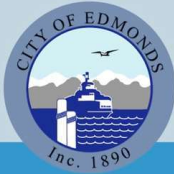


# Mayor Rosen’s Blue Ribbon Panel

## Report to City Council

Presented by Mike Bailey, Financial Consultant  
July 2, 2024



# Blue-Ribbon Panel



Mike Bailey, CPA



Erin Monroe, CPA



Troy Rector, CPA, CGMA



Carl Zapora



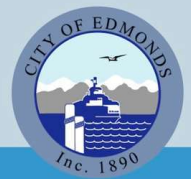
Rick Canning



Scott James, CPA



Darrol Haug



# The Panel's Work Products

1. Executive Summary
2. Strategic Approach to Fiscal Resiliency
3. Fiscal First Aid 12 Step Project Plan
4. Financial Health Model
5. Memo to Mayor Rosen – February 20, 2024
6. Price of Government Description



# Our Charge

1. What is the current status of the City's finances
2. How did this problem occur
3. Make recommendations to correct the situation
4. Make recommendations that return the City to long-term financial health



# Our Methods

1. Utilize the GFOAs 12 steps to Fiscal First Aid
2. Reviewing past and current budgets
3. Requested and reviewed information that enabled deeper analytics of the situation
4. Reviewed the Fire and EMS service issues the City is currently considering and their implications
5. Explored various “what-if” scenarios



# Specific Responses to Our Charge

What is the current status of the City's finances

1. 2023 ending fund balance in the General Fund is \$2.492 million
2. This compares unfavorably to the budgeted EFB of \$3.047 million
3. The budget imbalance in 2024 is about \$12.5 million  
(as illustrated on the next slide)



DECISIONS	IMPACT (MILLIONS)
RFA funding from ARPA	\$6.25
<u>Contra-Account</u>	<u>\$3.20</u>
<b>Sub Total "Problem"</b>	<b>\$9.45</b>
ADDITIONAL UNBUDGETED IMPACTS	IMPACT (MILLIONS)
Examples include: Negotiated union contract, additional police cars and technology, replenishing deferred bldg. Maint. fund, library repairs, new financial software, staff additions, staff salaries.	\$3.05
<b>Revised Sub Total "Problem"</b>	<b>\$12.5</b>
ADDITIONAL UNBUDGETED IMPACTS	IMPACT (MILLIONS)
Using the reserve Funds	\$8.00
<b>Total "Problem"</b>	<b>\$20.50</b>

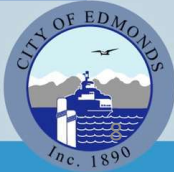


# Specific Responses to Our Charge

## How did this problem occur

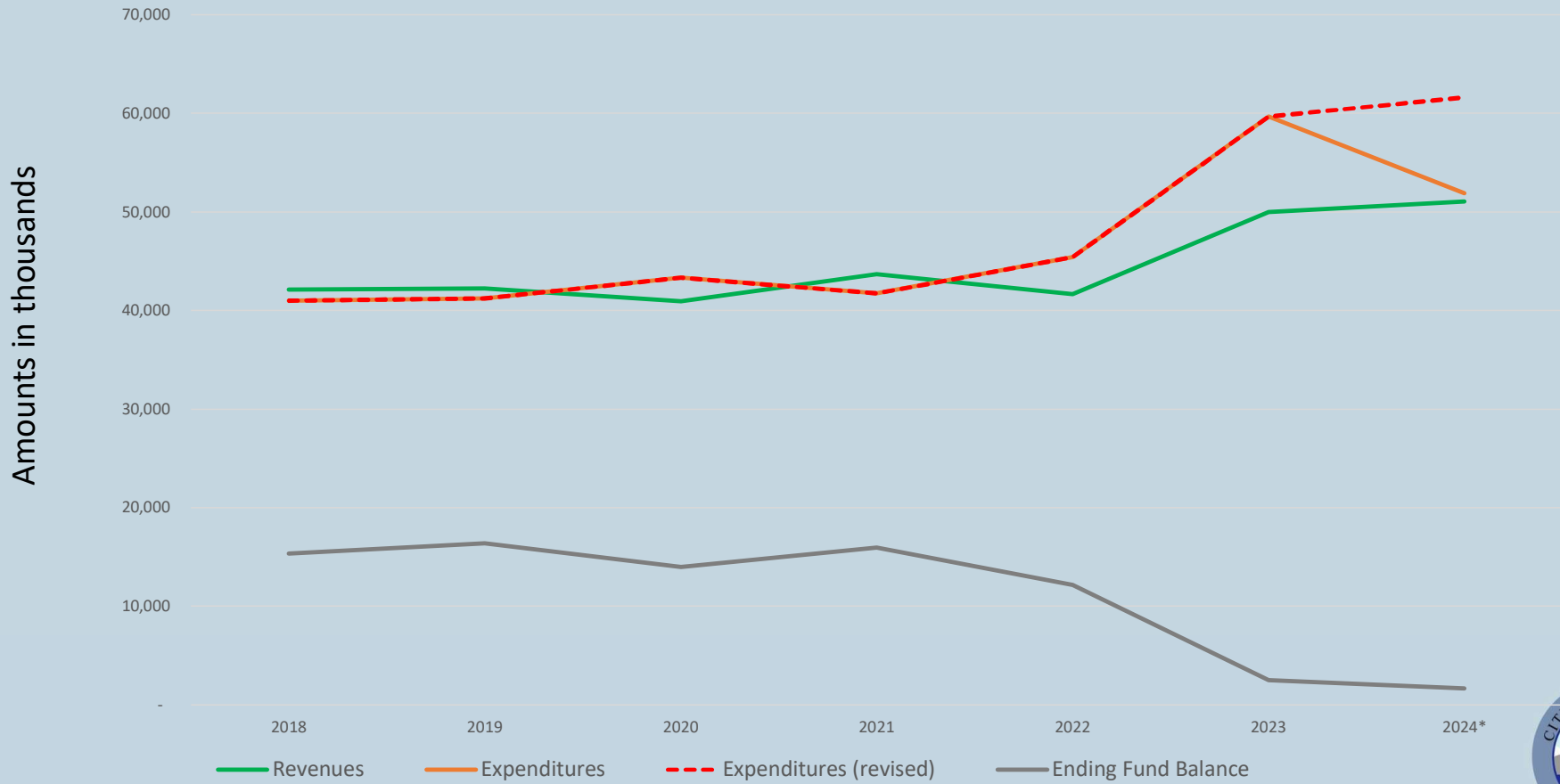
1. Budgeted expenditures exceeded revenues in 3 of the past 4 years
  1. Amendments to the budgets made this worse in each year
2. Revenues were over-estimated (enabling budgeted expenditures to be higher than actual revenues in 3 of the past 4 years.

<b>ACTUAL</b> (thousands)	<b>Final Budget</b> <b>2019</b>	<b>Actual</b> <b>2019</b>	<b>Final Budget</b> <b>2020</b>	<b>Actual</b> <b>2020</b>	<b>Final Budget</b> <b>2021</b>	<b>Actual</b> <b>2021</b>	<b>Final Budget</b> <b>2022</b>	<b>Actual</b> <b>2022</b>	<b>Final Budget</b> <b>2023</b>	<b>Actual*</b> <b>2023</b>
Revenues	41,113	42,263	42,576	40,937	42,190	43,697	45,080	41,637	52,599	50,005
Expenditures	44,151	41,212	46,693	43,332	45,864	41,726	53,791	45,422	63,984	59,677
FB effect	(3,038)	1,051	(4,117)	(2,395)	(3,674)	1,971	(8,711)	(3,785)	(11,385)	(9,672)
* unaudited / preliminary										
Revenue differences		1,150		(1,639)		1,507		(3,443)		(2,594)





# Illustration of Fund Balance Decline



# Specific Responses to Our Charge

## Make recommendations to correct the situation

1. **New sources of non-tax revenues:** increased fees, red light cameras, and other revenue increases;
2. **Expense reductions:** head count reductions, furloughs, professional service and other non-compensation reductions;
3. **New taxes:** The 1% annual increase for EMS, and General Fund (GF) should be done. Additional property levy for GF and / or joining SCF will require a vote and would not impact the revenues until 2026.

(**Note:** with the lag of significant revenue increases until 2025, The Panel recommends “bridging” the 2025 budget with borrowing internally from available surplus resources in other City funds)



# Specific Responses to Our Charge

Make recommendations that return the City to long-term financial health  
(informed by the GFOA's Fiscal First Aid framework)

1. Continue generic treatments (hiring, scrutinize expenses, begin streamlining)
2. Develop and use a financial health model (a draft is provided)
3. Develop model and monitor cash-flow (done)
4. Review and develop relevant financial policies (in process)
5. Understand future operating budget impacts from capital improvements
6. Implement Priority Based Budgeting (PBB) to right-size (in process)
7. Evaluate revenues in the context of the "Price of Government"



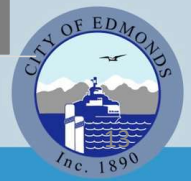
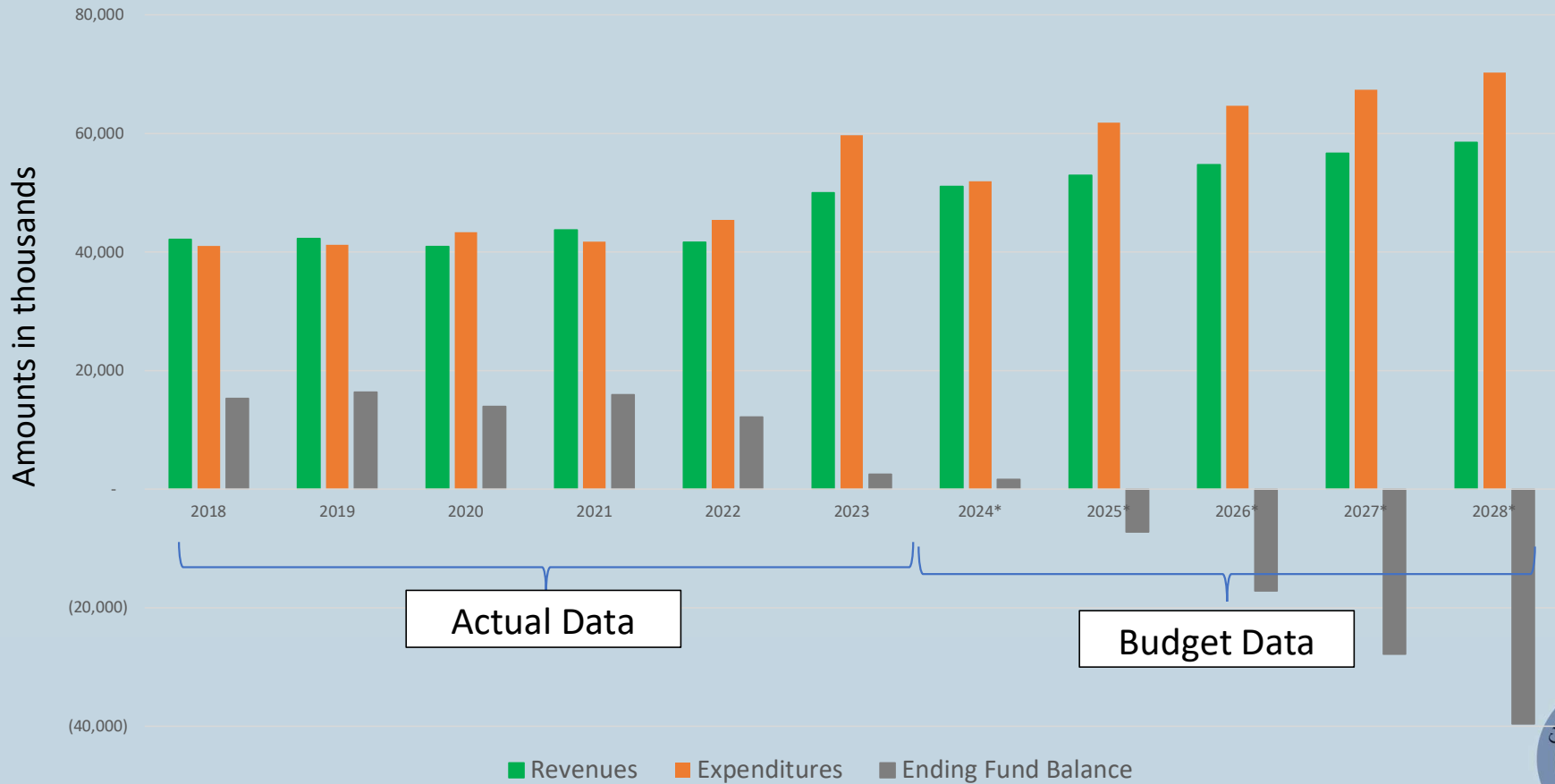
## Specific Responses to Our Charge continued

Make recommendations that return the City to long-term financial health

8. Make updating related technology a priority
9. Evaluate deferred maintenance on City assets and address
10. Address the risks associated with this work
11. Develop a communication plan to keep stakeholders informed
12. Determine if the General Fund is subsidizing other funds
13. Review investment rates of return to maximize value
14. Evaluate capital funding options and develop a capital spending plan
15. Forecast the capital budget impacts for a rolling five-years



# Illustration of Future Fund Balances



# Fire and EMS Service Issues

The Panel is aware of the current issues related to providing fire and emergency medical services to the City.

While there are clear budgetary implications related to alternatives, the Panel did not specifically address what the City should do to provide these services.

We felt that it wasn't within the scope of the Mayor's request.

Clearly, the alternatives should be evaluated from provision of service, costs and sustainability of the chosen model perspectives.

The Financial Health Model facilitates such a review and illustrates the impact on taxpayers and rate-payers in the City.



# Conclusion

It was appropriate for the Council to declare a fiscal emergency. The magnitude of financial challenges facing the City cannot be underestimated.

Community confidence in the City's leadership will be essential.

The work to remedy the situation will be difficult – and important.

The overall impact on the City's tax and ratepayers should be of significant concern in identifying solutions.

Our work took time to do properly – we feel we were given adequate time and resources to provide helpful feedback to the Mayor.

We appreciate the support provided by the Mayor and staff.



# Closing Questions / Discussion





## MEMORANDUM

TO: Mayor Mike Rosen, City of Edmonds, WA

FROM: The Mayor's Blue-Ribbon Panel

SUBJECT: Executive Summary - Recommendations and Conclusions

DATE: June 28, 2024

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This memorandum represents our recommendations and conclusions as we complete the tasks that you have asked of us in our work with the City of Edmonds (City). We appreciate your support for this work, the openness to our questions and the transparency with which you and your staff have approached these challenging issues.

### Our Charge

You convened the “Mayor’s Blue-Ribbon Panel” (the Panel) in response to the Edmond’s City Council’s declaration of a “fiscal emergency” in the context of their financial policies. In forming the Panel you asked that we:

1. Ascertain the City’s financial condition with a focus on the City’s General Fund,
2. Determine how the City found itself with this problem,
3. Make recommendations with regard to correcting the situation,
4. Make recommendations for the City’s financial and budgetary practices that would help return the City to long-term financial health.

### Our Methods

The Mayor and Panel determined to use the Government Finance Officers Association (GFOA) Fiscal First Aid methodology. This is a “12 step” process and serves as the construct for the “12 Step Project Plan” which is one of the work products attached to this memorandum. The Panel worked through the topics and issues that the 12-step approach raises. This represents a very comprehensive method to evaluate issues such as this. The Panel’s work included reviewing past and current budgets, requested and reviewed additional deeper analytics of certain expenses (professional services, employee additions, compensation, etc.), review of the fire & EMS service options, and various “what if scenarios”.

The topics and issues incorporated into the 12-step approach led the Panel to investigate many and numerous elements of the City’s fiscal planning and management practices.

### Specific Responses to the Charge to the Panel

1. Ascertain the condition of the City’s financial condition with a focus on the City’s General Fund,  
The City’s actual ending fund balance in the General Fund at the end of 2023 is \$2.492 million. This is compared to the budget estimate of \$3.047 million.
2. Determine how the City found itself with this problem,  
As illustrated in the table below, expenditures were in excess of revenues in years 2020 through 2023 by a total of \$13.9 million. More information about the details of this element

Memorandum to Mayor Rosen re: Blue Ribbon Panel – Executive Summary

is both below in this memo and in the original memo dated February 20, 2024.

ACTUAL (thousands)	2019		2020		2021		2022		Actual*	
	Final Budget	Actual	Final Budget	Actual	Final Budget	Actual	Final Budget	Actual	Final Budget	Actual*
Revenues	41,113	42,263	42,576	40,937	42,190	43,697	45,080	41,637	52,599	50,005
Expenditures	44,151	41,212	46,693	43,332	45,864	41,726	53,791	45,422	63,984	59,677
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* unaudited / preliminary										
Revenue differences	1,150			(1,639)		1,507		(3,443)		(2,594)

Budget deficits have continued with current expenditures in the 2024 budget being approximately \$12.5 million more than expected revenues as illustrated in the table below.

Decisions	Impact (millions)
RFA funding from ARPA	\$6.25
Contra-Account*	3.20
Sub-Total “Problem”	\$9.45
Additional Unbudgeted Impacts	
Examples: Negotiated union contract, additional police cars and technology, replenishing deferred bldg. maintenance fund, library repairs, new financial software, staff additions, staff salaries	3.05
Revised Sub-total “Problem”	\$12.50
Used Reserve Funds **	\$8.00

\* The non-departmental budget included an off-set to authorized expenditures, a negative budget amount of \$3.2 million which represented open staff positions at the time, as a budget balancing action.

\*\* Reserve Funds to be replenished up to required Reserve Funds levels as prescribed by current City Council policy

3. Make recommendations with regard to correcting the situation - See below
4. Make recommendations for the City’s financial and budgetary practices that would help return the City to long-term financial health - See below and the detailed Fiscal First Aid 12 Step Project Plan.

**Summary of Observations and Recommendations**

The following is a summary of our observations and recommendations. More detail on each is found in the attachments. The attachments include:

1. Fiscal First Aid 12 Step Project Plan – this describes the responses of the Panel in the context of the GFOA’s detailed Fiscal First Aid 12 step methodology elements. This Plan has attachments as well which document answers to certain questions within the Project Plan.
2. Strategic Approach to Fiscal Resiliency – A series of recommendations for future steps to help resolve the current fiscal emergency and set the stage for assuring the City avoids similar problems in the future.
3. Financial Health Model – A financial planning model that provides historical context and enables modeling various alternative approaches to financial planning for the future. The

Panel recommends that the City makes a habit of evaluating decisions of significance that have fiscal implications with this model.

#### **Observations –**

**Fund Balances in the General Fund are Far Below Required Policy Targets.** The City finds itself with fund balances in its General Fund below policy target levels largely due to additions to authorized expenditures which occurred in the 2022 and 2023 budget processes. Additionally, these increased expenditures were augmented with additional authorized expenditures in budget amendments in both years. Revenues were not increased nor were sources of funding for the budgeted increases in expenditures identified at the time of the proposed budget amendments. As a result, expenditure budgets have exceeded revenue estimates by almost \$20 million during the most recent two-year period.

**Revenue Estimates Were Overstated.** Revenue estimates were overstated in 2020, 2022 and 2023 in a cumulative amount of \$7.6 million. Revenue estimates are the basis for balancing a budget against authorized expenditures. Therefore, if it weren't for staff underspending the authorized budgets, deficits in these three years could have been as high as \$27.6 million. Spending was less than budgeted amounts by \$16 million during these three years which meant that expenditures exceeded revenues by \$11.6 million – still a significant problem.

**Sufficient Information Was Not Available to the Council to Make Proper Decisions.** Revenue estimates were not adequately documented which limited the potential for scrutiny of the estimates. Long-range forecasts were provided but contained no insights into the assumptions (which proved to be unrealistic). Inadequate documentation and discussion occurred when budget amendments were proposed. Amendments in 2020-2023 amounted to a net increase of expenditures above revised revenues of \$11.3 million.

**The Budget Process and Related Software Systems are Antiquated.** The City has been embarking on an update to their core financial systems for years (the system was purchased by another company in 2004 and subsequently discontinued). The City financially committed to a contemporary budget development and transparency system two years ago but never implemented the software. The software subscription costs are being paid by the City with no benefit from the systems. No centralized procurement systems are in place. No methods to evaluate the effectiveness of City programs using program metrics exists. An apparent lack of collaboration within City operations at several levels likely contributed to inefficient services to the community.

**Recommendations** – A detailed series of recommendations are incorporated into the project documents attached to this memorandum.

The current budget imbalance needs to be resolved with a combination of:

1. **New sources of non-tax revenues:** Red light cameras, increased fees, and other revenue increases,
2. **Expense reductions:** head count reductions, furloughs, professional service and other non-compensation reductions,

3. **New taxes:** The 1% annual increase for EMS, and GF should be done for 2025 and 2026. Additional property levy for GF and / or joining SCF will require a vote and would not impact the revenues until 2026.  
(Note: with the lag of significant revenue increases until 2025, The Panel recommends “bridging” the 2025 budget with borrowing internally from available surplus resources in other City funds).

**A summary of detailed recommendations include:**

1. Continue generic treatments already implemented
  - a. Scrutinize hiring and limit to only essential positions;
  - b. Monitor overtime use and limit as appropriate;
  - c. Evaluate transfers to reserve replacement funds until fiscal stability is achieved;
  - d. Scrutinize expenditures above a prescribed threshold, currently at a recommended \$1,000;
  - e. Do not increase budget authority (amendments) without a corresponding increase in anticipated revenues unless absolutely necessary;
2. Develop a Financial Health Model
  - a. Such a model has been developed by the Panel and is attached,
  - b. Determine if it is in the community’s best interest to have relatively high reserve level targets for the City’s general government, especially in the context of the current challenge to rebuild them;
3. Develop and evaluate a monthly cash-flow model
  - a. Such a model is developed and is now in use by the Finance Committee;
4. Develop financial policies that clarify boundaries and guidelines
  - a. Certain financial policies have been developed and are being considered by the Finance Committee;
  - b. Develop citywide procurement policies that improve the efficiency, clarify City systems and improve accountability,
  - c. Once policies are in place, illustrate the status of compliance in future budgets and determine how best to hold parties accountable for compliance;
5. Incorporate future operating budget impacts into the evaluation of capital improvements and ensure adequate resources will be available to support the operations and maintenance of capital improvements before they are approved;
6. Utilize a contemporary approach to budget development such as Priority Based Budgeting (PBB)
  - a. Incorporate a method to stratify City programs to inform budget choices and stop or reduce low priority services,
  - b. Improve internal collaboration,
  - c. Obtain objective evaluations of the value to City programs and related costs to the community,
  - d. Scrutinize certain expenditures using a “zero-based” model (do not assume the current level of funding is correct),
  - e. Develop performance measures that enable evaluation of the effectiveness of City programs and incorporate into the budget process;
7. Evaluate revenues in the context of the “price of government” (POG)

Memorandum to Mayor Rosen re: Blue Ribbon Panel – Executive Summary

- a. Emphasize the taxpayer / ratepayer perspective when evaluating alternative revenue scenarios,
  - b. Improve transparency in revenue forecast estimates;
  - c. Understand the level of general government subsidy for each City program,
  - d. Determine if the available general government revenues are sufficient to provide for the desired service levels where gaps exist between program revenues and program costs,
  - e. Evaluate current City assets and determine the most effective means of meeting the City's needs with these assets (some might be sold, consolidated or repurposed),
  - f. Propose enhancing general government revenues if necessary;
8. Make updating related technology a priority;
9. Evaluate the degree to which maintenance has been deferred on City assets such as buildings, roadways and systems,
- a. Consider a funding strategy that maintains City assets properly,
  - b. Develop a bond strategy to address the long-term capital needs of the City;
10. Incorporate risk assessment and management while implementing these recommendations
- a. The level of change being recommended is high which increases risk,
  - b. The nature of the changes are complex and increase risk,
  - c. Insufficient training and technology tools are in place which raises risk;
11. Develop a communication plan to achieve a high level of transparency of this work and the implementation of recommendations
- a. Consider establishing a standing City commission or committee to observe and advise the City on financial matters,
  - b. Rebuild public trust in the City's ability to manage fiscal health.
12. Evaluate if costs (including payroll) are being incurred in the general fund to oversee and supervise activities of other funds, such as the utility funds. Such costs should be transferred to the specific fund and then considered in determining needed revenue of the specific fund
13. Investments:
- a. Review performance returns of each of the cities investments and strive to increase returns without incurring more risk. Example, A substantial balance until very recently was invested in the Snohomish County LGIP earning less than half the rate of the Washington State LGIP at 5.41%.
14. Budgeting and future year forecasts should include investment in capital expenditures that are anticipated to be funded by general fund revenues.
15. Capital Budgets, including all funding sources and impacts on general and other funds ongoing maintenance of such investments should be forecast for a 5 year period and updated each budget cycle.

A significant community service involves fire and Emergency Medical Services (EMS). The City has moved from an in-house model to a contract with the South Snohomish County Regional Fire Authority (RFA). While the contract has become more expensive over time the RFA has determined that the contract payments are insufficient to cover the costs. Consequently, the RFA provided notice that the contract would be terminated at the end of 2025. While this is a significant

community service and a large budgetary expense, the Panel does not believe the problems it was asked to evaluate were significantly impacted by the contract with the RFA. The Panel recommends that these matters be resolved independently of each other.

### **Conclusion**

It was appropriate for the City Council to declare a fiscal emergency last October. The severe depletion of the City's fund balances and reserves is a legitimate concern. The degree of the financial challenges that the City is facing should not be underestimated. The work to restore financial stability will be difficult and it will be important for the administration and the Council to do the difficult work in a timely fashion to achieve that goal. The impact on taxpayers and ratepayers could be significant if the City chooses to propose revenue increases and the impacts of services level reductions need to be weighed should the City include expenditure reductions. These decisions should be considered carefully.

Even though the complexity of the fiscal emergency presented a significant challenge to the panel to conduct its work in a timely and thorough manner, we were determined to be systematic and complete in our efforts.

In closing, we want to express our appreciation for the support and space provided in order for us to complete these tasks and we encourage the City to stay diligent in its efforts to improve the long-term fiscal health of our City. Edmonds has a lot to offer and we recognize this can only be realized with a fiscally strong and stable city government.

### **Attachments:**

1. Strategic Approach to Fiscal Resiliency
2. Fiscal First Aid 12 Step Project Plan
3. Financial Health Model
4. Memorandum to Mayor Rosen from Mike Bailey  
re: Report of Findings to Date (February 20, 2024)
5. "Price of Government" descriptions
6. Blue-Ribbon Panel Members

## Proposed Strategic Approach to Fiscal Resilience for the City of Edmonds

Here is the proposed path forward.

1. Utilize a Priority Based Budget process (PBB). (Note: the BRP examined the potential of recommending that the City engage ResourceX, an experienced service provider of PBB and decided that the advantages of this facilitated approach were not worth the additional costs when budgets are already in distress).
  - a. A priority-based budget process which the council and community has expressed interest in will serve as a strong foundation for the future.
  - b. Staff will develop budget programs to express their budget requests and relate these programs to council and community priorities.
  - c. Program descriptions will be community focused and clearly illustrate the degree to which the program requires a governmental subsidy (e.g. from property or other taxes)
  - d. Programs will be scored by a cross department staff team and the mayor's community budget advisory committee against criteria to be developed (such as level of mandate, fee recovery, alignment with equity goals, etc.)
  - e. Care should be taken to identify the impacts of state or federal mandates that imposed financial obligations to the city (no associated resources came with the mandates).
2. "Zero-base" certain accounts in the budget process.
  - a. Any new positions originally authorized in budgets beginning in 2020 as well as any positions currently not filled.
    - i. Positions should be assessed as to need in the context of the PBB approach.
  - b. Ask staff to identify all expenditures anticipated within certain budget accounts (such as professional services, training, travel, intergovernmental services, overtime compensation, funding to outside organizations).
  - c. Consider circumstances where a volunteer or community-based organization can provide the service.
  - d. Consider partnering with other organizations for non-core City programs.
3. Facilitated community meetings will be provided to brief on the issues and enable participants to share their opinions on the tradeoffs we will confront with this upcoming biennial budget process.
  - a. Conduct a community survey to learn from the community its priorities and assessments of city efforts. (note: the survey schedule will be an important consideration)
  - b. The survey will be an important way to ground the city's budget work in the community's priorities. Conduct community forums / focus groups which will be informed by the survey results.
  - c. Use the decision units (programs) as a focus.
  - d. Compile the input into a framework for priorities and strategies that inform the budget process. Share this work-product with the council as a starting point for their budget priority setting retreat.

- e. Use this budget process to identify what the city should fund, and as a consequence what the city won't fund – this reduces our current cost either by partnering with others, outsourcing or eliminating / reducing programs. Again, this will be supported by community input.
4. Based on the recommendations from the fire and EMS responsibility study make a recommendation to the council with regard to a public vote regarding the property tax.
    - a. Considerations with respect to future fire and EMS services include:
      - i. Annexation to the South Snohomish County Regional Fire Authority,
      - ii. Explore contracting with neighboring fire / EMS service providers,
      - iii. Reinstating an Edmonds Fire / EMS Department, in-house,
      - iv. Conduct a longer-term analysis of the various cost option models to ensure making a good long-term decision.
      - v. If recommendation is to annex to the RFA, the BRP supports that effort.
        1. The BRP recommends Council consider a “revenue neutral” approach to the city, which would create clear separation between the issue of providing fire and EMS service to the community from the fiscal distress that is not related to this issue.
        2. Alternatively, the City would benefit from an annexation to the RFA in an amount of about \$6 million. Care should be taken to illustrate the ways in which City taxpayers would be impacted under either scenario.
    - b. If recommendation is to reinstate fire responsibility then a property tax levy lid lift effort would be necessary.
      - i. Such a levy could occur at any time.
  5. Develop a long-range financial planning model to clearly illustrate the assumptions and test various scenarios that achieve fiscal resiliency.
    - a. Evaluate various revenue assumptions.
    - b. Model property tax levy options and fund balance rebuilding scenarios.
      - i. Such models can illustrate various assumptions related to the fire and EMS service model decision in 4 above.
    - c. Make recommendations for timing, size and nature of changes to the base model that achieve fiscal resiliency.
    - d. The BRP recommends that the City rebuild reserves to policy levels over time and not bundle this aspect of the financial challenge into a revenue increase.
      - i. Additionally, the BRP recommends the City review the financial policy minimum reserve levels for the General Fund to determine if it is too high.
  6. Start the biennial budget process with steps 1 and 2 above.
    - a. Begin working with the department directors on the expectations for this upcoming budget process.
      - i. Introduce the idea that program performance metrics will be essential in this work – a new concept in Edmonds.
      - ii. Engage the department directors in their responsibilities for contributing to fiscal resiliency and foster their active participation in the budgeting process.



- b. Develop a calendar with the details of how we are going to build the budget.
  - i. Include the public's role (the research / surveys and community meetings described in 2 above), the council's role starting with their policy direction at the beginning of our work (but after the community meetings), the department director's role and the finance office's role.
  - ii. Include specific dates for each element of this work
    - 1. Submit the calendar to the council for their input and adoption.
- c. Utilize the Priority-Based Budget approach which will deliver a process to follow, clear alignment with community and council priorities. (see flow-chart description below)
  - i. Develop spreadsheets to facilitate the process and present clear opportunities into the various levels (as defined by us) such as mandated service, core service, important to have, nice to have, etc.
    - 1. Clearly document the assumptions
    - 2. Include an assumption of no cuts so that we can illustrate the larger impact of the property taxes
    - 3. Illustrate alternative scenarios
  - ii. Build the budget in a way that presents the priority-oriented choices for council's consideration.
    - 1. Illustrate general government subsidies for programs.
- d. Propose alternative approaches to rebuilding the reserves
  - i. Consider recommending changes to the level of fund balances in the policy.

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### Financial Planning Schedule

Rough Outline for the 2025-26 Biennial Budget

#### March

1. Brief council / labor / staff
2. State of the City 28<sup>th</sup>

#### April

1. Begin Priority Based Budgeting (PBB) program development
  - a. Beginning implementing PBB by importing data, etc.

#### May

1. Community survey
2. Community meetings to identify community priorities
  - a. 4-6 meetings of about 15-20 people to meet in groups (including boards and commission members)
3. Council retreat on budget development approach
4. Department use PBB approach to begin building budgets

#### June

1. Identify the scoring criteria for city program evaluation within PBB

2. Build a program inventory for the PBB effort
3. Begin to develop performance measures for city programs

#### July

1. Detailed forecasts for internal purposes which informs budget decision making and related actions

#### August

1. Mid-year financial review – council meeting
  - a. Review of current year budget status
  - b. Preliminary review of revenues (for next biennium)
    - i. Both general government and utilities
2. Preliminary review of long-range financial plan (assumptions)Proposed Preliminary Budget (not balanced)
3. Internal budget balancing work by the mayor and staff leadership team

#### September

1. Mayor’s preliminary budget recommendation

#### October

1. Council budget workshops & first public hearing

#### November

1. Council budget workshops & second public hearing
2. Adopt 2025-26 biennial budget

#### Flow-chart of the Priority Based Budgeting Process

1. Determine priorities and attributes (these will be used to “score” or evaluate city programs.
2. Identify City programs (programs are community facing service units as contrasted to City organizational units)
  - a. Correlate the current City budget to the program budget (associate existing revenues and expenditures with the programs)
3. Staff prepares budget requests in the context of the program budget.
  - a. Both revenues and expenditures associated with programs should be identified.
  - b. Narrative descriptions of the program, the purpose the program exists and benefits to the program’s customers should be included.
  - c. Performance expectations for programs should be developed.
  - d. Staff prepares explanations of the expenditures requested for the items identified as “zero based”.
4. Evaluate how strongly the programs align with the priorities and the attributes.
  - a. A cross-department staff team and the mayor’s citizen budget committee will each evaluate proposed program budgets independently.
    - i. As part of the scoring process, each team will recommend adjustments to the budget requests as appropriate.
5. Compare programs to available resources to identify the budget gap.

- a. Consider changes to current revenues, taxes, fees, etc.
  - b. Make decisions with regard to property tax levy lid increase requests as appropriate.
6. Propose a balanced budget, inclusive of anticipated increases in revenues based on a request to the community for a levy lid increase to the property tax.

## City of Edmonds, Fiscal First Aid Project Plan

### 12 Steps to Financial Resiliency

- 1 Recognition
  - A. Make a rapid determination of the problem and assess its severity.
    - Where do revenues stand currently and what can we expect for the next six months? *On-going revenues are realistically about \$10 million below budgeted expenditures. Revenues were under-collected compared to budget in 2023 by about \$2.5m. The scale of the immediate problem is set at \$12.5 million and reserves are below policy thresholds by about \$8 million. This equates to a \$20.5 million problem. In addition, many maintenance items have been deferred for several years.*
    - Are expenditures within budget? *Yes, departments tend to spend within budget however salary savings from vacant positions are spent elsewhere. Additionally, budget amendments complicate this as they are approved against fund balance and authorize expenditures beyond resources even after a deficit funded budget is approved.*
      - Can we "rein in" expenditures? *The mayor's office is implementing measures to control expenditures. Both a hiring review and a spending review are in place. The 2024 budget sets a salary savings level of \$3.2 million however the mayor's goal is \$4 million.*
    - Are we collecting all revenues as appropriate in a timely fashion? *Under-collection of revenues due and owing to the city do not appear to be a problem. That said, fines and forfeitures have been declining significantly and are well below historical averages and budget estimates. Council may want to consider a policy decision regarding the nature of this revenue source (and set estimates at levels that align with policy).*
    - Are current plans for revenue growth realistic? *Revenue has been under-collected compared to budget for three of the past four years. This under-collection has been significant and could occur again in 2024. Revenue growth is limited by Washington State law and has not kept pace with authorizations in expenditures. The City has added positions and provided raises in compensation without corresponding increases in revenues. The budget amendment that approved this was utilizing fund balance. Revenue growth over the past five years has averaged about 5% annually.*
    - What is the size of the imbalance we are anticipating? *The fund balance is anticipated to be almost \$6 million below policy target at year-end 2023 and \$8.2 million below at the end of 2024. Additionally, a contra account in the adopted 2024 budget for compensation exceeds \$3m.*
    - What funds are at risk? *It appears that the General Fund is the primary concern. Related funds (internal service funds that receive payments from the General Fund may have a related impact) Transfers to other funds was largely suspended in 2024.*
    - *The Street Fund finished the year in a deficit as well. It accounts for both maintenance and significant repair. The underfunding of roadway maintenance is a concern. The other (non-General) funds have not been deeply analyzed.*
  - B. Consider deeper questions about financial distress.

City of Edmonds – Fiscal First Aid Project Plan

- Is this temporary or long-term (structural or cyclical)?  
*This is long-term and structural, and without being addressed in a significant way will become much worse over time (a short amount of time).*
  - Is the government "rightsized"?  
*It is unclear at this point as there is no data as to service levels or effectiveness. Comparisons of staff levels compared to neighboring cities seems consistent. Compensation compared to neighboring cities seems in line.*
- C. Enlist others in the process?
- Craft a message to help in understanding of the problem  
*An initial diagnosis of the situation is being developed and was shared by the mayor at the State of the City address. Additionally, a council meeting on April 2<sup>nd</sup> discussed the diagnosis.*
  - Develop confidence that there is a clear understanding of the problem.
  - Engage the audience(s)  
*Council was informed of the plan to identify the issues and recommendations to remedy them.*
  - Develop graphics and simulation to help with understanding the problem  
*A report has been developed and related graphics and simulation will be developed (see exhibit 1). The mayor has assembled an interested group of citizens known as the "Blue-Ribbon Panel". They have done a good job of illustrating the problem with graphics.*
- 2 Mobilization
- A. Building a Core Recovery Team  
*My experience suggests that the staff leadership team will need to step up to this challenge. However, they need to form a new team as they now have a new leader / mayor.*
- Look for existing teams which may meet this need  
*The Mayor has appointed a "Blue-Ribbon Panel" to assist with the evaluation and recommendations. Additionally, recommendations are being made to engage the key stakeholders: council, mayor's office, city staff leadership. A very public discussion about the future financial operations of the City is recommended to occur this summer.*
  - Identify potential participants  
*Mayor has appointed a Blue-Ribbon Panel of qualified residents to advise and engage on this topic. The community, staff leadership team and City Council are integral participants.*
  - Consider the role of elected officials on the team  
*The mayor's Blue-Ribbon Panel is appointed by the mayor and is advisory to him in this work.*
  - Cover day-to-day operations  
*The 2024 budget has numerous flaws for long-term financial resilience however it will provide for the day-to-day operations in 2024. **Caution should be taken in the approval of any amendments to the budget. A cash-flow for 2024 has been developed to manage the ability to remain solvent during the year. Several months reflect a cash-flow deficit for the City's General Fund.***
  - Consider the need for personnel replacements  
*Under review and is the prerogative of the mayor.*
  - Consider the need for legal advice
- B. Developing other teams

- Develop a realistic priority for the team's work  
*The team will work using the GFOA's 12 steps to fiscal resiliency. The work is to be completed by the end of June 2024.*
  - Share expectations  
*Council will be notified at public meetings and the mayor will provide press notices*
  - Clarify goals  
*The goal is long-term financial resiliency for the City as a whole.*
  - Formulate operating guidelines  
*A charter for the Blue-Ribbon Panel has been developed*
    - How will decisions be made
    - How will work be performed
    - How can concerns / issues be raised
    - How will differences be resolved
    - How will accountability for completing the work be created
    - Take minutes for each meeting
    - How to keep major stakeholders in formed  
*A periodic update on this work will be provided by the Mayor's office to the Council. A recommendation to the City Council by the BRP has been made to make an update on this work a standing council meeting item.*
- C. Analyze Stakeholders – *the mayor will address stakeholders either directly or through the State of the City address.*
- Identify critical stakeholders (internal and external)
  - Diagnose the stakeholders position
  - Engage stakeholders
    - Communicate thoroughly
    - Articulate a vision
    - Balance transparency with discretion
    - Engage people
- 3 Generic treatments
- Characteristics include: short time to benefit, not complex, reversible
    - Hiring freeze (or chill)  
*All hiring of permanent staff requires the Mayor's prior approval*
    - Deferring capital projects  
**Under review**
    - New fees for service  
*Traffic cameras for busy intersections have been previously proposed. Traffic cameras in school zones has already been approved and a conservative estimate of revenues has been included in the 2024 adopted budget.*  
*Annexing to the Regional Fire Authority has been previously proposed and the council has initiated a study of this issue with implications beginning in 2026.*
    - A comprehensive review of fees will be part of the 2025-26 budget process. *The Blue-Ribbon Panel recommends the mayor analyze all cost recovery options for City programs.*
    - More aggressive revenue collections  
*Revenue collections do not appear to be a contributing factor.*
- 4 Initial diagnosis
- A. Engage others in the diagnosis

## City of Edmonds – Fiscal First Aid Project Plan

- Seek additional perspectives of the diagnosis  
*Blue-Ribbon Panel has conducted a diagnosis which clarified that staff additions, compensation increases and increases in services costs (including fire service costs) have contributed to the fiscal emergency.*
- Consider consulting with other department directors and city leaders  
*Discussions with the department directors have occurred. It was insightful. Discussions with the department directors are on-going.*
- B. Forecasting is essential
  - Establish a detailed short-term forecast (cash position)  
*Such a cash-flow plan has been developed.*
  - Develop a long-term forecast (3 to 5 years)  
*A long-term forecast is developed by the city however no assumptions are documented. A long-term forecast “Financial Health” model is being created by the BRP and will be used to make target budgeting recommendations.*
    - Develop various scenarios (or an interactive model for scenario planning)  
*An interactive model with clear scenarios has been developed and will serve as a basis for fundamental recommendations.*
    - Develop a clear set of assumptions for each scenario  
*Assumptions for the scenarios are clearly documented. Alternative scenarios are incorporated into the model.*
  - C. Develop a "Financial Health Model"
    - Describe fiscal stability for the city  
*The council, mayor’s office and staff leadership team will be asked to interact with the financial health model.*
- 5 Near term treatments
  - Control personnel costs
    - Vacancy control  
*Vacancies are only being filled upon prior approval of the mayor.*
    - Monitor and limit overtime use  
*The mayor and leadership team should review and discuss all expenditures and focus on both overtime and the use of resources originally budgeted for positions. The BRP recommends that overtime be “zero-based” for the 2025-26 budget.*
    - Address healthcare costs  
*The city is a member of the AWC healthcare program – likely the most economical choice.*
    - Review the use of consultants and temporary staff  
*Professional services costs have increased substantially. A zero based approach to these expenditures should be used for the 2025-26 budget. The RFA (a contributor to professional services increases) has advised that they are ending the relationship with the City of Edmonds. A fire-serve model is under review by the city council.*
  - Enhance purchasing practices
    - Audit routine expenditures  
*A pre-audit of all expenditures occurs however it is focused on legal and policy compliance. The pre-audit can be expanded to evaluate the merits of expenditures though it is too late to prevent the expense from being incurred.*

- Develop a procurement process that enables pre-approval of expenses under certain circumstances (such as larger expenses or those that will create future obligations).  
*The city's financial systems are antiquated and do not support modern business practices intended to help scrutinize obligations. While the system appears to provide reliable data and information it is not efficient and contributes to problems such as those noted in the audit related to payroll documentation.*
- Investigate risk management practices and worker's compensation claims  
*The city belongs to risk pools – common to most Washington cities. It is unclear the degree to which the City retains some of this exposure. Workers compensation is a potential area for further study.*
- Pooling resources and partnering
  - Cooperate with other governments to achieve economies of scale  
*The city currently is engaged with many other governments and is analyzing annexing to the Regional Fire Authority. Several regional service relationships exist already. Additional local government partnerships are a potential alternative. These opportunities should be explored during the budget process.*
  - Pool department resources
  - *Mayor is considering a reorganization.*
  - Look for ways to partner with private enterprise / volunteers  
*A potential lens for the 2025/26 budget process.*
- Better manage capital spending, equipment and debt  
*Capital contributions from the General Fund are minimal – which is a longer-term problem as it has contributed to deferred maintenance of City assets.*
  - Better align capital spending with resources.  
*Incorporate support for capital maintenance needs into the Financial Health Model. One concern is the lack of planning for operating budget impacts from completed capital projects such as in parks.*
  - Use long-term capital improvement planning to make better decisions  
*The City does not develop a capital improvement plan. The CIP will be a collaboration between Public Works, Parks and Administrative Services in the 2025-26 budget.*
  - Develop an equipment replacement schedule  
*Such a schedule exists however consider reducing the replacement budget temporarily if necessary.*
  - Improve fleet management  
*An option for review as fleet increases were significant in recent years. – reducing the replacement budget as a temporary alternative should be considered.*
  - Review opportunities to refinance debt  
*Higher interest rate environment today. Utility revenue backed is being refinanced to achieve savings.*
- Enhancing revenues
  - Obtain state or federal aid  
*Not likely*
  - Examine fees for service  
*Under consideration:*



- *Traffic enforcement cameras at intersections*
  - *Cost recovery ratios will be reviewed as part of the 2025-26 budget process which may lead to recommendations to revise fees.*
  - *Other (?)*
  - New taxes with a strong connection to a desired service  
*Considering ballot measure(s):*
    - *Annexing to the RFA – essentially shifting the property tax burden for fire service and freeing up tax capacity within the city.*
      - *Alternatively retain fire & EMS service and propose a public safety levy for this purpose.*
    - *Levy lid lift to realign property taxes with past inflation*
    - *Public safety levy if a case can be made that public safety would be impacted unless a levy is approved.*
  - Improve billing and collection methods  
*Likely not a contributing factor*
  - Audit tax revenue sources  
*This is an option however it is not likely to have a significant impact.*
- 6 Detailed diagnosis / Fiscal First Aid
- Political / internal causes
    - Governance Crisis  
*Prior administrations proposed budgets and budget amendments **that caused this problem.** The council essentially adopted the proposed financial plans that included both current year and future deficits.*
    - Excessive Personnel Costs  
*Increases in both employee counts and compensation were added without corresponding increases in ways to pay for them. Either no analysis was done on the future impacts of these decisions or it wasn't considered. That said, compensation does not appear to be excessive.*
    - Past Awards of Unsustainable Retirement Benefits  
*Not applicable in WA state for the City of Edmonds*
    - Poor Morale and Commitment  
*A lack of leadership within the administration likely contributed to this condition. A cohesive leadership team should be built and engaged in the long-term fiscal well-being of the City.*
    - Overexpansion  
*This is a fundamental cause. Increases in staff counts and city programs were approved and funded by one-time resources (namely fund balance).*
    - Economic Development Incentives  
*Based on the conversation with department directors there appears to be conflicting policy around economic development. Recommend that council clarify the policy goals regarding economic development.*
    - Implicit Development Subsidies  
*The level of development subsidies should be analyzed as part of the 2025-26 budget. The PBB process will illustrate the degree of subsidy for all city programs.*
  - Internal, economic / technical causes

## City of Edmonds – Fiscal First Aid Project Plan

- Management Challenges
  - Management turn-over in key roles was negligible during this time.*
- Weak Budget Development Practices
  - Budget development practices were indeed weak. Limited information about revenue estimates is provided. Revenue estimates were aggressive. The consequences of current decisions on future fiscal solvency is not explored. (There is a long-term financial forecast for the General Fund, but the assumptions that it is built on are not revealed in the budget). No means to determine the feasibility of City programs (i.e. performance metrics) are presented to provide context for budget decisions.*
- Lack of Innovation and Adaptability
  - Department directors expressed a lack of awareness with regard to the financial problems. They suggested that they would welcome being included in future discussions about innovation and adaptability.*
- Poor Performance
  - No program performance information is available. There appears to be little, effective personnel performance evaluation occurring as well.*
- Ineffective Information Technology Systems
  - This is a significant shortcoming. The financial systems are antiquated leaving a largely paper-based system and no procurement best practices. Access to information is limited at best. Budget systems were subscribed to some years ago at a significant cost but not utilized.*
- Failure to Fund and Manage Retirement Benefits Prudently
  - Largely not applicable – one potential risk is payouts upon separation.*
- Deteriorating Infrastructure
  - Deferred maintenance is a significant long-term problem that our efforts are not intended to address.*
- Overbuilding Infrastructure
  - This does not appear to be a concern however the future operating costs of completed capital improvements are contributing to the fiscal stress.*
- Low Bang-for-the-Buck Development Decisions
  - Unsure that this is a contributing factor.*
- External, political causes of financial distress
  - Poor Communication With the Public
    - The public was largely unaware of this issue though some in the community have been expressing concern regarding city finances vocally and for quite some time.*
  - Interest Groups
    - No interest groups have been involved to this point.*
  - Decline in Local Fiscal Autonomy
    - State imposed limits are a factor but not new nor the cause of the decline which has essentially occurred over the past two to three years.*
- External, economic / technical
  - Economic Stagnation
    - Not a contributing factor. The city and community are vibrant.*
  - Shifting Demographics
    - Not a contributing factor.*

## 7 Recovery Plan

## City of Edmonds – Fiscal First Aid Project Plan

- A portfolio of strategies
  - External environment analysis  
*The City of Edmonds continues to be a vibrant and desirable community. Businesses tend to thrive and it is a very desirable place to live in the Puget Sound. The external environment will support a vibrant city government that meets the needs of its community. This is a very engaged community.*
  - Financial projections  
*Revenue growth is generally sufficient in the context of Washington State law (i.e. limitations on property tax growth). It appears that revenue projections have been optimistic in the past however still not utilized as a constraint in approving new spending and on-going commitments.*
  - Description of goal  
*The goal is long-term fiscal resiliency, including long-term needs such as infrastructure. A Financial Health Model will be developed that the BRP hopes will become an important tool for the Council to use in making future financial obligation decisions.*
  - Recovery strategies  
*Recovery will essentially be a restart of the budget building process and long-term financial plan (The Financial Health Model). A capital improvement plan will be developed. A zero-based approach utilizing Priority-Based Budgeting will rebuild the City's budget and overall financial plan.*
  - Budget process analysis  
*A very traditional, incremental budget process utilizing “decision packages” has been used in the past. Until about four years ago, this served the City's needs. During more recent times this obscured the financial problems that were being introduced into the budget. Rather than present the bigger fiscal picture, the process focused on micro issues that distracted from fiscal health.*
  - Budget reform plan  
*A new, zero-based budget process utilizing PBB will start with community conversations about the priorities to be funded by city programs. Consideration of a new capital improvement plan will also be considered.*
  - Operational analysis  
*Operations of the City will be evaluated as part of the 2025-26 budget process. New performance standards will be developed and a program of performance evaluation will be implemented.*
  - Operational action plan  
*The PBB process will utilize performance management to inform an on-going program evaluation plan. This will inform future budget discussions. Budget amendments will also utilize this approach.*
  - Risk assessment  
*Risks in introducing so much process change at one time exists. The risk of “business as usual” are higher.*
  - *The Blue-Ribbon Panel has expressed concerns about risks and potential risk mitigation strategies.*
- Communicate effectively

- Communicate upward
  - City Council is an essential partner in this work. A proposed standing council agenda item to stay aware of these issues should be considered.*
- Communicate to outside groups
  - City Boards and Commission should be a specific audience for this work. The recovery plan will be community based with significant public involvement.*
- *The mayor is preparing to survey the community to help develop a baseline for budget development.*
- *The proposed plan includes community meetings to both create awareness and inform future budget priorities.*
- *of the BRP recommends forming a “Citizen Budget Advisory Committee” which is underway.*
- Communicate with surrounding jurisdictions
  - A communication plan for the larger region and state legislators should be developed.*
- Communicate downward
  - Department Directors are an essential part of a successful implementation and should be developed into a strong partner.*
  - Labor leaders and City employees should be kept informed.*
- Use a team approach
  - Develop a Realistic Priority of the Teams Work
    - The mayor will lead the development of implementation teams.*
  - Share Expectations
    - Mayor began sharing expectations with the Council and community at the State of the City. Department directors and staff will be engaged as they are essential to success.*
  - Clarify Goals
    - The goal is a successful path to fiscal resilience both for now and the future.*
  - Formulate Operating Guidelines
    - Largely based on the PBB process, including upcoming budget process will be the foundation for a new culture complete with operating guidelines.*
- 8 Long Term Treatments
  - Financial foundations
    - Leadership strategies
      - Develop an inspiring, shared vision for the community in order to convince stakeholders of the benefits of working together for a strong financial foundation and thriving community.
        - A combination of the “right price of government” and priority-based budgeting will help to set a vision for a strong financial foundation in the future.*
      - Build long time horizons into fiscal planning to circumvent short-term thinking that may have adverse consequences in the long run.
        - Updating and activating the long-range financial plan as a context for all future decision making by the administration and the council is recommended. The plan should incorporate scenarios to explore resiliency.*

- Help people recognize their shared interest in a financially healthy local government by creating open communication between people.  
*Consider a tool like “Balancing Act” to illustrate community trade-offs and engage on city financial decision making.*
- Make a concerted effort to improve trust. Trust is essential for a local government to perform at its best, to provide high-quality services, and to have a strong financial foundation.  
*The above actions will help to improve trust. Building trust through transparency is a commitment by the mayor.*
- Keep key stakeholders and employees engaged in the decision-making process.  
*The priority-based budget approach will engage city leaders, the citizen budget committee and the council.*
- Use formal and informal power to provide oversight, reinforce financially constructive behavior, and to encourage collaborative behaviors through organizational culture.  
*Leadership will be essential to the success of these efforts.*
- Institutional designs
  - Develop new and better approaches to public engagement. The public will be more likely to sustain it when it is engaged in deciding how the budget will be used.  
*Consider “Balancing Act”; implement a citizen budget committee and be proactive in discussing long-term implications of current decisions.*
  - Form and maintain relationships with other public, non-private, and private organizations in order to direct more resources and capabilities to solving pressing community challenges.  
*This is the on-going work of the mayor and other organizational leaders.*
  - Financial policies should be used to define boundaries around who shares and controls public resources and how resources can be used.  
*Some financial policies exist however a new framework of financial policies has been developed and recommended to the Council via the Finance Committee.*
  - Create a system to monitor the process of financial decision-making and the outcomes of those decisions.  
*Timely and relevant financial information will be provided to the council’s Finance Committee monthly and reviewed periodically by the full council.*  
*The Financial Health Model should become the context for evaluating decisions by the Mayor and Council.*
  - Develop a system of rewards and penalties that apply a lighter touch at first, and only resorts to weightier options in more extreme circumstances.
  - Be clear about where money comes from and where it goes.
  - A “Budget in Brief” will be developed and used to help communicate city financial dynamics at a high-level.

- Develop decision-making systems that are perceived to be fair by the participants.
  - *Priority-based budgeting is intended to be this system.*
  - Develop systems to manage relationships with higher levels of governments that can influence the local government’s financial position. *Not a significant element.*
    - Technical Treatments
      - Control Employee Benefits Costs  
*A subject of collective bargaining*
      - Contain Employee Health Care Costs. Local governments need to design their employee health plans to contain costs.  
*The City belongs to the Association of Washington Cities Healthcare plans which are likely to the most cost effective.*
      - Don’t budget incrementally  
*The city has used incremental budgeting in the past and this has contributed to the problems. Future budgets will analyze all non-compensation expenditures (not just the increments) and be evaluated based on performance.*  
*Several elements of the budget should be “zero-based” in the upcoming budget process.*
      - Stop or reduce lower priority services  
*One of the key objectives of PBB is to identify lower priority services and consider alternatives.*
      - Improve / simplify work processes  
*This should be considered as an on-going element of city management.*
      - Overcome limits of local government fragmentation
      - Ensure capital assets are affordable  
*Analysis of the effects of capital improvements on future operating costs has not occurred and the recommendation is to use the Financial Health Model to evaluate these issues.*
- 9 Long-term financial planning  
*Long-term financial planning will be essential to understanding the future implications of today’s decisions. A focus on long-term financial planning by developing a Financial Health Model for major operating funds is proposed.*
- 10 Recovery Leadership
  - Leadership is essential to financial recovery  
*Leadership on the part of the Mayor and Council is essential.*
  - Leadership behaviors
    - Trust and credibility
    - Emotional intelligence
    - Collaborative
    - Action-oriented
    - Detail-oriented
    - Vision
    - Enthusiasm for public service
    - Fairness
    - Respect

## City of Edmonds – Fiscal First Aid Project Plan

- Honesty and forthrightness
- Skepticism
- Courage
- Leadership credibility
  - Articulate a vision
  - Be consistent in words and actions
  - Be flexible in solutions
  - Be honest
  - Give the personal touch
  - Show empathy
  - Demonstrate expertise
  - Trust followers
  - Encourage followers
- Communication
  - Be direct, honest, accessible and forthright
  - Acknowledge the concerns of others
  - Be realistic
  - Find and convert key influencers
  - Repeat<sup>3</sup>
- Communications plan
  - What
  - How
  - Whom
  - Where
  - When
- Don't play the blame game
  - *After developing a clear understanding of what contributed to these problems the BRP recommends that participants avoid placing blame and to look forward rather than backward. The Mayor and Council may want to state this affirmatively as many active citizens are continuing to discuss the past and assess blame.*
- Help others deliver key messages
  - *Clear communication about the nature of the problems and the recommendations to resolve them should enable others to deliver sound information (rather than rumors or speculation).*
- No surprises
  - *Participants are committed to honesty, and clarity. Now is the time to put all the issues on the table in a factual way.*
- Inspire the organization to take action
  - *Given the severity of the fiscal emergency, the participants appear inspired to address the issues appropriately. We have worked to keep the issue of a “fiscal emergency” in front of the participants to maintain urgency.*
- 11 Manage the Recovery Process
  - Governance
    - *The Mayor as CEO of the City and Council as the policy board are responsible for the governance of the recovery process. They have engaged others to support this effort.*
  - Project Management Plan

- Scope  
*General Fund and Street Fund initially.*
  - Requirements
  - Stakeholder engagement  
*Active stakeholder engagement is a priority for the Mayor and Council*
  - Resource  
*Resources have been evaluated and generally not recommended as they present additional costs at a time when additional costs are counter-productive.*
  - Communications  
*Proactive communication is important to success as a long-term solution will require support from the community through higher taxes.*
  - Risk Management  
*Risk for the implementation of these recommendations should be considered. A lot will be required from all participants – especially finance staff – to accomplish all that is being recommended.*
  - Project portfolio  
*The project portfolio is essentially the recommendations contained in this plan and summarized in the Strategic Approach to Fiscal Resiliency (attached)*
    - Goal achievement  
*The goal is to achieve fiscal resiliency for the long-term. That involves restoring fund balances and resetting levels of service by the City to the community. This will take several years.*
    - Risk  
*Several recommendations are being made. So much change in a small amount of time will result in risk which should be monitored and managed by the City.*
    - Resources  
*The BRP has analyzed the availability of outside resources as part of this work and is recommending a limited number of outside resources in order to contain costs.*
    - Impact on fiscal distress  
*As a result of the desire to limit the number of “asks” of support from the community through votes to increase resources, the short-term fiscal distress will increase before these remediations take effect. The City will have to borrow to support City programs in 2025 with the expectation of being able to repay said borrowing from increased community support through additional revenues.*
  - Communications
    - Establish clear chain of command to manage tasks  
*The Mayor’s office will manage communication tasks.*
    - Control rumors
    - Be as transparent as possible
    - Remote workers
- 12 Outcomes of the Recovery Process
- Bankruptcy  
*Bankruptcy could occur if the City does not develop and execute a successful long-term fiscal recovery plan. Bankruptcy is defined as the inability of the City to meet its financial obligations over time.*



- A strong financial foundation and resiliency  
*It is the expectation of the Blue Ribbon Panel that the Mayor develop and propose a Financial Health Model as well as a 2025-26 biennial budget that includes a clear definition of anticipated costs for on-going costs to provide the right level of service to the community and a corresponding revenue model that would support such a plan.*

1.

## The Price of Government

“The Price of Government” presents a radically different approach to budgeting. Rather than focusing on cutting or adding to last year’s spending programs, it emphasizes buying results for citizens. The book of the same name advocates consolidation, competition, customer choice, and a relentless focus on outcomes to save millions while improving public services. It offers specific solutions based on the authors’ experience applying reinvention strategies, demonstrating how a budget process that starts with results has transformed governments at all levels. The “Price” itself is a ratio of “community income” (per-capita income times population) divided by revenues. While difficult to compare among jurisdictions due to a variety of differences, the comparison of the “Price” over time can be a valuable tool to assess the adequacy of public funding.

The Price of Government: Getting the Results We Need in an Age of Permanent Fiscal Crisis, David Osborne (Author), Peter Hutchinson (Author)  
Basic Books – February 20, 2006

## Priority Based Budgeting

A model that local governments and public sector agencies use to make budgetary decisions and allocate funds based on community needs. Traditional budgeting’s use-it-or-lose-it mentality and across-the-board budget cuts don’t consider factors other than a percentage make it difficult to connect funding with strategic goals or performance metrics. Instead, priority-based budgets focus on aligning resources with community priorities and outcomes. Here’s how it works:

1. **Community Needs:** Priority-based budgeting starts by identifying the most critical community needs based on Citizen led surveys and focus groups. These needs can include areas like housing, transportation, sanitation, education, and healthcare.
2. **Program-Centric Approach:** Instead of allocating funds based on departmental structures, priority-based budgets allocate funding to specific programs or services. This approach ensures that resources directly address community needs rather than being tied to historical spending patterns.
3. **Accountability and Transparency:** Priority-based budgets emphasize accountability for program results. By linking funding to outcomes, local governments create transparency and a better understanding of the true cost of each program. Residents gain confidence in government spending, and leadership remains accountable.
4. **Flexible Funding:** Rather than applying across-the-board cuts, priority-based budgets adjust funding based on the value of individual programs. Programs aligned with community priorities receive continued support, while those less effective may see reduced funding.

## City Council Agenda Item

Meeting Date: 07/2/2024

A Resolution Regarding the Landmark 99 Property

Staff Lead: Todd Tatum and Susan McLaughlin

Department: Economic Development

Preparer: Todd Tatum

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### Background/History

On June 27<sup>th</sup>, 2023, Council voted to authorize Mayor Nelson to enter into an option agreement to purchase the 10.6 acre site, referred to as the Landmark Property at the Southern gateway of the Highway 99 subarea. This action resulted in a community planning process, a Request for Proposals (RFP) for a development partnership, and the selection of a preferred developer by the RFP selection committee.

City staff, members of City Council, and previous administrations have worked for years to create redevelopment opportunities along the Highway 99 corridor. These efforts have yielded limited results and are far from the outcomes described in, for example, the Highway 99 Subarea Plan. The Landmark 99 option to purchase is an extension of that previous work, and an action which was hoped to have the potential result in a signature community-oriented development.

This opportunity prompted actions, conversations, and education to shape this project, and the corresponding work plan. Council, staff, several of our boards and commissions, and the mayor's office have all taken part in exploring how other cities are managing similar projects, the funding and legal mechanisms behind their actions, and potential avenues for our own project. Unfortunately, as the year has progressed, our city's financial position remains critical. This budget uncertainty leaves this project at great risk without dedicated funding to invest in the project, nor with contingency reserves to manage risk as the project progresses.

### Staff Recommendation

Staff recommends that Council adopt the resolution attached to tonight's agenda.

### Narrative

The Landmark acquisition was intended to accomplish several things:

1. Create public space in an area of parks deficiency
2. Foster place-based redevelopment on neighboring parcels as a catalyst for positive change
3. Improve safety and security by applying crime prevention through environmental design strategies
4. Increase the city's sales and property tax bases and, thereby, improve the sustainability of tax revenues over time

Staff recommends that City Council continue pursuit of those objectives by supporting the following efforts in the Highway 99 subarea:

1. Consider the establishment of a Community Renewal Area as proposed in 2023

2. Study the feasibility of Tax Increment Financing (TIF)
3. When feasible, create an account in the Capital Improvement Program (CIP) to fund acquisition and/or community-focused investments in the subarea

Community Renewal, governed by RCW 35.81, is a powerful tool for municipalities to revitalize areas of their cities which suffer from lack of investment.

Tax Increment Financing, governed by RCW 39.114 and recently adopted by the state, is a tool which allows municipalities to use the incremental increase in property taxes due to redevelopment to repay bond costs for infrastructure improvements which spur positive redevelopment in a tax increment area (TIA). Investigation into the creation of a TIA along the Highway 99 corridor will inform city leaders of the risks, benefits, and projects associated with TIF and allow for thoughtful decision-making about the use of this tool.

The third recommendation is to create, and fund, an account in the CIP when feasible that could provide the resources for acquisition, partnership, and/or construction in the Highway 99 subarea.

Finally, staff recommends that we monitor the Landmark site and be willing to engage in discussions with the current landowner, and any future landowners, to identify opportunities for infrastructure improvements, community-oriented development, and the creation of public space.

Attachments:

Landmark 99 Resolution 20240702

RESOLUTION NO. \_\_\_\_\_  
 A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF EDMONDS, WASHINGTON, RELATED TO COMMUNITY INVESTMENT IN THE HIGHWAY 99 SUBAREA AS AN ALTERNATIVE TO PURCHASING THE LANDMARK PROPERTY.

WHEREAS, the Comprehensive Plan (including the PROS plan) and the draft Community Renewal Plan recommend investment strategies to stimulate positive redevelopment in the Hwy99 subarea; and

WHEREAS, a draft Community Renewal Plan (CRP) will soon be ready for Council consideration and action; and

WHEREAS, under the draft CRP recommendations, Edmonds would become a Community Renewal Agency and would be able to unlock additional tools to stimulate redevelopment and investment; and

WHEREAS, the draft CRP recommends engaging in a tax increment financing (TIF) feasibility study for the corridor; and

WHEREAS, the draft CRP recommends that partnerships should be explored to achieve multifaceted benefits, including community priorities such as open space and a community center; and

WHEREAS, these civic investments should be added to the CIP; and

WHEREAS, a pool of available funds to support community renewal investments in the subarea would allow the City to act on opportunities as they arise, and can be used to further encourage outside investments through grants and appropriations; and

WHEREAS, the City's interest in the Landmark property was intended to stimulate positive redevelopment in the Hwy99 subarea and to realize community priorities such as open space and a community center; and

WHEREAS, the City's current financial situation creates a prohibitive environment in which to pursue this purchase; now therefore,

THE CITY COUNCIL OF THE CITY OF EDMONDS, WASHINGTON, HEREBY RESOLVES AS FOLLOWS:

Section 1. City's Option to Purchase Landmark Will Not Be Exercised. The City's option to purchase the Landmark property will not be exercised. The city council supports the mayor's recommendation to cease immediate work related to the Landmark property.

Section 2. Future Commitments to the Hwy99 Subarea.

The City will demonstrate its continuing commitment to making future investments in the Hwy99 subarea by pursuing the following courses of action in 2024 and 2025:

- A. Monitor the Landmark site and, if appropriate, engage in discussions with current or future landowners to identify potential opportunities;
- B. The city council will consider the proposed designation of a community renewal area in the Hwy99 subarea;
- C. The administration should analyze the feasibility of using TIF to stimulate investments within the Hwy99 subarea and return to the city council recommended actions related to TIF; and
- D. When feasible, the city should establish a Community Renewal Fund to fund future investments in the Hwy99 corridor.

RESOLVED this \_\_\_\_ day of July, 2024.

CITY OF EDMONDS

\_\_\_\_\_  
MAYOR, MIKE ROSEN

ATTEST:

\_\_\_\_\_  
CITY CLERK, SCOTT PASSEY

FILED WITH THE CITY CLERK:  
PASSED BY THE CITY COUNCIL:  
RESOLUTION NO. \_\_\_\_\_