



CITY COUNCIL MINUTES MINI-PLANNING SESSION JUNE 19, 2010

CALL TO ORDER:

Mayor Jim Pearman called the meeting to order at 8:40 pm in the Luther Burbank Room at the Community Center at Mercer View, 8236 SE 24th Street, Mercer Island, Washington.

ROLL CALL:

Councilmembers Bruce Bassett, Mike Cero, Mike Grady, Dan Grausz, Steve Litzow, Deputy Mayor El Jahncke and Mayor Jim Pearman were present.

WORK PLAN:

City Manager Rich Conrad opened the discussion by reviewing the 2010 Council Work Plan including the full schedule at the upcoming June 21, 2010 Council meeting. Councilmember Grady asked about the status of the Shoreline Master Plan and Deputy Mayor Jahncke discussed that there are several Department of Ecology issues that relate to the definition of "no net loss". It is scheduled to be reviewed by the Council in November. City Manager Conrad stated it may be early in 2011 before it gets before the Council as the Planning Commission may have four to five more meetings before they have a recommendation.

Given the number of projects, Council discussed whether to keep the agenda bill schedule as programmed, to limit the number, or schedule more Council meetings. The consensus was to stay on schedule to complete the Council work plan. Council provided direction that they would like to see more succinct and brief staff presentations. Mayor Pearman stated that Council should be more efficient in moving the agenda.

BUDGET GENERAL FUND "KICK-OFF":

As a follow-up to the CCMV terrace and stairs repair agenda bill from the 6/7/10 Council meeting, Finance Director Chip Corder recommended using the \$50,490 in savings from the vacant Facilities Project Manager position (budgeted in the Capital Improvement Fund) to fund the CCMV terrace and stairs repair, which is estimated to cost \$50,000. The Council concurred with the Finance Director's recommendation.

Finance Director Corder briefly went over the 2011-2012 budget process, noting that staff intends to make no changes to how the budget document is organized and that staff plans on presenting the budget to the Council in the same way it did two years ago. Service reduction proposals represent the only significant difference from the 2009-2010 budget process. Lastly, several budget balancing scenarios will be included in the Budget Message (in the budget document), with the City Manager's proposed 2011-2012 budget being based on one of the scenarios. The Council concurred with the Finance Director's proposed 2011-2012 budget process.

City Manager Conrad stated that the budget is not balanced at this stage and there is a 3% shortfall. He noted that it is manageable, but there are some hard choices to make. Councilmember Grausz had concerns about the impact of the upcoming Police contract on our broader union negotiations and wondered if and when the Council should go to the voters asking for more revenue.

Finance Director Corder walked the Council through the 2011-2012 budget calendar. He then discussed the 2010-2015 General Fund forecast, noting that three forecasts were prepared (More Likely, More Optimistic, and More Pessimistic), but there was only time to review the More Likely forecast. The forecasted revenues were primarily based on the City's actual revenues for the first five months of 2010. They will be revised for the 2011-2012 Budget based on the City's actual revenues through August 2010. He added that sales tax receipts through May 2010 are lower than sales tax receipts for the same period in 2009, which is concerning. He reviewed each of the key revenue and expenditure assumptions in the More Likely forecast. Of particular note are the following

assumptions:

1. 1% optional increase in the property tax levy in 2011-2015;
2. Ramp up of streamlined sales tax from \$200,000 in 2010 to \$450,000 in 2014;
3. Adjust 2011 EMS utility rate to recover cost of 4 firefighters (as originally intended);
4. Continue current CIP overhead reimbursement policy in 2011-2015;
5. No changes in currently authorized FTE's;
6. Elimination of 2 DSG contract positions effective 2011;
7. Estimated 15% increase in 2011 medical premiums;
8. Significant increase in PERS retirement rates from 5.29% to 8.00% in July 2011;
9. 0.0% growth in supplies, contracted services, other services and charges, and internal fleet and IT rates in 2011-2012; and
10. Reduction in annual General Fund transfer for technology CIP funding (from \$250,000 to \$175,000) and for YFS funding (from \$465,000 to \$440,000) in 2011-2012.

Finance Director Corder focused the Council's attention on the projected deficits (per the More Likely forecast) for 2010 (-\$1.70 million), 2011 (-\$1.44 million), and 2012 (-\$1.58 million). He noted that staff can fully address the \$1.70 million projected deficit in 2010 via expenditure savings and tapping the City's "Rainy Day" fund. In addition, he provided some perspective on how the City has become increasingly reliant on more economically sensitive revenue sources during the redevelopment of the City's Town Center. He explained that property taxes currently make up about 40% of all General Fund revenues compared to 50% back in 2004 and that personnel costs (i.e. salaries/wages and benefits) make up 70% of the General Fund expenditure budget. Because of the annual 1% growth limitation, excluding new construction, on the property tax levy, the City has relied on the growth in sales tax (especially construction-related sales tax), utility tax, and development fees to keep pace with expenditure growth, particularly staffing costs, which consistently grow faster than inflation as measured by the CPI-W for the Seattle metro area.

City Manager Conrad explained that Mercer Island's retail sales tax receipts (excluding construction-related sales tax) are relatively modest and that the redevelopment of the Town Center hasn't added significantly more retail space beyond what it replaced. Small stores don't generate a lot of retail sales tax for the City. To see a sizeable increase in retail sales tax, a big box store or a mall is required (e.g. Bellevue's Crossroads Mall). Councilmember Grady stated he would like to see a tool kit implemented that could assist retail in the Town Center. City Manager Conrad stated the benefit would be for the vibrancy of the Town Center. City Manager Conrad also discussed the impact of increased permit activity on DSG staffing. In addition, he also noted that NORCOM costs in 2010 and 2011 are less than what was originally projected and that the Resource Conservation Manager position has secured significant ongoing energy savings across all City buildings.

Finance Director Corder reviewed and sought Council concurrence on key budget policies:

- **CIP administrative overhead reimbursement:** Continue current policy.
- **Right-of-way (ROW) tree maintenance:** Continue current policy.
- **Jail services:** Don't renew contract with Yakima County, reducing bed commitment from 4 to 0 beds and saving \$100,000 annually.
- **NORCOM:** Use reserve in Technology & Equipment Fund to smooth impact of 2011-2012 costs.
- **Marine patrol:** Medina, Hunts Point, and Yarrow Point are considering contracting with the City of Seattle instead of Mercer Island in 2011.
- **Parks & recreation fees:** Continue current CCMV subsidy policy; continue current policy regarding all other parks & recreation fees.
- **Mary Wayte Pool:** Continue current funding policy.
- **YFS School Counselor funding:** YFS plans to reduce Donor Development position by 0.5 FTE and VOICE position by 0.5 FTE to maintain current school counseling service levels.
- **Investment interest:** No allocation to Contingency Fund, LEOFF I long-term care reserve, and fire apparatus sinking fund reserve in 2011-2012; reduce General Fund allocation cap from \$325,000 per year to \$150,000 per year (excluding allocation to LEOFF I long-term care reserve).
- **Property tax:** Continue current policy.
- **Contingency Fund:** Retain 50% of balance for unforeseen contingencies; won't be able to replenish fund balance until revenue surpluses are generated again.
- **LEOFF I long-term care costs:** Won't be able to work toward \$2.1 million reserve target until revenue surpluses are generated again.

A majority of the Council concurred with the Finance Director's recommendations, with one exception. Deputy Mayor Jahncke asked to what extent we could raise CCMV room rental rates and not lose users. The majority of the Council supported having staff explore this.

Councilmember Grausz stated that he felt that the VOICE program added more value than the School Resource Officer (SRO) but wanted Youth and Family Services Director Cindy Goodwin's thoughts.

The Council took a break at 10:35 am. The mini-planning session resumed at 10:45 am.

Finance Director Corder reviewed Exhibit 3, which focuses on a 2011-2012 General Fund budget balancing strategy. He reminded the Council of the expenditure reductions and the revenue increases that have already been incorporated into the General Fund forecast. He recommended using \$693,000 from the Contingency Fund in 2011 to reduce the project deficit from \$1.44 million to \$745,000. Doing this would still leave 50% of the original balance in the Contingency Fund. He then identified six available budget balancing tools. The first two tools were given to frame the extent of the projected deficits in 2011 and 2012 from an expenditure perspective. In terms of across the board cuts, \$745,000 represents 3.0% of the General Fund budget in 2011. To bridge the remaining deficit in 2012, an additional 3.3% in expenditure cuts would be required, which equals \$837,000. In terms of employee layoffs, \$745,000 equates to 9.0 employees in 2011. An additional 9.5 employees would need to be laid off in 2012 to address the remaining deficit. Taken together, 18.5 employees represent 10% of the City's workforce. The last four budget balancing tools are revenues: 1) banked property tax capacity (\$156,000 available); 2) voted levy lid lift (each 1% increase equals about \$95,000); 3) utility tax (each 1% applied to the City's water, sewer, and stormwater utilities equals \$120,000); and 4) transportation benefit district (estimated to generate \$360,000 per year).

Finance Director Corder then distributed a page which included two "what if" scenarios: 1) 50/50 split between staff and Council of remaining 2011 deficit of \$745,000; and 2) staff owns 2011 deficit and Council owns remaining 2012 deficit. After describing both scenarios, the Finance Director sought Council direction on staff's approach to balancing the 2011-2012 General Fund budget.

Councilmember Grady supported the 3% expenditure cut approach in 2011. In addition, he stated that he didn't support instituting a utility tax on the City's utilities, using banked property tax capacity, or going to the voters with a levy lid lift request; however, he was open to the transportation benefit district tool. Councilmember Grausz stated that he felt the Council should ask the public if they are in favor of raised rates and taxes in lieu of service cuts. City Manager Conrad commented that the City is prepared to make the necessary expenditure cuts but asked the Council what they would like to do on the revenue side. Councilmember Bassett stated he would like to go to the voters with a levy lift request. After some discussion, the Council took a straw vote, with a 4-3 majority directing staff to address the projected General Fund deficits exclusively on the expenditure side. There was no majority support for increasing taxes or going to the voters with a levy lid lift request.

TOWN CENTER UPDATE:

Architect and urban designer Mark Hinshaw provided a brief overview of the status of the Town Center. He discussed his involvement in the early years of the town center development including the use of development codes and design standards. He attributed much of the success to the consistency of the policy makers and the continued momentum of deliberate and thoughtful investment by both the public and private sector. He made reference to Coeur d'Alene, Idaho and the well conceived and connected community.

Council questioned how can we impact Town Center business? Mr. Hinshaw responded that the City could focus on:

- 1) Ways to create and reinforce activities that are cyclical and include entertainment and "something for everyone"
- 2) Proactive economic development that includes business attraction that focuses on local /home grown businesses
- 3) Work with the chamber and local business community to encourage a community focus to buy local

Mr. Hinshaw also discussed the Main Street program and the success that can be realized through the use of civic structures that create public gathering places and sense of community. The Council and Mr. Hinshaw discussed other elements that could be an integral to the continued success of Town Center development including: light rail, transit parking, civic presence, retail vibrancy, art connections between the sculpture garden and the Town Center,

hotel or convention facilities and opportunities for low impact development and sustainable energy. City Manager Conrad asked the Council to think about what the City's role/niche should be as it applies to the Town Center; a more aggressive policy or a reduced risk approach.

I-90 RAMPING AND LANE CONFIGURATIONS:

Deputy City Manager James Mason provided a brief overview of the proposed and potential options for I-90 ramping connections to Mercer Island that will be a result of both R8A (HOV lane modifications) and the future light rail. The two ramp options include an added HOV exit at 77th Ave SE - which is an expensive option that could create additional traffic congestion in the Town Center; or a preferred ramp configuration that will provide access from I-90 eastbound to Island Crest Way via an existing tunnel. Staff has had discussions with both WSDOT and Sound Transit about using the cost differential between the ramp options as a part of mitigations funds for loss of mobility. The existing Island Crest Way access to I-90 westbound will remain but will link into the westbound HOV lane. Staff will work with WSDOT to ensure SOV drivers from Mercer Island will be able to access and use this lane.

TOWN CENTER WALKING TOUR:

The group took a walking tour from the CCMV to I-90 and 77th Avenue SE to observe the freeway and discuss the ramp configurations and placement of the light rail platform and station. The group then walked to Sunset Highway and 78th Avenue and Parks and Recreation Director Bruce Fletcher discussed the two conceptual plan options for a public plaza space at the location. He discussed the elements of the project and potential funding options. The group then toured units in the 7800 condominiums.

ADJOURNMENT:

The Council adjourned for lunch at Bennett's Pure Food Bistro (7650 SE 27th Street) at 12:30 pm. No further substantive discussions occurred.

Attest:

Jim Pearman, Mayor

Allison Spietz, City Clerk