

City of Mercer Island

**CITY'S FINANCIAL CHALLENGES:
"HOUSTON, WE HAVE A PROBLEM"**



Presented by: Julie Underwood, City Manager
Chip Corder, Assistant City Manager/Finance Director

Presented to: Community Advisory Group

Date: April 2, 2018

Agenda

- Operating budget balancing options
 - Review sub-group recommendation (**Bob Harper**)
 - Review Mar 25 CAG meeting (**Jason Baumgarten**)
 - Discuss implementing cost control/operational effectiveness mechanisms (**Julie Underwood**)
 - Review 5 options (**Chip Corder**)
 - Which options do you support? (**Jenny Brailey**)
- Potential cost saving/revenue options
 - Review 3 options (**Chip Corder**)
 - Which options do you support? (**Jenny Brailey**)

Agenda



- Capital funding needs/options
 - Review CAG role (**Julie Underwood**)
 - Review sample listing of projects & 3 funding options (**Chip Corder**)
 - Which options do you support? (**Jenny Brailey**)
- CAG report preparation
 - Identify author(s) for majority recommendation
 - Identify author(s) for minority recommendation, if needed
 - Review timeline
- Closing remarks by CAG members & City Manager

Balancing Operating Budget



- Review sub-group recommendation (**Bob Harper**)
 - Q&A

Balancing Operating Budget



- Review Mar 25 CAG meeting (**Jason Baumgarten**)
 - Q&A

Balancing Operating Budget

- Implementing cost control/operational effectiveness mechanisms (**Julie Underwood**)
 - Will recommend that the Council fund a departmental effectiveness study each biennium in the off-budget year
 - DSG in 2019
 - Public Works underwent such a study in 2016
 - Helped secure Council support to fund an enterprise asset management system (2017-2018 implementation)
 - The studies will focus on key services/programs within a department, evaluating their relevance and usefulness and looking for opportunities for cost savings/containment and service delivery improvements per industry “best practices”

Balancing Operating Budget

Option #1

- **Levy lid lift only (6 years)**
 - Reflects smoothed annual funding need + 5% annual growth
 - Assumes following:
 - Combine Beautification Fund with General Fund
 - No other new revenue sources
 - Annual levy lid lift cost (\$1.20M AV home)

2019	2020	2021	2022	2023	2024
\$331	\$348	\$365	\$383	\$402	\$422

Balancing Operating Budget

Option #2

- **Smaller levy lid lift (6 years) + other revenues**
 - Reflects smoothed annual funding need + 5% annual growth
 - Assumes following:
 - Combine Beautification Fund with General Fund
 - Make temporary 8.0% utility tax on City's utilities permanent
 - Increase B&O tax rate from 0.10% to 0.15%
 - Annual levy lid lift cost (\$1.20M AV home)

2019	2020	2021	2022	2023	2024
\$254	\$267	\$280	\$294	\$309	\$324

Balancing Operating Budget

Option #3

- **Smaller levy lid lift (6 years) + other revenues + Thrift Shop expansion project**
 - Reflects smoothed annual funding need + 5% annual growth
 - Assumes following:
 - Combine Beautification Fund with General Fund
 - Make temporary 8.0% utility tax on City's utilities permanent
 - Increase B&O tax rate from 0.10% to 0.15%
 - Issue bonds to fund Thrift Shop expansion project in order to grow sales to eliminate \$400K annual funding from General Fund
 - Annual levy lid lift cost (\$1.20M AV home)

2019	2020	2021	2022	2023	2024
\$290	\$302	\$315	\$328	\$342	\$356

Balancing Operating Budget

Option #4

- **Even smaller levy lid lift (6 years) + other revenues**
 - Reflects smoothed annual funding need + 5% annual growth
 - Assumes following:
 - Combine Beautification Fund with General Fund
 - Make temporary 8.0% utility tax on City's utilities permanent
 - Increase B&O tax rate from 0.10% to 0.15%
 - Increase REET rate from 0.5% to 1.0% (City sales tax rate must be reduced from 1.0% to 0.5%)
 - Annual levy lid lift cost (\$1.20M AV home)

2019	2020	2021	2022	2023	2024
\$178	\$187	\$196	\$206	\$216	\$227

Balancing Operating Budget

Option #5

- **No levy lid lift (6 years) + other revenues + expenditure reductions**
 - Reflects smoothed annual funding need + 5% annual growth
 - Assumes following:
 - Combine Beautification Fund with General Fund
 - Make temporary 8.0% utility tax on City's utilities permanent
 - Increase B&O tax rate from 0.10% to 0.15%
 - Increase REET rate from 0.5% to 1.0%
 - Make ongoing expenditure cuts each year to balance the budget

2019	2020	2021	2022	2023	2024
--	-\$721K	-\$898K	-\$970K	-\$1.05M	-\$1.13M

Balancing Operating Budget

- Which options do you support?

Option	Other Revenues	Levy Lid Lift Cost in 2019
1. Levy lid lift only	None	\$331
2. Smaller levy lid lift + other revenues	Make 8% utility tax permanent Increase B&O tax rate	\$254
3. Smaller levy lid lift + other revenues + Thrift Shop expansion	Make 8% utility tax permanent Increase B&O tax rate	\$290
4. Even smaller levy lid lift + other revenues	Make 8% utility tax permanent Increase B&O tax rate Implement 0.5% REET option	\$178
5. No levy lid lift + other revenues + expenditure cuts	Make 8% utility tax permanent Increase B&O tax rate Implement 0.5% REET option	\$0

Potential Cost Saving/Revenue Options

- Explore contracting out marine patrol services to King County Sheriff's Office
- Explore contracting out fire/EMS services to Bellevue or Eastside Fire & Rescue
- Explore de-annexing from King County Library System to help bridge funding gap

Potential Cost Saving/Revenue Options

Option #1

- **Explore contracting out marine patrol services to King County Sheriff's Office**
 - 2018 budget = \$510K
 - Offset by \$211K in revenues
 - 2018 net cost = \$299K
 - Also, City receives in-kind police & fire services from Bellevue, which are >\$299K
 - KC Sheriff's Office is currently stretched too thin with responsibility for all lakes, rivers, and the portion of Puget Sound in King County

Potential Cost Saving/Revenue Options

Option #2

- **Explore contracting out fire/EMS services to City of Bellevue or Eastside Fire & Rescue (EF&R)**
 - Estimated potential cost savings is <\$200K
 - Bellevue: Overtime savings related to training & fire prevention
 - EF&R: Elimination of Fire Chief
 - Downsides/challenges:
 - Loss of management and cost control
 - Would need to negotiate with fire union
 - Contracting with EF&R would result in Bellevue charging for mutual aid responses to Mercer Island
 - EF&R cost allocation formula: 85% AV + 15% calls for service
 - EF&R administration costs = 21% of budget vs. 10% for MI Fire Dept

Potential Cost Saving/Revenue Options

Option #3

- **Explore de-annexing from King County Library System to help bridge funding gap**
 - Island residents will pay \$5.48M in property taxes to KCLS in 2018
 - Levy allocation formula is based on AV
 - Estimated timeline is 18-24 months to:
 - Research alternative service delivery options
 - Engage the public
 - Place 2 measures on the ballot: 1) de-annexing from KCLS, and 2) funding library services & building
 - Contract with new service provider & issue debt for library building

Potential Cost Saving/Revenue Options

- Which options do you support?

Option
1. Explore contracting out marine patrol services to King County Sheriff's Office.
2. Explore contracting out fire/EMS services to City of Bellevue or Eastside Fire & Rescue.
3. Explore de-annexing from King County Library System to help bridge funding gap.

Capital Funding Needs/Options

- Review CAG role (**Julie Underwood**)

Capital Funding Needs/Options

Sample Listing of Projects

Unfunded Capital Project	2018 Cost
Public Buildings:	
Maintenance Building Renovation/Expansion (\$3.0M in one-time funding is available for this project)	\$5,710,000
Thrift Shop Renovation/Expansion	\$2,720,000
Sports Fields:	
Island Crest Park South Field Improvements (Turf & Lights)	\$3,077,000
Synthetic Turf Field & Ballfield Backstop Safety Upgrades	\$1,078,000
Waterfront/Beaches:	
Luther Burbank Park Swim Beach	\$1,163,000
Groveland Beach Improvements	\$1,050,000
Roadside Shoulders/Sidewalks/Trails:	
Island Crest Way Sidewalk Improvements (SE 53 rd to SE 62 nd)	\$1,680,000
Complete Mercer Way Shoulders	\$1,575,000

Capital Funding Needs/Options

Sample Listing of Projects

Unfunded Capital Project	2018 Cost
Roadside Shoulders/Sidewalks/Trails (cont'd):	
Safe Routes to School (86 th Ave SE)	\$945,000
Town Center:	
Sidewalk & ADA Improvements	\$1,995,000
Crossing Improvements	\$525,000
Arts & Recreation:	
Luther Burbank Park Amphitheater	\$1,030,000
Skate Park Redevelopment	\$492,000
Community Center Multi-Purpose/Art Room	\$263,000
Open Spaces:	
Vegetation Management	\$504,000
Public Safety:	
Self-Contained Breathing Apparatus	\$279,000

Capital Funding Needs/Options

Option #1

- **Capital levy lid lift (9 years)**
 - Assumes following:
 - No bonds issued (“pay as you go” financing of capital projects)
 - Fixed amount of funding each year (no annual increase)
 - 3 sub-options:
 - \$100/yr for 9 years would fund \$9.9M in capital projects*
 - \$125/yr for 9 years would fund \$12.4M in capital projects*
 - \$150/yr for 9 years would fund \$14.9M in capital projects*

* Based on \$1.20M AV home, which is median AV on Mercer Island in 2018.

Capital Funding Needs/Options

Option #2

- **Bond levy (20 years)**

- Assumes following:

- Bonds are issued (60% voter approval required)
- Fixed amount of funding each year (no annual increase), which is dedicated to paying the debt service (principal & interest)

- 3 sub-options:

- \$65/yr for 20 years would fund \$10.0M in capital projects*
- \$82/yr for 20 years would fund \$12.5M in capital projects*
- \$98/yr for 20 years would fund \$15.0M in capital projects*

* Based on \$1.20M AV home, which is median AV on Mercer Island in 2018.

Capital Funding Needs/Options

Option #3

- **Postpone capital levy lid lift or bond levy until 2021**
 - The Fire Station levy lid lift expires at the end of 2021

Capital Funding Needs/Options

■ Which options do you support?

Option	Sub-Option
1. Capital levy lid lift (9 years; no bonds issued)	a) \$100/yr would fund \$9.9M in capital projects
	b) \$125/yr would fund \$12.4M in capital projects
	c) \$150/yr would fund \$14.9M in capital projects
2. Bond levy (20 years; 60% voter approval required)	a) \$65/yr would fund \$10.0M in capital projects
	b) \$82/yr would fund \$12.5M in capital projects
	c) \$98/yr would fund \$15.0M in capital projects
3. No levy (wait until Fire Station levy lid lift expires in 2021)	N/A

CAG Report Preparation

- Identify author(s) for majority recommendation
 - Jenny/staff will help
- Identify author(s) for minority recommendation, if needed
- Timeline
 - First draft of report due by 4/16
 - CAG comments due by 4/20
 - Second draft of report due by 4/24
 - CAG comments due by 4/27
 - Final report due by 4/30

Closing Remarks



- CAG member thoughts & feedback
 - Round robin
 - Participation is optional
- City Manager thoughts & appreciation