



MEMORANDUM

2019 City Council Mid-Year Planning Session

TO: City Council

FROM: Jessi Bon, Interim City Manager
Chip Corder, Assistant City Manager/Finance Director
Ali Spietz, Assistant to the City Manager

RE: Fiscal Sustainability Plan – Proposed Budget Strategies

BACKGROUND

As part of the Proposition 1 ordinance in 2018, the Council directed staff to prepare a Fiscal Sustainability Plan (FSP). The Council retained Management Partners to assist the City in developing the FSP. This effort was kicked-off at the City Council's December 18, 2018 meeting (see [AB 5520](#)) and a progress report was presented at the March 19, 2019 meeting (see [AB 5539](#)).

At the Annual Planning Session in February 2019, the Council identified the implementation of a Fiscal Sustainability Plan as one of its top priorities. The Council formally adopted their Priorities and Work Plan on April 2, 2019 (see [AB 5549](#)).

On April 16, Management Partners presented their proposed budget strategies, analysis and recommendations to address the City's financial structural deficit (see [AB 5552](#)). At the meeting, Management Partners reviewed the updated baseline General Fund forecast, presented twenty-one potential budget strategies, and three proposed budget scenarios.

Please note that the Youth and Family Services (YFS) Fund is not being discussed in the FSP. The Council discussed the YFS Fund separately at the April 30 meeting (see [AB 5553](#)).

BUDGET STRATEGIES

As requested by the City Council on April 16, staff have provided responses to the strategies highlighted in green below. The strategies not highlighted are either revenue options or do not warrant a staff response (see Exhibit 1, tabs 1-22). The potential strategies are summarized as follows:

- **Expenditure Controls/Cost Shifts.** Maintaining service levels through reductions in expenditures or shifting the cost burden away from the General Fund.
 1. Reduce vacation benefits
 2. Renegotiate maintenance agreements with the Mercer Island School District (MISD) for ball fields and pool maintenance

- **Service Delivery Changes.** Maintaining service levels by changing the way that services are delivered, either through contracting for services or outsourcing services to other agencies.
 3. Contract for police services with King County Sheriff's Office
 4. Contract operation of the Mercer Island Community and Event Center
 5. Change one fire engine to EMS apparatus and staff EMS drivers with non-sworn employees
 6. Develop shared services model for fire services
 7. Create a metropolitan park district as a funding tool for parks and recreation operations and maintenance
 8. Establish new fire protection district for fire services and transfer fire services to the new district

- **Revenue Enhancements.** Maintaining service levels by increasing the resources available to pay for those services through new or increased revenues.
 9. Implement a levy lid lift as a general tax increase
 10. Implement a levy lid lift as a specific purpose tax
 11. Renew the existing Parks M&O levy lid lift
 12. Increase the business and occupations tax
 13. Increase utility users tax rates on City-owned utilities (water, sewer, stormwater)
 14. Implement the sustainability (administrative) fee in the solid waste contract
 15. Increase utility users taxes on solid waste services
 16. Increase fees and charges to establish cost recovery standards at/near full cost recovery

- **Service Level Reductions.** If the above strategy types do not yield sufficient fiscal savings to the General Fund, the City would need to explore service level reduction strategies in order to achieve fiscal sustainability.
 17. Take no action
 18. Implement General Fund services and staffing reductions
 19. Eliminate/brown-out one fire station
 20. Reduce parks landscape maintenance and irrigation
 21. Eliminate or reduce marine patrol services
 22. Reduce law enforcement specialized services

In addition to the strategies above, Management Partners included a list of other potential strategies (see Exhibit 2, tab 23), but these strategies were not researched further due to the

potential for little or no material impact on the fiscal gap. These strategies are included for reference.

At the Mid-Year Planning Session, the strategies will be reviewed in the following order:

4. Contract operation of the Mercer Island Community and Event Center
2. Renegotiate maintenance agreements with MISD for ball fields and pool maintenance
20. Reduce parks landscape maintenance and irrigation
7. Create a metropolitan park district as a funding tool for parks and recreation operations and maintenance
1. Reduce vacation benefits
19. Eliminate/brown-out one fire station
5. Change one fire engine to EMS apparatus and staff EMS drivers with non-sworn employees
6. Develop shared services model for fire services
8. Establish new fire protection district for fire services and transfer fire services to the new district.
22. Reduce law enforcement specialized services
3. Contract for police services with King County Sheriff's Office
21. Eliminate or reduce marine patrol services

Staff will be available to answer questions or elaborate on the responses provided.

STRATEGY EVALUATION

For each of the highlighted strategies above the City Council will be asked the following questions:

1. Do you understand the current issue/service/program?
2. Do you understand the proposed strategy? *Any clarifications needed?*
3. Are there additional considerations or factors that need to be considered? *Examples: collective bargaining, regulatory constraints, etc.*
4. What additional questions need to be answered?
5. Should this strategy be (choose one):
 - a. Eliminated from further consideration?
 - b. Analyzed further and scheduled for City Council follow-up discussion at a future Study Session in 2019/early 2020?
 - c. Retained in the proposed budget scenarios (see Exhibit 3, tab 24)?

The direction provided by the City Council will inform the staff work plan for the remainder of 2019 and early 2020 in preparation for development of the 2021-2022 biennial budget.

NEXT STEPS

Following the Mid-Year Planning Session, staff will begin the detailed analysis of the selected budget strategies and bring them back to the City Council for further review and consideration. It is anticipated that a public engagement strategy will ensue once the strategies are fully vetted and the proposed budget scenarios are revised. The timeline for the public engagement strategy has not been established.

EXHIBITS

1. Budget Strategies #s 1-22
2. Other Strategies Identified, Not Specifically Analyzed
3. Proposed Budget Scenarios

Attachment A – Detailed Strategies

EXPENDITURE CONTROLS/COST SHIFTS

1. Reduce vacation benefits, including implementing a “use it or lose it policy” to eliminate the liability

STRATEGY TYPE: Expenditure Controls/Cost Shifts

STAFF RESPONSE

Represented/Union Employees

No other public agencies in Washington State have a “use it or lose it” leave policy. Implementing this type of policy would likely end with interest arbitration with the City’s Police and Fire unions. Interest arbitrators weigh the comparison of benefits in other “like” agencies. Given previous interest arbitration outcomes, the City believes it is very likely that the unions would prevail. The AFSCME bargaining unit employees are not eligible for interest arbitration; however, a proposal to move the bargaining unit employees to a “use it or lose it” leave benefit model could result in a dispute between the parties and lead to costly legal expenses. Additionally, such an effort would adversely impact the relationship between the City and its unions potentially resulting in increased filings of grievances and claims of unfair labor practices, as well as discouraging the union from working collaboratively with the City. Under such a scenario, labor negotiations would likely become more time consuming and costly, and staff morale would likely decline.

Unrepresented Employees

While it is possible to unilaterally change the leave benefits of the City’s ninety, unrepresented employees to a “use it or lose it” model, the following potential impacts should be carefully considered:

- Reducing the benefits of nearly half of City employees while maintaining full benefits for the rest may lead to unionizing throughout the City.
- In an already challenging recruiting environment, reducing employee leave benefits will further exacerbate our ability to recruit and retain quality candidates to positions throughout the City.
- There could be a negative impact on the City’s turnover rate. A “use it or lose it policy” may give employees more reason to leave the City.
- When positions are difficult to fill (which is the case now), other staff are unable to use leave while departments are short staffed. Denying the use of vacation due to workload coverage issues on top of having a “use it or lose it” policy further impacts morale.



- Such a policy may adversely affect a family’s ability to take extended leave following the birth or adoption of a child or to take an extended absence for other medical reasons. Many staff save their vacation leave in order to cover their FMLA leave with pay.

Considering that the City would likely be unsuccessful in moving its represented employees (just over 50 percent of the workforce) to a “use it or lost it” leave policy, the financial impact estimate of \$120,000, described below, would be significantly reduced. Furthermore, the resulting consequences of such a policy (i.e., damaged relationships with employee union groups, increased turnover etc.), may cost the City more than leaving the benefit as is.

IMPACT ESTIMATE

Total annual accrued compensated absences has an estimated value of \$1.4 million, of which the General Fund component is approximately \$1 million. If the accrual rate was reduced by 10% through a "use it or lose it" policy, ongoing annual savings achieved could equate to about 0.5% of payroll, or approximately \$120,000.

FEASIBILITY

Among peer agencies researched, no other agency has implemented a “use it or lose it” policy for vacation leaves. The policy would require negotiations with labor groups. Competitiveness for recruiting and retaining skilled employees would be impacted. It is possible that an impasse would be reached with police and fire bargaining units, which are subject to interest arbitration that factors in comparability with “like employers of similar size” on the west coast. A staff-conducted paid leave accrual analysis indicated that Mercer Island’s accrual rates were in the bottom quartile for other comparable agencies. Since police and fire personnel make up about 43% of the General Fund personnel costs, this would severely limit the fiscal reduction opportunity.

Factor	Difficulty Level
Potential for community pushback	Minimal
Technical and operational difficulties of implementation	Significant
Timing necessary for implementation	Moderate
Disruptive impact on service delivery	Significant
Disruptive impact within City organization	Significant
Overall difficulty for Implementation	Significant
	Rating
Fiscal Impact	Moderate
Potential of Success	Low

BACKGROUND/ANALYSIS

The City’s employees receive paid leave as part of their benefits package. Vacation leave is compensable to the employee upon separation of employment after six months of service and may also be cashed out as indicated in Table 13. The other paid leaves (e.g., sick, bereavement, jury duty, etc.) are not compensable. Vacation leave is earned based on years of service as indicated in Table 13.

Table 1. Annual vacation leave accrual rates and cash-out provisions under current labor contracts

Years of Service	AFSCME	Fire	Police Support	Police	Years of Service	Unrepresented
6 months	48 hours (lump sum)					
Up to 5 years	96 hours	120 hours	96 hours	96 hours	Up to 4 years	96 hours
6 to 10 years	120 hours	168 hours	120 hours	120 hours	4 to 9 years	120 hours
11 to 15 years	144 hours	198 hours	144 hours	144 hours	9 to 14 years	144 hours
16 to 19 years	168 hours	222 hours	168 hours	168 hours	14 years and thereafter	168 hours
20 years and thereafter	192 hours	264 hours	192 hours	192 hours		
Annual cash-out provisions during employment	Annual cash out of up to 40 hours after five years of service, and up to 100 hours after 10 years of service	No cash out provision	Excess accrual beyond 80 hours for employees up to 10 years of service, and 120 hours for employees greater than 10 years of service	Annual cash out of up to 40 hours of accrued vacation leave.	Annual cash-out provisions during employment	Annual cash out of up to 24 hours of vacation leave for employees with greater than three years of service. Annual cash out of up to 40 hours of accrued vacation leave for employees with more than 10 years of employment.

Note: Maximum payout upon separation of employment is 280 hours for fire employees and 240 hours for police employees

Implementing a “use it or lose it” policy would eliminate the payout upon separation of employment and would incent employees to take time off during the year. However, such a policy is rare in local government and could create competitive pressures when recruiting employees to fill vacant positions.

Some employers will negotiate reduced vacation benefits with employees as a method of cost reduction, which reduces the overall liability for the city and the incremental costs associated with mandated coverage such as in the case of police and fire. Reduction in vacation accrual does not have a dollar for dollar reduction in annual expenditures, however. In our experience, a 10% reduction in vacation leave may yield a 2% to 3% savings in costs associated with the reduction. Reducing the accrual amount would reduce exposure for annual cash out provisions as is the case with AFSCME and Police employees. However, the state rules surrounding

binding interest arbitration for police and fire employees would make this difficult for the City to implement given that no known agencies in Washington have implemented this.

Table 14 below presents compensated absence accruals and paid holidays among those agencies to which the City compares itself for compensation and benefits analysis. Mercer Island's compensated absence benefits are within the normal benefit levels provided by other cities but is among the lowest for the highest level of vacation accrual.

Table 2. Compensated Absences Accrual Rates Among Comparable Agencies – 2019

City	Annual Vacation Leave	Annual Sick Leave	Annual Paid Holidays
Auburn	12 to 26 days max 384 hrs - eligible for cash out	12 days max 960 hrs - eligible for 100% cash out	12 days no cash out
Bothell	12 to 22 days max 354 hrs - eligible for cash out	12 days max 960 hrs - eligible for 20% cash out	12 days no cash out
Edmonds	12 to 27 days max 354 hrs - eligible for cash out	12 days max 1,000 hrs - eligible for 200 hr cash out	11 days no cash out
Issaquah	12 to 24 days max 436 hrs - eligible for cash out	12 days max 1,280 hrs - eligible for 50% cash out	11 days no cash out
Kirkland	12 to 24 days max 382 hrs - eligible for cash out	12 days max 960 hrs - eligible for 144 hr cash out	11 days no cash out
Lynnwood	12 to 22 days max 280 hrs - eligible for cash out	12 days max 960 hrs - eligible for 144 hr cash out	11 days no cash out
Mercer Island	12 to 21 days max 240 hrs - eligible for cash out	12 days max 720 hrs - no cash out	11 days no cash out
Redmond	12 to 23 days no max - eligible for cash out	12 days max 960 hrs - eligible for 50% cash out	12 days no cash out
Sammamish	12 to 22 days max 240 hrs - eligible for cash out	12 days max 960 hrs - eligible for 25% cash out	12 days no cash out
SeaTac	12 to 23 days max 448 hrs - eligible for cash out	12 days max 960 hrs - eligible for 50% cash out	11 days no cash out
Shoreline	12 to 24 days max 240 hrs - eligible for cash out	12 days max 960 hrs - eligible for 20% cash out	10 days no cash out

Attachment A – Detailed Strategies

EXPENDITURE CONTROLS/COST SHIFTS

2. Renegotiate maintenance agreements with Mercer Island School District for ballfields and pool

STRATEGY TYPE: Service Delivery Change

STAFF RESPONSE:

Mary Wayte Pool

The Interlocal Agreement (ILA) for the Mary Wayte Pool is in effect until 2024. The City and the Mercer Island School District (MISD) will revisit the terms of that agreement beginning in 2023. Termination of this ILA requires mutual consent of the parties.

Athletic Fields

Staff recommends proceeding with a comprehensive analysis of athletic field operations. The analysis will include:

- ILAs between the City and the MISD,
- rental fees,
- synthetic turf sinking fund,
- levels of service for maintenance functions,
- maintenance obligations, and
- other types of shared facility use between the MISD and the City.

An initial review of the ILAs with the MISD for ball field maintenance and operations confirm the need to restructure these agreements such that costs are shared evenly between the MISD and the City. The City has identified several opportunities where restructuring the agreements could be more equitable between the two entities. The following are just a few examples.

Island Crest Park – MIHS Baseball Team

During the spring sports season the MISD high school baseball team has priority use of the baseball fields at Island Crest Park, while paying only a modest administrative fee. The City covers all maintenance costs for these fields and associated facilities, resulting in an estimated net operating subsidy of \$24,000 to the MIHS baseball program. Additionally, the City pays into a turf replacement fund for Island Crest Park. MISD does not contribute to this fund. Turf replacement occurs every 8 to 12 years.

South Mercer Playfields Level of Service Maintenance Functions

During the spring growing season, the South Mercer Playfields (owned by MISD, maintained by the City) are mowed two times per week. These fields are also irrigated and fertilized regularly; a very high level of service. The current ILA does not address level of



service standards for the facility. Level of service, including mowing, top dressing, fertilization and seeding frequencies, as well as irrigation rates, should be further evaluated and represent a potential cost savings. Additionally, level of service standards should be equitable across user groups, ensuring parity of facility and maintenance services provided to the MIHS Boys Baseball and MIHS Girls Fastpitch, for example.

South Mercer Playfields Level of Service Discrepancies

The blackberries at the boundaries of the South Mercer Playfield complex have been cleared by City staff for several years. This substantive, and costly, maintenance process is not included in the ILA. As the City has no obligation to perform this maintenance task, the Parks maintenance division discontinued this work in 2019. This did not, however, save resources as the new parks maintenance management staff also discovered that there were work items not being performed per the ILA.

Homestead Park – MIHS Tennis Program

The MIHS tennis program currently operates out of Homestead Park. There is no provision for this operation in the ILAs, and as a result, no fees are being collected.

Providing quality and safe athletic fields is a priority for both the City and the MISD, and both entities are struggling to fund operating costs and capital repairs/replacements. Review of the ILAs will be a collaborative process and should also include community athletic leagues. The review should ensure that all facilities and operations are captured in a revised agreement.

IMPACT ESTIMATE

The City currently subsidizes the Mercer Island School District (MISD) swimming pool (Mary Wayte Pool) in the amount of approximately \$140,000 annually, which could be avoided through a renegotiated agreement. However, such relief would not likely be able to occur until 2024 when the existing interlocal agreement expires.

The City and MISD share use of athletic facilities through an interlocal agreement. The cost of maintenance for the shared facilities falls primarily on the City and is estimated at close to \$200,000 annually. These costs could be avoided or recovered through a renegotiated agreement.

FEASIBILITY

The most significant barrier to being able to recoup the actual costs of maintaining the pool and ballfields is MISD's ability to pay. The City could choose to terminate its maintenance responsibilities with MISD and shift maintenance responsibilities for school properties back to MISD. The City could also begin charging MISD the established rental rates for school use on City-owned ball fields and other athletic facilities.

Factor	Difficulty Level
Potential for community pushback	Significant
Technical and operational difficulties of implementation	Minimal
Timing necessary for implementation	Significant
Disruptive impact on service delivery	Significant
Disruptive impact within City organization	Minimal
Overall difficulty for Implementation	Moderate
	Rating
Fiscal Impact	Significant
Potential of Success	Moderate

BACKGROUND/ANALYSIS

The City’s Parks and Recreation Department administers more than 200 recreation programs each year and with a \$2.6 million annual budget maintains almost 500 acres of parks, 30 miles of trails, as well as the 42,000 square foot Mercer Island Community and Events Center. Among the recreation programs administered by Parks and Recreation are the use of the ballfields owned by both MISD and the City, and scheduling services for both City-owned and select District-owned ballfields.

Parks and Recreation staff indicated they are commencing a parks maintenance operational assessment that will help identify potential efficiencies and cost saving opportunities. The study will provide more clarity on the cost of maintenance services and the resulting level of subsidy for related programming. Although this in-depth study is not yet completed, staff believes the City is not receiving full cost recovery for the maintenance efforts it provides for ballfields used for MISD athletic programs.

For example, the City owns a field that the High School baseball team uses as their home field, but the City only collects a modest administrative fee for this use. The maintenance costs for this facility are the full responsibility of the City. In this example, it is also important to note that during the high school baseball season, these fields are generally not available for other uses, thereby further limiting potential rental revenue.

Overall, staff indicated that revenues received from the District under the existing agreement likely fall short of full cost recovery in an amount close to \$200,000 annually. They believe they could potentially receive this amount of revenue if these facilities were rented to non-school interests. A more refined estimate will not be available until the operational assessment is completed.

Similarly, for use of the MISD pool (the only publicly available pool in the city limits), the City currently provides a direct subsidy for its maintenance in the amount of another \$140,000 annually, even though the City does not use the pool for its programs. The interlocal agreement for maintenance of the pool expires in 2024.

One of the Parks and Recreation Department's "Key Initiatives" for 2019-2020 is to *"Review the rental fee structure for athletic fields, picnic shelters, and general park reservations. Ensure a fiscally sustainable approach and competitive pricing within the market."* This review, which as mentioned previously is underway, should include the agreements with MISD in order to move the cost recovery percentage to, or at least closer to, full cost recovery.

Attachment A – Detailed Strategies

SERVICE DELIVERY CHANGES

3. Contract for Police Services with King County Sheriff

STRATEGY TYPE: Service Delivery Change

STAFF RESPONSE

Mercer Island has historically had its own police department, which has served to keep citizen satisfaction high, the crime rate low, and costs contained. Maintaining a City managed police department helps control costs through the budget process, program approval, and collective bargaining.

The suggested \$700,000 annual savings by contracting with the King County Sheriff's Office (KCSO) will result in a lower level of service for residents (fewer KCSO Deputies than current MIPD officers). The numbers indicated in this strategy focus on cost *per capita*, not cost *per deputy/officer*. Most KCSO-contract cities do not employ as many deputies per capita as the City does officers. Given the City's geographic location between the State's largest and fifth largest cities, and the fact that most of the people arrested by the MIPD come from other cities, the current number of MIPD officers has proven to be the appropriate level of service to ensure a low crime rate for the Mercer Island community. Given the continued growth in the region and future light rail station, reducing the number of police officers could result in unresolved crime and fewer arrests.

The average cost of a KCSO deputy in a contract city is \$297,700 as compared to \$229,583* for a MIPD officer. These costs are calculated by taking the total police department budget and dividing it by the number of deputies / officers. Costs for contract deputies are much higher because a portion of King County's administrative fees (HR, IT, legal, finance, etc.) are bundled within a deputy's salary. Contracting with the KCSO would duplicate administrative costs in this area.

A recent Police Services Study in Sammamish, a KCSO contract city, shows that most KCSO deputies are assigned on two-year contracts, and tenure in Sammamish is brief. The average time a deputy stays at Sammamish is 2.6 years, with almost 80% of the police force serving Sammamish for three years or less. The average longevity of current MIPD officers is 14 years. The longer an officer spends in a community, the more they get to know and become part of the community, allowing for consistency and predictability.

Finally, most operating decisions under the contract model are made by KCSO and ultimately the King County Sheriff, an elected position. A contract police chief, for example, is hired from within the KCSO candidate pool. All personnel decisions are also handled by KCSO, with



extremely limited involvement by the contracting city. Given that bargaining decisions are made by King County, with contract cities providing an advisory role, the City would lose local control over labor and other costs. Should the City wish to revert back to an in-house police department, its diminished negotiating position could make it a very difficult and costly endeavor.

**The number for the MIPD officer excludes the costs of the Marine Patrol and Emergency Management programs.*

IMPACT ESTIMATE

The impact is difficult to quantify as discussions with King County Sheriff’s Office (KCSO) would need to take place that incorporate all law enforcement services and their ability to serve Mercer Island. A budget comparison performed in 2017 by KCSO on all police agencies in King County indicated an average annual cost per capita for standalone police departments to be \$354. Current average annual cost per capita for agencies that contract with KCSO is \$238. Mercer Island’s current total police departments costs is approximately \$293 per capita. Excluding Marine Patrol and Emergency Management services, the cost per capita is \$264.

If Mercer Island targeted a service cost delivery based on the average of the partner agencies that contract with KCSO, annual savings would be approximately \$700,000 (this assumes that Mercer Island retains marine patrol services and emergency management), and would likely result in a reduction in total number of sworn police positions.

FEASIBILITY

Sixteen cities in King County have successfully contracted with KCSO. The City’s interlocal agreements with Bellevue (which provides reciprocal in-kind services for marine patrol and special law enforcement services) and Renton (Mercer Island provides contract marine patrol services for a fee) would require renegotiation.

Public perception is often a barrier to a shared services model as the public typically perceives that loss of local control will degrade services. Agencies with successful shared service models articulate clear service level performance requirements, ongoing performance reporting, and cost implications for failing to meet performance standards, which help mitigate loss of service. Sharing services would require meet and confer discussions with represented employees and negotiations with KCSO. It is not uncommon for such agreements to require that city personnel be retained by the new agency for a set period (often one to three years, subject to performance).

Factor	Difficulty Level
Potential for community pushback	Significant
Technical and operational difficulties of implementation	Significant
Timing necessary for implementation	Moderate
Disruptive impact on service delivery	Moderate

Disruptive impact within City organization	Significant
Overall difficulty for Implementation	Significant

	Rating
Fiscal Impact	Significant
Potential of Success	Moderate

BACKGROUND/ANALYSIS

Since the Great Recession of 2007, several cities throughout the nation have explored shared services models for police services. For those agencies that have moved forward with a shared services model, they often find that the costs of providing services can be lower than if they provided those services themselves. Typical cost savings come from redundancies in management positions, technology and fleet investments, and economies of scale in the areas of public safety dispatch, records management, and specialized law enforcement services such as investigations, SWAT and emergency management. Smaller agencies with lower compensation and benefits, however, may not derive significant savings if they partner with an agency that provides much higher compensation packages to their employees and service levels are expected to be maintained with the same number of patrol officers.

Table 15 includes the 2019 police budget for each of the contracted partner agencies and the cost per capita for total police services. The weighted average cost for the partner agencies is \$238 per capita per year. This is approximately 19% lower than Mercer Island’s existing total cost per capita for its standalone police department, and 10% lower if the costs for Marine Patrol and Emergency Management are excluded. The budget data shown in the table below does not consider service levels of each agency, it merely compares the total cost of each city’s police services.

Table 1. King County Sheriff’s Office Contracted Partner Agencies Cost per Capita for 2019

City	2019 Police Budget	Population	Cost per Capita
Burien	\$13,096,100	51,671	\$253
Carnation	677,700	2,164	313
Covington	4,647,900	20,916	222
Kenmore	4,328,250	22,867	189
Maple Valley	5,599,800	25,758	217
Newcastle	5,134,850	11,681	440
Sammamish	7,629,000	64,548	118
SeaTac	12,331,000	29,140	423
Shoreline	12,672,000	56,189	226
Woodinville	4,630,100	11,997	386

Mercer Island	7,412,900	25,261	293
Average cost per capita (weighted)			\$238

Attachment A – Detailed Strategies

SERVICE DELIVERY CHANGES

4. Contract Operation of the Mercer Island Community and Event Center

STRATEGY TYPE: Service Delivery Change

STAFF RESPONSE:

The potential to outsource the Mercer Island Community and Event Center (MICEC) requires long-term study and consultation with the Mercer Island community.

Outsourcing the entire MICEC operation would allow the center to continue to be used by the community, but without the cost to the City. This assumes that a third-party operator will take on all costs without a subsidy from the City. This also means that the City would retain very little control over programs, the fee structure, operating policies, etc.

It is likely that a third-party operator would rely on a membership model versus a pay-as-you go model as is currently in place. This represents a significant change in the operating model. It is likely that the quality and quantity of programs and events offered will differ vastly from current programming and events. Community engagement and communication between City staff and residents will be reduced as well. Currently MICEC and its staff serve as a hub of information to residents and is responsible for directing questions to the appropriate city staff members. Outsourcing MICEC would not generate additional revenue, it would simply reduce costs.

In the short-term, efforts should continue to be made to reduce the overall subsidy of the MICEC. Strategies for further consideration include:

- Revisiting the balance of rental events versus recreation programs. An increase in rental events will increase revenue.
- Eliminating the rental fee discount for community partners.
- Implementing new programs that are revenue generating, such as a before and/or after school care.
- Minimizing program subsidies through increased fees and reduced operating costs.
- Continued recruitment of sponsorships and partnerships.
- Eliminating other services and amenities that do not fully recover costs.
- Further reducing hours of operation and customer service/registration hours.

IMPACT ESTIMATE:

A 15% reduction in operating costs by contracting with a third-party operator would yield cost savings of approximately \$100,000 annually.



FEASIBILITY

The events, services, and facilities offered through the Community Center are very popular. Continuity of service levels would be critical in a contracted services agreement. Opportunities to partner with neighboring jurisdictions, non-profit organizations or third-party event center operators would require further exploration. Examples include the YMCA, the Boys and Girls Club, or convention center operators such as the Bellevue Convention Center Authority or Rain City Catering (that operates the Renton Pavilion Event Center). Contracting services with a third party would require meeting with AFSCME to negotiate the impacts (effects) of contracting services.

Factor	Difficulty Level
Potential for community pushback	Significant
Technical and operational difficulties of implementation	Significant
Timing necessary for implementation	Moderate
Disruptive impact on service delivery	Significant
Disruptive impact within City organization	Significant
Overall difficulty for Implementation	Significant
	Rating
Fiscal Impact	Minimal
Potential of Success	Low

BACKGROUND/ANALYSIS

The Community Center, constructed in 2005, is a state-of-the-art facility with an open floor plan, a variety of rental rooms, flexible seating options, fitness room, dance room, catering kitchen and ample parking spaces. It is used for a variety of events including meetings, conferences, weddings, and other social events. The Event Center's operations are administered by the Parks and Recreation Department with 7.75 FTE. Its operations are included in the Parks and Recreation Department within the General Fund. Annual operating revenues based on the FY 2019 budget total \$752,000 with annual operating expenditures of \$1.38 million.

The 2019-2020 biennial budget already assumes a reduction in operating hours that is expected to yield annual savings of up to \$42,000 by FY 2020. Our experience with other agencies is that local operators may provide cost savings compared to the compensation and benefits costs of local government employees and could render cost savings of up to 15% of existing annual operating costs.

Attachment A – Detailed Strategies

SERVICE DELIVERY CHANGES

5. Change one fire engine to EMS apparatus and staff EMS drivers with non-sworn employees

STRATEGY TYPE: Service Delivery Changes

STAFF RESPONSE

A change to MIFD's service delivery model by moving one fire engine to an EMS only apparatus (staffed by non-sworn employees), would not be supported by the King County Emergency Medical Director. Since all Emergency Medical Technicians' (EMTs) in King County practice under the license and medical malpractice insurance of the King County Emergency Medical Director, Mercer Island would not be able to hire emergency personnel who practice as EMT's in King County nor serve as employees of the Mercer Island Fire Department.

That being said, there are additional challenges to this strategy.

The estimated cost savings of \$480,000 for this model, as stated in the analysis below, is unrealistic for several reasons:

1. If the City were to layoff six firefighters (FFs), the fiscal result would be significant due to bargaining impacts.
2. EMTs would have the ability to unionize which could result in significantly higher wages than those cited below.
3. The City's fire suppression capability would be reduced, resulting in an increase in mutual aid calls at a cost to the City.

The suggestion that this strategy would require the addition of six personnel is not accurate. Fulfilling this model, while maintaining 24/7/365 service, would require at least seven, possibly eight, EMT-only personnel.

As noted in the background/analysis section, this model would negatively impact current mutual/automatic aid agreements, response times, and ultimately put the Mercer Island community at higher risk. Reverting to only one staffed engine would result in longer response times to the south end of the Island. If Engine 91 were available, response times would be in the 4 to 10-minute range. However, should Seattle or Bellevue Fire Department need to respond, residents would see an additional delay of 4 to 18 minutes on top of the already increased response time to the south end.



Increased response times would invite greater risk for cardiac patients, in terms of survival, and for structural fires, in terms of spreading from the room of origin to the whole structure and potentially to adjacent structures. Cardiac survival rates decrease by 7-10% for every minute of delay in treatment and an uncontrolled fire can double in size every 30-60 seconds.

EMT only personnel are not trained or certified to respond to fires, hazardous material incidents, technical rescues (rope, confined space and trench), or surface water rescues.

Consequently, the decrease in the City's capability in these areas would force more reliance on outside agencies. Currently, all MIFD personnel are surface water rescue technicians, with six firefighters on the dive team, and several firefighters trained in technical rescues. Calls involving any of these specialized skills are very staff intensive and typically require at least two engine companies. Mutual/automatic aid is often required for these types of calls.

With a decreased firefighting capability, Mercer Island would lose its current Washington State Ratings Bureau (WSRB) rating, which, at 3.06 is the best it has ever been. This rating is used by insurance companies as part of a formula for establishing insurance rates for every property on the Island. As a result, Island residents could see increases in their homeowner's insurance premiums.

Mercer Island's firefighter turnover rate is almost wholly related to retirements. Should the City approve this strategy, the anticipated, and significant, negative impact on staff morale, would likely result in increased turnover as employees seek out opportunities with other fire agencies. The City would need to backfill vacancies with overtime, which is costly, until a new hire can be brought on board – a process that typically takes 6 to 10 months. Finally, moving to such a model would make Mercer Island less attractive to entry-level firefighters, thereby hampering the City's recruitment efforts.

IMPACT ESTIMATE

Salary and benefit savings from changing one of the two firefighter positions to a non-sworn employee in Medical Aid Units 91 and 92 would be approximately \$480,000. This is calculated based on the salary and benefit cost differential between a non-sworn Emergency Medical Technician (EMT) and a sworn firefighter.

FEASIBILITY

Before implementing a change like this, careful study and consideration should be given to several difficulties that would likely arise. For example, the impacts of such a change would have to be bargained with the firefighter's bargaining unit. The new EMTs would not be able to help with fire suppression.

The City's mutual/automatic aid partnerships could also suffer since Mercer Island would have to rely on them more for suppression responses. This could mean the City would be operating outside of the Automatic Aid Interlocal Agreement the City Council approved in 2018 that includes the fire departments within King County. Other agencies could perceive that they are

subsidizing Mercer Island for fire suppression capabilities, possibly putting the mutual aid received at no charge to taxpayers at risk.

Factor	Difficulty Level
Potential for community pushback	Moderate
Technical and operational difficulties of implementation	Significant
Timing necessary for implementation	Moderate
Disruptive impact on service delivery	Moderate
Disruptive impact within City organization	Significant
Overall difficulty for Implementation	Significant
	Rating
Fiscal Impact	Significant
Potential of Success	Moderate

BACKGROUND/ANALYSIS

The City currently deploys two Medical Aid Units (known as ambulances in the private sector), Aid Unit 91 at station 91 and Aid Unit 92 at station 92 in the south part of the island. The Fire Department currently uses a cross-staffing approach for both Aid 91 and Aid 92 with Engine 91 and Engine 92, which means that the same crew of three firefighters' staff both apparatus and respond in the appropriate apparatus depending on call type.

Based on our discussion with Fire Department managers, adding EMT-only personnel to staff the medical aid units would mean engines and aid units would have to be separately staffed. EMT-only personnel are not trained in fire suppression so firefighters would have to wait to start any interior firefighting until a second crew, possibly from off island, showed up. Fire suppression units are required by law to adhere to a "two-in two-out" rule, which means a team of two firefighters cannot enter a structure until two more firefighters are on scene, fully dressed in their personal protective equipment, trained and able to rescue the interior team if necessary. This training and skill-set level is the primary reason for the large pay differential between firefighters who can also perform EMT duties and EMT-only personnel.

The salary and benefit cost differential between sworn and non-sworn positions is substantial. A more in-depth study would need to be performed if this strategy were to be given further consideration. However, even a cursory look at advertisements for EMTs in nearby communities that are currently recruiting (e.g., Kent, Lakewood, and Tacoma) shows salary amounts of \$35,000 to \$45,000, which might yield a total benefits package based on Mercer Island's benefits of over \$60,000 annually.

The average pay and benefit cost for a firefighter in Mercer Island is approximately \$140,000, or an \$80,000 annual differential. If one of the two firefighter positions was replaced with one EMT

to staff the Aid Unit in each station (91 and 92), in each Platoon (A, B, and C), the total is six EMT-only personnel. With an \$80,000 cost differential per position the total annual savings could be as high as \$480,000. In the event of leave requests or absences, sworn firefighters would be called on to fill the vacant position as performed in the current service delivery.

As noted earlier, however, there are many potential pitfalls that could result from this strategy. In addition to the likely union issues that would have to be bargained and the mutual/automatic aid agreements that could be in jeopardy, there could be internal cultural difficulties among Fire Department personnel resulting from a new classification of employees that have a lower set of skills and are paid significantly less. In addition, fewer firefighting personnel may negatively impact mutual/automatic aid agreements and may also result in a lower score from the Washington State Ratings Bureau, which is used to help set insurance rates on the island. On the other hand, some agencies that have moved to this structure find that the EMT level positions are a good training ground for those that would like to one day become fully trained firefighters.

Moving to EMT-only staff members on the Aid Units could result in a lower level of service to Mercer Island's residents. For example, the recent snow storms on more than one occasion caused Fire Department crews to have to set up a rope rescue system with a stokes basket just to get the patient up their steep driveway and into an aid car. In a case like this, EMT-only personnel would not have the experience or expertise necessary to perform this service, which means such rescues would have likely taken longer and required mutual aid. However, the nonrecurring events such as the snow storm of 2019 would have to be weighed with the fiscal advantages of moving to an EMT-only service delivery method.

Attachment A – Detailed Strategies

SERVICE DELIVERY CHANGES

6. Develop a shared services model for fire services

STRATEGY TYPE: Service Delivery Changes

STAFF RESPONSE

The Fire Chief has requested draft cost estimates from the Seattle (SFD) and Bellevue (BFD) fire departments, as well as Eastside Fire & Rescue (ESF&R) for contracting to provide all current Mercer Island Fire Department services. A high-level analysis of these estimates shows that the majority of cost savings would come from the elimination of one or both administrative positions (Fire Chief and/or Deputy Chief) and potentially the Fire Marshal position; however, the elimination of the latter would be partially offset by having to hire a plans examiner to support the Fire Marshal's office in the contracting agency. In addition, the contracting agency may request to retain the Deputy Chief position to maintain an appropriate span of control and/or to serve as a liaison to the City.

The total estimated annual cost savings is \$220,000 to \$500,000 annually. This estimate does not include however, the impacts of eliminating the Fire Marshal position with IAFF Local 1762, which could reduce the estimated cost savings.

The City would receive the same or possibly higher level of service contracting with a larger agency and would not be as reliant on mutual/automatic aid agreements. The firefighters would have increased opportunities for special assignments, such as a ladder company, a Medic program, promotions, and working in different geographical areas. There also may be long-term cost savings through shared purchases such as apparatus, bunker gear, SCBA, etc.

On the downside, the City would have less control over the services provided and would have very little control over the cost of those services. Cost increases negotiated between the contracting fire agency and its fire union would need to be passed on to the City. Bargaining the impacts with IAFF Local 1762 would be required in order to move forward in such a model and could have financial consequences that could decrease the savings. If the two unions were not integrated, the potential overtime cost savings would be nullified due to MIFD firefighters being the only ones able to fill shift vacancies.

Further analysis is needed to fully evaluate the options and the potential cost savings of contracting for fire services. Other options that could be explored with neighboring agencies include a Joint Powers Authority (JPA) or a Regional Fire Authority (RFA). Both models require at least two agencies to participate in order to be formed and an affirmative simple



majority vote of the citizens in the participating jurisdictions. Mercer Island could also explore joining the already established Renton Regional Fire Authority. The main difference between an RFA and a JPA is that the JPA is a separate entity from all the participants, rather than an extension of an existing department. Both an RFA and a JPA are separate taxing jurisdictions governed through a board made up of elected officials from each jurisdiction.

IMPACT ESTIMATE

It is difficult to estimate cost savings from a shared services model without significant additional study and identification of potential partner agencies. However, city staff's initial analysis of contracting with the City of Bellevue for fire services shows an estimated potential savings between \$200,000 and \$300,000 per year.

FEASIBILITY

The primary obstacles of contracting with Bellevue would be that such a change would have to be negotiated with the firefighters' union and Mercer Island would lose some level of management and cost control. Other challenges include decisions about how existing stations and apparatus would be shared and who would be responsible for future replacement costs.

In our experience, to the extent that response times were maintained, and performance standards were articulated and measured on a periodic basis, the public would not notice any significant differences in service levels with a shared fire service implementation. This item is on the City's work plan to explore further and staff is in communications with the City of Bellevue for their involvement in this study.

Factor	Difficulty Level
Potential for community pushback	Moderate
Technical and operational difficulties of implementation	Significant
Timing necessary for implementation	Moderate
Disruptive impact on service delivery	Significant
Disruptive impact within City organization	Significant
Overall difficulty for Implementation	Significant
	Rating
Fiscal Impact	Significant
Potential of Success	Moderate

BACKGROUND/ANALYSIS

Shared services models in municipal fire services take on many different forms, such as joint powers authorities, merger, confederations (agencies retain their employment form but come together under an appointed board of directors from each agency), and shared management positions (elimination of duplicate chief and deputy chief positions).

For any shared service model to work effectively, geographic adjacency is a driving factor. This is especially true with regard to fire service. Bellevue would be the most likely candidate for such a shared services model. Some informal discussions have taken place in the past year between Mercer Island and Bellevue staff about the potential for realizing savings by developing a shared fire services model between the two cities, or outsourcing Mercer Island fire services to Bellevue outright. This concept is on the City's work plan to pursue soon and staff is in communications with Bellevue to explore the idea further.

We have seen several successful shared service delivery approaches across the United States and particularly here on the west coast. Savings from this strategy would primarily come from economies of scale in management and administrative personnel, reduced overtime, and fleet maintenance reductions from the elimination of duplicate reserve fire apparatus. Based on our experience, there would very likely be little if any savings directly from the reduction of line level positions.

There is also the possibility that what started out to be a savings could end up being temporary depending on how Bellevue managed its program costs. City staff has observed some indication of this related to the City of Newcastle's history of contracting for fire services with Bellevue, only to see significant cost increases passed along to them in later years of the contract. These were due to sizeable compensation increases and, in their case, increases in facilities and equipment replacement costs that were originally unanticipated. (Newcastle does not have a standalone fire station and relies exclusively on Bellevue's nearest fire station for service delivery.)

Another factor requiring careful consideration in a shared services arrangement with Bellevue is the existing interlocal mutual aid agreement between the two cities that saves Mercer Island from having to buy and staff a ladder truck. These factors would have to be considered if this strategy is studied further.

Attachment A – Detailed Strategies

SERVICE DELIVERY CHANGES

7. Create a Metropolitan Park District as a funding tool for parks and recreation operations and maintenance

STRATEGY TYPE: Service Delivery Change

STAFF RESPONSE:

This budget strategy would relieve the City’s General Fund from the expense of all park and recreation services, thereby freeing up taxes to address the City’s projected General Fund deficits. In addition, it would provide a dedicated tax revenue source for park and recreation services, greatly minimizing future funding concerns. This is really a revenue strategy rather than a service delivery change from the taxpayer’s perspective, especially since the boundaries of the metropolitan park district and the City would be identical.

IMPACT ESTIMATE

The degree of fiscal impact from establishing a metropolitan park district (MPD) would depend on the level of parks and recreation services ultimately transferred from the City to the new MPD. With the total Parks and Recreation maintenance budget is approximately \$2.6 million, the potential savings to the City from the formation of an MPD could approach that amount. Based on the existing assessed valuation level in Mercer Island, a property tax levy of \$0.23 per \$1,000 assessed valuation would yield the necessary funding for maintenance of existing facilities. The MPD could also fund all parks related capital projects.

FEASIBILITY

Formation of an MPD, which would create a new property tax levy on property owners, requires a majority vote of the people. Assuming the City’s existing tax levy were to remain the same, property owners would be bearing a new tax levy, albeit one that is solely dedicated to parks and recreation services. While MPDs formed in the 2000s were widely approved, in recent years about two-thirds of proposed new MPDs have been defeated by voters.

Factor	Difficulty Level
Potential for community pushback	Significant
Technical and operational difficulties of implementation	Significant
Timing necessary for implementation	Moderate
Disruptive impact on service delivery	Minimal
Disruptive impact within City organization	Significant
Overall difficulty for Implementation	Significant



	Rating
Fiscal Impact	Significant
Potential of Success	Moderate

BACKGROUND/ANALYSIS

Metropolitan park districts are authorized by the Revised Code of Washington RCW Ch. 35.61. An MPD “may be created for the management, control, improvement, maintenance, and acquisition of parks, parkways, boulevards, and recreational facilities.” (RCW 35.61.010) In addition, an MPD may also be formed for a limited purpose that identifies specific public parks and/or recreational facilities (such as specific swimming pools, playfields, or public parks). An MPD can be formed to manage a limited number of facilities (such as specific ballfields or parks) or the entire park system in an area.

Creation of an MPD must be submitted to the voters by resident petition or local government resolution and may be voted on at either a general or special election by simple majority vote (50% plus one). In Mercer Island’s case, if the district established was wholly within City limits, the governing body may be comprised of either a minimum of five separately elected parks commissioners, or the entire City Council serving in an ex officio capacity as park commissioners through an interlocal agreement.

MPDs are funded primarily by a regular property tax levy up to \$0.75 per \$1,000 assessed value. The levy rate is approved as part of the initial ballot measure establishing the district. A total of 21 such districts have been established successfully in the state of Washington. Six of the 21 MPDs exist in King County, as detailed below.

- **Des Moines Pool MPD.** Formed in 2009 with a separately elected board to maintain and operate the existing Mt. Rainier Pool, with additional funding from the Normandy Park MPD and Highline School District.
- **Fall City MPD.** Formed in 2009 with a separately elected board to maintain, improve and acquire park and recreation facilities in the Fall City area of unincorporated King County.
- **Normandy Park MPD.** Formed in 2009 governed by the city council of Normandy Park to help fund the existing Mr. Rainier Pool within the Des Moines Pool MPD as indicated above.
- **Seattle Park District.** Formed in 2014 governed by the city council of Seattle to address a \$267 million backlog of maintenance and improvements of existing park facilities.
- **Si View Metropolitan Park District.** Formed in 2003 with a separately elected board to primarily operate the Si View Pool and Community Center, which had been closed due to King County budget cuts. The scope for the District has since expanded and they are now working in cooperation with the City of North Bend and others to provide parks and recreation services.

- **Tukwila Pool MPD.** Formed in 2011 with a separately elected board to operate the Tukwila Pool to prevent its potential closure following the recession and the City's General Fund budget gaps.

When the state legislature allowed the formation of MPDs in 2003, several districts were approved by voters in those early years and served as successful dedicated funding mechanisms for parks and recreation services. Recently, however, most ballot measures to form an MPD have not been successful. Since 2011, 7 of the 11 ballot measures (64%) failed to receive voter approval. Failed measures in King County include the city of Kirkland in 2015 which would have paid for a proposed aquatic/community center and park improvements. The measure only received 37% of the vote. Typically, measures fail primarily due to concerns that a separate MPD would place a higher tax burden on residents overall since a separate tax levy would be established for the MPD in addition to the tax base already allocated to the city.

Nevertheless, the formation of an MPD is a viable option to reduce the expenditure burden of the City for its parks and recreation facilities. From a taxpayer's perspective, however, there is no property tax savings from forming an MPD. In fact, the property tax burden could increase because the MPD levy could fund operations, maintenance, and capital projects. The latter is currently funded primarily by real estate excise tax, with only \$252,000 from a parks levy lid lift dedicated to funding parks capital projects annually through 2023. Given that current funding for parks capital projects falls significantly short of infrastructure needs, the MPD funding tool may be a consideration to secure long-term dedicated funding for parks even if there is no relief provided to the General Fund directly.

Attachment A – Detailed Strategies

SERVICE DELIVERY CHANGES

8. Establish a new Fire Protection District with its own taxing authority and transfer fire services to the new district

STRATEGY TYPE: Service Delivery Changes

STAFF RESPONSE:

This is a possible option to sustain the Mercer Island Fire Department (MIFD) and its current level of service. In the current age of transparency that is desired by taxpayers from local government, this model provides the clearest view of the tax dollars collected and used for emergency fire services. Becoming a Fire Protection District ([Title RCW 52](#)) would allow Mercer Island to maintain authority and control over its fire department, including the services provided and the cost of providing those services.

While this budget strategy removes the costs for the fire department from the City's General Fund budget, it requires the City to reduce its property tax levy by a corresponding amount. In addition, the Fire Protection District must either contract with the City for internal department services (City Attorney, HR, Finance, IGS) or seek these services elsewhere.

The establishment of a Fire Protection District would require a "yes" vote by a simple majority of the citizens during a general election, unless it is decided to include a fire benefits charge for commercial properties, which would require a 60% "yes" vote. The ballot would also need to include the election of fire commissioners. IAFF Local 1762 leadership has indicated they would support this change, which would help in bargaining this new fire service model from a cost and implementation perspective.

IMPACT ESTIMATE

If the City's entire fire operations were transferred to a newly established Fire Protection District (FPD), budget savings would be \$5.1 million. However, it should be noted that although this transfer would reduce the City's budget, taxpayers would not see a similar reduction in taxes paid since the FPD would have its own tax levy. In fact, from the taxpayer's perspective the total tax burden might increase due to the new levy.

FEASIBILITY

There would likely be taxpayer resistance to the establishment of a new FPD due to the increase in overall tax levies. The impacts on labor agreements with represented fire employees would need to be reviewed carefully. To the extent that existing labor agreements would be maintained in the newly formed FPD, most of the concerns would be ameliorated. Impacts on



mutual aid response that is part of the interlocal agreement with the city of Bellevue would need to be addressed and might require a three-way interlocal agreement between the City, Bellevue, and the newly formed FPD.

Factor	Difficulty Level
Potential for community pushback	Significant
Technical and operational difficulties of implementation	Significant
Timing necessary for implementation	Significant
Disruptive impact on service delivery	Moderate
Disruptive impact within City organization	Significant
Overall difficulty for Implementation	Significant
	Rating
Fiscal Impact	Significant
Potential of Success	Moderate

BACKGROUND/ANALYSIS

In 2017, new legislation created an optional method for establishing a fire district where the boundaries match a local agency. This new district would be established by a vote of the people and could be overseen by either the City Council acting as ex-officio fire commissioners of the newly formed FPD, or Council may relinquish their authority to a separately elected board of fire commissioners. We are unaware of any cities moving forward with the formation of a new FPD with boundaries coterminous with city boundaries. The City of Renton formed a new FPD in 2017, but that also consolidated existing King County Fire District #25 that served unincorporated areas adjacent to Renton.

The key benefit to the City of implementing a new FPD with boundaries coterminous with the City is financial. With the addition of a new voter-approved tax levy to support the FPD, approximately \$5.1 million General Fund dollars would be freed up for other programs.

Note that the current Fire Department budget is \$6.6 million. However, about \$1.5 million in offsetting revenues are received, so the net impact on the General Fund tax base is \$5.1 million. Though the overall tax burden would be higher, there would be the benefit to the taxpayers of a direct correlation of taxes paid to fire services and capital investments made, compared with these services being just one of many currently funded through the City’s General Fund.

Attachment A – Detailed Strategies

REVENUE ENHANCEMENTS

9. Implement a Levy Lid Lift as a general tax increase

STRATEGY TYPE: Revenue Enhancement

IMPACT ESTIMATE

The City's property tax levy rate in 2019 is just over \$0.93 per \$1,000 assessed valuation and is expected to generate \$13.6 million in annual property taxes in 2019. Of this total amount, \$950,079 relates to a 15-year parks maintenance and operations levy lid lift approved by voters in November 2008, and \$682,059 relates to a nine-year fire station and fire rescue truck levy lid lift approved by voters in November 2012. The balance of \$11.9 million represents the City's regular, ongoing property tax levy. Increasing the levy through a levy lid lift ballot measure is estimated to yield the following General Fund fiscal impact (based on existing assessed valuation):

- Tax rate increase of \$0.05 per \$1,000 assessed valuation: \$632,000 increase in General Fund property tax in the first year of implementation
- Tax rate increase of \$0.10 per \$1,000 assessed valuation: \$1,264,000 increase in General Fund property tax in the first year of implementation
- Tax rate increase of \$0.15 per \$1,000 assessed valuation: \$1,896,000 increase in General Fund property tax in the first year of implementation

Additional revenues could be achieved if the levy lid lift measure also included a future levy lid lift increase amount beyond the 1% that can be implemented by Council action. Increased fiscal impact would depend on the level of the original levy lid lift and the future increases included in the measure. For example, under the levy lid lift scenario of \$0.10 per \$1,000 assessed valuation, and a 3% future increase in the levy in future years, the additional revenue generated would be approximately \$400,000 in the second year of the levy lid lift.

FEASIBILITY

A levy lid lift that includes future increases that match the inflationary impacts on city expenditures (most notably, increases in employee compensation and benefits) would have the single largest ongoing fiscal impact to resolve the City's General Fund fiscal gap. Increasing the property tax rate, however, is also one of the most politically sensitive ballot measures that a Washington city can bring to voters. Proposition 1 in 2018 proposed an increase of \$0.238 per \$1,000 assessed valuation with a 3% future increase through 2024. That measure was defeated by a vote of 43% in favor and 57% against. A significant amount of public engagement and education about the City's fiscal position would be required, likely coupled with cost reduction



strategies to demonstrate fiscal conservatism, before such a measure might gain the necessary public support for approval.

Factor	Difficulty Level
Potential for community pushback	Significant
Technical and operational difficulties of implementation	Minimal
Timing necessary for implementation	Minimal
Disruptive impact on service delivery	Minimal
Disruptive impact within City organization	Minimal
Overall difficulty for Implementation	Significant
	Rating
Fiscal Impact	Significant
Potential of Success	Moderate

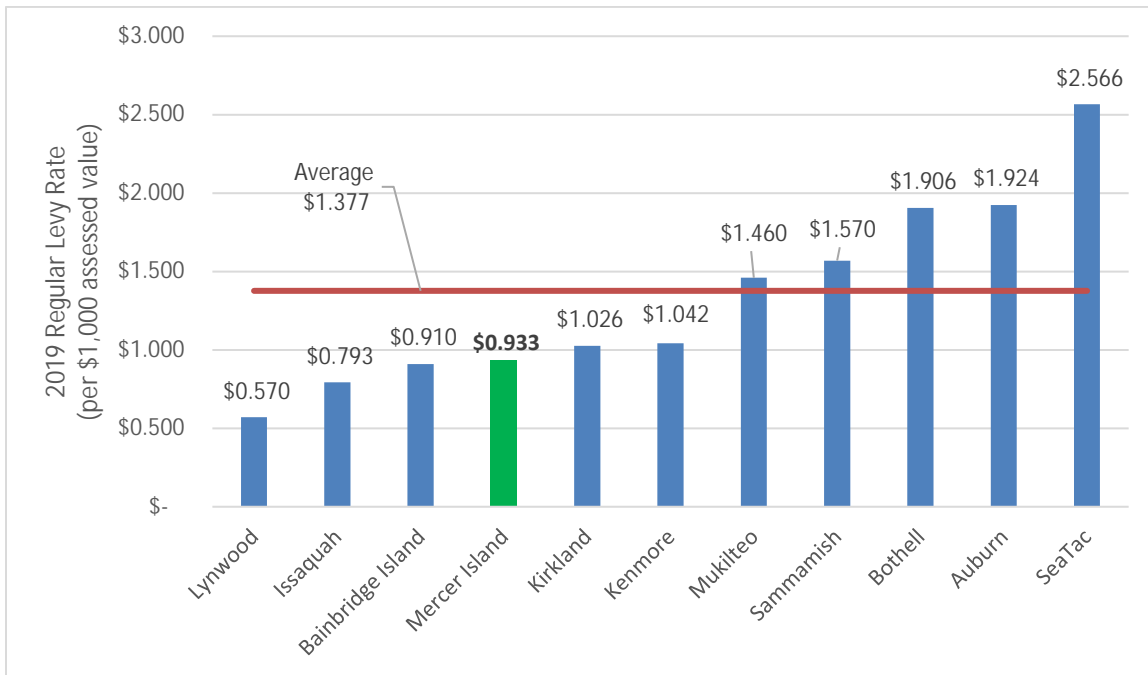
BACKGROUND/ANALYSIS

Washington state law provides the opportunity for cities to increase the annual levy on properties by not more than 1% in any one year through Council resolution, plus an allowance for new construction. Increases in any single year, or over a period of multiple years, requires a voter-approved “levy lid lift”. The amount that the levy may be raised is subject to having sufficient “banked capacity” below the maximum aggregate levy rate and the local limit established under state law. The constitutional aggregate limit is \$10 per \$1,000 assessed value for any taxing area, while the local limit is \$5.90 per \$1,000 assessed value.

Mercer Island’s maximum statutory rate is \$3.48539 per \$1,000 assessed value. The current levy rate of \$0.93285 per \$1,000 assessed value is expected to generate \$13.6 million in total property tax levy in FY 2019, of which \$11.8 million supports General Fund services. Property taxes are the single largest revenue source for the City, representing 38% of General Fund revenues in 2019. However, the projected growth in property taxes, which are subject to a 1% maximum increase by Council action not requiring voter approval, will only increase the General Fund portion of property tax revenues by \$1.2 million by FY 2024. In that same time period, given pressures to provide reasonable compensation and benefit increases for employees based on projected consumer price index increases of 3% per year, salaries and benefits are expected to grow by \$5.6 million.

Current levy rates per \$1,000 assessed value among peer agencies are presented in Figure 6 below. Mercer Island’s rate of \$0.933 is about 48%% lower than the peer average of \$1.377.

Figure 1. Property Tax Levy Rates (Regular Levy) Among Comparable Agencies - 2019



Source: City budget documents and/or county assessor’s offices’ websites.

It should be noted that starting in 2018, cities can exempt senior citizens, disabled veterans, and other people with disabilities from the tax increase resulting from a levy lid lift if desired. Any exemptions would need to be stated in the ballot measure placed before voters.

Attachment A – Detailed Strategies

REVENUE ENHANCEMENTS

10. Implement a Levy Lid Lift as a specific purpose tax

STRATEGY TYPE: Revenue Enhancement

IMPACT ESTIMATE

The City's property tax levy rate in 2019 is just over \$0.93 per \$1,000 assessed valuation and is expected to generate \$13.6 million in total annual property taxes in 2019, of which the General Fund portion is \$11.9 million. Implementing a levy lid lift for a specific purpose (e.g., parks maintenance, public safety) through a ballot measure is estimated to yield the following fiscal impact (based on existing assessed valuation):

- Tax rate of \$0.05 per \$1,000 assessed valuation: \$632,000 increase in General Fund property tax in the first year of implementation
- Tax rate of \$0.10 per \$1,000 assessed valuation: \$1,264,000 increase in General Fund property tax in the first year of implementation
- Tax rate of \$0.15 per \$1,000 assessed valuation: \$1,896,000 increase in General Fund property tax in the first year of implementation

FEASIBILITY

In many cases, feasibility of this budget strategy would be similar to a levy lid lift discussed in Budget Strategy 9. However, in this case, voters would be asked to approve a measure dedicated to a specific purpose. Some agencies find that dedicating revenues to a specific purpose to avoid the elimination of that service meets with greater public support because the public understands what they will be getting for the tax being paid.

Factor	Difficulty Level
Potential for community pushback	Moderate
Technical and operational difficulties of implementation	Minimal
Timing necessary for implementation	Minimal
Disruptive impact on service delivery	Minimal
Disruptive impact within City organization	Minimal
Overall difficulty for Implementation	Moderate
	Rating
Fiscal Impact	Significant
Potential of Success	Good



BACKGROUND/ANALYSIS

Washington state law allows for cities to create property tax levies for specified purposes. There are limits on the amount of levy that can be charged based on the specified use. Mercer Island has previously implemented a parks maintenance and operations levy lid lift that expires at the end of 2023, and a fire station and fire rescue truck levy lid lift that expires at the end of 2021.

Table 16 shows the special purpose levy limits that would be applicable to Mercer Island, along with other specific circumstances applicable to each type of levy.

Table 1. Special Purpose Levy Limits Allowed under Washington State Law

Levy Type	Levy Limit	Other Considerations
Affordable Housing	\$0.50 per \$1,000 AV	Revenues restricted to finance affordable housing for “very low-income” households; requires simple majority voter approval
Emergency Medical Services (EMS)	\$0.50 per \$1,000 AV	Restricted to providing emergency medical care or services; may be imposed 6 years, 10 years, or permanently; requires 60% majority voter approval for initial measures; renewal for 6- or 10-year measures require simple majority approval; separate accounting and referendum procedures apply to permanent measures
Excess Levy (operations and maintenance)	No limit	Levy is only authorized for one-year at a time; may be used for any lawful governmental purpose, but spent in accordance with purpose(s) specified in the approved ballot measure; requires 60% majority approval
Other special purpose levy lid lifts	Subject to maximum statutory rate	Follows regular levy lid lift procedures and limitations; may be implemented for single or multiple years

Source: MRSC of Washington Revenue Guide for Washington Cities and Towns, February 2019

To have the desired fiscal impact, the City would want to focus on levies that would provide ongoing revenue to fund operations. The Excess Levy would be limited to one-year and would expire the following year unless renewed, which is not a viable option given the City’s ongoing structural deficit. Special purpose levy lid lifts with potential for voter approval could be proposed for the following:

- Public safety (combined police and fire services)
- Police services
- Fire services
- Emergency medical services (as a subset of fire services)
- Parks and recreation operations
- Youth and family services

If such levy lid lifts were proposed, the City would need to determine if those services could be funded without the levy lid lift for the future, and would be best packaged under the provision

that the measure is being sought for approval to avoid service level reductions in the specified areas.

Attachment A – Detailed Strategies

REVENUE ENHANCEMENTS

11. Renew the existing Parks Maintenance and Operations (M&O) Levy Lid Lift

STRATEGY TYPE: Revenue Enhancement

STAFF RESPONSE:

IMPACT ESTIMATE

The City's existing levy lid lift dedicated to parks maintenance and operations expires at the end of 2023. Revenues anticipated at that time from the measure are expected to reach \$737,000 per year in 2023. If submitted to voters for approval and the measure passes, additional revenues of over \$747,000 starting in 2024 could be maintained.

FEASIBILITY

In many cases, feasibility of this budget strategy would be similar to a levy lid lift as discussed in Budget Strategy 10. However, in this case, this would be a renewal of an existing levy which might have greater opportunities for voter approval as it is not seen as a new levy.

Factor	Difficulty Level
Potential for community pushback	Minimal
Technical and operational difficulties of implementation	Minimal
Timing necessary for implementation	Minimal
Disruptive impact on service delivery	Minimal
Disruptive impact within City organization	Minimal
Overall difficulty for Implementation	Minimal
	Rating
Fiscal Impact	Significant
Potential of Success	Great

BACKGROUND/ANALYSIS

The levy lid lift dedicated to parks M&O activities was submitted to and approved by voters in 2008. The measure levies a total of \$950,000 in property taxes in 2019, with \$252,000 dedicated to capital improvement costs (this is a fixed amount through 2023) and the remainder deposited into the General Fund to support parks maintenance and operations activities. The lift is subject to the 1% annual increase as with the regular property tax levy.



This strategy would seek to maintain the existing levy at its then-current levels when it expires at the end of 2023. If such a renewal measure were proposed, the City would need to determine if existing parks M&O activities could be funded without the levy lid lift for the future, which is unlikely. It would be best packaged under the provision that the measure is being sought for approval to avoid service level reductions to parks maintenance and operations.

1. Increase the Business and Occupations (B&O) Tax

STRATEGY TYPE: Revenue Enhancement

IMPACT ESTIMATE

Increasing the B&O tax would yield the following additional annual revenues:

- Tax rate of 0.15%: \$350,000
- Tax rate of 0.20%: \$700,000

FEASIBILITY

The City Council could approve an increase in B&O tax up to 0.2% of gross receipts by resolution in accordance with state law. Increases above the 0.2% amount would require simple majority voter approval.

Factor	Difficulty Level
Potential for community pushback	Moderate
Technical and operational difficulties of implementation	Minimal
Timing necessary for implementation	Minimal
Disruptive impact on service delivery	Minimal
Disruptive impact within City organization	Minimal
Overall difficulty for Implementation	Minimal
	Rating
Fiscal Impact	Significant
Potential of Success	Great

BACKGROUND/ANALYSIS

The City charges a B&O tax on gross receipts earned by businesses within city limits. Taxpayers file annual returns at the end of each calendar year, except that businesses with more than \$1 million in annual gross receipts must file quarterly returns. The first \$150,000 of gross receipts are exempt from tax. Receipts above that threshold are taxed at a rate of 0.1% subject to a \$20 minimum tax. The current tax is projected to yield annual revenues totaling \$643,000.

The B&O tax is subject to a limit of 0.2% of gross receipts based on state law, unless approved by voters to exceed that amount. Utilities are exempt from the tax in accordance with state law.

Prior to 2019, the City deposited the tax into the Beautification Fund as its primary revenue source. The tax proceeds were restricted by ordinance for specified uses (e.g., installation and maintenance of landscaping, undergrounding power lines, operations and maintenance of lighting facilities). The City Council approved changes to the ordinance in 2018 that released those restrictions starting in 2019, making it a general purpose tax. The revenues and expenditures associated with the Beautification fund have been folded into the General Fund starting in 2019.

Baseline revenue growth is dependent on increased gross revenues for mid- to large-sized businesses. Historically, the tax has grown by 3% per year, which is expected to continue in the current fiscal forecast.

MRSC indicates that 44 of 281 Washington cities levy a B&O tax. Tax rates for comparable agencies are provided in Table 17 below. Mercer Island and Bainbridge Island have the lowest B&O tax rate of those agencies that levy the tax.

Table 1. Business and Occupation Tax Rates Among Comparable Agencies for 2019

City	B&O Tax Rate
Bainbridge Island	0.10%
Mercer Island	0.10%
Issaquah	0.15% (Services) 0.12% (All others)
Kenmore	0.20% (Manufacturing only)
Auburn	N/A
Bothell	N/A
Kirkland	N/A
Lynnwood	N/A
Mukilteo	N/A
Sammamish	N/A
SeaTac	N/A

Attachment A – Detailed Strategies

REVENUE ENHANCEMENTS

12. Increase the Business and Occupations (B&O) Tax

STRATEGY TYPE: Revenue Enhancement

IMPACT ESTIMATE

Increasing the B&O tax would yield the following additional annual revenues:

- Tax rate of 0.15%: \$350,000
- Tax rate of 0.20%: \$700,000

FEASIBILITY

The City Council could approve an increase in B&O tax up to 0.2% of gross receipts by resolution in accordance with state law. Increases above the 0.2% amount would require simple majority voter approval.

Factor	Difficulty Level
Potential for community pushback	Moderate
Technical and operational difficulties of implementation	Minimal
Timing necessary for implementation	Minimal
Disruptive impact on service delivery	Minimal
Disruptive impact within City organization	Minimal
Overall difficulty for Implementation	Minimal
	Rating
Fiscal Impact	Significant
Potential of Success	Great

BACKGROUND/ANALYSIS

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Kenmore	0.20% (Manufacturing only)
Auburn	N/A
Bothell	N/A
Kirkland	N/A
Lynnwood	N/A
Mukilteo	N/A
Sammamish	N/A
SeaTac	N/A

Attachment A – Detailed Strategies

REVENUE ENHANCEMENTS

13. Increase utility users tax rates on City-owned utilities (water, sewer, stormwater)

STRATEGY TYPE: Revenue Enhancement

IMPACT ESTIMATE

Each 1% increase in the utility users tax rate (UUT) on City-run utilities (water, sewer, and stormwater) represents approximately \$195,000 in additional revenue to the General Fund. Increasing the UUT on these services from the current 5.3% to 8% would generate approximately \$526,000 in additional General Fund revenues.

FEASIBILITY

Implementing the UUT would require City Council approval by resolution. However, there is the potential that a referendum procedure could be required as Washington State law (RCW 35.21.706) is currently not clear on this point. The City Attorney would need to be consulted should a UUT increase be considered. As the taxes would be passed on directly to rate payers, public sentiment would need to be considered.

Factor	Difficulty Level
Potential for community pushback	Moderate
Technical and operational difficulties of implementation	Minimal
Timing necessary for implementation	Minimal
Disruptive impact on service delivery	Minimal
Disruptive impact within City organization	Minimal
Overall difficulty for Implementation	Moderate
	Rating
Fiscal Impact	Significant
Potential of Success	Good

BACKGROUND/ANALYSIS

A UUT is an excise tax placed on utilities that provide services in a municipality. Potential utilities that may be included in a UUT are natural gas, electric, telephone, cable, water, sewer, stormwater, and solid waste. The UUT is levied on gross operating revenues collected by the utility provider on services within the city limits. A UUT provides a diversified revenue stream to a city such as Mercer Island that is heavily dependent on property tax, which has statutory growth limitations. UUT revenues are also generally more predictable and less volatile than other General Fund revenue sources such as sales tax and development fees.



Without voter approval, there is a 6% limit on the UUT that can be collected on natural gas, electric, and telephone utilities. The remaining utilities have no legislative limitations on the amount of the UUT that can be assessed. Mercer Island currently charges UUT as presented in Table 18 below:

Table 1. Mercer Island Utility User Tax Rates for 2019

Utility Service	2019 Tax Rate
Natural Gas	6.0%
Electric	6.0%
Telephone	6.0%
Cable	7.0%
Solid Waste	7.0%
Water	5.3%
Sewer	5.3%
Stormwater	5.3%

The UUT for water, sewer, and stormwater utilities was 8% until January 1, 2019 when it reverted from 8% back to 5.3%. It had been temporarily increased in 2017 for eighteen months by 2.7% to reimburse the City for costs related to the I-90/light rail litigation.

Based on a review of comparable cities, UUT is commonplace in cities in King County, with the exception of Issaquah, Newcastle and SeaTac for city-owned utilities. Among the comparable agencies we reviewed, five of the ten cities surveyed had UUT on at least some utilities while the other five did not. Only three cities (Auburn, Kirkland and Lynnwood) had utility taxes on city-owned utilities. Rates charged for water, sewer and stormwater utilities for these agencies are shown in Table 19: Mercer Island's current rate is the lowest among these agencies.

Table 2. UUT Rates for Comparable Agencies that Assess UUT on Water, Sewer and/or Stormwater Utilities for 2019

Agency	Tax Rate
Mercer Island	5.3%
Lynnwood	6.0%
Auburn	7.0%
Kirkland	7.5% for stormwater 10.5% for sewer 13.38% for water

Returning the UUT in Mercer Island to 8.0% for water, sewer and stormwater would generate an additional \$526,000 in General Fund revenues annually.

Attachment A – Detailed Strategies

REVENUE ENHANCEMENTS

14. Implement the sustainability (administrative) fee in the solid waste contract

STRATEGY TYPE: Revenue Enhancement

IMPACT ESTIMATE

Implementing the proposed sustainability fee up to its cap of 3.5% would generate increased annual revenues up to \$150,000 based on the gross revenues projected to be received by Recology from all customers, excluding drop box (i.e., roll-off dumpsters) disposal fees implemented as part of the new solid waste services contract with Recology.

FEASIBILITY

Increasing the administrative fee as part of the new franchise agreement with Recology requires Council action by resolution and can only go into effect at the time that service rates would also be adjusted under the terms of the new contract. This would be a pass-through fee that Recology would be eligible to collect and present on customer's bills. Impact on rate payers may be met with resistance if it is implemented at a time when solid waste rates are also expected to increase. The City Council has the authority to increase the fee from 0% up to the cap of 3.5% under the terms of the agreement. The new agreement becomes effective October 1, 2019, with a term of ten years and an option for the City to extend it up to an additional two years.

Factor	Difficulty Level
Potential for community pushback	Moderate
Technical and operational difficulties of implementation	Minimal
Timing necessary for implementation	Moderate
Disruptive impact on service delivery	Minimal
Disruptive impact within City organization	Minimal
Overall difficulty for Implementation	Moderate
	Rating
Fiscal Impact	Moderate
Potential of Success	Moderate

BACKGROUND/ANALYSIS

The City has a current franchise agreement with Republic Services (Rabanco/Allied Waste) for solid waste collection services that expires September 30, 2019. The City commenced an RFP process to secure proposals for solid waste services upon expiration of that contract. Based on qualitative and quantitative factors, Recology scored the highest in both sections of the RFP



from among the submitted proposals. Council approved a contract with Recology that starts October 1, 2019 for a 10-year period.

Solid waste contracts between cities and private service providers typically include an administrative fee that is based on a percentage of gross revenues generated by the service provider. The fees can be used for any general purpose that the City determines is in its best interest and is not required to be related to solid waste services or environmental programs. Solid waste providers typically pass this fee onto consumers and include the fee in customer bills. In preparing the staff report for Council consideration, staff noted that every other city served by Recology charged a fee with the average fee being 9% of gross revenues. Only one of the seven cities surveyed (Maple Valley) had an administrative fee less than 3.5%.

The draft contract included a proposal for a 3.5% “sustainability adjustment” fee based on gross revenues to compensate the City for administering the contract and its sustainability efforts related to solid waste. Recology indicated their intent to pass this fee onto consumers if the fee were implemented as part of the contract. Initial garbage rates are expected to increase by approximately 8% for typical household customers due to the significant cost increases associated with processing recyclable materials. Council was concerned about the additional 3.5% impact on ratepayers.

After deliberations, the Council approved a resolution to approve the contract with Recology that would initially set the fee at 0%, with a cap of 3.5% during the life of the contract. The terms of the contract allow the City Council to change the fee in any year to occur when solid waste rates would change (typically October 1 of each year).

Based on anticipated gross revenues from the contract, the City was expected to receive over \$150,000 in fees annually based on the 3.5% rate.

Attachment A – Detailed Strategies

REVENUE ENHANCEMENTS

15. Increase utility users tax rates (UUT) on solid waste services

STRATEGY TYPE: Revenue Enhancement

IMPACT ESTIMATE

Increasing the UUT on solid waste services by 1% would increase General Fund revenues by an estimated \$45,000 per year. An increase from 7% to 9% would generate an additional \$90,000 per year.

FEASIBILITY

The City Council can increase the UUT on the solid waste provider by Council resolution amending the existing solid waste UUT ordinance. There is no statutory limit on the amount of the tax. The City may be required to include a referendum clause in the ordinance regardless of whether it has otherwise adopted powers of initiative and referendum, however state law is unclear on this matter. Solid waste rates are expected to increase by 8% for the typical household consumer under the new franchise agreement with Recology that starts October 1, 2019. The City Council already deferred implementing an administrative fee on the contract in light of that increase. For more information, see Budget Strategy 14.

Factor	Difficulty Level
Potential for community pushback	Moderate
Technical and operational difficulties of implementation	Minimal
Timing necessary for implementation	Moderate
Disruptive impact on service delivery	Minimal
Disruptive impact within City organization	Minimal
Overall difficulty for Implementation	Moderate
	Rating
Fiscal Impact	Minimal
Potential of Success	Low

BACKGROUND/ANALYSIS

State law allows a city to impose a UUT on various utility providers. While restrictions exist on the amount of the tax rate for electric, gas and telephone services, there is no restriction in place for solid waste providers. While the UUT is imposed on the utility provider itself, the utility will ordinarily pass through those costs to customers and break out the amount of the UUT on the customer's tax bill.



The City's current solid waste UUT is 7% on gross revenues. The current agreement with Republic Services generates over \$300,000 per year in General Fund revenues. With solid waste costs expected to increase by 8% starting in October 2019 under a new agreement with Recology, an increase of 1% of the tax rate would yield additional annual revenues totaling \$45,000 per year.

Comparable agencies' solid waste tax rates are presented in Table 20. Mercer Island's rate is higher than all other agencies other than Auburn (also at 7%) and Kirkland (at 10.5%). The average rate is 6%.

Table 1. Comparable Agency Solid Waste UUT Rates for 2019

City	2019 Solid Waste UUT Rate
Kenmore	None
Bainbridge Island	5.0%
Bothell	5.0%
SeaTac	5.0%
Issaquah	6.0%
Lynnwood	6.0%
Mukilteo	6.0%
Auburn	7.0%
Mercer Island	7.0%
Kirkland	10.5%

Source: City websites and/or municipal codes

Attachment A – Detailed Strategies

REVENUE ENHANCEMENTS

16. Increase fees and charges to establish cost recovery standards at/near full cost recovery

STRATEGY TYPE: Revenue enhancements

IMPACT ESTIMATE

If the policy regarding cost recovery on development fees were modified to collect closer to full cost of providing these services, additional revenues would likely not exceed \$100,000 could be generated in the General Fund. However, it does not appear there is much room for additional revenue increases in parks and recreation fees.

FEASIBILITY

The determination of a cost recovery target for fee setting purposes is a Council policy decision. Clearly, there are often market and policy factors that should be considered when determining a cost recovery target. For example, if a particular fee is to be charged on a program financially benefitting an individual, full or near full cost recovery is usually appropriate. Otherwise, the general tax base of the City, used to fund non-fee-based services like fire and police, would be making up the cost difference.

Market realities should also be considered in that if fees are set too high where a customer has choices (e.g., some recreation programs), they may go elsewhere. Where customers do not have a choice (e.g., building and planning services), they may postpone or reduce the size of a project if fees are excessive. With these considerations in mind, it appears there is some room for additional cost recovery for development fees.

Factor	Difficulty Level
Potential for community pushback	Minimal
Technical and operational difficulties of implementation	Minimal
Timing necessary for implementation	Minimal
Disruptive impact on service delivery	Minimal
Disruptive impact within City organization	Minimal
Overall difficulty for Implementation	Minimal
	Rating
Fiscal Impact	Moderate
Potential of Success	Good



BACKGROUND/ANALYSIS

The two largest categories of user fees in the General Fund are development fees and parks and recreation fees. Development fees primarily consist of charges for building, planning and engineering services, about two-thirds of which are for permits to build or remodel single-family residences. Total projected revenue from development fees in 2019 is \$3.1 million. Parks and Recreation fees consist of charges for various athletic and cultural recreation programs, use of the Mercer Island Community and Event Center, park facility rental fees and special use permits. Total projected revenue from parks and recreation fees in 2019 is \$2.1 million.

Development fees

In November 2018 a development fee study was completed by the consulting firm, FCS Group, to update the cost of service of all development fees and establish the appropriate fee for each service. They identified the cost of each services and recommended an appropriate fee level based on the desired level of cost recovery. No changes were made to the City Council adopted target cost recovery levels, which are as follows:

- Building services – 95%
- Planning services – 80%
- Engineering services – 80%

The study determined that land use fees were significantly below the 80% cost recovery level. Accordingly, land use fees were adjusted beginning January 1, 2019, which staff estimates will generate an additional \$60,000 in revenue annually. This revenue adjustment was included in staff's recommended General Fund deficit spending reductions, which were approved by the Council on April 2, 2019.

With these cost recovery targets in mind, City staff estimates 2019 development services revenues of \$3.1 million as shown in Table 21:

Table 1. Estimated Development Services Revenue by Fee Category – 2019

Fees	2019 Revenue Estimate
Building plan review and inspection	\$ 2,460,577
Land use planning	281,000
Development engineering	318,000
	3,059,577
Fire inspections	140,000
Total development fees FY 2019	\$ 3,199,577

When determining an appropriate cost recovery level, consideration should be given to the amount of benefit provided to an individual versus the public in general. Charges for services that most benefit a private party (e.g., building services) with limited benefit to all citizens

should be recouped at a higher rate than services that at least in part also benefit all residents (e.g., planning services). Other factors, such as market rates, can also be considered when establishing cost recovery rates. State law (RCW 82.02) further limits development fees to those costs directly associated with the processing of applications, inspecting, and reviewing plans.

Given these factors, the cost recovery targets set by the City seem reasonable and do not leave much room for additional revenue generation from development fees. However, if the City should choose to increase all development fees, for example, 5% closer to 100% cost recovery (i.e., at or near 100% recovery for building fees, 90% for planning and engineering fees), it could generate an additional \$167,000 in annual revenues assuming market forces do not reduce development activity due to the higher fees.

Parks and Recreation fees

Parks and Recreation fees, projected to be \$2.1 million in 2019, are the next largest category of user fees in the General Fund and consist of charges for various athletic and cultural recreation programs, use of the Mercer Island Community and Event Center (MICEC), park facility rental fees and special use permits. Staff members review these fees on an annual basis and believe they are already at the high end of the market. The MICEC fees are actually higher than surrounding community centers because MICEC is also an event center.

Because parks and recreation fees are already about as high as the market will allow, there is likely not much room to generate significant additional General Fund revenues from these program fees. Greater effort is being placed on efficiencies in service approaches to attempt to reduce the costs of providing those services.

Attachment A – Detailed Strategies

SERVICE LEVEL REDUCTIONS

17. Take no action

STRATEGY TYPE: Service Level Reductions

IMPACT ESTIMATE

The fiscal impact of taking no action would leave the City’s General Fund fully depleted of reserves by FY 2023, at which point the City would be forced to implement hiring freezes or layoffs. To avoid bankruptcy, those hiring freezes and layoffs would need to total nearly \$2 million and grow to \$5 million by 2024, or just short of 17% of the General Fund’s annual operating expenditures.

FEASIBILITY

The option of “doing nothing” is not feasible without forcing the City into bankruptcy proceedings. The City would face litigation from creditors, employee groups, residents, and agencies such as the state pension fund, risk insurance pools, and others. Ultimately, the City would be placed into a form of receivership by the state and would then be overseen by an appointed court to implement the necessary actions to allow the City to operate.

Factor	Difficulty Level
Potential for community pushback	Significant
Technical and operational difficulties of implementation	Significant
Timing necessary for implementation	Significant
Disruptive impact on service delivery	Significant
Disruptive impact within City organization	Significant
Overall difficulty for Implementation	Significant
	Rating
Fiscal Impact	Minimal
Potential of Success	None

BACKGROUND/ANALYSIS

The fiscal model indicates that the City faces a structural deficit that would increase to an annual shortfall of \$4.8 million by FY 2024 and would continue to grow thereafter given the 1% limitation on annual property tax levy increases and binding interest arbitration on police and fire personnel that requires an agency to match cost of living adjustments to that of other local agencies on the west coast. Reserves would be fully depleted by FY 2023.



The City would be forced into bankruptcy proceedings, placing the control of fiscal and, in some cases, operational decisions in the hands of the courts, which would take the necessary action to restore the City's fiscal health. This could mean significant reductions or full outsourcing of a variety of services such as police, fire, parks, recreation, and public works. It would have negative impacts on economic development and quite possibly home prices. The City would face difficulties in recruiting and retaining its workforce as it would have a negative reputation in the labor market.

Attachment A – Detailed Strategies

SERVICE LEVEL REDUCTIONS

18. Implement General Fund services and staffing reductions

STRATEGY TYPE: Service Level Reductions

IMPACT ESTIMATE

The City's General Fund is projected to have a nearly \$1.7 million budget gap in 2021 and a \$4.8 million gap by 2024. If the combination of enacted expenditure controls, service delivery changes, and revenue enhancements do not resolve this fiscal gap, the City would have to implement General Fund service level reductions. A thorough analysis of department operations would be needed.

For purposes of this analysis, a 15% reduction in the three largest General Fund departments, police, fire, and parks and recreation departments, would yield an annual expenditure savings to the General Fund of approximately \$3 million. Additional savings might be identified through a review of administrative and internal support operations (e.g., finance, human resources, administration, etc.). The actual amount of reductions to close the fiscal gap will depend on the other strategies selected and the resultant fiscal impact of those measures.

FEASIBILITY

Given that Mercer Island's personnel expenditures account for 71% of the General Fund budget, achieving a 15% cost reduction in the departments indicated above would require significant reductions in positions. The average General Fund employee costs the City \$130,000 per year. Based on this average, we estimate that to reduce total costs by \$3 million the City would need to reduce its workforce by 17 positions if 75% of cuts came from personnel costs, or as many as 23 employees if 100% of cuts came from personnel costs. This range represents 12% to 16% of the total General Fund workforce of 147 FTE.

Such reductions would have dramatic impacts on police, fire, and parks and recreation services, which would bear the brunt of those service level reductions given their relatively high expenditure levels. Even with these potential position cuts, only \$3 million of an eventual \$4.2 million budget gap would be solved. Other budget reduction strategies would also need to be put in place.

There would likely be significant community pushback in reducing service levels to this extent. This strategy, however, would be necessary to provide fiscal sustainability if other cost reductions or revenue enhancement strategies are not pursued or are not successful.



Factor	Difficulty Level
Potential for community pushback	Significant
Technical and operational difficulties of implementation	Moderate
Timing necessary for implementation	Moderate
Disruptive impact on service delivery	Significant
Disruptive impact within City organization	Significant
Overall difficulty for Implementation	Significant
	Rating
Fiscal Impact	Moderate
Potential of Success	Moderate

BACKGROUND/ANALYSIS

Service level reductions represent strategies that would be necessary after cost controls/shifts, service delivery changes, and/or revenue enhancement strategies do not culminate in sufficient savings to close the fiscal gap. Reducing service levels would require departments to review all expenditures, identify prioritized service levels, and develop a list of recommended reductions for City Manager and, ultimately, City Council approval to achieve the necessary fiscal target. The analysis would require a thorough and common understanding of the jurisdiction's core levels of service, legally or contractually required services, and clarity regarding mission and values. In some cases, services may need to be viewed from a programmatic perspective so those that require cooperation from multiple departments receive special consideration.

We have estimated the fiscal impact based on current expenditures in the General Fund. For purposes of our analysis, we assume that a 15% General Fund expenditure reduction target would be implemented, and departments would then need to identify reductions in personnel, services and supplies, and ongoing capital needs to achieve the necessary reduction.

As noted above, a 15% reduction in the police, fire, and parks and recreation departments would yield annual expenditure savings to the General Fund of approximately \$3 million.

Reductions in command staff for Police and Fire would yield savings in those two departments. However, the impacts associated with proper oversight, supervision, and legally mandated reporting requirements that require management-level review and oversight would need to be addressed closely.

Parks and Public Works maintenance would require significant cuts in staffing, delays in attending to infrastructure repair needs, and reduced ability to respond to natural disasters or events such as the winter storm the City experienced a few months ago.

The Community Planning and Development Department could also be considered in the approach. However, much of that department's operations are currently self-supporting or

nearly so through fees and charges (primarily, planning and building services), so cuts to this department would generate less net savings than other non-fee-based department services.

The Youth and Family Services (YFS) programs could also be considered for reduction or elimination given that some of these programs are not generally considered core services provided by municipalities. However, the staff recommended strategies already anticipate that the General Fund would no longer support YFS services starting in 2020.

Reductions in administrative functions (i.e., City Manager's Office, City Attorney's Office, Human Resources, Finance, Information and Geographic Services) would likely not be achievable in the short term. After the organization achieved stability under the new level of operations there is the potential for additional salary and benefit savings of nearly \$200,000, assuming a 5% reduction in those administrative support functions.

Attachment A – Detailed Strategies

SERVICE LEVEL REDUCTIONS

19. Eliminate/brown out one fire station

STRATEGY TYPE: Service Level Reductions

STAFF RESPONSE

Browning out Station 92 would cause significant response delays ranging from 4 to 10 additional minutes depending on the location of the call. Should the Station 91 crew attend another call at the same time, a Bellevue or Seattle unit would need to respond adding another 4- to 18-minute delay to the already increased time. For cardiac arrest, trauma, or fire calls, these delays would potentially be catastrophic. Cardiac survival rates decrease 7-10% for every minute of delay in treatment. A delay for a trauma victim, depending on the injury type, could significantly impact their chances of survival or recovery. An uncontrolled fire can double in size every 30-60 seconds, resulting in significantly more property damage.

Decreasing the firefighting and EMS capability would require MIFD to withdraw from the Automatic Aid Interlocal Agreement of King County. Currently, Mercer Island relies on outside agencies for support during significant events such as fires, hazardous materials response, and technical rescues. On average the Bellevue Fire Department responds to Mercer Island calls 120 to 150 times per year. This figure does not include ALS responses, which are paid for through the King County EMS Levy. Neighboring agencies are not required to respond and support Mercer Island, other than ALS units. They do so only through established agreements and long-term relationships. At a minimum, it is anticipated that these agencies will start to charge the City each time they respond to a call on Mercer Island.

Browning out Station 92 would also decrease the department's technical rescue capability, again making the City more reliant on outside agencies. All MIFD personnel are surface water rescue technicians with six of members also on the dive team. Fire personnel are also trained in rope rescue, confined space, trench rescue, auto extrication, and rescue systems. Calls that involve any of these skills are very staff intensive and typically require two engine companies at a minimum. Mutual and automatic aid are generally required on these calls.

With a decreased firefighting capability, Mercer Island would lose its current Washington State Ratings Bureau (WSRB) rating, which at 3.06 is the best it has ever been. This rating is used by insurance companies as part of a formula for establishing insurance rates for every property on the Island. As a result, Island residents would likely see increases in their homeowner's insurance premiums.



Mercer Island’s firefighter turnover rate is almost wholly related to retirements. Should the City approve this strategy, the anticipated, and significant, negative impact on staff morale, could result in an increased turnover as employees seek out opportunities with other fire agencies. The City would need to backfill vacancies with overtime, which is costly, until a new hire can be brought on board – a process that typically takes 6 to 10 months. Finally, moving to such a model would make Mercer Island less attractive to entry-level firefighters, thereby hampering the City’s recruitment efforts.

IMPACT ESTIMATE

Annual budget savings could be \$1.8 million in personnel costs alone if station 92 were no longer used. Savings would be less if instead of elimination there was a “brown out” or reduction in service level at times of the day that typically receive fewer calls. However, there is potential that other jurisdictions would likely charge the City for mutual aid response. The net savings is estimated to be \$1.4 million annually.

FEASIBILITY

Major challenges to the feasibility of this strategy include significant negative impacts such as a significant reduction in firefighting and emergency medical response capabilities within the City, increased response times to the southern part of the island, increased reliance on mutual/automatic aid responses from neighboring fire departments, and bargaining requirements with the represented firefighter personnel.

Factor	Difficulty Level
Potential for community pushback	Significant
Technical and operational difficulties of implementation	Significant
Timing necessary for implementation	Moderate
Disruptive impact on service delivery	Significant
Disruptive impact within City organization	Significant
Overall difficulty for Implementation	Significant
	Rating
Fiscal Impact	Significant
Potential of Success	Moderate

BACKGROUND/ANALYSIS

In 2017, the City leaders signed a new Automatic Aid Interlocal Agreement encompassing every fire agency in King County. It contains language specifying that agencies cannot reduce current staffing levels as a result of the agreement. Reductions in Fire Department staffing levels would therefore put the City in violation of this agreement.

Since that at any time there are only seven firefighters on duty in Mercer Island, the City is very dependent on help from neighboring departments when a major fire or other event takes place. If Mercer Island were to reduce staffing, if mutual aid was needed, other departments likely

would do so, but on a fee per call basis. The cost would depend on the number of personnel and apparatus used and would reduce the savings generated by a reduction in personnel to some degree.

Station 92 is currently staffed with three full-time personnel (one lieutenant and two firefighters) 24 hours a day, 7 days a week. If station 92 were closed completely, this would eliminate nine firefighter and three fire lieutenant positions. The salary and benefit savings alone would be approximately \$1.8 million. Additional savings would come from reduced operating costs in the form of fire apparatus and the facilities. The City would need to determine alternative uses for Station 92 or otherwise keep it vacant for potential future use. However, this would require a minimum level of maintenance of the facility and the grounds to remain in character with the neighborhood.

Substantial study would have to be given to this strategy before implementation due to the dramatic impact it would have on response times and level of fire and medical emergency services in the City of Mercer Island. In addition, as noted earlier, impacts on mutual/automatic aid agreements and on labor relations would have to be considered carefully as well.

Attachment A – Detailed Strategies

SERVICE LEVEL REDUCTIONS

20. Reduce parks landscape maintenance and irrigation

STRATEGY TYPE: Service Level Reduction

STAFF RESPONSE

The level of service for maintenance of parks could be reduced. This could mean mowing less, weeding less, turning down/off the irrigation, etc. The City currently maintains and operates almost 500 acres of parks and open space, so the savings could be significant if levels of service were reduced.

Reductions in maintenance levels of service will likely result in significant pushback from the community. Care should also be taken to ensure that level of service reductions do not result in safety impacts or loss of vegetation.

There is not a good mechanism to quantify the potential reductions at this time, but it could easily be \$100,000 or more annually depending on the magnitude of the reductions. Further study is needed to analyze park maintenance levels of service and estimated cost savings. It should also be noted that any reductions in the park maintenance team would require bargaining with the AFSCME union.

IMPACT ESTIMATE

Annual budget savings of \$100,000 could be achieved by reducing landscape beautification and irrigation in City parks with an accompanying reduction in service levels as discussed below.

Savings of \$250,000, or 10% of the annual budget of the Parks Maintenance Division, would have a more severe impact on parks appearance, open space management, and maintenance of athletic fields and playgrounds. Staff has begun an operations assessment of the Parks Maintenance division, which when completed will provide a more precise estimate of potential savings.

FEASIBILITY

A budget reduction of \$100,000 in the Parks Maintenance division is feasible, although park facilities would experience observable changes. A reduction of \$250,000, or roughly 10% of the annual budget, would have more severe negative impacts on open space management, proactive tree maintenance, athletic field maintenance, and potential degradation and/or deferred maintenance of parks infrastructure such as irrigation systems, pathways and fields.

Factor	Difficulty Level
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Potential for community pushback	Moderate
Technical and operational difficulties of implementation	Minimal
Timing necessary for implementation	Minimal
Disruptive impact on service delivery	Moderate
Disruptive impact within City organization	Moderate
Overall difficulty for Implementation	Moderate
	Rating
Fiscal Impact	Minimal/Moderate
Potential of Success	Low/Moderate

BACKGROUND/ANALYSIS

The Parks Maintenance division of the Parks and Recreation department has an annual budget of \$2.6 million and maintains nearly 500 acres of parks and open space in the City. Operations are supported by 10 full-time equivalent staff members. This division maintains nearly 500 acres of parks, open space and facilities such as athletic fields, playgrounds, sport courts, swimming beaches, street-end waterfront access areas, hiking, biking and equestrian trails, and picnic facilities.

The level of service for maintenance of parks could be reduced. This would mean mowing, weeding, and irrigating City parks less, and possibly reducing supplies and contracted services such as arborist services.

Reducing one FTE position plus various maintenance supplies and services could yield \$100,000 or more in savings. The following would result:

- Reduction in the appearance of certain parks amenities,
- Potential for overgrowth during spring and summer months, and
- Reduced capacity to address any significant issues such as downed tree limbs, excess trash, or damage done by excessive parks use.

The City would like experience minor degradation in parks infrastructure, but clearly the level of parks maintenance enjoyed by the community would be reduced and noticed.

A targeted reduction of 10% of annual operating expenditures would yield \$250,000 in budgetary savings, requiring the following:

- Reduction of two FTEs,
- Reduction in supplies and services,
- Elimination of some maintenance equipment to reduce fleet and/or equipment maintenance costs,

- Reprioritization of response efforts related to proactive maintenance and significant maintenance needs such as winter storms, damage in city parks, or safety issues, and
- Rebalancing of responsibilities among maintenance staff.

The public would notice vegetation overgrowth during the spring and summer seasons along hiking/biking trails and in parks and open space areas and a more reactive approach in arborist and maintenance responsibilities. In some circumstances, park closures may be required to allow time for the reduced work crew to correct safety issues that may arise. Discussions with youth sports groups that use athletic fields would be required to prioritize needs and service levels.

City staff is in the early stages of a parks maintenance operational assessment that will help identify potential efficiencies and cost saving opportunities.

Attachment A – Detailed Strategies

SERVICE LEVEL REDUCTIONS

21. Eliminate or Reduce Marine Patrol Services

STRATEGY TYPE: Service Level Reduction

STAFF RESPONSE

The City started the Marine Patrol program in 1983 in an effort to reduce the escalating costs associated with contracting with King County for this service. The program has two primary vessels and one backup vessel. Workload is spread between the two primary vessels, reducing the wear and tear on each boat and allowing the City to extend the useful service life of the equipment from 15 to 20 years. The two primary vessels have a replacement / sinking fund for their hulls and engines, while the backup vessel only has a sinking fund for its engines.

The Marine Patrol program provides year-round law enforcement, fire suppression, and basic medical aid services to Mercer Island waterfront, boating, and swimming communities. These services include search and rescue, enforcement and education of maritime laws, BUI enforcement, accident responses, assistance with disabled vessels, vessel fire responses, buoy management, removal of dangerous/damaging logs, waterfront home fires, and responses to crimes along the waterfront. The program also supports events such as Seafair, fireworks displays, and other special events.

Operationally, the Marine Patrol program takes a very proactive stance on water safety education. It begins with education in area grade schools, and continues through public outreach efforts, special events, and boat stops that are used to educate boaters on proper safety procedures and equipment. This proactive stance has helped reduce the number of boating collisions and drowning incidents over the years, making Lake Washington a safer water recreation location.

Eighteen Mercer Island police officers are Marine Patrol trained, which allows the MIPD to respond to lake emergencies all year. Given the elimination of the lifeguards at public beaches on Mercer Island, the Marine Patrol is the last resource to respond to emergencies at the beaches. The Marine Patrol unit is also a key component of the City's emergency response plan. If I-90 access to Seattle or Bellevue is compromised, the Marine Patrol boats can transport sick or injured individuals to awaiting aid units or medical facilities, such as the University of Washington hospital.



The 2019 budgeted costs for the program are \$540,000. The City receives approximately \$135,000 in grants and vessel registration fees, as well as \$75,000 from the City of Renton, resulting in a \$330,000 net expense to the City.

This budget strategy suggests eliminating or reducing the Marine Patrol program. If the City opted to discontinue its marine patrol program, it would likely need to contract with the KCSO for marine patrol services. Given the KCSO's fee structure for other cities, it is estimated that the City would pay approximately \$160,000 per year. This model would save the City about \$170,000 annually, but the level of service would be significantly less. It is worth noting that the future of the KCSO's Marine Unit is unclear, as the former Sheriff had discussed eliminating the program given King County's budget challenges.

Additionally, the City has an interlocal agreement with the City of Bellevue wherein Mercer Island provides marine patrol services for Bellevue, and in exchange Bellevue provides Mercer Island with K-9, forensics, firing range, major investigations, SWAT, and other police services. The interlocal agreement also formally recognizes the fact that the Bellevue Fire Department sends their units to Mercer Island more often than Mercer Island sends units to Bellevue. These inequities experienced under the King County Fire Resource Plan are recognized/offset in the interlocal agreement, thus helping to balance this response equation. The Bellevue Fire Department also has specialized assets that they bring to the City as part of their response (e.g., ladder truck). Contracting with the KCSO for marine patrol services would trigger the need to revisit the interlocal agreement with Bellevue, which would likely result in Bellevue charging Mercer Island for the police and fire services noted above.

The Marine Patrol program has proven very effective over the years in keeping waterfront homeowners, boaters, swimmers, and paddle boarders safe. The program also has a long history of strong working partnerships with the two other providers on the lake, namely KCSO and Seattle Harbor. These three programs rely on each other to serve as back-up during emergencies, thus reducing or eliminating the Mercer Island program would have an adverse impact on the entire region. Additionally, the Marine Patrol program serves as a strong recruiting and retention tool for the officers.

IMPACT ESTIMATE

The cost of providing Marine Patrol services is \$381,000 net of the direct revenues received for providing the service to the cities of Renton and Bellevue based on the FY 2019 budget. However, the interlocal agreement (ILA) with Bellevue provides in-kind services that, if marine patrol services were eliminated, Mercer Island would need to enter into separate contracts for those services. Estimated cost savings, net of the impacts of the ILA, would at most equate to approximately \$100,000 pending a renegotiation of the ILA with Bellevue and valuation of in-kind police and fire services provided by Bellevue.

FEASIBILITY

Although provision of Marine Patrol Services is a public safety item, it is an unusual service for a small City to provide. Alternatively, to preserve the service, boat owners docked at Mercer Island as well as other potential users of the service, such as the Mercer Island Beach Club and surrounding cities, could be asked to pay for the full cost of service as the condition of continuing to provide it.

Factor	Difficulty Level
Potential for community pushback	Moderate
Technical and operational difficulties of implementation	Significant
Timing necessary for implementation	Moderate
Disruptive impact on service delivery	Significant
Disruptive impact within City organization	Moderate
Overall difficulty for Implementation	Significant
	Rating
Fiscal Impact	Significant
Potential of Success	Moderate

BACKGROUND/ANALYSIS

Marine patrol services include patrol of the waterways surrounding Mercer Island, Bellevue and Renton on Lake Washington and includes a dive team that is able to perform search and rescue. This type of service is not typically provided by small cities that have significant waterfront bordering their community. It is more common for marine patrol services to be provided by larger communities that have the size and capacity to provide them.

It is not uncommon for smaller communities to create special districts or contract marine patrol as a private service that levies the cost of service on property owners who own or rent boats along the waterfront, a subset of the entire population. Some portion of beneficiaries of the service are presumably non-residents, who are getting this public safety service for free.

The City currently has a cost allocation model in place with the cities of Renton and Bellevue as follows:

- **Renton** – fee is based on the percentage of time and activity spent by the Mercer Island Police Department (MIPD) in their waters
- **Bellevue** – in-kind services are provided between Bellevue and Mercer Island through an interlocal agreement (ILA). MIPD provides marine patrol services to Bellevue, and in return Bellevue provides specialized law enforcement services (e.g., K-9, forensics, firing range, SWAT), placement of buoys in waterways, and mutual response for fire services under the King County Fire Resource Plan, including use of a tiller (i.e. ladder) truck that Mercer Island does not have in its apparatus inventory. Mercer Island receives boat tax revenues for all boats harboring in Bellevue.

If the City does not wish to give up this unique service, more aggressive cost sharing contracts could be attempted to be negotiated as a condition of keeping the service, perhaps on a reduced scale. Ultimate service provision could be pegged to the costs that users would be willing to pay as a result of negotiations. It is estimated that there are over 140 boats docked at Mercer Island. The current net cost of the service spread over 140 boats equates to over \$2,700 annually, however that does not consider the cost deferral of in-kind police and fire services provided by Bellevue under the terms of the ILA. Assuming a net cost to the City after ILA services of \$100,000, the cost per boat equates to roughly \$725 per year.

If the City were to eliminate the service, there would be a rise in public safety concerns. The City could mitigate its exposure to liability by posting articles well ahead of time indicating it was discontinuing the service, and by clearly posting on dock and/or beach facilities that it does not patrol the area, and that boaters are using Lake Washington at their own risk.

Attachment A – Detailed Strategies

SERVICE LEVEL REDUCTIONS

22. Reduce law enforcement specialized services (investigations and special programs, special teams, school resource officer, emergency preparedness planning)

STRATEGY TYPE: Service Level Reduction

STAFF RESPONSE:

Over the years, the formation of specialized services within police departments has proven an effective strategy in addressing growing and changing needs within the community. While the patrol officers provide the first line of defense, there are times when specialized services are needed to augment the work of the patrol officer. The key outcome from the mix of police services provided by the City is that Mercer Island has one of the lowest crime rates in King County.

Detectives:

There are currently four detectives, including the supervisor, two general detectives, and the School Resource Officer (SRO). This unit is running at capacity investigating the wide variety of crimes committed in the City. The supervisor screens cases for solvability factors, and subsequently assigns cases to the detectives for follow up investigation.

Reducing detective staffing will result in a reduction in the number of criminal case investigations. To address this reduction, a policy decision would be made to raise the investigation threshold for the crimes currently investigated. In other words, the City would no longer be able to investigate many misdemeanor or lower level crimes. For example, if one detective was eliminated from the unit, approximately 25% of the crimes would no longer be investigated. These cases would likely include lower level theft cases, fraud cases, malicious mischief, and identity theft. It would not be long before the message got out that the City doesn't have the staffing to investigate lower level crimes.

School Resource Officer (SRO):

The Mercer Island School District (MISD) and the Mercer Island Police Department (MIPD) have a long history of working very well together, allowing for a coordinated approach to the challenges faced by Mercer Island youth. The SRO program has been in place on Mercer Island since 1996. The program has been very effective in helping to provide a safe learning environment for the community's children and teachers. The program also helps to build relationships between the police department and the Island youth. Teens, for example, are very



impressionable, and the SRO allows them easy access to a police officer in a non-threatening environment where they can ask questions and hear sound advice.

The SRO currently splits time between the High School, the Middle School, and the CREST Learning Center. The SRO also serves as a detective, investigating cases where a juvenile is listed as a suspect, victim, or witness in a crime. The SRO investigates most of the CPS/abuse cases.

The SRO provides a level of security in the public schools that many communities have come to expect considering the many acts of violence in schools. Risks associated with cutting or reducing the SRO position include an increase in the potential for criminal activity at the schools, greater difficulty investigating crimes that involve Island youth, and the loss of connection/relationship building between the MISD, Island youth, and the MIPD.

Currently, the MISD provides 17% of the funding for the SRO. It is recommended that the MISD contribution increase to 50% of the costs for the 9-month SRO position as opposed to cutting the position and/or reducing the hours.

Emergency Planning:

Since the early 1990's Mercer Island has engaged in preparing the community for disasters. Emergency preparedness is an integral part of the safety of the residents and businesses on the Island. The mission of Mercer Island's Emergency Preparedness program is to prepare Mercer Island to be self-sufficient for seven days following a major disaster where public safety and emergency medical services are overwhelmed. Full execution of this mission includes residents, businesses, schools, the faith community, and City staff.

To respond and recover from disasters, the City, in accordance with Washington State Law (chapter 38.52 RCW), is required to establish an Emergency Management program. Additionally, Homeland Security Presidential Directive (HSPD) 5 requires the implementation of the National Incident Management System (NIMS) that provides a nationwide template to prevent, respond, recover from, and mitigate the effects of incidents, including the clarification of roles and standardization of training. To meet these requirements, the City has one full-time employee assigned to fulfill these requirements.

The Emergency Manager's responsibilities include mandatory reporting, training exercises, hazard mitigation planning requirements, crime prevention, and oversight of the City's emergency volunteer teams. While this community is very fortunate to have hundreds of emergency planning volunteers, management and oversight is needed by the City's Emergency Manager.

Risks associated with cutting or reducing the Emergency Planning program include a general lack of readiness and preparation for emergencies. The City is situated on an earthquake fault line, which poses a unique threat given the City's location in Lake Washington. If there's a

major earthquake, the community could find itself isolated if the bridges become impassable. The City is also susceptible to windstorms, heavy rainfall, and snowstorms, and boil-water events. Should the Emergency Planning program be cut or reduced, the City would be less prepared to adequately deal with such events.

Special Teams:

In order to better support the patrol officers, the MIPD has a few special teams that serve to assist/augment patrol during challenging situations. MIPD has a Special Operations Team that includes the Bike Patrol Unit (BPU), the Civil Disturbance Unit (CDU), and the Tactical Response Unit (TRU).

The BPU allows for rapid deployment in the City's parks and Town Center, providing quick responses to emergencies and criminal activity. The BPU also assists with special events such as Seafair, the MISD Homecoming parade, and the Rotary half-marathon event. Most of the members of the BPU are also part of the CDU. The CDU provides needed support for Patrol in the event of large gatherings or demonstrations such as labor strikes and protests at homes or places of business.

The TRU performs tactical responses that don't require the response of Bellevue's SWAT team. While deployment of the TRU is not frequent, the team serves to keep officers' tactical skills sharp. The TRU also provides security assessments/planning for schools and places of worship. Additionally, the TRU will coordinate security response planning and training for MIPD officers for the new East Link light rail transportation facility.

Members of the special teams are typically spread out among the patrol squads, offering enhanced tactical and crisis intervention skills to effectively address complex and potentially volatile situations. An indirect but noteworthy benefit to having these special teams is the positive effect they have on recruitment and retention of officers. Patrol officers really enjoy the opportunity to become involved in meaningful programs outside of regular street patrols and appreciate the opportunity to cross-train in these areas. The annual budgets for each of the three teams is minimal: BPU and CDU = \$5,800, TRU = \$12,900.

Risks associated with cutting or reducing Special Teams:

Cutting or eliminating the bike team would result in a slower response to emergencies at special events and a reduced ability to patrol parks and open spaces. Eliminating the CDU would result in a reduced ability to respond to demonstrations and large gatherings. It would also eliminate the opportunity for the MIPD to help other agencies when they need assistance, which is one of the few services the City can offer neighboring cities who typically assist Mercer Island more often the City is able to assist them. Cutting the TRU would decrease the ability to respond to situations that require a tactical response beyond the training of regular patrol officers. It would also decrease the capacity to assist in security planning and training for community partners such as the schools and places of worship.

Cutting special teams would also result in greater difficulty with recruiting new officers, and greater turnover with current officers. In today’s tight job market, experienced officers are being lured away to other police departments by signing bonuses, larger salaries, and the excitement of specialty assignments/opportunities. Several officers have left MIPD over the past few years for positions in other agencies that pay more and have more specialty assignment opportunities. The City not only needs to keep wages competitive, but also needs to give officers opportunities to be involved in special teams. If the City cuts its few specialty assignments/teams, there will likely be an increase in MIPD officers leaving for other police agencies. The City invests approximately \$120,000 into a new officer from the time he/she is hired to the point he/she is fully trained and on his/her own as a solo officer. When an officer goes to another agency, the City pays far more than the relatively small cost of the special teams.

IMPACT ESTIMATE

Mercer Island’s costs (net of reimbursements) for investigations and all specialized services, including Marine Patrol, is approximately \$1.3 million, which is 17% of the total Police department budget of \$7.4 million. Excluding Marine Patrol net costs (see Strategy 21), specialized police services have a net cost of \$915,000. This includes investigations, special programs, and emergency management. If the City were to cut these costs in half, the net savings to the General Fund would total about \$450,000 annually.

FEASIBILITY

A 50% reduction in specialized services would require significant reductions in investigations and school resource officer (SRO) programs. This would likely be met with significant community resistance, especially the SRO program which has been high profile in the community in light of the increase in active shooter situations across the nation. Impacts of layoffs would need to be discussed with the police bargaining unit. The City would need to take a cautious approach in terms of public discourse regarding any reduction in services to not invite increased crime activity in the community should it pursue such options.

Factor	Difficulty Level
Potential for community pushback	Moderate
Technical and operational difficulties of implementation	Moderate
Timing necessary for implementation	Moderate
Disruptive impact on service delivery	Significant
Disruptive impact within City organization	Significant
Overall difficulty for Implementation	Moderate
	Rating
Fiscal Impact	Significant
Potential of Success	Good

BACKGROUND/ANALYSIS

Specialized law enforcement services are incorporated in the Investigations and Special programs division of the Police Department. Services include the following:

- **Marine Patrol and Dive Team.** Patrol services on Lake Washington (see detailed analysis under Strategy 21).
- **School Resource Officer.** Provides a layer of security in the public schools with one armed officer that patrols the various schools. This service has been well received by the community in light of the increase in active shooter incidents across the nation. Mercer Island School District provides 17% of the funding for the SRO position.
- **Special Operations.** This includes bike patrol, civil disturbance, and tactical response units that mitigate the need for mutual aid SWAT services from Bellevue.
- **Investigations.** Detectives investigate a range of crime activity from misdemeanors to felonies.

The City rotates officers through these special programs as a means of providing job growth and experience. This has been helpful to the City in recruiting and retaining officers.

Mercer Island's data on calls for service shows a total of 14 priority 1¹ and 2² calls over the last two years, or an average of seven calls per year of an immediate, emergency nature. Without reducing Patrol staff, a dramatic cut in investigations and special programs would not be optimal, but would likely have a minor impact on responses to Priority 1 or 2 calls. There is always a concern that reducing law enforcement response, even in special program areas such as these, can result in increased crime activity in a community. Given the significant investment in police services by the City, if the department were to look at service level reductions, the obvious place would be for non-patrol services.

Options to mitigate impacts include partnering with other agencies such as King County Sheriff's Office or the cities of Bellevue and Renton for school resource officer and investigations. However, the costs of those services would need to be explored with those agencies. Another option would be to identify opportunities to increase the cost sharing arrangement of the SRO program with MISD, subject to their funding constraints.

A 50% reduction in special services would likely require the elimination of two of the four FTEs in the division, with significant reductions in investigations services and impairment of the school resource officer position. The Special Operations unit could also be curtailed, however the fiscal impact of those services pale in comparison to investigations and the SRO program.

¹ The Police Department defines Priority 1 calls as "Requests for service of an emergency nature which require immediate police response, as there is reason to believe that a continuing serious threat to life exists."

² Priority 2 calls are defined as "of an emergency nature where continuing unknown criminal activity is present or incidents such as serious injury accidents."

Attachment B – Other Strategies Identified Not Specifically Analyzed

The table below summarizes additional strategies that were identified during our analysis that were either deemed to provide little or no significant fiscal impact (i.e., less than \$50,000 annually) to solve the General Fund’s structural deficit or were otherwise determined to be infeasible given the City’s current operating environment. City leaders would be encouraged to pursue these strategies, especially if the strategies incorporated in a proposed fiscal sustainability plan were not able to be implemented.

Other Budget Strategies Identified but Deemed to have Low Fiscal Impact or Otherwise Infeasible

Strategy Title and Description	Comments
Expenditure Controls/Cost Shifts	
Reduce/eliminate health benefits for part-time employees	Impacts eight part-time employees citywide, potential annual savings would be less than \$50,000. Benefits for part-time employees are already reduced. The insurance benefit for these employees is required by Washington State Law.
Reorganize parks/open space maintenance to report to Public Works	No significant savings would be generated as span of control for management/supervisory staff would increase from existing ratios that already exceed 8-to-1.
Shift costs of sports field maintenance to sports organizations	Staff have begun the analysis of fees being charged to all users, including the School District. Fiscal impact anticipated to be less than \$50,000 annually. Potentially significant pushback from community. Cost recovery should be studied (see Revenue Enhancements section in Attachment A).
Shift cost burden to maintain overgrown vegetation in the right-of-way on private property owners	Current incremental costs are less than \$50,000 annually. Would require possible ordinance change. Could possibly increase code compliance efforts and costs.
Charge third-party event sponsors for in-kind services (e.g., traffic management, barrier placement, etc.)	Fiscal impact anticipated to be less than \$25,000 annually. Cost recovery should be studied (see Revenue Enhancements section in Attachment A).
Develop long-term lease agreement for City Hall and move City operations into commercial leased space.	Finding another facility to lease at a lower cost than the City Hall facility could be leased would be unlikely.
Reduce City Council compensation	Current cost in total is \$20,000 per year. City Council is already lowest paid in King County. Changes would go into effect when each position turns over.
Service Delivery Changes	
Share/contract transportation planning services with other agencies	Bellevue and Redmond would be the only two likely contracting agencies. No reported capacity for each agency, and their cost of service delivery is higher than Mercer Island. Potential savings, if any, would be minimal.



Strategy Title and Description	Comments
Outsource IT help desk services to private service providers	Cost efficiencies based on current service level and in light of elimination of one help desk technician in Staff Recommended strategies would likely yield little or no additional savings given high cost of IT services from private enterprise. See Service Level Reduction strategies in Attachment A.
Contract municipal court services to another agency	Providing effective court services would require geographic proximity. King County, Kirkland and Issaquah are only other possible options. Capacity with existing facilities and staffing in other agencies is not currently available. Cost structure of those other agencies might likely increase costs of services. Further analysis would be required to determine viability.
Outsource human resources administration	Would require that labor relations/bargaining, recruitment, promotional testing, HR investigations/performance management and benefits administration be contracted to private parties/consultants or other agencies. Potential cost for contracting out may likely exceed current costs of the two existing full-time employees handling all duties.
Partner with other agencies/non-profits for economic development initiatives.	Current city investment in economic development is low. This would be a service level enhancement. Land-use availability to increase potential retail is minimal. Feasibility to have significant fiscal impact is impaired.
Implement cloud-based network infrastructure services to eliminate fiber optics infrastructure	Current fiber-optic infrastructure project approved by City Council allows for discounted cost of implementation as part of sewer main project by King County. Ongoing lease costs with other high-speed bandwidth providers versus city-owned fiber-optic would need to be evaluated. In our experience, fiber optic installation as part of a larger infrastructure project is typically lower cost than leasing services from third-party providers long-term.
Insource library services from King County Library System to city operated library	In our experience, city-owned library services are more expensive to operate than regional library systems given significant investment in lending assets, information systems, and facilities. Interlibrary agreements (ILA) at a cost to the City would need to be maintained to allow residents to obtain books from other jurisdictions without having to go to those libraries. Existing taxing structure to King County would need to be repealed and replaced with a City parcel tax. Detailed analysis would be required, including interest in King County Library to enter into an ILA.
Revenue Enhancements	
Increase fees for transportation benefit district from \$20 to \$40	No current or future impact on the General Fund.
Increase fees for facility use, special events, and recreation programs/summer camps	As a discrete strategy, potential fiscal impact would be less than \$50,000. Cost recovery should be studied (see Revenue Enhancements section in Attachment A).
Increase business license fees	Current business license fees total \$103,000 and are at par with other local agencies. Fiscal impact would not generate significant additional revenues, but any increase would add to General Fund resources.
Increase municipal court fees for concession hearings	Viable strategy, but increases would likely only generate less than \$10,000 annually.

Strategy Title and Description	Comments
Increase billing for emergency medical (basic life support) services to third-party insurance providers	Potential increase would be less than \$50,000 annually and may require collection agency involvement to enforce collection that would reduce potential revenue enhancements.
Increase technology fee on building permits from 3% to 5%	Increase would help with building permit tracking system maintenance/replacement costs, but a 2% increase in the rate of the fee would likely yield less than \$40,000 annually. Increasing this fee would not help address the General Fund deficits.
Charge parking fee at select parks	Luther Burbank Park and Island Crest Park would be the two parks with the greatest potential. However, parking fees net of collection equipment (e.g., kiosks) and enforcement would likely be less than \$50,000 annually and would likely be met with significant public resistance.
Service Level Reductions	
Reduce open space maintenance to focus on invasive vegetation maintenance	No current impact on the General Fund as costs are covered by REET funds.
Reduce sustainability support services to focus on legally mandated requirements	Current position is dedicated 40% to sustainability efforts, and 62.5% of that is funded by Utilities. Cost savings would be less than \$30,000.
Eliminate city-sponsored neighborhood watch events	This program was eliminated in April 2019.
Eliminate hospitality funding for Council meetings	Current costs are less than \$10,000 annually.
Eliminate or consolidate commissions except for those that are legally required (e.g., planning commission, civil service commission, disability board)	Current costs that could be avoided would be less than \$50,000 annually.
Reduce/eliminate travel and training costs and professional membership organizations	Current total costs for these two categories that are not otherwise contractually/legally required total less than \$50,000. Impact on recruitment and retention would need to be considered, as well as benefits derived from involvement in training and professional organizations.

Attachment B – Other Strategies Identified Not Specifically Analyzed

The table below summarizes additional strategies that were identified during our analysis that were either deemed to provide little or no significant fiscal impact (i.e., less than \$50,000 annually) to solve the General Fund’s structural deficit or were otherwise determined to be infeasible given the City’s current operating environment. City leaders would be encouraged to pursue these strategies, especially if the strategies incorporated in a proposed fiscal sustainability plan were not able to be implemented.

Other Budget Strategies Identified but Deemed to have Low Fiscal Impact or Otherwise Infeasible

Strategy Title and Description	Comments
Expenditure Controls/Cost Shifts	
Reduce/eliminate health benefits for part-time employees	Impacts eight part-time employees citywide, potential annual savings would be less than \$50,000. Benefits for part-time employees are already reduced. The insurance benefit for these employees is required by Washington State Law.
Reorganize parks/open space maintenance to report to Public Works	No significant savings would be generated as span of control for management/supervisory staff would increase from existing ratios that already exceed 8-to-1.
Shift costs of sports field maintenance to sports organizations	Staff have begun the analysis of fees being charged to all users, including the School District. Fiscal impact anticipated to be less than \$50,000 annually. Potentially significant pushback from community. Cost recovery should be studied (see Revenue Enhancements section in Attachment A).
Shift cost burden to maintain overgrown vegetation in the right-of-way on private property owners	Current incremental costs are less than \$50,000 annually. Would require possible ordinance change. Could possibly increase code compliance efforts and costs.
Charge third-party event sponsors for in-kind services (e.g., traffic management, barrier placement, etc.)	Fiscal impact anticipated to be less than \$25,000 annually. Cost recovery should be studied (see Revenue Enhancements section in Attachment A).
Develop long-term lease agreement for City Hall and move City operations into commercial leased space.	Finding another facility to lease at a lower cost than the City Hall facility could be leased would be unlikely.
Reduce City Council compensation	Current cost in total is \$20,000 per year. City Council is already lowest paid in King County. Changes would go into effect when each position turns over.
Service Delivery Changes	
Share/contract transportation planning services with other agencies	Bellevue and Redmond would be the only two likely contracting agencies. No reported capacity for each agency, and their cost of service delivery is higher than Mercer Island. Potential savings, if any, would be minimal.



Strategy Title and Description	Comments
Outsource IT help desk services to private service providers	Cost efficiencies based on current service level and in light of elimination of one help desk technician in Staff Recommended strategies would likely yield little or no additional savings given high cost of IT services from private enterprise. See Service Level Reduction strategies in Attachment A.
Contract municipal court services to another agency	Providing effective court services would require geographic proximity. King County, Kirkland and Issaquah are only other possible options. Capacity with existing facilities and staffing in other agencies is not currently available. Cost structure of those other agencies might likely increase costs of services. Further analysis would be required to determine viability.
Outsource human resources administration	Would require that labor relations/bargaining, recruitment, promotional testing, HR investigations/performance management and benefits administration be contracted to private parties/consultants or other agencies. Potential cost for contracting out may likely exceed current costs of the two existing full-time employees handling all duties.
Partner with other agencies/non-profits for economic development initiatives.	Current city investment in economic development is low. This would be a service level enhancement. Land-use availability to increase potential retail is minimal. Feasibility to have significant fiscal impact is impaired.
Implement cloud-based network infrastructure services to eliminate fiber optics infrastructure	Current fiber-optic infrastructure project approved by City Council allows for discounted cost of implementation as part of sewer main project by King County. Ongoing lease costs with other high-speed bandwidth providers versus city-owned fiber-optic would need to be evaluated. In our experience, fiber optic installation as part of a larger infrastructure project is typically lower cost than leasing services from third-party providers long-term.
Insource library services from King County Library System to city operated library	In our experience, city-owned library services are more expensive to operate than regional library systems given significant investment in lending assets, information systems, and facilities. Interlibrary agreements (ILA) at a cost to the City would need to be maintained to allow residents to obtain books from other jurisdictions without having to go to those libraries. Existing taxing structure to King County would need to be repealed and replaced with a City parcel tax. Detailed analysis would be required, including interest in King County Library to enter into an ILA.
Revenue Enhancements	
Increase fees for transportation benefit district from \$20 to \$40	No current or future impact on the General Fund.
Increase fees for facility use, special events, and recreation programs/summer camps	As a discrete strategy, potential fiscal impact would be less than \$50,000. Cost recovery should be studied (see Revenue Enhancements section in Attachment A).
Increase business license fees	Current business license fees total \$103,000 and are at par with other local agencies. Fiscal impact would not generate significant additional revenues, but any increase would add to General Fund resources.
Increase municipal court fees for concession hearings	Viable strategy, but increases would likely only generate less than \$10,000 annually.

Strategy Title and Description	Comments
Increase billing for emergency medical (basic life support) services to third-party insurance providers	Potential increase would be less than \$50,000 annually and may require collection agency involvement to enforce collection that would reduce potential revenue enhancements.
Increase technology fee on building permits from 3% to 5%	Increase would help with building permit tracking system maintenance/replacement costs, but a 2% increase in the rate of the fee would likely yield less than \$40,000 annually. Increasing this fee would not help address the General Fund deficits.
Charge parking fee at select parks	Luther Burbank Park and Island Crest Park would be the two parks with the greatest potential. However, parking fees net of collection equipment (e.g., kiosks) and enforcement would likely be less than \$50,000 annually and would likely be met with significant public resistance.
Service Level Reductions	
Reduce open space maintenance to focus on invasive vegetation maintenance	No current impact on the General Fund as costs are covered by REET funds.
Reduce sustainability support services to focus on legally mandated requirements	Current position is dedicated 40% to sustainability efforts, and 62.5% of that is funded by Utilities. Cost savings would be less than \$30,000.
Eliminate city-sponsored neighborhood watch events	This program was eliminated in April 2019.
Eliminate hospitality funding for Council meetings	Current costs are less than \$10,000 annually.
Eliminate or consolidate commissions except for those that are legally required (e.g., planning commission, civil service commission, disability board)	Current costs that could be avoided would be less than \$50,000 annually.
Reduce/eliminate travel and training costs and professional membership organizations	Current total costs for these two categories that are not otherwise contractually/legally required total less than \$50,000. Impact on recruitment and retention would need to be considered, as well as benefits derived from involvement in training and professional organizations.

Management Partners' Proposed Budget Scenarios

Management Partners prepared three scenarios for Council's consideration that address the fiscal gap. Each of the scenarios would allow the General Fund to maintain an appropriate level of reserves, eliminate the structural deficit by 2024, and ensure the viability of the City's operations throughout the period included in the fiscal model.

The three budget scenarios are provided as examples of the types of strategies that the Council could consider to address the long-term fiscal gap. They could choose any of these scenarios or develop alternative scenarios that include varying types of strategies to resolve the fiscal gap. The three scenarios employ different strategies and make assumptions with respect to the timing of implementing each strategy.

Scenario	Description
Baseline Scenario Before Budget Corrections	<ul style="list-style-type: none"> • Shortfall of \$4.8 million that would likely continue to grow beyond 2024 • Depleted reserves by FY 2023 • Assumes Parks M&O levy lid lift expires at the end of 2023 and is not renewed • Current staffing levels
Scenario 1 – Strong Revenue Enhancement Strategies	<ul style="list-style-type: none"> • Implement staff recommended deficit spending reductions approved by City Council in April 2019 • Renew Parks M&O levy lid lift by the end of 2023 • Implement a general purpose levy lid lift of 7.5% in 2021, with a 5% increase in each subsequent year through 2024 • Increase UUT rate on City-owned utilities to 8% in 2022 • Increase B&O tax from 0.10% to 0.15% in 2023 • Increase building/planning user fees to full cost recovery by 2023 • Implement additional ongoing General Fund expenditure reductions or other revenue enhancements totaling \$400,000 in 2024
Scenario 2 – Balanced Approach-- Moderate Revenues; Service Delivery Changes and Minor Service Level Reductions	<ul style="list-style-type: none"> • Implement staff recommended deficit spending reductions approved by City Council in April 2019 • Renew Parks M&O levy lid lift by the end of 2023 • Implement a general purpose levy lid lift of 5% in 2021, with a 2% increase in each subsequent year through 2024 • Increase UUT rate on City-owned utilities to 8% in 2022 • Increase building/planning user fees to full cost recovery by 2020 • Change one fire engine to EMS apparatus and staff with non-sworn personnel by 2022 • Implement shared services model for fire services by 2023 • Contract police services with KCSO by 2023 • Implement additional ongoing General Fund expenditure reductions or other revenue enhancements totaling \$475,000 in 2024

Scenario	Description
<p>Scenario 3 – Strong Operating Expenditure and Service Level Reductions; Parks M&O Measure Renewed</p>	<ul style="list-style-type: none"> • Implement staff recommended deficit spending reductions approved by City Council in April 2019 • Renew Parks M&O levy lid lift by 2024 • Reduce parks landscaping in 2020 • Eliminate one fire station by 2022 • Reduce law enforcement specialized services by 2022 • Implement additional <i>ongoing</i> General Fund expenditure reductions totaling \$1.1 million 2023, and an additional \$600,000 in 2024



MEMORANDUM

2019 City Council Mid-Year Planning Session

TO: City Council

FROM: Jessi Bon, Interim City Manager

RE: School-Based Mental Health Services Pilot Program

This memo provides an update on the School-Based Mental Health Services Billing Pilot Program and recommends this pilot project no longer be pursued.

BACKGROUND

At the January 2019 City Council Planning session all of the City Departments were asked to present a list of revenue enhancement and expenditure reduction scenarios for consideration by the City Council. The purpose was to identify a menu of options to address the long-term structural deficit in the General Fund.

The Youth and Family Services Department (YFS) presented a pilot project option to implement billing for school-based mental health services. The preliminary analysis indicated that this would require each school counselor to provide approximately three fee-based counseling sessions as part of every workday. It was anticipated that the pilot project would be implemented in 2020 with the goal of collecting \$109,000 to address the revenue shortfall. The Council agreed with the pilot project and asked for regular updates on the project. They also requested that staff explore other long-term revenue enhancement/expenditure reduction scenarios in the event the revenues from the pilot project did not meet projections.

This pilot project to implement billing for school-based mental health services was formally approved by the City Council at the April 30, 2019 meeting as part of the goal to eliminate the General Fund's 2020 annual funding contribution to the YFS Fund of \$309,000. To accomplish this, the Council approved the following 2020 budget adjustments to the YFS Fund on May 21, 2019:

1. Increasing community-based counseling fees by \$15,000
2. Generating \$109,000 in revenue from the proposed school counseling fees (pilot project)
3. Eliminating the Administrative Coordinator (1.0 FTE), which represents \$100,000 in cost savings
4. Eliminating the pay-for-performance program, which represents \$63,834 in cost savings

5. Adding back the Administrative Assistant (0.5 FTE) that was cut in 2019-2020, which costs \$33,887 in 2020
6. Using \$55,053 of 2018 YFS Fund budget savings and Thrift Shop revenue surplus

In order to be prepared for billing in the schools by January 1, 2020, the Department immediately began researching the logistics and needs to implement the pilot project in fall 2019.

RECOMMENDATION

Since the City Council meeting on April 30, staff have explored the potential of implementing a billing pilot program for the school-based mental health service counselors. It has become clear that collecting fees in the school setting poses several clinical and administrative challenges and the recommendation is to forego the pilot project for the following reasons:

- Establishing a school-based billing program will require a significant administrative investment. The one-time set-up costs and the ongoing overhead costs were not fully vetted when the project was proposed. Given this additional overhead, it is unlikely the \$109,000 net revenue projection would be met.
- The pilot project significantly changes the mental-health services model in the schools. Currently, counselors are available for classroom support, parent/teacher consultations, school-wide presentation, emergency response and more. The pilot project will shift counselor time to an individual “fee-for-service” focus for half of their day, taking away from other critical services. Many parents have expressed their opposition to any change to the current service model.
- There are potential equity management issues in determining when to bill and not to bill.

In hindsight, researching the viability of this pilot program before presenting it as a possible revenue source would have been beneficial. Staff made an error in bringing this forward as a feasible option before it was fully vetted.

NEXT STEPS

For the 2019-2020 fiscal year, the following funding sources have been identified to close the \$109,000 funding gap:

1. **2019 Thrift Shop Net Income:** This is projected to be about \$60,000 higher than what is budgeted in 2019 as a result of the Council approved Thrift Shop staffing model changes in 2018 and 2019.
2. **MIYFS Foundation:** The Foundation is offering the City up to \$109,000 from donor-designated gifts to maintain dedicated school-based mental health counselors. These funds had originally been offered to the City to fund the elimination of two elementary

school counselors for 2019-2020. In April, the Council funded these positions from 2018 YFS Fund Budget Savings and Thrift Shop sales and turned down the Foundation's offer of funds. These funds are now available to fund the current service model.

Should the Council concur with the Department's recommendation, a budget amending ordinance with these changes will be brought to the Council as part of the Second Quarter 2019 Financial Status Report on September 3, 2019.

In addition, YFS will continue to work with the City Manager to identify a long-term fiscal plan for the YFS Department.