

City of Mercer Island

**CITY'S FINANCIAL CHALLENGES:
OPERATING BUDGET (PART II)**

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

Presented to: Community Advisory Group

Date: February 5, 2018

City's Financial Challenges

Agenda (Feb 5 CAG Meeting)

- City staffing & services (videotaped & sent to CAG)
 - Small group exercise
 - Q&A
 - Facilitated discussion
- Presentation by CAG subgroup
- Operating budget balancing options
 - Alternative service delivery options
 - Service level reductions needed to balance 2019-2024 (assuming no operating levy lid lift)
 - Service level reduction scenario (10% department cuts; assuming no operating levy lid lift)

City's Financial Challenges

City Staffing (Videotaped)

- 2017 staffing ratio comparison
 - MI vs. full service Eastside cities
 - Total staff
 - Administrative staff
- 2018 vs. 2012 (regular & contract FTEs)
- Challenges of cutting staff by department

City Staffing

2017 Total Staffing Ratio Comparison

Full Service Eastside City	2017 Total # of Regular Employees	2017 Total Staffing Ratio ¹	Adjusted 2017 Total Staffing Ratio ²	Note
Redmond	672	10.81	10.25	No Municipal Court or civil attorneys
Bellevue	1,338	9.51	8.97	No Municipal Court
Issaquah	253	7.03	8.15	No Fire Dept or civil attorneys
Bothell	342	7.70	7.43	
Mercer Island	196	8.08	7.14	Only city with Social Services Dept
Kirkland	605	7.03	6.75	Major annexation in 2011; MI had a lower staffing ratio before 2011

¹ 2017 total staffing ratio = # of total staff (FTEs) in 2017 per 1,000 population.

² To create an “apples to apples” comparison, the following adjustments were made:

- 48 FTEs from Eastside Fire & Rescue were added to Issaquah (equals city’s share of EF&R FTEs)
- Social services, civil attorney, and Municipal Court FTEs, if any, were deducted from each city
- Advanced Life Support FTEs were deducted from Redmond and Bellevue

City Staffing

2017 Admin Staffing Ratio Comparison

Full Service Eastside City	2017 Total # of Admin Employees	2017 Admin Staffing Ratio	Note
Redmond	88	1.42	No civil attorneys (contracted out)
Bellevue	178	1.26	
Issaquah	38	1.05	No civil attorneys (contracted out)
Bothell	45	1.01	
Kirkland	85	0.99	
Mercer Island	24	0.97	

Note: Administrative staff includes the following departments/functions: Executive/City Manager's Office, City Clerk's Office, City Attorney's Office, Finance, Human Resources, Information Technology (IT), Geographic Information Services (GIS), and Public Communications.

City Staffing

2018 vs. 2012 (Regular & Contract)

Department	Regular FTEs		Contract FTEs		Total FTEs		Net Change
	2012	2018	2012	2018	2012	2018	
City Manager's Office	3.60	5.00	1.00	--	4.60	5.00	+0.40
Development Services	17.00	21.00	1.00	3.50	18.00	24.50	+6.50
Fire	31.00	32.00	--	--	31.00	32.00	+1.00
Information & Geographic Services	5.00	7.00	1.00	1.00	6.00	8.00	+2.00
Municipal Court	3.33	3.45	--	--	3.33	3.45	+0.12
Parks & Recreation	22.50	29.75	4.75	0.75	27.25	30.50	+3.25
Public Works	29.00	34.00	1.00	1.50	30.00	35.50	+5.50
Youth & Family Services	14.50	16.33	4.20	5.00	18.70	21.33	+2.63

Note: Total staffing increase, 2018 vs. 2012 = 21.40 FTEs.

City Staffing

2018 vs. 2012 (Regular & Contract)

Department	Net Change	Restored/New/Cut Position	Primary Funding Source(s)
City Mgr's Office	+0.40	New: 0.4 Sustainability Coordinator (2013)	Taxes & utility rates
Development Services	+6.50	New: 1.0 Planner (2013) New: 1.0 Contract Plans Examiner (2014) New: 1.0 Contract Permit Tech (2014) New: 0.5 Contract Inspector (2014) New: 1.0 Planning Manager (2016) New: 1.0 Contract Admin Assistant (2017) New: 0.5 Arborist (2017) New: 0.5 Code Compliance Officer (2017)	Permit fees Permit fees Permit fees Permit fees Permit fees Permit fees Permit fees Permit fees
Fire	+1.00	Restored: 1.0 Fire Marshal (2015)	Overtime savings & permit fees
Information & Geographic Svcs	+2.00	New: 1.0 Helpdesk Tech (2013) New: 1.0 Helpdesk Tech (2018)	Various position cuts ENTF Detective cut
Municipal Court	+0.12	Restored: 0.25 Court Administrator (2015) Cut: 0.13 Judge (2015)	Court fines N/A

City Staffing

2018 vs. 2012 (Regular & Contract)

Department	Net Change	Restored/New/Cut Position	Primary Funding Source(s)
Parks & Recreation	+3.25	New: 0.5 Contract Trail Maint (2013) New: 1.0 MICEC Nights/Weekends (2013) Cut: 0.5 Parks Manager (2013) New: 0.25 Contract Trail Maint (2015) New: 2.0 Park Maint Team Members (2017)	Convert contracted svcs MICEC rental fees N/A Convert seasonal labor Convert seasonal labor
Public Works	+5.50	New: 1.0 Engineering Tech (2013) Restored: 1.0 Transportation Engineer (2015) Restored: 1.0 Facilities Maint Tech (2015) Cut: 1.0 ROW Team Member (2015) New: 2.0 Sewer Team Members (2016) New: 1.0 Water Quality Tech (2016) Restored: 0.5 ROW Arborist (2017)	Utility rates & REET Gas tax & REET Convert contracted svcs N/A Sewer utility rate Water utility rate Gas tax
Youth & Family Services	+2.63	New: 1.0 Thrift Shop Production Lead (2013) New: 0.8 Administrative Assistant (2013) New: 0.83 Elem. School Counselor (2016)	Thrift Shop sales Thrift Shop sales YFS Fund balance

City Staffing

Challenges of Cutting Staff by Dept

Department	FTEs*	Description of Challenge
Police & Fire	67.0	<ul style="list-style-type: none">Number 1 priority of governmentSubject to contractual minimum staffing requirementsEliminated Eastside Narcotics Task Force Detective in 2016
DSG	24.5	<ul style="list-style-type: none">Mostly funded by development feesTaxes fund long range planning work and code enforcement
Public Works	35.5	<ul style="list-style-type: none">Mostly funded by City's water, sewer, and storm water utility ratesTaxes fund right-of-way maintenance & neighborhood traffic controlDuring Great Recession, 2.5 FTEs were cut from ROW team
Parks & Recreation	30.5	<ul style="list-style-type: none">50-55% total cost recovery from recreation, ballfield & rental feesTaxes fund park maintenance & partially fund youth recreation programs
YFS	21.3	<ul style="list-style-type: none">Mostly funded by \$1.6M in annual Thrift Shop salesTaxes fund \$400K/yr (63%) of mental health school counseling services
Other Departments	29.5	<ul style="list-style-type: none">Includes City Manager's Office, City Attorney's Office, Finance, Human Resources, Information & Geographic Services, and Municipal CourtLowest admin staffing ratio vs. 5 full service Eastside cities

* Includes regular and contract FTEs.

City's Financial Challenges

City Services (Videotaped)

- **Mandatory vs. discretionary vs. essential services**
 - Mandatory = legally required per state law; however, the City does have discretion regarding the level of service
 - Discretionary = not legally required; typically relates to quality of life services & other Council priorities
 - Essential = vital to organizational operations or infrastructure maintenance
 - Applies to operating budget only
 - Organized by priority of government

City Services

Mandatory by Priority of Government

Significant Mandatory Service	2018 Budget	Primary Funding Source
#1: Community Safety & Security		
Fire suppression & emergency medical	\$5,135,745	Taxes, EMS utility rate & ambulance transport fees
Police patrol	\$3,419,326	Taxes
Permit review & inspection (building)	\$2,092,372	Permit fees
Police records, property & dispatch	\$956,767	Taxes
Police investigation	\$637,173	Taxes
Court	\$494,611	Court fines & taxes
Emergency management	\$195,564	Taxes
Fire Marshal	\$179,026	Taxes & permit fees
Fire dispatch	\$167,283	Taxes
Jail	\$90,850	Taxes

City Services

Mandatory by Priority of Government

Significant Mandatory Service	2018 Budget	Primary Funding Source
#2: Effective/Efficient Public Service Delivery & Community Sustainability		
Budgeting, financial reporting, auditing & treasury	\$845,409	Taxes & utility rates
City Clerk	\$319,429	Taxes
Fire training	\$160,700	Taxes
Comprehensive & other long-range planning	\$152,557	Taxes
Public records	\$150,191	Taxes
Labor relations	\$129,656	Taxes
Police training	\$72,500	Taxes

City Services

Mandatory by Priority of Government

Significant Mandatory Service	2018 Budget	Primary Funding Source
#3: Reliable Public Infrastructure		
Permit review & inspection (engineering)	\$521,936	Permit fees
#4: Attractive Neighborhoods & Business Districts		
Permit review & inspection (planning & arborist)	\$658,599	Permit fees

City Services

Discretionary by Priority of Government

Significant Discretionary Service	2018 Budget	Primary Funding Source
#2: Effective/Efficient Public Service Delivery & Community Sustainability		
GIS mapping	\$286,797	Taxes & utility rates
Intergovernmental services/memberships (AWC, SCA, PSRC & ARCH)	\$187,638	Taxes
Sustainability	\$82,628	Taxes & utility rates
#4: Attractive Neighborhoods & Business Districts		
Neighborhood traffic control/planning	\$190,528	Taxes
Right-of-way tree management	\$187,834	Taxes
Town Center maintenance/beautification	\$140,231	Taxes

City Services

Discretionary by Priority of Government

Significant Discretionary Service	2018 Budget	Primary Funding Source
#5: Recreational, Cultural, Health & Educational Opportunities		
Community Center operations	\$1,386,441	Taxes & recreation fees
Recreation programs	\$882,973	Taxes & recreation fees
Parks & recreation administration	\$805,398	Taxes & recreation fees
Thrift Shop operations	\$760,374	Thrift Shop sales
YFS general services	\$750,707	Thrift Shop sales
School-based mental health counseling	\$648,195	Taxes, TS sales & MISD \$
Community events & art programs	\$258,125	Taxes, fees & donations
Community-based mental health counseling	\$250,931	Counseling fees & TS sales
Mary Wayte Pool operations	\$135,846	Taxes
Community risk reduction (Fire/EMS)	\$119,975	Taxes & fees

City Services

Discretionary by Priority of Government

Significant Discretionary Service	2018 Budget	Primary Funding Source
#5: Recreational, Cultural, Health & Educational Opportunities (cont'd)		
YFS emergency assistance	\$113,934	Donations
Youth development	\$107,194	Program fees & TS sales
Senior outreach	\$104,856	TS sales & donations
#6: Public Communication & Community Engagement		
Public communication	\$100,718	Taxes & utility rates

City Services

Essential by Priority of Government

Significant Essential Service	2018 Budget	Primary Funding Source
#1: Community Safety & Security		
Marine patrol	\$510,379	Taxes, vessel registration fees & contract revenue
#2: Effective/Efficient Public Service Delivery & Community Sustainability		
Police administration	\$1,112,382	Taxes
Information technology	\$878,193	Taxes & utility rates
Risk management	\$816,036	Taxes & utility rates
Fire administration	\$659,465	Taxes
Fleet operations & maintenance	\$545,032	Taxes & utility rates
City administration	\$550,099	Taxes & utility rates
Legal support/advice	\$480,384	Taxes & utility rates
Utility billing/meter reading	\$415,240	Utility rates

City Services

Essential by Priority of Government

Significant Essential Service	2018 Budget	Primary Funding Source
#2: Effective/Efficient Public Service Delivery & Community Sustainability (cont'd)		
Human resources	\$330,382	Taxes & utility rates
Payroll	\$149,181	Taxes & utility rates
Accounts payable	\$94,334	Taxes & utility rates
#3: Reliable Public Infrastructure		
Water, sewer & storm water maint & operations	\$6,532,376	Utility rates
Sewer treatment (King County)	\$4,722,582	Utility rates
Park/open space maintenance	\$2,468,733	Taxes & field use fees
Water purchases (Seattle Public Utilities)	\$2,110,825	Utility rates
Road maintenance	\$1,108,299	Taxes
Public building maintenance	\$557,748	Taxes & utility rates

City Staffing & Services



- Small group exercise
- Q&A
- Facilitated discussion

Presentation by CAG Sub-Group



Operating Budget Balancing Options

No Levy Lid Lift

- Alternative service delivery options
 - De-annexing from King County Library System (KCLS)
 - Contracting out Fire/EMS
 - Contracting out Marine Patrol
- Service level reductions needed to balance 2019-2024
- Service level reduction “what if” scenario, 2019-2020 (10% department cuts)

Alternative Service Delivery Options

De-Annexing from KCLS

- Why consider this?

\$5.45M	Total property taxes paid by Islanders to KCLS in 2017
- 2.37M	Total cost to operate MI Library, including centralized expenses, in 2017
- 0.60M	MI's share of KCLS debt in 2017
\$2.48M	Net property taxes paid to KCLS in 2017

- What if the \$5.45M paid to KCLS was re-directed to the City **and** \$2.48M was applied to the City's projected deficits?
 - Would reduce projected deficit in 2020 to \$430K, but would not solve the City's ongoing structural imbalance
- Estimated timeline is 18-24 months to:
 - Research alternative service options & identify MI's share of KCLS liabilities
 - Engage the public & place 2 measures on the ballot
 - Contract with new service provider & issue debt to acquire library

Alternative Service Delivery Options

Contracting Out Fire/EMS

- Staff preliminarily explored this possibility with the City of Bellevue in 2015-2016
 - Cost savings from reduced firefighter overtime and shared fire apparatus was estimated to be <\$200K
- Staff is currently exploring possibility of contracting with Eastside Fire & Rescue, which provides services to Issaquah and Sammamish
 - As a result, Bellevue is putting together a proposal to MI
 - If financially worthwhile, moving to a contracted services model would take 12-18 months
 - Key hurdle: City would need to negotiate with fire union

Alternative Service Delivery Options

Contracting Out Marine Patrol

- Marine patrol = \$510K in 2018
 - City provides services to Renton & Bellevue
 - Total cost in 2018 offset by:
 - \$80K in vessel registration fees
 - \$71K in contract revenue from Renton
 - \$60K in grant revenue from WA State
 - Net cost = \$299K in 2018
 - City receives in-kind police & fire services from Bellevue
- Alternative service providers:
 - King County Sheriff's Office (stretched too thin)
 - City of Seattle (not interested)

Service Level Reductions Needed

Balancing 2019-2024

General Fund & YFS Fund

Description	2019	2020	2021	2022	2023	2024	Total
Total cuts each year (\$)	\$1.91M	\$771K	\$788K	\$806K	\$825K	\$844K	\$5.95M
Total cuts each year (%)	5.7%	2.4%	2.4%	2.3%	2.3%	2.3%	17.4%
FTE cuts each year	18.2	7.1	6.9	6.8	6.7	6.6	52.4

52 FTEs, or 25% of the City's total workforce (208 FTEs, including contract staff), would have to be cut in 2019-2024 to balance the budget.

After 2024, the City would have to continue cutting staff to balance the operating budget due to the ongoing structural imbalance (annual expenditure growth > annual revenue growth).

Service Level Reduction Scenario

10% Department Cuts

- Requested by a CAG sub-group to see how services would be impacted in 2019-2020 assuming no operating levy lid lift
- Does not represent how the City would reduce/cut services
 - See City Manager's recommendation to balance 2019-2020 budget under "Additional Information" at end of presentation
- 85% of Islanders think the City provides the right amount of services (Apr 2014 citizen survey)
- There are no easy cuts in the City's operating budget

Service Level Reduction Scenario

10% Department Cuts

Department	2018	10% Cut	Service Level Reductions
Police	\$7.04M	\$704K	Emergency Management, Marine Patrol, School Resource Officer, Patrol, Investigations
Fire	\$6.42M	\$642K	Deputy Chief, 4-5 Firefighters
Parks & Recreation	\$5.90M	\$590K	Park Maintenance, SC!/Special Events, Lifeguarding, Community Center
Development Services	\$3.47M	\$347K	Long-Range Planning, Code Enforcement, Admin
Non-Departmental	\$3.33M	\$333K	IT Helpdesk, Annual CIP Funding, Annual YFS Funding
Youth & Family Services	\$2.85M	\$285K	School Counseling, Clinical Supervision, Geriatric Services, Administration
Public Works	\$1.84M	\$184K	Urban Forest Mgt, Planter Bed Maint, Building Maint
City Manager's Office, City Attorney's Office, Finance & HR	\$3.32M	\$332K	Public Communications, Community Response, Emerging Issues, Investments, CIP Financial Oversight, Financial Analysis, B&O Tax/Business Licensing Admin
Total	\$34.18M	\$3.42M	

Operating Budget Balancing Options

Facilitated Discussion



Mar 3 CAG Meeting

Agenda

- Operating budget balancing options (cont'd)
 - Cost comparison: MI vs. other cities
 - Police services per capita
 - Fire/EMS services per capita
 - Park Maintenance services per acre
 - New revenue source
 - Economic development
 - Utility taxes and B&O taxes
 - Levy lid lift
- Capital funding needs
- Capital funding options
 - \$100/yr vs. \$125/yr vs. \$150/yr
 - Go back to voters in 2021 when Fire Station levy expires

Additional Information



Service Level Reduction Scenario

City Manager Recommendation

- To balance 2019-2020 budget assuming no operating levy lid lift
- Expenditure reductions are focused on discretionary services
- Includes revenue increases where the Council has discretion

Service Level Reduction Scenario

City Manager Recommendation

Description	2019	2020
Expenditure reductions (General Administration):		
Eliminate administrative position(s) in CMO/CAO/Finance	235,000	244,400
Eliminate IT Helpdesk Tech approved for 2018	106,627	110,892
Expenditure reductions (Parks & Recreation):		
Reduce park maintenance levels (2.75 FTEs, 2 vehicles, 25% supplies)	--	303,667
Eliminate Mary Wayte Pool support to MISD	139,921	144,119
Cancel MISD field agreements & cut field rentals (net of revenue loss)	--	101,135
Reduce irrigation to non-athletic fields at Mercedale Park & AD Park	61,960	61,960
Eliminate lifeguards at beaches	48,000	48,000
Reduce administrative expenses & mgt staff (0.6 FTE reduction in 2020)	45,594	108,094
Eliminate Summer Celebration & special events/programs (0.5 FTE reduction in 2020; net of revenue loss)	40,900	90,900

Service Level Reduction Scenario

City Manager Recommendation

Description	2019	2020
Expenditure reductions (Parks & Recreation cont'd):		
Eliminate holiday lighting	28,000	28,000
Reduce operating hours at Community Center (net of revenue loss)	23,403	33,986
Reduce right-of-way trail maintenance	--	15,000
Expenditure reductions (Police):		
Eliminate School Resource Officer program (net of MISD contribution)	129,697	135,148
Expenditure reductions (Public Works):		
Reduce Town Center maintenance/beautification (34% reduction)	47,679	47,679
Expenditure reductions (Youth & Family Services):		
Reduce Elementary School Counselors from 4.0 to 2.0 FTEs	170,961	179,509
Reduce YFS Clinical Supervisor from 1.0 FTE to 0.5 FTE	--	62,935
Reduce YFS Geriatric Specialist from 1.0 FTE to 0.5 FTE	--	57,451

Service Level Reduction Scenario

City Manager Recommendation

Description	2019	2020
Expenditure reductions (Youth & Family Services cont'd):		
Reduce YFS Youth Development Coordinator from 1.0 FTE to 0.5 FTE	--	54,494
Reduce YFS Administrative Assistant from 1.0 FTE to 0.25 FTE	--	51,203
Reduce MIHS Drug/Alcohol Intervention Specialist from 1.0 FTE to 0.5 FTE	--	47,541
TOTAL NET EXPENDITURE REDUCTIONS	1,077,742	1,926,113
Revenue increases:		
Make utility tax rate increase from 5.3% to 8.0% permanent	500,000	520,000
Consolidate Beautification Fund with General Fund	200,000	210,000
Eliminate \$150K gross receipts exemption on B&O tax	200,000	210,000
Increase Community Center room rental & drop-in fees	38,290	69,045
TOTAL NEW REVENUES	938,290	1,009,045
TOTAL NET EXPENDITURE REDUCTIONS & NEW REVENUES	2,016,032	2,935,158

2018 Property Tax Levy Rate Comparison

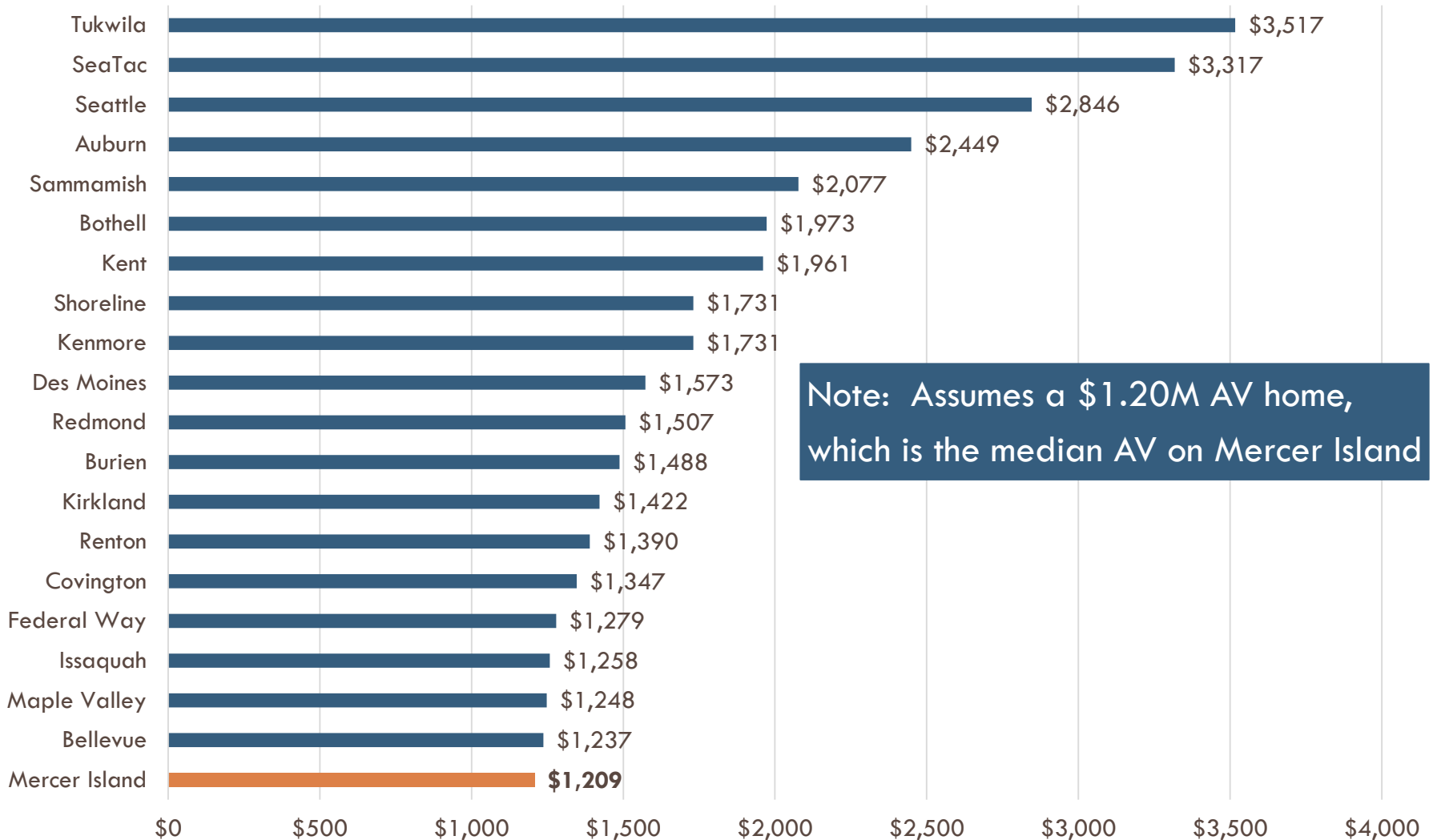
King County Cities (>20K population)	2018 Levy Rate (City Portion Only)
1. Mercer Island	\$1.00313
2. Bellevue	\$1.02655
3. Maple Valley	\$1.03537
4. Issaquah	\$1.04380
5. Federal Way	\$1.06161
6. Covington	\$1.11810
7. Renton	\$1.15364
8. Kirkland	\$1.18010
9. Burien	\$1.23516
10. Redmond	\$1.25080

King County Cities (>20K population)	2018 Levy Rate (City Portion Only)
11. Des Moines	\$1.30542
12. Kenmore	\$1.43629
13. Shoreline	\$1.43684
14. Kent	\$1.62704
15. Bothell	\$1.63723
16. Sammamish	\$1.72401
17. Auburn	\$2.03239
18. Seattle	\$2.36209
19. SeaTac	\$2.75273
20. Tukwila	\$2.91864

What does this mean? Given the same AV, a Mercer Island homeowner will pay less property tax to the City than any other homeowner in King County will pay to his/her city.

2018 Property Tax Levy Comparison

City Levy Only (KC Cities >20,000)



Property Tax Per Capita (2010-2018)

Tax Year	City Property Tax Levy	Population	Property Tax per Capita	% Change vs. PY	Note
2010	\$10,465,014	22,699	\$461	--	
2011	\$10,564,025	22,710	\$465	0.9%	
2012	\$10,797,035	22,690	\$476	2.3%	
2013	\$11,674,351	22,720	\$514	8.0%	Fire Station levy lid lift (\$662K), 2013-2021
2014	\$11,941,826	23,310	\$512	-0.3%	
2015	\$12,378,370	23,480	\$527	2.9%	Used remaining banked capacity (\$145K)
2016	\$12,662,977	23,660	\$535	1.5%	
2017	\$13,018,650	24,210	\$538	0.5%	
2018	\$13,341,196	24,710	\$540	0.4%	
Average Annual % Change (2010-2018)				2.0%	