



DATE: May 12, 2022

TO: Anne McEnerny-Ogle, Mayor
City Council

FROM: Eric J. Holmes, City Manager
Natasha Ramras, CFO

RE: 2023-24 Biennial Budget: Proposed Policy Framework

The May 23 Council workshop is focused on review, refinement and confirmation of the policy framework to guide development of the City Manager’s recommended budget for the 2023-24 biennium. This memorandum and the associated presentation outlines the proposed framework, as well as provides follow up information responsive to some council questions raised at the May 9 budget workshop.

Proposed 2023-24 Biennial Budget Policy Framework

Overall, there are three primary facets to the recommended policy framework:

- Universal Policy Themes: these are the highest-level policy themes set by Council that transcend the coming biennium and remain drivers throughout the forecast period. The three universal policy themes are: **equity and inclusion, community safety and climate action**.
- Policy Priorities: these are areas of policy focus within biennium, and generally have associated projects or programs. On May 9, Council indicated concurrence with six recommended policy priorities for the coming biennium:
 - **Reduce Carbon Footprint**
 - **Grow economic opportunity**
 - **Improve community safety**
 - **Exceptional public spaces & places**
 - **Improve equity and inclusion**
 - **Position for growth & scaling**
- The Baseline Framework: these are the financial management assumptions that guide budget construction. The recommended baseline framework includes:
 - **Maintaining all current, existing on-going FTE capacity**
 - **Build in inflationary increases**

- **Zero-base approach to budgeting discretionary expenditures**
- **Additional or Expanded Programs/FTEs require new revenue**

Staff will review this in more detail during Monday’s workshop.

In addition, staff will seek feedback from Council regarding the potential or candidate projects that would be supported via a Council Designated Reserve Fund. Due to the nature of funding, these projects would be one-time in nature, but depending on their scope may require multiple biennia to achieve.

May 9 Workshop Follow Up

During the May 9 workshop on forecast and budget policy framework, members of Council inquired about the role of the body of work represented by the Stronger Vancouver effort as we prepare the 2023-24 biennial budget. Specifically, Council asked for an update of what has been implemented from the original package as well as the background and status (if appropriate) on revenues that were under consideration as part of that package. In addition, Council asked how many current FTE’s were vacant in the City; as of this writing, there are 117 vacant FTE’s.

Status of Stronger Vancouver Effort

In summer 2021, the City Council held a workshop on the Stronger Vancouver initiative, and within the workshop, Council recognized that our environment dramatically changed since the beginning of the Stronger Vancouver initiative. The key outcome from that workshop was confirmation of a “Redesign” approach: Using the raw material of the last effort, combined with, and augmented by the new information and lessons of the pandemic years, redesign the package into a one-plan, multi-action approach that would be implemented over the next several years, aligned with the pending strategic plan update and implemented through biennial budgeting.

There has been action on portions of the Stronger Vancouver package since March 2020. These include:

- Advancing the public works operations center replacement project.
- Adoption of updated Park Impact Fees and impact fee vesting provisions (6- year implementation).
- Dedication of .25% Real Estate Excise Tax to infrastructure supporting economic development (established with 2021-22 budget).
- Funding for a major expansion of fire services and investment in fire facilities via Proposition No. 2.
- Adoption of a 0.1% sales tax for affordable housing with the 2021-22 budget.

Materials from that workshop [may be found here](#).

Revenues

A global observation about revenues for the Council’s consideration: it is nuanced and complex. There are very few simple answers to questions about revenues, and it is particularly difficult to provide definitive answers about who pays and the equity (or inequity) inherent in Washington State’s tax

system. In addition, the City's revenue system functions in the context of the Washington State tax system and the federal system. Changes to those have implications for payers of local taxes, and vice versa. The analysis conducted as part of the Stronger Vancouver initiative was based on circumstances at that time, which have changed over the last few years.

"Who Pays" Considerations

An analysis of the entire Stronger Vancouver revenue recommendation, including "who pays" was included in the materials for the October 2019 City Council workshop, [which can be found here](#).

Councilmanic Revenues

At the May 9 workshop, Council confirmed a willingness to consider *purpose-driven* implementation of new council-manic revenues (i.e. enacted under the Council's legislative authority, not voted) with the 2023-24 budget. Five revenue tools were mentioned during the May 9 workshop:

- [Business license surcharge reform \(March workshop presentation\)¹](#), ["Head Taxes" - Revenue Guide for Washington Cities and Towns \(mrsc.org\)](#)
- Park Impact Fee supplement (updated comprehensive plan including urban parks) – to fund very different parks offerings in areas of high density, such as civic plazas, etc.
- [Transportation Benefit District \\$10 license tab supplement](#) - city's current rate is \$40, there is councilmanic authority to implement this revenue.
- ~~Admissions tax~~ (removed from further discussion)
- [Commercial parking tax \(for transportation\)](#)

Members of Council also inquired about other potential revenues, council-manic or otherwise, including those considered during the Stronger Vancouver effort. The only council-manic revenue not included in materials from the May 9 discussion is the local Business and Occupation Tax (B & O), which was removed from further consideration by the Council in early 2020. Information about the B & O generally [can be found here](#).

The full range of revenue tools available to the City can be found in the [MRSC Revenue Guide for Cities and Towns](#).

Summary

Some action has been taken on elements of the Stronger Vancouver Initiative. This combined with the decision to launch a redesign that will take into account the upcoming strategic plan and biennial budget process will provide opportunities to refine. May 23 is the opportunity to review and the policy framework for construction of the 2023-2023 biennial budget, including the prospect of new revenues.

¹ While all materials were published, this workshop did not occur because Council ran out of time on the agenda.