



CITY OF MERCER ISLAND CITY COUNCIL MEETING AGENDA

**Friday
September 30, 2016
3:30-6:00 PM**

**Mayor Bruce Bassett
Deputy Mayor Debbie Bertlin
Councilmembers Dan Grausz, Jeff Sanderson,
Wendy Weiker, David Wisenteiner and Benson Wong**

This meeting will be held in the Slater Room at
the Mercer Island Community & Event Center at
8236 SE 24th Street, Mercer Island, WA

Contact: 206.275.7793 | council@mercergov.org | www.mercergov.org/council

MICRO-PLANNING SESSION

CALL TO ORDER & ROLL CALL, 3:30 PM

SPECIAL BUSINESS

Exploration of Operating & Capital Levy Lid Lift Ballot Measures in 2017

ADJOURNMENT



MEMORANDUM

2016 City Council Micro-Planning Session

TO: City Council

FROM: Chip Corder, Assistant City Manager/Finance Director

RE: **Exploration of Operating & Capital Levy Lid Lift Ballot Measures in 2017**

COUNCIL DISCUSSION/QUESTIONS PRESENTED:

1. Based on the 2018-2023 projected deficits in the General Fund and Youth & Family Services Fund, does the Council want to initiate a public engagement process in February-April 2017 on the City's operating funding needs?
2. During the public engagement process, should the operating levy lid lift option be tied to maintaining specific services in Parks & Recreation and Youth & Family Services?
3. Based on the preliminary list contained in Exhibit 1, does the Council want to initiate a public engagement process in February-April 2017 on the City's unfunded and partially funded capital projects at the same time as the operating funding needs process?
4. Should the capital levy lid lift cost impact to a \$1.0 million homeowner be limited to \$100 per year, if an operating levy lid lift and a capital levy lid lift are ultimately placed on the same ballot in 2017?
5. If the Council is inclined to go to the voters in 2017, which election timeline does it prefer? August 2017 (primary election) or November 2017 (general election)?
6. If the Council is inclined to put an operating levy lid lift on the ballot in 2017, does it prefer a 6-year or a permanent levy lid lift?

BACKGROUND:

Two Council levy lid lift committees were created at the June 2016 Mini-Planning Session to explore the possibility of going to the voters in 2017 with an operating levy lid lift and/or a capital levy lid lift request. The operating levy lid lift request would be tied primarily to addressing the projected deficits in the General Fund and Youth & Family Services Fund in 2018-2023. The capital levy lid lift request would be tied primarily to unfunded and partially funded capital projects related to parks, pedestrian/bicycle facilities, and a public building (i.e. renovation/expansion of the Maintenance Center).

Following is a summary of each Committee's deliberations, the timeline for two election options, and the types of levy lid lifts.

Operating Levy Committee Deliberations

The City's operating funding needs in 2018-2023 are summarized in the table below, noting the following:

- Projected General Fund deficits;
- Projected Youth & Family Services Fund deficits;
- Communications Specialist (0.5 FTE);
- Youth Development Coordinator (0.5 FTE); and
- Fire apparatus replacement.

2018-2023 Operating Funding Needs

Funding Need	2017	2018	2019	2020	2021	2022	2023	Annual Avg (2018-2023)
General Fund Deficit ¹	\$523,160	\$1,126,961	\$1,758,163	\$2,539,284	\$3,380,784	\$4,286,654	\$5,261,149	\$3,058,833
Youth & Family Services Fund Deficit ²	192,831	393,427	449,517	485,720	551,412	614,739	688,349	530,527
Communications Specialist (0.5 FTE) ³		54,932	57,679	60,563	63,591	66,770	70,109	62,274
Youth Development Coord. (0.5 FTE) ⁴		49,643	52,125	54,731	57,468	60,341	63,358	56,278
Fire Apparatus Replacement ⁵		55,000	55,550	56,106	56,667	57,233	57,806	56,393
Total Funding Need	\$715,991	\$1,679,963	\$2,373,034	\$3,196,403	\$4,109,921	\$5,085,738	\$6,140,771	\$3,764,305
\$ Increase Over Prior Year	N/A	\$963,972	\$693,071	\$823,370	\$913,518	\$975,817	\$1,055,033	\$904,130
% Increase Over Prior Year	N/A	134.6%	41.3%	34.7%	28.6%	23.7%	20.7%	N/A

Notes

¹ **General Fund:** Based on 9/8/16 updated forecast (includes 2017-2018 preliminary budget).

² **YFS Fund:** Based on 9/8/16 updated forecast (includes 2017-2018 preliminary budget).

³ **Communications Specialist:** This 0.5 FTE request is tied to a significant increase in demand for public communication in 2014-2016. Currently, the Communications/Sustainability Manager is split 60/40 between communications and sustainability.

⁴ **Youth Development Coordinator:** This position was cut to half-time beginning in 2011 due to the Great Recession. It coordinates the Volunteer Outreach in Communities Everywhere (VOICE) and Summer Volunteer Program (SVP) programs for high school and middle school youth. This 0.5 FTE request would restore the position to full-time.

⁵ **Fire apparatus replacement:** \$55,000 per year + 1% annual growth would fund through 2036 (currently funded only through 2026).

The General Fund and Youth & Family Services Fund forecasts for 2017-2023 have been updated since the Council's June 2016 Mini-Planning Session. The 2017 and 2018 fiscal years reflect the 2017-2018 Preliminary Budget, which will be presented to the Council on October 3, 2017. Note that the 2017 fiscal year was balanced using a portion of the 2015-2016 General Fund surplus, which was generated by the high level of development activity on the Island.

The two half-time staffing needs noted above are different than what was shown to the Council back in June 2016, when a new IT position (1.0 FTE) was identified as the City's greatest staffing need by the Leadership Team. In preparing the 2017-2018 Preliminary Budget, the interim City Manager recommended funding the new IT position, beginning in 2018, using the cost savings from the Eastside Narcotics Task Force (ENTF) Detective position, which is being formally eliminated in 2017 following the dissolution of the ENTF. Adding a half-time Communications Specialist and restoring the Youth Development Coordinator to full-time (0.5 FTE increase)

represent the next highest staffing needs in the organization. Accordingly, staff recommends including them on the list of operating funding needs to gauge community support for each position during the public engagement process in February-April 2017 (which is described below). For your information, the cost of the two half-time positions is the same as the new IT position.

Two levy lid lift structure options, which are financially equivalent, are presented below based on a 6-year operating lid lift, including and excluding the two half-time positions:

1. Smoothed funding need + 5% annual growth
2. Average annual funding need (fixed amount for 6 years)

Smoothed Funding Need + 5% Annual Growth

Funding Need	2017	2018	2019	2020	2021	2022	2023	Annual Avg (2018-2023)
General Fund Deficit	\$523,160	\$2,699,000	\$2,833,950	\$2,975,648	\$3,124,430	\$3,280,651	\$3,444,684	\$3,059,727
YFS Fund Deficit	192,831	468,000	491,400	515,970	541,769	568,857	597,300	530,549
Communications Specialist (0.5 FTE)	-	54,932	57,679	60,563	63,591	66,770	70,109	62,274
Youth Development Coord. (0.5 FTE)	-	49,643	52,125	54,731	57,468	60,341	63,358	56,278
Fire Apparatus Replacement	-	50,000	52,500	55,125	57,881	60,775	63,814	56,683
Total Funding Need	\$715,991	\$3,321,575	\$3,487,654	\$3,662,036	\$3,845,138	\$4,037,395	\$4,239,265	\$3,765,511
\$ Increase Over Prior Year	N/A	\$2,605,584	\$166,079	\$174,383	\$183,102	\$192,257	\$201,870	\$587,212
% Increase Over Prior Year	N/A	363.9%	5.0%	5.0%	5.0%	5.0%	5.0%	N/A

Including 2 half-time positions:

Levy lid lift rate per \$1,000 AV		\$0.306	\$0.321	\$0.337	\$0.354	\$0.371	\$0.390	\$0.346
Annual cost (\$1.0M AV home)		\$306	\$321	\$337	\$354	\$371	\$390	\$346

Excluding 2 half-time positions:

Levy lid lift rate per \$1,000 AV		\$0.296	\$0.311	\$0.326	\$0.343	\$0.360	\$0.378	\$0.336
Annual cost (\$1.0M AV home)		\$296	\$311	\$326	\$343	\$360	\$378	\$336

Average Annual Funding Need

Funding Need	2017	2018	2019	2020	2021	2022	2023	Annual Avg (2018-2023)
General Fund Deficit	\$523,160	\$3,058,833	\$3,058,833	\$3,058,833	\$3,058,833	\$3,058,833	\$3,058,833	\$3,058,833
YFS Fund Deficit	192,831	530,527	530,527	530,527	530,527	530,527	530,527	530,527
Communications Specialist (0.5 FTE)	-	62,274	62,274	62,274	62,274	62,274	62,274	62,274
Youth Development Coord. (0.5 FTE)	-	56,278	56,278	56,278	56,278	56,278	56,278	56,278
Fire Apparatus Replacement	-	56,393	56,393	56,393	56,393	56,393	56,393	56,393
Total Funding Need	\$715,991	\$3,764,305	\$3,764,305	\$3,764,305	\$3,764,305	\$3,764,305	\$3,764,305	\$3,764,305
\$ Increase Over Prior Year	N/A	\$3,048,314	\$0	\$0	\$0	\$0	\$0	\$508,052
% Increase Over Prior Year	N/A	425.7%	0.0%	0.0%	0.0%	0.0%	0.0%	N/A

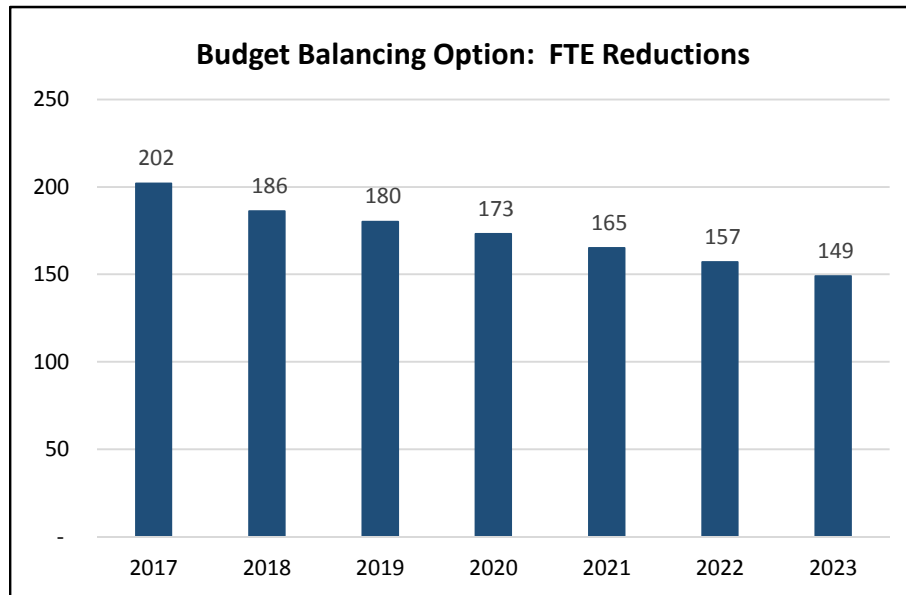
Including 2 half-time positions:

Levy lid lift rate per \$1,000 AV		\$0.346	\$0.346	\$0.346	\$0.346	\$0.346	\$0.346	\$0.346
Annual cost (\$1.0M AV home)		\$346	\$346	\$346	\$346	\$346	\$346	\$346

Excluding 2 half-time positions:

Levy lid lift rate per \$1,000 AV		\$0.335	\$0.335	\$0.335	\$0.335	\$0.335	\$0.335	\$0.335
Annual cost (\$1.0M AV home)		\$335	\$335	\$335	\$335	\$335	\$335	\$335

The alternative to going to the voters with an operating levy lid lift request is to cut positions (FTEs) to balance the General Fund and Youth & Family Services Fund budgets in 2018-2023 (see graph below).



To balance 2018, 16 FTEs, or 8% of the City's total workforce (regular and contracted FTEs), would have to be cut. **To balance 2018-2023, 53 FTEs, or 26% of the City's total workforce, would have to be cut.** Given how leanly staffed the City is (based on the number of employees per 1,000 population), this budget balancing option would have very significant service level impacts.

Public Engagement Process

The public engagement process envisioned by staff would occur in February-April 2017, following the adoption of the 2017-2018 Budget. The specifics would be worked out by Council sub-committee appointed by the Mayor and staff in December 2016 and January 2017 and finalized at the Council's January 2017 Planning Session. Ultimately, staff would endeavor to do the following before the Council takes formal action to put an operating levy lid lift on the ballot:

- Educate the public about the 5 funding needs noted above and the two options for addressing them (expenditure cuts vs. levy lid lift);
- Field all questions related to funding needs, number of employees, current service levels, taxes, fees, compensation policy, and cost impact on a typical household of an operating levy lid lift and a capital levy lid lift;
- Solicit public input; and
- Gauge public support for each funding need.

In engaging the public on the two budget balancing options, the operating levy lid lift would have to be tied to specific departments/services. This was discussed by the Operating Levy Committee, but no consensus was reached.

Capital Levy Committee Deliberations

The Capital Levy Committee focused its attention on unfunded and partially funded projects in the 2017-2022 CIP, which all relate to Parks, Recreation & Open Space; Pedestrian & Bicycle Facilities; and General Government (Public Buildings). There was consensus that the Maintenance Center renovation/expansion project is a high priority. At the direction of the Committee, Paul West, Parks Superintendent, put together a preliminary list of Parks, Recreation & Open Space and Pedestrian & Bicycle Facilities projects to be considered for a capital levy lid lift (see Exhibit 1). The Committee, with the assistance of staff, assigned a priority ranking of 1, 2, or 3 to each project. This project list is intended to help the Council assess whether or not to initiate a public engagement process for unfunded and partially funded capital projects at the same time as the operating funding needs process in 2017. If the Council opts to move forward, the preliminary list would be reviewed and finalized by the Council at its January 2017 Planning Session. Then, the final list would be provided to a Council appointed stakeholder group, who would review/vet the project list in February-April 2017 and make a recommendation to the Council on what to include in a capital levy lid lift.

If the Council decides to put an operating and a capital levy lid lift on the same ballot in 2017, the Committee agreed that the capital levy cost impact should be limited to \$100 per year on a \$1.0 million home to improve the chances of getting both ballot measures approved by voters (the 2016 median assessed value of a home on Mercer Island is \$982,000). This would provide annual debt service funding for \$9.0 million in capital projects beginning in 2018.

It should be noted that the capital project list is in 2016 dollars. The \$9.0 million cap is effectively in 2019 dollars, given that the selected projects would be constructed in 2018-2020. Therefore, only \$7.75 million in projects could be selected from the project list, which equates to \$9.0 million after factoring in 5% annually for capital project inflation in 2017-2019.

Regarding the Maintenance Center renovation/expansion project, the Committee preferred splitting the \$3.9 million 50/50 between a capital levy lid lift and the City's water, sewer, and storm water utility rates. The 50/50 split corresponds to the Public Works Department and Park Maintenance Division's staffing (including seasonal employees) allocation between the General Fund and the Utility Funds. The estimated bi-monthly utility bill impact of funding the annual debt service on \$1.95 million (50% of \$3.9 million) in bonds is 1.4%, or \$4.49, in 2018.

Timeline for 2 Election Options

Two levy lid lift election options are summarized in a timeline format on the following page:

- 1) August 2017 (primary election); and
- 2) November 2017 (general election).

Action	August 2017 Primary Election	November 2017 General Election
Develop a detailed public engagement plan	Dec 2016 – Jan 2017	Dec 2016 – Jan 2017
Council meeting: Review & finalize the public engagement plan and the list of capital levy lid lift projects	Jan 2017 Planning Session	Jan 2017 Planning Session
Conduct public engagement process	Feb – Mar 2017	Feb – Apr 2017
Council meeting: Decide on whether or not to put a levy lid lift on the ballot, the type of levy lid lift, and the levy lid lift structure	April 3, 2017	June 19, 2017
Finalize levy lid lift ordinance and ballot measure	April 7, 2017	June 23, 2017
Council meetings: Conduct 2 public hearings on the proposed levy lid lift ordinance	April 17, 2017 May 1, 2017	July 3, 2017 July 17, 2017
Due date for submission of levy lid lift ordinance and ballot measure to King County Elections Office	May 12, 2017	August 1, 2017
Election date	August 1, 2017	November 7, 2017

The August 2017 election timeline has the following downsides:

1. Many families go on vacation in July and August;
2. An August ballot measure would likely cost \$15,000 more than a November ballot measure; and
3. The public engagement process would need to be limited to February-March 2017.

Types of Levy Lid Lifts

A property tax levy lid lift requires simple majority (50% + 1) voter approval whether used for operating or capital purposes. When bonds are issued for capital projects, a levy lid lift, which is used to fund the annual debt service, is limited by state law to 9 years. Such would be the case for the capital levy lid lift discussed above. When a levy lid lift is used for operating purposes, it can be any length of time, including permanent. The annual levy increase is limited to 1%, except for a 6-year levy lid lift, which has no inflationary restriction. The other advantage of a 6-year levy lid lift is that voters are more inclined to support it over a permanent levy lid lift because of the 6-year accountability cycle (i.e. the City would have to go back to the voters every 6 years). The only hitch with a 6-year levy lid lift is that there is a “non-supplanting” clause, which prevents a jurisdiction from using levy lid lift proceeds to replace existing funding used for the same purpose. Given the City’s projected deficits beginning in 2017, this is not an issue.

RECOMMENDATION:

1. Initiate a public engagement process in February-April 2017 on the City's operating funding needs, soliciting input and gauging support before taking formal action to put an operating levy lid lift on the ballot.
2. Tie the operating levy lid lift to maintaining current service levels in the Parks & Recreation and Youth & Family Services Departments, which are discretionary services and which fall under the City's number 5 priority of government, which is: the community will support a broad range of recreational, cultural, health, and educational opportunities. More specifically, identify Park Maintenance, Recreation Programs, and Mental Health Counseling (in the public schools) as the primary services that would have to be cut absent a new revenue source beginning in 2018. The challenges of cutting staff are summarized by department in Exhibit 2.
3. Initiate a public engagement process in February-April 2017 on the City's unfunded and partially funded capital projects, utilizing a community stakeholder group to develop a recommended project list before taking formal action to put a capital levy lid lift on the ballot. The decision on whether to put two levy lid lifts on the same ballot, which invites significantly greater voter approval risk, would occur after the public engagement process.
4. If the Council is inclined to put both levy lid lifts on the same ballot in 2017, staff recommends limiting the cost impact of the 9-year capital levy lid lift to \$100 per year on a \$1.0 million home, given the \$346 average annual cost (including the two half-time positions) of the 6-year operating levy lid lift.
5. If the Council is inclined to go to the voters in 2017, staff recommends following the November 2017 election timeline.
6. If the Council is inclined to put an operating levy lid lift on the ballot in 2017, staff recommends doing a 6-year levy lid lift.

EXHIBITS:

1. Preliminary List of Capital Levy Lid Lift Projects
2. Challenges of Cutting Staff (by Department)

Exhibit 1

Preliminary List of Capital Levy Lid Lift Projects

Project Category / Project	Project Description	2016 Cost	Priority	Note
Sports Fields:				
Island Crest Park North Outfield Synthetic Turf	Completes the synthetic turf upgrade	\$1,200,000	1	
Aubrey Davis Park Area B Field Construction	Level & provide field markings for regulation fields	\$827,000	1	Partially funded by REET (\$414,000)
Synthetic Turf Field Safety Upgrades	Provides shock pad & alternative infill when fields undergo normal replacement	\$750,000	1	
Ballfield Backstop Safety Upgrades	Provides higher backstops & safety netting to reduce stray foul balls	\$500,000	1	Project added by Paul West after Committee met
South Mercer Playfields Ballfields Lighting	Extends play hours with efficient lighting upgrades	\$800,000	2	Project added by Paul West after Committee met
Aubrey Davis Park Area C Synthetic Turf	Install 36,000 sf field	\$500,000	2	
Aubrey Davis Park Area C Restroom	Construct concrete facility similar to Homestead Field	\$250,000	2	
Feroglia Fields Synthetic Turf	Install 106,000 sf field	\$1,400,000	3	
Islander Middle School All Weather Field End Zone	Install synthetic turf for warm up/practice	\$160,000	3	
Waterfront:				
Luther Burbank Park Swim Beach	Expands swim area, replaces restroom & provides access & kid-friendly lake bottom	\$1,000,000	1	Partially funded by REET (\$500,000)
Groveland Beach	Bulkhead removal & graded beach/swim area	\$1,000,000	2	
Luther Burbank Shoreline Phase 3	Habitat restoration & new trail between marina & swim beach	\$800,000	2	Partial funding could come from grants
Luther Burbank Boating Facility Phase 1	Provides seismic & other basic improvements to Boiler House to allow for boat storage & rental program; and includes planning for future office/class room space	\$500,000	2	
I-90 Boat Launch Improvements	Two launch lanes	\$400,000	3	
Road Shoulders/Recreation Trails:				
Mercer Way Shoulders	Construct missing sections & hill climb opportunities	\$1,500,000	1	
Hollerbach Trail	Construct new trail connecting SE 45 th to East Mercer Way	\$300,000	1	
Upper Luther Burbank Ravine Trail Phase 2	Connect ravine to Shorewood	\$150,000	1	

Exhibit 1 (cont'd)

Preliminary List of Capital Levy Lid Lift Projects

Project Category / Project	Project Description	2016 Cost	Priority	Note
Road Shoulders/Recreation Trail (cont'd):				
I-90 Lid Connector Trail	Construct staircase to connect Luther Burbank Park to the Lid & Town Center	\$150,000	1	
Mercerdale Hillside Trails Renovation	Replace rotting stairs, reduce staircases & re-route trails	\$250,000	2	
Mercerdale Park Loop Trail	Construct 8 foot wide trail with root barrier	\$100,000	2	
I-90 Bike Trail Overlay	Overlay of 25 year old asphalt trail	\$350,000	3	
Island Crest Park Suspension Bridge	Construct new suspension bridge across ravine	\$200,000	3	
Town Center:				
New Plaza Park	Construct new park plaza at 76 th & SE 28 th	\$1,000,000	3	
Lid Park Overlook	Park opportunities on the Lid south of the Luther Burbank Park	\$500,000	3	
Kids & Families:				
Groveland Beach Restroom & Lifeguard Office	Construct new building at popular family destination	\$448,000	1	Partially funded by REET (\$50,000)
Deane's Children's Park Adventure Playground	Construct fence & storage	\$65,000	1	
Skate Park Redevelopment	Construct new features	\$450,000	2	
Arts & Community:				
Luther Burbank Amphitheater	Upgrade stage & terraces per master plan	\$400,000	2	
Kite Hill Gardens at MICEC	Add gardens & landscaping per master plan	\$250,000	2	
MICEC Multipurpose Room	Arts space kids & adults	\$250,000	3	
Luther Burbank Park Entry Plaza	Improve access, visibility & aesthetics at SE 24 th & 84 th Ave	\$250,000	3	Project added by Paul West after Committee met
MICEC Mercer Room Balcony	Increase outdoor access	\$150,000	3	
Public Buildings:				
Maintenance Building Renovation/Expansion	Remove grass roof & add needed square footage for staff/work space	\$1,950,000	1	Represents 50% of total cost estimate
Total Project Costs (Priority 1-3)		\$16,850,000	1-3	
Total Project Costs (Priority 1)		\$8,840,000	1	

Exhibit 2

Challenges of Cutting Staff (by Department)

Department	Challenges of Cutting Staff
Police	No cost savings would be achieved by eliminating positions due to contractual minimum staffing requirements, which would have to be maintained using overtime. The exception is the ENTF Detective, which is being formally eliminated in 2017.
Fire	No cost savings would be achieved by eliminating positions due to contractual minimum staffing requirements, which would have to be maintained using overtime.
DSG	DSG's staffing level is tied to development activity, and their costs are mostly funded by development fees, not taxes. In 2016, the Council added a planning position to address long-range planning issues. Development cost recovery targets were adjusted beginning on August 1, 2016 to free up tax revenues, which are currently dedicated to DSG, to cover the cost of this position.
Public Works	Most of Public Works is budgeted in the Water, Sewer, and Storm Water Funds. The services budgeted in the General Fund relate to right-of way work (roadway maintenance, vegetation maintenance, planter maintenance), neighborhood traffic control, and administrative support. During the Great Recession, 2.5 FTEs were cut from the Right-of-Way Team, which have not been restored.
Parks & Recreation	Parks & Recreation has a total cost recovery policy of 50-55% from recreation, ballfield, and room rental fees. Any cuts to Recreation would result in reduced recreation fees, partially negating the cost savings achieved. Nevertheless, recreation programs are a discretionary service. Parks Maintenance is funded primarily by taxes and is a discretionary service as well.
Youth & Family Services	YFS is primarily funded by \$1.41 million in Thrift Shop sales, \$400,000 in General Fund support, \$190,500 in program fees and donations, and \$155,000 in MIYFS Foundation support. Cutting Thrift Shop staff would negatively impact Thrift Shop sales. Mental Health Counseling, which is provided by YFS staff, is a discretionary service.
Municipal Court	Court fines cover almost all of the cost of operating a court, which is staffed by a part-time (0.7 FTE) judge and 2.75 staff. In terms of efficiency, the Court processes significantly more cases per FTE than other municipal courts. This is not a discretionary service.
City Manager's Office, City Attorney's Office, Finance, Human Resources, and Information & Geographic Services	Compared to other full service cities, these administrative departments are extremely lean. If position cuts were required, the new IT position recommended in the 2017-2018 Preliminary Budget would be eliminated first.