



City of Mercer Island Financial Challenges Community Advisory Group March 3, 2018 meeting notes

Welcome

City Manager Julie Underwood reviewed the community outreach activities that are going on in parallel with the CAG process, and reiterated that the City's budget challenge is a revenue problem stemming from the 1% cap on annual property tax growth. She noted that the CAG process has been very valuable and proposed solutions are being provided to the community.

What is consensus for the CAG? It's a strong majority.

Review Agenda and Goals

Facilitator Jenny Brailey reviewed the agenda, purpose/goal of CAG as spelled out in the Charter, and covered key ground rules for today's discussion: speak up, listen to others, keep an open mind, strive for consensus.

Finance Director Chip Corder reviewed what information has been presented and discussed in past meetings: operating revenues and expenses, belt tightening measures, unmet needs, city service comparison, etc.

Review of 3 explainer videos the CAG reviewed pertaining to the Operating Budget

-Belt Tightening Examples by Department

-Unmet Needs by Department

-Police, Fire, and Parks Maintenance Service Comparisons

What the group discussed:

- Question about whether Fire Department staff were added so that the City could respond to four emergency responses at the same time? *Answer: The staffing increase was so that Fire Department can respond to two emergency calls at a time. EMS fee shows up on utility bill to fund this.*
- Regarding MI's Fire Service Delivery Model, would the City lose control if Fire became part of City of Bellevue? *Answer: Bellevue would not have authority to close one of MI's two fire stations. Bellevue could require teams to move to four person from three person, which could actually increase MI's costs. MI prefers a shared governance model, but Bellevue doesn't want that. Regional fire service may be the way of the future, and we're working on it, but it's not here yet.*

- Suggestion that Council looks at alternative service delivery models for Fire in the future, if it financially benefits MI and maintains enough local control; but it's not part of the budget balancing discussion now.
- Concerns that MI would not be as high of a priority in major emergency event/earthquake. *City: In that case, local engine companies would stay on MI, but Bellevue would have bigger disasters due to taller buildings and bigger downtown, etc., so they would not come to aid MI. We are working on interlocal agreements to clarify mutual aid agreements.*
- Discussion of which salaries get paid by fees versus property taxes.
- Opinion expressed that MI doesn't want another taxing authority (i.e. Fire).
- Question about why the City did not address these structural budget issues earlier? *City: This has been on the radar for many years, we've been able to address it because of high development activity, previous belt tightening, etc. Council found it difficult to address financial challenges in a time of development revenue surplus. Also, the community had many other significant items to deal with in the past two years, i.e. I-90, Town Center, Residential code.*
- Discussion that other cities have the same issues due to the 1% limit on property tax growth.
- Forecasting is very difficult; when there is a surplus people find it challenging to believe there is a problem. You almost have to be in a crisis for the timing to be right.

Values Discussion

CAG member Jon Conradt reviewed the results of his survey of CAG members about the list of values to guide decision-making about the budget. There were 12 respondents out of group.

Discussion:

- I struggle with the list because #4 clean water is essential, who would live here if we didn't have it?
- Low taxes wasn't on the list; need to ask, do we want these things and are we willing to pay for them?
- If you write a narrative about what the City of MI is, it's more about quality of life than about basic services. We need to solve the financial issues; City should write a narrative about what the city is.
- We want all of these things (values), and need to make sure they are provided in the most efficient way possible.
- People in the community don't understand why we have this problem, why we are in a crisis; there's a perception that we are thinking short-term versus long-term thinking; struggling with how to talk to people about the long term solution; would like talking points; want to solve the problem for the long term; there's a lack of understanding about why the structural imbalance has occurred;

it seems to be disjointed, in crisis mode; don't think City is mis-managed but there's a lack of understanding in the community about this issue.

- Council is talking about spending more money on new Goals and work plan, particularly focusing on goal #4 arts and culture.
- *Julie: described Council Goal setting process that Council undertakes each year. Many items on the list that are held over from last year, already on staff work plates, others are what the council and staff are hearing from the community (sustainability, arts and culture). The goals are a reflection of the community. Demand does not go down when resources go down, sometimes they even go up. Talked about how in Washington state we are a levy based system, not an AV based system. The total levy is capped, does not go up with assessed values.*
- We have had a period of very low inflation that helped the City contain expenditures and be able to balance the budget even with low revenue growth, but this is going to change going forward. Long term, initiative #747 needs to get fixed.
- *Julie: A City Council legislative priority has been to look for fixes to 747. State legislature does not have an appetite to address this right now.*
- Questions about Council goals and work plan, note that it is available on the City website.
- Government should be thinking long term, but has to react to the community. Don't blame the government; citizens are often focused on just a single-issue, and they are the ones driving the issues that the City is reacting to.

Operating Budget Balancing Options

Chip presented 2 options for how to raise revenues to balance the operating budget without cuts in service, then took questions from the CAG. The options were (a) relying on a property tax "levy lid lift" to raise the needed funds, and (b) relying on a smaller levy in combination with other new revenues such as maintaining the utility tax instead of sunsetting it, raising the B&O tax, etc.

Comments and questions – sales tax:

- City does not have residential densities to support great retail.
- Discussion about current sales tax and retail mix and what could be increased with current town center density.
- We should be looking at economic development, not just sales tax.

Utility Tax:

- A utility tax increase seems more sustainable.
- Why just 8% for utility tax when we are trying to just get back to par, maybe should go to 8.2%, or 8.3% etc.
- Is utility tax more regressive as a tax?

- Consider a more robust program for low income residents,
- Could Council vote to go to 25% and solve the budget issue?
- Why is MI only 5.3% instead of closer to the average of 8-9.5%?
- Lets carry on and see Chip's other slides; utility taxes are very regressive, wants to see the whole complement of options, consider all the options.
- Those who live in rental properties on the Island are more likely to vote for higher taxes because they don't pay. (Others disagree: yes they do, the taxes are passed on in rent).
- We should consider all taxes, don't leave money on the table.
- Those who own rental properties are not able to pass on the taxes for up to two years. Likes use taxes, if people use more utilities they should pay more; it's difficult to compare apples to apples. Believes that water problem was due to money taken from utilities to pay for other things.
- *Correction: utility funds/fees pay only for utilities, utility taxes go to general fund.*

Levy Lid Lift Scenarios:

- How much do the scenarios add up to? Group wanting to see the numbers as well as percentages
- What is profile of B&O tax payers, will it affect those who might be interested in moving to MI. *Chip: MI B&O tax is much lower than adjoining cities. Others: MI has tons of room to increase the B&O tax and be competitive.*

Capital Needs and Funding Options

- Can we be creative -- What about selling the thrift shop land and moving into empty storefronts on MI? Could help retail landlords and get more foot traffic. *Cindy Goodwin: there would be concerns about needing to pay rent.*
- If maintenance center needs more space, shouldn't the workers be out in the field? *Jason Kintner, PW Director: PW includes engineering staff, 65 staff in very small space, plus a warehouse and shop; similar to "Harry Potter closet" space for staff. Staff need computer and desk space. PW staff work daily with the IGS staff, would like to have them at the maintenance center, would increase operational efficiency.*
- We should look at what is vital and necessary; I'm worried about looking at what is interesting to the public when something like a maintenance center is necessary. Questions about size and cost of maintenance center.
- Is the \$5.7 million based on further design or just conceptual design? (*answer: conceptual*).
- City contributes \$400k/yr. for school mental health counselors. School district used to pay 42% of school counselors, can we go back to that funding model? *Schools Superintendent Donna Colosky: McCleary does not pay for full funding.*

Recent school levy is at a lower rate than current levy. No additional money was raised. We would have to take away some other positions if MISD were to fund school counselors.

- *What about school foundation? Could they pay for it? Donna: The foundation supports positions so they would have to take away funding from other positions they already support, so other school needs would not get funded.*
- *We would also lose the firewall between the school and counselors (not so if district contributes versus hiring their own counselors).*
- *Are there no new funds for the schools from the 18% increase in property tax? Donna: yes, some new funds, but offset by requirements to have smaller class sizes and other state requirements. It's more net neutral.*
- *Does the Sound Transit settlement pay for Town Center parking? Chip: City must pay 51% of any permanent parking costs.*

Discussion: Looking For Consensus (Preliminary CAG Recommendations)

CAG broke into small groups to focus on areas off consensus, making a list of *everything* they could agree on at this time. Then they shared out with the larger group.

Agreements at Tables

Table 1:

- Makes sense to merge beautification into general fund
- The operating piece of the levy and the capital should be two separate levies
- Operating first, then capital; operating is more pressing.

Table 2:

- It's a good idea to study contracting and/or forming a regional fire service
- The city should encourage economic development in long-term, invest in hiring economic development staff to develop a real plan to generate more revenues for the city
- Investigate pros/cons of separating from KCLS
- The city should develop tools for accountability and efficiency so that City self-audits and demonstrates operational efficiencies benchmark
- Promote levy lid perspective for a long term solution, more than a year or two. Long term plan that would say what would sustain us for 8-10 years.
- Maintenance shed (Center) bond should be for the whole thing, not using other revenue sources

Table 3:

- Retain utility rate at 8%
- 20 + employees have been added, employees are the biggest cost – statement of fact, we agree; no recommendation

- There isn't yet enough information on whether the city should be contracting out police/fire. And it doesn't solve the short term problem of needing to balance the budget.
- Want an Economic development plan; be thoughtful about how to recruit the right mix of business.
- It's worthwhile to educate community to support fixed/low income resources
- Need tool for constant monitoring our progress against our plans so we don't find ourselves in same situation in four years.
- City should communicate in cohesive way around the financial story
- Alignment around documents
- We should raise the B&O tax, and try to attract healthier mix of business with high B&O rates

Table 4:

- The city has done a good job of tracking expenses and running the shop
- City in impossible situation with requirements to implement, but where do we get the resources?
- City will need to make some unpopular decisions, citizens need to invest the time to become informed, too many interest groups, committee needs to decide and do it even if it is unpopular.
- Need both short term and long term strategies.
- Long term, hire someone for economic development.
- Yes to a levy lid lift, and other fundraising initiatives on long term investment basis.
- Don't object to the taxes, but want more and different strategies for revenue.

Table 5:

- Felt good about the presentations and information that the city provided.
- Leaning toward a 6 year levy, 9 year capital levy
- Liked the B&O tax
- The city is well managed, professional

5 minute Reflection writing exercise:

Each CAG member wrote down their own answer to: Which of the City levy options can I support, and why do I support it? Alternatively, if there isn't a levy option I can support, under what conditions could I (if any)?

First, we heard from CAG members who said they did see a levy option presented by the city that they could support, and they explained why they did.

Operating Lid Lift – yes:

- Tim: Could support either option, not the cuts—community would be unhappy about the cuts when they were implemented.

- Kwan: Question is not whether I support a levy, but I want voters to have the choice. Supports both.
- Alison: Would personally support \$331 option, thinks other would be more successful
- Jodi: Likes smaller levy
- Jonathan: Supports both/either
- Jim: Would support either, wants to spell out what would be lost so citizens know what they are voting for
- Leslie: Would support both, look to long term solutions
- Nikki: Could see herself getting to ... (*sorry, missed remainder of statement*)
- Craig: Wants to live in a full service city, support either, wants annual updated forecast with info on why it was right or off
- Jon: Yes on either, vote on utility tax now
- Susan: Supports either, wants deep dive on the reserves
- Terry: Supports either, city needs to explain to residents what would be lost/cut if no levy passes
- Brian: Support lower option
- Rand: Supports the lower option

Next we heard from those who didn't see an option they could support, and under what condition they could support a levy.

- Lisa: Doesn't support putting a levy to voters now, wants to look at B&O and Utility tax, belt tightening, decrease staff positions, less DSG staffing, look at cost containment, reserves, see what can bridge us through next biennium... and go to voters in 2020 if needed. Thinks city can do other things that do not result in service cuts for the next biennium. No levy lid lift now.
- Bob: Doesn't trust the city's six year forecast, believes it is too conservative. Thinks we don't need as much money as forecasted. It's not asking for a lot of money, but it could be for some people; be clear about impacts on low income residents; believes city has enough money to get through biennium, can use REET funding for Capital needs; wants city to find cost containment measures and doesn't think that will happen if a levy is approved first.
- El: Concerned about the city's staffing head count; why do we need an extra 18-20 employees to do the same level of work? Believes city has been well managed, but still doesn't understand why do we need more people?
- Heather: No levy at this time. Give citizens time to react to new taxes from McLeary, time to find out whether the city's revenue forecasts are accurate, tap into reserves in the meantime (being conservative); doesn't agree with and wants to challenge REET laws and use these fund for the operating budget. (*City responds: this isn't a legal option*).
- John: Now is a bad time to ask residents for more money. We should hold the line now, and in the next year or two we'll have something more to base it on.

- Doris – *(Sorry, missed statement)*
- Jason: I'm an independent. Like Kwan's statement about putting a levy in front of voters and letting them decide. But we must link levy to mandate to not kick the can down the road. Supports something that realistically articulates what the very real and specific cuts would be so citizens could decide. Need to be very articulate about what the revenues would be, wants a vote. There should be a long-term sustainability plan with it.
- Amy: I could vote in support of the levy, with qualifying elements of putting a long-term plan for sustainable revenues in place -- agrees with Jason.

Some discussion briefly ensued.

- There is irony that some CAG members are saying why didn't we do something about this problem years earlier – and others are saying we should wait even longer before taking action.
- We should make the investment now.

CAG Preliminary Straw Poll:

Due to the length of discussion, the CAG only voted on the 6 Year Operating Levy Lid Lift option, with the following results:

- Levy Lid Lift Only (\$331/yr) = 12 votes
- Smaller Levy Lid Lift (\$254/yr) + New Revenues = 13 votes
- No Levy Lid Lift which equals Cuts = 2 votes
- "Sub Group Option" (distributed in writing by a group of CAG members) = 6 votes
- Other = 1 vote with comments: "Lift w/ Revenue/cuts. Do not hire based upon current HC forecast. 10% population forecast does NOT mean 10% HC increase."

Not Attending March 3 meeting:

Full attendance

Attachments

City response to Subgroup Report

Next CAG meeting:

Monday, April 2

6:30-9:30 p.m.

Slater Room, MICEC