



City of Mercer Island Financial Challenges Community Advisory Group April 2, 2018 meeting notes

Welcome

Julie thanked the CAG for their significant contributions of time and effort since November. Julie reviewed other activities the City is taking to communicate with the community and raise awareness of why the City is looking at a levy lid lift.

Regarding timeline of a decision on a levy, she noted that the CAG's recommendation will go to Council on May 15, along with results of the quantitative community survey that will be administered later in April. Julie will submit her own recommendation to the Council on June 5. The Council will deliberate during the month of June (2 Council meetings on June 5 and June 19).

Review Agenda

Jenny reviewed the agenda and the information in the packet. She reminded the CAG that consensus for the CAG means a strong majority and encouraged them to continue to work toward consensus.

Operating Budget Balancing Options

Bob Harper was invited to share with the CAG the subgroup discussion that took place on March 28, and present the subgroup position summarized in their one-page handout <http://www.mercergov.org/files/April2CAGMtgSubGroup.pdf>. Bob said the subgroup is not against a levy lid lift, just not at this time; 2020 would be a better year to consider a levy vote if the City was unable through belt tightening to balance the budget, and as a last resort. He expressed doubts about the City Finance Director's forecasting accuracy and believed city revenues would be higher than expected.

There followed some discussion on whether to rely on the City's financial forecasts.

Craig: Forecasts are always "wrong" because they are a look ahead. But forecasts are useful and necessary.

Lisa: She said she doesn't have expertise on the appropriateness of staffing in the City, but wants to know why the City has added staff in recent years and how those positions were funded given the budget constraints. Lisa felt 2018 isn't the right year to raise the levy lid and reiterated the subgroup idea of using one-time moneys and belt tightening to delay a levy until 2021 or later.

Chip: Reminded the CAG that the increases in City staffing were addressed in an explainer video and materials sent to the CAG. (Added staff were funded by development fees and utility fees). He noted 2017 was a deficit year as projected, and the budget was balanced with one-time monies. The budget for 2018 was likewise balanced with one time monies, and early information supports his deficit projections for this year.

John: Clarified that he questioned Chip's methodology, not his forecasting.

Amy: Asked how bad would the revenues have to get before the subgroup would agree to pull the trigger on the levy lid lift vote?

Chip: Explained issues with the sub group use of fund balances to balance the budget for the next two years. On the subject of using the City's Contingency Fund (rainy day fund), credit rating agencies would likely reduce the City's credit rating if this Fund was used for revenues, which would impact the cost of future borrowing for the City.

Jim: Supported a levy lid lift, but argued for the least amount that we can. He wanted to show citizens that the CAG really cares and tried really hard to find new revenues other than property tax. Wanted to provide the lowest property tax increase possible. Do more with the B&O tax and utility tax.

In the interest of time, and because the material was generally covered in other ways, Jason Baumgarten didn't review the discussion/outcomes of the additional Sunday, March 25 meeting held by a majority of CAG members, including several from the subgroup, at the Community Center.

Julie addressed requests heard by several CAG members to have the City regularly review how it delivers services and to look for efficiencies and better ways of operating. She noted this work is important and is part of how the City does business already, but more could be done. She said she has never before worked at a City that did not have analysts on staff to support this kind of work, yet Mercer Island doesn't. She said the City could use consultants and dedicate available staff time to take on this work. This would need to be done in the off-budget year of each biennium, due to staff capacity constraints during budget-setting years.

El: Asked what kind of new programs the City needs.

Julie: For example, we need improve our ability to respond to the community, provide the information they want and expect, and respond appropriately on social media which is a new demand the City didn't face 10 years ago.

Julie told the CAG that Mercer Island city government is at a crossroads: “We can govern by leadership or we can govern by crisis.”

GETTING TO CONSENSUS

Operating Budget Balancing Options

Chip reviewed the five Operating Budget balancing options in the handout plus a sixth by the CAG subgroup:

1. Levy lid lift only (\$331 in 2019)
2. Smaller levy lid lift plus make 8% utility tax permanent and increase B&O tax to 0.15% (\$254 in 2019)
3. Smaller levy lid lift plus other revenues as above plus Thrift Shop expansion (\$290 in 2019)
4. Even smaller levy lid lift plus other revenues as above plus implement 0.5% REET option (\$178 in 2019)
5. No levy lid lift plus the B&O, utility and REET revenues as above, plus expenditure cuts (\$0).
6. Subgroup option – as defined in the Subgroup report handed out at the meeting

**Note, all five options assume the Beautification Fund is combined with the General Fund and that the Council removes the restrictions on how B&O tax can be spent. The 2019 cost is based on a \$1.2M home assessed value (AV) which is the median AV on Mercer Island in 2018.*

CAG members voted by show of hands for each option they could support. There was clear consensus around Option 2 (17 of 23 votes, or 74%). Option 3, adding investment in the Thrift Shop, also garnered strong support but less than Option 2 (15 of 23 votes, or 65%).

Operating Budget Balancing Options						
Name	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6
Lisa Anderl	No	No	No	No	Yes	Yes
Nikki Baidwan		Yes				
Jason Baumgarten	No	Yes	Yes	No	No	No
Heather Cartwright	No	No	No	No	No	Yes
Doris Cassan	No	No	No	No	No	Yes
Donna Colosky	NA	NA	NA	NA	NA	NA
Jon Conradt	No	Yes	Yes	Yes	No	No
Jim Eanes	No	Yes	Yes	Yes	No	No

Rand Ginn	No	Yes	Yes	No	No	No
Susan Griesse	Yes	Yes	Yes	No	No	No
Bob Harper	No	No	No	No	Yes	Yes
Jonathan Harrington	Yes	Yes	Yes	No	No	No
Tim Hunkapiller	Yes	Yes	Yes	Yes	No	No
El Jahncke	No	No	No	No	No	Yes
Elaine Kavalok	No	No	No	No	Yes	Yes
Amy Lavin	No	Yes	Yes	No	No	No
Jodi McCarthy	No	Yes	Yes	No	No	No
Leslie Meagley	Yes	Yes	Yes	No	No	No
Terry Moreman	Yes	Yes	Yes	No	No	No
Craig Reynolds	Yes	Yes	Yes	No	No	No
John Scherzo	No	Yes	No	No	No	No
Alison Stovall	Yes	Yes	Yes	No	No	No
Brian Thomas	Yes	Yes	Yes	No	No	No
Kwan Wong	Yes	Yes	Yes	No	No	No
Totals:	9	17	15	3	3	6
Percent of Total (out of 23)	39%	74%	65%	13%	13%	26%

Jason raised the point that the sub group had two main concerns as he understood it: forecasting risk and concern that the city would address cost containment and new sources of revenue if a levy lid lift was passed. To address these concerns, he suggested:

1. The city would agree to a formal budget review and economic development program including a rotating departmental review as well as using tools such as priority-based budgeting going forward to improve the urgency to reduce costs and find new revenue opportunities.
2. The city would agree to not use increased Levy funds to fund growth in FTE equivalent headcount with the caveat of headcount paid for through for fee services or headcount mandated by legislation or policy that the city must adhere to.
3. That the city would agree to review the forecasts at the three and six-year mark and if the forecasts led to a surplus vs. projected deficit, that the city would mitigate the following tax period or otherwise find a rebate mechanism.

The subgroup's response was that they did not believe the city would refund or lower taxes going forward and that without the threat of no additional funds they did not believe the city would follow-through with any expense or revenue efforts and as such no members of the sub group were willing to support the proposal.

Potential Cost Saving/Revenue Options

The CAG reviewed three potential cost saving/revenue options that were raised during previous meetings, to determine if there was consensus on asking the City Council to study them further. There wasn't consensus on pursuing any of the three items:

- Revisiting Mercer Island’s participation in the King County Library System (4 out of 23 votes)
- Outsourcing the City’s fire and emergency management services to neighboring Eastside Fire & Rescue or Bellevue Fire Department (9 out of 23 votes)
- Outsourcing/reducing/eliminating the Police Department’s Marine Patrol unit (10 out of 23 votes)

Capital Funding Needs and Options

The City noted that it would like a CAG recommendation on whether to place a capital levy lid lift on the ballot and, if so, what type and amount. The City clarified that it isn’t asking for a recommendation on project selection, which would take place through a separate process unrelated to the CAG.

Chip presented the capital funding options and took questions:

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 lid lift. Wait until Fire Station levy lid lift expires in 2021

**Based on a \$1.2M home assessed value (AV) which is the median AV on Mercer Island in 2018.*

There was immediate strong consensus around Option 3 (18 of 23 CAG members). The CAG did not vote on the other options.

Preparation of CAG Recommendation

Jon Conradt, Susan Griesse, Leslie Meagley and Terry Moreman volunteered to help author the CAG’s recommendation report. Bob Harper volunteered to write a “minority report” representing the viewpoint of the 6 dissenting CAG members.

The CAG reviewed the timeline for finalizing the CAG recommendation report and minority report: draft reports for entire CAG review by 4/16, comments due back by 4/20; second drafts for entire CAG review by 4/24, comments by 4/27, and final reports to City Manager by 4/30.

Closing Remarks

At the end of the meeting, CAG members were invited to share their thoughts or feedback on their experience on the CAG. Two CAG members offered closing comments:

- Congratulating City staff for a great job of running the process; requesting in the future to mix up the tables more so people could get to know each other better.
- Appreciating how much time was invested by each person serving on the CAG.

Meeting adjourned at 8:45 p.m.

Not Attending April 2 meeting:

Nikki Baidwan (emailed single preference for levy lid lift option)

Jonathan Harrington (sent voting preferences by email)

Attachments/Handouts Provided at Meeting

City Presentation PowerPoint

CAG Recommendations handout

March 27 Telephone Town Hall Results

March 22 Letter from MISD Board to City Council

CAG Sub Group Option and Presentation

Jon Conradt Recommendation Presentation

The April 2, 2018 meeting was the final scheduled meeting of the Community Advisory Group