



Financial Challenges Frequently Asked Questions (Nov 9, 2017)

Q: What are the City's financial challenges, and what are the primary drivers?

A: Beginning in 2019, the City is projecting a \$2.0 million operating budget gap, which is expected to increase to \$7.4 million by 2024. It should also be noted that the City had to use almost \$2.0 million in one-time resources to balance the 2017-2018 budget in order to maintain current service levels through 2018. What is driving these projected budget gaps (or deficits)? Simply put, annual revenue growth is not keeping pace with annual expense growth. Why not? The answer is that property taxes, which are the City's largest revenue source, are capped by state law at 1% growth per year plus an allowance for "new construction," which equates to another 1% per year on average. As a result, property tax revenue grows only about 2% annually. The 1% limitation is due to the passage of [Initiative 747](#) in 2001.

Expenses, on the other hand, are projected to grow 4-5% annually, with inflation (as measured by the Seattle-Tacoma-Bremerton CPI-W) at 3.2% in the first half of 2017 and health care costs projected to grow 7.5% annually in 2019-2024 given the uncertainty surrounding the future of the Affordable Care Act. Accordingly, expenses are growing faster than property tax revenues resulting in a structural imbalance in the General Fund. Moreover, this difference between revenue and expense growth is compounding each year.

To maintain current service levels, which 80-85% of Island residents believe is "about right" according to prior biennial citizen surveys, a new, ongoing revenue source is needed. Otherwise, significant service level cuts will be required beginning in 2019.

In addition, the City has capital project funding challenges related to a public building, streets, parks, beaches, and pedestrian/bicycle facilities. The City Maintenance Building, which houses all Public Works and Parks Maintenance staff, is long overdue for renovation and expansion. The other capital projects include: sports field improvements (e.g., synthetic turf) at various locations; Safe Routes to School; beach improvements at Luther Burbank Park, Clarke Beach, and Groveland Beach; completion of the Mercer Way shoulders; I-90 bike trail overlay; and other park improvements.

Q: Given the structural imbalance in the General Fund, how did the City balance its prior and current biennial budgets?

A: The City balanced its biennial budget in 2013-2014, 2015-2016, and 2017-2018 through a combination of the following Council actions and market conditions:

- The 10 positions that were cut in the 2011-2012 biennium were not restored in the 2013-2014 biennium.

- The high level of development activity on the Island in 2013-2016 generated a significant spike in construction-related sales tax, accounting for half of the City's sales tax revenues, and added 1.3% per year, on average, in additional property tax revenue from "new construction."
- The Council significantly increased the cost-recovery target levels on development services in 2014 and again in 2016, resulting in development fee increases.
- A new utility tax on the City's water, sewer, and storm water utilities was instituted beginning in 2013 (3.9%) and increased in 2014 (5.3%).
- The Council approved a 1% property tax levy increase in 2013-2017 and budgeted a 1% increase in 2018.
- One-time surplus revenues (from the high level of development activity) and department expenditure savings were used to balance the 2013-2014, 2015-2016, and 2017-2018 budgets.
- Annual inflation was only 1.8%, on average, in 2013-2017, keeping salary and wage growth low in those years.
- Annual medical insurance premium growth was only 3.5%, on average, in 2013-2017.

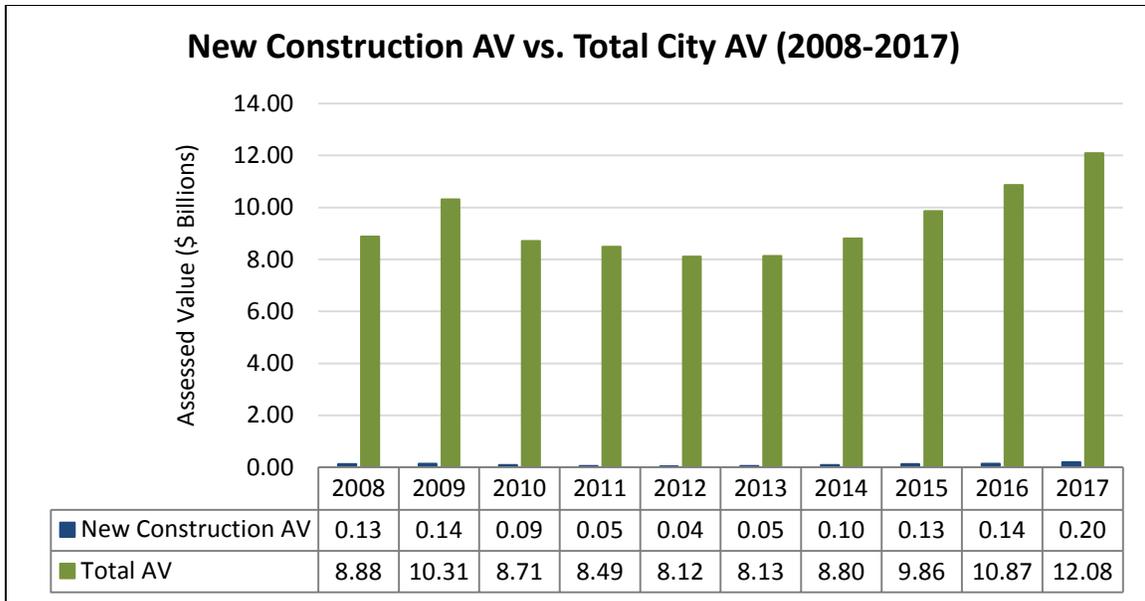
Q. Why can't the City just "tighten its belt"?

A. As a service organization, the majority of the City's expenses are dedicated to staff—just like the School District. Compared to other cities in King County, the City is very leanly staffed (see question below regarding City staffing level). Moreover, during the Great Recession, service level cuts were made that haven't been restored yet. For example, 2.5 employees were cut from the Right-of-Way (ROW) Team in the Public Works Department, resulting in the deferral of vegetation maintenance along many roadsides. In 2017, a half-time ROW Arborist position was restored, but the backlog of work is enormous. In addition, maintenance on public buildings was deferred, with much of the work pushed out to future years. Any "belt tightening" would require service level reductions.

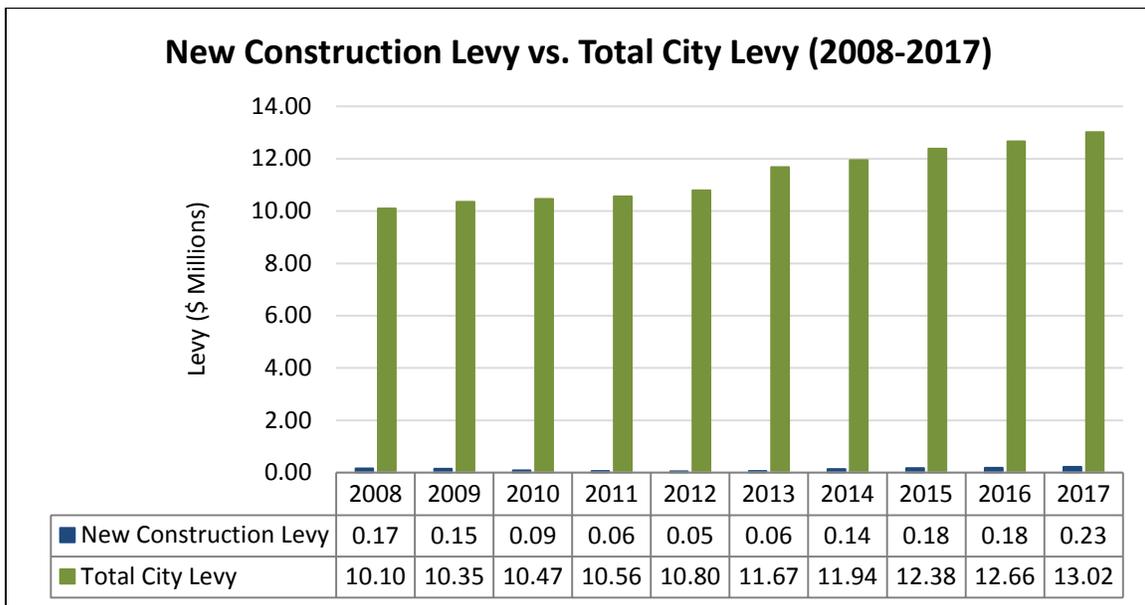
Q: Will there be a negative financial impact to the City from the adopted changes to the Town Center development code in 2016 and to the residential development code in 2017?

A: It's too soon to say definitively, but it's fair to state that there has been no new development in the Town Center since the Town Center development code was revised in 2016. To provide some perspective on development activity, the following two charts show:

- New construction assessed valuation (AV) vs. total City AV in 2008-2017
- New construction levy vs. total City levy in 2008-2017



“New construction” AV equals 1%, on average, of the total City AV in 2008-2017.



Correspondingly, the amount of property tax generated by “new construction” annually equals 1%, on average, of the total property tax levy remitted to the City in 2008-2017. This equates to only \$130,500 per year.

In 2016, \$5.92 million, or 20% of total General Fund revenues, was generated by a high level of development on the Island, which breaks down as follows:

- \$3.24 million in development permit & land use fees (this represents an all-time high encompassing an estimated “spike” of \$700,000-\$800,000)
- \$2.50 million in construction sales tax (this also represents an all-time high encompassing an estimated “spike” of \$700,000-\$800,000 too)
- \$181,000 in property tax from “new construction” (ongoing)

Q: How does Washington State’s property tax system work?

As home values rise, people often assume their property taxes automatically go up too. In fact, that's not the case: Washington is one of just two states where property taxes are levy-based, rather than rate-based. That means rising property values on Mercer Island don't translate to higher revenues for your City government.

In a rate-based system, used by the other 48 states, a tax rate is typically expressed in dollars per \$1,000 of assessed property value (AV). For example, if the rate is \$1 per \$1,000 AV, then the owner of a \$1 million home pays \$1,000. The total amount collected fluctuates year to year as property values rise or fall. Under Washington's levy-based system, state law only allows a taxing district to collect a specified total dollar amount (the "levy") each year, the annual growth of which is capped by state law at 1% plus an allowance for “new construction.” If the total value of all property within a jurisdiction falls, the rate is increased in order to raise the required levy amount. But, if property values increase, then the rate is actually lowered. For example, following the Great Recession, Mercer Island property values have increased significantly, resulting in the City’s tax rate (per \$1,000 AV) decreasing from \$1.44 in 2013 to \$1.08 in 2017.

Q: Where do my property taxes go?

For the 2017 tax year, the table below shows: the taxing jurisdictions, their levy rates per \$1,000 of assessed value, and the levy amount paid to each jurisdiction by a typical Mercer Island homeowner (\$1.09 million median assessed value for the 2017 tax year). Note that almost 55% of the total 2017 property tax levy goes to public education, with almost 30% dedicated to the Mercer Island School District. Also note that Island residents pay more property tax to King County (17% for general services + 3% for EMS services = 20%) than to the City (13%).

Taxing Jurisdiction	2017 Levy Rate Per \$1,000 AV	2017 Levy Amount (\$1.09M Home AV)	% of Total Levy
Mercer Island School District	\$2.40629	\$2,616	29.6%
State School Fund	\$2.03205	\$2,209	25.0%
King County	\$1.38294	\$1,503	17.0%
City of Mercer Island	\$1.07739	\$1,171	13.2%
King County Library System	\$0.45118	\$490	5.5%
King County EMS	\$0.26305	\$286	3.2%
Sound Transit	\$0.25000	\$272	3.1%
Port of Seattle	\$0.15334	\$167	1.9%
Flood Zone	\$0.11740	\$128	1.4%
Total	\$8.13364	\$8,841	100.0%

Q: How does Mercer Island’s property tax rate compare to other cities?

A: In 2017, Mercer Island has the lowest property tax levy rate of any city in King County with a population of 20,000 or more (\$1.08 per \$1,000 of assessed property value). By comparison, the levy rates of neighboring cities are as follows:

- Issaquah (\$1.12)
- Bellevue (\$1.14)
- Kirkland (\$1.31)
- Redmond (\$1.35)
- Renton (\$1.61)
- Sammamish (\$1.93)
- Seattle (\$2.62)

Comparing homes with the same assessed value, a Mercer Island homeowner will pay less property tax to the City than any other homeowner in King County will pay to his or her city. For example, given a \$1.5 million home (in terms of assessed value), a Mercer Island resident will pay \$1,620 in property tax to the City in 2017 versus a Sammamish resident, who will pay \$2,895 to his or her city in 2017.

Q: Where do my sales taxes go?

The total general sales tax rate on Mercer Island is 10%. Of this rate, 6.5% goes to the State of Washington, 1.4% goes to Sound Transit, 1.15% goes to King County, 0.85% goes to the City, and

the remaining 0.1% is a King County voter approved tax that is shared with the City. In total, the City receives less than 1% of the 10% total general sales tax rate.

Q: When was the last time the City was audited?

A: The City of Mercer Island is audited annually by the Washington State Auditor's Office and has received "unqualified" (i.e., clean) audit opinions for 22 years running, most recently in 2016 for the 2015 fiscal year. Mercer Island is one of just a handful of cities in Washington that can make this claim. No other indicator provides a better measure of an organization's financial management practices. The financial audit for the 2016 fiscal year is scheduled for the fourth quarter of 2017.

In addition, the City has a "Triple A" (Aaa) rating from Moody's, which is the highest possible rating. This means that the City can secure the lowest possible interest rates when it needs to issue bonds to fund a capital project.

Q: Why are personnel costs such a big portion of City expenses?

A: The City of Mercer Island, like other cities, is primarily a service organization, with personnel costs accounting for 71% of the City's General Fund budget. Other cities like Bellevue, Bothell, Issaquah, Kirkland, Redmond, and Renton have a very similar percentage of their General Fund budgets dedicated to personnel costs as well. Looking at the Mercer Island School District, personnel costs account for 81% of the District's General Fund budget.

Q: Is the City overstaffed?

A: There are 208 authorized employees in 2017, including 12 contract (i.e., term limited) employees. Relative to the population served, Mercer Island's staffing ratio is one of the lowest among full service cities in King County. A full service city generally provides all or most of the following services to its residents: police, fire/EMS, parks & recreation, street maintenance, planning & community development, municipal court, water utility, sewer utility, and storm water utility. A 2017 staffing comparison between Mercer Island and other full service Eastside cities is provided below.

Full Service Eastside City	2017 Total # of Employees ¹	2017 Population	2017 Staffing Ratio ²	Adjusted 2017 Staffing Ratio ³	Note
Redmond	672	62,110	10.81	10.25	No Municipal Court or civil attorneys
Bellevue	1,338	140,700	9.51	8.97	No Municipal Court
Issaquah	253	36,030	7.03	8.15	No Fire Dept or civil attorneys
Bothell	342	44,370	7.70	7.43	
Mercer Island	196	24,210	8.08	7.14	Only city with a Social Services Dept
Kirkland	605	86,080	7.03	6.75	Major annexation in 2011 during Great Recession, which limited staff growth

¹ The total number of employees reflects authorized “full-time equivalents” (FTEs), not contract employees, which are not reported by most cities.

² The 2017 staffing ratio equals the total number of employees divided by the city population divided by 1,000 (i.e., number of employees per 1,000 population).

³ To create an “apples to apples” comparison, the following staffing adjustments were made:

- Every city has a Fire Department except for Issaquah, which is served by Eastside Fire & Rescue (EF&R), which is a fire district. With three fire stations in Issaquah’s city limits, 48 employees from EF&R were added to Issaquah’s adjusted 2017 staffing ratio.
- Social services employees were excluded, because Mercer Island is the only Eastside city with a social services department (called Youth & Family Services).
- Advanced Life Support employees were excluded from Redmond and Bellevue, because they are funded by the King County EMS levy.
- Civil attorney employees were excluded, because Redmond and Issaquah contract for this service with private law firms.
- Municipal Court employees were excluded, because Redmond and Bellevue don’t have Municipal Courts (the King County District Court system provides court services to these two cities).

It should be noted that Mercer Island had the lowest staffing ratio among this group of cities up until Kirkland’s annexation of Juanita, Finn Hill, and Kingsgate in 2011.

Looking at administrative functions only, Mercer Island has the lowest staffing ratio among full service Eastside cities (see table below). These functions include the following: 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. As an example of the City’s low overhead, neither the City Manager, the Finance Director, the Police Chief, nor the Human Resources Director have executive/ administrative assistants.

Full Service Eastside City	2017 Total # of Admin Staff	2017 Admin Staff 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	

Q: How has the total number of employees changed over the past 10 years?

The total number of authorized employees, including contract staff, has increased from 189 in 2009 to 208 in 2018. That represents an increase of 19 employees, or 9.9%. By comparison, the City's population is projected to increase 10% from 2009 to 2018. Below is a breakdown by department of regular employees (FTEs) and contract employees for 2009-2018.

Department	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Regular Employees:										
City Attorney's Office	3.00	3.00	3.00	3.00	2.25	2.25	3.00	3.00	3.00	3.00
City Manager's Office	4.00	4.00	3.60	3.60	5.00	5.00	5.00	5.00	5.00	5.00
Development Services	18.00	18.00	17.00	17.00	18.00	18.00	19.00	20.00	21.00	21.00
Finance	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Fire	31.00	31.00	31.00	31.00	31.00	31.00	32.00	32.00	32.00	32.00
Human Resources	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Information & Geographic Services	5.00	5.00	5.00	5.00	6.00	6.00	6.00	6.00	6.00	7.00
Municipal Court	3.83	3.83	3.33	3.33	3.20	3.20	3.45	3.45	3.45	3.45
Parks & Recreation	22.50	22.50	22.50	22.50	23.00	23.00	27.75	27.75	29.75	29.75
Police	36.50	36.50	35.00	35.00	35.00	35.00	36.00	36.00	35.00	35.00
Public Works	30.00	30.00	29.00	29.00	30.00	30.00	31.00	34.00	34.00	34.00
Youth & Family Services	15.50	15.50	14.50	14.50	14.50	14.50	15.50	16.33	16.33	16.33
Total Regular Employees	179.33	179.33	173.93	173.93	177.95	177.95	188.70	193.53	195.53	196.53

Department	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Contract Employees:										
City Manager's Office			1.00	1.00						
Development Services	2.00	2.00	1.00	1.00	1.00	3.00	2.00	2.00	3.50	3.50
Fire	1.00	1.00								
Information & Geographic Services			1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Parks & Recreation	2.75	4.75	3.75	4.75	5.25	5.25	0.75	0.75	0.75	0.75
Public Works	1.50	1.50	1.00	1.00	1.00	1.00	1.00	1.00	1.50	1.50
Youth & Family Services	3.00	3.00	4.00	4.20	6.00	6.00	5.00	5.50	5.50	5.00
Total Contract Employees	10.25	12.25	11.75	12.95	14.25	16.25	9.75	10.25	12.25	11.75
Total Regular + Contract Employees	189.58	191.58	185.68	186.88	192.20	194.20	198.45	203.78	207.78	208.28

Comparing 2018 to 2009, noteworthy staffing increases and decreases in each department are identified below, ignoring conversions of contract to regular employees.

Department	Staffing Increase/Decrease	Year	Funding Source(s)
City Manager's Office	Added Deputy City Clerk (1.0 FTE)	2011	General Fund taxes
Development Services	<u>Eliminated</u> Transportation Planner (1.0 FTE)	2011	
	Added Plans Examiner (1.0 FTE) and Permit Technician (1.0 FTE)	2014	Development fees
	Added Long-Range Planner (1.0 FTE)	2016	General Fund taxes
	Added Arborist (0.5 FTE) and Code Compliance Officer (0.5 FTE)	2017	Development fees
Information & Geographic Services	Added GIS Technician (1.0 FTE)	2011	General Fund taxes & water, sewer, and storm water utility rates
	Added Helpdesk Technician (1.0 FTE)	2013	General Fund taxes & water, sewer, and storm water utility rates
	Added Helpdesk Technician (1.0 FTE)	2018	Elimination of Eastside Narcotics Task Force Detective position in 2016

Department	Staffing Increase/Decrease	Year	Funding Source(s)
Parks & Recreation	Added Community Center Nights & Weekend Lead (1.0 FTE)	2010	Mostly room rental & program fees
	Added Community Center Administrative Assistant (1.0 FTE)	2010	Mostly room rental & program fees
	Added Park Maintenance Team Members (2.0 FTEs)	2017	Elimination of 4 nine month seasonal positions
Police	<u>Reduced</u> Records Clerk by 0.5 FTE	2011	
	<u>Eliminated</u> Eastside Narcotics Task Force Detective (1.0 FTE)	2016	
Public Works	<u>Eliminated</u> Right-of-Way (ROW) Team Member (1.0 FTE) and ROW Arborist (0.5 FTE)	2011	
	<u>Eliminated</u> ROW Team Member (1.0 FTE)	2013	
	Added Engineering Technician (1.0 FTE)	2013	Mostly water, sewer, and storm water utility rates
	Added Transportation Engineer (1.0 FTE)	2015	Street Fund taxes
	Added Facilities Maintenance Technician (1.0 FTE)	2015	General Fund taxes & reduction in contracted maintenance budget
	Added Water Quality Technician (1.0 FTE)	2016	Water utility rates
	Added Sewer Team Members (2.0 FTEs)	2016	Sewer utility rates
	Restored ROW Arborist (0.5 FTE)	2017	Street Fund taxes
Youth & Family Services	<u>Reduced</u> Youth Development Coordinator by 0.5 FTE	2011	
	Added Thrift Shop Merchandising Coordinator (1.0 FTE)	2011	Thrift Shop sales
	Added Thrift Shop Production Lead (1.0 FTE)	2013	Thrift Shop sales
	Added Administrative Assistant (0.8 FTE)	2013	Thrift Shop sales & reduction in casual labor budget
	Added Thrift Shop Apparel Lead (1.0 FTE)	2016	Thrift Shop sales
	Added fourth elementary School Counselor (0.83 FTE)	2016	General Fund surplus revenues; no ongoing funding source exists

Q: How do City employee salaries compare to other cities' salaries?

A: Mercer Island pays at the midpoint (50th percentile) of the market, which encompasses 10 comparable cities (see listing below). Paying competitive wages allows the City to attract and retain high quality employees. The City's high rate of employee retention has been a major asset that contributes to a positive, productive work culture.

The 10 comparable cities include Auburn, Bothell, Edmonds, Issaquah, Kirkland, Lynnwood, Redmond, Sammamish, SeaTac, and Shoreline. The criteria used in their selection include:

- Cost of living (must be located in King County & South Snohomish County)
- Population (20,000-100,000)
- Sales tax per capita (\$200-\$1,000)
- Number of employees (150-750)
- Number of "like" job matches

An exception was made for Sammamish, which only has 115 employees in 2017. Though it currently contracts for police and fire/EMS services and doesn't operate a water or sewer utility, it is very similar to Mercer Island based on the other criteria.

Q: How are City employee salaries determined?

A: The majority of City employees belong to one of four unions. Salaries and benefits are established through the negotiation process. Bargaining with Public Safety (Fire and Police) employees is subject to interest arbitration, which requires the City to pay a competitive wage based on at least the midpoint of the comparable market. State law prohibits the City from unilaterally changing, freezing, or reducing salaries and/or benefits. If the City and a bargaining unit reach an impasse during the negotiation process, an arbitrator, appointed by the Public Employees Relations Commission (PERC), will make a binding decision that applies to both parties. For the purpose of equity, the City also benchmarks the salaries of its unrepresented employees (i.e. non-union) to the midpoint of the comparable market.

Q: I've heard the City gives overly generous vacation benefits to employees, which is a significant liability for the City. What's this all about?

A: The City provides vacation benefits that are typical of other cities and professional organizations in our region. City employees earn vacation benefits over the course of their employment based on an accrual schedule that is set either by City policy or a bargained (union) agreement. For all unrepresented (i.e., non-union) employees, vacation benefits are earned at the following rates:

Years of Employment	Hours Earned per Month	Days per Year
1-4	8	12
5-9	10	15
10-14	12	18
15+	14	21

Unrepresented employees can accumulate a vacation balance up to a maximum of 240 hours, or 30 days. The 240-hour limit is also the maximum amount eligible for cash-out at retirement or termination of employment. Overall, there is typically no capacity for employees to “fill-in” for other staff during periods of vacation. As a result, many City employees find it difficult to schedule and take vacations around their workload demands. This challenge has resulted in an increase in earned vacation accruals.

Generally Accepted Accounting Principles (GAAP) define vacation hours as an earned benefit, meaning the leave is attributable to past service. An employee is entitled to receive payment for the hours earned, either through paid time off or a cash out when terminating employment. GAAP and the Washington State Auditor’s Office mandate that a liability be calculated and reported on the City’s financial statements for the value of this earned benefit. The rules further state that earned vacation hours should be valued at the employee’s current rate of pay. The resulting liability, commonly referred to as the “compensated absences liability,” is determined at the end of each year.

Looking at the past two years, the City’s employee turnover rate has been low, and actual vacation cash-outs have been less than 12 days per employee on average (for those employees who have retired or otherwise left the City). Specifically, in 2016, the City had a turnover rate of 9.22%, and the average vacation cash-out was 88.75 hours per employee. In 2015, the City had a turnover rate of 4.85%, and the average vacation cash-out was 79.0 hours per employee.

In addition to the vacation benefit, the compensated absences liability includes the value of earned compensatory (or comp) time off (i.e., time off in lieu of overtime pay). Historically, bargained agreements for represented employees have included the option for employees to elect comp time off instead of receiving overtime pay. The agreements allowed for the accumulation of comp time hours up to the maximum amount. Overtime pay is regulated by federal employment law. Comp time accruals are also defined as an earned benefit by both GAAP and the State Auditor’s Office. Approximately 20% of the compensated absences liability on the City’s financial statements is attributable to comp time accruals.

Q: Is the City paying too much for employee health care benefits?

Relative to the 10 comparable cities noted above, Mercer Island’s employee health care benefits are at the bottom of the market, in terms of what the City pays. Only one city (Shoreline) pays less for their employee benefits than Mercer Island (and the difference is negligible).

Q: Why is the City looking at a property tax increase rather than promoting economic development (to generate more sales tax revenue) or exploring a utility tax increase?

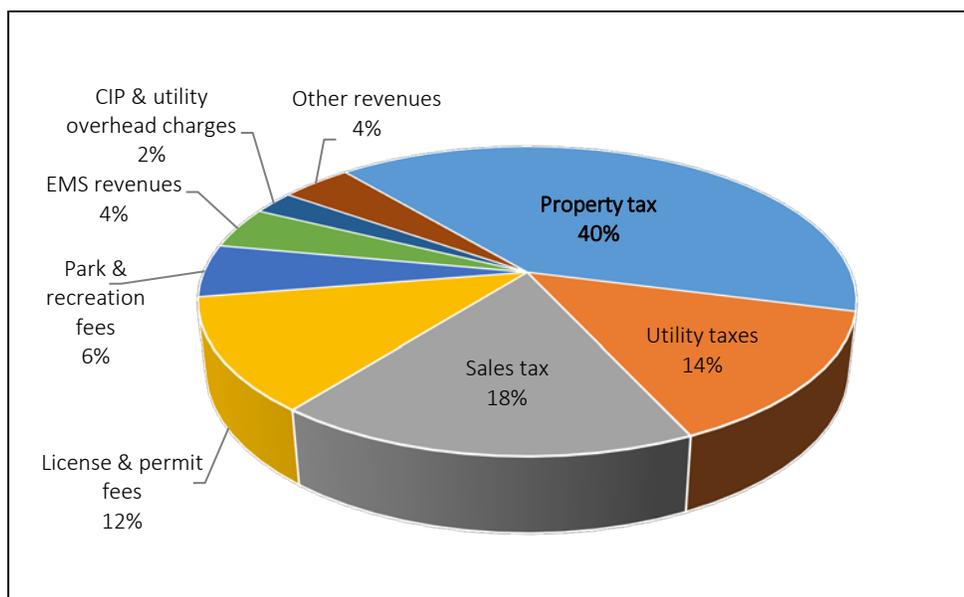
A: Property tax is the largest revenue source in the General Fund, representing 40% of total revenues. It is the only revenue source that can generate the amount of funding needed to bridge the projected deficits on an ongoing basis, thereby correcting the City’s structural imbalance.

The next largest revenue source, sales tax, is 18% of total revenues. Unlike Bellevue, Kirkland, Redmond, and Issaquah, Mercer Island is a bedroom community with a very modest commercial sector. Economic development efforts wouldn’t make much of a difference, potentially generating only \$100,000-\$200,000 annually in new sales tax revenue, because: 1) the City receives less than 1% of the 10% total general sales tax rate on Mercer Island sales; and 2) major retail businesses are already located near Mercer Island in Seattle and Bellevue.

Utility taxes are the third largest revenue source comprising 14% of total revenues. Increasing the tax rate on the City’s water, sewer, and storm water utilities from 5.3% to 10.3%, for example, would generate \$875,000 annually in new utility tax revenue. However, the projected deficit in 2019 is \$2.0 million, increasing by \$1.08 million each year thereafter.

A breakdown of General Fund revenues budgeted in 2017 is provided in the chart below.

2017 General Fund Budgeted Revenues



Q: Over and above the projected operating deficits, what are the City’s other operating needs?

The following needs are driven by mandates or increasing community demands for services:

- **Police records:** A half-time Records Clerk in the Police Department is needed to backfill for the current half-time Records Clerk, who has been pulled away from her primary duties to address ongoing public records requests related to public safety. It should be noted that a half-time Records Clerk was cut in 2011 due to the Great Recession.
- **Right-of-way (ROW) maintenance:** A half-time ROW Arborist in the Public Works Department needs to be increased to full-time to better manage the vegetation in the City’s undeveloped rights-of-way. In 2011-2013, 2.5 employees were cut from the ROW Team due to the Great Recession. In 2017, a half-time ROW Arborist was restored. By increasing the ROW Arborist to full-time, the net reduction to the ROW Team would be 1.5 employees.
- **Youth development:** The Youth Development Coordinator in the Youth & Family Services Department, which was reduced from full-time to half-time in 2011 due to the Great Recession, needs to be increased back to full-time in order to expand the VOICE program during the school year and to coordinate community-wide substance abuse prevention (i.e., Healthy Youth Initiative).
- **Public communications & community relations:** Given the major community issues that have consumed both the Council and staff in 2014-2017 and that are expected to continue in 2018 and beyond, a new position in the City Manager’s Office would be more cost effective than contracting out for additional public communications, community relations, and analytical support. Currently, the City has only 0.6 of an employee dedicated to public communications.

Taken together, these other operating needs equate to 2.5 employees.

Q: How much would a six-year operating levy lid lift cost a typical homeowner in 2019-2024?

To bridge the projected operating deficits in 2019-2024, an operating levy lid lift would cost a typical homeowner \$360 in 2019, growing 5% annually thereafter to \$460 in 2024. The projected levy lid lift rate and annual cost are summarized in the table below for a typical homeowner (\$1.09 million median assessed value for the 2017 tax year).

To Bridge Operating Deficits	2019	2020	2021	2022	2023	2024	Average
Levy lid lift rate per \$1,000 AV	\$0.331	\$0.348	\$0.365	\$0.383	\$0.403	\$0.423	\$0.376
Annual cost of levy lid lift	\$360	\$378	\$397	\$417	\$438	\$460	\$408

While the median assessed value in 2018 (which will apply to the 2019 tax year) will be higher than \$1.09 million, the projected levy lid lift rate for 2019 and beyond will be lower than what is

noted in the table above (because there is an inverse relationship between assessed value and the levy rate). In other words, the projected annual costs should be reasonably good estimates for a median assessed value home for the 2019 tax year and beyond (even though it will be higher than \$1.09 million).

Q: Why did the City wait so long to bring the structural imbalance issue to the public's attention?

A: City staff publicly identified the structural imbalance issue and its primary drivers in 2014 during the development of the 2015-2016 budget. Afterwards, staff kept this issue on the Council's radar at its 2015 and 2016 Planning Sessions and during the development of the 2017-2018 budget in 2016.

The problem was temporarily alleviated in 2015-2016 when a spike in new development on the Island resulted in record levels of construction-related sales tax and development fees, generating a one-time revenue surplus that was used to balance the 2017-2018 budget. However, the development activity level on the Island is projected to decline in 2017-2019, with no major projects currently in the pipeline for the Town Center.

The original plan per the adopted 2017-2018 budget was to conduct a public engagement process regarding the City's financial challenges in the first half of 2017. However, City staff and the Council were consumed by critical transportation issues (litigation with Sound Transit, HOV access issues, traffic mitigation from light rail construction, etc.) during this period. In addition, staff was focused on updating the residential development code. As a result, the City simply lacked the staff capacity to begin an important community dialogue on the City's financial challenges until the second half of 2017. In addition, the City Manager was concerned about the community's capacity to engage on a third major issue during the first half of 2017. Accordingly, the public engagement process was re-scheduled to begin in October 2017, with most of the outreach efforts occurring in January through April 2018.

Q: What will happen if the structural balance isn't addressed?

A: Without additional revenue to maintain current City services, the City estimates that 25% of its workforce, or 52 employees, will need to be cut over a 6 year period (2019-2024) to balance the budget. Most of the cuts would impact "non-essential" services provided by the Parks & Recreation and Youth & Family Services Departments. However, all City departments would likely be impacted, including Police and Fire, given the magnitude of the projected deficits in 2019-2024.

Q: Can the \$10.05 million settlement amount from Sound Transit be used to address the City's operating or capital financial challenges?

A: No, the City's use of the \$10.05 million settlement amount is limited to reimbursing specific expenditures in the categories of traffic/safety enhancements (\$5.1 million), short- and long-term

commuter parking (\$240,000 and \$4.41 million respectively), first/last-mile solutions (\$226,900), police and fire personnel emergency training (\$23,100), and Aubrey Davis Park Master Plan preparation and implementation (\$50,000). While there is some flexibility to transfer remaining funds between categories, the settlement funds cannot be used to subsidize the City's day-to-day operating expenses or capital projects other than those expressly contemplated in the settlement agreement.

Q: What exactly is a "levy lid lift?"

A: Under state law, cities cannot increase the amount they collect from property tax by more than 1% annually. One percent is the "lid." If the City wants to collect more than that, it needs to go to the voters to "lift" the lid. Levy lid lifts can be temporary or permanent, and all the specifics must be spelled out clearly to voters in the ballot measure.

Q: How many votes are needed to pass a levy lid lift?

A: A simple majority (50% + 1) of the votes cast.

Q: Why is the City considering a capital levy lid lift at the same time as an operating levy lid lift?

A: The City Maintenance Center, which houses all Public Works and Parks Maintenance employees, is long overdue for renovation and expansion. This is the City's greatest capital funding need. In addition, there are a number of park, beach, and pedestrian/bicycle facility projects for which there is significant community interest but inadequate funding. If the community wants to move forward on these projects, a new funding source is needed. Three capital levy lid lift scenarios will be explored with the Community Advisory Group (CAG):

1. \$10.0 million, which would cost a typical homeowner \$100 per year for 9 years
2. \$12.5 million, which would cost a typical homeowner \$125 per year for 9 years
3. \$15.0 million, which would cost a typical homeowner \$150 per year for 9 years

Ultimately, the CAG will make a recommendation to the City Manager on whether or not to put an operating levy lid lift and/or a capital levy lid lift on the ballot in November 2018.

Q: How can I learn more about this issue?

A: The City is holding a series of community meetings to solicit questions and input beginning in October 2017, with most of the process occurring in January-April 2018. These will provide residents with information needed to learn about the City's financial challenges and explore funding options. There is also a [2-page factsheet](#) available to share with friends and colleagues.

- **Telephone Town Hall & Community-wide meetings:**

Date/Time/Location	Description
Wed, Oct 11, 2017 7:00-8:00pm City Hall	Telephone Town Hall: This included a brief presentation on the City’s financial challenges followed by an interactive Q&A session with 250 residents. Listen to the 1-hour recording on YouTube
Mon, Jan 29, 2018 6:30-8:30pm City Hall	Community-wide meeting: This will be a more in-depth review of the City’s operating and capital funding challenges and funding options, with questions invited throughout the presentation.
Sat, Feb 10, 2018 10:00am-12:00pm Community Center	Community-wide meeting: This will be a more in-depth review of the City’s operating and capital funding challenges and funding options, with questions invited throughout the presentation.
Wed, Mar 7, 2018 7:00-8:00pm Call-in	Telephone Town Hall: This will include a brief presentation on the City’s financial challenges followed by an interactive Q&A session with residents.
Wed, Mar 14, 2018 1:00-3:00pm Library	Community-wide meeting: This will be a more in-depth review of the City’s operating and capital funding challenges and funding options, with questions invited throughout the presentation.

- **Community group meetings:**

Date/Time/Location	Description
Wed, Oct 11, 2017 12:00-1:00pm Community Center	Chamber of Commerce: Membership luncheon; open to the public
Jan-Apr 2018 (dates, times & locations to be determined)	Meetings will be scheduled with as many community groups as possible

- **Community Advisory Group (CAG) Meetings:**

The City Manager will appoint approximately 20 Island residents to serve on the CAG, which will review the City’s operating and capital funding challenges in detail and make recommendations to the City Manager regarding funding options. The CAG meetings are open to the public.

Date/Time/Location	Purpose
Wed, Nov 15, 2017 6:30-8:30pm Community Center	Kick-off meeting (introductions/get to know group participants and City leadership team, review group charter, review meeting agendas for Jan-Apr 2018, ask participants what questions they want answered in Jan-Apr 2018, and distribute information binders)
Sat, Jan 6, 2018 9:00am-12:30pm Community Center	Review operating funding challenges and funding options (including service level reductions)
Mon, Feb 5, 2018 6:30-8:30pm Community Center	Deliberate and make a <u>preliminary</u> recommendation on operating funding options
Sat, Mar 3, 2018 9:00am-12:30pm Community Center	Review capital funding challenges and funding options and make a <u>preliminary</u> recommendation
Mon, Apr 2, 2018 6:30-8:30pm Community Center	Deliberate and make a <u>final</u> recommendation on operating & capital funding options