

*City of Mercer Island*

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

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

Presented to: Community Advisory Group

Date: Mar 3, 2018

# City's Financial Challenges

## Agenda

- Additional operating budget information
  - Belt tightening examples by department (videotaped)
  - Unmet needs by department (videotaped)
  - Police, Fire & Park Maintenance comparisons (videotaped)
  - Q&A
- Community values/priorities (facilitated discussion)
- Operating budget balancing options (revenues)
  - Economic development (sales tax)
  - Utility tax
  - B&O tax
  - Property tax levy lid lift

# City's Financial Challenges

## Agenda

- Operating levy lid lift scenarios (based on revised 2019-2024 forecast)
  - Scenario 1: Levy lid lift only (cost to typical MI homeowner)
  - Scenario 2: Smaller levy lid lift + new revenues (cost to typical MI homeowner)
  - Q&A
- Capital funding needs & funding options (videotaped)
  - Q&A
- Preliminary CAG recommendations (facilitated discussion & polling)
- Apr 2 CAG meeting

# Additional Operating Budget Information

## *Belt Tightening Examples (Videotaped)*

- Police Department
- Fire Department
- Public Works Department
- Parks & Recreation Department
- Youth & Family Services Department
- Development Services Department
- Human Resources Department
- Finance Department
- Information & Geographic Services Department
- City Attorney's Office

# Additional Operating Budget Information

## *Unmet Needs (Videotaped)*

---

- Police Department
- Fire Department
- Public Works Department
- Parks & Recreation Department
- Youth & Family Services Department
- Development Services Department

# Additional Operating Budget Information

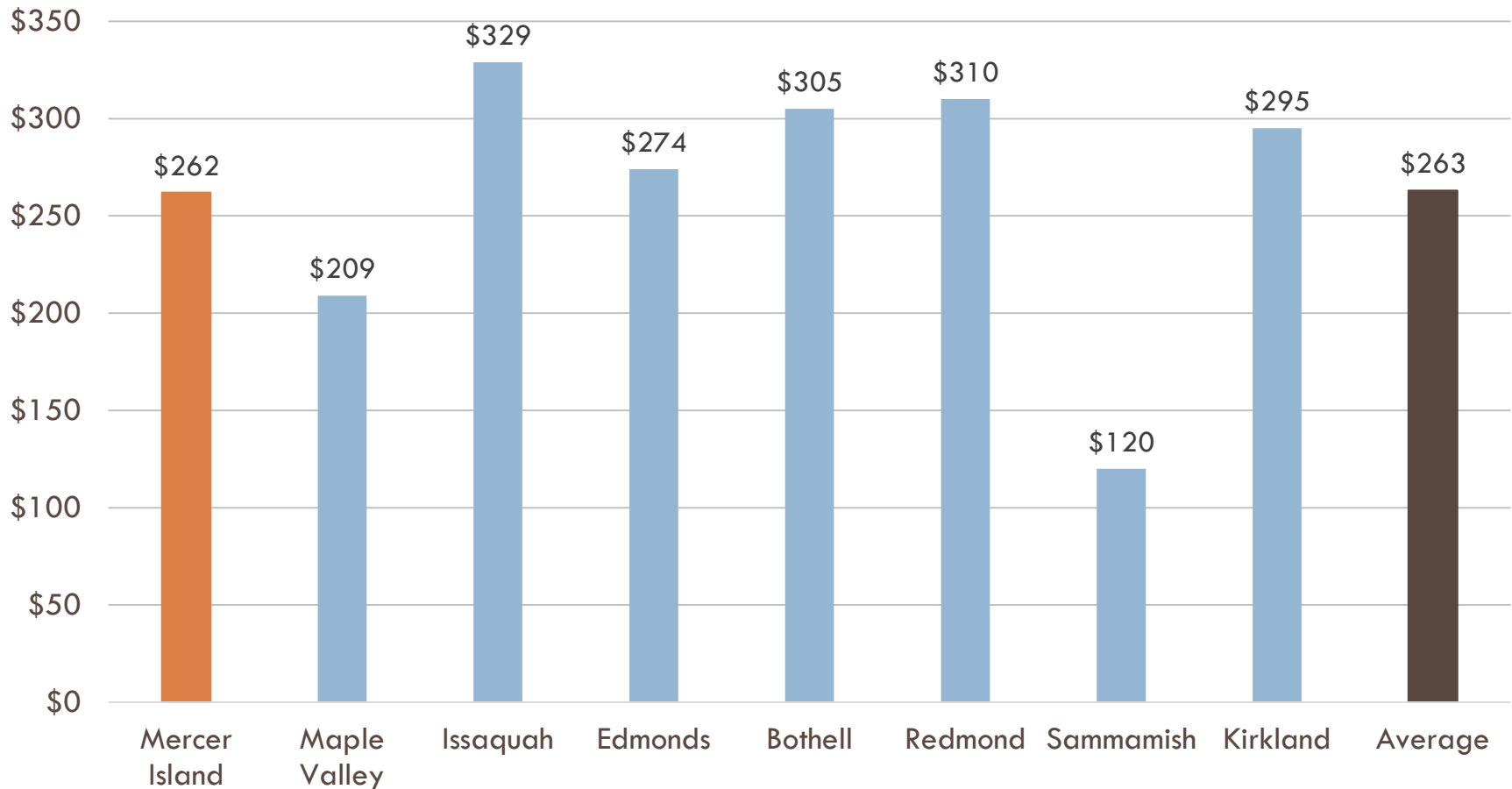
## *City Service Comparison (Videotaped)*

- Major tax funded services in the General Fund
  - Police service comparison: MI vs. other cities
  - Fire service comparison: MI vs. contracting with City of Bellevue or Eastside Fire & Rescue
  - Park Maintenance service comparison: MI vs. other cities

# Additional Operating Budget Information

## *Police Comparison (Videotaped)*

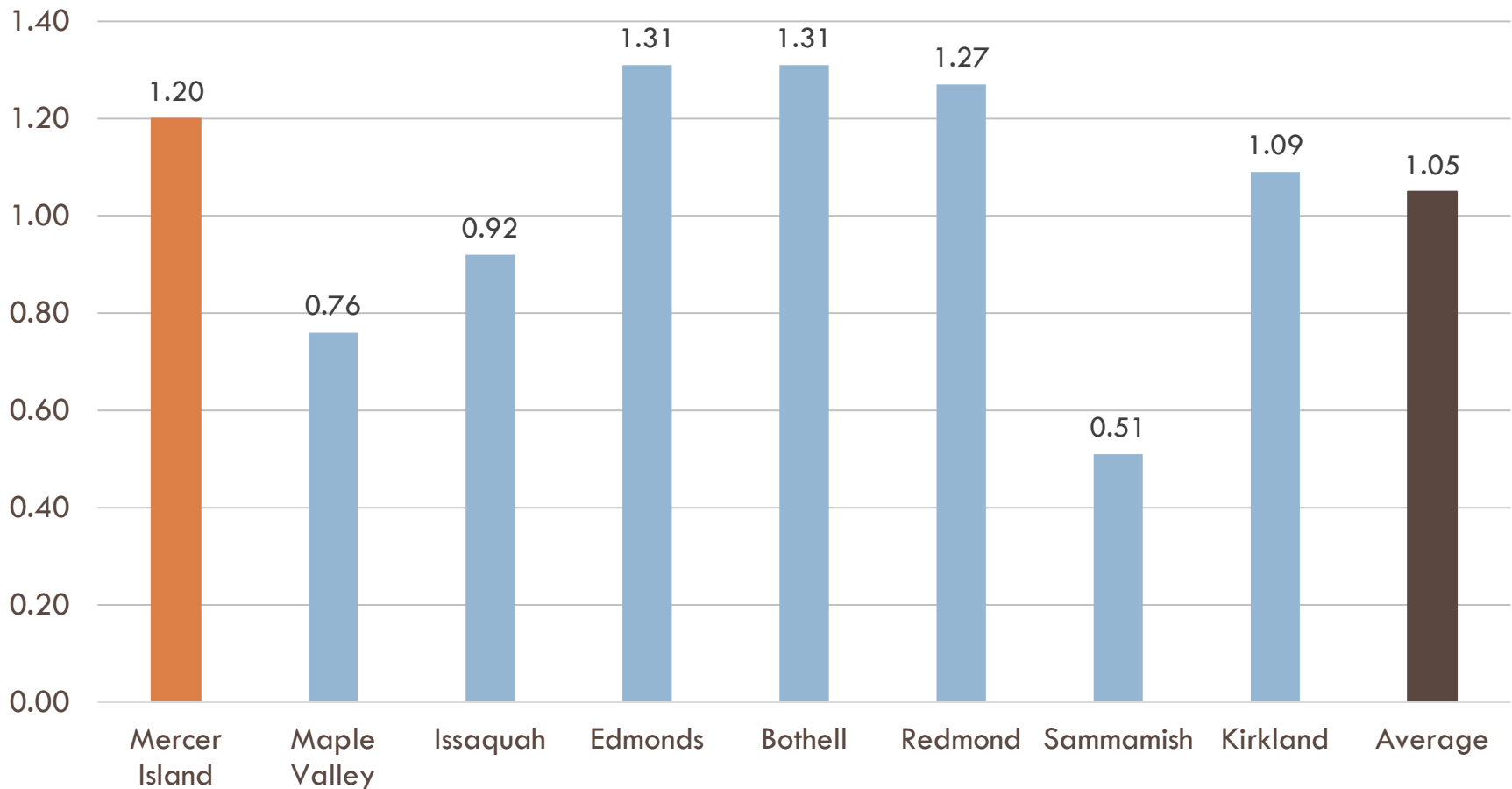
### 2018 Police Cost Per Capita



# Additional Operating Budget Information

## *Police Comparison (Videotaped)*

### 2018 Police Officers Per 1,000 Population

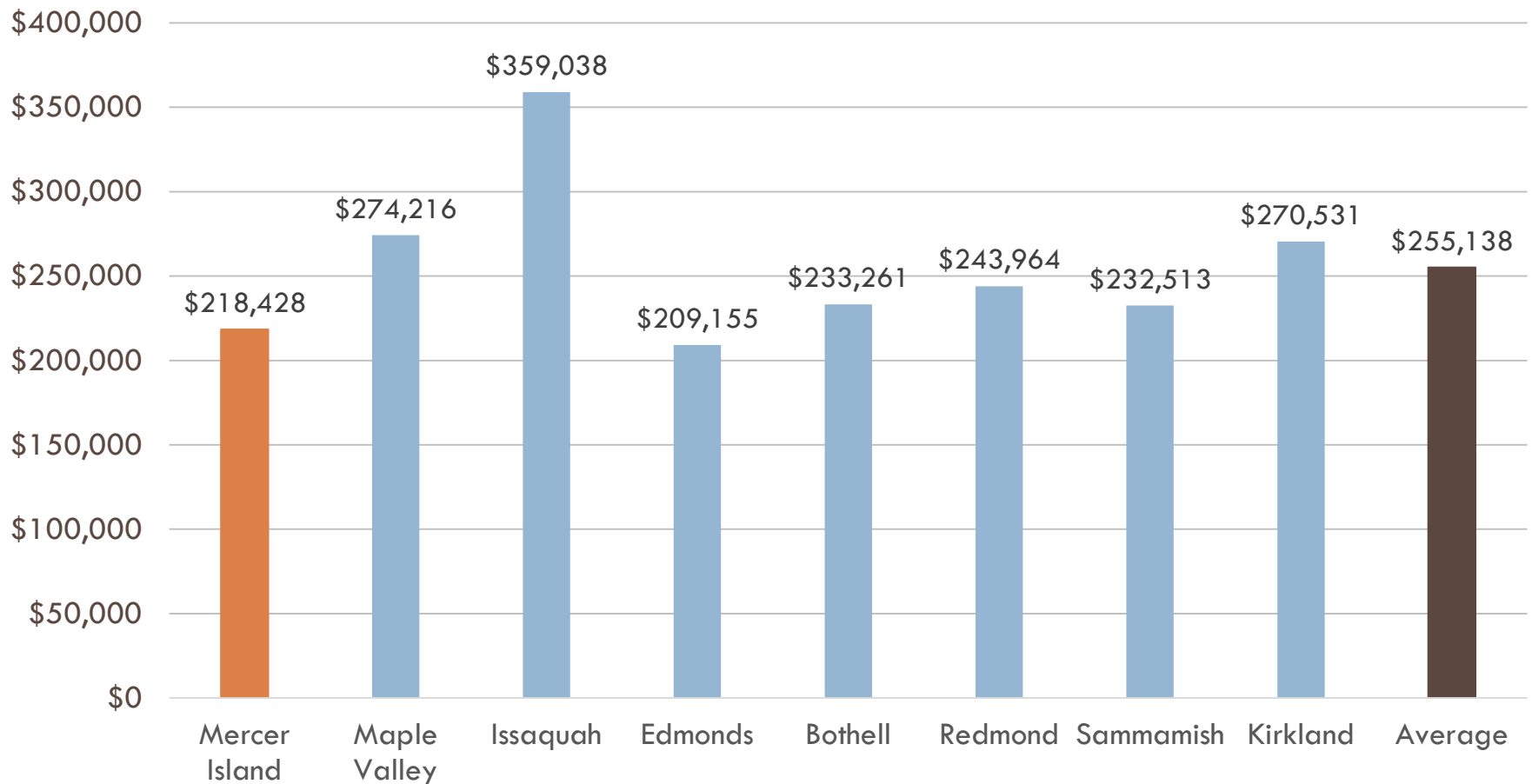




# Additional Operating Budget Information

## *Police Comparison (Videotaped)*

### 2018 Police Cost Per Officer



# Additional Operating Budget Information

## *Contracting for Fire/EMS (Videotaped)*

### ■ **Contracting with City of Bellevue**

- Preliminary cost savings estimate: \$0-\$200K per year
  - Reduction in fire apparatus reserve units, overtime savings related to training, and overtime savings related to fire prevention
- Fire Chief would be converted to Deputy Fire Chief
- Downsides/challenges:
  - Loss of control (management and cost)
  - Would need to negotiate such a change with Fire union, which would become City of Bellevue employees
  - Station 91 Battalion Chief would be moved to Eastgate station

# Additional Operating Budget Information

## *Contracting for Fire/EMS (Videotaped)*

- **Contracting with Eastside Fire & Rescue (EF&R)**
  - Preliminary cost savings estimate: \$0-\$200K per year
    - Elimination of Fire Chief
  - Downsides/challenges:
    - Loss of control (management and cost)
    - Would need to negotiate such a change with Fire union, which would become EF&R employees
    - Such a move would likely result in the City of Bellevue charging for mutual aid responses to Mercer Island
    - EF&R's cost allocation formula: 85% AV + 15% calls for service
    - EF&R's administrative costs are 21% of total budget vs. 10% for Mercer Island Fire Department
    - Station 91 Battalion Chief would be moved to Issaquah station

# Additional Operating Budget Information

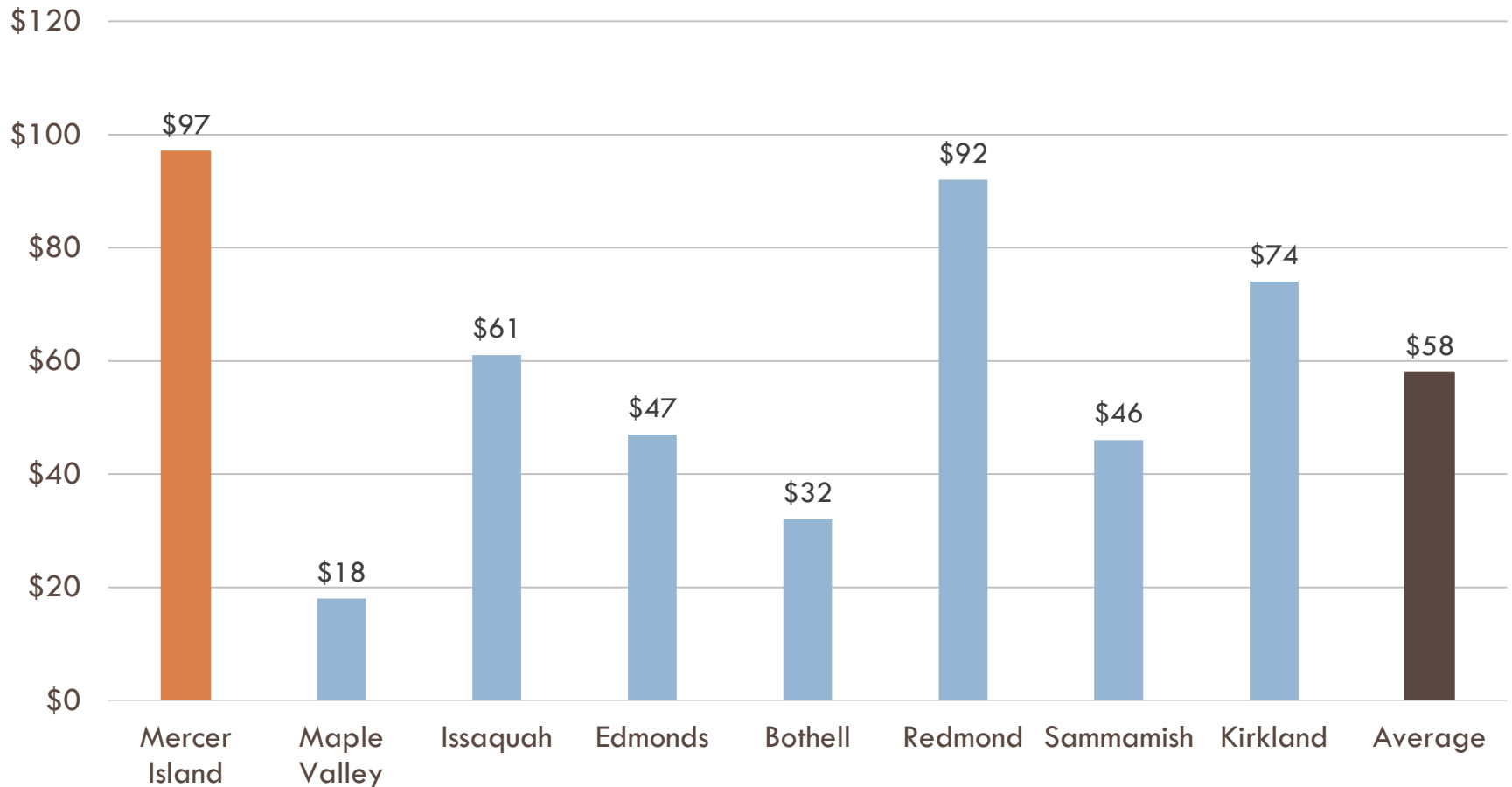
## *Park Maint Comparison (Videotaped)*

- Comparing park maintenance programs among cities is challenging
  - Each program contains different types of facilities
  - Operating & capital budget % split is different for each city
  - Other cities can take advantage of non-city facilities such as state & county parks
- Open space was excluded from this comparison
  - Type of program & level of service varies significantly
  - Cost comparisons get skewed when open space is included
  - Most expensive acreage to maintain is developed parks

# Additional Operating Budget Information

## *Park Maint Comparison (Videotaped)*

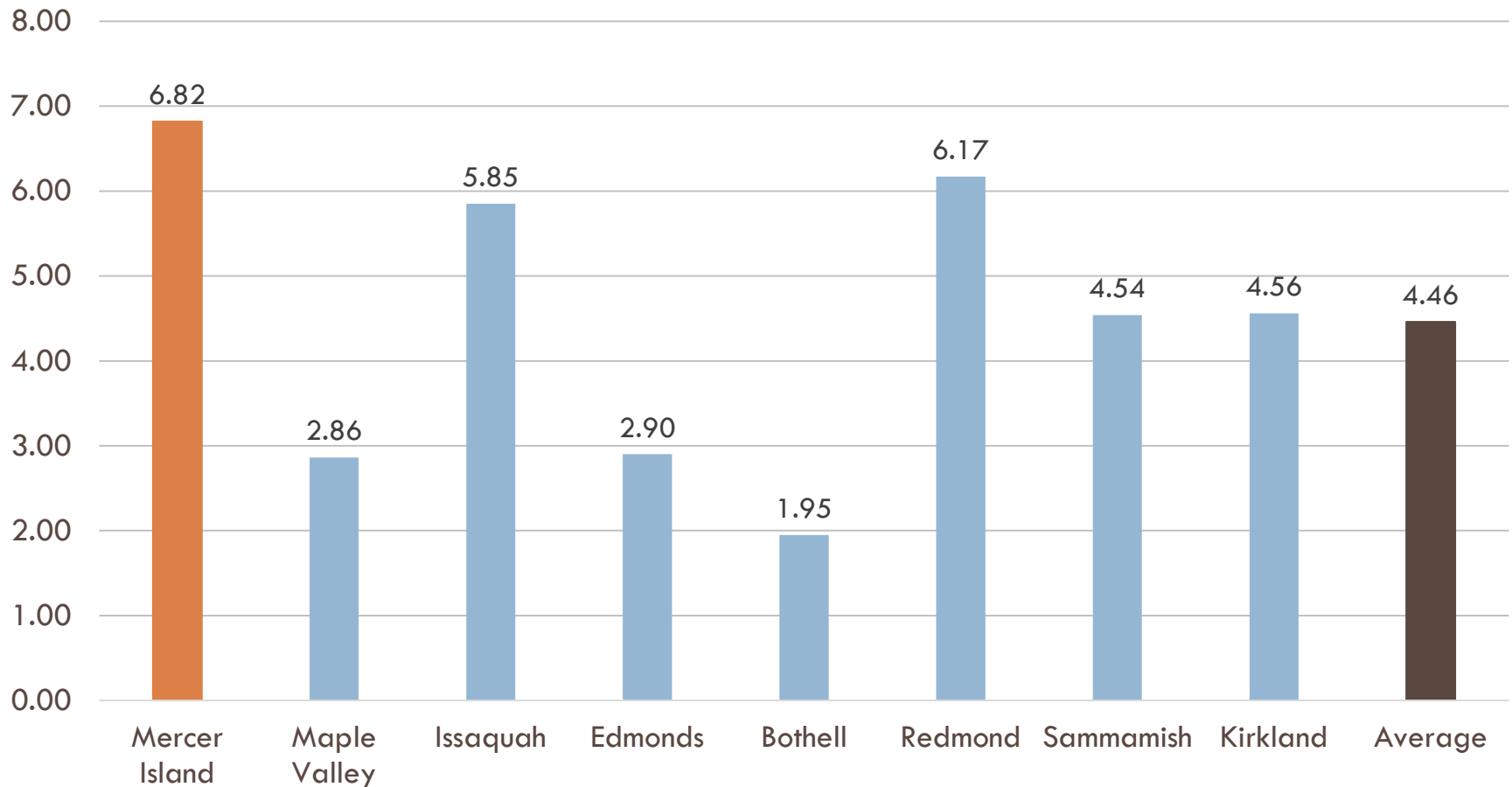
### 2018 Park Maintenance Cost Per Capita



# Additional Operating Budget Information

## *Park Maint Comparison (Videotaped)*

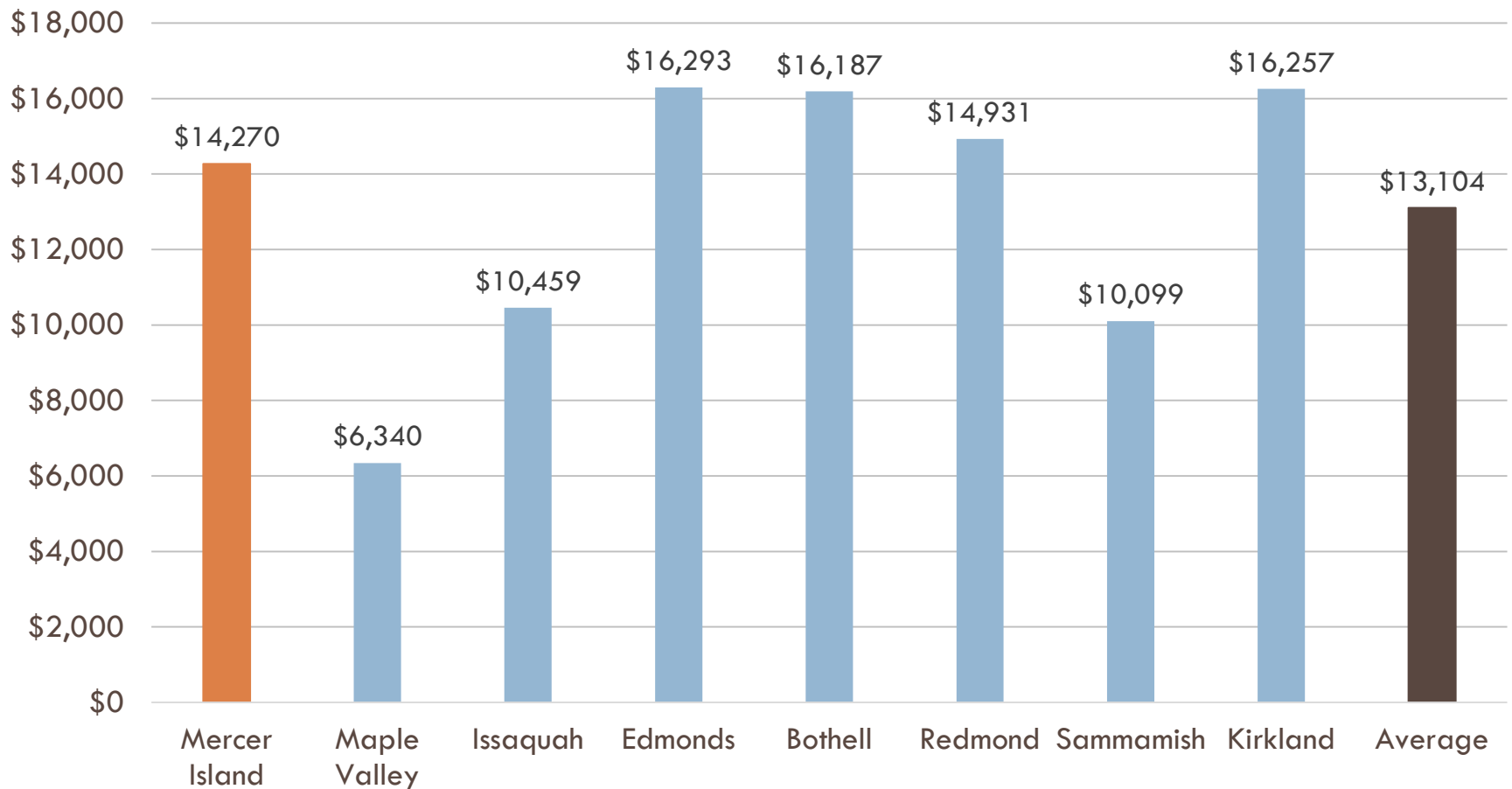
### 2018 Developed Park Acres Per 1,000 Population



# Additional Operating Budget Information

## *Park Maint Comparison (Videotaped)*

### 2018 Park Maintenance Cost Per Acre



# Additional Operating Budget Information

## Q&A





# Community Values/Priorities

## *Facilitated Discussion*



# Operating Budget Balancing Options

## Revenues

- **Economic development (sales tax)**
  - Wouldn't generate more than \$200K/yr in ongoing sales tax revenue because:
    - City sales tax rate is <1% of 10% total rate
    - Major retail businesses and car dealerships are already located near Mercer Island in Seattle and Bellevue
- **Utility tax (City's water, sewer & storm water utilities)**
  - Making temporary increase from 5.3% to 8.0% permanent would generate \$500K in 2019
    - Average utility tax rate in WA state in 2016: 8.0%-9.5%

# Operating Budget Balancing Options

## Revenues

### ■ **B&O tax**

- Combining Beautification Fund with General Fund would free up \$225K/yr beginning in 2019 (ordinance required)
- Increasing B&O tax rate from 0.10% to 0.15% would generate \$350K in 2019
- Average B&O tax rate in WA state in 2016: 0.16%-0.21%

### ■ **Property tax levy lid lift**

- Voter approved mechanism (simple majority) for lifting the 1% growth lid on the annual property tax levy
- Best single revenue option given that property tax is the City's largest revenue source (41% of total General Fund revenues)

# Property Tax Levy Lid Lift Scenarios

## *For Operating Budget*

- Assumes 6 year levy lid lift
  - Typical for an operations and/or maintenance levy
  - Annual increase is not limited to 1%
- An operating levy lid lift is generally structured in one of 3 ways, which are equivalent over term of levy:
  - Based on actual annual funding need
  - Based on average annual funding need (fixed amount)
  - Based on smoothed annual funding need (in between actual and average funding need structures)
- 2 scenarios (based on revised 2019-2024 forecast)
  - Levy lid lift only
  - Smaller levy lid lift + new revenues

# Scenario 1: Levy Lid Lift Only

## *No Other New Revenues\**

### Based on Smoothed Annual Funding Need + 5% Annual Growth

Levy Lid Lift Rate & Annual Cost	2019	2020	2021	2022	2023	2024	Avg
Levy lid lift rate per \$1,000 AV	\$0.275	\$0.288	\$0.303	\$0.318	\$0.334	\$0.351	\$0.311
<b>Annual cost (\$1.20M AV home)</b>	<b>\$331</b>	<b>\$348</b>	<b>\$365</b>	<b>\$383</b>	<b>\$402</b>	<b>\$422</b>	<b>\$375</b>

\* Assumes following:

1. Beautification Fund is combined with General Fund
2. No other new revenue sources

# Scenario 2: Smaller Levy Lid Lift Plus *Other New Revenues\**

## Based on Smoothed Annual Funding Need + 5% Annual Growth

Levy Lid Lift Rate & Annual Cost	2019	2020	2021	2022	2023	2024	Avg
Levy lid lift rate per \$1,000 AV	\$0.211	\$0.221	\$0.232	\$0.244	\$0.256	\$0.269	\$0.239
<b>Annual cost (\$1.20M AV home)</b>	<b>\$254</b>	<b>\$267</b>	<b>\$280</b>	<b>\$294</b>	<b>\$309</b>	<b>\$324</b>	<b>\$288</b>

\* Assumes following:

1. Beautification Fund is combined with General Fund
2. Temporary utility tax rate increase in 2017-2018 is made permanent in 2019
3. B&O tax rate is increased from 0.10% to 0.15% in 2019

# Operating Budget Balancing Options

## Q&A



# Capital Funding Needs

## *Problem Statement (Videotaped)*

- The Maintenance Center, which houses all Public Works and Parks Maintenance staff, is long overdue for renovation/expansion
- The Thrift Shop, which funds 55% of the Youth & Family Services Department budget, is long overdue for renovation/expansion
- In addition, there are a number of sports field, waterfront/beach, recreation trail, pedestrian/bicycle facility, arts & recreation, open space, and public safety projects for which there is significant community interest but inadequate funding



# Capital Funding Needs

## *Sample Listing of Projects (Videotaped)*

Unfunded Capital Project	2018 Cost
<b>Public Buildings:</b>	
Maintenance Building Renovation/Expansion (\$2.5-3.0M in one-time funding is available for this project)	\$5,710,000
Thrift Shop Renovation/Expansion	\$2,450,000
<b>Sports Fields:</b>	
Island Crest Park South Field Improvements (Turf & Lights)	\$3,077,000
Synthetic Turf Field & Ballfield Backstop Safety Upgrades	\$1,078,000
<b>Waterfront/Beaches:</b>	
Luther Burbank Park Swim Beach	\$1,163,000
Groveland Beach Improvements	\$1,050,000
<b>Roadside Shoulders/Sidewalks/Trails:</b>	
Island Crest Way Sidewalk Improvements (SE 53 <sup>rd</sup> to SE 62 <sup>nd</sup> )	\$1,680,000
Complete Mercer Way Shoulders	\$1,575,000

# Capital Funding Needs

## *Sample Listing of Projects (Videotaped)*

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

# Property Tax Levy Lid Lift Scenarios

## *For Capital Projects (Videotaped)*

- Put 9 year capital levy lid lift on Nov 2018 ballot
  - \$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\*
- Wait to go to the voters until Nov 2021, which is last year of Fire Station levy lid lift
- Add capital project funding to operating levy lid lift
  - \$50/yr for 6 years would fund \$3.3M in capital projects\*
  - \$100/yr for 6 years would fund \$6.6M in capital projects\*

\* Based on \$1.20M AV home, which is median AV on Mercer Island in 2018. Assumes “pay as you go” financing (no bonds issued).

# Capital Levy Project List

## *Next Steps (Videotaped)*

- If a capital levy lid lift is recommended by the CAG, a separate capital levy advisory group will be formed to decide on the specific list of projects (Apr-May 2018)
- If an operating levy lid lift + capital project funding is recommended by the CAG instead, the City will solicit input on which projects to include in the levy
- The City Manager will make a recommendation to the Council in Jun 2018
- The Council will make the final decision after conducting its first and second readings of a proposed levy lid lift ordinance in Jun/Jul 2018

# Capital Funding Needs & Options

## Q&A



# Preliminary CAG Recommendations

## *Facilitated Discussion & Polling*

- **Alternative service delivery options:**
  - Should the City look into de-annexing from KCLS and contracting for library services with a different provider?
  - Should the City continue looking into contracting with the City of Bellevue and Eastside Fire & Rescue for fire/EMS services?
  - Other recommendations?
- **6 year operating levy lid lift:**
  - Levy lid lift only (\$331 in 2019)
  - Smaller levy lid lift + new revenues (\$254 in 2019)
  - Another approach, encompassing service level reductions

Note: Annual property tax cost is based on a \$1.20M AV home.

# Preliminary CAG Recommendations

## *Facilitated Discussion*

- **9 year capital levy lid lift:**
  - \$100/yr to fund \$9.9M in capital projects
  - \$125/yr to fund \$12.4M in capital projects
  - \$150/yr to fund \$14.9M in capital projects
- **6 year operating levy lid lift + capital project funding:**
  - Smaller levy lid lift + new revenues (\$254 + \$50 in 2019)
  - Smaller levy lid lift + new revenues (\$254 + \$100 in 2019)

Note: Annual property tax cost is based on a \$1.20M AV home.

# April 2 CAG Meeting

## *Agenda*

- Finalize CAG recommendations
  - Alternative service delivery options
  - 6 year operating levy lid lift
  - 9 year capital levy lid lift
  - 6 year operating levy lid lift + capital project funding