



**City of Lake Forest Park  
City Council Budget and Finance Committee  
Thursday March 16, 2017  
6:00 p.m.  
Lake Forest Park City Hall  
Lake Forest Room  
17425 Ballinger Way NE  
AGENDA**

Committee Members: John Resha (Chair), Tom French, and Catherine Stanford

**Study Updates (Safe Streets, Safe Highways, and Creeks & Culverts) Including Discussion of Scope Changes and Emergent Needs**

**Permit Tracking Software Electronic Payment Presentation**

**Director's Report**

**General Fund Revenue Capacity Study Presentation**

**Public Comment**

**Adjourn**

**Committee Discussion Documents and Attachments**

1. Permit Tracking Software Electronic Payment Memo
2. February Budget Monitoring Report
3. General Fund Revenue Capacity Study



Date: March 16, 2017

To: Mayor Johnson and the Budget and Finance Committee

From: Planning Department

Cc: Finance Director Chris Bothwell

Subject: Credit Card Payments for Permits

---

The purpose of this item is to inform the Mayor and City Council, via the Budget and Finance Committee, of matters associated with the implementation of an electronic payment system that will be integrated with the soon to go-live Accela permitting system and to provide an opportunity for informal feedback on the matters presented in this memo.

Converge software partners with Accela (the vendor for the new Planning and Building software) as a third-party merchant enabling electronic payments in the Accela system. The proposed three-year agreement will allow Lake Forest Park to take credit card payments both online and in-person, and provide seamless integration between the permitting software and payment platform.

Credit card interchange fees will be charged to the City on each transaction processed by Converge, based on rates set by the credit card companies. Interchange fees currently range from .30% to 3.05%, plus a \$0.10 to \$0.35 transaction fee is assessed on each payment. In order to recover these costs, the Planning Department proposes to charge a 3% convenience fee on Planning Department fees when the customer uses a credit card for payment. This cost recovery method will require an amendment to the User Fee Schedule to add a 3% credit card fee to all permit fees paid by credit card. Both Bothell and Kenmore charge a 3% credit card convenience fee for permits, so this fee will be in line with fees charged by neighboring cities.

A budget amendment will also be required for the payment of the fees to Converge; the budget amendment will include an offsetting revenue due to the collection of the convenience fee. The Finance Department recommends waiting until late in the biennium to bring the budget amendment to the City Council for approval, in order to better assess the need and value of such an amendment.

The Planning Department expects the credit card convenience fee to exceed staff's contracting authority and intends to add a contract approval request to the April 13, 2017 City Council consent agenda.

**City of Lake Forest Park**  
**February Budget Status Report, Department Level Detail**  
**2/28/17**

Note: At February 28th, we are approximately 8.3% through the biennium. An expense that is evenly distributed throughout the year would have a YTD percentage of 8.3%.

<u>Dept.</u>	<u>Description</u>	<u>Budget Amount</u>	<u>YTD Amount</u>	<u>YTD Percentage</u>
Dept 100	City Council			
	001-100 EXPENSE Totals:	166,842	10,502	6.29%
Dept 110	Executive Services			
	001-110 EXPENSE Totals:	1,036,829	94,130	9.08%
Dept 120	Legal Services			
	001-120 EXPENSE Totals:	270,000	25,161	9.32%
Dept 130	Municipal Services			
	001-130 EXPENSE Totals:	1,192,247	159,839	13.41%
Dept 140	Elections / Voter Costs			
	001-140 EXPENSE Totals:	70,000	34,886	49.84%
Dept 150	City Memberships			
	001-150 EXPENSE Totals:	75,178	27,532	36.62%
Dept 160	Finance & Information Services			
	001-160 EXPENSE Totals:	1,185,937	98,944	8.34%
Dept 170	State Audit			
	001-170 EXPENSE Totals:	54,000	-	0.00%
Dept 200	Municipal Court			
	001-200 EXPENSE Totals:	1,077,758	104,014	9.65%
Dept 210	Prosecutor & Public Defense			
	001-210 EXPENSE Totals:	367,195	7,275	1.98%
Dept 300	Law Enforcement			
	001-300 EXPENSE Totals:	6,361,164	613,590	9.65%
Dept 310	Crime Watch/Community Policing			
	001-310 EXPENSE Totals:	15,000	150	1.00%
Dept 320	Emergency Management			
	001-320 EXPENSE Totals:	90,000	38,859	43.18%
Dept 321	Traffic Safety Camera Program			
	001-321 EXPENSE Totals:	930,000	76,000	8.17%
Dept 330	Dispatch Services			
	001-330 EXPENSE Totals:	266,670	-	0.00%
Dept 340	Civil Service Commission			
	001-340 EXPENSE Totals:	17,800	-	0.00%

City of Lake Forest Park  
 February Budget Status Report, Department Level Detail  
 2/28/17

Note: At February 28th, we are approximately 8.3% through the biennium. An expense that is evenly distributed throughout the year would have a YTD percentage of 8.3%.

<u>Dept.</u>	<u>Description</u>	<u>Budget Amount</u>	<u>YTD Amount</u>	<u>YTD Percentage</u>
Dept 370	Environmental Services 001-370 EXPENSE Totals:	22,000	525	2.39%
Dept 400	Detention Services 001-400 EXPENSE Totals:	315,000	6,036	1.92%
Dept 500	Community Service Programs 001-500 EXPENSE Totals:	417,485	13,028	3.12%
Dept 510	Public Health 001-510 EXPENSE Totals:	6,000	842	14.03%
Dept 600	Planning Services 001-600 EXPENSE Totals:	936,083	64,640	6.91%
Dept 610	Building Services 001-610 EXPENSE Totals:	426,300	31,601	7.41%
Dept 700	Parks Gen. Op./Maint. 001-700 EXPENSE Totals:	564,758	43,785	7.75%
Dept 710	Facilities Maintenance 001-710 EXPENSE Totals:	443,323	28,764	6.49%
Dept 720	Street Maintenance 101-720 EXPENSE Totals:	343,500	14,430.52	4.20%
Dept 730	Street Operations 101-730 EXPENSE Totals:	685,914	63,612.91	9.27%
Dept 740	Transfers/Interfund Svcs. 101-740 EXPENSE Totals:	200,844	-	0.00%
Dept 800	Facility Capital Projects 301-800 EXPENSE Totals:	2,000	-	0.00%
Dept 810	Parks Capital Projects 301-810 EXPENSE Totals:	35,000	-	0.00%
Dept 811	Town Center Park 301-811 EXPENSE Totals:	909,150	12,943.83	1.42%
Dept 820	Capital Transfers-Out 301-820 EXPENSE Totals:	303,317	-	0.00%
Dept 900	Engineering Operations 302-900 EXPENSE Totals:	527,496	31,512.57	5.97%

City of Lake Forest Park  
 February Budget Status Report, Department Level Detail  
 2/28/17

Note: At February 28th, we are approximately 8.3% through the biennium. An expense that is evenly distributed throughout the year would have a YTD percentage of 8.3%.

<u>Dept.</u>	<u>Description</u>	<u>Budget Amount</u>	<u>YTD Amount</u>	<u>YTD Percentage</u>
Dept 910	Street Capital Projects 302-910 EXPENSE Totals:	834,000	4,919.86	0.59%
Dept 920	Pedestrian Capital Projects 302-920 EXPENSE Totals:	210,000	5,545.13	2.64%
Dept 930	Park & Ride 302-930 EXPENSE Totals:	-	-	0.00%
Dept 940	Safe Highways 302-940 EXPENSE Totals:	635,000	89.70	0.01%
Dept 750	Sewer Utility Operations 401-750 EXPENSE Totals:	5,022,850	407,576.50	8.11%
Dept 760	Transfers/Interfund Svcs. 401-760 EXPENSE Totals:	1,009,652	-	0.00%
Dept 770	Surface Water Operations 403-770 EXPENSE Totals:	1,551,988	99,833.99	6.43%
Dept 780	Sur. Wtr. Transfer/Interfund 403-780 EXPENSE Totals:	761,685	-	0.00%
Dept 785	Surface Water Services 404-785 EXPENSE Totals:	-	-	0.00%
Dept 786	Surface Water Project 1 404-786 EXPENSE Totals:	-	-	0.00%
Dept 787	Surface Water Project 2 404-787 EXPENSE Totals:	-	-	0.00%
Dept 788	Culvert Replacement Program 404-788 EXPENSE Totals:	680,000	57,921.90	8.52%
Dept 790	Kenmore Contract Ops 450-790 EXPENSE Totals:	1,372,258	149,083.46	10.86%
Dept 795	Transfers/Interfund Services 450-795 EXPENSE Totals:	355,561	-	0.00%



Date: March 10, 2017  
To: Mayor Johnson and Councilmembers  
From: Chris Bothwell  
Subject: General Fund Revenue Capacity Study Transmittal

---

Attached please find the General Fund Revenue Capacity Study Report prepared by the Finance Department. As is noted in the report, this report was prepared by staff to inform the Mayor and City Council about options that exist to increase and diversify General Fund revenues. The study and resulting report are purely informational and were not commissioned by the Mayor or City Council for any other purpose or to identify funding for a specific purpose.

A brief presentation of the report is scheduled for the March Budget and Finance Committee meeting.

Mayor  
 Jeff R. Johnson

17425 Ballinger Way NE  
 Lake Forest Park, WA 98155-5556  
 Telephone: 206-368-5440  
 Fax: 206-364-6521  
 E-mail: cityhall@ci.lake-forest-park.wa.us  
 www.cityoflfp.com



Councilmembers  
 Tom French  
 Phillippa M. Kassover  
 Mark Phillips  
 E. John Resha III  
 Semra Riddle  
 Catherine Stanford  
 John A. E. Wright

## EXECUTIVE SUMMARY

The General Fund Revenue Capacity Study, the subject of this report, looked at ways that the City could raise additional General Fund revenue for two purposes: to fund ongoing operations and improvements and to positively impact the long term sustainability of the City at current levels of service. The scope of this study is unrestricted General Fund revenues, the type of revenues that can be used for any purpose of government. A summary of the study results are presented in the table below. More detail about the study and the opportunities identified are contained in the full report.

Two aspects of each opportunity are highlighted in the table: the overall annual value and the rate of growth, labeled in this report as the “growth index”. Overall value is an estimate of the annual value that the City is likely to recognize after fully implementing the opportunity; rate of growth is a characteristic that speaks to how quickly the revenue will grow in the future and in some cases having a positive impact on the long term financial sustainability of the City at current levels of service.

The study found that the City could raise an additional \$2,092,500 of unrestricted General Fund revenue annually, if all of the opportunities were fully implemented at their respective maximums. One million of that amount is attributable to a property tax lid lift, levied at the maximum rate allowable under State Law. Another approximately \$900,000 could be raised by implementing or increasing utility taxes on all utilities allowed by law at a rate of six to eight percent. Several smaller opportunities are found in the table and described in more detail in the full report.

<i>General Fund Revenue Opportunity Summary</i>		
<u>Opportunity Title</u>	<u>Estimated Annual Opportunity Value</u>	<u>Growth Index</u>
Property Tax Levy Lid Lift	1,000,000	1%
Voted Utility Tax Rate Increase to 8%	320,000	Inflation
Utility Tax on Water	180,000	Inflation
Utility Tax on Sewer	170,000	Inflation
Increase Utility Tax on Electric Utility	160,000	Inflation
Traffic Safety Camera Expansion	140,000	None*
Utility Tax on Stormwater	70,000	Inflation
Revenue Generating Business Licensing	25,000	Subject to Policy
Passport Expansion	20,000	None*
Investment Interest, Update Investment Policy	7,500	Interest Rate Environment

\* Rates are set by another governmental entity and LFP has no means to influence the timing or frequency of increases.

## BACKGROUND AND OBJECTIVE

Lake Forest Park (LFP), like all local jurisdictions, has a limited number of options for increasing revenue. The primary purpose of this report is to identify opportunities to increase General Fund revenue in order to inform the Mayor and City Council of their options. The secondary purpose of this study is to provide information regarding whether opportunities identified are likely to positively impact the long-term financial sustainability of the City. The focus of this report is unrestricted General Fund revenue, staff is available to perform a similar study with respect to other types of revenue, should the Mayor or City Council request such a study.

### Primary Purpose: Increase Revenue

The primary purpose of this study was to identify all possible opportunities to increase unrestricted General Fund revenue, the type of revenue that can be used for any purpose of government. The study focused on reoccurring revenue, annual revenues were estimated for each opportunity identified. Several of the opportunities identified have costs associated with them, the revenue estimates used in this report are net of any known expenses associated with the generation of the respective revenue. Inflows of resources that represent a simple recovery of costs are excluded from the scope of this study.

### Secondary Purpose: Long-Term Financial Sustainability

The secondary purpose of this study is to provide information regarding whether each opportunity identified could impact the long-term financial sustainability of the City, specifically whether implementing the opportunity would likely have a positive impact on the structural deficit.

The Lake Forest Park General Fund's largest single revenue source is property tax, representing nearly forty percent of General Fund total revenue; property tax annual growth is limited to the lower of inflation or one-percent. General Fund expenditures generally grow at the rate of inflation, which is above one-percent in most years. The condition where expenditure growth outpaces revenue growth has been coined a structural deficit.

Most local jurisdictions have been grappling with a structural deficit for many years. One of the only known ways to mitigate, or eliminate, the structural deficit is to diversify a city's revenue mix to include more revenues that grow at or above inflation. The result of the diversification of revenue is a relative reduction of the slow-growing revenue's impact on total revenue growth. To communicate the potential of each opportunity to mitigate the effects of the structural deficit, staff estimated the likely rate of growth, or growth index, for each opportunity. The growth index combined with the overall opportunity value will give readers an idea of whether the opportunity may positively impact the LFP structural deficit.

## PROCESS

The process to identify opportunities was broken into two phases; research and discovery, and review and analysis. The results of the study are contained in the findings section of the report, followed by the conclusion. The report also includes a Table of Opportunities and Details which is a chart of the opportunities identified and includes information regarding opportunity value, growth index, impact of economic cycles, and whether implementing the opportunity would require a vote of the people. The Table of Opportunities and Details is attached to this report as Exhibit A.



### Research and Discovery

Staff searched for information regarding all possible revenue opportunities available to local governments in the research and discovery phase. Sources of information reviewed include publications of the Municipal Research Services Center, the Washington State Department of Revenue, and the Association of Washington Cities. Staff also reviewed State Statutes and neighboring cities' financial reports and user fee schedules. Neighboring cities whose reports were reviewed for this study include Bothell, Brier, Kenmore, and Shoreline. This phase of the project concluded with a list of all revenues found in one or more of these sources that are currently not part of LFP's revenue mix or that is not currently levied at the maximum amount allowed.

### Review and Analysis

Following research and discovery, staff reviewed and analyzed each opportunity. First, staff evaluated items discovered in the previous phase to determine whether they represented viable opportunities to raise revenue for LFP. Next, staff created estimates of the opportunity value; assigned a growth index to estimate the rate of growth that the City would likely experience if implemented; estimated the impact that economic cycles would likely have on the opportunity; and noted whether a vote of the people would be required to implement the opportunity.

## RESULTS

Opportunities to increase General Fund revenue are presented in narrative format in this section of the report. Opportunities are listed in the order of annual value. More information about these opportunities is available on the Table of Opportunities and Details, attached to this report as Exhibit A.

### Property Tax Levy Lid Lift (basic) | \$1,000,000 annually

Currently, the City levies property tax at the maximum allowable without a vote of the people (the "lid"). The City can ask voters to lift the property tax lid up to the statutory maximum, which is expressed in State Statute as a dollar value per \$1,000 of assessed value.<sup>1</sup> The statutory maximum applicable to LFP is \$3.60 per \$1,000 of assessed valuation, less amounts for two junior taxing districts: Fire \$1.50 and Library \$0.50. The result is a maximum allowable City levy of \$1.60 per \$1,000 of assessed valuation. The current City levy is \$1.19; the annual value of the \$0.41 per \$1,000 capacity is approximately \$1 million. The City is allowed to levy any amount up to the statutory maximum with a simple majority vote of the people. If approved, this opportunity would grow at the same rate as property tax, at the lesser of inflation or 1% annually.

### Voted Utility Tax Rate Increase to 8% | \$320,000

Utility tax rates on electricity, natural gas, and telephone are limited by State Statute to six percent of the gross receipts of the utility business within the City's borders. A city can ask voters to approve a rate of higher than six percent.<sup>2</sup> If approved, an increase of two percent would generate approximately \$320,000 annually in additional utility taxes for the utilities identified above. Utility taxes on water, sewer, storm water, and cable do not have limits, but most cities subject those utilities to a rate similar to the rates imposed on the utilities specifically listed above. The annual revenue estimate for this item only includes increasing the rates on electricity, natural gas, and telephone. If approved, however, rates could also be raised on the other utilities generating additional unrestricted General Fund Revenue. This opportunity would grow at the rate of utility rates, which is generally consistent with inflation. Some of the growth, however, may be offset by conservation efforts.

---

<sup>1</sup> RCW 84.52.040(1) Limitations upon regular property tax levies.

<sup>2</sup> RCW 35.21.870 Electricity, telephone, natural gas, steam energy business – Tax limited to six percent – Exception

#### Utility Tax, Water | \$180,000 annually

The recent court decision in, *City of Wenatchee v. Chelan County Pub. Dist. No. 1*, clarified that a city is allowed to levy a utility tax on a utility district, specifically a water district.<sup>3</sup> The City of Lake Forest Park has not levied a utility tax on the provision of water in the city, but the option clearly exists. Such a tax would grow at the same rate as water rates, which is generally consistent with inflation, but may be impacted by conservation efforts.

#### Utility Tax, Sewer | \$170,000 annually

The LFP sewer system is owned and operated by the City. Currently, a utility tax is not imposed on the sewer system. Many jurisdictions impose a utility tax on utilities owned and operated by the city. A utility tax on the sewer system would grow at the same rate that sewer rates grow, which is generally consistent with the rate of inflation.

#### Utility Tax, Electricity | \$160,000 annually

Currently, LFP imposes a franchise fee on Seattle City Light, the provider of electricity in the City. The current rate is 4%. State Law allows local jurisdictions to impose a utility tax of up to 6% on electric utility businesses. Due to the nature of the LFP franchise fee, State Law counts the existing franchise fee against the 6% maximum, the remaining 2% was identified as an opportunity to increase General Fund revenue. This opportunity would grow at the same rate as electric utility rates, which is generally consistent with the rate of inflation. Conservation efforts may offset some inflationary growth.

#### Expansion of Traffic Safety Camera Program | \$140,000 annually

The Police Department has identified one or more locations where it believes that safety could be improved with an expansion of the existing traffic safety camera program. Program expansion to additional locations would also likely generate additional revenue for the General Fund. The location identified as the first priority for traffic safety has been studied by the traffic safety camera vendor and some challenges exist at that location.

We have learned with other installations that location challenges can negatively impact the functioning of the system and can lead to substandard financial performance. Irrespective of the possible challenges the average revenue, net of program expenses, is approximately \$140,000 for each location annually. It should be noted that this estimate is based on two cameras at the location, if a different number of cameras are installed at the location, then a corresponding adjustment to estimated revenue should be made. Traffic camera fines are set by the State; while fines do tend to increase over time, staff is unable to predict the long-term rate of growth.

#### Utility Tax, Storm Water Utility | \$70,000 annually

The LFP storm water system is owned and operated by the City. As was noted above for the sewer system, the City does not impose a utility tax on the storm water system. It is common for local jurisdictions to impose a utility tax on storm water utility. A utility tax on the storm water utility would have the same rate of growth as storm water rates, which in recent years have grown at a rate in excess of inflation due to the infrastructure needs of the system.

#### Revenue Generating Business Licensing | \$25,000 annually

Currently the City's licensing fee is based on the City's costs for the operation of the licensing program; by policy the licensing fees are based on full cost recovery for the program. An opportunity exists to

---

<sup>3</sup> *City of Wenatchee v. Chelan Cnty. Pub. Util. Dist. No. 1*, Wn. App. (May 20, 2014).

change the licensing structure to generate General Fund revenue. Common examples in use by other local jurisdictions are based on employee count, employee hours, and business square footage.

The estimated annual value for this item was calculated based on published data for LFP business square footage and employee count and assumes the implementation of a structure that is similar to that of other local jurisdictions in Western Washington with similar revenue generating licensing structures. A revenue generating business licensing structure would grow at the rate of employment growth or business square footage growth, but would generally not grow with inflation or other economic measure. Staff is available to draft a more precise estimate(s) if there is interest in this opportunity.

#### Passport Program Expansion | \$20,000 annually

The current passport program is open for business approximately 20 hours per week and generates significant General Fund revenue; net revenue from the program in 2016 was greater than \$100,000. Passport revenue fluctuates from year to year and has been very busy for the past several years. Staff estimates that expansion of the passport program by 20% or 4 hours per week would generate an additional \$20,000 of General Fund revenue per year, net of additional program expenses. The fees that the City earns for servicing passport customers are set by the Federal Government and increases are difficult to predict and are not scheduled to increase with inflation.

#### Investment Interest | \$7,500 annually

Currently the General Fund, Council Contingency Fund, and Budget Stabilization Fund have excess cash balances that are available for short-to-mid-term investment. The current investment policy allows excess cash to be “invested” in two ways: held as cash deposits with the City’s bank or “invested” in the Local Government Investment Pool (LGIP) operated by the Washington State Treasurer’s Office. Both options favor liquidity over earnings.

Other options for investments are readily available in the market and are allowable per State Law. Based on the current Capital Improvement Plan (CIP) and Six Year Financial Forecast, the excess cash balances in the General Fund and related funds is expected to be greater than one million dollars for the next two years. If the City were to revise its investment policy, then the City could invest the excess cash in investments with a higher yield than the current policy allows. In the current investment environment, staff expects that the City could earn an additional \$7,500 annually in investment earnings on a one million dollar, two year investment. The term and earnings on the initial investment would be known at the time that the investment is made. The future rate of growth would be the result of the effects of compounding and the interest rate environment at the time.

### CONCLUSION

The City’s General Fund could raise approximately \$2,092,500 in unrestricted funds annually by implementing all of the opportunities described in this report. Of the total, \$1 million is attributable to a property tax lid lift, another \$900,000 is attributable to utility taxes, and a number of smaller opportunities make up the balance. \$1,320,000 of the total opportunity value could only be implemented if approved by a vote of the people, \$772,500 could be implemented with a majority vote of the City Council. Some options, however, may require a referendum clause. Also important to note is that the amounts presented represent the upper limit of the options. The Mayor and City Council could choose to implement any of the options presented at a value less than the upper limit.

General Fund Revenue Capacity Study				
Table of Opportunities and Details				
Exhibit A				
			<u>Impact of Economic Cycles</u>	<u>Vote of the People Required to Implement</u>
<u>Opportunity Title</u>	<u>Estimated Annual Opportunity Value</u>	<u>Growth Index</u>		
Property Tax Levy Lid Lift	1,000,000	1%	None	Yes
Voted Utility Tax Rate Increase to 8%	320,000	Inflation	Low	Yes
Utility Tax on Water	180,000	Inflation	Low	No
Utility Tax on Sewer	170,000	Inflation	None	No
Increase Utility Tax on Electric Utility	160,000	Inflation	Low	No
Traffic Safety Camera Expansion	140,000	None*	Medium	No
Utility Tax on Stormwater	70,000	Inflation	None	No
Revenue Generating Business Licensing	25,000	Subject to Policy	High	No
Passport Expansion	20,000	None*	High	No
Investment Interest, Update Investment Policy	7,500	Interest Rate Environment	High	No
* Rates are set by another governmental entity and LFP has no means to influence the timing or frequency of increases.				