
MEMORANDUM

To: Woodway Council
From: Mike Quinn, Mayor
Subject: 2023 Preliminary Budget
Date: October 3, 2022
Cc: Eric Faison, Town Administrator
Heidi K. S. Napolitano, Clerk-Treasurer

Overview

At Monday's meeting, I will be presenting the 2023 preliminary budget. My proposed budget reflects our annual process of evaluating costs by line item, including adjusting projections based on recent & historical trends, regulatory & contractual obligations, revised priorities and expectations, and new one-time revenues and/or expenses. While this process sounds complex, the Town has few significant revenue sources, our police and fire contracts account for a substantial portion of our expenditures, and the Town is very leanly staffed. As a result, there generally are not substantial variations in our annual budget.

I am projecting an approximately \$240,000 reduction in our Operating Budget revenue compared to 2022, and a \$235,000 increase in expenses. The reduction in revenue results primarily from the expiration of state & federal assistance and a slowing economy. The increase in expenses is largely due to inflationary increases in our employee compensation, public safety contracts and property & liability insurance rates, planning expenses that will be reimbursed by the state, and state audit expenses (the audit occurs every other year).

We project the Town's operating funds will drop below \$1 million sometime in 2027, and there will be a negative fund balance two years later, which is consistent with previous projections.

Items of Note

Operating Revenues:

Property taxes remain the primary revenue source for the Town. We are projecting an increase of 1% in 2023, consistent with State law. Due to a slowing economy and rising interest rates, we have slightly reduced our projected sales tax revenue and increased our projected interest earnings.

The largest additional one-time revenue that we are projecting in 2023 relates to a REET transfer. Recent state legislation allows the Town, on a temporary basis through 2023, to spend real estate excise tax (REET) revenue on the operation of certain capital assets (e.g., street and park maintenance/operations). We will transfer approximately \$190k of REET to

maintenance/operations in 2023 as planned and discussed during the 2022 budget preparation. Due to limitations in the law, however, this amount is \$140k less than the REET transfer that we were able to make in 2022.

The federal government, in addressing the impacts of the COVID-19 pandemic on local governments, adopted the American Rescue Plan Act (ARPA) in 2021. The Town received \$194k in ARPA funds in 2021, and an additional \$194k in 2022. This budget reflects the fact that these funds are no longer available in 2023.

Operating Expenses:

The Town's operating budget can be categorized in three areas: Mandatory, Essential and Discretionary expenses. The expenses in each of these categories remain largely consistent over the years, with most of the Town's operating expenses fall within what we would describe as mandatory (29%) or essential (62%) services.

Mandatory: By law, we are required to have a Mayor, a Council, a clerk, a treasurer, a building official, an attorney, and a police chief. We also are required to perform the functions of a building inspector, a planner, permit technician, and certain responsibilities generally performed by public works. There also are mandatory costs, such as State Auditor charges, County election charges, etc.

Essential: Traffic enforcement, police patrols, and even police response are not required by law. Nor are fire protection and emergency medical services. Paved roads, surprisingly, are not required. However, most residents would categorize each of these services as essential.

Discretionary: The Town's discretionary expenses are limited – accounting for 9% of our Operating Budget. And, while discretionary, expenses that would fall within this category include items that many would find important. A non-exhaustive list of these expenses would include parks, our Town Administrator, the Town Fair, and planning and legal expenses associated with Point Wells.

As noted above, I am projecting increased expenses largely due to inflationary increases in our employee compensation, public safety contracts, and insurance rates.

- We annually evaluate our employee wages relative to comparable positions in other cities. As a result of this analysis, I am proposing a 6.8% increase (\$86k) in our core employees' salary and benefit costs.
- We have received a state grant to begin work on updating the Town's Comprehensive Plan. I am proposing \$45k in reimbursable expenses associated with this project.
- Public Safety expenses are our largest expense – accounting for almost half of our operating expenses. Our fire contract increases by 3% annually. This will result in an additional \$18k expense for 2023. Our police contract increases by the greater of 3% or

the average of the prior two year's CPI. We estimate a 7.8% increase for 2023, or \$16.5k.

- We have a mandatory state audit that takes place every other year. This will be an additional \$26k expense in 2023.
- Municipal insurance rates have increased dramatically over the past year. A significant factor in this increase relates to property and liability insurance costs associated with the provision of police services. I have included an \$18k increase to account for this expense.

Capital Revenues and Expenses:

Because of rising interest rates and the likelihood of a slowing economy, we have substantially reduced our REET revenue estimate – to \$120k. As a reminder, these funds are never expended until after we receive them. As a result, this reduction has no material effect on our finances.

Due to the pavement maintenance work completed in 2022, we have not included any additional overlay expenses in 2023. The non-binding six-year transportation improvement plan anticipates additional overlays in 2024.

New expenses:

I am proposing a few new one-time expenses in this budget, most notably, in the Clerk-Treasurer's Office, I am recommending the hiring of a temporary employee to address state-mandated records management and retention. The cost for this position is \$19k.

I am also requesting \$10k to upgrade our audio system in the Council chambers to better facilitate remote participation.

Conclusion

Overall, our budget and financial forecast remains largely similar to prior years. The temporary change in state law and the grants that we received from the federal government have provided substantial support to the Town's operating budget – over \$1 million through 2023. However, these funds have merely masked an ongoing structural deficit.

After 2023, we expect annual operating fund deficits to return, due to expense growth rates that exceed revenue growth rates. As a result, we will need to develop a strategy to engage in a thoughtful discussion with our community on how to provide long-term stability to the funding of services that we all consider important.

Please review the budget package and consider additions that you understand to be a community priority, and we will discuss as a group. Additional staff research time may be needed. I look forward to productive discussions during this budget cycle!