

A Proposed Framework for Developing the Edmonds Financial Recovery Plan

Jim Ogonowski

April 27, 2026

A city's financial recovery plan typically involves a three-stage approach—bridge (immediate crisis avoidance), reform (budget balancing), and transform (long-term resilience). Key elements include financial projections, expenditure reduction, revenue enhancement (e.g., tax adjustments, applying for state/federal aid), debt restructuring, operational audits, and transparent stakeholder engagement.

Key Elements of a Financial Recovery Plan (GFOA)

- External environment analysis
- Financial projections
- Description of goal
- Recovery strategies
- Budget process analysis
- Budget reform plan
- Operational analysis
- Operational action plan
- Risk assessment

This process must be completed by July, 2027 if a levy lid lift is required as a ballot measure to balance the 2028 budget.

What is "The Budget"?

- The city budget is comprised of six primary funds
 - General Funds
 - Special Revenue Funds
 - Debt Service Fund
 - Capital Projects Fund
 - Enterprise Funds
 - Internal Service Funds
- There are 34 different accounts within these funds
- The mayor proposes a budget – the City Council owns the budget
- Once adopted, the mayor executes the budget while the City Council has oversight responsibilities

Fund	Beginning Fund Balance	2025 Revenue	2025 Expenditures	Ending Fund Balance
GENERAL FUNDS				
000 General Fund	757,473	\$ 90,044,000	\$ 98,147,767	\$ 5,214,180
001 91007 Medical Insurance Reserve Subfund	93,074	375,000	317,500	46,574
002 Contingency Reserve Subfund	2,228,073	-	-	2,228,073
003 Health Care Preservation Gift Fund	4,444	-	5,700	(1,256)
004 Building Maintenance Fund	2,250,000	200,000	350,000	2,100,000
005 March Restoration & Preservation Fund	829,895	-	829,895	-
006 Edwards Humanities Response Fund	200,000	-	188,160	11,840
009 Edwards Digital Response Fund	458,939	50,000	400,000	108,619
Total General Fund	7,213,795	90,619,000	99,658,267	6,910,778
SPECIAL REVENUE FUNDS				
104 Drug Enforcement Fund	43,850	4,700	20,000	28,640
111 Power Fund	46,480	7,440,000	7,420,871	133,339
112 Water Construction Fund	3,214,740	4,819,000	4,268,740	3,765,000
113 Municipal Arts Accession Fund	518,130	292,000	260,400	549,730
120 Hotel/Motel Tax Fund	151,034	127,000	154,000	86,534
121 Employee Parking Permit Fund	21,565	-	11,720	9,845
122 Youth Scholarship Fund	17,100	8,100	5,000	16,780
123 Tourism Promotional Arts Fund	275,139	49,200	37,500	386,839
124 Public Art	1,171,740	1,648,000	1,360,400	2,459,340
125 Public Art	4,012,000	1,780,400	2,542,100	3,249,300
127 Public Catalog Fund	27,000	310,000	300,000	2,000,000
130 Cemetery Maintenance/Imp. Fund	309,596	197,780	329,000	(22,633)
137 Cemetery Maintenance Fund	1,213,854	105,000	179,000	1,140,854
140 Mayor City Commission Fund	11,568	11,810	7,880	21,556
140 Business Improvement District Fund	27,273	29,200	81,475	22,035
141 Affordable and Supportive Housing	374,126	65,000	-	439,126
142 Edwards Reserve Plan Fund	30,912	-	-	30,912
143 Trust Fund	49,863	81,900	-	131,763
Total Special Revenue Funds	14,241,058	11,910,881	13,189,866	13,912,071
DEBT SERVICE FUNDS				
201 2022 UGO Debt Service Fund	-	309,870	305,870	-
CAPITAL PROJECT FUNDS				
311 Parks Capital Construction Fund	287,893	209,800	-	497,693
ENTERPRISE FUNDS				
421 Water Utility Fund	12,305,796	11,853,672	22,316,347	9,842,121
422 Sewers Utility Fund	9,147,968	9,484,779	12,121,172	6,509,605
423 Power/WW/PIP Utility Fund	21,244,877	19,242,058	39,267,149	11,406,782
424 Interim Debt Service Fund	29,267	1,178,000	1,100,400	34,887
Total Enterprise Funds	42,727,908	41,768,509	74,805,068	28,778,995
INTERNAL SERVICE FUNDS				
511 Equipment Rental Fund	5,128,033	2,421,700	1,907,358	5,642,487
512 Technology Rental Fund	950,207	2,509,720	2,313,212	616,338
Total Internal Service Funds	6,078,240	4,931,420	4,220,570	6,258,825
TOTAL BUDGET	65,912,814	\$ 118,636,889	\$ 113,206,812	\$ 53,892,041

The Enterprise Funds (Utility Funds) need not be part of this plan. They are separately funded by utility rates, not taxes. And they have a separate legal separation from the other "governmental" accounts – which includes the General Fund. While the GF is the largest governmental fund, it's not the only one in trouble.

A separate utility rate study is currently underway to help establish new rates for the next three years. Project priorities should be established during that study. The Council will be adopting new utility rates near the end of this year, prior to the proposed financial recovery plan is fully developed.

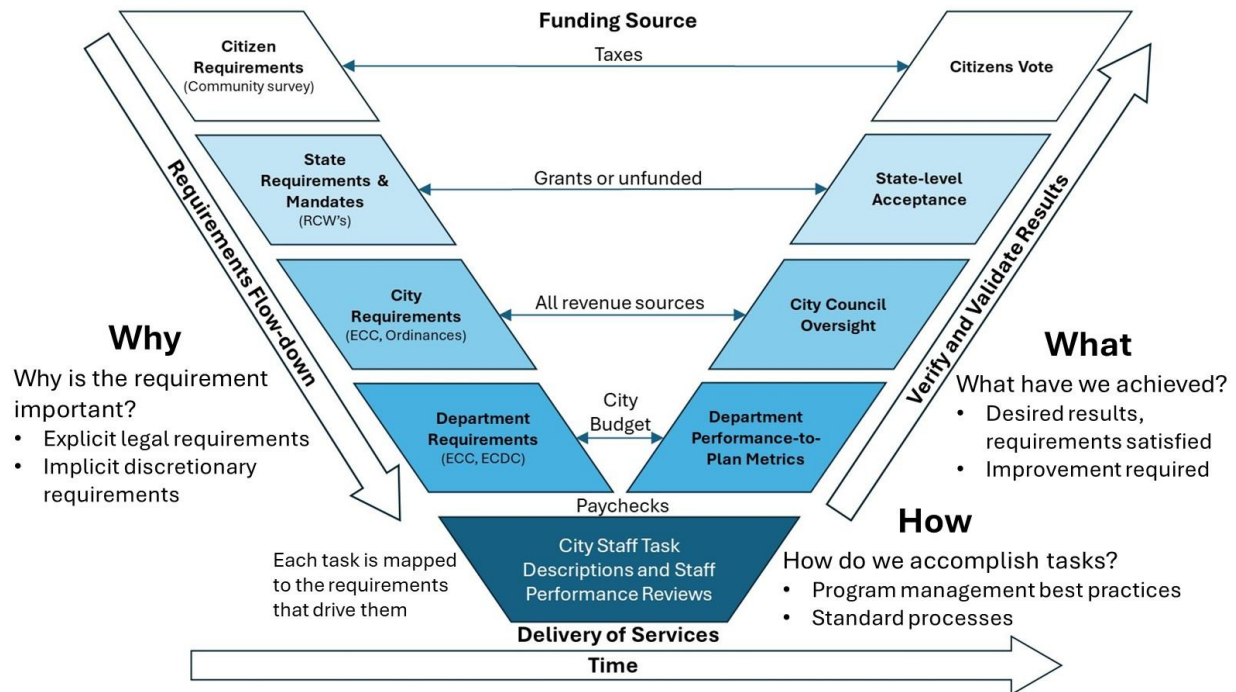
		Mayor's numbers		Expenses				
	Staffing Level	Estimated 2025	Original 2026	Proposed	Delta from 2025	%	Notes	
Cost Center		71%	65%	68%			FTE	
	Labor	\$ 22,915,914	\$ 24,643,904	\$ 25,370,335	\$ 2,454,421	10.7%	labor & benefits percentage of total - trending high	
	Benefits	\$ 8,141,697	\$ 9,112,643	\$ 8,857,705	\$ 716,008	8.8%	marginal staffing increase - review 2025 actuals	
	Supplies	\$ 547,042	\$ 657,584	\$ 704,581	\$ 157,539	28.8%	marginal staffing increase - review 2025 actuals	
	Services*	\$ 10,462,726	\$ 12,592,948	\$ 10,096,543	\$ (366,183)	-3.5%	no fire contract - reduction in professional services	
	Capital	\$ 6,000	\$ 6,000	\$ 6,360	\$ 3,600			
	Debt Service	\$ 782,414	\$ 4,245,842	\$ 4,245,842	\$ 3,463,428	442.7%	includes loan repayment	
	Transfers	\$ 680,000	\$ 675,000	\$ 720,800	\$ 40,800	6.0%	low - need to include TBD to streets	
TOTAL	\$ 43,529,793	\$ 51,933,921	\$ 50,002,165	\$ 6,472,372	14.9%			
* Fire contract excluded (\$12.1M)								
Department							used to distribute departmental budget over 2025	
	City Council	\$ 436,959	\$ 469,644	\$ 480,655	\$ 43,696	10.0%		
	Mayor	\$ 495,369	\$ 498,821	\$ 544,906	\$ 49,537	10.0%		
	Human Resources	\$ 951,672	\$ 1,085,067	\$ 1,046,839	\$ 95,167	10.0%		
	Court	\$ 1,880,644	\$ 2,199,438	\$ 2,068,708	\$ 188,064	10.0%		
	Admin Services	\$ 2,224,039	\$ 2,435,969	\$ 2,446,443	\$ 222,404	10.0%		
	City Attorney	\$ 1,159,363	\$ 1,326,346	\$ 1,275,299	\$ 115,936	10.0%		
	Non Departmental*	\$ 3,296,927	\$ 5,321,854	\$ 5,758,192	\$ 2,461,265	74.7%	includes loan repayment	
	Police	\$ 17,252,881	\$ 19,836,852	\$ 18,978,169	\$ 1,725,288	10.0%		
	Satellite office	\$ 11,072	\$ -	\$ (11,072)	\$ -	-100.0%		
	Community Services	\$ 684,303	\$ 804,943	\$ 752,733	\$ 68,430	10.0%		
	Developmental Services	\$ 3,629,911	\$ 4,556,904	\$ 3,992,902	\$ 362,991	10.0%		
	Human Services	\$ 161,733	\$ 176,397	\$ 177,906	\$ 16,173	10.0%		
	Parks & Rec.	\$ 4,868,161	\$ 5,425,709	\$ 5,354,977	\$ 486,816	10.0%		
	Public Works	\$ 773,785	\$ 953,986	\$ 851,164	\$ 77,379	10.0%		
	Facilities Maintenance	\$ 2,456,718	\$ 2,861,323	\$ 2,702,390	\$ 245,672	10.0%		
	Engineering	\$ 3,246,256	\$ 3,980,668	\$ 3,570,882	\$ 324,626	10.0%		
TOTAL	\$ 43,529,793	\$ 51,933,921	\$ 50,002,165	\$ 6,472,372	14.9%			
* Excludes fire contract (\$12.1M)								

Two views of the same expenses

Budget to be allocated at the department level.

BUDGETING “V” DIAGRAM

Aligning requirements and resources with outcomes



1. The Left Side: Decomposition (Requirements flow-down – “WHY”)

This phase moves from high-level community aspirations to detailed line-item allocations. All city objectives are traced to the overarching requirement (RCW, ECC, community survey, etc.) that drives a need or want. Define **WHY** each requirement is necessary. Distinguish and prioritize between legal requirements and discretionary requirements.

- Budgeting: Identify funding sources and allocate funds to specific departments (Police, Public Works, Parks) and programs that will meet these requirements.

2. The Bottom: Implementation (Execution and delivery of services – “HOW”)

- Fiscal Year Launch: This is the "build" phase where the budget is officially adopted and departments begin spending according to the plan. **HOW** will we execute the plan?

3. The Right Side: Recomposition (Verification & Validation – “WHAT”)

This phase ensures the money was spent correctly and actually met the requirements with the desired outcome. **WHAT** are the outcomes/results?

- Performance metrics are defined
- Financial reports ensure departments stayed within their limits
- Corrective action taken to stay on plan

Developing a City Budget

Developing a city budget is a year-long, strategic process that links community priorities to the dollars needed to deliver services, maintain infrastructure, and invest in the future. It typically follows a cycle of planning, drafting, public review, adoption, and monitoring, and involves both professional staff and elected officials.

Start with vision and strategy

A sound city budget begins with a clear vision of what residents and leaders want the community to become over the next several years. This vision is translated into strategic goals such as public safety, economic development, housing, or environmental resilience, which then guide all major spending decisions.

Key early steps include:

- Articulate or update a strategic plan with measurable goals and outcomes for the next 3–5 years.
- Translate high-level goals into specific service targets (for example, response times, lane-miles paved, or affordable units added).
- Issue budget guidelines to departments explaining priorities, inflation assumptions, and any constraints on new spending.

Build a structured budget calendar

Cities that budget well treat it as a continuous cycle, not a one-time event a few weeks before the fiscal year starts. A detailed budget calendar keeps staff, elected officials, and residents aligned on when data are due, when choices will be made, and when the budget becomes law.

Typical milestones:

- Preparation phase (often 4–6 months before year-end): update templates, financial policies, and multi-year forecasts.
- Department submission phase: departments prepare operating and capital requests based on the strategic plan and guidance.
- Review and recommendation phase: budget and finance staff refine forecasts and assemble a proposed budget for the chief executive (mayor or city manager).
- Legislative and public phase: the council holds work sessions and public hearings, amends the proposal, and ultimately adopts the budget before the new fiscal year.

Analyze revenues and expenditures

A realistic budget rests on accurate, conservative revenue estimates and disciplined spending plans. Cities must balance recurring revenues and recurring costs, protect their fund balance, and plan for long-term obligations such as pensions and debt.

Revenue work:

- Project each major revenue source (property tax, sales tax, fees, grants) using recent trends, economic forecasts, and policy changes.
- Distinguish between one-time revenues (e.g., asset sales, one-off grants) and ongoing revenues that can safely fund permanent staff or programs.

Expenditure work:

- Build baseline budgets that show the cost of continuing current services, including wage, benefit, and contract increases.
- Identify mandated services versus discretionary programs, and estimate the impact of service level changes on costs and outcomes.
- For capital projects, prepare a multi-year capital improvement plan that matches project schedules with funding sources such as bonds, dedicated taxes, or grants.

Evaluate department requests and set priorities

Once departments submit their requests, finance staff and the chief executive evaluate them against both the fiscal forecast and the city's strategic priorities. This step converts a long wish list into a coherent, affordable spending plan that maximizes community benefit.

Common practices:

- Require each request to include performance measures, alternatives, and justification tied to specific strategic goals.
- Use methods such as zero-based or target-based budgeting where appropriate to scrutinize costs and align them with current needs.
- Review fund balance targets and long-term liabilities before approving major new commitments, to avoid structural deficits.

Engage the public and adopt the budget

Transparency and public trust depend on clear communication and meaningful opportunities for input throughout the process. Modern city budgets function both as a legal document and as a communication tool that explains where money comes from, where it goes, and what results residents can expect.

Core actions:

- Publish a proposed budget and a shorter, plain-language "citizen's budget" explaining key choices and trade-offs.
- Hold public hearings, community meetings, and online engagement to gather feedback and adjust priorities when appropriate.

- After deliberation, have the council adopt the budget by ordinance or resolution before the new fiscal year, establishing legal spending authority.

Monitor, report, and improve

The budget cycle continues after adoption through regular monitoring, reporting, and adjustment. Strong cities use these feedback loops to improve forecasting, sharpen priorities, and build a culture of performance over time.

Ongoing practices:

- Produce monthly or quarterly budget-to-actual reports for leadership and the council, highlighting variances and recommending corrective actions.
- Track performance indicators alongside financial data to see whether funded programs are achieving the desired outcomes.
- Use year-end results to refine financial policies, update multi-year forecasts, and launch the next budget cycle with better data and clearer expectations.

A FEW DEFINITIONS

SUBSIDIES

What does the city currently subsidize and to what extent? Subsidies come in all forms of shape and sizes. How much are these costing the city? We're not passing judgement here, just collecting data to help determine where our money goes.

A few thoughts come to mind:

- Yost Pool
- ECA
- Waterfront Center
- MFTE
- low-income utility discounts
- property tax relief
- below market rate rentals
- non-profit
- debt carried to support ...

UNFUNDED MANDATES

What "Unfunded Mandates" Means for Edmonds

A little history on unfunded mandates:

Initiative 62, adopted in 1979, required that the state legislature could not force local governments to provide new or expanded services unless the state covered the costs. Later, Initiative 601, passed in 1993, reinforced this by barring the Legislature from imposing new programs or higher service levels on any political subdivision unless the state fully reimbursed those costs through specific appropriations. These protections against unfunded mandates were codified in RCW 43.135.060.

Voters' intent with I-62 and I-601 was clear: shield local governments from having to raise taxes due to state-imposed programs. Unfortunately, today, lawmakers often sidestep these laws by granting local governments new taxing powers or loosening property tax limits, effectively shifting the financial burden to local officials. State lawmakers then expect local governments to raise taxes to fund services the state demands.

There are no real consequences for lawmakers who violate these laws and impose unfunded mandates. This undermines the original goal of enforcing fiscal discipline at the state level and preventing cost-shifting and tax increases for local communities—precisely what voters sought to avoid when they passed these initiatives.

For Edmonds, the question is: How much are the state imposed unfunded mandates costing the city? And, has the city incurred any additional legal expenses to uphold them (a potential additional hidden cost)?

When the state creates or expands a program but does not fully fund it, local governments still have to comply. For Edmonds budgets, this shows up in the following examples:

- Courts and indigent defense: The city and county must meet constitutional and state standards for courts and defense services, however these requirements have increased over time without funding.
- Public safety regulations: Changes in state law around policing and jail standards require more training, reporting, and staffing at the local level, while state support has not kept pace with the added workload.
- Housing laws: Recent state housing laws have expanded what cities must allow and plan for, while leaving many of the planning, staffing, and infrastructure costs on local budgets rather than providing full state funding.
- Environmental mandates: The Department of Ecology has significantly increased local **costs** through environmental regulations—especially stormwater, wastewater, and solid-waste rules—without fully matching those costs with state dollars.

These are just a few examples that come to mind immediately—the city can and should identify all others. As these **mandatory, state-driven costs** continue to rise, Edmonds has less flexibility to fund the services residents see and value every day—parks, streets, sidewalks, and neighborhood amenities.

In simple terms: more and more of Edmonds' budget is locked into covering state-required services, leaving less money for the discretionary services that shape quality of life.

We need to identify all such obligations and quantify the portion of the budget currently earmarked to comply with them. Doing so will help clearly communicate how our budget is aligned with these requirements and where our constraints lie. It also can be used to have a discussion on “what-if” compliance with the mandate is postponed to free up revenue for other core city needs?

BUDGET PRIORITIES

1. Required by state law (the very minimum the city has to spend)
 - a. Mayor
 - b. City Council
 - c. Police Chief
 - d. Attorney
2. Mandates (State/federal imposed)
 - a. Funded mandates
 - b. Unfunded mandates
 - i. What are they?
 - ii. How much is it costing the city?
3. City Services
 - a. Internal support services (right-size the support staff)
 - i. Finance
 - ii. HR
 - iii. City clerk
 - iv. Planning and development
 - v. Economic Development
 - b. Community services (determine and prioritize “need” vs. “want”)
 - i. Police department
 - ii. Permitting
 - iii. Utilities
 - iv. Parks
 - v. Community Services
 - vi. Municipal Court
 - vii. Human Services
 - c. Capital projects
 - i. Prioritized CIP/CFP projects
 - ii. Align with funding sources
4. Debt strategy (determine what expenses should be capitalized)
 - a. Bonds and bonding capacity
 - b. Align with 3.c. capital projects
5. Subsidies (develop cost-benefit analysis and prioritize if we have extra money)
 - a. What are we currently subsidizing?
 - b. How much is it costing the city?
 - c. What should we subsidize?

Proposed Contract Deliverables

1. Building assessment and recommendations
 - a. Building utilization capacity study
 - b. Building and land market values
 - c. Deferred maintenance and yearly upkeep costs
 - d. Consolidation recommendations (examples)
 - i. City Hall into FAC
 - ii. Wade James Theater into ECA
 - iii. Other ideas
 - e. Potential one-time revenue after consolidation and sales
2. Affects of annexation
 - a. Revenues and expenses
 - b. Annexation scenarios
 - i. Esperance
 - ii. North of Edmonds
 - iii. Reduce the city to only “the bowl”
3. Organizational assessment
 - a. Recommendations to right-sized city staff in the age of “AI”
 - b. Internal vs. contracted services
 - c. Span of control analysis
4. Salary survey
 - a. Benchmark surrounding cities
 - b. Separate represented and non-represented salary schedules
 - c. Recommended restructuring opportunities
5. 2028 budget by department
 - a. Identify proposed services and service levels
 - b. Revenue recommendations (Appendix A)
 - i. One-time revenue
 1. GEMT, property sales, collection of delinquent property taxes, etc.
 - ii. Recurring revenue
 - iii. Economic development recommendations and timeline
 - iv. Levy lid lift revenue
 1. Type, amount and duration recommendations
 - c. Prioritized expense recommendations (Appendix B)
 - i. Community needs
 - ii. Special interest wants
 1. Subsidies
 - iii. Identify unfunded mandate expenses
 1. Recommendation for what mandates can be postponed
 - d. Debt
 - i. Purpose, type and amount suggested
 - ii. Debt ladder strategy identified
6. **RECOVERY STRATEGY**

- a. Forecasting model to a sustainable, policy compliant budget
 - i. An interactive model which integrates of all the analysis
- b. Define all forecast assumptions
 - Conservative, most-likely and optimistic assumptions for each model input variable
 - Services and service levels over time
- Provide ten-year forecast
 - Monte-Carlo sensitivity analysis (risk assessment)
- Debt model
 - Amount and repayment plan

The city should entertain the idea of setting up a suggestion box to offer citizens the ability to participate in the process without needing to be chosen for the strategy team.