



OFFICE OF THE MAYOR

Ray Stephanson
Mayor

March 19, 2014

Council President Moore and City Council members,

In January I convened a group of senior staff to take on the challenge of addressing the city's growing budget deficit. On April 2, we will bring to you the results of their efforts, and we will begin talking with you and the community as we work to determine how best to bring our budget back into structural balance for the long term.

As we begin this challenging process, I want us all to be clear about where we are, and where we are headed if we don't make significant and thoughtful changes to the way we do business. We are facing a "new normal" since the recession: Revenues simply will not rebound to the level needed to fund public services as we currently do. Many factors have brought us to this point, but the bottom line is that we must make significant and sustainable changes in order to close the budget gap.

Like many communities and families, Everett was greatly affected by the recession. However, we were able to avoid major cuts and layoffs over the past six years because of our longstanding commitment to disciplined fiscal management. Our policy of prefunding capital reserves, maintenance, and LEOFF 1 pensions in prosperous times, rather than expanding the size of government, has allowed us a measure of flexibility as we worked to develop funding plans during the slow recovery.

But that doesn't mean that the city's finances haven't taken a hit. In order to balance the budget since 2009, we have deferred almost \$30 million in contributions towards long-term obligations and capital investments. We've eliminated 25 full-time general government positions over the past six years. We've deferred maintenance to our parks and roads, and we've put off needed street upgrades.

I know you share my frustration and disappointment with the slow pace of recovery from the recession. But the downturn is not the only challenge we face. There are many factors that contribute to our ongoing struggle to fund services.

We have seen our revenue constrained on a variety of fronts:

- The 1 percent limit on property tax growth;
- Ongoing reduction in state-shared revenues;

- A shifting tax base as commercial and retail growth to the north and east of Everett continues;
- The loss of Kimberly-Clark;
- Lack of sales tax associated with major construction projects; and
- A fee and rate structure that's not in line with the cost of providing service.

At the same time, the city faces many of the same challenges you face with your families' budgets or in your own businesses. Our expenses continue to rise in many areas, including:

- The cost of labor, largely due to the rising cost of health insurance and other benefits;
- The costs of unfunded operational and service requirements mandated by the state and federal government; and
- The costs of insurance, fuel, utilities and materials for projects.

We know that revenues won't recover quickly enough or substantially enough to allow us to continue to operate as we currently do. Our 2014 revenue projection increased by only 1.3 percent. Before we stepped in to balance the budget, our projected expenditures had increased by 3 percent.

Our current forecasts show revenue growing by just 2.3 percent a year. At the same time, our expenses are projected to increase by 4.1 percent a year. That represents a gap of \$12 million in 2015, which will balloon to \$20 million by 2018 if no adjustments are made. This is clearly an unsustainable model.

For the past six years since the recession, we have continued to manage our expenses to meet our diminishing revenues, but we've been clear that those actions aren't sustainable in the long-term. We are now at the point where our revenue growth is too slow to avoid taking more difficult steps to preserve the city's financial wellbeing. We must take a hard look at the services we provide, and how those services are funded.

In two weeks my staff will share with you and our community a menu of potential actions that we could take to close the budget gap. Some of the options will include eliminating or reducing programs and services. We will also need to consider significant changes to the way we provide services in some of our largest departments: What should we continue to do, what can be changed, and what should we just stop doing altogether?

In addition, we will look at our fee and rate structures to make sure that they accurately reflect the cost of providing services. Across the board, our fees and rates are artificially low. In fact, many of them haven't been adjusted for decades.

Over the next several months, my administration will share ideas and gather feedback from you, our employees, our friends and neighbors, our community partners and our business

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leaders. We will talk with all of you about what is most important to our city, and what services and programs our citizens value most. We will ask ourselves tough questions about how we are doing business to ensure we are providing the right services in the most cost-effective way we can.

Thank you for your continued commitment to Everett's financial health and for your guidance and insight throughout this process. Together we can develop a path forward that reflects who we are as a community, and maintains the vibrant, healthy city that we all love.

Sincerely,



Ray Stephanson
Mayor