

POLICIES & PLANNING

TABLE OF CONTENTS

49	Budget Calendar
50	Financial Philosophies & Strategies
52	Budget Stability Policy
53	Budget and General Fiscal Policies
57	Budget Amendment Policy
58	Fund Structure
63	Cash Balances Historical Perspective
64	Long Range Planning



2021-2022 Biennial Budget Calendar

Major Steps in Budget Preparation	State Law Deadlines	Puyallup Schedule
Finance develops baseline budget – operating revenues and expenditures / estimated funding available for capital.		May – June
Finance Director sends Budget Instructions to departments.		July 6, 2020
Budget Initiatives due to Finance Director		July 29, 2020
6-Year Capital Plan due to Finance Director.		August 12, 2020
City Manager and Finance Director review proposed operating budgets with department directors.		August 10 – 19, 2020
City manager and Finance Director review proposed 6-year capital plan with department directors.		August 24 – 26, 2020
Preliminary Budget decisions due from City Manager.		September 9, 2020
LTAC and Community Funding recommendations due to Finance.		September 16, 2020
Preliminary Budget		
City Manager presents preliminary budget to legislative body.	No later than the first Monday in October	October 1, 2020
City Manager prepares proposed budget and budget message and files with City Council and City Clerk.	At least 60 days before the ensuing year	October 1, 2020
Preliminary budget made available to the public.	Not later than 6 weeks before Jan 1	October 1, 2020
City Clerk publishes notice that the preliminary budget has been filed.		October 8, 2020
City Council study sessions on the budget.	Prior to the final hearing	October 13, 2020 October 14, 2020 October 15, 2020
Hearings and Adoption		
City Clerk publishes notice of public hearing on final budget once a week for two consecutive weeks.	Published no later than the first two weeks in November	October 23, 2020 October 30, 2020
Public Hearings Revenue Sources, including possible property tax increase. Preliminary Budget	Prior to voting on Property Tax Levy On or before 1st Monday of December	November 10, 2020 November 10, 2020
Property Tax Levy First Reading Second Reading	After the public hearing and prior to Pierce County certified levy deadline	November 10, 2020 November 17, 2020
Budget Adoption First Reading Second Reading	After the public hearing and prior to the beginning of the fiscal year	November 10, 2020 November 17, 2020
File certified property tax levy with Pierce County	By November 25, 2020	
Submit adopted budget to MRSC and SAO	After adoption	After November 17, 2020

Financial Management Philosophies & Strategies

Since 2008, Puyallup has been focused on reaching an ongoing and sustainable structural balance, where continuing recurring revenues are sufficient to cover continuing recurring expenditures. In its simplest form, it is basically “living within our means.” Guiding elements for sustainability include:

- ◆ Conservative revenue estimates
- ◆ Monthly monitoring of operating results
- ◆ Long range planning
- ◆ Increasing liquidity
- ◆ Maintaining flexibility

Conservative Revenue Estimates

Because the term conservative is very subjective, it can encompass a wide range of estimates depending on the assumptions made. For the General Fund, conservative is defined in the Budget Stability Policy, which was adopted by Council beginning with the 2011 budget. The full policy can be found later in this section.

For budgeting purposes, General Fund revenues for the upcoming budget year are generally limited to the lower of the last two full years’ actual receipts, by line item, except as otherwise stated in the Budget Stability Policy. One of the major reasons for this method is to clearly identify and exclude the impacts of one time short term spikes in revenues. In addition, the revenue budget for the next year can be closely estimated as early as January or February the year before. This allows plenty of time to begin adjusting expenditures if budgets appear to be declining or tight.

Monthly Monitoring of Operating Results

Each month, a financial summary report is prepared for the City Council, City Manager and citizens that shows year-to-date results of operations and projections for year-end results. In addition, a more in-depth financial report is produced on a quarterly basis. Both reports are normally posted to the public web site. Regular monitoring allows Finance to stay abreast of changing economic conditions and recommend course corrections when necessary.

Long Range Planning

Long range financial planning provides a forward-looking view into the City’s major operating and capital funds. For ongoing operations, longer-term forecasts allow City officials to evaluate the sustainability of the operating budget over time. It also provides a starting point for future decision making by identifying the balance between potential spending needs and the projected revenue outlook, making it a valuable tool for overall financial planning. Specific details are available later in the section.

For capital budgeting, long range planning is key to help address the challenges of funding infrastructure repair and replacement and other capital needs over time. The City creates and maintains a six-year Capital Improvement Plan, which available in the next section of this budget document.

Financial Management Philosophies & Strategies

Increasing Liquidity & Maintaining Flexibility

The established target for General Fund reserves is 8% to 15% of ongoing recurring revenues. Reserves, also known as “rainy day funds”, provide for cyclical cash flow needs and a cushion for emergency needs. These reserves have grown substantially over the past years, largely through conscious decision-making via the Budget Stability Policy. Averaging between 10% to 12%, current General Fund reserves provide an adequate level of liquidity and flexibility for general operations, even in economic environment caused by the COVID-19 pandemic.

Debt policies encourage the use of cash funding where practical, reserving debt issuance to critical projects that would not otherwise have sufficient funding or projects that provide a greater return than the interest expense. As debt is paid off, Council has directed that amounts previously allocated to debt service should be redirected to cash funding of infrastructure projects, expanding capacity for pay-as-you-go projects. All remaining debt is scheduled to be paid off by year end 2028, increasing financial stability and flexibility for addressing the needs of the City.

The City’s flexibility is further strengthened by the large amounts of unused tax authority the Council could tap if necessary. Banked property tax authority exceeds \$3 million per year. Additional utility tax authority of 3.8% could provide another \$3 million in tax revenues annually. Lastly, Council could choose to enact a local business and occupation tax, generating several million dollars per year.

Policies

Budget Stability Policy

General Fund operating budgets shall be based on Core Revenues as estimated by the Finance Department. To reduce volatility related to temporary conditions and business cycles, revenue estimates will be developed at line item level, generally the minimum of the last two full years' known amounts. Sales tax minimums shall be inflated by 3% per year. Property taxes will be based on the actual levy amounts. Budgets should reflect known tax rate changes and conservatively estimate any new revenue sources.

Tier 1 Expenditures - Budgets for Core Services will be limited to the amounts provided by the core revenues. Core services include the non-capital portion of the operating programs funded in the General Fund, along with transfers for debt service. Additionally, \$1.1 million for annual street maintenance contracts is included in the Tier 1 priority.

Tier 2 Expenditures - Modeling has shown this method to produce very conservative revenue estimates, with actual revenues typically exceeding the core estimates by two to four million dollars. Accordingly, the budgets should also include a second level of funding for ongoing capital needs. Contingent revenues and expenditures will be budgeted to provide for the annual commitment for equipment replacement rates funded by our internal service funds. The contingent expenditures would be incurred typically at year end, only after sufficient revenues have been generated to support them.

Tier 3 Allocations - Revenues in excess of the core services and the contingent expenditures at year end will be allocated as follows:

- ◆ One-third will be applied to increasing the ending cash balance each year until the Council target of 15% is achieved.
- ◆ Two-thirds will go toward pre-funding the next year's capital improvement plan. Capital improvement spending will be based on city revenues already received and available.

To minimize the need for tax and rate increases, funds previously allocated to debt service will be directed toward cash funding of infrastructure projects as debt issues are paid off.

In growing and recovering business cycles, this policy would ensure that expansion of core services does not exceed continuing, stable funding. In recessionary cycles, the next year's capital plan (Tier 3) would be automatically eliminated first and contingent expenditures (Tier 2) second, before cash balances are reduced. This delayed usage of ending cash balance would help minimize impacts on core services.

Whenever it becomes clear that revenues are not sufficient to provide a transfer to the next year's capital improvement plan, a policy of selective hiring and/or early retirement incentive should be implemented. Reducing core services through attrition should be continued until an appropriate balance of revenues and expenditures is reached.

Council will be presented with options for the allocation of excess funds when availability is known.

Policies

Budget and General Fiscal Policies

Budget Process

The Budget is balanced as required by State Law, meaning total uses do not exceed available resources. The budget process is a team effort, with the City Council setting goals and priorities and each department proposing expenditure levels to meet those goals. Everyone works together to ensure total expenses are within available revenues and the appropriate level of service is maintained.

The City uses a program level budget approach and provides that level of detail in the budget document. However, the budget is adopted by the City Council at the total fund level.

The budget process has evolved over the years to ensure timely and accurate submittals, with the most efficiency possible. The underlying assumption is that generally current programs and service levels are maintained and new programs meeting City Council goals and priorities are added. Estimates for existing programs and personnel and new programs are made by the operating departments in the summer and compiled to compare against the budget policies and goals. The Preliminary Budget is compiled for public input and Council review. Budget changes made by the Council are incorporated as the final budget is adopted after public input.

Capital Improvement/Project Budget

The City of Puyallup maintains a Capital Facilities Plan (CFP) which is reviewed and updated annually, with a summary is included in the budget document.

All capital improvements are identified in the capital facilities portion of the City's Comprehensive Plan. The capital improvements in the annual budget must be identified in the Capital Facilities Plan and properly funded or the Comprehensive Plan must be amended. This can only be done by the City Council in coordination with the annual budget process. The identification of capital projects is initiated by all departments, and the list of capital projects, after review by the City Manager, is presented to the City Council. The Council reviews the list, holds public hearings, and makes adjustments as deemed necessary. Approved and funded capital projects are then incorporated in the biennial budget by fund.

Budget Adjustments

Budget adjustments are made periodically throughout the year when changes in a fund's appropriation are necessary. After careful analysis, the adjustment amount is determined. Transfers between programs within any one fund may be made by the City Manager. Any increase in the total appropriation in any fund requires City Council approval.

Basis of Accounting and Budgeting

In 2016, the City decided to move toward cash basis reporting for its budget and annual financial report to simplify the financial statements for most users and to reduce staff time and overall audit costs. It is also a much more conservative basis for budgeting because revenues that are still receivable at year end are not counted as available. Beginning with the 2017 budget, the City's budget and financial statements are prepared in conformity with a cash basis, an "Other Comprehensive Basis of Accounting" as prescribed by the State Auditor's Office. Revenues are recognized when received, and expenditures are generally recognized when amounts are paid. An exception is that per State Law the City's books will remain open for 20 days after the end of the year for the payment of goods and services received in the prior year.

Policies

Investments

The City invests all cash surpluses with safety of principal as the primary concern, and to maximize interest earnings as a secondary priority. All investment decisions are based on safety assurances, liquidity requirements, and yield. The City of Puyallup investments may consist of Federal government obligations, repurchase agreements, certificates of deposit, and participation in the Washington State Local Government Investment Pool (LGIP).

Fixed Assets

The City of Puyallup maintains fixed asset records to identify and account for the long-lived assets of the City. Fixed assets include land, buildings, and machinery and equipment valued at \$5,000 or more with an expected life of at least two years. Under cash basis reporting, depreciation is not computed.

Long-term Debt

The City issues long-term debt to finance capital improvements that cannot be financed through current revenues and has never issued debt to cover current operating costs. Key considerations include:

- ◆ Projects should be cash funded when practical.
- ◆ Usage of debt should be reserved for necessary projects, or for those that provide a greater return than the interest expense.
- ◆ The City should maintain sufficient debt capacity for exceptional opportunities.
- ◆ The City should normally issue debt in small increments on a level payment schedule.

Operating Reserves – General Fund

Target ending General Fund Reserves will be 8% to 15% of operating revenues to provide for operational cash flow needs and a cushion for economic downturns. Funds in excess of 15% are transferred to the Budget Stability Reserves Fund for Tier 3 capital projects or to pay off outstanding liabilities. During economic downturns, use of a portion of fund balance to help preserve levels of service may be considered by the Council.

Transportation Funding

- ◆ Adequate levels of cash should be in hand before commencing major work.
- ◆ Impact fees can be used to repay debt incurred for capacity adding projects.
- ◆ Critical projects should be funded first from known City revenues.
- ◆ For planning purposes, “Necessary Other Funds Needed” may balance the capital plan. This allows for projects in the Comprehensive Plan that may qualify for future grants, when funds are currently not adequate to do the projects.
- ◆ The Street Fund may include all kinds of street projects.

Policies

Hotel/ Motel Tax Fund

The Hotel/ Motel Tax fund budget is based on the previous year's tax revenue and should be allocated as follows:

- ◆ 45% is subject to recommendation by the Lodging Tax Advisory Committee.
- ◆ The remainder is retained for Council allocation toward eligible tourism-related expenditures.

Equipment Rental and Replacement Fund

The Equipment Rental and Replacement Fund reserves target shall be the amount that will ensure that sufficient funds are available for the next two years' replacements over the course of a 10-year replacement schedule. Replacement rates are a Tier 2 priority under the Budget Stability Policy.

Information and Technology and Communication (IT&C)

Information and Technology and Communication (IT&C) replacement rates are a Tier 2 priority under the Budget Stability Policy.

Healthcare Insurance Fund

The Healthcare Insurance Fund rates shall be established to maintain targeted cash balance reserves based on rolling claims, with a minimum of four months and maximum of six months of claims.

Insurance Fund Reserves Target

Insurance Fund reserves target shall be set at 1.5 times the amount estimated for Incurred But Not Reported claims (IBNR).

LEOFF 1 Retiree Healthcare Fund

LEOFF1 Retiree Healthcare contributions are placed in an earmarked sub-fund of the General Fund. Budgeted transfers will be increased annually until the need declines.

Fire Relief and Pension Fund

The liability will be funded through transfers from the General Fund until the need declines.

Cost Sharing & Reimbursements

Cost allocation models are used to distribute some costs of the indirect service functions that provide support to direct service departments (e.g. Police, Parks, Street Maintenance and Library). Specifically, the City Council, City Manager, Legal, Human Resources, City Clerk, and Finance are indirect service functions.

Additionally, costs from selected Public Works or Development Services divisions, such as Building and Engineering, are also allocated to areas benefitting from those functions. The amounts charged to non-general funds are shown as reimbursements against the indirect service. Custodial and Facilities Maintenance costs are accounted for in an internal service fund.

Policies

Fiscal Monitoring

Both revenue and expenditure/expense reports are available to department directors monthly. The reports are reviewed by management with a focus on financial evaluation and control. Monthly and other financial reports are submitted to the City Council in accordance with City policy and Washington State statutes to keep Council informed of the City's ongoing financial condition.

Budget Amendment Process

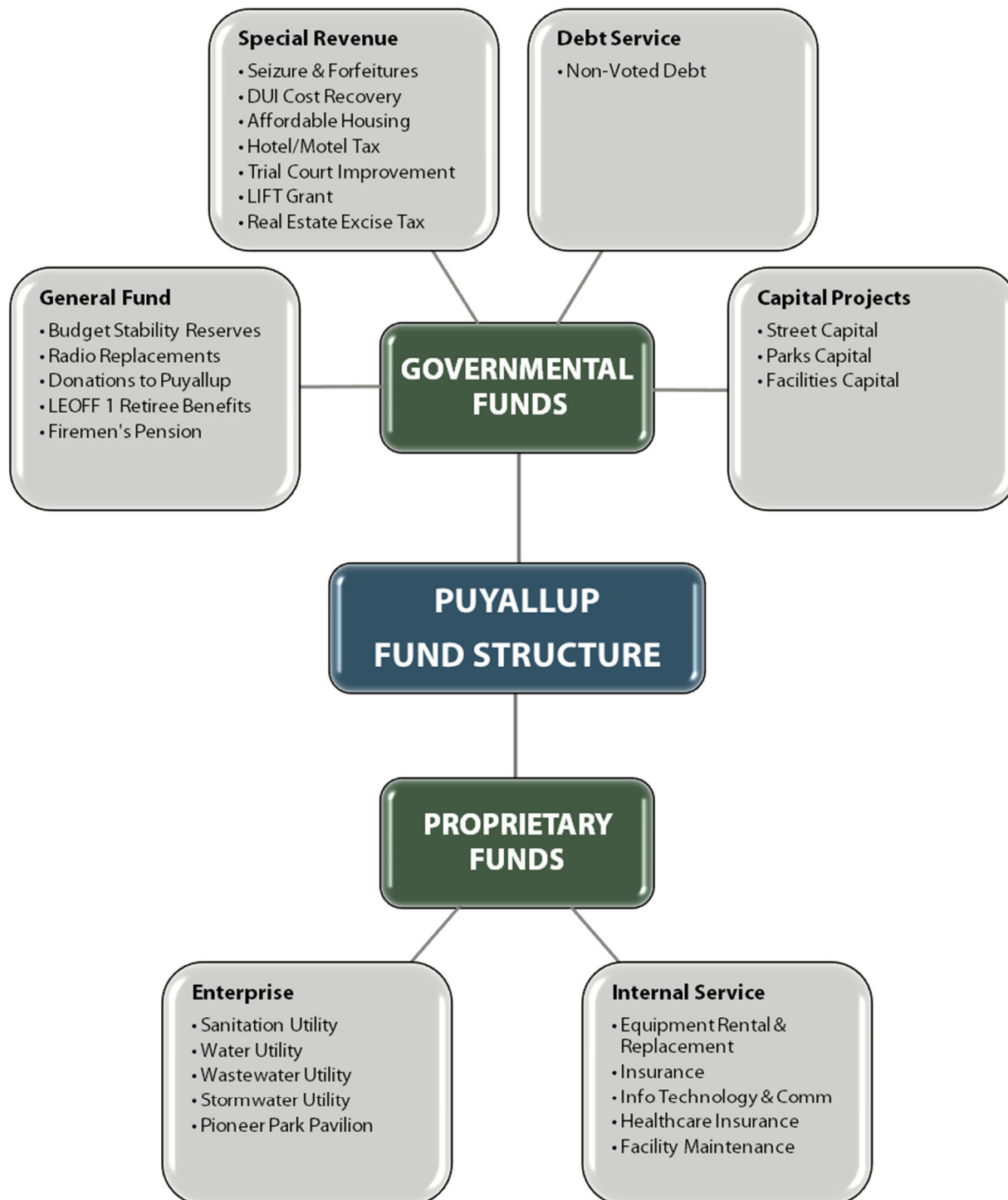
The City Council sets the maximum spending authority by Fund. The City Manager typically delegates the responsibility to the Directors at their department level within the Funds.

The City Council is advised of revenue or expenditure adjustments to the adopted budget throughout the year in regular Council meetings. A vote is taken to formally approve the adjustments. Periodically, staff brings forward a supplemental budget ordinance, which consolidates the previously approved items and other adjustments, classifying them by fund and type. The five different types are:

1. Changes Previously Approved by Council. Most necessary changes fall into this grouping and the documentation will include the date of Council approval.
2. Project Carryforwards. These changes technically do not need to be approved again, because projects are "continuing budgets" and authorized until the project is complete. These changes itemize the unexpended portion of projects previously approved by Council and "re-budget" them in the current year. This is essentially a matter of convenience and transparency.
3. Project Transfers. These technically fall within the City Manager's authority to transfer budgets between programs within funds, and do not need to be presented to Council. We detail these changes as a matter of transparency. It is normal for some projects to come in under budget while others to come in over budget. We think it is important for the Council to know about these changes.
4. Technical Adjustments. While these have not been formally approved by Council, they are consistent with previous direction and are corrections based on new or improved information or calculations. Corrections to the cost allocation model is an example, or adjustments based on actual grant or interlocal contracts.
5. Other Changes. These items have not been brought to Council earlier, but are consistent with prior Council direction. An example might be a change to authorize the spending of a donation that has been received for a particular purpose. While there are relatively few of these, they do require Council approval to authorize the increased expenditure in the designated fund.

Because the changes in the budget amendment ordinance will almost always be previously authorized by Council, the budget amendment ordinance is typically considered routine "housekeeping."

Fund Structure



Fund Structure

General Fund: The General Fund includes all financial transactions which are not properly accounted for in other funds. It is the largest accounting entity in the City and provides for most of the general government operations. The major resource to the Fund is general tax revenue. Licenses and permits, charges for services, and fines and forfeits provide support as well.

- ◆ **Budget Stability Reserves Fund:** This fund was established to account for the reserves set aside by the budget stability policy, for the payoff of debt and for cash funding tax supported capital projects.
- ◆ **Radio Replacement Fund:** Established in 2018, a sub-fund of the General Fund that provide funds for the replacement of the City's emergency radios.
- ◆ **Donations to Puyallup Fund:** This fund was established to account for funds donated to the City of Puyallup, including those that are raised by the Senior Center and allocated by the Senior Advisory Board.
- ◆ **LEOFF I Retiree Benefits Fund:** Established to account for LEOFF I Retiree Healthcare Benefits.
- ◆ **Firemen's Pension Fund:** Accounts for the retirement benefits of the fire fighters (and beneficiaries) who were employed prior to March 1, 1970. Fire insurance premium tax, interest income, and a transfer in from the General Fund, are the funding sources.

Special Revenue Funds: Account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

- ◆ **Seizure and Forfeiture Fund:** Established in accordance with RCW 69.50.505 for the purpose of depositing seized and forfeited property and monies resulting from law enforcement activities. Expenditures are limited by law to first provide for expenses directly related to the seizure; remaining funds are distributed as set forth in RCW 69.50.505(F)(A)-(D) for certain law enforcement activities.
- ◆ **Motel Tax Fund:** Established in accordance with RCW 67.28.200 for the administration of the 7% tax collected on Motel and Hotel revenues. Expenditures are limited by law to building or maintenance and operations of stadiums, paying debt service on bonds sold to build stadiums, and enhancement of tourism.
- ◆ **Trial Court Improvements Fund:** Established in 2009 to account for revenues from the State of Washington, restricted by state law for trial court improvements and for payment of the Judge's compensation.
- ◆ **LIFT Grant Sales Tax Fund:** Established to account for the revenues received from the State of Washington for our Local Infrastructure Financing Tool (LIFT) Grant. The grant is a maximum of \$1 million per year for up to 25 years, depending of the City's qualifying activity each year. The grant proceeds can only be spent on eligible projects with the Revenue Development Area.
- ◆ **First 1/4% Real Estate Excise Tax Fund:** Established in accordance with RCW 82.46.010 to administer the first 1/4% Real Estate Excise Tax (REET) collected on the sale of real estate. This tax is intended to fund construction projects such as street improvements, new street construction, park land acquisition, and park improvements.
- ◆ **Second 1/4% Real Estate Excise Tax Fund:** Established in 1991 in accordance with RCW 82.46.035 and 82.46.037 to administer the second 1/4% of REET collected on the sale of real estate. This REET is intended to fund the same type of expenditures as the first 1/4% REET, except park land acquisition.

Fund Structure

Debt Service Funds: Account for the accumulation of resources and the payment of general long-term debt principal and interest.

Capital Project Funds: Account for the acquisition or construction of major capital facilities. The City has the following Capital Projects Funds:

- ◆ **Street Fund:** Established in accordance with RCW 82.36.020 for the administration of the State levied motor vehicle ½ cent gasoline tax distributed to Puyallup. These revenues are to be used for street construction and maintenance projects.
- ◆ **Parks Capital Improvements Fund:** Established to account for all expenditures relating to capital additions or improvements to parks facilities. These projects are financed by 1/10th of 1% of dedicated sales tax revenue, impact fees, and grant proceeds.
- ◆ **Facility Projects Fund:** The purpose of this fund is to account for all projects related to the development of the City's Governmental Facility Projects.

Enterprise Funds: Enterprise funds are established for government activities that are financed and operated in a manner similar to private business. Costs of provided services to the general public are financed primarily by user fees. The City operates the following enterprise funds:

- ◆ **Sanitation Utility Fund:** Accounts for the operations, maintenance and debt service expenses of the gas migration system at the inactive landfill.
- ◆ **Water Utility Fund:** Accounts for operations to provide water services to the City. Activities which are primarily supported by user fees include administration, billings and collections, debt service, engineering, construction, operation, maintenance, and repairs.
- ◆ **Wastewater Utility Fund:** Accounts for operations to provide sewer services to the City. Activities which are primarily supported by user fees include administration, billings and collections, debt service, engineering, construction, operation, maintenance, and repairs.
- ◆ **Stormwater Utility Fund:** Accounts for operations to provide storm and surface water collection and disposal services to the City. Activities which are primarily supported by user fees include administration, billings and collections, debt service, engineering, construction, operation, maintenance, and repairs.
- ◆ **Pioneer Park Pavilion Fund:** Accounts for the operations of the City's Pioneer Park Pavilion. All expenses are funded by user fees. The facility hosts contracted events such as wedding receptions, reunions and the farmer's market.

Fund Structure

Internal Service Funds: Used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the City. The City operates five Internal Service Funds:

- ◆ **Equipment Rental and Replacement Fund:** Accounts for the costs of maintaining and replacing the majority of City vehicles and auxiliary equipment. All equipment costs, including depreciation, are factors in calculating the rates which are charged to each user department.
- ◆ **Insurance Fund:** Accounts for insurance services to all City departments, including provision for losses on property, liability, worker's compensation, and unemployment compensation. Expenses are paid by the Insurance Fund and rates are charged to departments based on use and/or coverage requirements.
- ◆ **Information Technology & Communication Fund:** Accounts for the costs of operating, maintaining, and replacing City information technology (IT) infrastructure and technology services. The fund has two programs: Information Technology (IT) and Radio Service. Information technology costs are assessed and paid for by City departments based on both direct technology and indirect overhead costs.
- ◆ **Healthcare Insurance Fund:** Accounts for healthcare insurance (including stop loss) for all City staff.
- ◆ **Facility Maintenance Fund:** Facility maintenance and custodians are accounted for in this fund to improve accounting and reporting, and to begin providing for systematic life cycle repairs and replacements.

Fund Structure

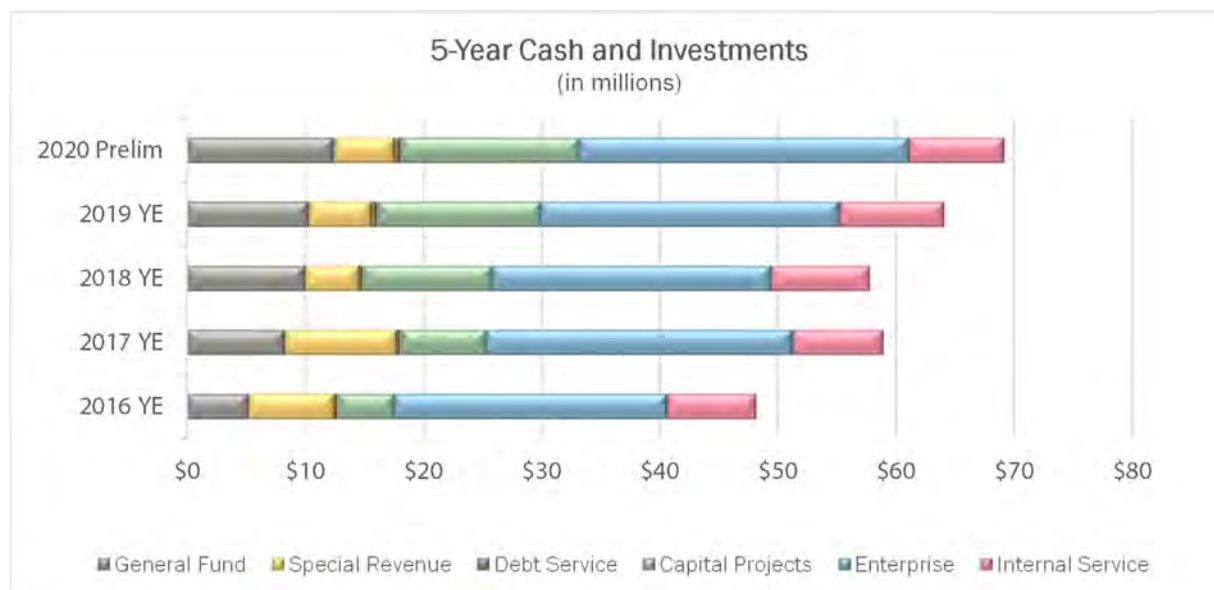
	CITY COUNCIL	CITY CLERK	CITY MANAGER	DEV & PERMIT SERVICES	FINANCE	HUMAN RESOURCES	INFORMATION TECHNOLOGY	LEGAL	LIBRARY	MUNICIPAL COURT	PARKS & RECREATION	POLICE	PUBLIC WORKS	NON-DEPARTMENTAL
GENERAL FUND	X	X	X	X	X	X	X	X	X	X	X	X	X	X
SPECIAL REVENUE FUNDS														
Seizure & Forfeiture												X		
DUI Cost Recovery												X		
Affordable Housing														X
Hotel/Motel Tax														X
Trial Court Improvement										X				
LIFT Grant														X
Real Estate Excise Tax														X
DEBT SERVICE FUNDS														
Non-Voted Debt														X
CAPITAL PROJECTS FUNDS														
Street Capital Projects													X	
Parks Capital Projects											X			
Facilities Capital Projects											X			
ENTERPRISE FUNDS														
Sanitation Utility													X	
Water Utility													X	
Wastewater Utility													X	
Stormwater Utility													X	
Pioneer Park Pavilion											X			
INTERNAL SERVICE FUNDS														
Equipment Rental & Replacement													X	
Insurance								X						
Info Tech & Communications							X							
Healthcare Insurance						X								
Facility Maintenance											X			

Cash Balances—Historical Perspective

Under cash-basis accounting, the ending cash balances in each of the City's funds play an important role in the sustainability of services to the community. These highly-liquid balances guard against unanticipated events that could adversely affect the financial condition of the City and jeopardize the continuation of vital public services. In addition, credit rating agencies monitor these levels and strongly consider unrestricted fund balance when determining a local government's creditworthiness.

The following table summarizes the City's cash balances, which have increased each year since 2014. These increases reflect a conscious decision to grow operating reserves and a higher level of funding available for capital projects. An overall total is not provided as each category, with very few exceptions, is legally restricted to its particular purpose.

Citywide Cash Balances					
	2016	2017	2018	2019	2020 Prelim
General Fund	1,714,189	5,613,564	7,188,466	7,504,974	7,916,997
General Fund - Other	3,504,895	2,648,335	2,806,831	2,798,442	4,486,592
Special Revenue Funds	7,245,450	9,455,865	4,562,016	5,261,402	5,119,439
Debt Service Funds	282,095	288,292	305,283	517,046	505,658
Street Capital Projects	3,486,440	5,273,289	5,476,894	8,915,411	10,196,346
Parks Capital Projects	1,150,658	1,896,328	4,879,439	2,904,086	2,948,859
Facility Capital Projects	119,948	121,076	558,137	1,984,322	1,961,283
Enterprise - Utility Funds	23,046,430	25,887,173	23,569,469	25,214,816	27,875,508
Enterprise - Pavilion Fund	101,306	87,234	97,165	95,158	91,107
Internal Service Funds	7,545,047	7,662,713	8,350,700	8,885,049	8,053,680
Total	48,196,459	58,933,870	57,794,399	64,080,707	69,155,470



Long Range Planning

Long range financial planning provides a forward-looking view into the City's major operating funds. These longer-term forecasts allow for evaluation of operational sustainability and provide a starting point for future decision making by identifying the balance between potential spending needs and the projected revenue outlook. Ten-year operating forecasts are presented for the following funds:

- ◆ General Fund
- ◆ Street Capital Projects Fund
- ◆ Parks Capital Projects Fund
- ◆ Utility Funds (water, wastewater and stormwater)

Background

The 2021-22 biennial budget was developed and adopted in a climate of economic uncertainty, largely due to the COVID-19 pandemic and its impact on the lives of residents, viability of businesses and city finances. With nearly 50% of General Fund revenues coming from sales tax, Puyallup experienced its share of losses early on, especially in Q2 2020 when key business sectors were subject to mandatory closures by order of the governor's office. However, collections rebounded significantly in the last half of the year, with monthly receipts coming in as would be expected in a normal year. While it's a positive sign, the ongoing effects of the pandemic remain to be seen.

Because of continued uncertainty, the 2021-22 budget is built upon extremely conservative revenue projections. Revenues continue to be tied to the Budget Stability Policy, with two major exceptions: sales tax and development engineering fees. Both sources are heavily influenced by the economy and have been reduced from the normal calculations outlined in policy. The intent is to provide another layer of resiliency during these difficult and unpredictable times.

Projected revenues provide adequate sustainable funding for our essential and core ongoing programs—Police, Parks and Recreation, Development & Permitting Services, Public Works—and the departments that provide support those programs. Funding for new initiatives was extremely limited. The few additions included in the budget were based on proven need and value to the public.

Financial Risks

As with most local governments, the City continues to seek balance between revenues generated and level of service to the community. Primary risks moving forward include:

- ◆ **COVID-19 Impacts:** Longer-term impacts to the community and on city finances are unclear. Close monitoring will be required in order to react quickly to any potential worsening of the economy.
- ◆ **Growth of Service Need:** Service growth capacity is limited by recurring revenues as defined in the budget stability policy. Additionally, it is unlikely that existing staffing will be able to keep pace with additional service needs over time. As the City grows, insufficient revenues to support staffing and other service measures may lead to degradation of existing levels of service.
- ◆ **Infrastructure Maintenance & Refurbishment:** Using annual Tier 3 monies generated as a result of the budget stability policy and parks-related sales tax from Pierce County, the City has been able to provide base-level funding for transportation systems and parks/trails. Identifying sustainable funding sources for city buildings major/lifecycle maintenance and technology capital needs has been much more difficult and is reaching a critical point to avoid significant deterioration of infrastructure.

Long Range Planning - General Fund

Forecast Overview

The ten-year forecast provided on the next page includes several assumptions in 2023 and beyond. Overall, these assumptions are a reasonable starting point for estimating the long-term health of the General Fund. However, it is important to note that the assumptions and resulting projections will change over time. Even relatively minor changes in key variables can cause significant change over time. Having said that, it is still a useful tool for identifying potential issues in advance, allowing time to develop sound strategies to mitigate any negative impacts.

Revenue Assumptions

Most General Fund revenues are expected to increase over time subject to various combinations of growth and inflation, dependent on the revenue type. Combined revenues appear to increase only about 0.3% over the rate of inflation, which is less than the expected population growth of 1% per year. Specifics include:

- ◆ **Property Tax:** one percent plus estimated new construction
- ◆ **Sales Tax:** combination of inflation and population growth, averaging 3% per year
- ◆ **Utility Tax:** predominantly inflation based, averaging 2% per year
- ◆ **Licenses & Permits:** nominal growth, averaging 1% per year
- ◆ **Intergovernmental:** Assumes state shared revenues continue unchanged, with nominal growth
- ◆ **Charges for Services:** nominal growth, averaging 1% per year

Expenditure Assumptions

Expenditures are expected to be managed within existing revenues, which requires holding combined expenditure increases to the overall rate of inflation, about 2%. Under this premise, modest program expansion can be accommodated over time, perhaps one or two positions per year. This approach assumes that Puyallup's increasing population can be served effectively through the economies of scales, instead of through staff increases in direct proportion to the population. However, there will likely come a time where staffing and service levels reach a tipping point where this is no longer possible. Other strategies will need to be considered and implemented to avoid negatively impacting service levels to the community.

Long Range Planning - General Fund

General Fund Operating Forecast

The Ten-Year Operating Forecast for the General Fund demonstrates that recurring operating revenues are expected to cover recurring operating expenditures, with a nominal amount available for program expansion each year. It is important to note that the forecast does not represent an official spending plan, it is simply an indicator of sustainability based on a set of reasonable assumptions.

(in thousands)	Adopted		Projected							
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Revenues										
Taxes										
Property Tax	9,370	9,564	9,755	9,950	10,149	10,352	10,559	10,770	10,986	11,206
Sales Tax	24,496	25,230	25,987	26,767	27,570	28,397	29,249	30,126	31,030	31,961
Utility & Other Tax	5,207	5,303	5,437	5,575	5,716	5,860	6,009	6,162	6,318	6,479
Licenses and Permits	1,888	1,888	1,907	1,926	1,946	1,965	1,985	2,004	2,025	2,045
Intergovernmental	1,666	1,703	1,714	1,725	1,737	1,748	1,760	1,772	1,784	1,796
Charges for Services	3,025	3,025	3,063	3,102	3,141	3,181	3,222	3,263	3,305	3,347
Fines and Forfeitures	3,414	3,500	3,535	3,570	3,606	3,642	3,678	3,715	3,752	3,790
Miscellaneous	477	485	492	500	507	515	523	531	540	548
Operating Revenues	49,544	50,698	51,891	53,115	54,371	55,661	56,985	58,344	59,739	61,171
Annual Increase			1,193	1,224	1,257	1,290	1,324	1,359	1,395	1,432
			2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%
Expenditures										
Salaries & Wages	23,383	24,269	24,802	25,348	25,906	26,476	27,058	27,653	28,262	28,883
Benefits	11,467	11,938	12,201	12,469	12,743	13,024	13,310	13,603	13,902	14,208
Supplies & Equipment	1,946	1,934	1,972	2,012	2,052	2,093	2,135	2,178	2,221	2,266
Services & Fees	8,312	7,912	8,070	8,231	8,396	8,563	8,734	8,909	9,087	9,269
Operating Expenditures	45,108	46,052	47,045	48,060	49,097	50,156	51,238	52,343	53,472	54,626
Annual Increase			993	1,015	1,037	1,059	1,082	1,105	1,129	1,154
			2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%
Available for Program Expansion			199	210	220	231	242	254	266	279

Long Range Planning - Capital Projects Funds

The Ten-Year Operating Forecasts for the Street and Parks Capital Projects Funds are based on assumptions similar to those of the General Fund. The primary purpose of these forecasts is to determine the amount of pay-as-you-go funding likely to be available for transportation and parks-related capital projects.

Street Capital Forecast

(in thousands)	Adopted		Projected							
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Revenues										
Fuel/Multimodal Tax	429	433	442	451	460	469	478	488	498	508
Transportation Impact Fees	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Miscellaneous	53	53	53	53	53	53	53	53	53	53
Transfers In										
General Fund Tier 1	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100
Real Estate Excise Tax	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200
Operating Revenues	4,982	4,986	4,995	5,004	5,013	5,022	5,031	5,041	5,051	5,061
Expenditures										
Bridge Inspection Fees	27	27	28	28	29	29	30	31	31	32
Cost Share Reimbursements	2,051	2,083	2,125	2,167	2,210	2,255	2,300	2,346	2,393	2,440
Transfer for Debt Service	1,032	1,035	1,281	950	702	703	698	697	-	-
Operating Expenditures	3,110	3,145	3,433	3,145	2,941	2,987	3,028	3,073	2,424	2,472
Available for Capital Projects			1,562	1,858	2,072	2,035	2,004	1,968	2,627	2,588

Parks Capital Forecast

(in thousands)	Adopted		Projected							
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Revenues										
Sales Tax - 0.1% Parks	428	441	454	468	482	496	511	526	542	559
Parks Impact Fees	284	284	284	284	284	284	284	284	284	284
Miscellaneous	19	19	19	19	19	19	19	19	19	19
Operating Revenues	731	744	757	770	784	799	814	829	845	861
Expenditures										
Cost Share Reimbursements	2	53	54	55	57	58	59	60	61	62
Operating Expenditures	2	53	54	55	57	58	59	60	61	62
Available for Capital Projects			702	715	728	741	755	769	784	799

Long Range Planning - Utility Funds

The Ten-Year Operating Forecasts for the major utility funds are based on assumptions similar to those of the General Fund. The purpose of these forecasts is twofold: 1) verify sustainability of general operations and 2) determine the amount of funding likely to be available for debt service and capital projects.

Water Operating Forecast

(in thousands)	Adopted		Projected							
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Revenues										
User Fees	6,929	7,104	7,317	7,537	7,763	7,996	8,236	8,483	8,737	9,000
System Development	305	312	312	312	312	312	312	312	312	312
Miscellaneous	150	150	153	156	158	161	164	167	170	173
Operating Revenues	7,385	7,566	7,782	8,004	8,233	8,469	8,711	8,961	9,219	9,484
Expenditures										
Operating Costs	5,463	5,522	5,637	5,755	5,875	5,997	6,123	6,251	6,381	6,514
Debt Service										
Operating Expenditures	5,463	5,522	5,637	5,755	5,875	5,997	6,123	6,251	6,381	6,514
Available for Debt and Capital			2,145	2,249	2,358	2,471	2,589	2,711	2,838	2,969

Wastewater Operating Forecast

(in thousands)	Adopted		Projected							
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Revenues										
User Fees	11,929	12,166	12,531	12,907	13,294	13,693	14,104	14,527	14,963	15,412
System Development	919	937	937	937	937	937	937	937	937	937
Miscellaneous	97	97	97	97	97	97	97	97	97	98
Operating Revenues	12,944	13,200	13,565	13,941	14,329	14,728	15,138	15,562	15,998	16,447
Expenditures										
Operating Costs	8,441	8,565	8,743	8,924	9,109	9,299	9,492	9,689	9,890	10,095
Debt Service	334	337	337	336	340	338	336	339	-	-
Operating Expenditures	8,775	8,902	9,079	9,260	9,449	9,637	9,828	10,028	9,890	10,095
Available for Debt and Capital			4,486	4,681	4,879	5,091	5,310	5,534	6,108	6,351

Long Range Planning - Utility Funds

Stormwater Operating Forecast

(in thousands)	Adopted		Projected							
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Revenues										
User Fees	5,172	5,334	5,494	5,659	5,829	6,004	6,184	6,369	6,561	6,757
System Development	707	722	722	722	722	722	722	722	722	722
Miscellaneous	115	115	115	115	115	115	115	115	115	115
Operating Revenues	5,994	6,171	6,331	6,496	6,666	6,840	7,020	7,206	7,397	7,594
Expenditures										
Operating Costs	4,587	4,665	4,762	4,860	4,962	5,065	5,170	5,277	5,387	5,499
Debt Service	12	12	12	-	-	-	-	-	-	-
Operating Expenditures	4,599	4,677	4,773	4,860	4,962	5,065	5,170	5,277	5,387	5,499
Available for Debt and Capital			1,557	1,635	1,704	1,776	1,850	1,929	2,010	2,095

City of Puyallup

Community Photo
Contest

Submission by
Patrick Ward

