

**CITY OF MERCER ISLAND, WASHINGTON
ORDINANCE NO. 18-07**

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF MERCER ISLAND, WASHINGTON, PROVIDING FOR THE SUBMISSION TO THE QUALIFIED ELECTORS OF THE CITY AT AN ELECTION TO BE HELD ON NOVEMBER 6, 2018, OF A PROPOSITION AUTHORIZING THE CITY TO LIFT THE LEVY LIMIT ESTABLISHED IN RCW 84.55.010 TO SUSTAIN CURRENT SERVICE LEVELS FOR PUBLIC SAFETY, YOUTH, FAMILY & SENIOR SERVICES, AND PARKS & RECREATION; SETTING FORTH THE TEXT OF THE BALLOT PROPOSITION; DIRECTING PROPER CITY OFFICIALS TO TAKE NECESSARY ACTIONS; AND PROVIDING FOR OTHER PROPERLY RELATED MATTERS.

WHEREAS, the City of Mercer Island, Washington (the “City”) is an optional code city, located in King County, Washington, duly organized and existing pursuant to the laws of the state of Washington; and

WHEREAS, as a residential community, property taxes are the City’s largest single source of revenue, accounting for 41% of the General Fund budget. With property values increasing 10-12% on average, it would seem logical that the City’s property tax collections would see substantial growth; however, in Washington State, the annual growth in a city’s property tax levy is not tied to property value changes, but is limited to one percent of the prior year’s levy amount plus an allowance for new construction; and

WHEREAS, the City only receives 11.6% of the total property tax bill paid by Mercer Island property owners; and

WHEREAS, in November 2001, Washington State voters passed Initiative No. 747, limiting cities’ ability to increase their levies by more than one percent per year without voter approval, and Mercer Island voters did not support Initiative No. 747 (55% voted no); and

WHEREAS, since 2013, staff has projected General Fund deficits driven by annual revenue growth failing to keep pace with annual expenditure growth and balanced the budget by using one-time resources generated by historic, high levels of development activity; and

WHEREAS, if the City continues to draw down fund balances or use its “Rainy Day” reserve to balance ongoing operating budgets, the City’s “triple A” (Aaa) credit rating could be downgraded, increasing future borrowing costs; and

WHEREAS, as a result of the ongoing structural deficit, there is a need for a levy lid lift to sustain current levels of service; and

WHEREAS, since 2014, staff has advised the Council of the structural deficit at the City Council annual Planning Sessions and mini-Planning Sessions.

WHEREAS, in January 2017, the City Council adopted a goal for 2017-2018, as follows:

Goal 4. Maintain Quality of Life Services by Addressing the City’s Financial Challenges

The City faces projected operating budget deficits as well as aging infrastructure and other capital needs. This is largely due to the 1% annual growth limitation on property taxes and other revenues remaining flat. Having revenues keep pace with increasing operational expenses is a challenge, especially in delivering services that shape Mercer Island's quality of life.

WHEREAS, the City began formally and comprehensively educating the community about the City's financial challenges starting in June 2017 with a robust community engagement plan that included convening a 23-member Community Advisory Group (CAG); holding Telephone Town Hall sessions; community-wide public meetings; multiple "roadshow" presentations to various community groups; and video explainers regarding City services, staffing, belt-tightening efforts; and unmet needs; and

WHEREAS, the Mercer Island School District Board of Directors (the "Board") sent a letter to the Mercer Island City Council requesting the City's continued financial support of school-based and community-based mental health counselors in the Youth and Family Services Department ("YFS"). The Board noted the importance and community priority of YFS Counseling Services while recognizing the City's financial challenges; and

WHEREAS, the 23-member CAG met from November 2017 to April 2018 to review and help the City Manager determine the best way for the City to address its projected operating deficits in 2019-2024; and

WHEREAS, a majority of the CAG members (17 of 23 members, or 74%) recommended to the City Manager that the City place an operating levy on the November 2018 ballot, which would fund the continuation of essential and quality of life services; and

WHEREAS, the May 2018 community survey (over 700 responses) noted that residents have high levels of satisfaction with their quality of life in the City, a few examples of which are listed below:

- 95% of residents are very satisfied/satisfied with Mercer Island as a place to live,
- 95% of residents are very satisfied/satisfied with their overall feeling of safety,
- 94% of residents are very satisfied/satisfied with Mercer Island as a place to raise children, and
- 92% of residents are very satisfied/satisfied with the overall quality of life in the City; and

WHEREAS, on June 19, 2017, to continue to meet the high expectations of the Mercer Island community, sustain the Island's quality of life, remain fiscally responsible, reduce the potential need for borrowing or service reductions during economic downturns, and manage unforeseen, extraordinary financial demands, the City Manager recommended a six-year levy lid lift, additional revenue enhancements, an organizational effectiveness review, and adoption of comprehensive financial management policies; and

WHEREAS, in July 2017, a third-party consultant review was completed by Management Partners of the City's methodology and assumptions used in its six-year financial forecast model, and the results of the review show that the City's baseline forecast provides a reasonable basis to identify the future financial trends and supports the CAG's and City Manager's recommendation for a six-year levy lid lift to address the forecasted operating deficits; and

WHEREAS, a levy lid lift is needed to sustain current service levels related to:

- Public Safety Services, such as Police patrol and investigations, School Resource Officer, crime prevention, and emergency management and preparedness;
- Youth, Family, & Senior Services, such as school-based mental health counselors and community-based mental health counselors, and safety net services;
- Parks & Recreation Services, such as park and trail maintenance, playground and ballfield maintenance, community center operations, senior recreation services, and special events; and
- Code compliance services and right-of-way (roadside and median) maintenance; and

WHEREAS, the City is authorized to levy a permanent regular property tax not to exceed the maximum statutory rate of \$3.46 per \$1,000 of assessed value under Washington State law; and

WHEREAS, RCW 84.55.005 through .0101 limits the incremental increase in property tax revenues to the City to a rate that has been less than the actual rate of inflation for the costs of providing services to the residents of the City, causing total projected budget deficits in the City's General Fund and Youth & Family Services Fund of \$1.86 million in 2019, increasing on average \$1.12 million per year to \$7.42 million in 2024, despite cost saving measures and efficiencies that have been implemented and assuming that current service levels are maintained and that no additional revenues are approved by the Council; and

WHEREAS, the City's current regular property tax levy rate is \$1.003 per \$1,000 assessed valuation; and

WHEREAS, RCW 84.55.050 authorizes the voters of a city to approve the levy of taxes in excess of the levy limitations established in RCW 84.55.010; and

WHEREAS, the City Council desires to address the ongoing structural deficit in the General Fund and Youth & Family Services Fund, which is directly related to the one percent growth limit on the City's annual property tax levy, excluding new construction; and

WHEREAS, on July 10, 2018, the City Council directed staff to prepare an ordinance for a six-year levy lid lift to sustain current service levels described herein; and

WHEREAS, the estimated annual cost to a median assessed value home on Mercer Island (\$1.2 million based upon King County's valuations for the 2018 tax year) is \$286 in 2019; and

WHEREAS, the City Council further directed staff to prepare a Financial Sustainability Plan ("Plan"), and, consistent with the recommendation of Management Partners, transfer any savings achieved by such Plan to the Contingency Fund (the so-called "Rainy Day" Fund) and end the six-year levy period with a Contingency Fund balance equal to two-months (or 17%) of the City's annual General Fund budget, as a minimum reserve balance; and

WHEREAS, a public hearing on the proposed ordinance for a six-year levy lid lift was held during the Council's July 17, 2018 regular meeting; and

WHEREAS, the City Council desires to allow the electors to approve or reject a proposition under RCW 84.55.050(2), authorizing the City Council to levy the City's regular property tax in an amount that exceeds the incremental limit factor that would otherwise be prescribed by RCW 84.55.010; and

WHEREAS, to fund police/emergency services, mental health counseling, safety net services, the maintenance of parks, trails, playgrounds, and ballfields, and recreation services, the proposition should authorize: (1) an increase in the City's regular property tax levy by an additional \$0.238 per \$1,000 of assessed valuation (to a maximum rate not to exceed \$1.241 per \$1,000 of assessed valuation) for collection in 2019; (2) an increase in the limit factor as allowed by chapter 84.55 RCW for each of the five succeeding years (2020-2024) to 103% by which the City's total regular property tax levy shall increase (each year's total property tax levy is the base for computing the succeeding year's levy); and (3) use of the dollar amount of the 2024 levy for calculating subsequent levy limits.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF MERCER ISLAND, WASHINGTON DOES ORDAIN AS FOLLOWS:

Section 1. Purpose and Description of Ballot Proposition ("Proposition 1"). The City Council hereby finds that the best interests of the residents of the City require the City to provide funds for police/emergency services, mental health counseling, safety net services, the maintenance of parks, trails, playgrounds, and ballfields, recreation services, code compliance services, and right-of-way maintenance (collectively, the "Services"). The City Council shall determine the timing, order, and manner of funding the Services, provided that current service levels for school and community based mental health counseling services will not be reduced for the six-year duration of this levy lid lift.

Section 2. Calling of Election Regarding the Levy of Additional Regular Property Taxes. It is hereby found and declared that the best interests of the City require the submission to the qualified electors of the City of the proposition approving a six-year increase in the City's regular property tax levy exceeding the levy limitations established in RCW 84.55.010 for their ratification or rejection at an election to be held on November 6, 2018.

For the purpose of funding public safety, youth, family and senior services, and parks and recreation services, as more particularly described herein, the Director of King County Elections, as *ex officio* supervisor of elections in King County, Washington, is hereby requested to call and conduct such election to be held within the City on such day and to submit to the qualified electors of the City for their approval or rejection a proposition to increase the City's regular property tax levy by up to \$0.238 per \$1,000 of assessed valuation to a maximum rate not to exceed \$1.241 per \$1,000 of assessed valuation for collection in 2019; increase the limit factor as allowed by chapter 84.55 RCW for each of the five succeeding years (2020-2024) to 103% by which the City's total regular property tax levy shall increase (each year's total property tax levy is the base for computing the succeeding year's levy); and authorize the use of the dollar amounts of the 2024 levy for the base in computing the maximum levy that may be imposed in years after 2024.

Upon approval of the voters of the proposition hereinafter set forth, the City may use proceeds of such levy to fund public safety, youth, family and senior services, and parks and recreation services as more particularly described herein. The City Clerk is hereby authorized and directed to certify the

following proposition to the Director of King County Elections, as *ex officio* supervisor of elections in King County, Washington, in substantially the following form. The election shall be held by all mail-in ballot.

CITY OF MERCER ISLAND
PROPOSITION NO. 1

LEVY LID LIFT FOR
PUBLIC SAFETY, YOUTH, FAMILY &
SENIOR SERVICES, AND PARKS & RECREATION

The Mercer Island City Council adopted Ordinance No. 18-07 proposing to increase the City’s regular property tax levy to fund public safety, youth, family, and senior services, and parks and recreation services.

This proposition would sustain current levels of police/emergency, mental health counseling, safety net, park/right-of-way maintenance, and recreation services by increasing the City’s regular property tax levy by \$0.238/\$1,000 to a maximum rate of \$1.241/\$1,000 of assessed valuation for collection in 2019; set the limit factor for 2020-2024 at 103% (each year’s total regular property levy is the base for computing the succeeding year’s levy); and use the 2024 levy amount to calculate subsequent levy limits.

Should this proposition be approved?

YES

NO

Section 3. Minor Adjustments. The City Manager and City Attorney are authorized to make such minor adjustments to the wording of such proposition as may be recommended by the Director of King County Elections, provided the intent of the proposition remains clear and consistent with the intent of this Ordinance.

Section 4. Local Voters’ Pamphlet Authorized. The preparation and distribution of a local voters’ pamphlet providing information on the foregoing ballot measure is hereby authorized. The pamphlet shall include arguments advocating approval and disapproval of the ballot measure. In accordance with RCW 29A.32.280, the arguments advocating approval and disapproval of the ballot shall be prepared by committees appointed by the City Council by motion not later than forty-five days before the publication of the pamphlet. Each committee shall be composed of not more than three persons, and the committee advocating approval shall be composed of persons known to favor the ballot title and the committee advocating disapproval shall be composed of persons known to oppose the ballot title.

Section 5. Severability. The recitals stated above (i.e., the “Whereas” clauses) constitute specific findings by the City Council in support of the passage of this Ordinance. If any provision of this Ordinance is declared by any court of competent jurisdiction to be invalid, then such provision

shall be null and void and shall be separable from the remaining provisions of this Ordinance and shall in no way affect the validity of the other provisions of this Ordinance or of any other ordinance or resolution, or of the levy or collection of the taxes authorized herein.

Section 6. Publication and Effective Date. This Ordinance shall take effect five days after its passage, approval and publication as required by law.

PASSED by the City Council of the City of Mercer Island, Washington, at a regular open public meeting thereof held this 24th day of July 2018.

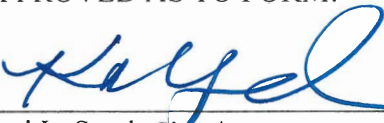
CITY OF MERCER ISLAND, WASHINGTON



Debbie Bertlin, Mayor

APPROVED AS TO FORM:

ATTEST:



Kari L. Sand, City Attorney



Allison Spietz, Acting City Clerk