

*City of Mercer Island*

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



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Presented to: Mercer Island Residents (Community meeting)

Date: Sat, Feb 10, 2018

# Did you know...

## *City of Mercer Island*

- **Population = 24,210**
- **Full service city**
- **2018 budget = \$64.7M** (\$15.8M for capital projects)
- **208 employees** (includes 12 contract staff)
- **Lowest property tax rate** in King Co. (among cities >20,000 pop)
- **Clean audit opinion** received for past 23 years
- **Aaa credit rating** from Moody's (best possible rating)
- **Lowest violent & property crime rates** among full-service Eastside cities
- **85% of Islanders** think the City provides the right amount of services
- **66% of Islanders** think the City is doing a "good" or "excellent" job overall
- **Best place to live in WA state** according to Money magazine (Jan 2018)

# How Mercer Islanders see their community...

- A REAL COMMUNITY
- “Family-friendly, green, safe, connected, caring, hub, home, connection, safe, transitional, concerned, volunteers, center, involved, lush, successful, generational, energy, changing, sylvan, generous”

# Have you heard...



- ...about the financial challenges facing our City?

# Problem Statement

## *Operating Budget*

- The City had to use \$1.95M in one-time resources to balance its 2017-2018 operating budget
- Projected operating budget deficits in 2019-2024:

2019	2020	2021	2022	2023	2024
-\$1.99M	-\$2.91M	-\$3.90M	-\$4.97M	-\$6.11M	-\$7.35M

- To maintain current service levels, a new, ongoing revenue source is needed
- Otherwise, significant service level cuts will be required
- Note: Bellevue, Bothell, Kirkland, and Redmond are projecting operating deficits in 2019-2020

# Problem Statement

## *Capital Improvement Program*

- The Maintenance Center, which houses all Public Works and Parks Maintenance staff, is long overdue for renovation/expansion (not funded)
- The Thrift Shop, which funds 55% of the Youth & Family Services Department budget, is long overdue for renovation/expansion (not funded)
- In addition, there are a number of sports field, waterfront/beach, recreation trail, pedestrian/bicycle facility, open space, and public safety projects for which there is significant community interest but inadequate funding

# City Budget 101

## *General Government vs. Utilities*

- Consists of two hemispheres:
  - **General government**
    - Funded mostly by:
      - Taxes: Property, sales, utility, B&O, REET, and gas
      - Fees & charges for services: Development, parks & recreation, cable franchise, business license, and EMS
  - **Utilities**
    - Funded mostly by:
      - Charges for service: Water, sewer, and storm water rates
- Each hemisphere consists of:
  - **Operations & maintenance**
  - **Capital projects**

# Operating Budget 101

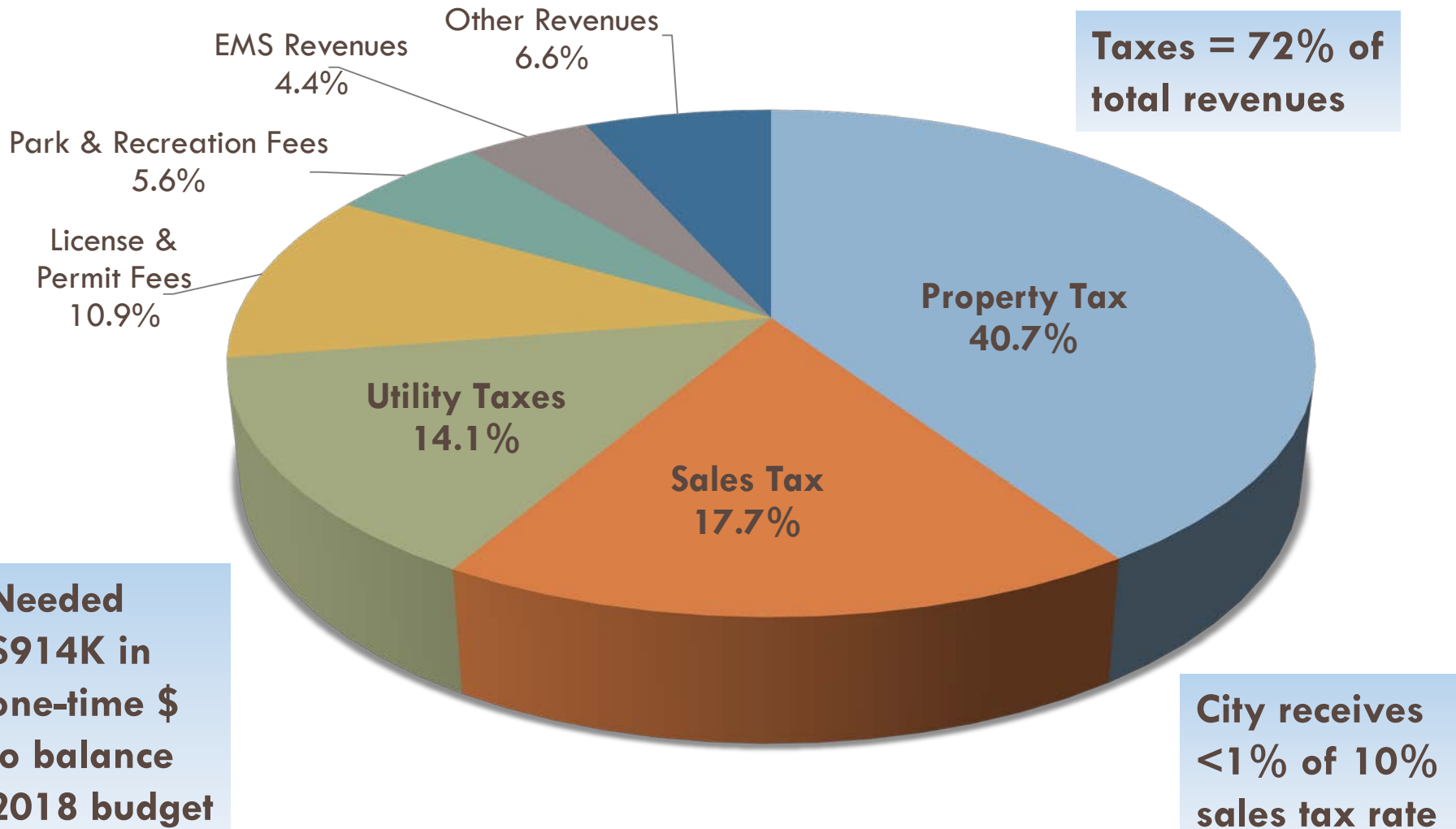
## *General Government*

- Within General Government, the operating budget primarily consists of:
  - **General Fund:** Accounts for most of the City's tax funded services such as police, fire/EMS, parks & recreation, and street/roadside maintenance
  - **Youth & Family Services Fund:** Accounts for Thrift Shop operations, mental health school counseling, family counseling, senior outreach, youth volunteer programs, emergency assistance, and other social services



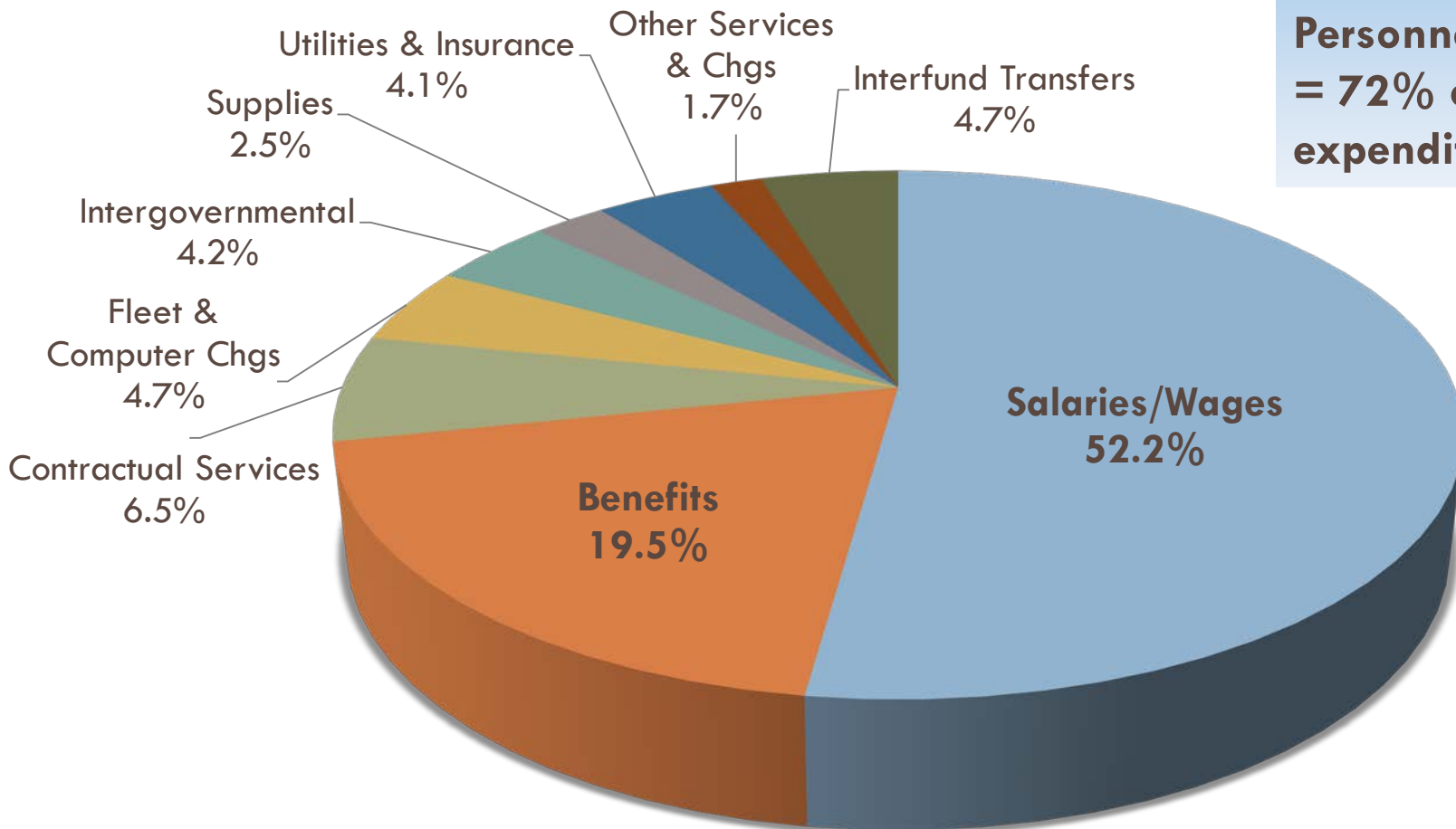
# General Fund 101

*Revenues (2018 Budget = \$29.9M)*



# General Fund 101

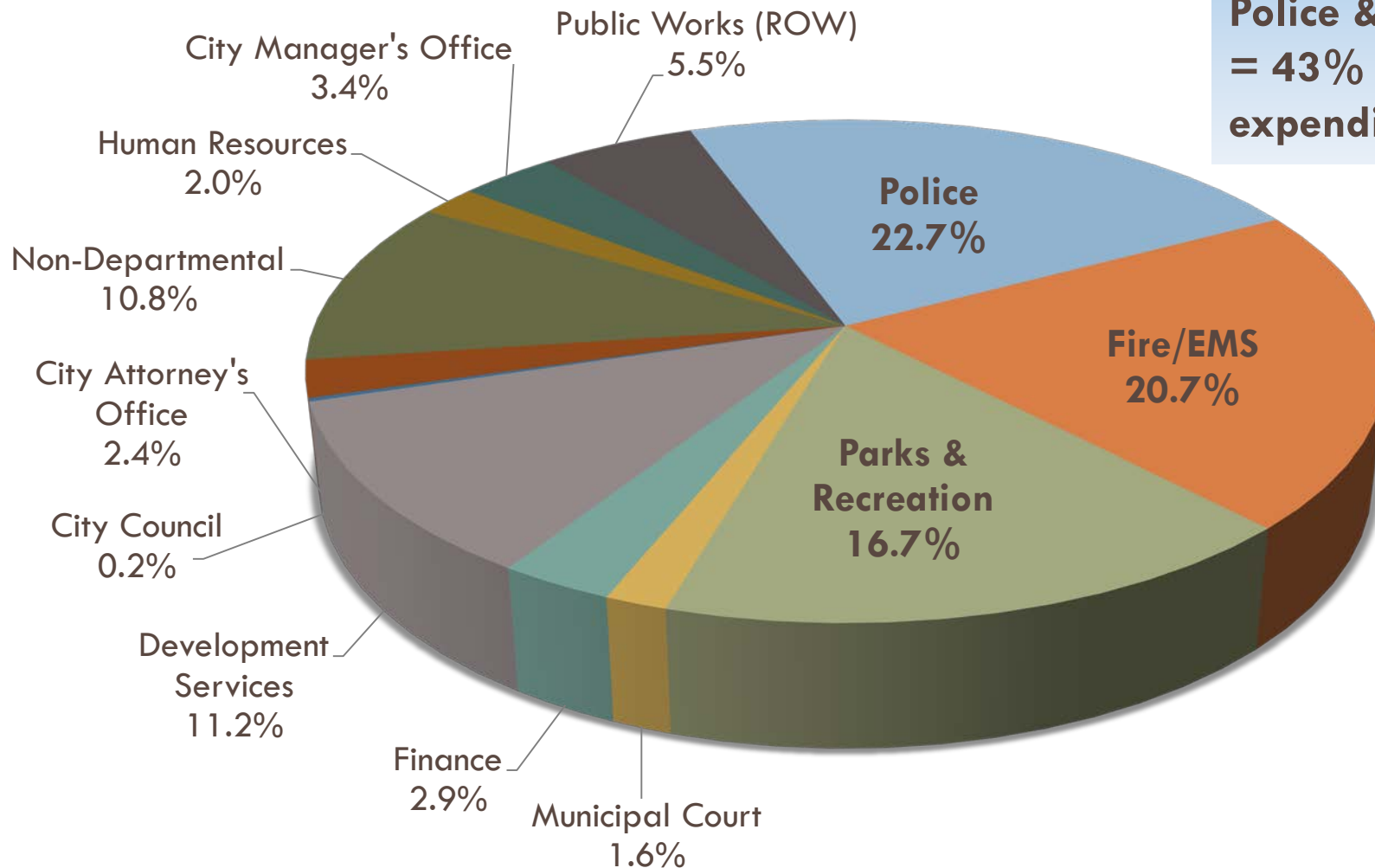
*Expenditures (2018 Budget = \$31.0M)*



**Personnel costs  
= 72% of total  
expenditures**

# General Fund 101

## 2018 Budget by Department



**Police & Fire/EMS  
= 43% of total  
expenditures**

# General Fund Projected Deficits

## *Primary Drivers*

- 2019-2024 forecast (annual % growth)

General Fund	2019	2020	2021	2022	2023	2024
Total revenues	0.8%	2.6%	2.6%	2.6%	2.6%	2.6%
Total expenditures	2.7%	5.2%	5.2%	5.2%	5.2%	5.3%
<b>Net expenditure growth</b>	<b>1.8%</b>	<b>2.6%</b>	<b>2.6%</b>	<b>2.6%</b>	<b>2.6%</b>	<b>2.6%</b>

- Why?

- **Property taxes** (41% of total revenues)

- Capped at 1% growth per year + “new construction” (1%/yr average)

- **Permit fees & construction sales tax** (17% of total revenues)

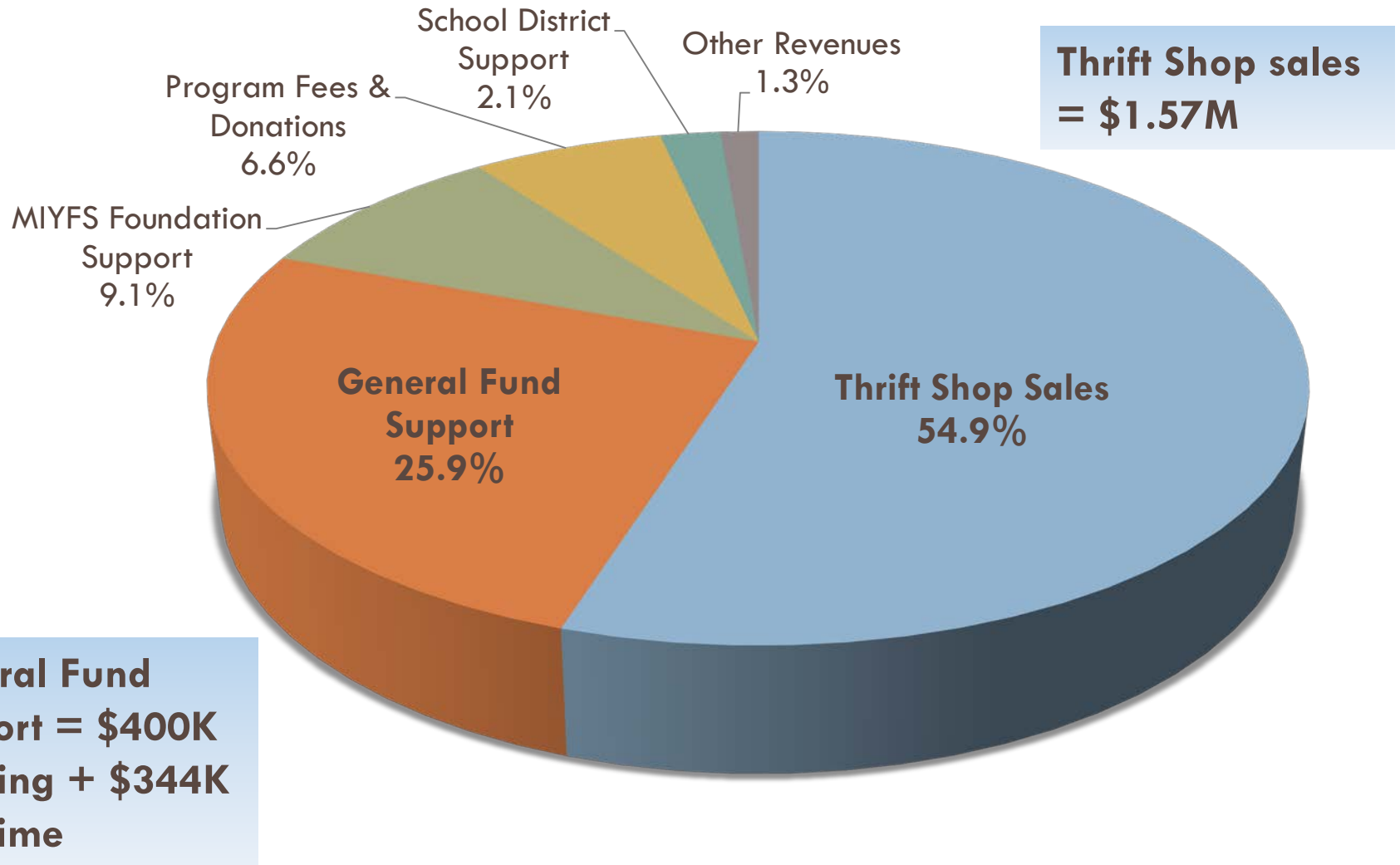
- Projected to decline in 2018-2019 after all-time highs in 2016-2017

- **Personnel costs** (72% of total expenditures)

- Grow faster than inflation, which was 4.0% in Dec 2017 (Seattle metro)

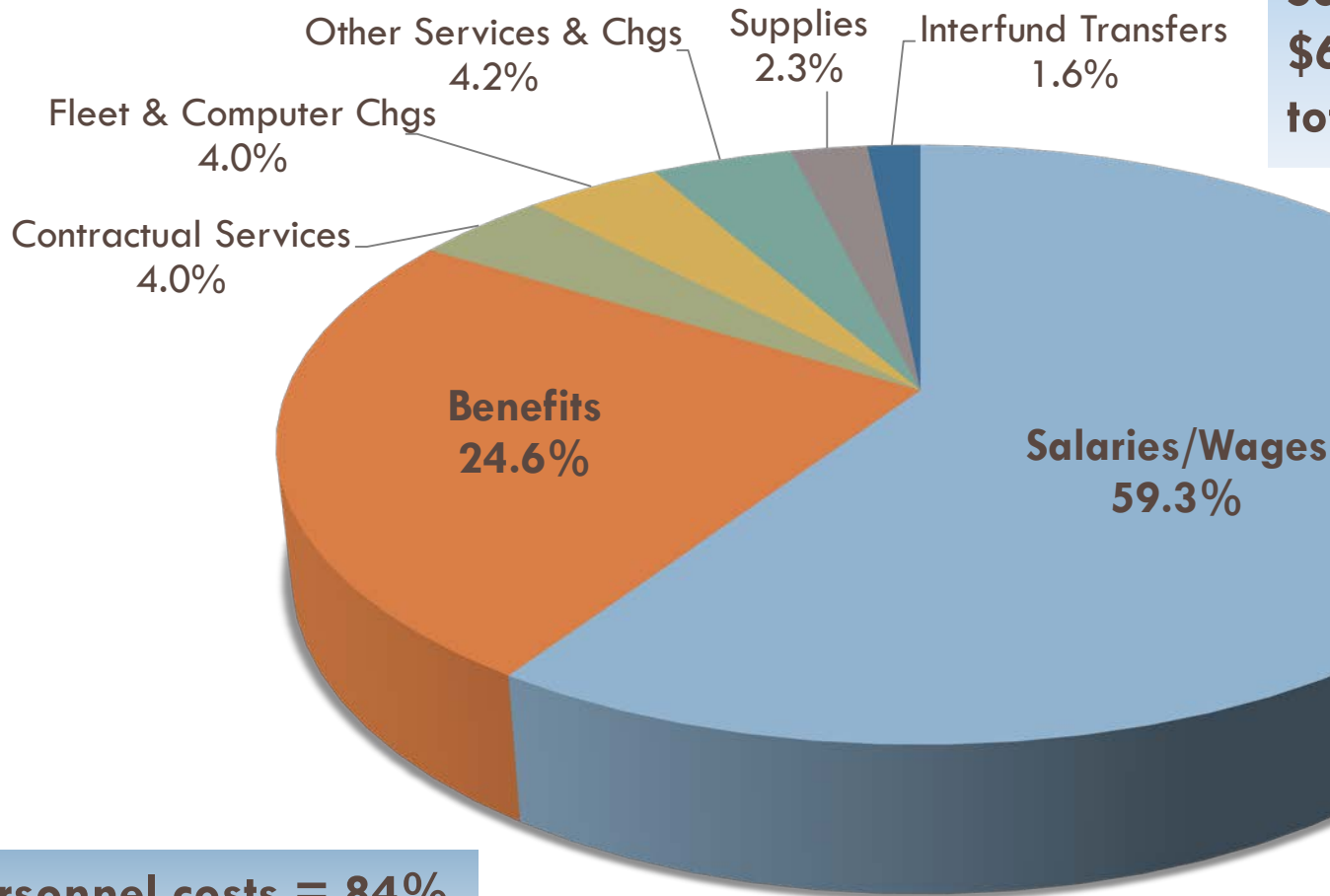
# Youth & Family Services Fund 101

## Revenues (2018 Budget = \$2.87M)



# Youth & Family Services Fund 101

*Expenditures (2018 Budget = \$2.85M)*



**School Counselors = \$648K, or 23%, of total expenditures**

**Personnel costs = 84% of total expenditures**

# YFS Fund Projected Deficits

## Primary Drivers

- 2019-2024 forecast (annual % growth)

YFS Fund	2019	2020	2021	2022	2023	2024
Total revenues	-9.4%	3.0%	3.1%	3.1%	3.1%	3.2%
Total expenditures	4.5%	4.7%	4.8%	4.8%	4.8%	4.9%
<b>Net expenditure growth</b>	<b>13.9%</b>	<b>1.7%</b>	<b>1.7%</b>	<b>1.7%</b>	<b>1.7%</b>	<b>1.7%</b>

- Why?
  - **School District annual support** reduced for mental health school counselors from 42% of total cost to \$60K beg. in 2010
  - **General Fund annual support** is fixed at \$400K per year
  - **4<sup>th</sup> elementary school counselor** added in Sep 2016
    - 100% funded by the City

# Operating Budget Balancing Options

- **Reduce service levels/cut expenditures**

- 52 employees, or 25% of City’s workforce, would have to be cut in 2019-2024 to balance the budget

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

- Most of the cuts would impact “non-essential” services provided by Parks & Recreation and Youth & Family Services
- After 2024, the City would have to continue cutting staff



# Operating Budget Balancing Options

## *Service Level Reduction Scenario*

Description	2019	2020
<b>Expenditure reductions (General Administration):</b>		
Eliminate administrative position(s) in CMO/CAO/Finance	235,000	244,400
<b>Expenditure reductions (Parks &amp; Recreation):</b>		
Reduce park maintenance levels (mowing, trash removal, litter pickup, graffiti removal, restroom cleaning, weeding, repairs & inspections)	--	318,667
Eliminate Mary Wayte Pool support to MISD	139,921	144,119
Cancel MISD field agreements & cut field rentals (net of revenue loss)	--	101,135
Eliminate SC! & special events/programs (net of revenue loss)	40,900	90,900
Reduce irrigation to non-athletic fields at Mercedale Park & Aubrey Davis Park	61,960	61,960
Eliminate lifeguards at beaches	48,000	48,000
Reduce customer service & operating hours at MICEC (net of revenue loss)	23,403	33,986
Eliminate holiday lighting	28,000	28,000

# Operating Budget Balancing Options

## *Service Level Reduction Scenario*

Description	2019	2020
<b>Expenditure reductions (Police):</b>		
Eliminate School Resource Officer program (net of MISD contribution)	129,697	135,148
<b>Expenditure reductions (Public Works):</b>		
Reduce Town Center maintenance/beautification (34% reduction)	47,679	47,679
<b>Expenditure reductions (Youth &amp; Family Services):</b>		
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
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
<b>TOTAL NET EXPENDITURE REDUCTIONS</b>	<b>925,521</b>	<b>1,707,127</b>

# Operating Budget Balancing Options

## *Service Level Reduction Scenario*

Description	2019	2020
<b>Revenue increases:</b>		
Make temporary utility tax rate increase from 5.3% to 8.0% permanent	500,000	520,000
Increase B&O tax rate from 0.10% to 0.15%	350,000	367,000
Consolidate Beautification Fund with General Fund (removes restrictions on use of B&O tax)	200,000	210,000
Adjust Thrift Shop sales growth projection based on 2017 actual sales	100,000	105,000
<b>TOTAL NEW REVENUES</b>	<b>1,150,000</b>	<b>1,202,000</b>
<b>TOTAL NET EXPENDITURE REDUCTIONS &amp; NEW REVENUES</b>	<b>2,075,521</b>	<b>2,909,127</b>

# Operating Budget Balancing Options

## ■ Increase revenues

### ■ Economic development (sales tax)

- Wouldn't generate more than \$100K-\$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

### ■ Property tax levy lid lift

- This is the voter approved mechanism for lifting the 1% lid on the annual property tax increase under state law
- Requires simple majority voter approval
- 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

## *For Operating Budget*

- Assumes 6 year levy lid lift & no increase in utility or B&O taxes
- A levy lid lift is generally structured in one of three ways:
  - Based on actual annual funding need
  - Based on average annual funding need (fixed amount each year)
  - Based on smoothed annual funding need (in between actual and average structures)
- Under the smoothed approach noted below, the levy lid lift starts out at a higher amount in 2019, increasing 5%/yr in 2020-2024

### Smoothed Annual Funding Need

Levy Lid Lift Rate & Annual Cost	2019	2020	2021	2022	2023	2024	Avg
Levy lid lift rate per \$1,000 AV	\$0.301	\$0.316	\$0.332	\$0.348	\$0.366	\$0.384	\$0.341
<b>Annual cost (\$1.20M AV home)</b>	<b>\$363</b>	<b>\$381</b>	<b>\$400</b>	<b>\$420</b>	<b>\$441</b>	<b>\$463</b>	<b>\$411</b>

# Capital Funding Needs

- Maintenance Center renovation/expansion
  - Houses all Public Works and Parks Maintenance staff
- Thrift Shop renovation/expansion
  - All sales are dedicated to funding the YFS Department
- Sports field projects
- Waterfront/beach projects
- Recreational trail & pedestrian/bicycle facility projects
- Open space & public safety projects
- Note: If the community wants to get these projects done sooner rather than later, a new funding source is needed

# Property Tax Levy Lid Lift

## *For Capital Projects*

- Separate from operating levy lid lift
- 9 year term
- Assumes “pay as you go” financing (no bonds issued)
- 3 scenarios

Total Funding Amount	Levy Lid Lift Rate per \$1,000 AV	Annual Property Tax Impact (\$1.20M AV Home)
\$10.0M in capital projects	\$0.084	\$100 per year for 9 years
\$12.5M in capital projects	\$0.104	\$125 per year for 9 years
\$15.0M in capital projects	\$0.125	\$150 per year for 9 years

- Could go to the voters in Nov 2018 or Nov 2021 (which is last year of Fire Station levy lid lift)

# Perspective Information

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- 2017 total staffing ratio comparison
- 2017 administrative staffing ratio comparison
- 2018 property tax levy breakdown by jurisdiction
- 2018 property tax levy rate comparison
- 2018 property tax levy comparison (city levy only)



# 2017 Total Staffing Ratio Comparison

Full Service Eastside City	2017 Total # of Regular Employees	2017 Total Staffing Ratio <sup>1</sup>	Adjusted 2017 Total Staffing Ratio <sup>2</sup>	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	
<b>Mercer Island</b>	<b>196</b>	<b>8.08</b>	<b>7.14</b>	<b>Only city with Social Services Dept</b>
Kirkland	605	7.03	6.75	Major annexation in 2011; MI had a lower staffing ratio before 2011

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

<sup>2</sup> 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

# 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	
<b>Mercer Island</b>	<b>24</b>	<b>0.97</b>	

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.

# 2018 Property Tax Levy

*\$1.20M Median AV Home*

Jurisdiction	2018 Levy Rate Per \$1,000 AV	2018 Levy Amount	% of Total	2018 Levy - 2017 Levy*
State School Fund	\$2.91820	\$3,516	33.7%	\$1,308
MI School District	\$2.30117	\$2,773	26.5%	\$157
King County	\$1.32735	\$1,599	15.3%	\$96
<b>City of MI</b>	<b>\$1.00313</b>	<b>\$1,209</b>	<b>11.6%</b>	<b>\$38</b>
Library	\$0.41190	\$496	4.8%	\$6
EMS	\$0.23940	\$288	2.8%	\$3
Sound Transit	\$0.22745	\$274	2.6%	\$2
Port of Seattle	\$0.13518	\$163	1.6%	-\$4
Flood Zone	\$0.10708	\$129	1.2%	\$1
<b>Total</b>	<b>\$8.67086</b>	<b>\$10,448</b>	<b>100.0%</b>	<b>\$1,607</b>

\* 2018 median AV home (\$1.20M) vs. 2017 median AV home (\$1.09M)

# 2018 Property Tax Levy Rate Comparison

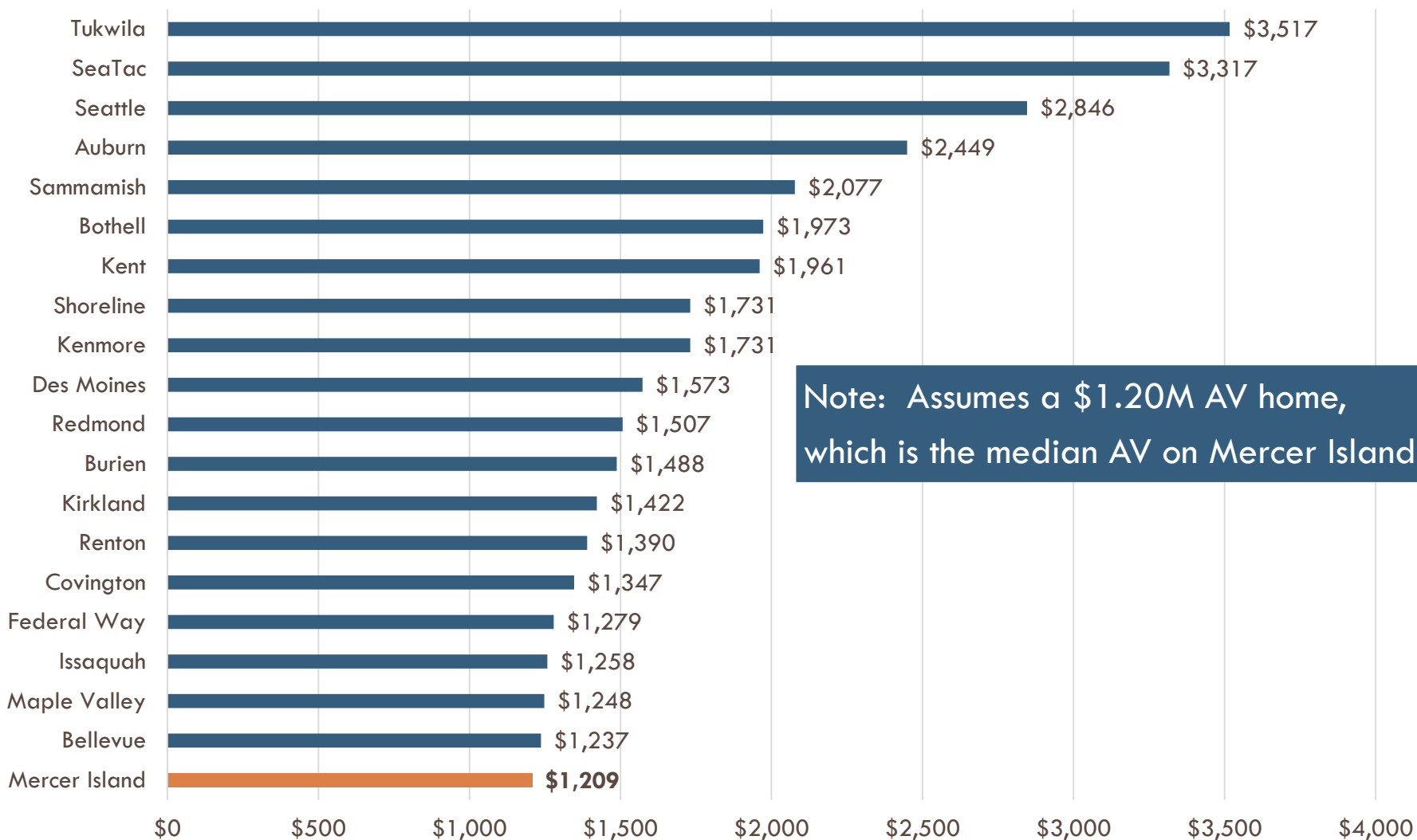
King County Cities (>20K population)	2018 Levy Rate (City Portion Only)
<b>1. Mercer Island</b>	<b>\$1.00313</b>
2. Bellevue	\$1.02655
3. Maple Valley	\$1.03537
4. Issaquah	\$1.04380
5. Federal Way	\$1.06161
6. Covington	\$1.11810
7. Renton	\$1.15364
8. Kirkland	\$1.18010
9. Burien	\$1.23516
10. Redmond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



# Questions



# Additional Information

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- Key question regarding General Fund
- Key observations regarding General Fund
- Challenges of cutting staff by department
- Alternative service delivery options
- 2018 total City taxes vs. 4 monthly utility bills for a typical MI household

# General Fund

## *Key Question*

- Given the underlying structural imbalance, how did the City balance the General Fund budget in 2013-2018?
  - 10 FTEs were cut in 2011-2012 budget
  - High level of development activity in 2013-2017
  - Increased cost recovery targets for development services in 2014 & 2016
  - Instituted 3.9% utility tax on City's water, sewer & storm water utilities in 2013 & increased tax rate to 5.3% in 2014



# General Fund

## *Key Question*

- How did the City balance the General Fund budget in 2013-2018? (cont'd)
  - 1.0% property tax increase in 2013-2018 + “new construction” additions (1.3% per year on average)
  - One-time funding used to balance budgets in 2013-2014, 2015-2016 & 2017-2018
  - 1.8% average annual inflation kept salary & wage growth low in 2013-2017
  - 3.5% average annual growth in medical insurance premiums in 2013-2017

# General Fund

## *Key Observations*

- Property, sales, and utility taxes = 72% of total revenues
- Personnel costs = 72% of total expenditures
- **To maintain current service levels on an ongoing basis, taxes need to grow at the same rate as personnel costs**

# General Fund

## *Key Observations*

- Personnel costs (especially healthcare benefits) grow faster than inflation
- Unlike the private sector, the City cannot spread personnel cost increases across the number of widgets sold or the number of clients served, with very few exceptions
- From a cost growth perspective, the City is very similar to a law, accounting, or engineering firm whose costs are primarily tied to personnel

# City Staffing

## Challenges of Cutting Staff by Dept

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

\* Includes regular and contract FTEs.

# Alternative Service Delivery Options

- **De-annexing from King County Library System**
  - What if \$5.5M paid to KCLS was re-directed to the City and library services were contracted out?
  - Would reduce projected deficit in 2020 to \$430K, but would not solve the City's structural imbalance
  - 18-24 months needed to research options, engage the public, put two measures on ballot, contract with new service provider, and issue debt
- **Contracting out Fire/EMS services**
  - Staff is currently exploring this possibility with Bellevue and Eastside Fire & Rescue to determine if there would be any cost savings
- **Contracting out Marine Patrol services**
  - 2018 budget: \$510K total cost - \$211K revenues = \$299K net cost
  - Other service providers: KC Sheriff's Office & City of Seattle

# Total City Taxes vs. 4 Monthly Utility Bills

## *Typical Mercer Island Household (2018)*

### \$1.20M Median AV Home & Family of 4

2018 Typical Monthly Cost For:	Amount	Note
Puget Sound Energy (electricity & gas)*	\$220	3,200 sf home with A/C
Xfinity (cable TV, internet & digital voice)*	\$215	X1 Premier Triple Play (after promotion)
Verizon (cellular telephone)*	\$200	Beyond Unlimited, 4 lines, no device payment
<b>City taxes</b>	<b>\$182</b>	<b>Only includes taxes remitted to City</b>
<b>City utilities (water, sewer, storm &amp; EMS)*</b>	<b>\$167</b>	<b>Includes King Co. sewage treatment</b>

\* Excludes federal, state, and city taxes/fees.

#### **City taxes fund the following:**

- 24/7 police, fire & emergency medical services
- Street, roadside, median & sidewalk maintenance
- Park, path, trail & public building maintenance
- Recreation program support for youth & seniors
- School-based mental health counseling services
- Comprehensive planning & code enforcement
- Public meetings, public communication & records mgt

#### **City utility charges fund the following:**

- Water storage, distribution & maintenance
- Sewer collection, treatment & maintenance
- Storm & surface water management
- Utility infrastructure replacement
- Staffing capacity (i.e. 4 firefighters) to respond to simultaneous EMS calls



**GET THE FACTS  
GIVE YOUR INPUT**

**Help Us Balance The Budget**

[www.mercergov.org/FinancialChallenges](http://www.mercergov.org/FinancialChallenges)