingly, did anyone move to request it from the Finance Department. We wonder what caused this change of focus. Has there been some unreported improvement in fiscal status? Are other factors (or factions) at work?

Our take on this discussion is that it represented the antithesis of collaborative, informed decision-making grounded in rational deliberation that is critically necessary at this time. Instead, Council, surrounded by administration silence, revisited a document, unanimously approved in 2006, that was appended with analysis produced by one of their own. Rather than address the obstacles and specifics of obvious and well-documented budget problems, the CC punted away from substance to the already familiar process pathology.

**Purpose:**

We determined to offer some citizen insights on budgeting to perhaps help refocus attention on the central issues, because with the necessary debates and difficult choices required to address city financial affairs, a radical change in the way our elected representatives and paid city staff do business is imperative.

Pursuing information we know is integral to the 2008 Budget Process, we obtained copies of the 2007 Budget and the Budget Ordinance Packet prepared for the June 27<sup>th</sup> meeting of council. These materials raise serious questions for us about the availability and use of requisite information for necessary budget decisions.

**Observations:**

1. One of the basic requirements of budget planning is the availability of current information set in an historical analytical context and that context is missing from the 2007 Budget Document. The absence of that context is analogous to the businessperson who believes that a positive checking account balance is the sole measure of financial health. The statement on page 36 of the budget...“the primary function of the budget is to determine whether the City has enough money to pay for all it plans to accomplish

without overdrawing its bank accounts”... speaks to the need for a robust analysis of city past performance as a requisite planning indicator of future potential.

*Note: City Budget documents from just a few years ago contained both historical data and trend analysis. Why are they no longer present?*

2. The Financial Capacity Analysis on p. 75 projects Sales and Use Tax Revenue increases from 2007 at a compound rate of 9.1% per year with no reference to past increases or assumptions behind this compound rate.

3. Further on p. 75, Building and Permit Fees (which are being challenged in court) are projected to increase at a compound rate of 6.5% per year with no reference to past increases or assumptions behind this compound rate.

4. In the absence of historical context that would reveal whether projections are an ongoing trend, or are being drawn from the assumptions behind WT financial projections (yet to be vetted by council or the public), how can we expect our elected representatives to make informed decisions for the 2008 budget?

We believe that reliance on a WT potential income stream in the absence of historical context and stated working assumptions borders on the irresponsible, since these proposed income streams to finance a major portion of the WT infrastructure, would be done with council-manic bonds. Once committed to council-approved, public debt financing, revenue shortfalls will likely either cannibalize General Revenues or necessitate Voter Approved Bonds. In other words, we will have mortgaged our future.

We wonder, is the City's financial future already pegged to the currently contested WT Implementation? Are the planning soft costs for WT that are imbedded into the pending \$6.1 of Council-Manic bonds scheduled for fall sale a bellwether? If so, this is a House of Cards!

5. Why is it that an annual budget, once approved, undergoes “approved” revisions in the course of the year without a quarterly accounting of actual revenue and expenses compared to the projected budget? Such a document would provide a platform for a level of informed, public discussion among council, staff and administration that is presently missing.

6. Of particular concern, given that funding has not been identified for *tens of millions of dollars in planned capital spending* (2008 CIP), how can the current planning department expenses be justified?

Every one of us is aware of other district capital plan requests requiring voter approval that are already in the pipeline...e.g. an additional \$60M for schools. Since School funding has long been a high priority with the community, we need a realistic plan that includes district-wide citizen priorities.

7. To assist in the need for refocusing effort, consider this language from the GMA about the CIP funding... *"at least a six-year plan that will finance such capital facilities within projected funding capacities and clearly identifies sources of public money for such purposes;"*

8. We also wonder, under what scenario does Administration/Council believe that, even with the limited short-term expansion of staff supported by CH2MHILL, the city will be able to accomplish capital projects in the out years of up to \$60 M per year when, with "only" \$20M or so now, approved project work is not completed? Where is the future operational expense corollary to the projected capital?

### Getting from here to there...

2008 is a pivotal year in how we implement the development and financial strategies for the future. Make no mistake...Winslow Tomorrow has been made a proxy for our future. There are many positives about the undertaking, but also many uncertainties and we believe fatal flaws lurk in plain sight especially in the financial structure and the potential negative impact on city fiscal capacity. Worse, such impacts may work to the detriment of other community priorities. Careful consideration and stewardship of resources is called for.

### What needs to be done:

1. Transparency:
  - a. Create Budget Process documents that provide a retrospective 3-5 years along with future projections. Including year on year analysis as well as compound trends.
  - b. Provide Documentation of assumptions for out year expenses and revenues.
  - c. Provide detailed public presentations of the budget with appropriate illustrations.
  - d. Adopt an ongoing budget review process that reports revenue and expense against the original adopted budget.
2. Integration:
  - a. There are a number of major capital intensive projects in the planning phase (WT, Gateway, OS...) and each needs to be clearly identified and merged as subsections into both the capital budget as well as the operating budget so that impacts in each area are apparent.
3. Capital Planning:
  - a. Set Priorities with the community. There are far too many projects underway that clearly outstrip funding capacity and city operations capability by any reasonable assessment.
  - b. Coordinate this massive effort with other agencies that also have capital needs!

4. Financial Stability:
  - a. Adopt a budgeting strategy that manages *realistically* anticipated revenues and expenses that permits:
    - i. A reserve fund for emergencies
    - ii. A cash flow stream that can fund capital improvements.
  - b. Consider an embargo on any Council-Manic Bonds until a realistic budget and viable 6 year capital facilities plan are adopted.
  - c. Reduce operating expenses:
    - i. Once a determination has been made regarding the city's ability to manage projects to completion and projects in the planning phase are reduced in number...reduce planning staff accordingly.
    - ii. Get excessive Consultant and Professional contract costs under control.
  - d. Assure that the CIP budget is aligned with realistic funding capabilities.
  - e. Consider options to eliminate the soft cost funding embedded in the Council-Manic bonds to be sold this fall-we should not be paying long term interest on a project that may not even be started or completed!
5. Council Operations:
  - a. Too much power has been granted to the executive in the interests of satisfying the consultants from CH2MHill or whomever. A renegotiation is needed to restore balance so that information is developed collaboratively, shared widely (including the public) and used to improve decision making.
    - i. Our View: City-paid staff, though reporting through the executive, is not owned by administration, but by the citizens whose revenues support operations...and these staff experts should be involved in working collaboratively with both Administration and Council in the quest for informed decisions.
    - ii. We are concerned that constraints on council access to staff analysis and documentation may confine council deliberation to administrative-determined agendas. Further, any analysis done outside the administration subject to innuendo and skepticism as we witnessed on the 27<sup>th</sup>. The public is thus denied the robust discussion it deserves and members of council run the risk of marginalization-neither outcome is desirable.
  - b. All Council Committees should be restored as they constitute a valuable opportunity for the citizens to interact with city government.
  - c. Resuscitate the traditional Mayor-Council Model as defined by State Statutes: Operating documents and tacit understandings should be explicit and transparent with the goal of improving both the efficiency and economy of city government within that legal framework. City Council sets policy and administration makes it happen.