

An aerial photograph of a coastal town, likely in the Pacific Northwest, featuring a large body of water, dense green forests, and residential areas. The text is overlaid on the image.

2019-2020 Biennial Budget

Section B
Budget Message

Proposed Budget



October 16, 2018

The Honorable Members of the City Council
Members of the Mercer Island Community

Dear City Councilmembers and Community:

We are pleased to present the City's 2019-2020 Proposed Biennial Budget which totals \$143.2 million in expenditures across all funds. The total proposed operating budget, which includes water, sewer and stormwater operating costs, in addition to general government, is \$55.1 million in 2019 and \$55.3 million in 2020. The City's proposed capital budget is \$15.5 million in 2019 and \$17.3 million in 2020. The budget is balanced and complies with the City's adopted budget and financial policies.

The 2019-2020 proposed budget for the General Fund and Youth and Family Services Fund (YFS Fund) totals \$35.5 million in 2019 and \$35.9 million in 2020. The proposed budget includes ongoing service reductions with a two-year combined total of \$1.25 million as compared to the 2017-2018 Biennial Budget. The primary driver for recommending service reductions is to address the City's ongoing structural deficit.

Limited Resources

It is counterintuitive to have the City projecting deficits. As a residential community, the City's most significant resource is property taxes, accounting for 38% of the General Fund budget. With property values increasing 10-12% on average, it would seem logical that the City's property tax collection would see substantial growth. However, Washington is one of just two states where property taxes are levy-based, not rate-based, which means a taxing district collects a specified total dollar amount (the levy) each year. In addition, Initiative 747 limits property tax increases to 1% per year, plus an allowance for new construction. As property values increase, the City's levy rate correspondingly decreases to ensure that the levy amount collected in the current year does not exceed 1% of the prior year's levy.

Increasing Costs

As a service-oriented organization, it is no surprise that over 70% of the General Fund budget is devoted to salaries and benefits of the employees delivering these services. To be competitive with other organizations, the City has a compensation practice of paying at the median of the comparable market. While it can be difficult to control costs in this area, I am pleased that this biennial budget reflects efforts to keep salary and benefit costs relatively flat as compared to 2018 despite impacts of inflation.

**2019-2020
BIENNIAL BUDGET**

*Total Budget
\$143.2 million*

*General & YFS
Operating Budget
\$71.4 million*

*Capital Budget
\$32.8 million*

*Contingency Fund
(2020 ending)
\$4.6 million*

*Moody's AAA Credit
Rating*

*92% of residents are very
satisfied/satisfied with
the overall quality of life
in the City.*

*In January 2018 Money
Magazine noted Mercer
Island as the best place to
live in Washington*

*208 Employees:
49 AFSCME
35 Police & Support
29 Fire
95 Non-represented*

Budget Message

Nevertheless, there are several unfunded mandates and other drivers that impact personnel costs; examples include:

- **Affordable Care Act (ACA)** – The ACA requires employers to provide medical insurance to employees who work 30 hours per week for at least 6 months per year or more. This law required the City to extend benefits to seasonal and temporary employees who would otherwise not be eligible for costly insurance benefits.
- **Minimum Wage** – Another example of increasing costs is with Washington's minimum wage, which is currently \$11.50 per hour and is expected to grow to \$13.50 in 2020. Seattle's current minimum wage is \$15. Increases in minimum wage typically result in higher wages for all entry level jobs, and eventually push all wages higher in the region.
- **Inflation Rate (CPI-W)** – The City's policy is to provide a Cost of Living Adjustment (COLA) to employees, which is a common industry practice. In June 2018, the inflation rate for the Seattle Metro area stood at 3.6%, again, a driver for budgetary increases.
- **1.5% PERS 1 COLA** – Enacted by the State legislature, employers will have to fund the benefit of a one-time COLA of 1.5% for PERS 1 retirees.
- **Paid Sick Leave Benefit** – All employers are required to provide all employees with a minimum of one hour of paid sick leave for every 40 hours worked. While this once applied to only benefited employees, this now applies to every employee again, mandated by the State.
- **Paid Family & Medical Leave Program** – Like unemployment insurance, the State has enacted a new insurance program that provides paid leave ranging from 12-18 weeks. The premium costs are intended to be shared with the employee. The City must provide this benefit starting in 2020; however, if participating directly in the State's program, premiums are collected starting in 2019.

While new and expanded employee benefits approved by the legislature are well-intended, there are costly implications especially to those departments with 24/7 minimum staffing requirements. These implications tend to center around increased overtime costs.

Other rising costs include a 20.8% increase in the City's insurance pool premiums as well as Labor and Industries' landscaper prevailing wage methodology, which if current service levels are maintained, our costs for parks and open space maintenance increase by over \$750,000 for the biennium.

Moreover, Washington State labor laws prohibit the City from making unilateral decisions around reducing salaries and benefits for represented employees. Such decisions, and the impact of those decisions, are subject to collective bargaining with the various unions representing our employees. Washington State labor laws, such as binding arbitration for public safety employees, require the City to pay its employees at the midpoint of the comparable market.

Over time, I-747 and the growing number of unfunded mandates, have created a structural deficit making it very difficult to keep up with rising costs. The City has had to do more with less for quite some time, but now we are at a point where we cannot sustain this practice, and we are facing the reality of "less is less."

Despite the City's financial challenges, the City maintains a positive and stable financial condition. The City has achieved a Moody's AAA credit rating, which drives down debt service costs and saves taxpayer and ratepayer dollars. In addition, the Council has adopted a goal of setting aside two months of expenditures (17%) into the Contingency Fund as a recommended best practice by the Government

Finance Officers Association. Currently, the City has set aside 1.5 months (12.5%) of expenditures and aims to grow this over time. Having adequate contingency funds is fiscally responsible, reduces the potential need for borrowing or service reductions during economic downturns, and helps the City manage unforeseen, extraordinary financial demands.

Cost Saving & Revenue Enhancements to Address Deficits

Before I-747, there was Initiative 695, which reduced the City's budget by approximately \$1.1 million per year in annual Motor Vehicle Excise Taxes. At the time, this equated to approximately 9% of General Fund revenues. The City has had to adjust to the continual loss of revenue or increased costs through a mixture of constrained expenditures and revenue enhancements. Listed below by department are examples of efficiency gains, service level changes, and revenue enhancements that the City has implemented over the last dozen or so years.

Police

- Joined the Coalition of Small Police Agencies in 2005, pooling the resources of 12 Police Departments.
- Entered into an agreement with the City of Bellevue in 2010 in which Mercer Island provides Marine Patrol services in exchange for the following: 1) Bellevue's vessel registration fees; 2) specialized police services such as K-9, forensics, firing range, major investigations, and SWAT; and, 3) a greater number of fire/EMS mutual aid calls being responded to by Bellevue (see benefit below under Fire).
- Moved the Patrol division from an 8.5-hour to a 12-hour shift schedule in 2014, reducing annual overtime by \$20,000 (the 12-hour shift change provided more officers assigned to a shift at any one time thereby lessening the need to utilize over time).
- Eliminated the Eastside Narcotics Task Force (ENTF) Detective position (1.0 FTE) in 2016 following the dissolution of the ENTF.

Fire

- Increased the useful life of fire apparatus from 15 years to 18 years in 2013. The typical replacement cycle for fire apparatus is 12-15 years among King County fire agencies.
- Provided an early retirement incentive in 2015-2016, enabling the City to hire four entry level firefighters at a significant cost savings.
- Maintain a fire/EMS mutual aid agreement with the City of Bellevue, resulting in significant savings to the City, in terms of not having to purchase a ladder truck (\$1.2 million) and hire 15 more firefighters (5 per shift x 3 shifts).

Parks & Recreation

- Installed "smart" irrigation clocks, which adjust to daily weather conditions, in City parks in 2008-2010, resulting in an average annual water usage savings of 40%.
- Eliminated printing and mailing of the Recreation Guide in 2014, moving to a digital format and saving \$22,000 annually.
- Secured \$51,500 in sponsorships/donations in 2017 for various special events, including Summer Celebration, Mostly Music in the Park, Egg Hunt, Track Meet, and Movies in the Park.
- Used 5,475 volunteer hours in 2017 to manage open spaces/vegetation in the City's undeveloped parks saving an estimated \$63,000.

Budget Message

Public Works

- Retrofitted Town Center street lamps with LED lights in 2013, reducing energy consumption by 42% with a 2.5-year payback period.
- Extended useful life of police patrol vehicles from three to four years and of regular fleet vehicles from 8 to 10 years beginning in 2017.
- Implemented an asset management system in 2017, which is informing better data-driven decisions related to operations, maintenance, and capital replacement.
- Will bring sewer main closed-circuit television (CCTV) work in-house, purchasing a CCTV vehicle and a combination vactor/jetter truck in 2019. The estimated payback period is less than four years, with an annual savings in contracted services of \$180,000.

Youth & Family Services

- Increased Thrift Shop sales from \$651,000 in 2008 to \$1.61 million in 2017, enabling the City to reduce General Fund tax support for YFS services.
- Developed a clinical internship program at no cost in 2006 for community-based counseling services. This was later expanded in 2016 to include school-based counseling services.

Development Services

- Implemented electronic plan review for all permit types in 2008, allowing customers to submit applications online, eliminating costly paper plans, reducing customer trips to City Hall, and saving significant staff time.
- Increased development fees in 2014 and 2016 based on increased cost recovery targets for eligible building services, planning services, and engineering services, thereby reducing General Fund tax support for these services.

Finance

- Converted the City's fleet replacement sinking fund from a "traditional" to a "cash flow" model in 2009, reducing fleet replacement charges by 10-12%.
- Refinanced the City's 2009 LTGO bonds in 2017, securing \$586,000 in net present value savings in debt service costs.

Human Resources

- Conducted executive level recruitments in-house, saving \$30,000-\$35,000 per recruitment.
- Conducted labor negotiations in-house, saving \$25,000-\$30,000 per contract negotiation.
- Moved Commissioned Police, Police Support, AFSCME, and non-represented employees to new medical plans in 2018, saving approximately \$275,000.
- Moved LEOFF I police retirees to a new medical plan in 2018, saving approximately \$90,000.

City Manager's Office

- Reorganized and reclassified staff, creating a half-time Senior Project Manager dedicated to the Sound Transit Settlement Agreement and other Council Goals and reducing costs by \$16,000.

2018 Community Survey

In 2018 the City's community survey reported the following high levels of satisfaction by our residents:

- 95% of residents are very satisfied/satisfied with Mercer Island as a place to live;
- 95% of residents are very satisfied/satisfied with their overall feeling of safety;
- 94% of residents are very satisfied/satisfied with Mercer Island as a place to raise children; and,
- 92% of residents are very satisfied/satisfied with the overall quality of life in the City.

Residents are not the only ones who believe that Mercer Island is a great place to live. In January of this year, *Money* magazine named Mercer Island the best place to live in Washington State. Maintaining Mercer Island's exceptional quality of life is a priority for the Council and staff who serve this community; however, sustaining this continues to be a challenge when faced with a significant financial structural imbalance.

2019-2020 Biennial Budget Assumptions

To prepare the biennial budget, staff worked under the following assumptions:

- No levy lid lift – only the 1% growth limit allowed by law;
- Let the temporary increase of the water, sewer, and stormwater tax to fund the Sound Transit litigation, sunset at the end of 2018 (The City adopted a temporary increase in 2017);
- No increase in the B&O tax rate;
- Eliminate 1.7% of the water utility tax transfer to the Water Fund for fire hydrant maintenance beginning in 2019 (\$158,000 retained in the General Fund);
- Consolidate the Beautification Fund with the General Fund in 2019 (\$225,000 net revenue per year) and those programs supported by the Beautification Fund will have to compete with other programs supported by the General Fund;
- Set aside \$3.9 million in the Contingency/Rainy Day Fund, which would grow the fund to \$4.6 million by the end of 2020 (1.5 months of expenditures or 12.5%);
- Use \$1.99 million in one-time resources to help balance the 2019-2020 budget; and
- Reduce service levels by \$1.23 million to help balance the 2019-2020 budget.

The proposed budget for 2019-2020 includes an update of the above assumptions as follows:

- Consolidation of the Beautification Fund with the General Fund resulted in a \$224,206 net revenue increase to the General Fund in 2019 before reductions. Proposed service reductions to Town Center Beautification and the Town Center holiday lights program increase the revenue impact to the General Fund to \$323,640 in 2019.
- \$2.0 million in one-time resources is used to help balance the 2019-2020 budget for the General and YFS Funds. Of this total, \$735,000 is one-time service package requests directly related to Council Goal 1 and Council Goal 6.
- \$1.25 million net expenditure reductions are proposed in the 2019-2020 budget for the General and YFS Funds.

Budget Message

Council 2018-2019 Goals and Work Plan

Annually, the City Council and Leadership Team come together over one and a half days to review the progress made over the last year and to update the Council's goals, priorities, and work plan. The Council's Goals tend to span multiple years while the action items under the goals are generally updated annually, especially as items are completed by staff and/or removed by the Council. Below are the goals developed for the 2018-2019 timeframe as well as various budgetary recommendations intended to accomplish the goal. The complete Goals document including action items is attached as Appendix A.

Goal 1. Prepare for Light Rail and Improve On-and-Off Island Mobility

- **Proposed Commuter Parking & Mixed-use Project**

The Capital Improvement Program will set-aside funds to purchase the Tully's site, which is in Town Center adjacent to the future light rail station. As part of the Sound Transit settlement agreement, the City must fund 51% of the total costs for the parking project. The City will use Real Estate Excise Tax (REET) to fund the City's share of the costs. To reduce the amount supported by taxpayers, the City will be seeking a private partner and developer to fund and construct the parking facility.

Goal 2. Maintain Quality of Life and Essential Services and Infrastructure by Addressing the City's Financial Challenges

- **Water and Sewer Utility Rate Model Reviews**

The City's Water and Sewer Rate Models need to be reviewed and updated, focusing on the revenue requirements (long-term capital needs, operating/maintenance needs, debt repayment, cash flow needs, and fiscal policy goals) and examining the rate structures (customer classes, seasonal use, fixed vs. volume rates, and block rates based on volume of use, including exploring alternative rate structures). In addition, the rate study should review Fire Service Rates, Connection Charges, and Special Service Charges for the Water Utility and Connection Charges for the Sewer Utility and review how the King County Sewage Treatment costs are billed to customers. This is funded by the City's Water and Sewer Funds.



- **Fiscal Sustainability Plan**

An outside consultant review of the City's methodology and assumptions used for the City's financial projections and forecasts was completed by Management Partners in July 2018. The results of the review, which were presented to the Council on July 10, 2018 (AB 5448), show that the City's



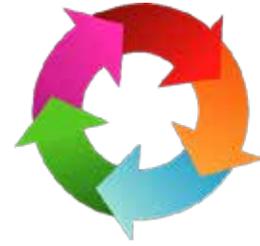
baseline forecast provides a reasonable basis to identify the future financial trends and supports the Community Advisory Group (CAG) and City Manager's recommendation for a six-year levy lid lift to address forecasted operating deficits. In addition, Management Partners recommended developing a fiscal sustainability plan to address the long-term structural deficit identified in the baseline forecast and to maintain the City's fiscal health for future years.

Staff is proposing working with Management Partners in 2019 to develop a fiscal sustainability plan identifying options, or strategies, for addressing the City's long-term structural deficit challenge. These strategies include (but are not limited to):

- Revenue development
- Expenditure control/cost shifts
- Service delivery changes designed to reduce expenditures or create efficiencies
- Service level reductions

• **Organizational Efficiency Assessments**

As part of the direction from the City Council to implement a Fiscal Sustainability Plan for the City, staff will conduct annual or biennial organizational assessments by department or service area to enhance productivity, effectiveness, and efficiency in service delivery.



2019 Development Services Group

The first assessment proposed is for the Development Services Group (DSG).

In 2000, the building, permitting, planning and engineering functions were reorganized, moving engineering to the Maintenance Department (now Public Works) and creating a team-based department focused on the customer's experience for planning and permitting. It has been almost 20 years since the last time the department's function, mission, and goals have been reviewed and updated. DSG's services are regulatory by nature, and as such, meeting the interests of each customer while ensuring the safety, standards, and quality of the community can be challenging. Maintaining and developing a built environment that responds to the vision for Mercer Island requires rigor and discipline. At the same time, the City strives to meet its commitment to providing exemplary customer service. Therefore, it is important to evaluate the overall effectiveness of DSG's operations to ensure they are meeting the City's needs. Staff recommends hiring an outside consultant to help solicit, collect, and evaluate information and to identify possible organizational and operational changes.

2019 Fire Department

During the Community Advisory Group meetings in 2018, there was discussion about the pros and cons of having a City Fire Department versus consolidating with another jurisdiction. The CAG suggested that the Council and staff look at alternative service delivery models (e.g., contracting with other entities or creating a regional fire authority) to see if it would financially benefit Mercer Island and maintain enough local control. Staff has had preliminary conversations about contracting with other jurisdictions, but a staffing study needs to be completed before exploring contracting out fire services or joining a regional authority. Staff recommends hiring an outside consultant to:

- Review and analyze overall staffing in the Fire Department,
- Review and analyze Fire Marshal staffing, and
- Solicit, collect, and evaluate information regarding the Mercer Island Fire Department:
 - § Contracting with a nearby fire jurisdiction's fire service,
 - § Creating a separate Fire District with separate taxing authority, or
 - § Creating or joining a regional fire authority with a nearby jurisdiction or taxing district.

2020 Municipal Court

The Mercer Island Municipal Court opened in 2005 after the King County District Court system terminated court services for local municipalities. The Court is responsible for adjudicating all criminal misdemeanor and gross misdemeanor crimes, infractions, and parking violations under Municipal Code and the Revised Code of Washington Statutes. The Court also adjudicates cases for

Budget Message

the City of Newcastle, which contracts for court services with the City. Currently, court fines do not cover the costs of operating the court. Staff recommends hiring an outside consultant to solicit, collect, and evaluate information regarding contracting with a surrounding jurisdiction for municipal court services.

The following Council Goals will be supported by existing resources. If additional resources are needed beyond what is currently budgeted, staff will return with a proposal and for Council direction.

Goal 3. Deepen the City's Commitment to Sustainability and Livability

Goal 4. Preserve, Promote, and Enhance Mercer Island's Focus on Arts and Culture

Goal 5. Enhance City and Community Emergency Preparedness and Planning

Goal 6. Update Outdated City Codes, Policies, and Practices

- **Review Transportation and Parks Impact Fees**

This service package provides funding for an update of park and transportation impact fee studies in 2020, at which point the current studies will be approximately five years old. The City adopted a parks impact fee ordinance in December of 2015 (Ord. 15C-22) and a transportation impact fee ordinance in January of 2016 (Ord. 16C-01). Both ordinances established impact fee amounts based upon impact fee rate studies conducted in 2015. Park and transportation impact fees are authorized by State Law (RCW 82.02) to ensure that adequate facilities are available to serve new growth and development. Impact fees may only be imposed for improvements that are reasonably related to, and will benefit, new development, and they may only be imposed for public facilities identified in the Mercer Island comprehensive plan. The transportation impact fee will align with the recently adopted Transportation Concurrency Ordinance, and the park impact fee will align with the future Parks, Recreation, and Open Space Plan, which will be updated in this biennium.



- **ADA Transition Plan**

The Americans with Disabilities Act (ADA) of 1990 provides comprehensive civil rights protections to persons with disabilities in the areas of employment, state and local government services, and access to public accommodations, transportation, and telecommunications. The City is required to complete a Self-Evaluation and Transition Plan that will address the requirements of ADA Title II. This plan will be used to identify obstacles limiting accessibility, describe and identify methods to make these obstacles accessible, and plan a schedule to bring City facilities and operations into compliance. The City will hire an outside consultant to help with this self-evaluation and the development of a Transition Plan.



- **Parks, Recreation, and Open Space Plan Update (PROS Plan)**

The PROS Plan is a standard strategic planning tool of municipal government to anticipate programmatic and capital needs in parks and recreation. The planning process includes a robust community engagement strategy to ensure plan goals and policies align with community need. A PROS plan is also a requirement of several key Washington State grant funding programs, and as such must be updated every 6 years to remain eligible for grant funds. The current PROS Plan expires in 2019. To maintain eligibility for grant funds, the updated PROS Plan will need to be adopted no later than the first quarter of 2020. Additionally, the PROS Plan will inform the park impact fee update.



- **Urban Forest Management Plan (UFMP)**

The UFMP is a cohesive planning tool that establishes critical goals and policies used to guide decision-making related to the urban forest. In developing this new plan, the City will look to an experienced consultant to provide information about the best available science and assist in identifying the necessary elements of a plan that prioritizes preserving and increasing the existing tree canopy, improving the resiliency of the current and future urban forest, and fostering citizen stewardship. The Parks and Recreation Department will lead the project and work with other departments to develop city-wide policies and strategies.



- **Sewer Utility CCTV Vehicle and Combination Vector Jetter Truck**

Regular operations and maintenance (O&M) of the sewer utility provides effective and efficient maintenance services to the community. Delayed O&M activities may contribute to adverse sewer events, including sewer backups, sanitary sewer overflows, pipe breaks, etc. Closed Circuit Television (CCTV) is primarily used to identify clogs, roots, grease, and defects. Previously, contracted services were utilized for the CCTV work due to the cost of the equipment and the lack of available staff to operate the equipment. In the 2017-2018 biennium, staffing was increased by two full-time employees within the sewer utility. Staff has determined that a higher, more cost-effective level of service can be achieved by bringing this service in-house. The payback period is estimated to be less than four years.



Additionally, in 2018, the Public Works Department implemented a new Maintenance Management System for asset management and updated the General Sewer Plan. CCTV inspection, in conjunction with Pipeline Assessment and Certification Program (PACP) and Manhole Assessment and Certification Program (MACP) standards will be used to manage sewer assets more efficiently and effectively. In lieu of

contracted services, the acquisition of a CCTV vehicle and vector/jetter combination unit is needed. Currently, per the Fleet Replacement schedule, the Sewer Jetter is scheduled for replacement in 2019. This vehicle will be replaced in 2019 but modified to include a combination unit (vector capabilities) to improve the levels of service within the sewer utility. As a result, contracted services

Budget Message

previously used for O&M activities such as pump station wet well and special catch basin cleaning will be completed utilizing existing staff resources.

The use of these vehicles coupled with the use of the maintenance management system will result in reduced response times during emergencies and increase the efficiencies of staff time. In addition, shrinking the operating costs for the utility by the ability to reduce claims along with a reduction in contracted services. Due to sanitary safety, these vehicles will be used within the sewer utility.

- **Stormwater Utility CCTV Pipe Inspections**

Regular operations and maintenance (O&M) of the stormwater utility provides effective and efficient maintenance services to the community. Delayed O&M activities may contribute to adverse stormwater events, including backups, stormwater overflows, pipe breaks, etc. Closed Circuit Television (CCTV) is primarily used for stormwater pipe conveyance inspections to identify internal pipe deficiencies requiring maintenance. CCTV inspections provide compliance with NPDES stormwater regulations. Due to limited resources within the Stormwater Utility, City Public Works crews are not equipped to complete all CCTV work internally, therefore this work will be completed utilizing contracted services. CCTV inspection, in conjunction with Pipeline Assessment and Certification Program standards will be utilized to give a quantitative industry standard rating to determine O&M priority levels.



Goal 7. Create Policies that Support an Accessible and Healthy Business Ecosystem

Initiatives under this goal will be supported by existing resources. If additional resources are needed beyond what is currently within budget, staff will return with a proposal and for Council direction.

Moreover, below are two service package requests that support Council goals as well as meet increased service level demands.

- **Continuation of Contract Permitting Staff (3.5 FTE)**

For many years, the Development Services Group has implemented a flexible staffing model which has allowed the City to respond appropriately to changes in service demands. Beyond the baseline development activity forecast, Development Services is aware of several major projects that may occur in the 2019-2020 biennium which will require the continuation of contract permitting staff for two more years. Examples of the projects anticipated are two in Town Center that address commuter parking needs and a 14-lot subdivision (a.k.a., East Seattle School). The cost of these staff positions will be fully funded by permit revenues. This service package will give DSG the staffing flexibility it needs to address Council goals and customer demands.

- **Communication Access Real-time Translation (CART) Services**

The Americans with Disabilities Act (ADA) mandates the provision of reasonable accommodations for employees and appointed or elected officials and “auxiliary aids and services” to ensure effective communication with people who are deaf or hard of hearing. A member of the Planning Commission has a hearing disability and requires Communication Access Real-time Translation (CART) services (an auxiliary aid or service) to effectively participate in the Planning Commission meetings. CART services create the instant translation of the spoken word into English text using a stenotype machine, notebook computer and real-time software. The text produced by the CART service is displayed on the individual’s computer monitor. A copy of this transcript is also archived for public records purposes.



2019-2020 Proposed Staffing Changes and Other Budgetary Reductions

While preparing the budget, there was a great deal of discussion among the City’s Leadership Team (City Manager and Department Directors) to propose reductions that resulted in minimal service level impacts. Attrition through impending retirements, limited term contract positions, and existing vacancies were factor that influenced the recommendation of which position to eliminate, reduce, or freeze. With a proposed reduction target of over \$1.2 million, the following staffing changes are proposed:

- Eliminate Deputy Fire Chief (1.0 FTE) in 2020
- Eliminate Parks Special Events Coordinator (1.0 FTE)
- Freeze hiring of Patrol Officer (1.0 FTE)
- Reduce Geriatric Specialist (0.50 FTE)
- Reduce Elementary School Counselor 2019-2020 school year (0.83 FTE)
- Reduce additional School Counselor in 2020-2021 school year (0.83 FTE)
- Reduce YFS Administrative Assistant (0.50 Contract FTE)
- Addition of Police Public Records Staff (0.50 FTE)

With the public’s increasing demands for records, the Police Department is requesting that the Records Officer increase from 0.5 FTE to 1.0 FTE. In 2011, this position was reduced to 0.5 FTE; however, the current volume of work requires that the position be restored to 1.0 FTE. This recommendation would also mitigate legal risks.

Summarized below are the potential impacts of staffing changes and other reductions:

- **Deputy Fire Chief (1.0 FTE)**

This service reduction will eliminate the Deputy Fire Chief beginning in 2020. Currently, the Deputy Fire Chief handles some of the administration and the operations for the Department including, participating in City committees (GIS Think Tank, Emergency Management, fleet policies and operations), regional operations groups (Zone 1 Operations, East Metro Training Group, NORCOM Joint Operations), coordinating and managing the contract with City of Redmond for fire apparatus maintenance and repair, and administers the Department’s standard operating procedures. This position also oversees the joint MIFD/MIPD Dive Team and the Fire Marshal’s Office. With this elimination, the administrative and operations duties will need to be covered by other staff. The Fire Chief will have to take over many of these duties, greatly reducing the Chief’s involvement in several regional committees, which are responsible for policy development and implementation, causing

Budget Message

Mercer Island to lose its influence at the table in the County and the Region. If additional duties cannot be covered by existing administrative staff (Fire Chief and Senior Administrative Assistant), the duties may need to be divided up among Battalion Chiefs and/or Lieutenants. This would be problematic as an increase in duties would have to be negotiated with the union, pay may need to increase, and overtime costs would ensue due to shift schedules.

- **Reduce ARCH Trust Fund Contribution**

This would reduce the City's annual contribution to ARCH for affordable housing development from \$96,000 to \$50,000. There would be no service level impact to Island residents. It does, however, impact ARCH's ability to preserve and increase the supply of housing for low- and moderate-income households in King County and East King County cities. Affordable housing findings indicate that the primary cause of families experiencing homelessness on the Eastside is the lack of affordable housing.

- **Luther Burbank Park & Groveland Beach Lifeguards**



This service reduction will eliminate lifeguards at Luther Burbank Park and Groveland Beach beginning with the 2019 summer season. The removal of lifeguards will significantly impact residents (and non-residents) that use Luther Burbank Park during the summer months, since this is currently the only outdoor public beach on Mercer Island with lifeguards on duty. For many parents/guardians, this will eliminate an open water swimming option for their families, particularly families with young children or people caring for special needs individuals. This

will also eliminate a swimming option for the City of Mercer Island hosted summer camps, which are revenue generating programs. Due to liability, campers cannot swim in unguarded areas. The outdoor swimming option for the summer camps has been a popular program draw.

The lifeguards at Luther Burbank serve a key secondary role of beach/park managers, which helps with crowd control and overall park safety during the summer months. Without staff on duty, park complaints and user conflicts will likely increase. Although Groveland Beach was traditionally staffed with lifeguards during the summer, this beach has been without guards since 2015. The permanent loss of lifeguards at this facility will impact Mercer Island residents, as they are the primary users of this facility. Due to the competitive hiring market, however, staff anticipated some challenges in attracting enough qualified candidates to staff both beaches in 2019.



- **MICEC Customer Service/Operating Hours**

This is a combined reduction of customer service staff hours and public building hours at the Mercer Island Community and Events Center (MICEC), with implementation phased over the 2019-2020 biennium.

In 2019, customer service staff hours will be reduced at the MICEC. Rental inquiries, registration support, and management decisions will be processed during core business hours only, (Monday – Friday, 9am-5pm). Full-service weekend customer service hours will be eliminated. The ability to support and host discounted rental fee community groups will be reduced, which includes facility availability, service, and event set-up. Several local non-profits and community partners rely on this

service for meetings and events. Non-revenue generating programs currently supported by the customer service staff including the Indoor Playground, Community Coffee Hour, and other community appreciation events will also be eliminated. These programs are also partially supported by the Special Event Coordinator position, which is also scheduled to be eliminated. See further details below.



In 2020, MICEC public facility hours will be reduced by 12 hours per week, which will likely mean a full closure to the public on Sundays and earlier closures during the weekdays. The building will remain available during non-business hours for full-fee facility rentals.

- **MICEC Technology and Equipment Funds (Sinking Fund)**

This fund is utilized by the MICEC for CIP technology and equipment purchases such as furniture, media, and amenity upgrades utilized by patrons and facility rental groups. The General Fund's annual property tax contribution to this fund can be reduced from \$40,000 to \$18,000 beginning in 2019 with little impact to planned replacements.

- **Special Events Coordinator (1.0 FTE), Special Events, and Town Center Holiday Lights**

This service reduction eliminates a full-time position that provides leadership and support for all events in the Parks and Recreation Department, including the Summer Celebration. This service reduction will also result in the elimination of some special events, and a reduction in support services for community partners and other citywide programs.



Eliminating this full-time position will require a corresponding reduction in the number of special events offered by the Parks and Recreation Department. The eliminated events include:

- Movies in the Park (approx. 250 attendees per event, two events per year)
- Spring Egg Hunt (approx. 1,500 attendees)
- Tree Lighting and Fire House Munch (approx. 300 attendees) *
- All Island Track Meet (approx. 500 students from local schools)
- Elimination of the community events and non-revenue generating programs hosted at the MICEC (as noted previously).

There are secondary duties that will be scaled back due to the elimination of the Special Events Coordinator position. This includes development of the sponsorship program, volunteer recruitment/retention, and in-kind staff support for partnership programs (e.g., events provided by the Mercer Island Rotary, the Chamber of Commerce, Sister Cities Association, etc.). The Parks and Recreation Department hosts several other public gatherings, such as volunteer stewardship programs, public meetings, art dedications etc. that were supported by this position. While these programs will continue, the duties will be re-distributed to other Department personnel and the events scaled back. *Finally, staff also proposes the elimination of the holiday light installation at Mercedale Park and in the Town Center.

Budget Message

- **Town Center Beautification and Farmers Market Support**

The Town Center Beautification and Farmers Market Support service reduction includes the reduction of casual labor (9-month seasonal position) and the reduction of maintenance services supporting the Town Center right-of-way. The Right-of-Way Team will no longer be able to support the Farmers Market (weekly, June-October). The event host will be responsible for the road closures without City support. Additionally, preventative maintenance activities such as pressure washing of sidewalks and furniture, planter bed maintenance including the annual flower and hanging basket beautification program, and early stage crack repairs will be reduced. Costs associated with this maintenance program, such as operating supplies and irrigation will also be reduced.



The Farmer's Market will need to adjust operations to meet the right-of-way permit requirements and will not have City staff support for emergent issues during the weekly event. Preventative



maintenance will be deferred, and staff will prioritize response to service requests for safety. Spring hanging baskets and the annual color program in the Town Center will be eliminated. Planter beds with established perennial plants will remain; however, the community should expect to see an increase in weeds or "plain" dirt planter beds. The City will prioritize vegetation control for safety and site distance, not aesthetics. Hand weeding these planter beds will be reduced and expect maintenance to include the use of small tools and equipment (weed-eaters) to control growing weeds.

- **Patrol Officer Freeze (1.0 FTE)**

The proposed service reduction for Police would freeze one FTE position assigned to the Patrol Division. The impact of this service reduction directly affects residents by having one less patrol officer responding to emergencies and conducting proactive patrols of neighborhoods. As the Police Department faces staffing shortages due to retirements, FMLA leave (e.g., parental, medical, etc.), and other staffing challenges, it would necessitate the need to reassign a Detective to Patrol to fill the shortage. This would result in a reduced number of criminal cases being investigated.



As workload is shifted to remaining staff, it would necessitate the need to reprioritize the types of cases assigned to investigative staff with an emphasis on persons crime over property crime follow-up.

In addition, it can take up to one year from hire date to have an officer on the road independently working patrol. As retirements and staffing changes naturally occur, this service reduction intensifies the issue and lengthens the time of recovery. Several retirements are forecasted for the next several years and in the current hiring environment, finding quality candidates presents challenges, again lengthening the time of recovery.

- **Geriatric Specialist (0.50 FTE)**

The reduction of the Geriatric Specialist to 0.50 FTE will result in the elimination of direct services for seniors and replacing lost services with volunteers or other YFS mental health professionals. Mental health and case management services to the most vulnerable and challenged senior citizens will be prioritized over other senior services. With the reduction, the following services will be eliminated:



- Grief and Loss Support Group for seniors who have lost their spouse
- On-call emergency consultation to Police and Fire
- Approximately 105 counseling hours per year, (\$5,000 in revenue/year)
- Information presentations to school, community, and professional groups

- **Administrative Support (0.50 FTE)**

The reduction of the YFS Administrative Assistant position (currently 1.0 FTE) by 0.5 FTE will decrease the amount of support provided to YFS staff and programs. The impact will be a slowdown in department projects and reports, as well as the possible reduction in the number of community events/forums hosted by YFS. A greater percentage of Luther Burbank Administrative Building customers will be greeted by volunteers who will predictably provide slower and less informed customer service. The reduction will also shift other responsibilities back to the Administrative Coordinator resulting in the reduction of some non-essential support services around Food Pantry support, volunteer recruitment, and volunteer appreciation.

- **Elementary School Counselor (1.0 FTE), 9/1/19-12/31/20**
Elementary School Counselor (1.0 FTE), 9/1/20-12/31/21

The elimination of two elementary school-based mental health counselors will result in the remaining two counselors covering the work of four counselors; this will reduce school-based counseling by 0.5 FTE at each of the Island's four elementary schools. As a result, each elementary school community will lose half (50%) of the following services:

- Individual counseling and limited family counseling
- Support and skill building groups (i.e., support group for children who have lost a parent to cancer, friendship skills, children experiencing a divorce or new student groups)
- Drop-in counseling-daily assistance to children in distress to get them back on track and able to take advantage of the learning environment
- Classroom presentations on problem solving, bullying, friendships, reaching out to others
- Referrals for psychiatric or psychological assessments
- Skill building activities such as peer mediation, alternative recess and building a culture of inclusion (part of youth violence prevention)
- Parent support and education (for parent effectiveness)
- Teacher consultations
- Environmental programs or strategies in which counselors involve the full student body in improving or enhancing one aspect of a school's culture (i.e., Northwood Elementary School's 'Say Hello' program to enhance social bonds and reduce risk factors associated with youth violence).

Budget Message

The loss of school-based services will most likely increase demand for community-based mental health services. Currently, there is no capacity in community-based services to meet this demand as the waitlist remains an ongoing challenge.

Capital Improvement Program (CIP)

While developing the CIP, it was apparent that the City’s capital improvement needs far outweighed the resources available. The City’s approach to funding the CIP is as follows:

- Predominately, a “pay-as-you-go” approach is preferred whereby money is put aside or saved until there is enough to fund the project (there are currently two levies: Fire Station Construction to fund the debt service for the replacement of Station 92 and the purchase of a Fire Rescue Truck, and Luther Burbank to fund M&O and some small capital projects);
- Prioritize safety projects over deferred maintenance and new amenities;
- Preserve existing investments and extend the useful life of the City’s infrastructure;
- Reduce the scope of work for capital projects and only address the most pressing priorities; and,
- Assertively seek grants and/or outside funding opportunities to leverage limited funds.

Recall that during the CAG process (23 Island residents convened to study the City’s financial challenges, both operational and capital), staff reviewed three funding scenarios, which assumed a nine-year capital levy lid lift. The CAG recommended addressing the City’s pressing operational needs through an operational levy lid lift, and to explore a capital levy in the future when the Fire Station levy lid lift ends in 2021.

In general, the 2019-2020 CIP is modest, focusing on planning and design, and retaining some level of fund balance from year to year.

Beyond the 2019-2020 Biennium

On July 24, the City Council approved an ordinance to put a levy lid lift on the November 2018 ballot. Should the levy fail, additional reductions will be necessary to balance the budget beyond 2020. The gap for the 2021-2022 Biennial Budget is currently estimated at \$3.7 million in 2021 and \$4.1 million in 2022, or roughly the equivalent of 29 FTEs.

Balancing 2021-2024 General Fund & YFS Fund Budgets
as presented at the July 24 Council Meeting

	2021	2022	2023	2024
Remaining General Fund forecasted deficits*	(3,442,004)	(3,820,426)	(4,222,163)	(4,656,490)
YFS Fund forecasted deficits	(293,291)	(315,702)	(357,962)	(405,799)
Total forecasted deficits	(3,735,295)	(4,136,128)	(4,580,125)	(5,062,289)

**Above General Fund forecasts reflect updated forecast per Management Partners recommended changes plus corrections/updates; Above YFS forecasts reflects corrected forecast after June 2018 Mini-Planning Session*

Given the magnitude of the projected deficits in 2021-2024, all City departments will likely be impacted, including Police and Fire. Acting as a responsible municipal corporation, the City should identify additional reductions beyond the proposed budget beginning in 2019 in order to lessen the impacts on future years. The City must provide a balanced budget - there is no credit card or home equity line of

Budget Message

credit to borrow against. With less revenues, the City will have to focus on only providing legally mandated services, which will fundamentally change the way we serve our community.

Conclusion

This budget is an effort to meet the expectations of the community while implementing a balanced budget that lives within our means. This biennial budget strives to set aside some savings for a rainy day, maintain services albeit with some minimal reductions, and address the Council's Goals and Work Plan.

I would like to acknowledge the contributions of everyone involved in this year's budget process. I appreciate the City Leadership Team and their staff for working collaboratively to address the realities of the City's financial situation.

I especially want to thank Chip Corder, Francie Lake, LaJuan Tuttle, Ali Spietz, and Kryss Segle for their tireless efforts to produce the 2019-2020 Biennial Budget. I am grateful for their tacit knowledge, long history and experience with the City, and their patience while working through this budgeting process.

Respectfully Submitted,

Julie Thuy Underwood
City Manager



CITY OF MERCER ISLAND 2018-2019 CITY COUNCIL GOALS & WORK PLAN

The City's Comprehensive Plan states, "Mercer Island is not an island unto itself." While we are part of a complex regional system, we strive to maintain local control, preserve our safe, livable residential community, continuously provide and improve quality municipal services, foster fiscal responsibility, value excellence in education, act as stewards of the environment, and endeavor to be open and transparent and to balance the economic, environmental, and social well-being of our entire community.

The City Council holds an annual planning session, where they discuss successes over the past year and identify priorities and goals ("the what") for the upcoming year. The Leadership Team takes that direction and creates a work plan ("the how"). Through a collaborative process, the Leadership Team develops budgets, capital improvement plans, departmental work plans, and special projects aimed at accomplishing the community's vision and Council goals.

Goal 1. Prepare for Light Rail and Improve On-and-Off Island Mobility

In October 2017, the Mercer Island City Council approved the Sound Transit Settlement Agreement which provides just over \$10 million to offset the impacts of the East Link light rail project and partially compensate for permanent impacts. The Council's goal is to expand access to transit through a range of options such as improving pedestrian/cyclist connectivity, parking, and innovative technologies and services (e.g., ride share, bike-share, micro-transit, etc.). This goal includes engaging with the community on how best to allocate the \$10 million settlement agreement.

Action Items:

1. Convene a design charrette of agencies and stakeholders to provide input regarding traffic flow in the North Mercer Way Park & Ride area, and to address bicycle, pedestrian, vehicular, and transit connectivity on streets surrounding the light rail station. ↕
2. Partner with the community to identify best solutions for safe and effective bicycle and pedestrian connections to the station. ↕
3. Coordinate Aubrey Davis Park Master Plan planning and community engagement with development of the light rail pedestrian and bicycle design. ↕
4. Examine regional smart mobility initiatives and technology needs to prepare for the future.
5. Pilot first/last mile solutions (ride share, micro-transit, bike-share, etc.) ↕
6. Explore options related to private commuter shuttles.
7. Explore transit solution partnerships with King County Metro.
8. Identify site for long term parking solution for Island residents. ↕
9. Implement traffic mitigation projects to address impacts of the East Link light rail project. ↕
10. Work with WSDOT to implement improvements to I-90 access ramps.
11. Work with the State Delegation and Congressional Representatives to identify and implement state and federal remedies to improve access to I-90.
12. Explore necessary Comprehensive Plan and Town Center amendments to support integration of the Mercer Island Station into the Town Center. ↕
13. Participate in the Regional Trail Steering Committee to ensure enhancements of the I-90 trail corridor.

Appendix A

Goal 2. Maintain Quality of Life and Essential Services and Infrastructure by Addressing the City's Financial Challenges

Delivering services and well-maintained infrastructure is key to shaping Mercer Island's exceptional quality of life; however, it is becoming increasingly challenging with declining revenues and increasing costs. Nevertheless, advance planning, including life-cycle cost analysis, for repair and replacement and changing future needs, are wise investments in time and money.

Action Items:

1. Conduct a robust community outreach process regarding the City's financial challenges, engaging the Community Advisory Group (CAG), Island community groups, and residents through a series of public meetings and Telephone Town Halls. ↔
2. Address the projected operating deficits in the 2019-2020 biennium and beyond.
3. Administer the biennial citizen satisfaction survey. ↔
4. Prepare rate studies for the City's utilities (water, sewer, stormwater, and Emergency Medical Services). ↔
5. Maintain and increase Thrift Shop annual revenue growth.
6. Identify funding for renovation and expansion of the Public Works/Maintenance Center.
7. Continue to identify and implement organizational effectiveness and operational efficiencies.

Goal 3. Deepen the City's Commitment to Sustainability and Livability

In 2006, the City Council voted to add goals and policies regarding sustainability to its Comprehensive Plan, identifying that the Triple Bottom Line principles (Economy, Environment, Equity,) were key filters for Council decisions and City actions. At that time, the Council also committed to Greenhouse Gas (GHG) reduction goals in alignment with King County and other regional cities. Progress towards meeting these goals has been sporadic and will only be successful if a continuous and unwavering focus is maintained across all City departments, and if staff capacity exists to measure stepping-stone achievements, plan new sustainability initiatives, and implement programs.

Action Items:

1. Prepare and implement a 6-Year Sustainability Plan (with community involvement and significant engagement with *Sustainable-Mercer Island* citizens group) ↔ :
 - a. Invite School District participation
 - b. Consider early action items such as: recognition as a Bike-Friendly Community, Green Power sign-up campaign, home energy retrofits (with PSE), Styrofoam container ban
 - c. Ensure sustainability principles are part of the City purchasing/procurement policy.
2. Explore adopting STAR Communities Framework
3. Launch full implementation of new software tools that allow tracking of City and community GHG emissions, and energy efficiency performance benchmarking of major City facilities.

Goal 4. Preserve, Promote, and Enhance Mercer Island's Focus on Arts and Culture

Integrating arts and culture into our community improves economic vitality, livability, and quality of life. Arts and cultural programs engage the public and build community by improving health, mental well-being, cognitive functioning, creative ability, and academic performance.

Action Items:

1. Engage the community regarding arts and culture polices and goals for the Comprehensive Plan. ↔
2. Partner with the Mercer Island Center for the Arts (MICA) to identify alternative site locations. ↔
3. Research and explore creating a "Certified Creative District."

Appendix A

Goal 5. Enhance City and Community Emergency Preparedness and Planning

The City has gone beyond the legal requirement of having an emergency plan and has created a robust program involving all City departments, outside agencies, and community volunteers. Levels of preparedness and readiness can erode over time. By making this a priority, the goal is to enhance our community's overall preparedness and resiliency.

Action Items:

1. Update the City's Emergency Management Plans.
2. Enhance the City's emergency planning and preparedness program with the following projects:
 - a. Improve the EOC facility to better intake and organize emergency response volunteers.
 - b. Implement technology enhancements (e.g., mobile/web applications, mapping, digital image, video/camera).
 - c. Develop a drone policy for City use following an emergency or disaster (e.g., landslides).
3. Prepare draft Comprehensive Plan goals and policies supporting disaster planning and recovery (this item is on the 2018 Comp Plan docket).
4. Continue to develop and maintain partnerships with local organizations such as the Mercer Island School District, Stroum Jewish Community Center, Mercer Island Chamber of Commerce, etc.
5. Continue to recruit volunteers for: Community Emergency Response Team (CERT), Map Your Neighborhood Program, and Emergency Preparedness Volunteer Teams.
6. Continue emergency drills and trainings for City staff.
7. Continue outreach and promotion of individual, household and business emergency preparedness.
8. Provide safety trainings for schools, businesses, and the community.
9. Implement security enhancement at City Hall for the safety of employees and residents.
10. Complete the Washington State Rating Bureau's evaluation of fire protection and suppression capabilities to maintain the City's Protection Class (City's current Insurance Service Office (ISO) rating is a 5 out of 10, with 1 being the best).

Goal 6. Update Outdated City Codes, Policies, and Practices

When an organization is reactive and driven to put out the latest "fire," it means there is little energy or time left to update regulations, policies, practices, processes, and technology that help to prevent and avoid "fires." Addressing these issues has now turned from a "nice to do" to a "must do," and requires the attention of Council and staff.

Action Items:

1. Update, amend, and/or develop the following Mercer Island codes and policies: 
 - 2018
 - a. Critical Areas Ordinance (last updated 2005)
 - b. Code Compliance code provisions
 - c. Appeals and processes code provisions
 - d. Transportation Concurrency Ordinance
 - e. Social Host Ordinance amendments
 - f. Code of Ethics
 - 2019
 - a. Sign code amendments
 - b. Adopt 2018 International Residential Construction Codes
 - c. Wireless Communications Facilities (WCF) code amendments
 - d. Amendments to permit alcohol for certain Parks & Recreation events and functions

Appendix A

2. Address obsolete systems and implement best practices through the use of technology:
 - a. Implement the Enterprise Asset Management System (launch 2018)
 - b. Implement the electronic document management and legislative system (launch 2018)
 - c. Initiate website update project by assessing websites to model and identify timeline, costs and vendors through RFP process (2018)
 - d. Implement mobile technology tools for the City's wide-range of customers and users ↕
 - e. Replace and expand critical communications infrastructure to support public safety and utilities
 - f. Replace and fully implement the Supervisory Control and Data Acquisition (SCADA) System for the City's water and sewer utilities
3. Create/update plans, studies, policies, and handbooks:
 - a. Update the Employee Handbook (last updated 2012)
 - b. Update the purchasing/procurement policy
 - c. Update the Parks, Recreation and Open Space (PROS) Plan (2019) ↕
 - d. Update the Pedestrian and Bicycle Facilities Plan ↕
 - e. Complete a Tree Canopy Study (2018) and develop an Urban Forestry Plan (2019) ↕
 - f. Adopt the General Sewer Plan and complete a Sewer Lake Line Feasibility Study ↕
 - g. Water Meter Replacement Plan
 - h. Update the City's technology plan to include input from the "Digital Citizen of 2025" focus group ↕
4. Revisit and evaluate current citizen advisory boards and commissions to determine effectiveness and determine need for other or *new* boards and commissions.
5. Prepare for a request for proposal and review proposals for the City's solid waste contract.

Goal 7. Create Policies that Support an Accessible and Healthy Business Ecosystem

In order to make the City a more sustainable and livable community, it is essential that it has thriving businesses that meet the needs of Island residents.

Action Items:

1. Work closely with the Mercer Island Chamber of Commerce and local businesses to evaluate and address parking in the Town Center. ↕
2. Review the City's permitting process for commercial development/tenant improvements to ensure that best practices are used. ↕
3. Develop a strategic planning process with the Mercer Island Chamber of Commerce and local businesses to identify possible actions to attract, retain, and sustain the business community. ↕