



CITY OF LANGLEY

DRAFT- SPECIAL COUNCIL MEETING AGENDA

Monday, June 24, 2024, 3:30 pm

City Hall, 112 Second Street, Langley, WA 98260

And via Zoom:

<https://us02web.zoom.us/j/85016739615?pwd=hmD9ouWjXMUdgXZ1j92U5TNdXAENA4.1>

Webinar ID: 850 1673 9615, Passcode: 378405

NOTICE: A QUORUM OF THE FINANCE AND PERSONNEL LEGISLATIVE COMMISSION (FPLC) MAY BE IN ATTENDANCE AT THIS MEETING.

1. CALL TO ORDER

- a. Opening Words/Minute of Silence
- b. Roll Call

2. CONSENT AGENDA (The CONSENT AGENDA consists of routine items that normally do not require further Council discussion) (2 minutes)

Remove Councilmember Salerno as an authorized signer for Heritage Bank

3. PUBLIC COMMENT * (10 minutes)

4. NEW BUSINESS (60 minutes)

- a. Budget Analysis and Recommendations – Mayor Horstman, p. 2
- b. Revenue Options – Councilmember Carlson, p. 11

5. COUNCIL REPORTS (15 minutes)

- a. Councilmember Harolynne Bobis
- b. Councilmember Rhonda Salerno
- c. Councilmember Chris Carlson
- d. Councilmember Craig Cyr
- e. Councilmember Gail Fleming

6. ADJOURN

***Public Comment:** We welcome requests to comment on subjects that are not on the agenda or requests to comment on a particular agenda item at the time the item is being discussed. The purpose of a public comment is to allow the public to inform the Council of your views. We appreciate and welcome your comments, but please note that we will not be entering into dialogue at this time. Please limit your comments to no more than three minutes and address subjects, not individuals, in an orderly and courteous manner. Please state your name, where you reside, and the subject of your comment.

Thank you for participating! If reasonable accommodation for a disability is needed, please contact us at (360) 221-4246 at least 48 hours prior to this meeting.



MAYOR'S REPORT

BUDGET ANALYSIS & RECOMMENDATIONS
2024 AMENDMENT & 2025 PROCESS

MAYOR KENNEDY HORSTMAN

JUNE 20, 2024



AGENDA

Expense Analysis

- Method
- Assumptions
- Analysis
- Recommendations

Budget Process & Calendar

- 2024 Amendment
- 2025 Budget



EXPENSE ANALYSIS METHOD

- Analyzed actual general fund expenses (2023 and 2024 through mid-March)
- Removed 2023 one-time expenses (e.g. contract Finance staffing)
- Updated staffing costs
- Adjusted budget line items based on (2023) actuals and staff consultation
- Batched shared expenses and staffing costs for ease of analysis
(staffing allocations are too complex for budgeting analysis, so these expenses are batched)



CAVEATS & ASSUMPTIONS

General Fund analysis only

Numbers are preliminary

- We won't have starting balances until the 2023 financial report is final. Analysis is based on projected revenues and expenses (ignoring fund balance).
- Details are still in staff review.

Break even goal: cover fiscal year 2024 and projected revenue shortfall of Q1 2025

- This interim goal does not include GF reserve funding.
- “Break even” is not fiscally healthy, but it's a start as we work to build appropriate reserves.
- Projected 2025 Q1 revenue shortfall ~\$45-50K (based on 2024 shortfall calculation).
- **Projected Expenses**
 - Include: permanent deputy clerk and estimated codification “catch up”.
 - Exclude: City Clerk-Administrator, new finance system, IT system upgrades, reserve funding.



GF ADJUSTED EXPENSES BY MAJOR CATEGORY

- Staffing costs are our highest cost category – and all our current staff are required.
- Shared cost allocations are not reflected by function.
- Stack rank does not reflect expense offsets from grants and fees.

Exp Category		Sum of 2024 Projected Expenses
STAFFING	\$	995,470
SHARED	\$	401,416
PLANNING	\$	218,940
POLICE	\$	115,245
PUBLIC WORKS	\$	66,127
FINANCE	\$	45,800
MUNI-COURT	\$	42,677
ADMIN	\$	41,764
COUNCIL	\$	10,530
Grand Total	\$	1,937,968



GF ADJUSTED EXPENSES BY ORGANIZATIONAL FUNCTION

- Because shared costs are not allocated, ranking is accurate not precise.
- Building is part of planning.
- Council includes council and commissions.
- Note that grant/fee offsets continue to apply.

Function/Dept	Sum of 2024 Projected Expenses
POLICE	\$ 596,813
PLANNING	\$ 438,137
SHARED	\$ 347,728
PARKS	\$ 151,722
FINANCE	\$ 118,586
BUILDING	\$ 50,627
ADMIN	\$ 50,201
SHARED-Eqt&Tech	\$ 47,464
MUNI-COURT	\$ 42,677
RECORDS/DOCMGT/ARCH	\$ 41,514
COUNCIL	\$ 15,697
MAYOR	\$ 12,000
TRANSITION	\$ 8,600
PASSPORTS	\$ 6,201
LIBRARY	\$ 5,500
FACILITIES	\$ 4,500
Grand Total	\$ 1,937,968



WHERE ARE WE RELATIVE TO THE BREAK-EVEN GOAL

2024 Projected Revenue (revised)	\$	2,063,266
2024 Projected Expenses (revised)	\$	1,937,968
Difference	\$	125,298
Projected Q1'25 Revenue Shortfall	\$	(45,000)
Remainder	\$	80,298

- As proposed, the budget balances:
 - Projected revenue > projected expenses.
 - Projected balance at year end > \$0.
- We are not fiscally healthy:
 - Reserves are unfunded; we are unprepared for downturns or unanticipated expenses.
 - Staffing costs are our single biggest expense – and our staffing is already lean:
 - City Clerk Admin not funded
 - Some staffing costs are already significantly offset by grants and/or fees.



EXPENSE ANALYSIS RECOMMENDATIONS

Continue conservative financial management

- Continue mission-critical expenses approach (shoot to under-spend wherever possible while maintaining current service levels).
- “Bank” any savings in a contingency reserve for unanticipated/uncategorized expenses with use subject to review/approval.
- RIFs not anticipated at this time.

Consider options to increase income

- Public safety sales tax
- Transportation benefit district
- Liquidate assets and invest proceeds (Restrict and invest proceeds and limit use of investment returns to specific purposes.)

Target cost reductions and efficiency gains

- Fund finance and IT system updates using grants or other external funding sources. (Note that these systems represent significant benefit and cost savings opportunities.)
- Review benefits for staff retention/competitiveness and equity.



BUDGET PROCESS / COUNCIL CALENDAR

2024 Budget Amendment		2025 Budget	
Jun 18 – 21	Staff review of proposed approach and budget	Date	Action
Jun 24	Council Budget Workshop	Sep 9	Budget request sent to directors
Jun 24 – 15	Collect/address council questions and suggestions	Sep 23	Directors file budget estimates
Jul 15	Prelim budget amendment hearing*	Oct 10	Preliminary budget submitted to the mayor
Jul 22	Council workshop: set 2025 budget priorities	Oct 21	Public hearing on revenue (& tax increases)
Aug 5	Council meeting: authorize budget amendment	Nov 2	Prelim budget & budget message filed
		Nov 4	Prelim budget hearing*
		Nov 18	Final budget hearing
		Dec 16	Budget submitted to MRSC & SAO
		2025 Budget starts with 2024 amendment as the baseline	

* Timing of budget amendment hearings are dependent on audit results (for beginning fund balances). However, amendment timing could run in direct parallel to 2025 budgeting.



To: Langley City Council Members

From: Chris Carlson

Date: 06/24/2024

Topic: Revenue Options to Address Structural Financial Strain

Number of pages: 5

Introduction/Summary:

The City of Langley faces structural financial strain that threatens our near- and long-term ability to provide the essential services that our residents and business community rely on. Small towns and cities like Langley are obligated to provide basic public services such as drinking water, sewer, stormwater, streets, and public safety/police. Operating these services in their limited and leanest forms requires an operational overhead (people & infrastructure) that cannot be sustained with Langley's existing sources of revenue:

- **Sales tax:**
 - o \$607,000 budgeted for 2024
 - o 29% of total General Fund revenue
 - o Limited to 1% maximum for unrestricted use - revenue which is reduced by state (2%) and county (15%) shares.
- **Property tax:**
 - o \$475,000 budgeted for 2024
 - o 23% of total General Fund revenue
 - o Limited to 1% growth in revenue – lower than inflation.
- **Utility taxes:**
 - o \$366,500 budgeted for 2024
 - o 18% of total General Fund revenue
- **Investment earnings:**
 - o \$20,000 budgeted for 2024
 - o 1% of total General Fund revenue
- **Grants:**
 - o Restricted project-specific funding.
 - o Langley has historically only applied for direct project cost funding.
- **Utility fees:**
 - o Restricted to funding maintenance & capital improvements for those enterprises only, and not available for General Fund operations.

- **Other revenue:**

- This is mostly fees that only go toward recuperating some of the costs associated with the administration of those services - such as building permits, business licenses, building rent, etc.

We all rely on safe, reliable, equitable and high-quality public services to live healthy productive lives. This is the primary purpose of government, and it is in everyone’s interest to ensure the City of Langley has the resources necessary to fulfill that purpose.

Based on analysis done by myself and Director Grone, these are the limited number of additional revenue sources that are available to Langley:

Public Safety Sales Tax

The public safety services our Police Department provide ensure we’re protected and supported during our most vulnerable moments. In an emergency, we can rely on our highly trained police officers to come to our aid, enforce our laws, and protect us, our families and our property. It is expensive to retain professional officers who:

- Can afford to live nearby to respond promptly to emergencies
- Are outfitted with the equipment to operate safely
- Are highly trained in the latest public safety techniques

The Police Department represents **35% of the 2024 General Fund budget** (\$779,982 out of \$2,229,594). It is also the **only department that doesn’t have significant revenue** to offset operational expenditures.

Here’s a breakdown of revenue and expenses comparing the city’s three external service providing departments:

Department	’24 Dept. Revenue	’24 Dept. Expenditures	% Rev. Covers Exp.
Police	\$31,738	\$779,982	4%
Planning	\$379,733	\$522,285	73%
Public Works <i>*incl. enterprise funds</i>	\$3,075,432	\$3,518,027	87%

The public safety services that our Police Department provide the community are both essential and unfunded. Adopting a public safety sales tax of .1% would require voter approval via ballot proposition and would bring in an estimated **\$51,648 annually based on 2024 projected sales.**

[MRSC page on the Public Safety Sales Tax](#)

Indirect Cost Recovery Plan for Grants

Grantors in most cases allow for charging the grant for allowable, allocable and reasonable indirect costs that are necessary to support the direct scope of work. This can constitute a meaningful amount of funding for administrative services like finance, records, utilities and facility maintenance & depreciation.

As of 2022, Island County had a negotiated indirect cost recovery agreement of 8.64%. Not all direct costs are allowed to be charged the indirect cost rate, however, for point of reference if the city had the same indirect cost rate and was awarded a **\$100,000 in direct funding** from the federal government, the city would receive an **additional \$8,640 to pay for the indirect costs** incurred by the city.

Further discussion is needed with Director Grone and the FPLC to determine whether this indirect recovery plan, and subsequent negotiation with the Federal Government is best done internally or if the city should contract with a vendor.

[MRSC Page on Cost Allocation](#)

[GFOA Page on Indirect Cost Allocation](#)

[Department of Labor Guidance on Indirect Costs](#)

[Skagit County's Indirect Cost Plan](#)

Transportation Benefit District & Sales Tax

Transportation Benefit Districts (TBDs) are quasi-municipal corporations and independent taxing districts that can raise revenue for specific transportation improvements such as roads, sidewalks. Constructions, maintenance, and operation costs are eligible to be paid for by revenue the TBD collects.

Any city or county may form a TBD by ordinance, following a public hearing, if it finds that the action is in the public interest. They share boundaries with the establishing jurisdiction, and the city council serves as the TBD's governing board. As of January 2024, there are more than 110 cities and towns in Washington that have established a TBD.

A TBD may impose a 0.1% sales tax by majority vote of the governing board. These generally are in effect for 10 years but can be extended. This would bring into the city **\$51,648 based on 2024 projected sales**.

Via a successful ballot proposition, TBDs can raise an additional 0.2% of sales tax which would bring in an additional **\$103,296 annually based on 2024 projected sales**.

The Streets Fund has minimal and dwindling revenue, which is necessary to fund maintenance and pay matching funds for transportation improvement grants. In absence of dedicated

transportation revenue, these costs are incurred by the General Fund. In the 2024 budget, the City Council approved a transfer of **\$24,500 from the General Fund to the Streets Fund** to pay for street light electric utilities, which could have instead been funded by this revenue.

[MRSC Page on Transportation Benefit Districts](#)

Levy Lid Lift

More research is necessary to determine the viability of this option. This is the only option represented here that would be sourced from property taxes, and could be part of a multi-pronged approach to spread out the cost burden so that it doesn't fall entirely on sales tax which is regressive.

[MRSC Page on Levy Lid Lifts](#)

Council Action Request:

I request that Council Members research each of these revenue sources and consider which are most appropriate for Langley, with a follow up discussion in July when motion(s) can be made to pursue one or multiple options.

Statement as to action's importance:

Without new revenue, the city will continue to come up short of cash in the first quarter of every calendar year, requiring interfund loans that must be paid back with interest. If any sort of emergency occurs, the city also has no significant reserves to draw from, threatening the City's solvency.

Regarding the Public Safety Sales Tax, if the county adopts a resolution to put a public safety sales tax on the ballot before the city does, then the city would not be eligible to also collect that tax and county would not be obligated to share that revenue with the city.

Timeline for Action:

- Initial discussion tonight to learn about the different revenue sources.
- Council members conduct research into revenue sources and consider pros/cons.
- Put back on Council Agenda no later than July 22nd Council Workshop to consider motion(s) on one or multiple revenue sources.

Financial Implications:

- None for now.
- Ballot propositions cost \$1,500.

- The City attorney will need to review any ordinance or resolution.

Staff Time Implications:

- Minimal consultation with Directors.