

# LONG-RANGE FINANCIAL PLANNING COMMITTEE 2025 REPORT TO CITY COUNCIL



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## I INTRODUCTION AND OVERVIEW

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### I.A LETTER FROM MAYOR JOE MARINE

Dear City Council and Mukilteo Residents,

It is my honor to present the 2025 Long-Range Financial Plan, a collaborative effort by the Long-Range Financial Planning Committee—comprised of City Councilmembers, Mukilteo residents, and City staff. This plan serves as a strategic roadmap, providing a clear overview of the City's financial outlook for the next six years. By integrating this plan into our budget process, we can ensure Mukilteo remains financially stable and well-prepared for the future.

As Mayor, I have long advocated for this plan because understanding our financial position and projecting future trends are essential for sound governance. The need for this plan is even more pressing today, as inflation has significantly increased the costs of maintaining City services. Simply put, Mukilteo's current financial structure is struggling to keep pace with rising expenses.

Within this document, you will find a comprehensive analysis of our City's revenue and expenditure trends, funding sources, and financial projections. It also outlines key strategies to safeguard the City's fiscal health through proposed financial policies that can be adopted by the City Council. A strong financial future requires careful planning and thoughtful decision-making. As we implement this plan, we remain committed to engaging with our community, fostering public trust, and adapting to changing economic conditions.

Thank you for your continued support and dedication to our City. Together, we will build a strong, sustainable future for Mukilteo.



Mayor Joe Marine  
City of Mukilteo

## I.B LONG-RANGE FINANCIAL PLANNING (LRFP) COMMITTEE MEMBERSHIP

The Long-Range Financial Planning Committee is comprised of four Elected Officials, three Mukilteo resident volunteers, two executive staff members, and one consultant/project manager.

### *Elected Officials*

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**Joe Marine, Mayor**

Mayor Marine was elected as the Mukilteo City Mayor in 2022. He previously served as Mayor from 2006 to 2013.



**Richard Emery, City Councilmember**

Councilmember Emery was initially appointed to the City Council in 2008 and elected to four-year terms in 2015, 2019, and 2023.



**Tom Jordal, Council President**

Council President Jordal was elected to a four-year term in 2022. He was elected Council Vice President in 2024, and Council President in 2025.



**Donna Vago, City Councilmember**

Councilmember Vago was elected to a four-year term in 2023.

### *Appointed Volunteers*

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**Jeff Clarke, Resident Volunteer**

Mr. Clarke has worked in a variety of public sector leadership roles in the Pacific Northwest. He has resided in Mukilteo for 14 years.

**Don Doran, Resident Volunteer**

Mr. Doran has been a Mukilteo resident for 36 years. He served as the Mayor of Mukilteo for eight years and City Councilmember for six years.

**Daniel McGovern, Resident Volunteer**

Mr. McGovern has lived in Mukilteo for six years. He has a Ph.D. in Political Science with a special focus on political economy and international finance.

### *Executive Staff*

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**Steve Powers, City Administrator**

City Administrator Powers assists the Mayor in administration of the City government and oversees the City's daily operations.

**Ana María Núñez, CPA, Finance Director**

Director Núñez oversees financial, budgeting, and accounting services for the City.

### *Project Manager*

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**Brian Carlson, Consultant**

Mr. Carlson is the Budget and Finance Director for Yakima County Washington, and the owner/principal of *Local Government Management Solutions*, a management consulting practice serving public-sector clients.

## I.C LRFP COMMITTEE HISTORY AND SCOPE

The City has established a LRFP Committee as an advisory body to the City Council to undertake the important task of long-range financial planning. The City's inaugural LRFP Committee began work in February of 2010 and shared the City's first Long-Range Financial Plan for the General Fund to citizens and City officials in October 2010. The LRFP Committee was convened again in 2015. Their work concluded with the presentation of a SWOT analysis (strengths, weaknesses, opportunities, and threats) for Council consideration entitled [2017 Recommendations](#).

In 2022 the City's Executive Department led by Mayor Joe Marine reintroduced the topic to Council, with an eventual recommendation that the LRFP Committee be reconvened. Council supported the recommendation, and in March of 2024 the Executive Department presented a revised Charter for the LRFP Committee, again as an advisory body, whose scope of work emphasizes:

- Development of a six-year financial forecast
- Recommendations to City Council

Council sought applicants both from its own ranks and from the general public and appointed three Council members and three volunteers in addition to the Mayor and his non-voting executive staff. The Executive Department also engaged a third-party consultant as Project Manager for facilitation of LRFP Committee meetings and development of materials.

The Committee reconvened on September 23, 2024 and has since held monthly meetings. The late-September start-date precluded Committee input on the draft 2025-2026 budget, despite the biennium comprising one-third of the six-year forecast. The City's budget was adopted on November 25, and the Council discussions leading up to adoption revealed policy shortcomings and unresolved negative financial trends, including:

- Disagreement about policy interpretation, in particular the Gap-Closing policy, and its implications for the draft budget;
- The necessary formal suspension of the Gap-Closing policy to facilitate formal budget adoption;
- An informal suspension of minimum fund balances, implied in the General Fund's projected ending fund balance;
- Uncertainty about whether and how to include significant new revenues anticipated in mid-2025, but not finalized nor known at the time of budget adoption;
- Voter rejection of an EMS / levy lift ballot measure in 2024.

Council begins 2025 aligned in its acknowledgment of the need for corrective action, though not necessarily in agreement about the nature of the problems or the best solutions. In this setting the LRFP Committee's *2025 Report to Council* offers a focused analysis of both problems and symptoms, options for improving the City's circumstances, and a framework for articulating and measuring success over time.

## I.D EXECUTIVE SUMMARY

The City of Mukilteo has a history of maintaining a very strong ending fund balance. It has well planned its expenditures and revenues, being conservative in both. In anticipation of ongoing increases in expenditures without a similar increase in revenues, the City is preparing for those leaner years that may occur. It is actively looking to make decisions that will help in mitigating the effects of anticipated increases in expenditures, decreases in revenues. To this end, the Long-Range Financial Planning (LRFP) Committee was reconvened to examine both the biennial budget and the subsequent 4 years. This positive action allows for better planning for the anticipated increase in expenditures. The LRFP document is a tool that demonstrates the City's current financial position and what its financial position would be given various scenarios. This tool is intended to provide the information needed to facilitate decisions that the City Council will ultimately make regarding expenditures and the forecasting of revenues.

This document is not intended to be a static document. It should be updated on a scheduled basis to reflect changes in both expenditures and revenues, thus allowing for more informed decisions and associated changes in the budget.

### *Articulating the Issues*

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The *Report to Council* is structured around ten [problem statements](#) articulated by the LRFP Committee. These high-level observations are referenced throughout the *Financial Analysis* and *Recommendations to Council* sections, and are categorized as follows:

1. Speaking the same language: creating a common operating picture
2. Financial planning triage: identifying and quantifying the most urgent financial challenges
3. Developing a comprehensive financial planning function: establishing a manageable, methodical and continuous process

The appended [Recommendations for Expansion and Targeted Analysis](#) reflects a short list of the highest-priority topics which are beyond the LRFP Committee's current scope and/or timeline. This list primarily addresses categories 1 and 3 above.

### *Financial Planning Triage*

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The Committee's most urgent topics are the structural imbalances in both the *General* and *EMS* funds. Each topic is a high-impact driver of the City's overall solvency, and each includes unknown variables; new *automated traffic camera ("ATC")* revenues impacting the General Fund, and a *levy lid-lift* ballot measure scheduled for 2025 which would impact the *EMS Fund* in 2026 and beyond.

The two topics are summarized below:

#### GENERAL FUND

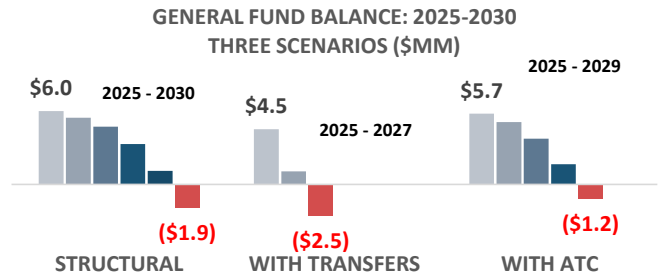
The *Financial Analysis* section details the imbalance within the General fund and the implications, including:

- Annual deficits of \$3MM beginning in 2026, growing to over \$5MM by 2029
- Fund balance falling below the minimum articulated in policy in 2026
- Funds depleted in 2027

**GENERAL FUND BALANCE: 2025–2030** illustrates the depletion of fund balance within the six-year timeline. Each bar represents one year.

Balances are grouped by three scenarios:

- **STRUCTURAL** measures only the fund’s revenues and expenses, excluding transfers out. This scenario is a hypothetical view of the fund’s stand-alone solvency. **Fund balances are depleted in 2030.**
- **WITH TRANSFERS** includes the transfers-out of nearly \$3MM annually. This represents the current budgeting convention and its impact on General Fund. **Fund balances are depleted in 2027.**
- **WITH ATC** reflects a transfer-in of surplus *automated traffic cameras* (“ATC”) revenues from the new *Public Safety* fund to support public safety costs borne by the General Fund. **Fund balances are depleted in 2029.**

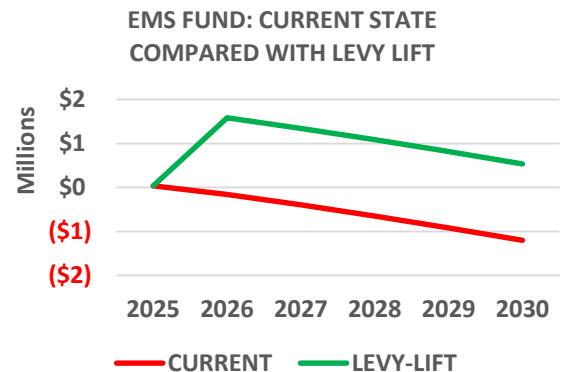


## EMS FUND

The *EMS Fund* has a structural deficit that grows to over \$1MM annually by 2030, despite receiving a \$2MM annual subsidy from the General Fund. Council has authorized a ballot measure for 2025 to allow for a levy lid-lift, which would generate an estimated \$1.7MM annually.

*EMS FUND* illustrates the annual surplus/deficit in the EMS fund in its current state, and with the addition of the increased tax levy in 2026.

While the *EMS Fund* is a driver of *General Fund* imbalance, the LRFP Committee identifies EMS as a stand-alone topic in need of its own analysis and corrective measures.



## Recommendations to Council

[Section III](#) revisits the earlier *Problem Statements* and provides corresponding recommendations to Council. These are offered as a high-altitude framework to orient Council and Committee to the highest-priority tasks for the near-term. *Recommendations* highlights include:

- Coordination of all financial planning elements via [procedural calendar](#), formalized in policy. Policy drafts are offered for consideration.
- Launching a lower-altitude analysis of *personnel* and *General Fund subsidies*, two of the highest-impact cost drivers affecting the current imbalance.

- Standing-up a *comprehensive financial planning* function to ensure continuity, coordination and development of a scope of work that is appropriate to the City’s ongoing needs.

## [\*Appendix\*](#)

In addition to the lists of prioritized tasks for near-future financial planning phases, the *Appendix* section includes:

- Tabled figures for the six-year forecasts ([\*IV.A – Exhibit B\*](#));
- An overview of the modeling tools underlying the forecasts and analyses ([\*IV.B\*](#));
  - *Policy Drafts* for Council consideration ([\*IV.C\*](#)), including: A draft set of policies to establish and formalize a *comprehensive financial planning function*
  - A standardized policy template to distinguish policy elements, i.e. background, definitions, policy, procedures, applicability, etc.
  - The creation of a *procedural calendar* to ensure coordination and timely updates of all data-sets and planning elements (see [\*Policy 1: Citywide Financial Planning / Attachment 1: Financial Planning Procedural Calendar\*](#))
  - The re-drafting of *Required Fund Balance Minimum* formulas and targets for clarity and consistency (see [\*Policy 1: Citywide Financial Planning / Attachment 2: Measurable Targets and Corrective Actions\*](#)).
  - The plotting of all existing policy language within the new structure.

While there remain numerous details and topics in need of additional work and consideration, the *Report to Council* is an effort to bring all of the important variables into view to create a *common operating picture*.

## II FINANCIAL ANALYSIS

### II.A PROBLEM STATEMENT

Since September, 2024 the LRFP Committee has followed three lines of effort resulting in the following *problem statements*. These are referenced in sections II and III of this report using “flags” (1a, 2d, 3g).

|   |   |  |
|---|---|--|
| 1 | <b>SPEAKING THE SAME LANGUAGE</b>   |  |
|   | <i>Council is most effective when working within a common operating picture</i>   |  |
|   | a. Data integrity   | Current financial figures reconciled across all four planning elements (Budget, LRFP, Reporting, Asset Management).  |
|   | b. Standardized terminology   | Clear definitions of policy terms and consistent application in all venues and across all financial planning elements.   |
| 2 | c. Intuitive financial-planning concepts  | Accessible analysis, SMART objectives, and optimal distribution of assignments among Council, Committee and Management.  |
|   | <b>FINANCIAL PLANNING TRIAGE</b>  |  |
|   | <i>To effectively address its resourcing constraints, Council must identify and quantify its most urgent financial challenges</i> |  |
|   | d. General Fund structural deficits   | The adopted 2025-2026 Budget reflects a 7% deficit in 2025 and a 17% deficit in 2026, which increases through the remainder of the six-year timeline. See <a href="#">General Fund Deficits</a> .  |
| 3 | e. General Fund subsidies to other funds  | Subsidies to other funds comprise over 15% of General Fund “uses”. The six-year forecast reflects zero growth, without a corresponding analysis of the needs of the recipient funds.   |
|   | f. Depletion of General Fund balance  | General Fund balance falls \$3.2MM below policy-minimum by end of 2026, and is depleted before end of 2027.  |
|   | <b>DEVELOPING A COMPREHENSIVE FINANCIAL PLANNING FUNCTION</b>   |  |
|   | <i>To have immediate and lasting value, financial planning must be manageable, methodical and continuous</i>                      |  |
|   | g. Continuity   | Eight years have elapsed since the last LRFP document, the <a href="#">2017 Recommendations</a> . Since then the long-range planning function has been dormant until the Committee reconvened in late 2024.  |
|   | h. Coordination   | Linking new financial planning elements (e.g. LRFP, asset management) to pre-existing mandatory financial planning processes (e.g. budget, financial statements) is a manageable path to developing a <i>comprehensive financial planning function</i> . A set of <a href="#">policy drafts</a> is appended for consideration. |
|   | i. Expansion  | As the largest and highest-impact fund, General Fund is the appropriate starting-point for financial planning, but it comprises only half of the Citywide expenses. A list of additional <a href="#">topics</a> is appended for consideration.   |
|   | j. Targeted analysis  | There are several high-impact topics (e.g. EMS and public safety, personnel costs, union contracts, etc.) that warrant a separate, focused analysis in future planning phases. A list of additional <a href="#">topics</a> is appended for consideration   |



# II.B SIX-YEAR FORECAST

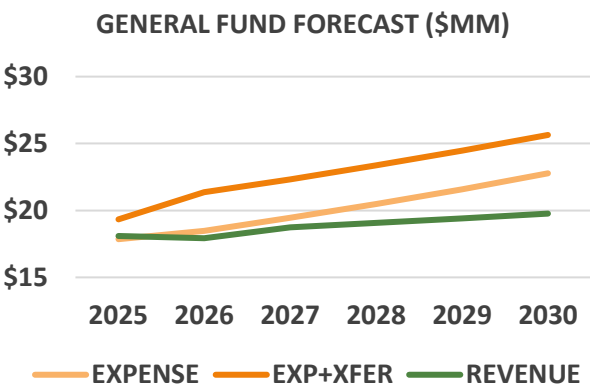
This section summarizes the General Fund and the five funds that receive General Fund subsidies (EMS, Street, Equipment Replacement, Tech Replacement, Facilities Maintenance). Detailed tabular figures are provided in [Section IV.A Tables and Exhibits](#).

## General Fund Forecast, Subsidy Transfers-out, and Revenue

GENERAL FUND FORECAST is a high-altitude view of all expenses PLUS transfers-out (orange line) and revenues (green line) (1b). The distance between the two lines represents the annual impact on fund balance.

Forecast assumptions:

- FTE personnel costs grow at 5% annually.
- Sales tax revenue grows at 2.5% annually through 2026 (per Budget Policy) and 4% thereafter.
- Additional property- and sales-tax revenues from annexation are not reflected in 2025-2026, but will likely be included in a budget amendment once the annexation is finalized.
- Forecasts for 2027-2030 include the new annexation revenues, estimated at approximately \$300K per year.



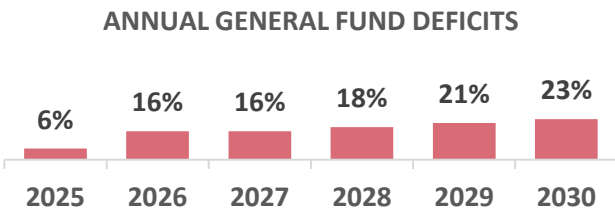
Observations:

- The deficit grows steadily each year through 2030 (2d), approaching \$6MM by the end of the six-year period.

## General Fund Deficits

ANNUAL GENERAL FUND DEFICITS expresses annual deficits as a percentage of expenses plus transfers-out (1b) (2d).

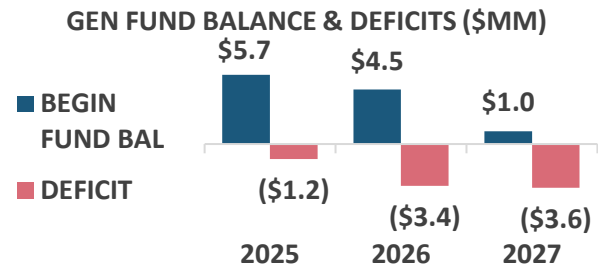
This formula captures the full impact to General Fund, though during its discussions the LRFP Committee has acknowledged the value in developing a separate analysis of each variable and its relation to the other two. A proposed revision to the City’s targets and corrective actions, currently known as “gap-closing” policy, is attached in the draft [Comprehensive Financial Planning Policy](#).



### General Fund Balance

**GEN FUND BALANCE & DEFICITS** shows the dollar value of beginning fund balances and annual deficits.

Each year's deficit reduces the beginning fund balance for the following year, and fund balance is exhausted during 2027 as the forecasted deficit of \$3.6MM exceeds the beginning fund balance estimates of \$1MM (2f). Funds would be exhausted approximately by April, assuming an even distribution throughout the year.

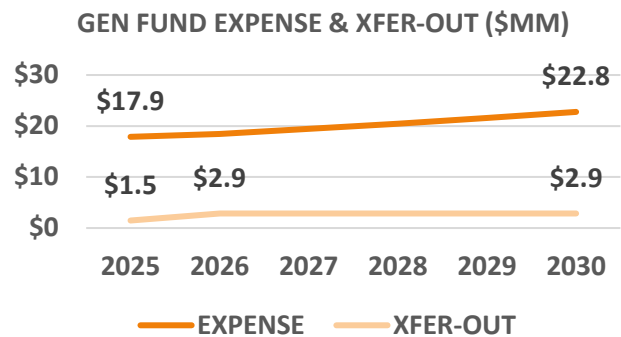


### General Fund Expenses & Subsidy Transfers-Out

**GEN FUND EXPENSE & XFER OUT** breaks out the earlier *EXP+XFER* (expense plus transfer-out) line into its components. Expenses grow by nearly \$5MM over the six-year timeline, while subsidy transfers-out are modeled at a fixed \$2.9MM annually.

Assumptions:

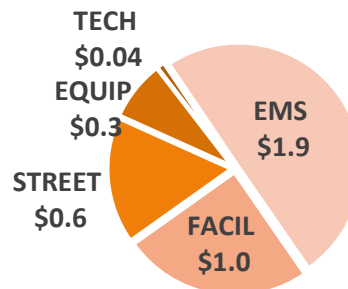
- Expense-growth ranges from 4% to 6% annually for all categories except insurance, which is modeled with a 15% annual increase.
- ARPA offsets the \$1.9MM EMS transfer in 2025, after which the entire transfer is again borne by General Fund.
- The forecast model extends the transfers-out figures adopted in the 2025-2026 budget with no increase over time. It therefore does not yet incorporate separate analysis of the recipient funds and their respective trends and funding requirements (2e).



**ANNUAL GENERAL FUND SUBSIDIES** shows the distribution of annual General Fund subsidies comprised of \$2.9MM *XFER-OUT*, plus \$1MM for facilities ("FACIL"), which is booked as an *EXPENSE*. These subsidies and charges total \$3.8MM total, distributed across five funds.

The amounts transferred out are held constant through the six-year model as a placeholder, though a targeted analysis of these funds will likely lead to a revised forecast and allocation (2e).

### ANNUAL GENERAL FUND SUBSIDIES (\$3.8MM TOTAL)

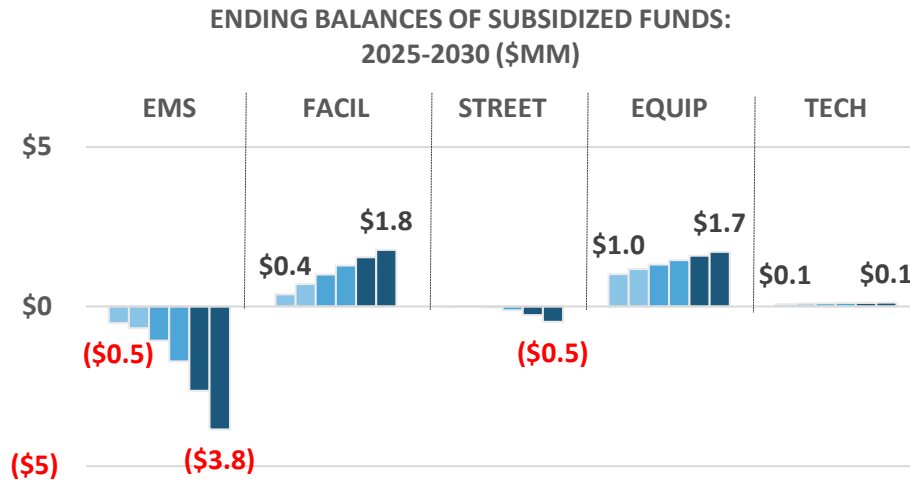


### Fund Balances of Subsidized Funds

**ENDING BALANCES OF SUBSIDIZED FUNDS** tracks each of the five subsidized funds over the six-year LRF timeline. Each of the six bars represents the ending balance for the year.

This view provides a starting-point for a more detailed analysis of the resourcing needs of these funds, and by extension, their ongoing burden on the General Fund.

Pursuant to current finance policy, STREET and TECH fund balances are managed at or near zero for the entire timeline, making the bars appear very small relative to the other funds.



#### Fund Balance Observations:

- **EMS:** fund balance is depleted by year-end 2025. Structural deficits sum to nearly \$4MM over the six-year timeline, as reflected in the hypothetical negative fund balance of \$3.8MM (1a) (2e). The EMS fund is structurally insolvent and in need of structural remedies, i.e. a levy lid-lift and/or consolidation within a regional EMS entity.
- **FACIL:** fund balance accumulates to nearly \$2MM, but the forecast lacks context regarding the City's deferred maintenance profile, i.e. the ongoing cost to maintain facilities and the City's ongoing pace and resourcing of its maintenance efforts (2e).
- **STREET:** fund carries a zero-balance. Negative trend is immaterial over the six-year timeline.
- **EQUIP:** balances appear sufficient, and could possibly be used in the short term to reduce or eliminate General Fund burden (2e) (3i) (3j).
- **TECH:** fund balance complies with policy. Modeling does not reflect an analysis of technology needs (2e) (3i) (3j).

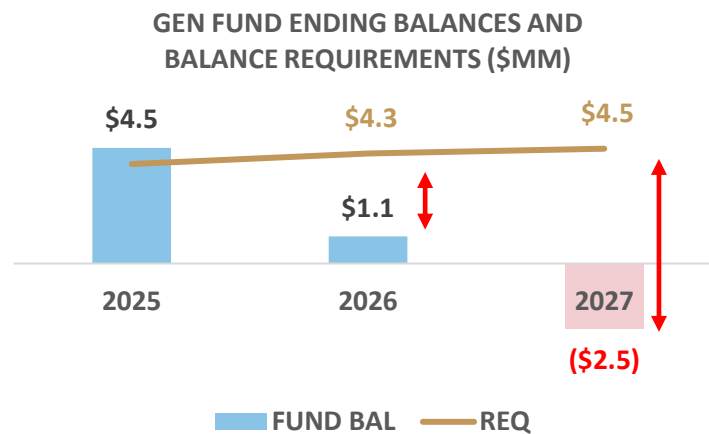
## II.C FINANCIAL TRENDS AND DRIVERS

This section first revisits [II.B General Fund Balance](#) to show trends relative to policy, and then explores the components or drivers of the trends.

### General Fund Balance Forecasts and Policy

With the adoption of the 2025-2026 budget, the General Fund (blue bars) falls below the minimum allowed by policy (tan line), i.e. *20% of expenses plus transfers out*, by the end of 2026.

By the end of 2026 the ending fund balance is \$1.1MM. The required minimum balance is \$4.3MM, resulting in a shortfall of \$3.2MM, indicated by the short red arrow.



By mid 2027 (approximately April) the fund balance is exhausted, and at year-end the shortfall, reflected as a negative balance, is \$2.5MM. The required minimum balance is \$4.5MM, resulting in a \$7MM shortfall indicated by the long red arrow.

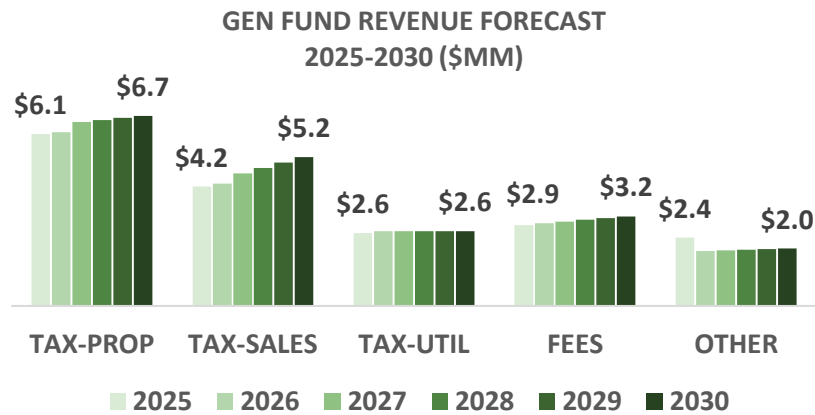
To summarize:

- The City's adopted biennium budget produces a corrective action *trigger* in 2026 based on minimum fund balance policy.
- Based on the forecasts beyond the biennial budget, the General Fund is exhausted during 2027, somewhere between March and September, if no corrective action is taken.
- Annual deficits aggregate in ending fund balance, i.e. the \$7MM shortfall in 2027 captures the imbalance for the entire three-year timeline.
- Therefore, ***the City has \$7MM problem and a two-year runway.***
- \$7MM is the difference between the "negative" fund balance in 2027 (\$2.5MM) and the required minimum balance of \$4.5MM.
- *Two-year runway* means it occurs in 2027, approximately two years from the adoption of the LRFP.

## General Fund Revenue Drivers

**GEN FUND REVENUE FORECAST** shows all revenues by category, with the following growth modeling assumptions:

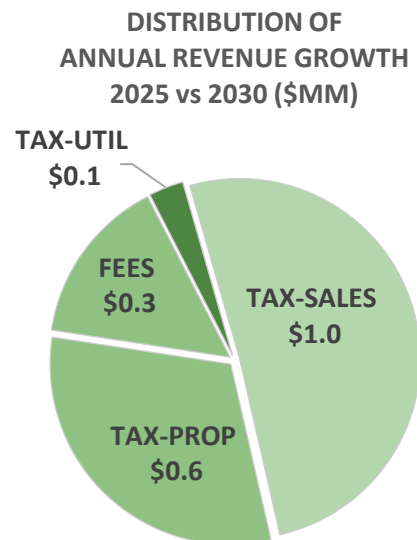
- **TAX-PROP:** property taxes capped at 1% annual revenue growth, which reflects little-to-no additions to the tax rolls, and assessed values rising at or above 1% per year.
- **TAX-SALES:** growth assumption is 2.5% annually in 2025-2026, and 4% annually thereafter.
- **TAX-UTIL:** utility taxes modeled at zero growth.
- **FEES:** annual growth ranges from 2% to 4%.
- **OTHER:** annual growth ranges from 2% to 4%, and reflect approximately \$500K of one-time grants-revenue in 2025.



Annual General Fund revenue is forecasted to grow by approximately \$2MM over the six-year timeline.

The *DISTRIBUTION* chart compares annual revenues at the beginning and end of the six-year period, and reflects forecasting assumptions detailed in section II. of this report.

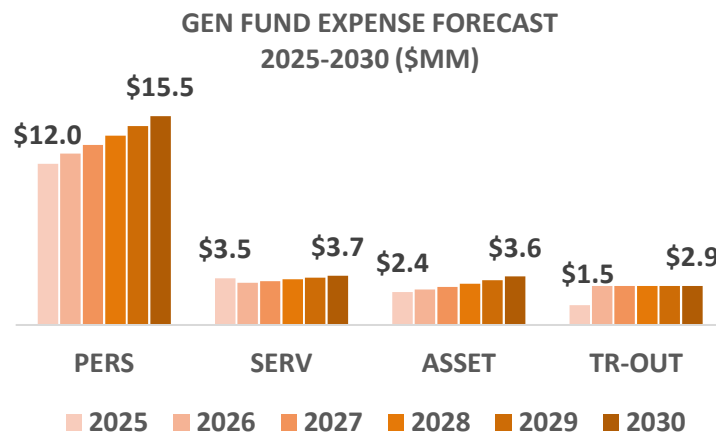
Though it is the largest revenue category, *property tax* is capped at a 1% revenue increase, and only moves above that cap when there are additions to the tax roll, such as annexation or new construction.



## General Fund Expense Drivers

**GENERAL FUND EXPENSE FORECAST** shows all expenses aggregated in three categories, plus transfers-out, with the following growth modeling assumptions:

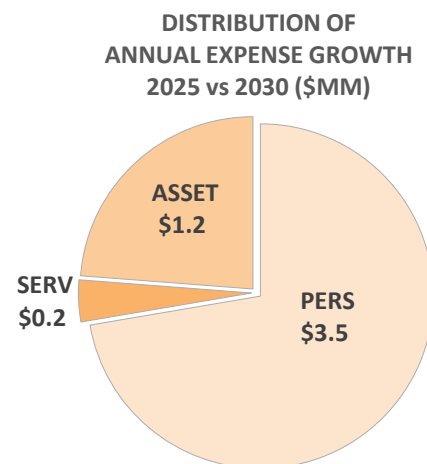
- **PERS:** *personnel* includes all employee compensation. Full-time equivalent (FTE) salaries and benefits are modeled at 5% annual growth, and other compensation (overtime, part-time, etc.) is modeled at 6% annual growth.
- **SERV:** *services* are comprised of professional and intergovernmental services, which are modeled at 4% annual growth.
- **ASSET:** *assets* includes General Fund facilities and equipment and the costs to insure, operate, maintain and supply them. Within this category, annual growth assumptions are: insurance 15%, utilities 6%, all other costs 4%.
- **TR-OUT:** *transfers-out* capture General Fund subsidies to four other funds, as detailed in *Section II.B*. (Note: there is a fifth fund that is subsidized via *expense* rather than *transfer out*.) Subsidies are modeled with zero growth, pending a more detailed analysis of the trends of the recipient funds, particularly EMS Fund. TR-OUT are reduced in 2025 to reflect an offsetting ARPA transfer to EMS Fund.



Annual General Fund Expense plus Transfers-out grows by approximately \$5MM over the six-year timeline.

The *DISTRIBUTION* chart illustrates that 3/4ths, or \$3.5MM of the expense-growth over time is concentrated in personnel costs.

Estimated insurance costs comprise \$700K, or nearly 2/3rds of the *ASSET* category growth.



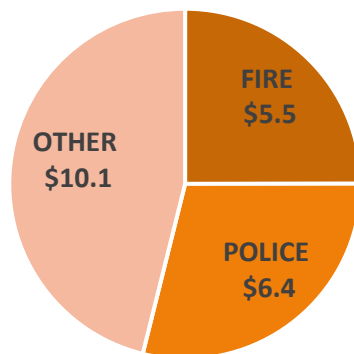
## Public Safety

Public Safety is an expense driver for the General Fund, but with the amendment to the 2025-2026 biennial budget and the creation of the *Public Safety Fund* and the pending *automated traffic camera* (“ATC”) revenues, Council has new options to mitigate the impacts to General Fund.

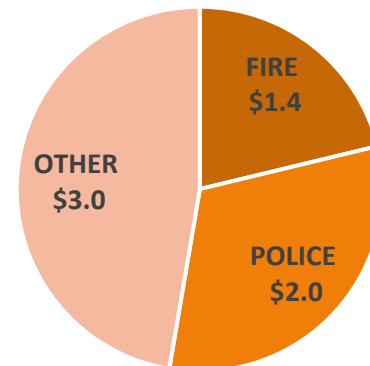
Public Safety is here comprised of Fire Department and Police Department functions spanning the General and EMS funds. Fire Department costs are reflected in both General and EMS Funds, while Police Department costs are only reflected in the General Fund.

The two charts below show *Public Safety* (Fire and Police) relative to all other General Fund expenses (left), and the annual increase in each category for the six years ending 2026. These figures demonstrate that increases in public safety expenses have been proportionate to their share of the overall expenses, i.e. **public safety expenses are not growing faster than the aggregate growth of all other categories**.

2024 COMBINED GEN AND EMS FUNDS  
\$22MM TOTAL



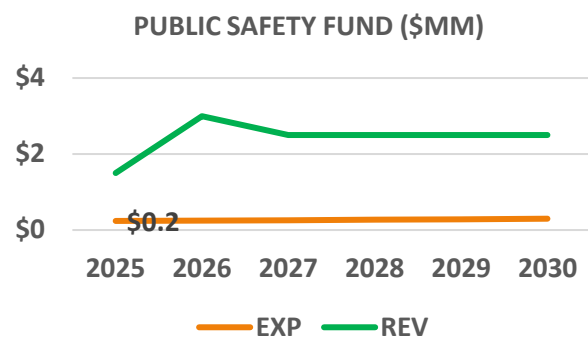
ANNUAL EXPENSE GROWTH  
2021 and 2026



### 2025-2026 Budget Amendment

With the creation of the *Public Safety* fund, Council has segregated the *Automated Traffic Camera* program, which is scheduled for implementation during 2025. This program is a revenue enhancement for targeted public safety programming, specifically Fire, Police, Traffic Calming, and Pedestrian Safety.

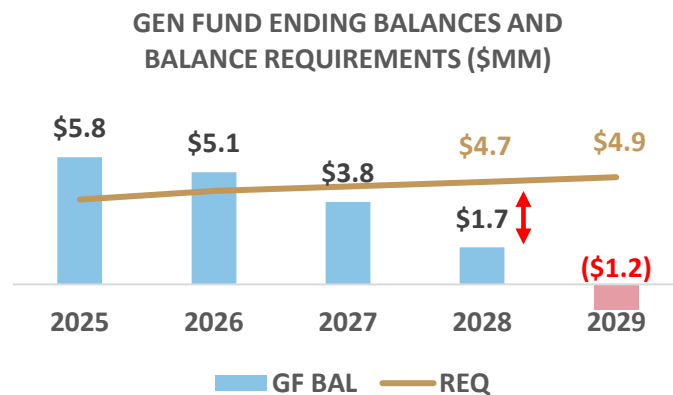
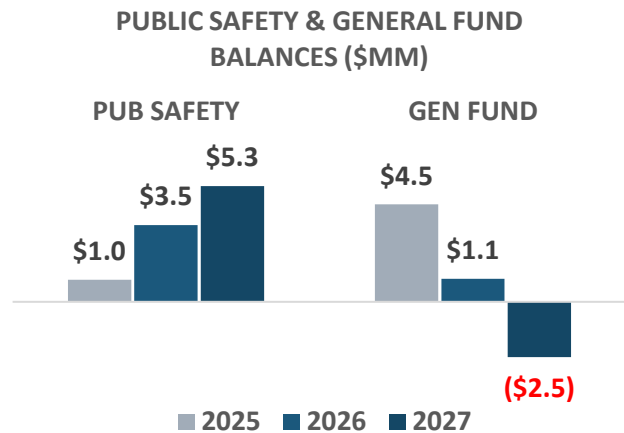
*PUBLIC SAFETY FUND* shows the anticipated revenues of over \$2MM and expenses of less than \$300K. This net income can be deployed to the public safety programming specified above.



*PUBLIC SAFETY & GENERAL FUND BALANCES* shows a comparison through 2027 to illustrate how Council might use accumulating Public Safety funds to mitigate imbalances in the General Fund.

Observations:

- Fund balances are aggregates, i.e. they accumulate over time. Therefore, if accumulated funds are repositioned in one year, it will impact balances in all future years.
- *PUB SAFETY* accumulates nearly \$2MM in each full year of operation.
- City Council established four allowable uses for the new revenue stream: *Fire, Police, Traffic Calming* and *Pedestrian Safety*.
- *PUB SAFETY* can partially offset the *GEN FUND* imbalance, thereby improving the earlier fund balance graphic as shown below:



- Using these figures, the General Fund problem statement can be revised as follows: ***The City has a \$3MM problem and a three-year runway.***
- \$3MM is the amount that 2028 fund balance falls below required minimum
- *Three-year runway* means it occurs in 2028, approximately three years from the adoption of the LRFP.



# III RECOMMENDATIONS TO COUNCIL

This section addresses each of the ten topics identified in [II.A PROBLEM STATEMENT](#) and developed throughout [II FINANCIAL ANALYSIS](#).

## III.A SPEAKING THE SAME LANGUAGE

1

### a. Data integrity

The draft [Citywide Financial Planning Function](#) policy includes a [procedural calendar](#) for coordination and reconciliation of financial updates. The purpose is to enable financial planning stakeholders to *agree to the data* by ensuring that updates to any *planning element*, e.g. budget amendment, are timely and reflected across all planning elements, e.g. LRFP.

**Recommendation:** Establish and implement a procedural calendar for all financial planning elements.

### b. Standardized terminology

The draft [Citywide Financial Planning Function](#) policy includes [measurable targets and corrective actions](#). The purpose is to enable financial planning stakeholders to *agree to the status and next steps* of the City's current financial data.

**Recommendation:** Finalize and adopt policy targets and corrective actions and review/revise them ongoing to ensure consistency with Council objectives.

### c. Intuitive financial-planning concepts

Recent Council and LRFP discussions have revealed an appropriate *materiality* threshold for effective discussion and assignment.

**Recommendation:** Limit Council and LRFP discussions to *material* topics, i.e. +/- \$300K, and delegate lower-value topics to management.

### III.B FINANCIAL PLANNING POLICIES

#### 2 d. General Fund structural deficits

With the pending implementation of the *traffic camera* program, Council has addressed a material improvement to its revenue portfolio. There remains a structural deficit, driven primarily by personnel costs, which is only postponed by the inclusion of estimated new revenues.

**Recommendation:** Begin a more detailed analysis and discussion of personnel costs and develop a list of SMART options to mitigate the impact of this cost-driver.

#### e. General Fund subsidies to other funds

The current modeling of General Fund subsidies to other funds can be characterized as a *placeholder* analysis, as it reflects current subsidy levels with zero growth.

**Recommendations:** Begin a prioritized analysis of subsidized funds, beginning with EMS, to better understand and plot sufficient and sustainable levels of future General Fund transfers-out. Monitor Public Safety fund performance and revise models; develop tactics for optimal distribution of surplus funds.

#### f. Depletion of General Fund balance

Maintaining fund balance targets will be an ongoing effort with numerous continuously-changing variables. Through implementation of timely review and revision procedures, Council can have sufficient advance-warning to take effective corrective action.

**Recommendations:** Implement, measure, review and refresh triage items and their impact on General Fund balance, so as to enable deliberate and optimal corrective action. Monitor Public Safety fund performance and revise models; develop tactics for optimal distribution of surplus funds.

III.C CONTINUATION OF FINANCIAL PLANNING FUNCTION

3 g. Continuity

The pressures and complexity of the City’s financial resourcing picture compel an ongoing review to ensure sustainability.

**Recommendation:** Develop and adopt policies to establish an ongoing comprehensive financial planning function. See appended [policies](#) for draft documents for Council consideration.

h. Coordination

The complexity of a comprehensive financial planning function necessitates coordination among the component planning elements to ensure its integrity, relevance, and manageability.

**Recommendation:** Develop, adopt and implement policies to establish and operationalize the link among pre-existing planning elements (budget, financial statements) and new elements (LRFP, asset management). See appended [policies](#) for draft documents for Council consideration.

i. Expansion

The City’s resourcing picture has other components besides General Fund that can be incorporated into the financial planning function to provide a comprehensive view and a basis for corrective action.

**Recommendation:** Develop a prioritized list of funds for inclusion in the financial planning function (see [Section IV.A, Exhibit A - Recommendations for Expansion and Targeted Analysis](#)).

j. Targeted analysis

The *2025 Report to Council* emphasizes a fund-level view to orient Council to the resourcing picture. An expanded and targeted analysis of *drivers*, e.g. personnel, tax revenue, deferred maintenance, would provide added leverage and benefit to the financial planning function.

**Recommendation:** Develop a prioritized list of topics for additional review and analysis as outlined in [Section IV.A, Exhibit A - Recommendations for Expansion and Targeted Analysis](#).

## IV APPENDIX

### IV.A TABLES AND EXHIBITS

#### *Exhibit A – Recommendations for Expansion and Targeted Analysis*

#### DEVELOPING A COMPREHENSIVE FINANCIAL PLANNING FUNCTION

##### RECOMMENDATIONS FOR EXPANSION AND TARGETED ANALYSIS

| HIGHEST PRIORITIES                         |   |
|--|---|
| <b>Public Safety Fund</b>                  | Whether/how to use accumulated balances in fund 130 to defray expenses and/or transfers currently borne by General Fund.  |
| <b>Personnel Analysis</b>                  | Advanced metrics for the City's largest cost-driver;<br>Advisable to have this completed in advance of 2025 union negotiations  |
| <b>Fire / EMS</b>                          | The largest and fastest-growing "subsidy" item;<br>Separate analysis will aid in decisions regarding optimal Fire / EMS structure   |
| <b>Asset Maintenance and Replacement</b>   | This topic captures the remaining "subsidy" items, and is a component of the sample Financial Planning policies.  |
| <b>Revenue Development and Forecasting</b> | Near-term importance is for monitoring of new high-impact revenues during 2025-2026<br>Revenue development can/should be ongoing, though new high-impact revenues are elusive |
| <b>Fund Balance Reserve Policy</b>         | Determining minimum and maximum fund balance targets that are appropriate to Mukilteo's unique profile.   |

| OTHER PRIORITIES                       |  |
|--|--|
| <b>Debt Capacity</b>                   | A simple formula-calculation which allows for ease of updating;<br>Debt analysis can inform topics including debt-issuance policy and cost savings associated with debt retirement                         |
| <b>Budget Development and Variance</b> | City's budget/actual variance is lower than most small municipalities;<br>Review of budget development will automatically occur through the regular review and revision of the new biennial budget process |
| <b>CIP and Capital Prioritization</b>  | Can be done in conjunction with Asset Maintenance & Replacement;<br>Important and high-impact, but needs context for financial and project management capacity.  |
| <b>Performance Metrics</b>             | Important and high-impact, and occasionally referenced in earlier documents and discussions, but arguably not central to LRFP scope  |

*Exhibit B – Tabled Figures for Six-Year Forecast*

|   |                    |                    |                    |                    |                    |                    |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| <b>GENERAL FUND</b>                                     |                    |                    |                    |                    |                    |                    |
| <b>SIX-YEAR FORECAST</b>                                | <b>2025</b>        | <b>2026</b>        | <b>2027</b>        | <b>2028</b>        | <b>2029</b>        | <b>2030</b>        |
| <b>REV</b>  | <b>18,105,675</b>  | <b>17,922,311</b>  | <b>18,730,295</b>  | <b>19,065,375</b>  | <b>19,410,864</b>  | <b>19,755,089</b>  |
| TAX-PROP  | 6,061,207          | 6,121,819          | 6,488,037          | 6,556,868          | 6,627,316          | 6,692,389          |
| TAX-SALES   | 4,209,342          | 4,310,366          | 4,672,781          | 4,858,092          | 5,050,576          | 5,245,519          |
| FEES  | 2,851,884          | 2,917,984          | 2,976,344          | 3,035,870          | 3,096,588          | 3,158,520          |
| TAX-UTIL  | 2,568,602          | 2,631,926          | 2,631,926          | 2,631,926          | 2,631,926          | 2,631,926          |
| INTGOV-REV  | 1,201,440          | 689,307            | 689,307            | 689,307            | 689,307            | 689,307            |
| RENT  | 609,220            | 631,657            | 644,290            | 657,176            | 670,319            | 683,726            |
| MISC  | 407,372            | 417,925            | 426,284            | 434,809            | 443,505            | 452,375            |
| INTEREST  | 196,608            | 201,327            | 201,327            | 201,327            | 201,327            | 201,327            |
| <b>EXP</b>  | <b>17,858,529</b>  | <b>18,469,851</b>  | <b>19,445,971</b>  | <b>20,483,172</b>  | <b>21,586,506</b>  | <b>22,761,583</b>  |
| PERS-SAL  | 7,887,709          | 8,358,173          | 8,776,082          | 9,214,886          | 9,675,630          | 10,159,412         |
| PERS-BEN  | 3,093,736          | 3,352,176          | 3,519,784          | 3,695,774          | 3,880,562          | 4,074,590          |
| INSUR   | 862,693            | 905,828            | 1,041,702          | 1,197,958          | 1,377,651          | 1,584,299          |
| PROFSVC   | 1,674,830          | 1,254,245          | 1,304,415          | 1,356,592          | 1,410,855          | 1,467,290          |
| MAINT   | 1,005,436          | 1,156,818          | 1,203,091          | 1,251,214          | 1,301,263          | 1,353,313          |
| INTGOV-EXP  | 1,103,185          | 1,115,039          | 1,159,641          | 1,206,026          | 1,254,267          | 1,304,438          |
| PERS-OTH  | 975,361            | 1,004,430          | 1,064,696          | 1,128,578          | 1,196,293          | 1,268,070          |
| PUBSVC  | 688,269            | 757,820            | 788,133            | 819,658            | 852,444            | 886,542            |
| SUPPL   | 409,710            | 403,852            | 420,006            | 436,806            | 454,278            | 472,449            |
| COMMS   | 133,536            | 136,827            | 142,301            | 147,993            | 153,912            | 160,069            |
| UTIL  | 24,064             | 24,642             | 26,121             | 27,688             | 29,349             | 31,110             |
| <b>SURPLUS (DEFICIT)</b>                                | <b>247,146</b>     | <b>(547,540)</b>   | <b>(715,676)</b>   | <b>(1,417,797)</b> | <b>(2,175,642)</b> | <b>(3,006,494)</b> |
| <b>TR-OUT</b>   | <b>1,473,533</b>   | <b>2,883,533</b>   | <b>2,883,533</b>   | <b>2,883,533</b>   | <b>2,883,533</b>   | <b>2,883,533</b>   |
| TR-OUT EMS  | -                  | 1,910,000          | 1,910,000          | 1,910,000          | 1,910,000          | 1,910,000          |
| TR-OUT STREET   | 635,500            | 635,500            | 635,500            | 635,500            | 635,500            | 635,500            |
| TR-OUT EQUIPREPL  | 300,000            | 300,000            | 300,000            | 300,000            | 300,000            | 300,000            |
| TR-OUT TECHREPL   | 38,033             | 38,033             | 38,033             | 38,033             | 38,033             | 38,033             |
| TR-OUT CAPPROJ  | 500,000            | -                  | -                  | -                  | -                  | -                  |
| <b>ADJUSTED DEFICIT</b>                                 | <b>(1,226,387)</b> | <b>(3,431,073)</b> | <b>(3,599,209)</b> | <b>(4,301,330)</b> | <b>(5,059,175)</b> | <b>(5,890,027)</b> |
| <b>ADJUSTED FUND BAL</b>                                | <b>4,487,449</b>   | <b>1,056,376</b>   | <b>(2,542,832)</b> |                    |                    |                    |
| <b>ESTIMATED PUBLIC SAFETY TRANSFER TO GENERAL FUND</b> |                    |                    |                    |                    |                    |                    |
| <b>TR-IN</b>  | <b>1,262,080</b>   | <b>2,749,739</b>   | <b>2,241,925</b>   | <b>2,229,574</b>   | <b>2,216,617</b>   | <b>2,203,026</b>   |
| <b>SURPLUS (DEFICIT)</b>                                | <b>35,693</b>      | <b>(681,334)</b>   | <b>(1,357,284)</b> | <b>(2,071,756)</b> | <b>(2,842,557)</b> | <b>(3,687,001)</b> |
| <b>ESTIMATED FUND BAL</b>                               | <b>5,749,529</b>   | <b>5,068,195</b>   | <b>3,710,912</b>   | <b>1,639,156</b>   | <b>(1,203,401)</b> |                    |

| SUBSIDIZED FUNDS: SIX-YEAR FORECAST  |                |                  |                  |                  |                  |                    |
|--|----------------|------------------|------------------|------------------|------------------|--------------------|
| SURPLUS (DEFICIT) appears at the top for each fund,<br>and at the bottom for the entire group. |                |                  |                  |                  |                  |                    |
|  | <u>2025</u>    | <u>2026</u>      | <u>2027</u>      | <u>2028</u>      | <u>2029</u>      | <u>2030</u>        |
| <b>EMERGMED</b>  | <b>35,538</b>  | <b>(155,851)</b> | <b>(396,686)</b> | <b>(651,345)</b> | <b>(920,568)</b> | <b>(1,205,136)</b> |
| REV  | 3,241,833      | 3,279,786        | 3,315,424        | 3,351,565        | 3,388,217        | 3,425,389          |
| TR-IN  | 35,000         | 1,945,000        | 1,945,000        | 1,945,000        | 1,945,000        | 1,945,000          |
| EXP  | (3,241,294)    | (5,380,637)      | (5,657,110)      | (5,947,910)      | (6,253,786)      | (6,575,525)        |
| <b>FACILMAINT</b>  | <b>186,478</b> | <b>321,241</b>   | <b>302,364</b>   | <b>281,777</b>   | <b>259,376</b>   | <b>235,048</b>     |
| REV  | 984,122        | 1,140,218        | 1,163,012        | 1,186,262        | 1,209,977        | 1,234,167          |
| TR-IN  | 0              | 0                | 0                | 0                | 0                | 0                  |
| EXP  | (797,644)      | (818,977)        | (860,648)        | (904,485)        | (950,601)        | (999,119)          |
| <b>STREET</b>  | <b>36,438</b>  | <b>13,901</b>    | <b>(37,286)</b>  | <b>(91,049)</b>  | <b>(147,518)</b> | <b>(206,832)</b>   |
| REV  | 439,110        | 447,892          | 448,985          | 450,099          | 451,235          | 452,395            |
| TR-IN  | 635,500        | 635,500          | 635,500          | 635,500          | 635,500          | 635,500            |
| EXP  | (1,038,173)    | (1,069,491)      | (1,121,770)      | (1,176,648)      | (1,234,254)      | (1,294,727)        |
| <b>TECHREPL</b>  | <b>11,441</b>  | <b>11,993</b>    | <b>10,464</b>    | <b>8,864</b>     | <b>7,191</b>     | <b>5,441</b>       |
| REV  | 23,408         | 23,960           | 24,431           | 24,912           | 25,402           | 25,901             |
| TR-IN  | 38,033         | 38,033           | 38,033           | 38,033           | 38,033           | 38,033             |
| EXP  | (50,000)       | (50,000)         | (52,000)         | (54,080)         | (56,243)         | (58,493)           |
| <b>EQUIPREPL</b>   | <b>18,912</b>  | <b>154,846</b>   | <b>147,446</b>   | <b>139,750</b>   | <b>131,746</b>   | <b>123,422</b>     |
| REV  | 38,912         | 39,846           | 39,846           | 39,846           | 39,846           | 39,846             |
| TR-IN  | 300,000        | 300,000          | 300,000          | 300,000          | 300,000          | 300,000            |
| EXP  | (320,000)      | (185,000)        | (192,400)        | (200,096)        | (208,100)        | (216,424)          |
| <b>SURPLUS (DEFICIT)</b>   | <b>288,807</b> | <b>346,130</b>   | <b>26,302</b>    | <b>(312,002)</b> | <b>(669,773)</b> | <b>(1,048,057)</b> |

# CITYWIDE INTERFUND TRANSFERS

|               | 2025               | 2026               | 2027               | 2028               | 2029               | 2030               |
|---------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| <b>TR-IN</b>  | <b>5,046,225</b>   | <b>4,858,533</b>   | <b>4,858,533</b>   | <b>4,858,533</b>   | <b>4,858,533</b>   | <b>4,858,533</b>   |
| EMERGMED      | 35,000             | 1,945,000          | 1,945,000          | 1,945,000          | 1,945,000          | 1,945,000          |
| CAPPROJ       | 3,158,692          | 1,060,000          | 1,060,000          | 1,060,000          | 1,060,000          | 1,060,000          |
| LTGOBOND      | 879,000            | 880,000            | 880,000            | 880,000            | 880,000            | 880,000            |
| STREET        | 635,500            | 635,500            | 635,500            | 635,500            | 635,500            | 635,500            |
| EQUIPREPL     | 300,000            | 300,000            | 300,000            | 300,000            | 300,000            | 300,000            |
| TECHREPL      | 38,033             | 38,033             | 38,033             | 38,033             | 38,033             | 38,033             |
| <b>TR-OUT</b> | <b>(5,046,225)</b> | <b>(4,858,533)</b> | <b>(4,858,533)</b> | <b>(4,858,533)</b> | <b>(4,858,533)</b> | <b>(4,858,533)</b> |
| GENFUND       | (1,473,533)        | (2,883,533)        | (2,883,533)        | (2,883,533)        | (2,883,533)        | (2,883,533)        |
| REETI         | (879,000)          | (880,000)          | (880,000)          | (880,000)          | (880,000)          | (880,000)          |
| REETII        | (1,523,530)        | (610,000)          | (610,000)          | (610,000)          | (610,000)          | (610,000)          |
| TRBENDIST     | (919,282)          | (450,000)          | (450,000)          | (450,000)          | (450,000)          | (450,000)          |
| WATERFR       | (35,000)           | (35,000)           | (35,000)           | (35,000)           | (35,000)           | (35,000)           |
| SURFWATMGT    | (100,000)          | -                  | -                  | -                  | -                  | -                  |
| PARKAQDEV     | (115,880)          | -                  | -                  | -                  | -                  | -                  |

## IV.B ANALYTICAL TOOLS AND MODELS

The LRFP Project Manager contract scope includes development of analytical tools and models to assist in the analysis, revision and expansion of the financial planning function. Tools and models are stored in a single excel workbook, and can be generally categorized *data tables*, *pivot tables*, and *formula references*.

This section provides a partial-review of the modeling tools resulting from the LRFP effort.

## Data Tables

The primary data table spans thirty-four columns and nearly 2,000 rows, and represents a single source for all *flows* (revenues, expenses, transfers) for every City fund and department. The design allows for a simple export of any budget amendments or revisions, as well as extensions of the modeling period e.g. beyond 2030.

|     | Account ID          | EXP/REV | FUND # | FUND NAME | FY25 Adopted | FY25 Projected | FY26 Adopted |
|-----|---------------------|---------|--------|-----------|--------------|----------------|--------------|
| 855 | 011.11.511.600.3157 | EXP     | 011    | GENFUND   | 250          | 250            | 250          |
| 856 | 011.11.511.600.3101 | EXP     | 011    | GENFUND   | 670          | 670            | 695          |
| 857 | 011.11.511.600.2120 | EXP     | 011    | GENFUND   | 197          | 197            | 197          |
| 858 | 011.11.511.600.2104 | EXP     | 011    | GENFUND   | 197          | 197            | 197          |
| 859 | 011.11.511.600.2101 | EXP     | 011    | GENFUND   | 3,374        | 3,374          | 3,374        |
| 860 | 011.11.511.600.1102 | EXP     | 011    | GENFUND   | 63,900       | 63,900         | 63,900       |

Additionally, smaller data tables are used to facilitate fund balance and budget-to-actual variance analysis.

## Pivot Tables

These tables allow the user to develop user-friendly subsets of the primary table, and to expand, reduce and re-order the view and structure.

This example shows a partial-list of all twenty-four City funds, with detail broken out for General fund, revenue, and sales tax. This reduction/expansion can be applied to any fund at any level of detail.

Pivot tables allow for a quick extraction of data subsets for expanded analysis, calculation, and development of data graphics. Pivot tables can also be made into their own *pivot graphics*, which present the user with a picture that adjusts in real-time with the expanded/reduced pivot table.

|                         | A | G            | H            | I            | J            |
|-------------------------|---|--------------|--------------|--------------|--------------|
| Row Labels              |   | 2025         | 2026         | 2027         | 2028         |
| 009                     |   | -            | -            | -            | -            |
| 011                     |   | 1,465,787    | 3,670,473    | 3,848,185    | 4,560,265    |
| GENFUND                 |   | 1,465,787    | 3,670,473    | 3,848,185    | 4,560,265    |
| EXP                     |   | 18,097,929   | 18,709,251   | 19,694,947   | 20,742,107   |
| TR-OUT                  |   | 1,473,533    | 2,883,533    | 2,883,533    | 2,883,533    |
| REV                     |   | (18,105,675) | (17,922,311) | (18,730,295) | (19,065,375) |
| TAX-PROP                |   | (6,061,207)  | (6,121,819)  | (6,488,037)  | (6,556,868)  |
| TAX-SALES               |   | (4,209,342)  | (4,310,366)  | (4,672,781)  | (4,858,092)  |
| AFFORDABLE&SUPPORTIVE H |   | (25,600)     | (26,214)     | (27,263)     | (28,353)     |
| LOCAL CRIMINAL JUSTICE  |   | (481,280)    | (492,831)    | (512,544)    | (533,046)    |
| RETAIL SALES & USE TAX  |   | (3,702,462)  | (3,791,322)  | (4,132,974)  | (4,296,693)  |
| FEES                    |   | (2,851,884)  | (2,917,984)  | (2,976,344)  | (3,035,870)  |
| TAX-UTIL                |   | (2,568,602)  | (2,631,926)  | (2,631,926)  | (2,631,926)  |
| INTGOV-REV              |   | (1,201,440)  | (689,307)    | (689,307)    | (689,307)    |
| RENT                    |   | (609,220)    | (631,657)    | (644,290)    | (657,176)    |
| MISC                    |   | (407,372)    | (417,925)    | (426,284)    | (434,809)    |
| INTEREST                |   | (196,608)    | (201,327)    | (201,327)    | (201,327)    |
| TR-IN                   |   | -            | -            | -            | -            |
| 012                     |   | (26,202)     | (26,192)     | (26,192)     | (26,191)     |
| 021                     |   | 2,707,928    | 7,400        | 7,696        | 8,004        |
| 101                     |   | 458,687      | (21,649)     | (39,907)     | (58,895)     |
| 104                     |   | 10,652       | 10,653       | 11,313       | 12,009       |
| 105                     |   | (13,499)     | (12,326)     | 7,204        | 28,183       |



## Formula References

This represents the most complex feature of Mukilteo’s workbook. The book’s formulas are based primarily on the *VLOOKUP* spreadsheet function, which is deployed for three primary purposes:

1. Ease of export: VLOOKUP enables an easy and accurate export of differently-structured data sets by using the chart of accounts as the common denominator among all source data.
2. Customization: the BARS methodology establishes standardization across all Washington public-sector entities. However, for customized or targeted analysis, users may wish to establish their own conventions and terminology for purposes of analysis. The *LRFP Report to Council* uses this feature in the [GEN FUND REVENUE FORECAST](#) and [DISTRIBUTION OF ANNUAL EXPENSE GROWTH](#) to provide intuitive summaries of larger data sets.
3. Modeling: VLOOKUP allows for references within the workbook to calculate future budgets based on rates of growth by category (the “%” columns, below) or by anomalies (the “\$” columns, below). This allows for a real-time manipulation of growth assumptions to see how they impact the future budgets.

| Type | Object       | 2028 (%) | 2028 (\$) | 2029 (%) | 2029 (\$) |
|------|--------------|----------|-----------|----------|-----------|
| REV  | Tax-Prop     | 1%       |           | 1%       |           |
| REV  | Tax-Sales    | 4%       |           | 4%       |           |
| REV  | Tax-Util     | 0%       |           | 0%       |           |
| REV  | Misc         | 2%       |           | 2%       |           |
| REV  | Fees         | 2%       |           | 2%       |           |
| EXP  | FTE Salary   | 5%       |           | 5%       |           |
| EXP  | FTE Benefits | 5%       |           | 5%       |           |
| EXP  | Supplies     | 4%       |           | 4%       |           |

This feature is further referenced in a separate *fund balance* table to show the impact of changing expense/revenue flows on ending fund balances.

| FUND BALANCES BELOW ARE DERIVED HISTORICALLY FROM FUND BALANCE TABLE (ENDING BALANCE) / (%) CHANGES FROM ABOVE FEED TO ALL TABLES FOR FUTURE COMPUTATION (USES THE NET TO PROJECT INTO FUTURE PERIODS) (\$)<br>CHANGES ARE LIMITED TO FUND BALANCE TABLE |                   |             |             |             |             |             |             |
|--|-------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Fund Number  | Fund Name         | 2025        | 2026        | 2027        | 2028        | 2029        | 2030        |
| 009  | LEOFF 1 RESERVE   | -           | -           | -           | -           | -           | -           |
| 011  | GENERAL           | (4,248,049) | (577,576)   | 3,270,608   | 7,830,873   | 13,159,340  | 19,329,431  |
| 012  | CITY RESERVE      | (1,053,578) | (1,079,770) | (1,105,962) | (1,132,153) | (1,158,344) | (1,184,534) |
| 021  | AMERICAN RESCUE F | 7,735,906   | 7,743,306   | 7,751,002   | 7,759,006   | 7,767,330   | 7,775,987   |
| 101  | TRANSPORTATION B  | (280,212)   | (301,862)   | (341,769)   | (400,665)   | (479,308)   | (578,488)   |

#### IV.C POLICY DRAFTS

In an effort to address the need for clear policy language as a prerequisite to successful citywide planning efforts, the following *Policy Drafts* appendix is drafted for City Council consideration. It has three primary objectives:

1. Creation of a structured citywide approach to *financial planning*;
2. Plotting of all current policy language within the *financial planning* framework, and further organized with standardized sections (e.g. *definitions, purpose, policy, procedures*);
3. Articulation of *gap-closing* and *fund balance* policy language for the General Fund (see *Policy 1 / Attachment 2: Financial Planning Measurable Targets and Corrective Actions*).

This framework is governed by a *Citywide Financial Planning* policy, which articulates the inter-related nature of several pre-existing City functions (see *POLICY 1: CITYWIDE FINANCIAL PLANNING / Scope and Purpose/Background*).

The proposed *Financial Planning* function has four component policies:

1. Long-Range Financial Plan
2. Budget
3. Financial Reporting
4. Asset Management

The *Financial Planning* and *LRFP* policies are completely drafted. The remaining policies are incomplete, reflecting the need for further consideration and direction from Council beyond the current scope of the LRFP Committee's current assignment.

## POLICY 1: CITYWIDE FINANCIAL PLANNING

### POLICY CONTENT

#### 1 Scope

- 1.1 The *Financial Planning* function governs the relationship and coordination among the City's financial planning elements, specifically: long-range financial planning, budgeting, asset management and financial reporting, each with its own corresponding policy.

*Citywide Financial Planning Function* policy addresses the following topics:

- A. Identification of the City's financial planning elements
- B. Coordination and reconciliation among the planning elements via procedural calendar
- C. Establishment, review and revision of measurable financial targets and/or boundaries, and related corrective actions.

#### 2 Purpose/Background

- 2.1 The *comprehensive financial planning* concept was developed and drafted by the LRFP Committee in 2024 during its discussions about pre-existing budget and "gap closing" policies and their application during the development of the 2025-2026 budget. The committee recognized that the different aspects of financial planning and reporting are interrelated, and that they must be coordinated and cross-referencing in order to enable fully-informed resourcing decisions.

To address this need the Committee drafted and presented a set of revised policy documents to Council which consolidated existing policies and incorporated additional objectives and procedures. The resulting *financial planning function* articulates a formal process to govern the coordination and reconciliation of multiple financial planning "elements" in furtherance of the following principles:

- A. Standardization: develops and incorporates citywide methodology
- B. Accuracy: reflects current-state of highest-level review
- C. Transparency: follows appropriate public adoption-processes and documentation
- D. Accessibility: enables layperson stakeholder audience to understand and scrutinize
- E. Accountability: incorporates a retrospective performance review and reconciliation
- F. Sustainability: ensures continuity of obligations and priorities

#### 3 Definitions

- 3.1 Appropriation: The legal authority to spend, established by City Council via formal adoption of budget, and limited to the period reflected in the budget (e.g. annual, calendar-year)
- 3.2 Asset: An expense-category within the "silo" convention (see *silo*), comprised of physical assets and their associated maintenance, replacement, and operational costs.

- 3.3 Asset Management: one of four financial planning “elements” consisting of the process for estimating and plotting the life-cycle costs of the City’s assets, including capital improvements, fleet and equipment, maintenance and replacement.
- 3.4 Budget: one of four financial planning “elements”; the citywide document that formalizes annual appropriations; may also include work-plans, metrics and analysis.
- 3.5 Capital: a single asset costing \$5,000 or more.
- 3.6 Capital Project: the construction or creation of a new asset whose value exceeds \$50,000
- 3.7 Carry-over Funds: unexpended appropriations upon the closing of the City’s books for the budget-year; this figure is comprised of combined revenues-over-budget and expenses under-budget.
- 3.8 Expense: the commitment of funds when incurred.
- 3.9 Financial Planning: the comprehensive citywide function comprised of four “elements”: budget, long-range financial plan, financial reporting and asset management, whose collective purpose is the allocation, analysis, forecasting, reporting and revision of the organization’s financial capacity.
- 3.10 Financial Reporting: one of four financial planning “elements” consisting of the retrospective compilation of actual expenditures and revenues, citywide; includes periodic internal reporting and SAO audited financial statements.
- 3.11 Fund: A distinct unit or subsidiary within the organization, with a complete set of self-balancing accounts.
- 3.12 Fund Balance: the accumulated net position of a governmental fund.
- 3.13 Fund Balance, Assigned: informal reflection of the governing body’s intended use of the funds.
- 3.14 Fund Balance, Committed: restricted by the highest formal action of the governing body, remaining so until the commitment is formally removed.
- 3.15 Fund Balance, Restricted: legally restricted by law or enforceable agreement with an external party.
- 3.16 Fund Balance, Unassigned: available for any purpose; designation is limited to General Fund.
- 3.17 Long-Range Financial Plan: A multi-year forecast and analysis extending beyond the budget-period.
- 3.18 Major Maintenance: an improvement to or modification of an existing asset that adds \$5,000 or greater value to the existing asset.
- 3.19 Transfer: Movement of balances between internal City funds; comprised of “in” and “out”, netting to zero.

#### **4 Policy**

- 4.1 The following financial planning elements, each with its own policy, are herein established within the City’s comprehensive financial planning function:
  - 4.1.1 Long-Range Financial Plan: The long-range (e.g. six-year) view of the City’s resourcing needs and capacity, and high-level parameters for budget development.
  - 4.1.2 Budget: the formal forecasting and appropriations-setting process for the operating period, e.g. annual or biennial.
  - 4.1.3 Asset Management: the cost-estimation, scheduling and reporting for the City’s asset portfolio.

- 4.1.4 Financial Statements: the internal reporting and analysis of budget-actual performance, and externally-audited annual financial statements.
- 4.2 The Financial Planning function shall govern the coordination and reconciliation of the planning elements via observation of a procedural calendar (see *Attachment 1, Financial Planning Procedural Calendar*).
- 4.3 The financial planning function establishes measurable thresholds and/or triggers for corrective action, and the action(s) to be taken (see *Attachment 2, Financial Planning Measurable Targets and Corrective Actions*).

## 5 Procedures

- 5.1 The Mayor or Mayor's designee shall direct the performance of the recognized financial planning elements in accordance with their respective policies. Periodically, but not less frequently than each budget-adoption cycle, The Mayor or Mayor's designee shall conduct a regular review and reporting of the financial planning policy, including the objectives, planning elements, and the relationship between the two, for Council consideration.
- 5.2 The Mayor or Mayor's designee shall observe the procedural milestones reflected in the financial planning procedural calendar, formalized as *Attachment 1* of this document, and shall direct the reconciliation of the financial planning documents and schedules concurrent with each milestone.
- 5.3 The Mayor or Mayor's designee shall develop a standard template for inclusion with each planning element work-product as a written assessment of its status relative to corrective-action thresholds and/or triggers specified in *Attachment 2* of this document.

## 6 Limitations/Approvals/Responsibilities

- 6.1 Unless otherwise specified, the Mayor is responsible for performance of the financial planning function, either directly and/or via designees.
- 6.2 Financial planning policies do not address transactional accounting functions such as disbursements and receipts, bookkeeping, or cash controls.

## ATTACHMENTS

Attachment 1: Financial Planning Procedural Calendar

Attachment 2: Financial Planning Measurable Targets and Corrective Actions

Attachment 1: Financial Planning Procedural Calendar

|                                  | ANNUAL FINANCIAL PLANNING PROCEDURAL CALENDAR |   |   |   |
|----------------------------------|---|---|---|---|
| PLANNING ELEMENTS                | QUARTERLY PROCEDURES AND MILESTONES           |   |   |   |
|                                  | Q1  | Q2  | Q3  | Q4  |
| <b>FINANCIAL REPORTING</b>       | Preliminary year-end financial statements     | Current-year Q1 financial statements  | Prior-year audited financial statements<br><br>Current-year Q2 financial statements | Current-year Q3 financial statements  |
| <b>ASSET MANAGEMENT</b>          | Prior Year Budget-to-Actual Analysis          |   | Current Year Estimate<br><br>Future Year Forecast                                   |   |
| <b>BUDGET</b>                    | Prior Year Budget-to-Actual Analysis          |   | Semi-annual amendment 1 of 2  | Semi-annual amendment 2 of 2  |
| <b>LONG-RANGE FINANCIAL PLAN</b> |   | Semi-annual amendment to reflect prior-year-end internal financial statements |   | Semi-annual amendment:<br>*prior-year audit<br>*current-year estimates<br>*future-year adopted budget |

## Attachment 2: Financial Planning Measurable Targets and Corrective Actions

| A) FUND BALANCE: GENERAL FUND REQUIRED MINIMUM |   |
|--|---|
| <b>Applicable to:</b>                          | General Fund balances (combined <i>assigned</i> and <i>unassigned</i> ) for any year within the current LRFP, as calculated from annual draft and adopted budgets, budget amendments, internal estimates of year-end figures, audited financial statements, or LRFP forecasts for any year therein.   |
| <b>Calculation:</b>                            | $(\text{Assigned Fund Balance} + \text{Unassigned Fund Balance}) / \text{General Fund Uses} \geq 20\%$  |
| <b>Definitions &amp; Clarifications</b>        | <ul style="list-style-type: none"> <li>• <i>Calculation</i> reflects a minimum balance target of twenty percent (20%)</li> <li>• <i>Applicable General Fund Balances</i> are the combined <i>assigned</i> and <i>unassigned</i> balances. See <a href="#">Citywide Financial Planning Function / Definitions</a> for fund balance classifications.</li> <li>• <i>Uses</i> refers to the sum of all General Fund annual <i>outflows</i>, specifically <i>expenses</i> and <i>transfers-out</i>, as identified in the BARS 500-series object codes.</li> </ul>  |
| <b>Targets &amp; Corrective Measures:</b>      | <p>If <i>calculation</i> &lt; 20%:</p> <ul style="list-style-type: none"> <li>• Mayor shall report to Council as specified in 5.3 of financial planning policy.</li> <li>• Mayor and designees shall develop a draft <b>analysis and corrective action plan</b> to be presented to Council at the next quarterly milestone, per <a href="#">Attachment 1: Procedural Calendar</a>.</li> <li>• The <b>analysis</b> shall be drafted to enable a highly-informed and efficient Council discussion of specific causes, proposed remedies, and impacts to service levels and strategic priorities. As such, it shall include: <ul style="list-style-type: none"> <li>• A summary of <i>uses</i> (expenses, transfers-out) and <i>sources</i> (revenues, transfers-in)</li> <li>• A nominal (dollars) and rate (percentage) analysis of deficits</li> <li>• An identification of <i>drivers</i> within the sources and uses categories</li> </ul> </li> <li>• <b>Corrective actions</b> shall address the entire LRFP period, emphasizing near-term imbalances as follows: <ul style="list-style-type: none"> <li>• If fund balances fall below minimum during the first three years of the LRFP, the corrective action plan must include options to reconcile the imbalance not later than the end of the year following the event-year.</li> <li>• If fund balances fall below minimum during the latter three years of the LRFP, the corrective action plan must articulate and quantify the drivers of the imbalance for inclusion in the next scheduled <i>strategic planning</i> or <i>budget prioritization</i> Council meeting.</li> </ul> </li> </ul> |



| A) FUND BALANCE: GENERAL FUND REQUIRED MINIMUM (CONT'D) |  |
|---|--|
| <b>Targets &amp; Corrective Measures (cont'd):</b>      | <p>If <i>calculation</i> is between 20% and 50%:</p> <ul style="list-style-type: none"> <li>no corrective action is required.</li> </ul> <p>If <i>calculation</i> &gt; 50% ("maximum"):</p> <ul style="list-style-type: none"> <li>Mayor and designees shall work with Council to develop a review of capital project funds, internal service funds, and deferred capital and maintenance. Surplus General Fund balances shall be appropriated first to the corresponding reserve funds to remedy specific deferrals, then to reserve-fund balances until their respective maximum balances are met.</li> <li>Mayor shall report to Council as specified in 5.3 of financial planning policy.</li> </ul> |

| B) FUND BALANCE: GENERAL FUND RESTRICTED AND COMMITTED BALANCES |  |
|---|--|
| <b>Applicable to:</b>   | General Fund – ending “committed,” “restricted,” and “reserved” balances, individually, for annual draft and adopted budgets, mid-year estimates of year-end figures, or LRFP forecasts for any year therein. See <a href="#">Citywide Financial Planning Function / Definitions</a> for fund balance classifications.   |
| <b>Calculation:</b>   | <p>For each individual restricted balance:<br/>Beginning balance + restricted revenues – expenditures thereof</p> <p>Aggregate expenditures for each individual restricted balance:<br/>The lesser of appropriations or accumulated balances</p>   |
| <b>Targets &amp; Corrective Measures:</b>                       | <ul style="list-style-type: none"> <li>Restricted balances may be fully appropriated, in accordance with allowable uses, up to the total of accumulated balances plus budgeted current-year restricted earnings.</li> <li>Actual expenses and/or commitments are limited to the lesser of appropriations or accumulated balances.</li> <li>Expenses and/or commitments in excess of allowable limits will be corrected in this order: <ol style="list-style-type: none"> <li>the imbalance shall be temporarily appropriated from unrestricted General Fund balance, to be replenished upon conclusion of actions 2 and 3 using funds recaptured therefrom;</li> <li>the commitment or incurred expense shall be reversed to the limit allowed by law and/or contract;</li> <li>Council shall determine the appropriate recompense from the responsible party/parties to the extent allowed by contract, law and/or policy, and shall direct Mayor or designees to pursue same.</li> </ol> </li> </ul> |



| <b>C) FUND BALANCE: RESERVE (FUND 12)</b> |   |
|---|---|
| <b>Applicable to:</b>                     | General Government / Reserves (“contingency reserves”): ending balance for annual draft and adopted budgets, mid-year estimates of year-end figures, or LRFP forecasts for any year therein |
| <b>Calculation:</b>                       | Beginning balance + transfers in – expenditures – transfers out   |
| <b>Targets &amp; Corrective Measures:</b> | <ul style="list-style-type: none"> <li>Ending Balance = \$1MM</li> </ul> Corrective Measures TBD  |

| <b>D) FUND BALANCE: SPECIAL REVENUE FUNDS (100 SERIES) / LODGING TAX (116)</b> |  |
|--|--|
| <b>Applicable to:</b>  | Hotel/Motel Lodging Tax, fund 116: ending balance for annual draft and adopted budgets, mid-year estimates of year-end figures, or LRFP forecasts for any year therein |
| <b>Calculation:</b>  | Year-end fund balance / prior year’s revenue   |
| <b>Targets &amp; Corrective Measures:</b>                                      | <ul style="list-style-type: none"> <li>Ending Balance = 50% (six-months)</li> </ul> Corrective Measures TBD  |

| <b>E) FUND BALANCE: SPECIAL REVENUE FUNDS (100 SERIES) / TECH REPLACEMENT (120)</b> |  |
|---|--|
| <b>Applicable to:</b>   | Technology Replacement Fund: ending balance for annual draft and adopted budgets, mid-year estimates of year-end figures, or LRFP forecasts for any year therein |
| <b>Calculation:</b>   | Beginning balance – appropriations or expenses for scheduled replacement purchases   |
| <b>Targets &amp; Corrective Measures:</b>   | <ul style="list-style-type: none"> <li>Ending Balance &gt; or = appropriations or expenses for the subject year</li> </ul> Corrective Measures TBD               |

| <b>F) FUND BALANCE: SPECIAL REVENUE FUNDS (100 SERIES) / ALL OTHERS</b> |  |
|---|--|
| <b>Applicable to:</b>   | Special Revenue funds, excluding Lodging Tax and Tech Replacement: ending balance for annual draft and adopted budgets, mid-year estimates of year-end figures, or LRFP forecasts for any year therein |
| <b>Calculation:</b>   | ending balance / (expense + transfers out)   |
| <b>Targets &amp; Corrective Measures:</b>                               | TBD  |

| <b>G) FUND BALANCE: EQUIPMENT REPLACEMENT (510)</b> |   |
|---|---|
| <b>Applicable to:</b>                               | Equipment Replacement Fund: ending balance for annual draft and adopted budgets, mid-year estimates of year-end figures, or LRFP forecasts for any year therein |
| <b>Calculation:</b>                                 | Beginning balance – appropriations or expenses for scheduled replacement purchases  |
| <b>Targets &amp; Corrective Measures:</b>           | <ul style="list-style-type: none"> <li>Ending Balance &gt; or = appropriations or expenses for the subject year</li> </ul> Corrective Measures TBD              |

| <b>H) FUND BALANCE: SURFACE WATER RESERVE (445)</b> |   |
|---|---|
| <b>Applicable to:</b>                               | Surface Water Reserve Fund: ending balance for annual draft and adopted budgets, mid-year estimates of year-end figures, or LRFP forecasts for any year therein |
| <b>Calculation:</b>                                 | ending fund balance / budgeted operating revenues   |
| <b>Targets &amp; Corrective Measures:</b>           | <ul style="list-style-type: none"> <li>Ending Balance &gt; or = 20% of annual operating expenses</li> </ul> Corrective Measures TBD                             |

## POLICY 1.1: LONG-RANGE FINANCIAL PLAN

### POLICY CONTENT

#### 1 Scope

- 1.1 The *Long-Range Financial Plan* ("LRFP") is one of four elements of the City's *Financial Planning* function. LRFP policy addresses multi-year financial resource planning, and establishes criteria and methodology for development and adoption of an LRFP document.

The LRFP provides a long-range (e.g. six-year) view of the City's resourcing needs and capacity, and establishes high-level parameters for budget development. It incorporates the most recent audited financial statements data and the adopted budget, and extends several years beyond the budget period.

The LRFP policy addresses the following topics:

1. LRFP in relation to other financial-planning functions
2. LRFP development, adoption and revision
3. LRFP elements, including:
  - A. Revenue and expense forecasts
  - B. Fund balance forecasts and targets
  - C. Asset management (redundant w/stand-alone policy?)
  - D. Debt financing
  - E. Policy recommendations for Council consideration
4. Corrective actions
5. Stakeholder engagement

#### 2 Purpose/Background

- 2.1 Mukilteo City Council re-established its LRFP Committee in 2024 to develop a forecast and a set of policy recommendations to Council. The Committee drafted the Financial Planning policy and its four component policies (LRFP, Budget, Asset Management, Financial Reporting) for Council consideration. (include adoption date and any follow-up narrative)

The LRFP is one of four Financial Planning elements identified in the Financial Planning policy. Each element is a distinct process producing a specific output, and each refers and regularly reconciles to the others along a staggered procedural timeline. (See *Financial Planning policy / Procedural Calendar*).

The LRFP element is designed to provide a multi-year forecast and analysis of financial trends, drivers and balances, as well as a set of policy recommendations to Council.

#### 3 Definitions

- 3.1 See *Financial Planning policy / 3. Definitions*

## 4 Policy

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### 4.1 LRFP in Relation to other Financial-Planning Functions

The City shall develop and maintain an LRFP as an element of its comprehensive *Financial Planning* function. Each financial plan element shall be regularly updated and reconciled to the other elements pursuant to their respective policies and as reflected in the Financial Planning procedural calendar. (see *Financial Planning policy*).

The LRFP Committee shall follow the Financial Planning calendar so as to incorporate revised data from all Financial Planning Element milestones into the LRFP draft document.

### 4.2 LRFP Development, Adoption and Revision

The LRFP and subsequent revisions thereto shall be drafted by the LRFP Committee for consideration and formal adoption by City Council.

### 4.3 LRFP shall be comprised of the following elements:

4.3.1 Revenue and expense six-year forecasts

4.3.2 Fund balance six-year forecasts and articulation of fund balance targets

4.3.3 Asset management cost-forecasts derived from corresponding schedules (see *Asset Management policy*)

4.3.4 Debt Financing obligations and capacity

4.3.5 Policy recommendations for Council Consideration

### 4.4 Corrective Action

4.4.1 The LRFP Committee shall develop and maintain quantifiable corrective-action “triggers” or “thresholds” based on LRFP plan elements, for inclusion in their periodic drafts and recommendations for Council consideration.

4.4.2 The LRFP Committee shall be the responsible body for determinations of whether and when LRFP elements have triggered corrective action, pursuant to Financial Planning policy.

4.4.3 The Mayor or Mayor’s designee shall be responsible for timely formal communication of LRFP Committee corrective-action findings to Council, pursuant to Financial Planning policy.

### 4.5 Stakeholder Engagement

LRFP Committee shall facilitate optimal stakeholder engagement pursuant to “scope” and “purpose” of Financial Planning policy in general, and LRFP Policy specifically.

## 5 Procedures

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### 5.1 LRFP in Relation to other Financial-Planning Functions

The LRFP Committee shall convene following each financial planning element procedural milestone, as identified in the Financial Planning policy / calendar, to review the milestone work-product and determine

Committee's findings and recommendations for formal council action to City Council at a regularly-scheduled Council meeting.

## 5.2 LRFP development, adoption, and revision

5.2.1 The LRFP Committee shall conduct ongoing review and revision of the LRFP. Periodically, but not less frequently than each budget-adoption cycle, the Mayor or Mayor's designee shall present City Council with an LRFP for consideration and formal adoption. Each adopted budget shall be incorporated into the LRFP as the first "period" (e.g. annual or biennial) of the six-year LRFP.

5.2.2 The LRFP Committee shall convene following development and reporting milestones of the other financial planning elements (e.g. financial reporting, asset management) to review and document any impacts to the LRFP, and to draft any revisions thereto that the LRFP Committee deems appropriate for Council consideration.

## 5.3 LRFP shall be comprised of the following elements:

### 5.3.1 Summary statement

### 5.3.2 Six-year financial forecast Analysis of financial trends and drivers

### 5.3.3 Recommendations to City Council

## 5.4 Corrective action

5.4.1 Periodically, but not less frequently than each budget-adoption cycle, LRFP Committee shall review and/or revise LRFP thresholds and triggers for corrective action, for Council consideration. Revisions approved by Council shall be formally adopted and compiled in "Attachment 2" of the Financial Planning policy.

5.4.2 The LRFP Committee shall review draft-revisions to LRFP elements to determine if any corrective actions are triggered by the revision. Corrective-action triggers or thresholds are compiled in Attachment 2 of the Financial Planning Policy. pursuant to Financial Planning policy.

5.4.3 the Mayor or Mayor's designee shall prepare a report to Council at a regularly-scheduled Council meeting to apprise them of the corrective-action status. The report shall include policy references, causes and related variables, quantified estimates and timelines, and next steps pursuant to Financial Planning policy.

## 5.5 Stakeholder engagement

Periodically, but not less frequently than each budget-adoption cycle, LRFP Committee shall identify LRFP stakeholders, and evaluate existing modes of stakeholder engagement, and its effectiveness pursuant to principles articulated in Financial Planning Policy Section 2.

## 6 Limitations/Approvals/Responsibilities

6.1 LRFP development is overseen by the Committee of the same name, which acts as an advisory body to City Council.

- 6.2 The LRFP is adopted and/or revised via formal adoption by City Council.
- 6.3 The LRFP does not establish appropriations.

## ATTACHMENTS

## POLICY: 1.2 BUDGET

### POLICY CONTENT

#### 1 Scope

The **Budget** ("LRFP") is one of four elements of the City's **Financial Planning** policy. **Budget** policy addresses the forecasting and appropriations-setting process for the operating period, e.g. annual or biennium, which is the first year or period of the current long-range financial plan ("LRFP"). It establishes criteria and methodology for development and adoption of the budget.

The Budget policy addresses the following topics:

1. Budget in relation to other financial-planning functions
2. Budget development, adoption and revision
3. Budget elements, including:
  - 3.1. Revenue forecasts
  - 3.2. Expense appropriations
  - 3.3. Fund balance impacts and targets
  - 3.4. Capital planning and asset management schedules for the budget period
  - 3.5. Debt service
4. Corrective actions
5. Stakeholder Engagement

#### 2 Purpose/Background

The Budget is one of four Financial Planning elements identified in the Financial Planning policy. Each element is a distinct process producing a specific output, and each refers and regularly reconciles to the others along a staggered procedural timeline. (See *Financial Planning policy / calendar*)

The objective of Budget policy is to develop and formalize revenue estimates, a work-plan and appropriations-setting for the specified operating period (e.g. annual, biennial).

Threshold requirements for municipal government budgeting are governed via RCW (citation). Budgeting best practices pertinent to municipalities are published primarily by GFOA, though are not required pursuant to RCW. The City's budget function is designed to satisfy legal requirements and to incorporate best practices that are most pertinent and of highest value to the City.

The budget is fundamentally a formal document to memorialize appropriations authorized by Council for the identified operating period. In addition, it can be a comprehensive business plan for analysis of financial and operational performance. It is closely integrated with both the LRFP and the Financial Statements. Each is a distinct process producing a specific output, and each refers and regularly reconciles to the other two along a staggered procedural timeline. (See *Citywide Financial Planning, Attachment 1*).

The budget is developed within the parameters established in the LRFP, and is built to reflect a combination of cost-estimates for prioritized programming and service level objectives, and asset-management schedules, including the CIP, ER&R, facilities maintenance, digital and communications network(s), and others.



### **3 Definitions**

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#### **3.1 See Financial Planning policy / 3. Definitions**

### **4 Policy**

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#### **4.1 Budget in relation to other financial-planning functions**

The Budget, in conjunction with the LRFP and the Financial Statements (both internal and audited), shall represent a comprehensive function for ongoing planning and assessment of the City's financial resources and obligations.

#### **4.2 Budget development, adoption and revision**

- The Finance Director shall prepare and present the Biennial Budget preparation calendar to Council, Mayor and staff by the end of March each year.
- Biennially, the Mayor will prepare and refine written policies and goals to guide the preparation of performance, financing and spending plans for the City budget. Adopted budgets will comply with the adopted budget policies and City Council priorities.
- As a comprehensive business plan, the budget should provide the following critical elements recommended by the Government Finance Officers Association: public policies, and Long-Range Financial Plan.
- The City's Biennial Budget presentation should display the City's service/delivery performance plan in a Council Constituent-friendly format. Therefore, the City will use a program budgeting format to convey the policies for and purposes of the City operations. The City will also prepare the line-item format materials for those who wish to review that information. Beginning with the 2025-2026 Biennial Budget, the City will use an interactive budgeting software platform that will allow the public to view the budget and query it in a way that is most useful to the individual user (e.g., the creation of charts and graphs).
- Decision making for capital improvements will be coordinated with the operating budget to make effective use of the City's limited resources for operating and maintaining facilities.
- The Mayor has primary responsibility for: a) formulating budget proposals in line with City Council priority directions; and b) implementing those proposals once they are approved.

#### **4.3 Budget Elements**

##### **4.3.1 Revenue Forecasts: During the budget process, revenues are projected for two years.**

- Generally, revenues estimates shall not assume growth rates in excess of inflation and scheduled rate increases. Actual revenues that are over the estimates will be recognized through budgetary adjustments only after it takes place. This minimizes the likelihood of either a reduction in force or service level in the event revenues would be less than anticipated.
- Fees shall be to cover 100% of the costs of service delivery, unless such amount prevents an individual from obtaining essential services. Fees or service charges should not be established to generate money in excess of the cost of providing service.



- Fees may be less than 100% if other factors, e.g., market forces, competitive position, etc., need to be recognized.
- Investment income earned shall be budgeted on the allocation methodology, i.e., the projected average monthly balance of each participating fund.

4.3.2 Expense Appropriations: Expenditures from Special Revenue Funds supported by intergovernmental revenues and special purpose taxes are limited strictly to the mandates of the funding source. Addition of personnel will only be requested to meet program initiatives and policy directives after service needs have been thoroughly examined.

4.3.3 Fund balance impacts and targets:

#### 4.4 Corrective Actions

#### 4.5 Stakeholder Engagement

- Citizen involvement during the budget process shall be encouraged through the Council's public hearings. In some years the City may engage its residents through the website and surveys.
- Involvement shall also be facilitated through Council appointed boards, commissions and committees that serve in an advisory capacity to the Council and staff.

### 5 Procedures

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#### 5.1 Budget in relation to other financial-planning functions

The Budget, in conjunction with the LRFP and the Financial Statements (both internal and audited), shall represent a comprehensive function for ongoing planning and assessment of the City's financial resources and obligations.

#### 5.2 Budget development, adoption and revision

#### 5.3 Budget Elements

5.3.1 Revenue Forecasts: During the budget process, revenues are projected for two years. Budgeted revenues are reviewed by the City Council on a quarterly basis and are adjusted as deemed necessary.

5.3.2 Expense appropriations:

- Depreciation of equipment, furnishings and computer software will be included in the service charges paid by departments to the Equipment Replacement Fund. This will permit the accumulation of cash to cost effectively replace these assets and smooth out budgetary impacts.

#### 5.4 Corrective Actions

#### 5.5 Stakeholder Engagement

5.5 Stakeholder Engagement

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**6 Limitations/Approvals/Responsibilities**

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6.1 The Mayor or Mayor's designee shall coordinate and perform budget development for consideration by City Council.

6.2 Budgets are authorized via formal adoption by City Council.

**ATTACHMENTS**

## POLICY 1.3 FINANCIAL REPORTING

### POLICY CONTENT

#### 1 Scope

- 1.1 Financial Reporting is one of four elements of the City's *Financial Planning* policy. Financial reporting policy addresses the content and frequency of the City's review and publication of the financial impacts of its operations.

Financial planning policy addresses the following topics:

1. Financial reporting in relation to other financial-planning functions
2. Financial reporting development, presentation, and publication
3. Financial reporting elements, including:
  - A. Revenues earned and expenses incurred relative to adopted budgets
  - B. Changes to fund balances
  - C. Notes and analysis
  - D. Narrative and policy recommendations for Council consideration
4. Corrective actions
5. Stakeholder engagement

#### 2 Purpose/Background

- 2.1 Financial Reporting entails mid-year internal updates and estimates, usually unaudited, and annual figures audited by third-party entities, typically the Washington State Auditor's Office ("SAO").
- 2.2 The purpose of the Financial Reporting policy is to establish a structured function that provides timely updates and reconciliation across all financial planning elements, as identified in the *Citywide Financial Planning* policy.

#### 3 Definitions

- 3.1 See *Financial Planning policy / 3. Definitions*

#### 4 Policy

- 4.1 A revenue/expenditure report will be produced monthly so that it can be directly compared to the actual results of the fiscal year to date.
- 4.2 Each quarter, staff will produce a "Quarterly Financial Report" comparing current year to past year actual revenue and expenditure and present the data to City Council.
- 4.3 Semi-annually, staff will provide revenue and expenditure projections for the next five years (General Fund Projection Model.) Projections will include estimated operating costs for future capital improvements that are included in the capital budget. This data will be presented to the City Council in a form to facilitate annual budget decisions, based on a multi-year strategic planning perspective.
- 4.4 Additional reporting requirements may be determined through the Long-Range Financial Planning process.

## **5      Procedures**

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Procedures to be drafted

## **6      Limitations/Approvals/Responsibilities**

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Limitations, etc. to be drafted

## **ATTACHMENTS**

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## POLICY 1.4 ASSET MANAGEMENT

### POLICY CONTENT

#### 1 Scope

- 1.1 Component chapter of Citywide Financial Planning policy, covering planning for capital assets, including capital projects, major maintenance, fleet, equipment and technology.

#### 2 Purpose/Background

2. To establish, maintain and standardize project scheduling, life-cycle cost estimates, resourcing, performance review, and corrective measures for all City capital and “major” maintenance projects, capital-threshold equipment purchases and technology purchases.

#### 3 Definitions

- 3.1 See “Financial Planning Master” policy

#### 4 Policy

##### 4.1 Capital Projects:

- Capital project proposals should include as complete, reliable and attainable cost estimates as possible. Project cost estimates for the Capital Budget should be based upon a thorough analysis of the project and are expected to be as reliable as the level of detail known about the project. (Project cost estimates included in the City’s Capital Facilities Six Year Plan should be as reliable as possible, recognizing that Year 1 or 2 project cost estimates will be more reliable than cost estimates in the later years.)
- Proposals should include a comprehensive resource plan. This plan should include the amount and type of resources required, a timeline and financing strategies to be employed. The plan should indicate resources necessary to complete any given phase of the project (e.g., design, rights-of-way acquisition, construction, project management, sales taxes, contingency, etc.).
- Capital project proposals should include a discussion on level of service (LOS). At a minimum, the discussion should include current LOS level associated with the proposal and level of LOS after completion of proposal. Proposals with low level LOS will receive higher priority than those with higher levels of LOS. Capital project proposals that either have a current LOS level of 100% or higher or will have a LOS level of 100% or higher after completion of the proposal must include a discussion on impacts to other services that have a LOS level below 100%.
- All proposals for capital projects will be presented to the City Council within the framework of a Capital Budget. Consideration will be given to the commitment of capital funds outside the presentation of the annual capital budget review process for emergency capital projects, time sensitive projects, projects funded through grants or other non-city funding sources and for projects that present and answer the following questions for Council consideration: impacts to other projects and funding sources.
- Capital project proposals shall include all reasonably attainable cost estimates for operating and maintenance costs necessary for the life cycle of the asset.

- Major changes in project cost must be presented to the City Council for review and approval. Major changes are defined per City's Procurement Policies & Procedures as amounts greater than \$30,000 for single craft or trade and greater than \$50,000 for two or more crafts or trades. The City's Procurement Policies & Procedures are tentatively scheduled to be reviewed and updated by the end of 2024.
- At the time of project award, each project shall have reasonable contingencies also budgeted:
- The amount set aside for contingencies shall correspond with industry standards and shall not exceed ten percent (10%), or a percentage of contract as otherwise determined by the City Council.
- Project contingencies may, unless otherwise determined by the City Council, be used only to compensate for unforeseen circumstances requiring additional funds to complete the project within the original project scope and identified needs.
- For budgeting purposes, project contingencies are a reasonable estimating tool. At the time of contract award, the project cost will be replaced with an appropriation that includes the contingency as developed above.
- Staff shall seek ways of ensuring administrative costs of implementing the Capital Budget are kept at appropriate levels.
- The Capital Budget shall contain only those projects that can be reasonably expected to be accomplished during the budget period. The detail sheet for each project shall contain a project schedule with milestones indicated.
- Capital projects that are not expensed during the budget period will be re-budgeted or carried over to the next fiscal period except as reported to the City Council for its approval. Multi-year projects with unexpended funds will be carried over to the next fiscal period.
- If a proposed capital project will have a direct negative effect on other publicly owned facilities and/or property or reduce property taxes revenues (for property purchases within the City), mitigation of the negative impact will become part of the proposed capital project costs.
- A capital project will not be budgeted unless there is a reasonable expectation that funding is available.

#### 4.2 Debt

- Debt will not be used for operating costs.
- Whenever possible, the City shall identify alternative sources of funding and availability to minimize the use of debt financing.
- Whenever possible, the City shall use special assessment revenue or other self-supporting debt instead of general obligation debt.
- Tax Anticipation Notes will be issued only when the City's ability to implement approved programs and projects is seriously hampered by temporary cash flow shortages.
- Long-term general obligation debt will be issued when necessary to acquire land and/or fixed assets, based upon the City's ability to pay. Long-term general obligation debt will be limited to those capital projects that cannot be financed from existing revenues and only when there is an

existing or near-term need for the acquisition or project. The acquisition or project should also be integrated with the City's Long-range Financial Plan and the Capital Facilities Plan.

- The maturity date for any debt issued for acquisition or project will not exceed the estimated useful life of the financed acquisition or project.
- Current revenues or ending fund balance shall be set aside to pay for the subsequent two year's debt service payments. This is intended to immunize the City's bondholders from any short-term volatility in revenues.
- The City shall establish affordability guidelines in order to preserve credit quality. One such guideline, which may be suspended for emergency purposes or unusual circumstances, is as follows: Debt service as a percent of the City's operating budget should not exceed ten percent (10%).

## 5 Procedures

[Enter text here]

## 6 Limitations/Approvals/Responsibilities

[Enter text here]

## ATTACHMENTS



#### IV.D LRFP COMMITTEE DOCUMENTS

##### *Exhibit A – LRFP Committee Charter*

## **City of Mukilteo**

### **Long-Range Financial Planning Committee Charter**

DRAFT as of March 11, 2024



## **Committee Purpose**

The Long-Range Financial Planning (LRFP) Committee will help develop a six-year long-range financial plan to be incorporated into the City's annual budgeting process as well as an aid in preparing the six-year financial forecast. The committee will complete its work with a recommendation to the City Council on how to best provide the financial resources that will ensure the long-term delivery of basic services to the Mukilteo community.

The committee will learn more about current City services and finances, and the City's six-year financial forecast. It will then look at whether basic services are being met and how best to maintain the delivery of services to Mukilteo residents. The committee will help evaluate alternatives including: 1) Reviewing the strategies adopted in previous versions of the City's long-range financial plan; and 2) Identifying services that should be maintained, increased, and/or reduced to meet the needs of the Mukilteo community.

The committee will be provided information on:

- City services;
- Revenue sources available to provide services;
- Other information necessary to analyze potential impacts of reducing service levels; and
- Information on service delivery alternatives.

The scope of the committee will be focused on operational services, specifically excluding Capital Improvement Programs and utilities, except where capital projects impact ongoing operations.

## **The Committee's Ground Rules:**

The committee should consist of members from a cross section of Mukilteo and various interest groups including non-profits, human services organizations, and the business community.

City staff will provide background and information throughout the process but are not considered committee members, other than the Mayor and City Administrator. The City's Finance Director will facilitate the meetings and help the committee draft its recommendations to the City Council.

Committee members will represent a broad range of Mukilteo residents. Using the information presented they will make a recommendation to the City Council regarding the implementation options identified as part of the six-year financial forecast.

1. Each member of the Committee is an equal participant in the process and has equal opportunity to voice opinions and contribute ideas.
2. Committee members may bring input from others, but it is understood that each member speaks for her/himself. Committee members that are members of a community organization are encouraged to periodically update their respective groups about the committee's progress.
3. Committee members accept the responsibility to come to the meetings prepared for the discussions, explore the issues and consider alternatives that best serve the Community.

4. Committee members recognize the legitimacy of the interests, concerns and goals of others, whether or not we agree with them. We commit to treating each other, and those who attend our meetings, with respect, civility, and courtesy.
5. Committee members will make a special effort to listen carefully, ask pertinent questions and educate ourselves about the interests and needs that must be addressed in a constructive problem-solving atmosphere.
6. In view of the specific scope of the project and limited amount of time available, Committee Members will make a concerted effort to focus on the topics under discussion.
7. Each Committee member commits to attending all meetings as possible. Alternates are not being designated in this process. If a member must miss a meeting, she/he is responsible for asking a fellow member to represent her/his interests and positions at that meeting. The member may also submit written comments that will be distributed to the others.
8. As the process unfolds, Committee members should provide feedback to the facilitator on the process and his performance. We may do so at meetings and/or by calling or emailing him between meetings.
9. **The Facilitator's Role and Responsibilities:** The Finance Director/Facilitator's role is to manage the process by keeping discussions focused, ensuring that all points of view are heard, and conducting the meetings according to the spirit of these ground rules. With no stake in the substantive outcome, she/he is obligated to remain neutral on the issues.
10. The facilitator will also write drafts of the Committee's recommendations. Once the final version has been reviewed and approved by the members he will ensure that it is provided to the City Council as presented.
11. **The Roles and Responsibilities of Guests:** Interested and affected parties or individuals who are not on the Committee are welcome at the meetings. Guests are encouraged to provide comments to the members during breaks. We will also offer them opportunities to put comments in writing. If hearing from them during a meeting would benefit the Committee, the facilitator will call upon them to speak after receiving permission from the Committee members. Guests need to abide by these ground rules.
12. **Agreements and Recommendations:** The Committee is expected to represent a wide range of interests, perspectives, and opinions. Decisions on recommendations will be made by consensus.
13. If Committee members find they cannot live with an emerging recommendation of the entire group, they are obligated to make their concerns known, and the rest of the group is obligated to listen with an interest in resolving them. Everyone is expected to try work to address the concerns, including asking the concerned party (parties) to clarify the underlying interests or about other dynamics that could be interfering with an agreement. All parties are obligated to try to find an alternative that meets the interests of the concerned party (parties) as well as their own.
14. If it is not possible to reach consensus on particular recommendations, the potential options for resolving the issue will be documented and included in the Committee's report as a minority opinion.



## Long-Range Financial Planning Committee 2017 Recommendations

### Overview

The city finds itself in a strong financial position owing to the diligence of City Council and the Mayor's attention to fiscal policies and balancing the budget. Two significant changes have had significant impact on the budget in recent years:

- 1) A spend-down of budget overages from previous years, and
- 2) A tightening of fiscal policy to ensure that Mukilteo has appropriate sustainability in its budget planning process.

### LRFP process

The LRFP has struggled in this iteration owing to a few factors, including

- 1) A particularly savvy City Council has meant that much of the primary concerns of a LRFP (policies, prioritization) have already been addressed .
- 2) Prior LRFP made recommendations that have been adopted, so there is less 'low hanging fruit' in Mukilteo's budget.
- 3) The previous budgets had not been updated to the current format until Spring of 2016, presenting a challenge for the committee to compare expenses and revenue separated by category, not presented (as previous) only as inputs/outputs from each fund. Ultimately, this information was presented to Council a part of a new IT rollout with Sharepoint, but was not presented to LRFP.
- 4) Turnover in the staff position of Director of Finance has meant that the longer-term analysis for the city's finances hasn't been a priority.
- 5) Despite turnover, significant transparency and acumen has been demonstrated by our former Director of Finance, which has had the effect of addressing short-term council concerns in creating useful budget information to base projections on.

### Policies

There is opportunity in the area of reserving longer-term capital expenditures. The council and city establish a budgetary direction every year, money is set aside in the budget, but if that money is not spent it simply carries over to the next budget. It may then be subject to deletion rather than spent for the purpose for which it was intended.

In the case of sidewalks, for instance, the city budget includes a line item, but the line item is carried over and the money is not appropriated 'reserved' for the accumulation of the monies specifically for sidewalks. This can have the effect of rendering the small amount set aside each year useless. In this particular case it is our recommendation make a separate reserve fund that is specific for sidewalks and improvements to ensure that these monies are used appropriately.

There is an unfortunate trend that items budgeted for but not used are 'on the chopping block' for the following year's budget. The council appears to be moving in a direction, and money is set aside in the budget, but ultimately the city and council may not fulfill the obligation set forth in the previous budget.

### **Comparison**

It would be beneficial to the city for this committee to conduct an analysis across other similarly situated cities to find out what revenues might be available and what expenses might be reduced. This will have the result of establishing benchmarks that the city will find useful in setting budgetary direction.

Similarly situated cities that might be good for comparison in Washington include Anacortes, Port Townsend, and Edmonds. Anacortes, for instance, generates more than 50% of its revenue from "charges for services." Mukilteo generated less than 25% of its budget from similar sources.

### **Findings/opinions: 2015-2017**

- 1) Participation in LRFP: future teams should consist of community members and even former council members. Committee members should have some knowledge of accounting and/or business practices so they can read a budget and understand fund accounting and financial analysis. A somewhat larger committee is recommended to both allow for turnover without disruption and to foster dialogue and ideas.
- 2) Purpose: the LRFP should take as its purpose a long-term view of the city's budget, an anticipation of revenue and expense increases or decreases over a 5-10 year period. At the committee and the Mayor's discretion, the committee can focus on one or all of three main areas of concentration:
  - a. Creating financial comparisons to similarly situated cities,
  - b. Forecasting financial obligations and impact of the city's long-range plan, including recommendations of policies and procedures, and/or
  - c. Serving as ombudsmen to Council and the public as necessary to allow for the free-flow of ideas and transfer of information regarding Mukilteo's financial picture.
- 3) Future Finance Directors should continue the tradition started by Doug Volesky of providing information not just on fund balances and expenditures, but revenue and expenses by category so longer-term analysis is possible. Allowance should be made to give LRFP committee members adequate access to the more robust financial information that is now available, and the city should consider including some level of Sharepoint access. This is due to the fact that so much of the committee's work is based on viewing up-to-date financial information.
- 4) A policy that addresses the concept of reserving should be established. This policy should include what exactly, the city is reserving for, the timeline, anticipated budget, and how funds



will be formally set aside. Reserves should not be earmarked for a period of years without action, nor should they be earmarked over and over again in a budget, becoming a larger line item, until they are discarded due to necessity.

- 5) Reserving also applies to the maintenance of previous capital expenditures. Each capital expenditure has a life cycle or at the very least requires periodic maintenance. Each proposal should be evaluated not just for initial cost, but for anticipated ongoing maintenance. This is not a current part of the purchase and planning process, but should be incorporated.

It has been at our pleasure to serve the city on the Long-Range Financial Planning committee during these transitional years. Mayor Gregerson and Council have been gracious throughout this process, and explanations are frequent while disputes are few. During this time, the city's Finance Director has placed the city's finances on a firm footing in terms of process, organization, and presentation, as evidenced by

- The positive findings of a recent audit,
- The implementation of a new IT solution for sharing information, and
- The many hours spent by our former Finance Director based on suggestions from the Mayor, Council, and this committee on presenting budgetary information in a format that allows for real analysis to take place.

We hope this foundation will continue to our next Finance Director and allow the next committee to continue this valuable process.

Respectfully submitted,

Tony Markey, Committee Member 2015-2017  
Anna Rohrbough, Committee Member 2015-2017