



Joint Statement of the Mercer Island Youth & Family Services Foundation and the Mercer Island Schools Foundation

The Mercer Island Youth and Family Services Foundation and the Mercer Island Schools Foundation are grateful for our community's commitment to the social emotional wellness of our children.

Our two Foundations have agreed to partner in raising short term funding targeted to reinstate the single elementary school mental health counselor slated for cuts in the 2019 city budget through the end of the 2019-2020 school year. We do so with the hope and expectation that the City will work productively with a group of Mercer Island citizens that are studying potential solutions for long term sustainable funding in 2020 and beyond.

We commit this emergency stop gap funding to provide services for which our residents have voiced loud support. We expect that once a long term funding structure for school based counselors is in place, each of the MIYFS Foundation and the Mercer Island Schools Foundation can refocus all efforts on supporting their core missions, respectively, of supporting the gamut of social services offered by the MIYFS Department and the educational services provided by the school district.

April 4, 2019



Youth in High Achieving Schools: MI Findings
Spring 2019



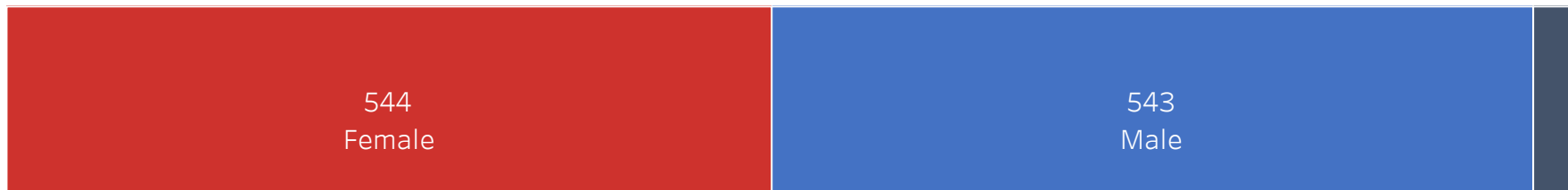
How do NW_Pub1_19 students fare relative to other High Achieving Schools?

Areas of personal adjustment explored:

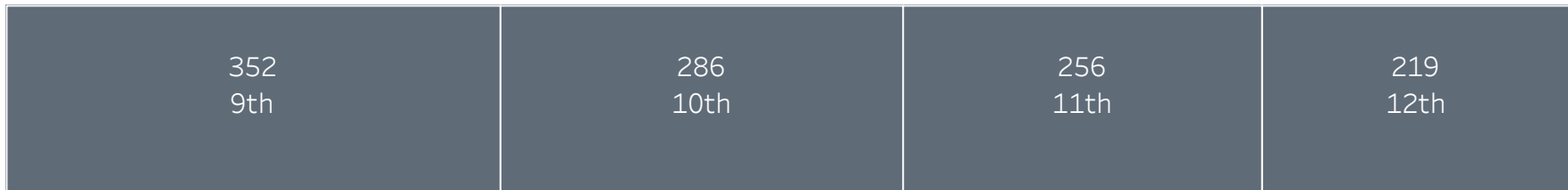
- Substance use
- Adjustment difficulties:
 - Anxiety, Depression, Rule Breaking
- Positive attributes
 - Empathy, Prosocial reputations, Integrity, Self-Compassion

This dashboard shows demographic information for students who responded to the survey.

Gender



Grade

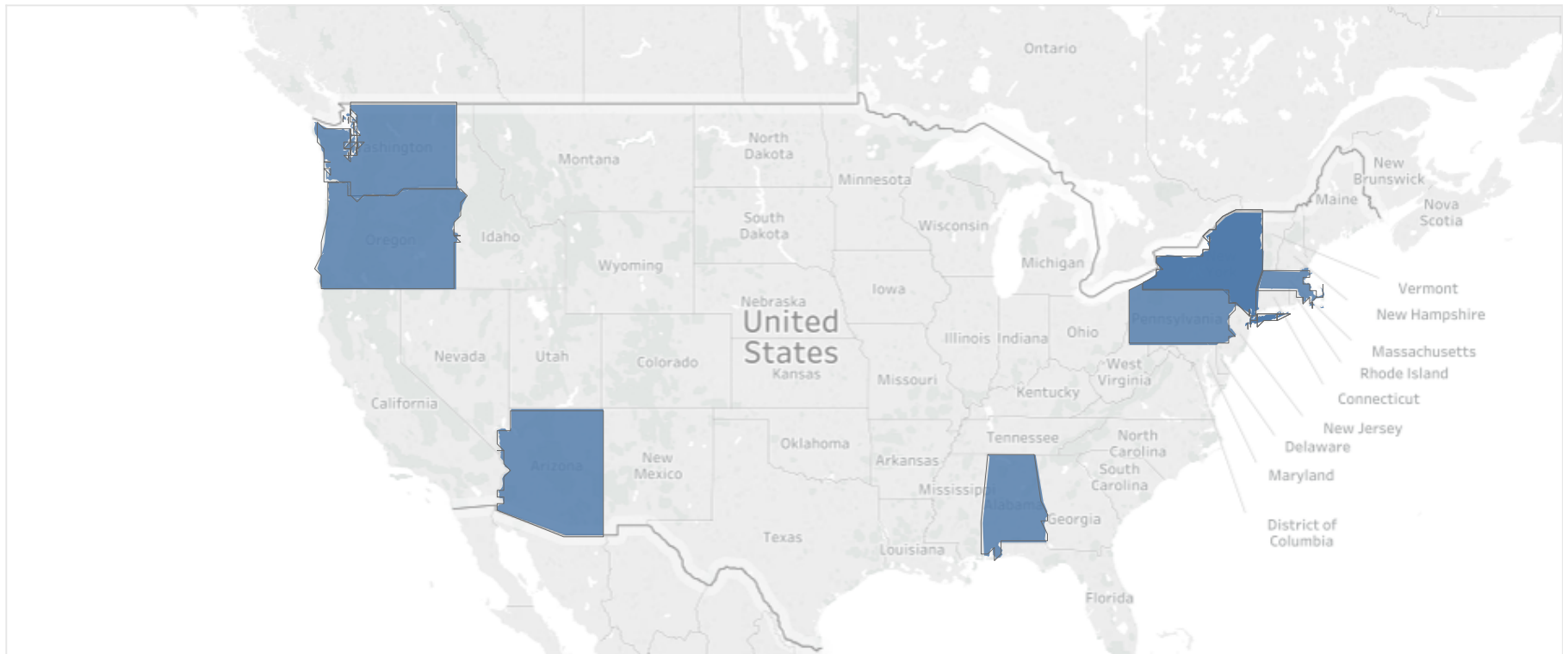


Race

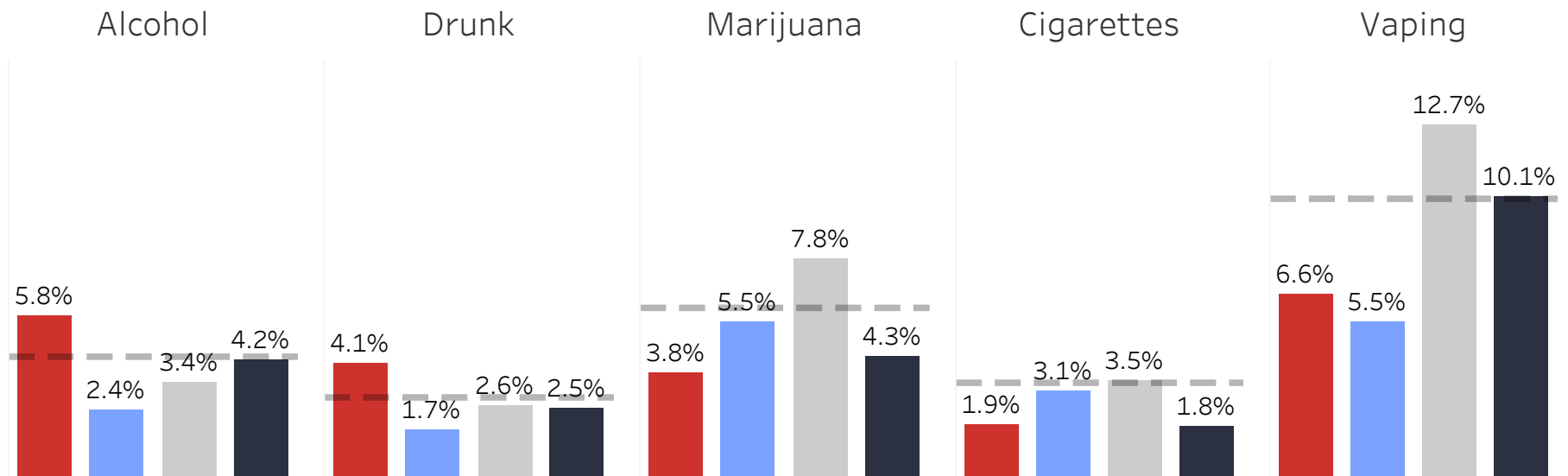


Number of Students
5,603

Data Locations

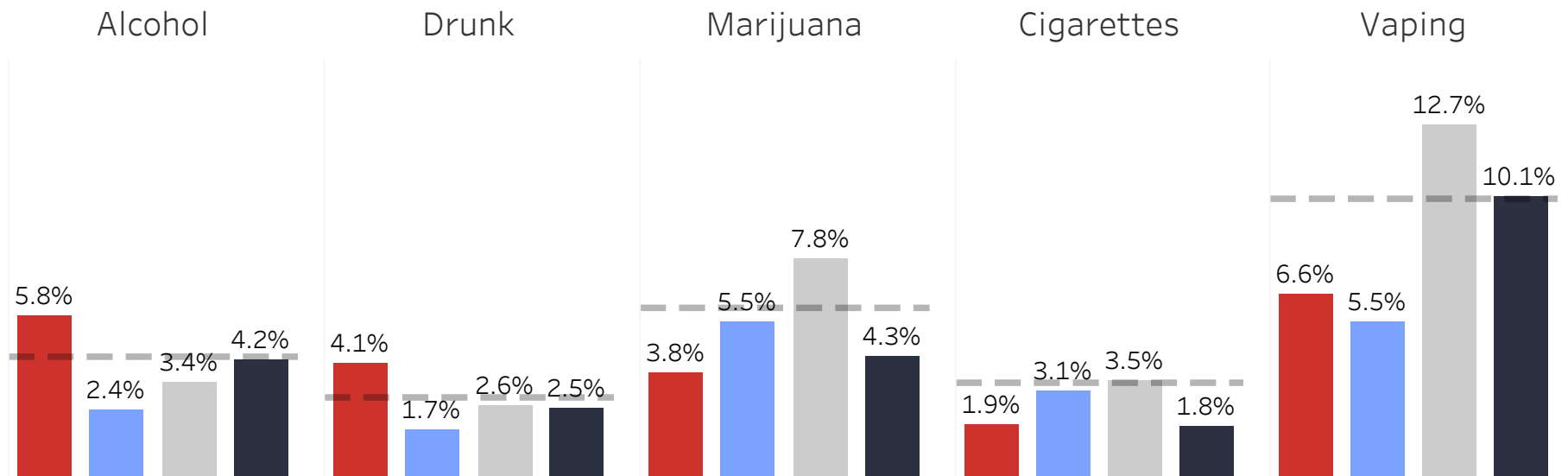


School Code ■ NE_Pub5_19 ■ NW_Ind1_19 ■ SW_Pub_1_19 ■ NW_Pub1_19



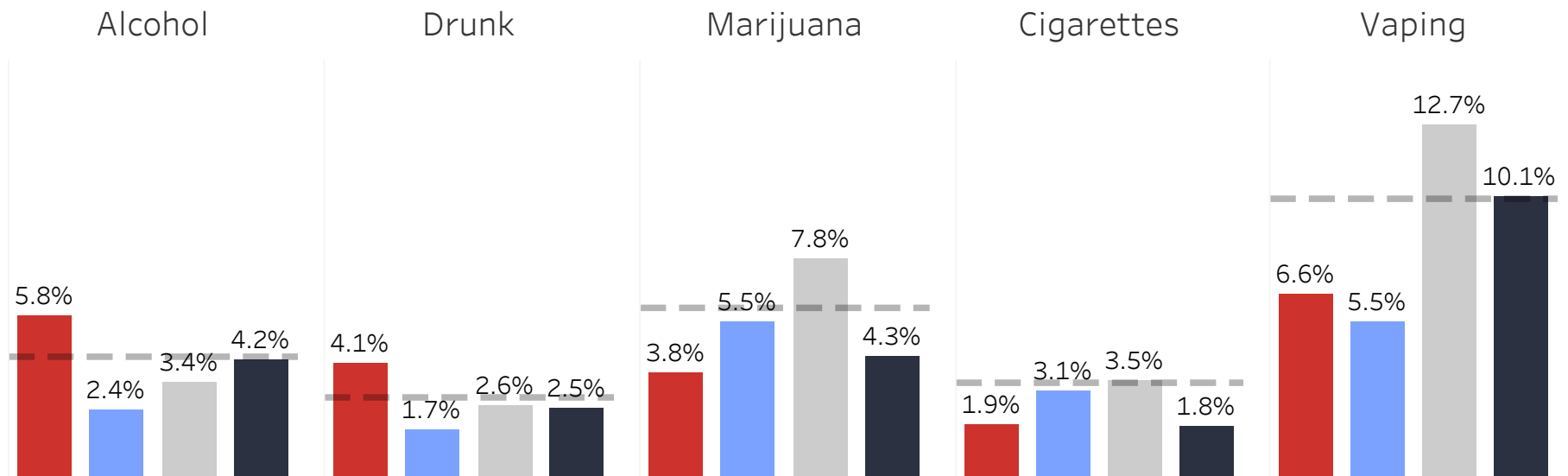
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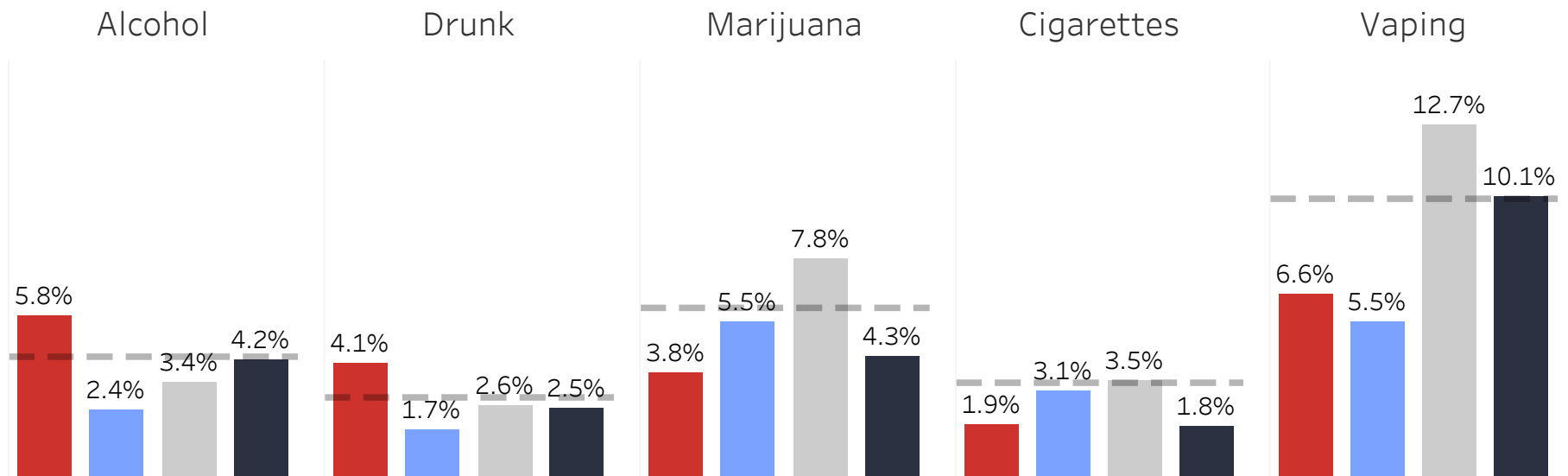
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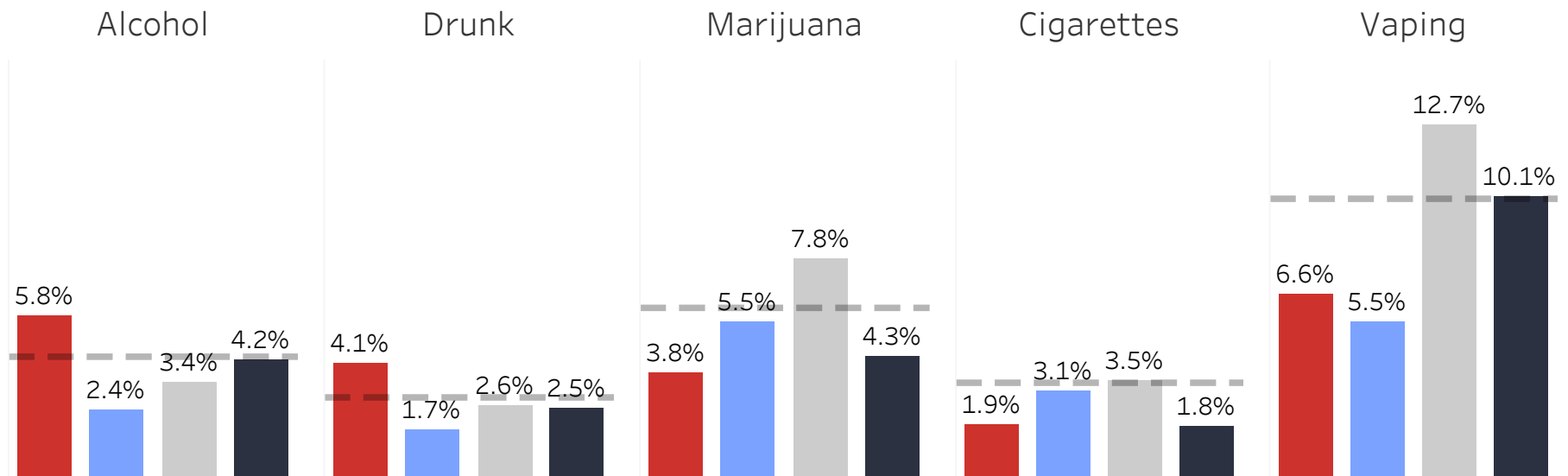
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- On Marijuana, NW_Pub1_19 is lower than the HAS population

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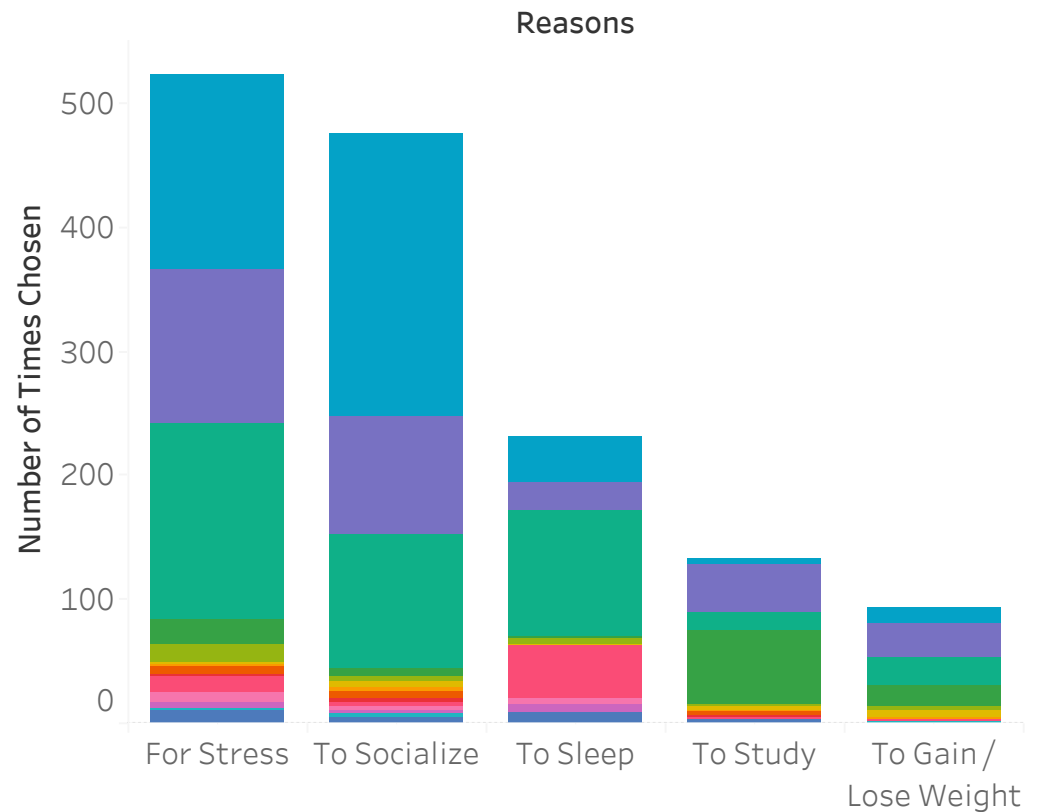
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- On Cigarettes, NW_Pub1_19 is lower than the HAS student population
- On Vaping, NW_Pub1_19 is similar to the HAS student population

This dashboard shows the reasons that students abuse substances. The possible reasons are

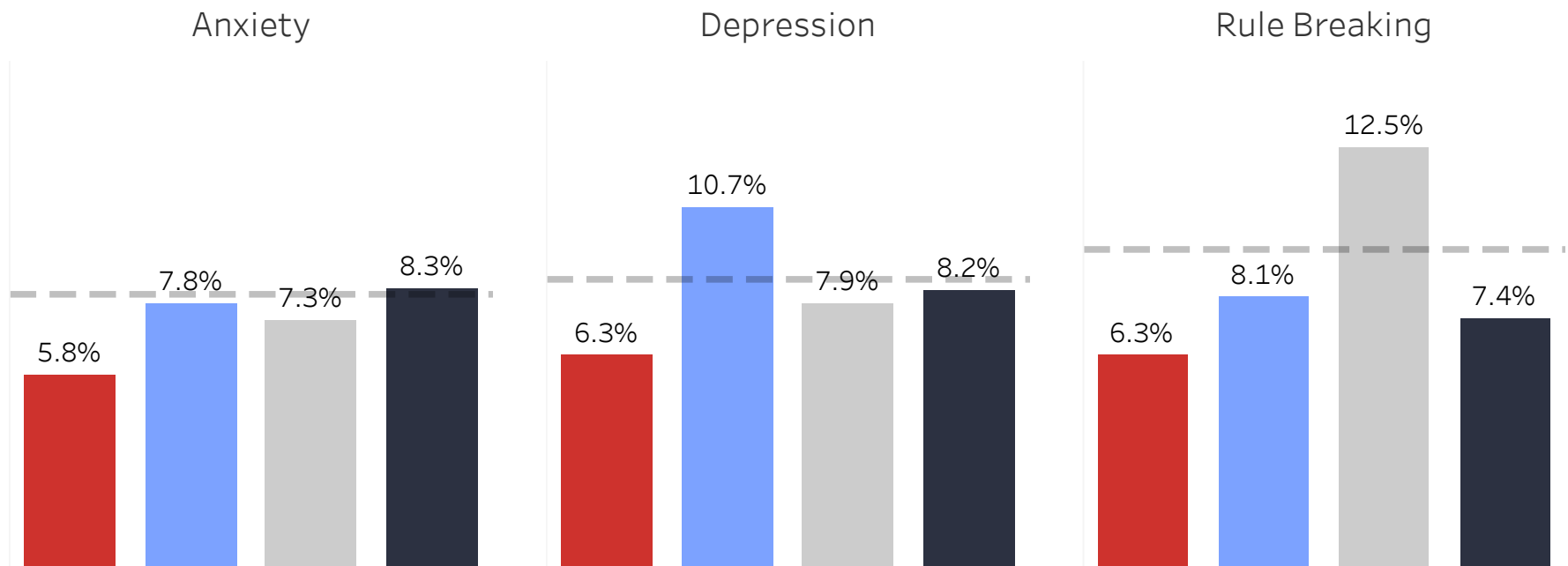
- Stress: "helps me to relax / deal with stress"
- Socialize: "helps me fit in socially or feel comfortable with other kids"
- Study: "helps me study"
- Sleep: "helps me sleep"
- Weight: "helps me gain or lose weight"

Substance

- Alcohol
- Vaporizer (E-cigs, JUUL)
- Marijuana
- Stimulants (Ritalin, Adderall)
- Cigarettes
- Cocaine
- Heroin
- LSD (acid) / psychedelics / mushrooms
- MDMA (Ecstasy, Molly) / Club Drugs (Special K)
- Over the counter drugs (NyQuil, Robitussin)
- Painkillers (OxyContin, Vicodin)
- Sedatives (Barbiturates) / "Downers"
- Smokeless (chewing) tobacco
- Tranquilizers (Valium, Xanax)

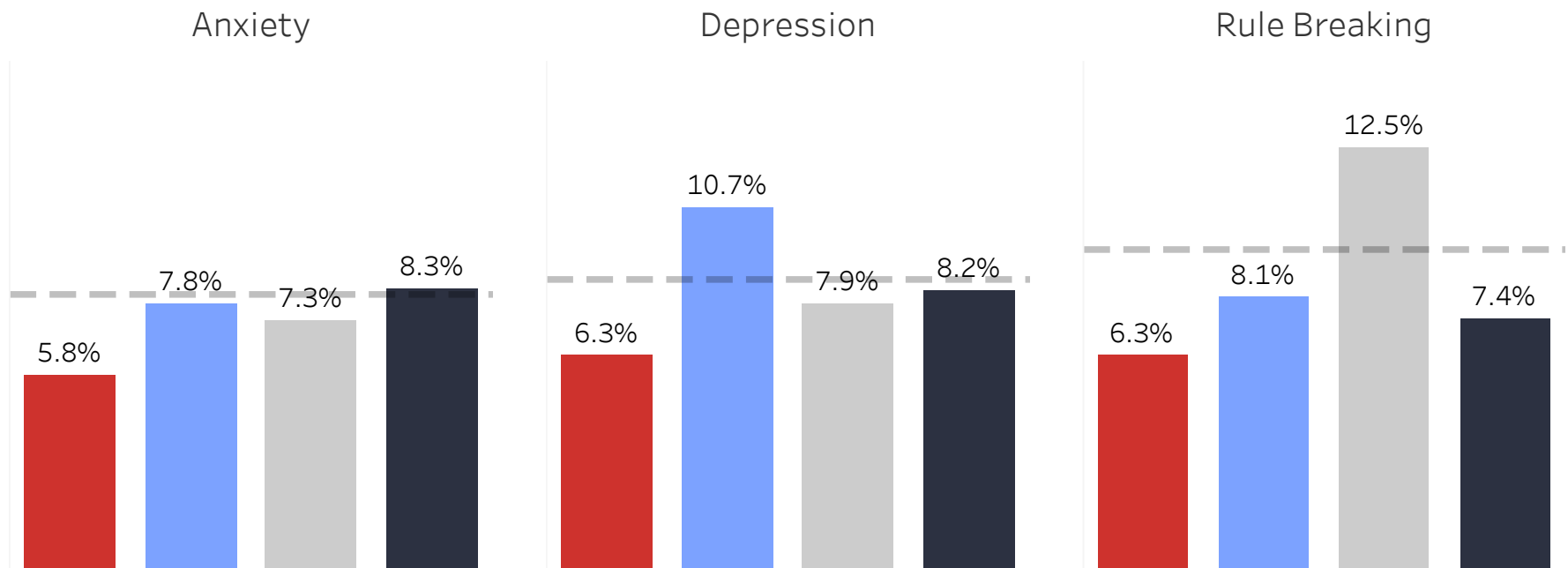


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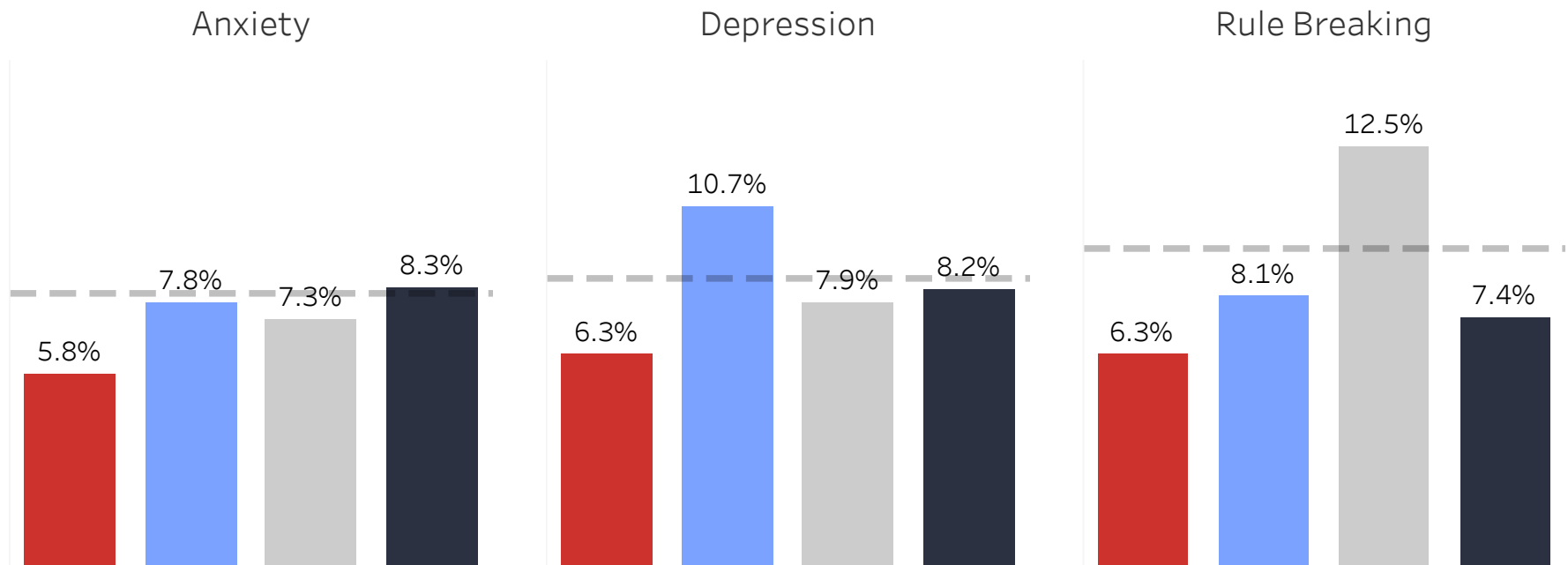
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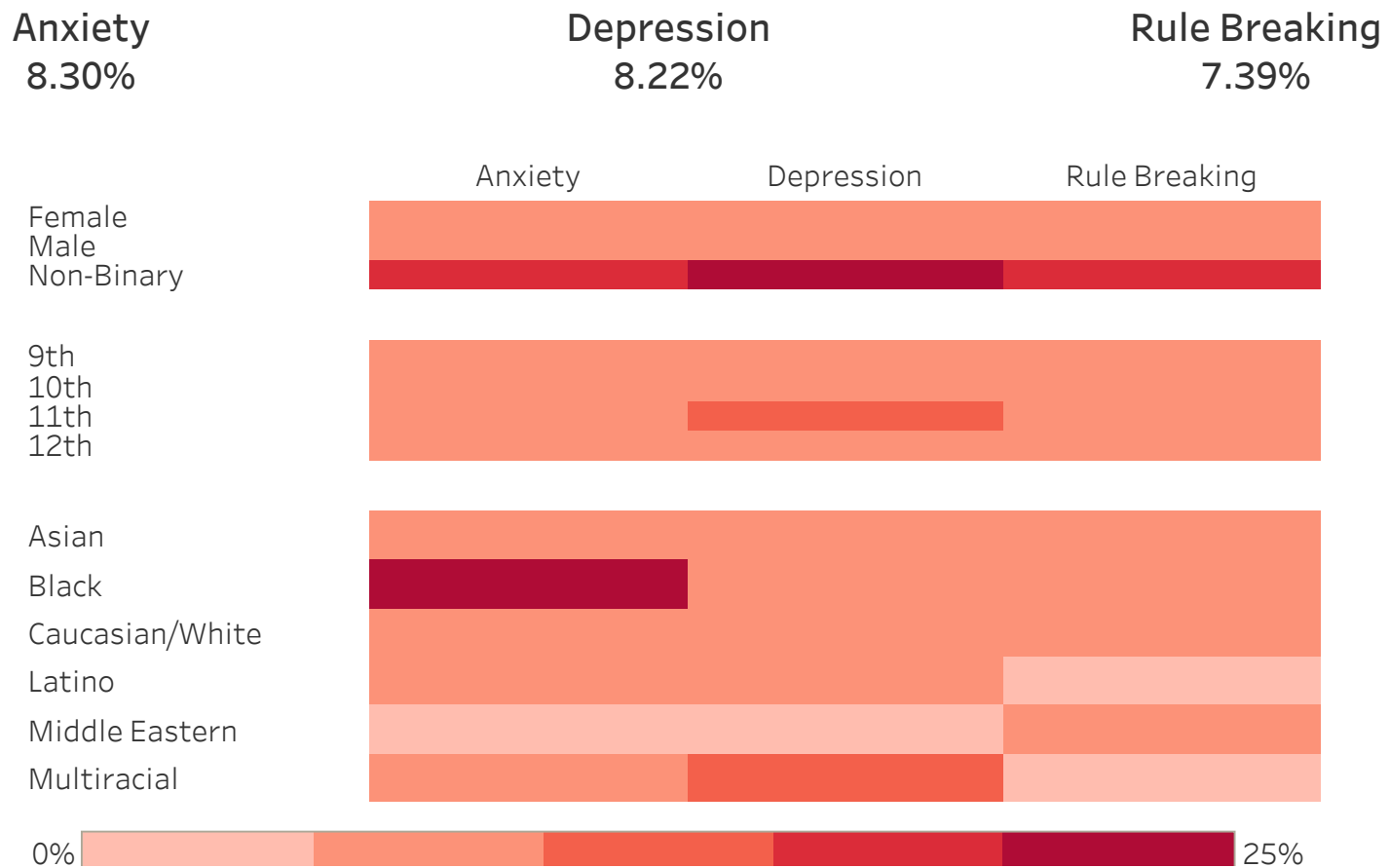
- On Anxiety, NW_Pub1_19 is similar to the HAS student population
- On Depression, NW_Pub1_19 is similar to the HAS student population

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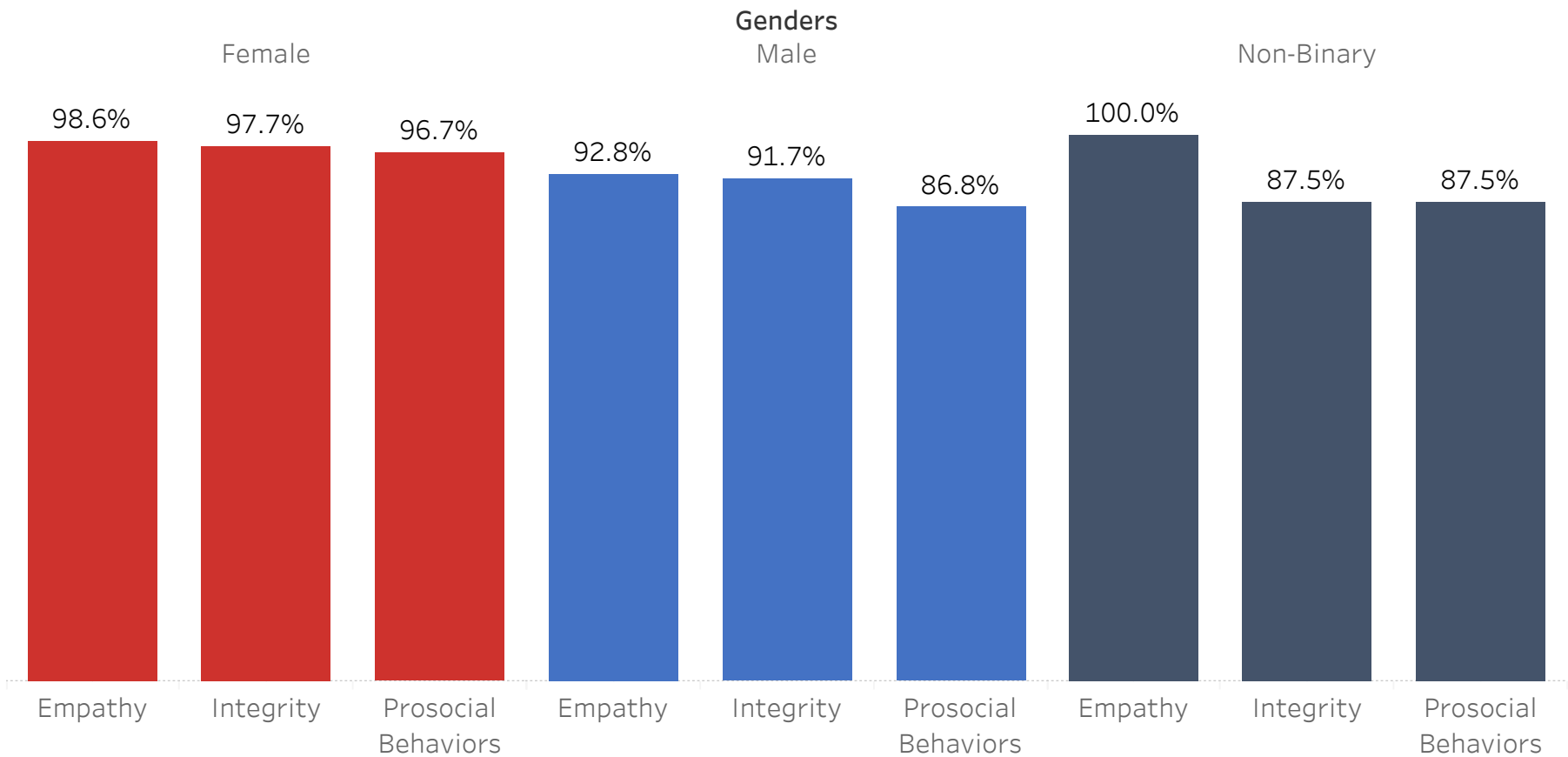


- On Anxiety, NW_Pub1_19 is similar to the HAS student population
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- On Rule Breaking, NW_Pub1_19 is lower than the HAS population

This dashboard shows percentages of students with serious symptoms relative to High Achieving Schools (HAS) norms. The top numbers show percentages across the entire school, while the lower charts display percentages by gender, grade, and ethnicity. Hovering over the boxes will show the percentage of students showing clinically significant levels of psychological difficulty.



This dashboard shows the percentage of students who have **high levels** of positive attributes (integrity, empathy, and prosocial behaviors)



How do NW_Pub1_19 students fare relative to other High Achieving Schools on common risk and protective factors?

- Parent-child relationships
 - Parent attachment
 - Parent criticism
 - Parent expectations
 - Containment of errant behaviors
- Peer relationships
 - Support from friends
 - Conflict with friends
 - Peer victimization
 - Social media use
 - Envious of friends
- School climate dimensions
 - Respectful/Fair climate
 - Caring adult or teacher
 - Parent community involvement
 - Leadership/Student voice
 - Diversity
 - Positive peer climate
 - Bullying
 - Teacher alienation
 - Academic status expectations

This chart shows the predictor variables for four Dimensions: Parents, Peers, Pressure, and School Climate.

Dimension

Parent

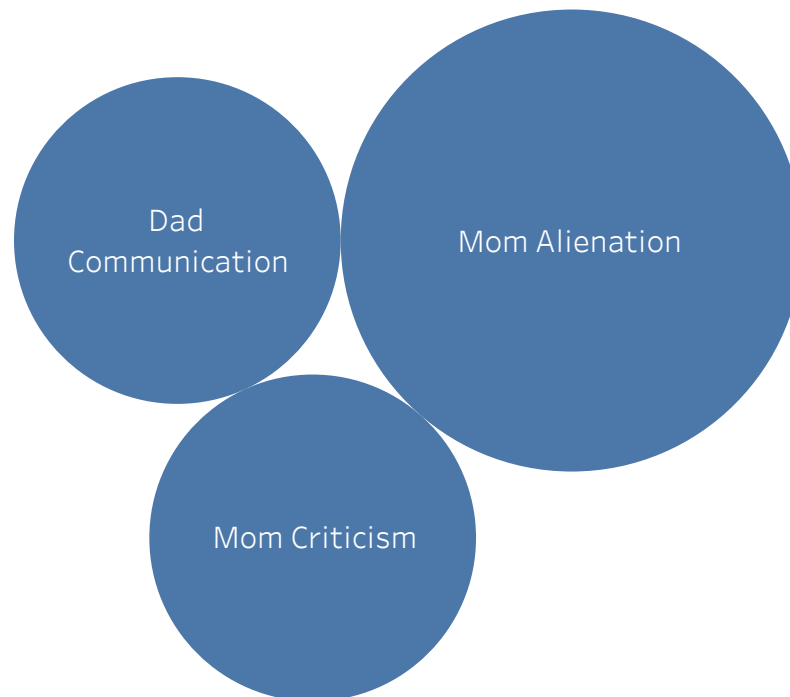
Parent Dimensions Examined

- Dad Alienation
- Dad Communication
- Dad Criticism
- Dad Expectations
- Dad Trust
- Mom Alienation
- Mom Communication
- Mom Criticism
- Mom Expectations
- Mom Trust

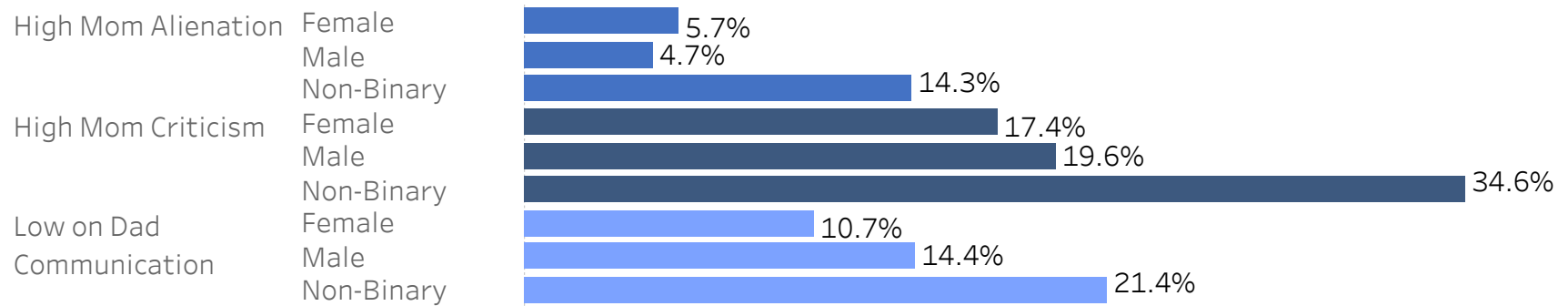
In / Out Top 3 Important Variables
Top 3 Variables
Parent Dimensions

Parent

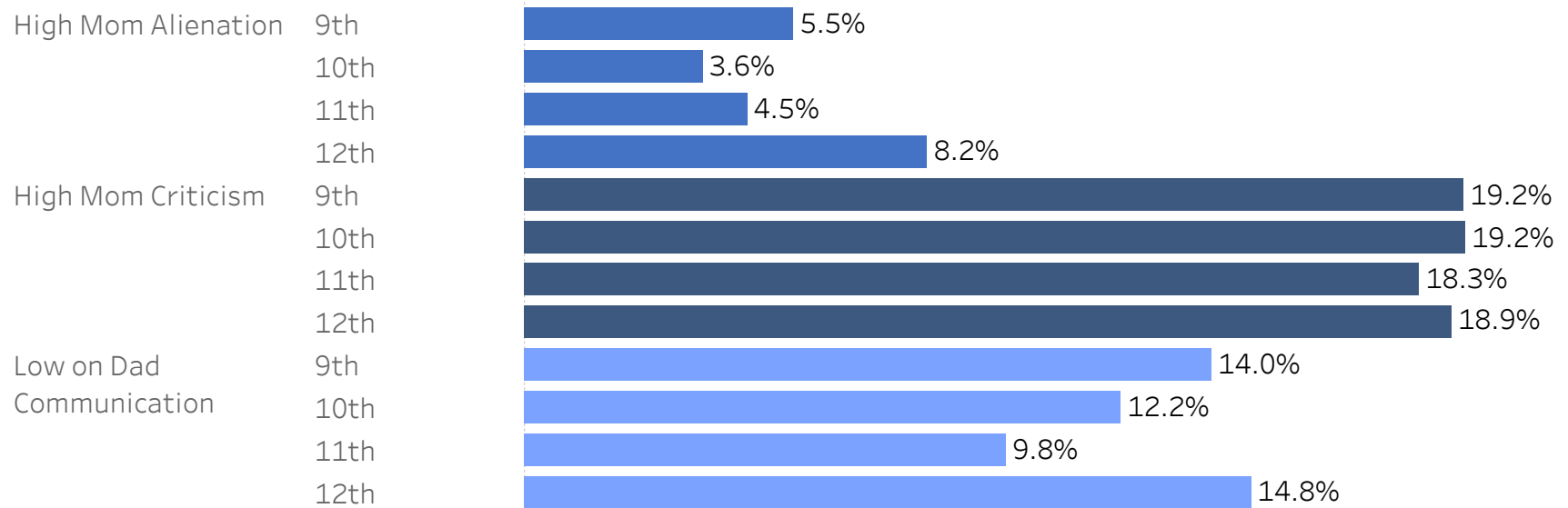
Dimension



These graphs show the percentage of students in the "red zone" on the most important parent variables.



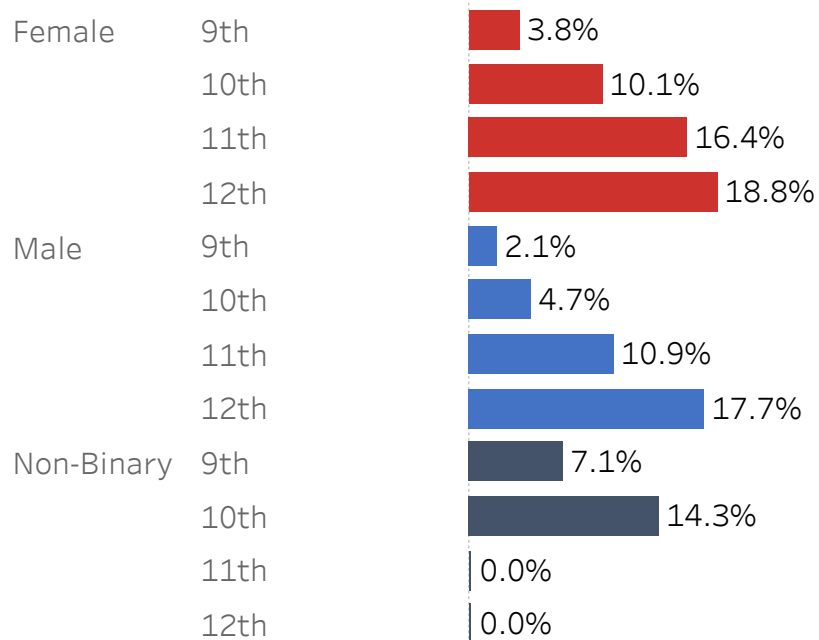
These graphs show the percentage of students in the "red zone" on the most important parent variables.



This dashboard shows levels of parent containment, or levels of perceived repercussions for errant behaviors



Low Drug Containment



This chart shows the predictor variables for four Dimensions: Parents, Peers, Pressure, and School Climate.

Dimension

Peer

Peer Dimensions Examined

- Negative Social Media
- Peer Sexual Harassment
- SM Freq (No Texting)
- Social Media Comparisons
- Social Media Freq
- Victimization

In / Out Top 3 Important Variables
Top 3 Variables
Peer Dimensions

Peer

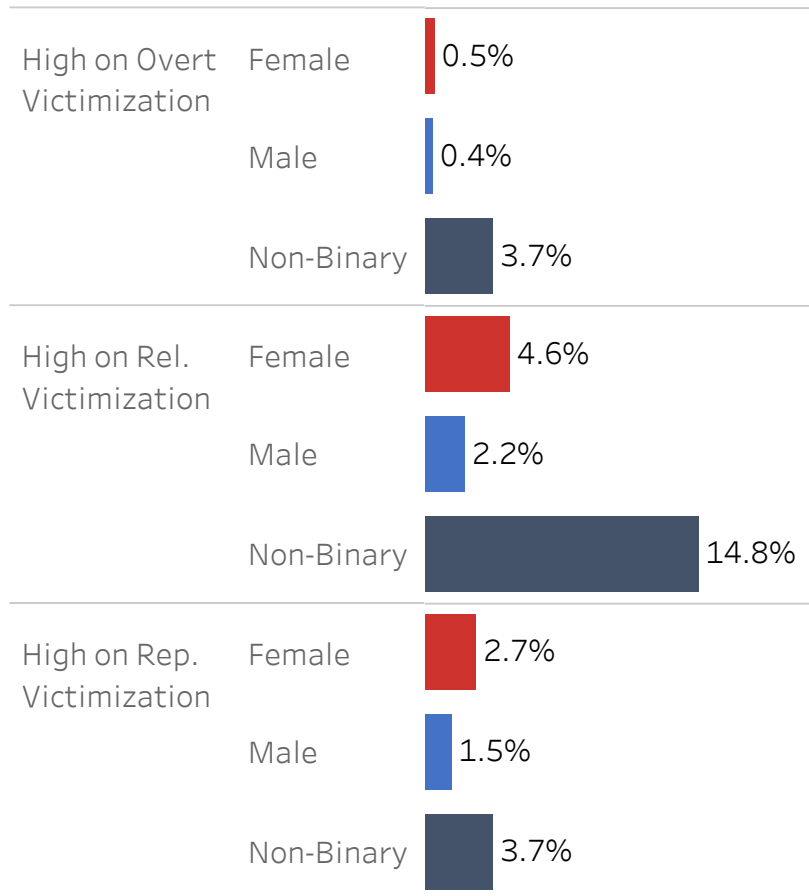
Dimension



Grades
All

This dashboard shows the percentage of students in the "red zone" on peer variables. Hovering over a gender will highlight it in all graphs. The dashboard can be filtered by grade.

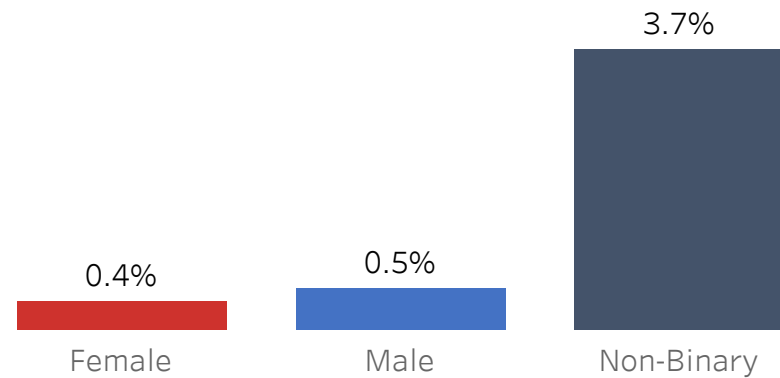
Victimization



Grades
All

This dashboard shows the percentage of students in the "red zone" on peer variables. Hovering over a gender will highlight it in all graphs. The dashboard can be filtered by grade.

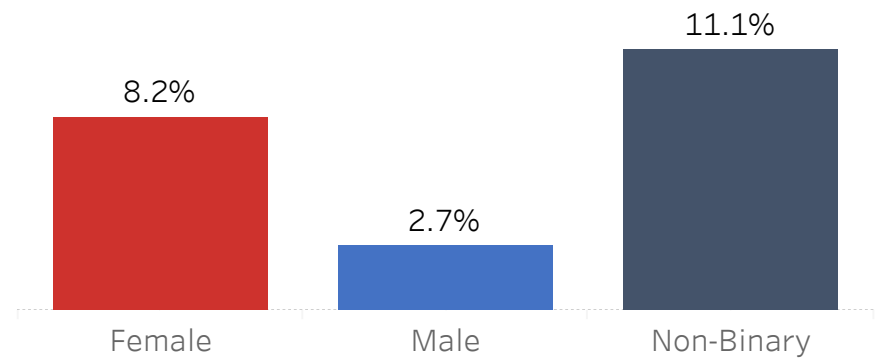
Sexual Harassment



Grades
All

This dashboard shows the percentage of students in the "red zone" on peer variables. Hovering over a gender will highlight it in all graphs. The dashboard can be filtered by grade.

Social Media Comparisons

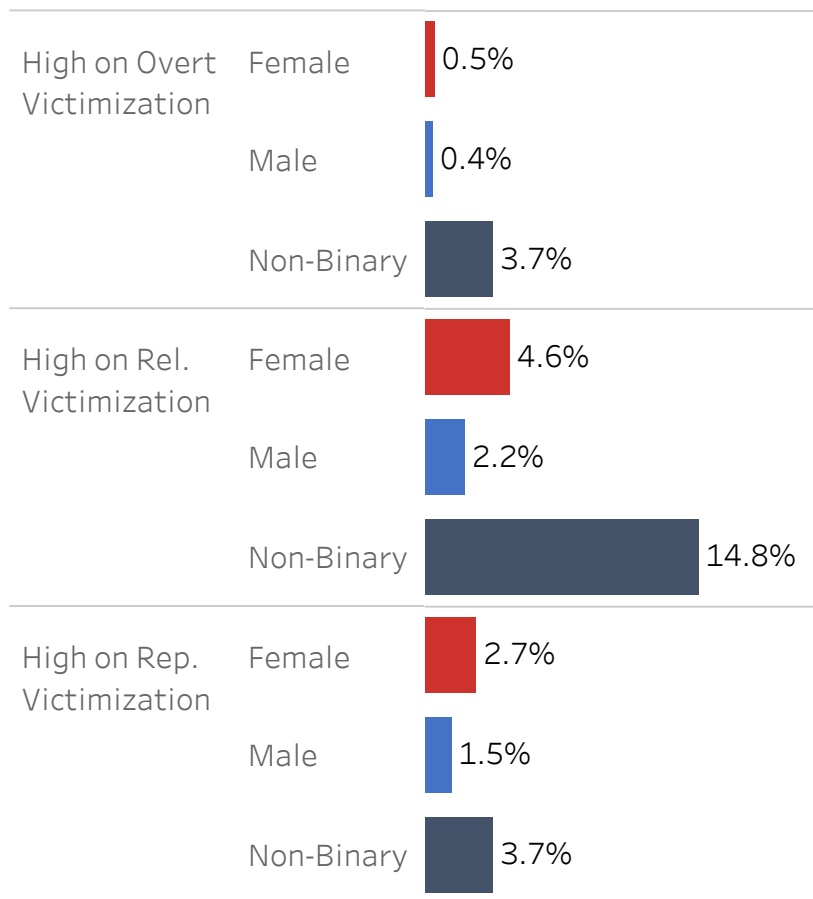


Grades

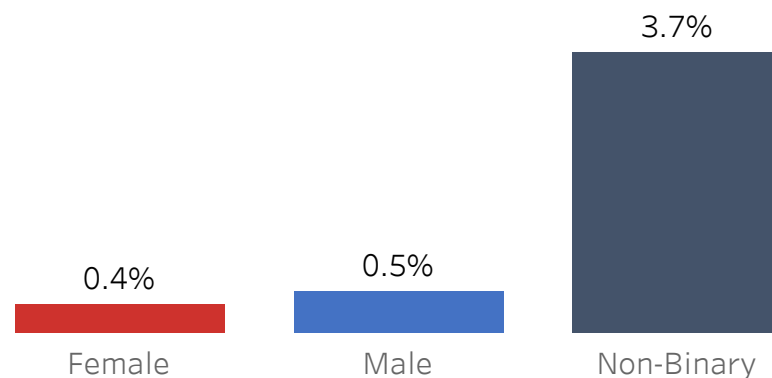
All

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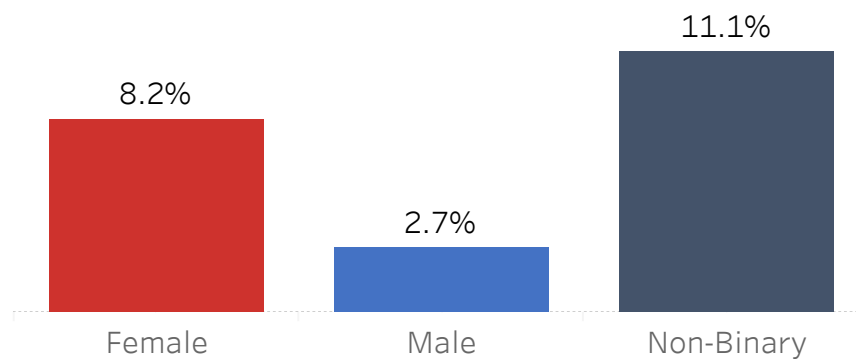
Victimization



Sexual Harassment



Social Media Comparisons



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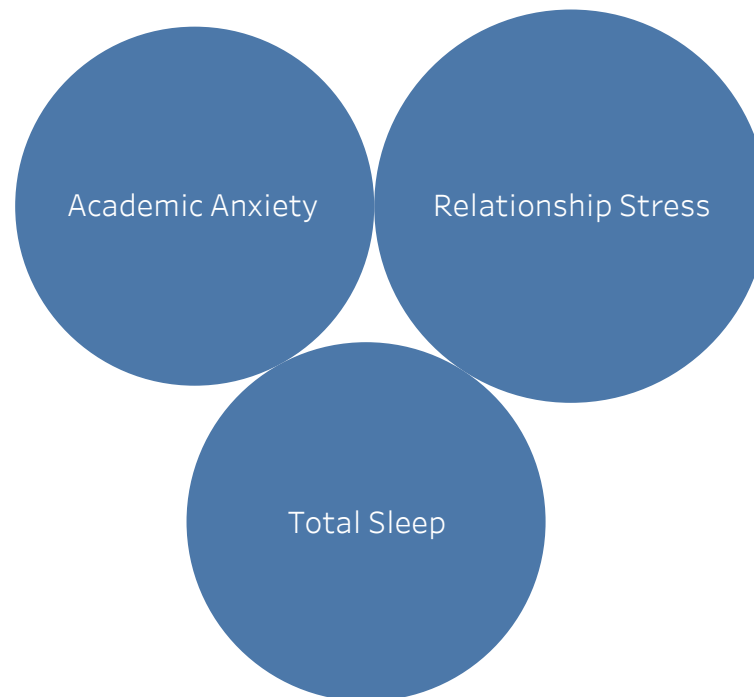
Dimension

Pressure

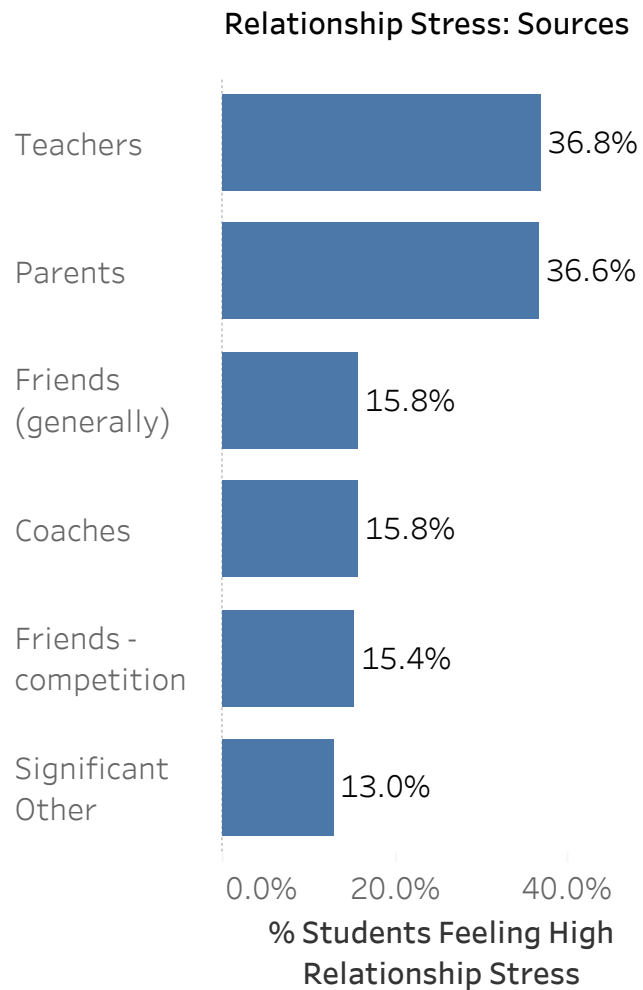
Pressure Dimensions Examined

- Academic Anxiety
- Academic Pressure
- Relationship Stress
- Time on HW
- Time Pressure
- Total Sleep

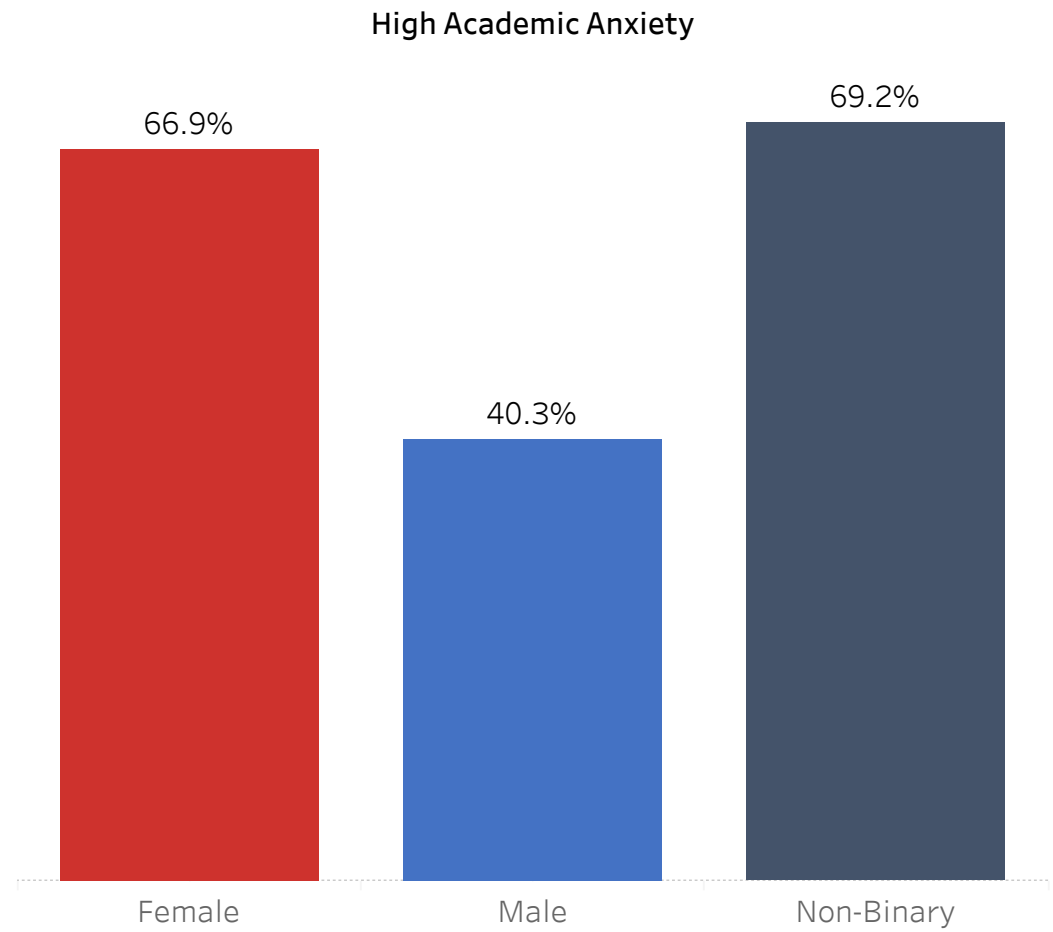
In / Out Top 3 Important Variables
Top 3 Variables
Pressure
Dimension
Pressure Dimensions



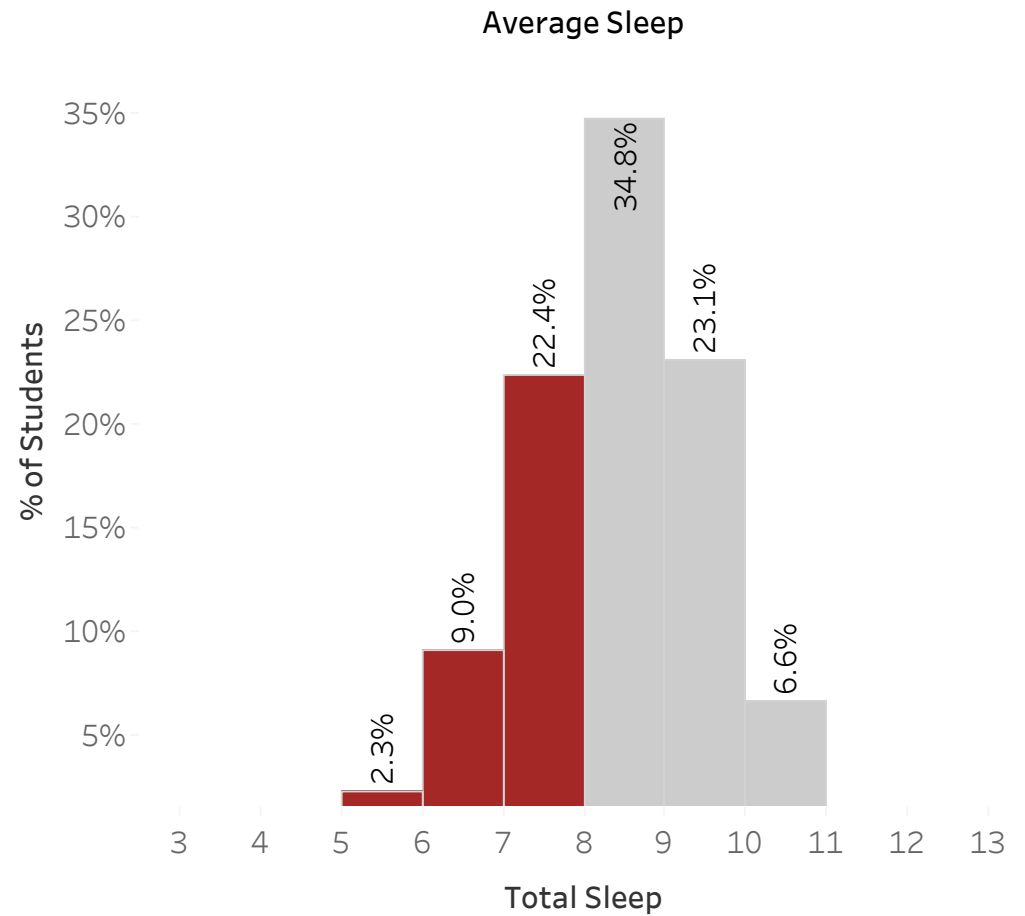
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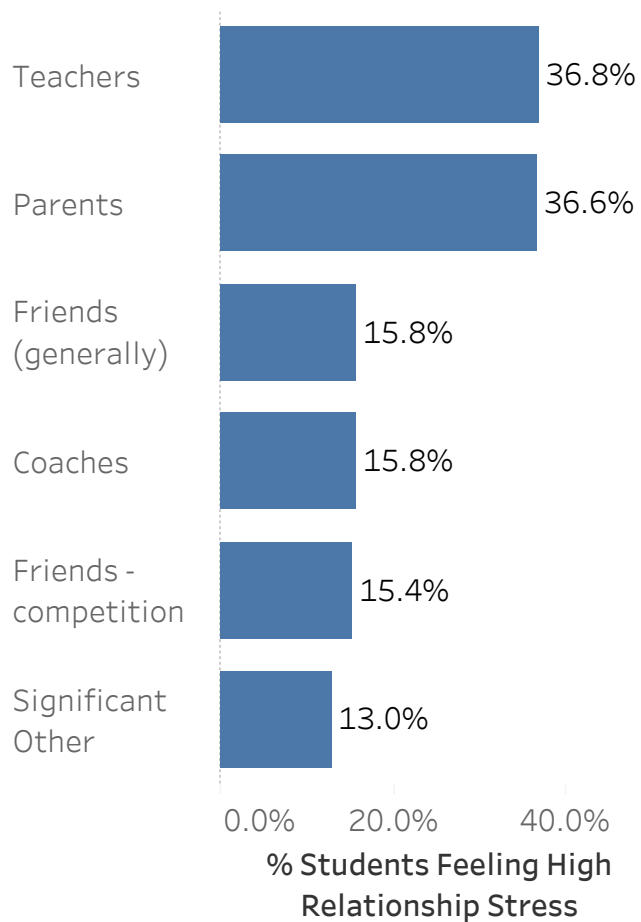


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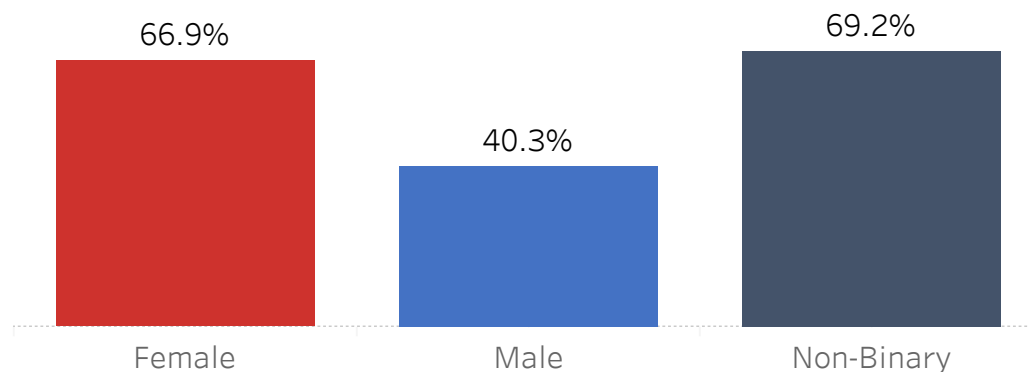


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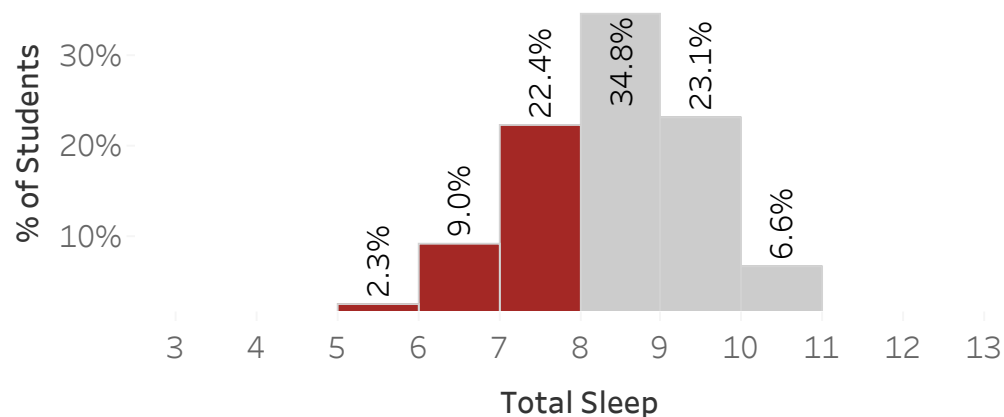
Relationship Stress: Sources



High Academic Anxiety



Average Sleep



School Code

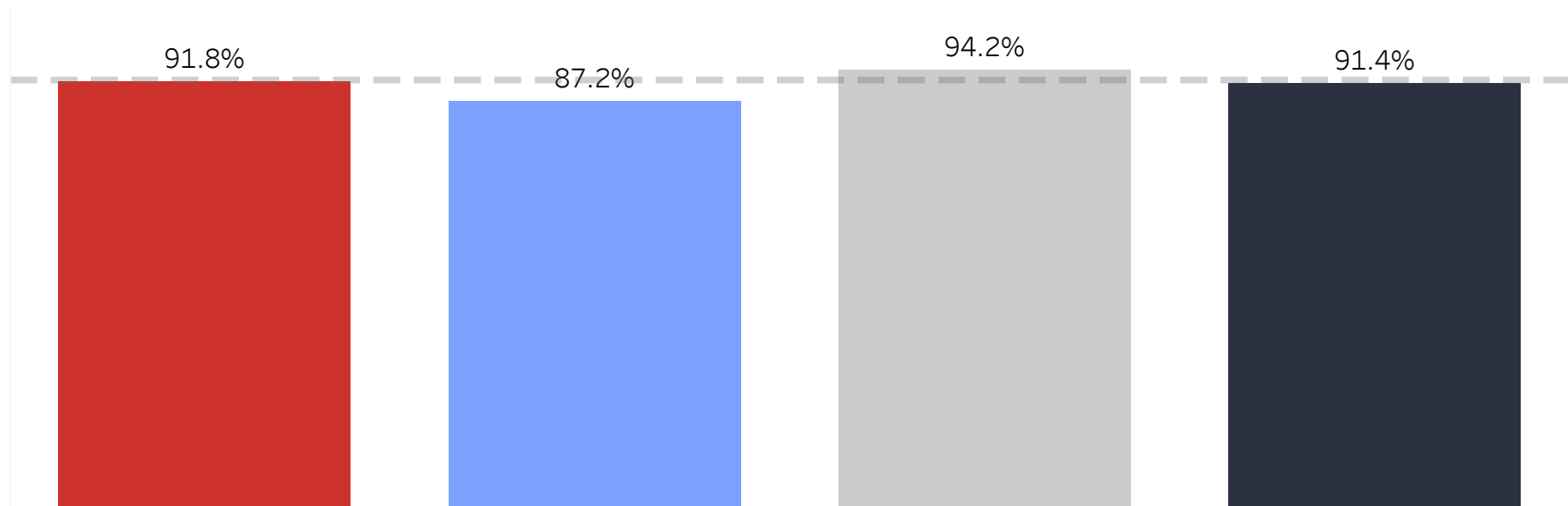
■ NE_Pub5_19

■ NW_Ind1_19

■ SW_Pub_1_19

■ NW_Pub1_19

Positive School Climate



- On School Climate, NW_Pub1_19 is similar to the HAS student population

This chart shows the predictor variables for four Dimensions: Parents, Peers, Pressure, and School Climate.

Dimension

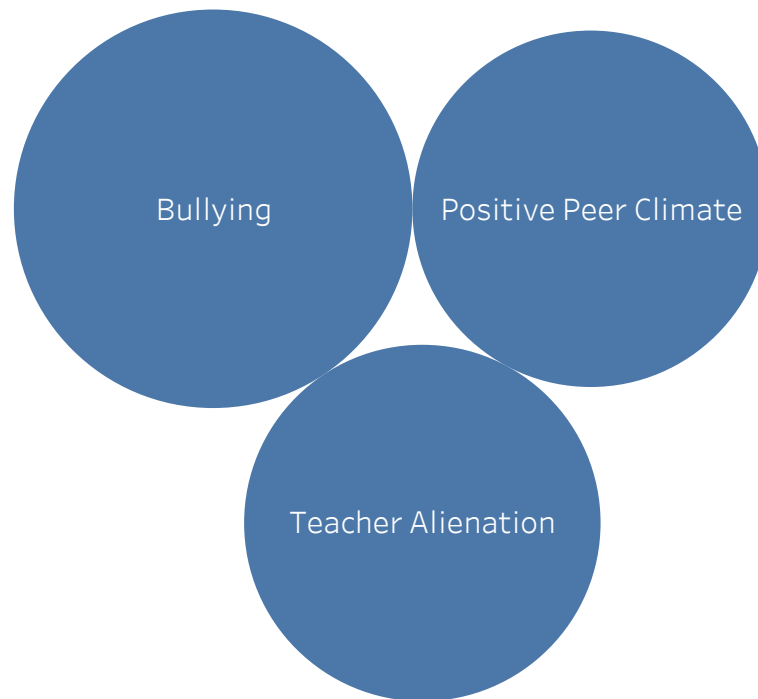
School Climate

School Climate Dimensions Examined

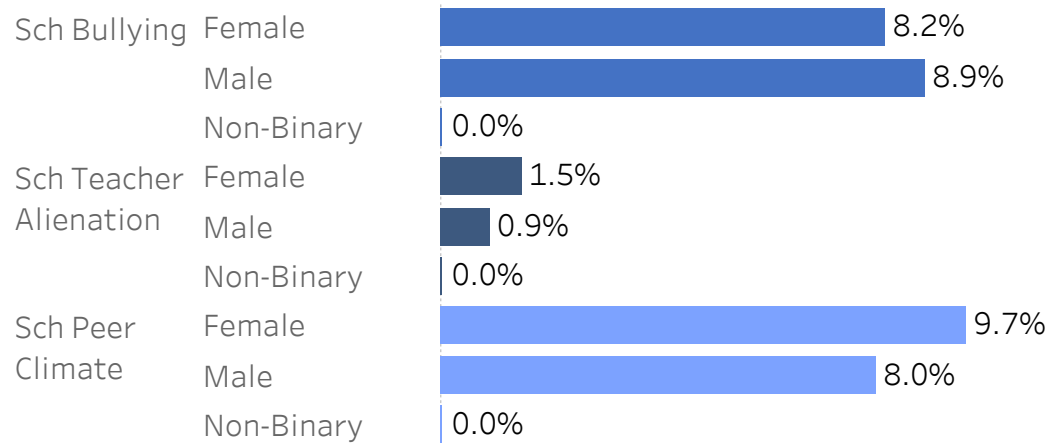
- Bullying
- Caring Adult
- Diversity
- Fairness
- Parent-Community Involvement
- Positive Peer Climate
- Status Expectations
- Student Voice
- Teacher Alienation
- Teacher Support

In / Out Top 3 Important Variables Dimension
Top 3 Variables School Climate

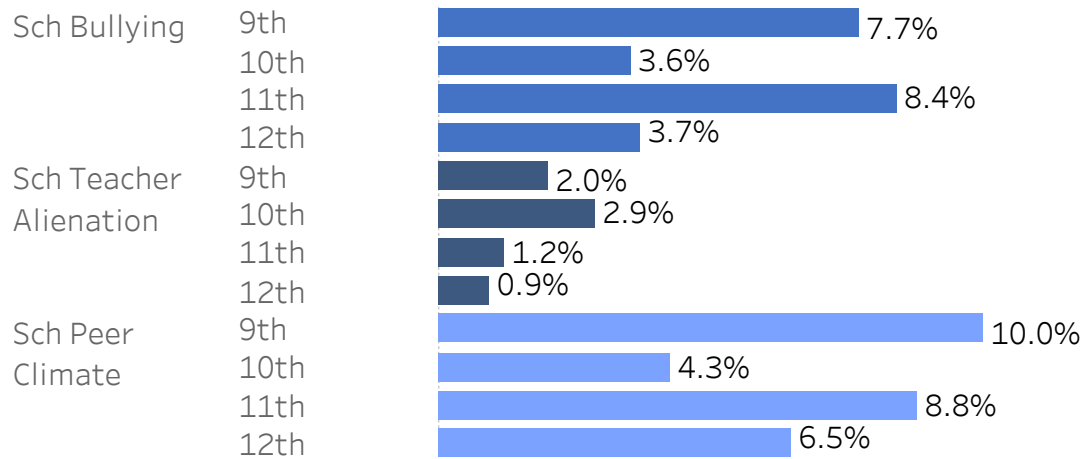
School Climate Dimensions

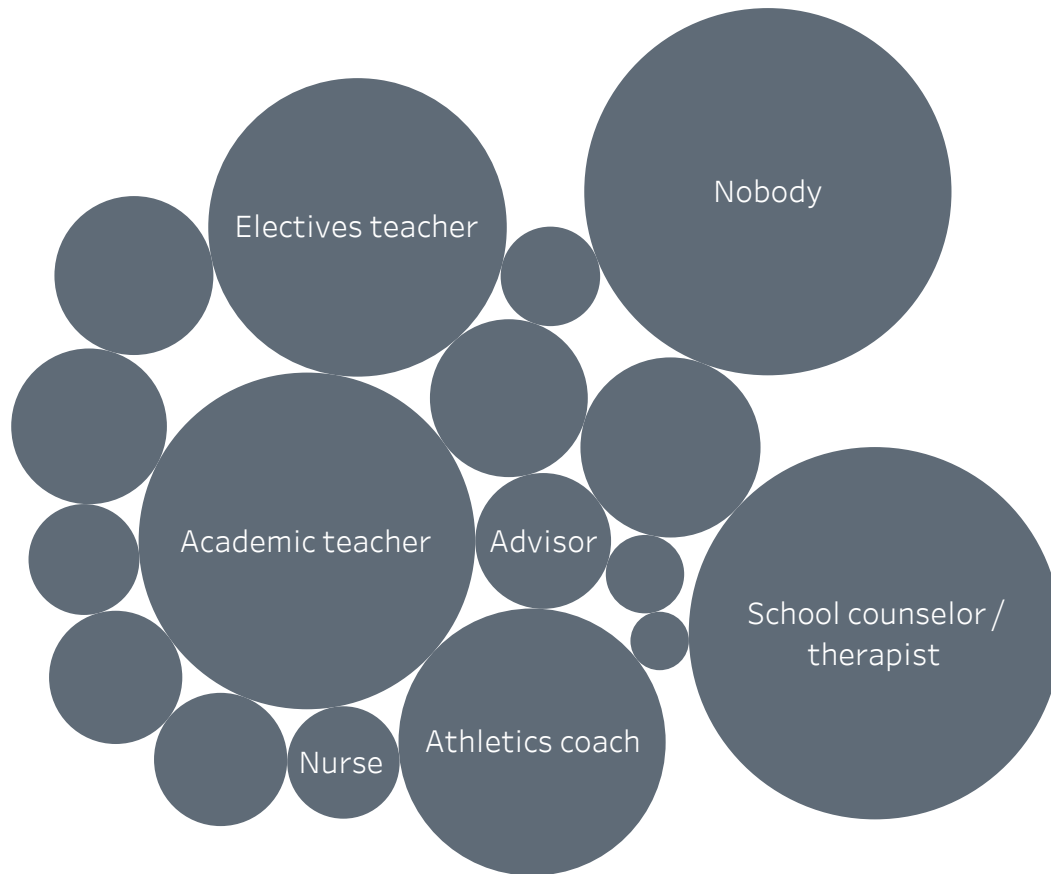


This dashboard shows the percentage of students in the "red zone" on the most important school climate dimensions.



This dashboard shows the percentage of students in the "red zone" on the most important school climate dimensions.





This graph shows the adults that students confide in. Commonly chosen adults have larger bubbles. Hovering over the "Chosen Adult" will show a breakdown of the students who confide in this adult.

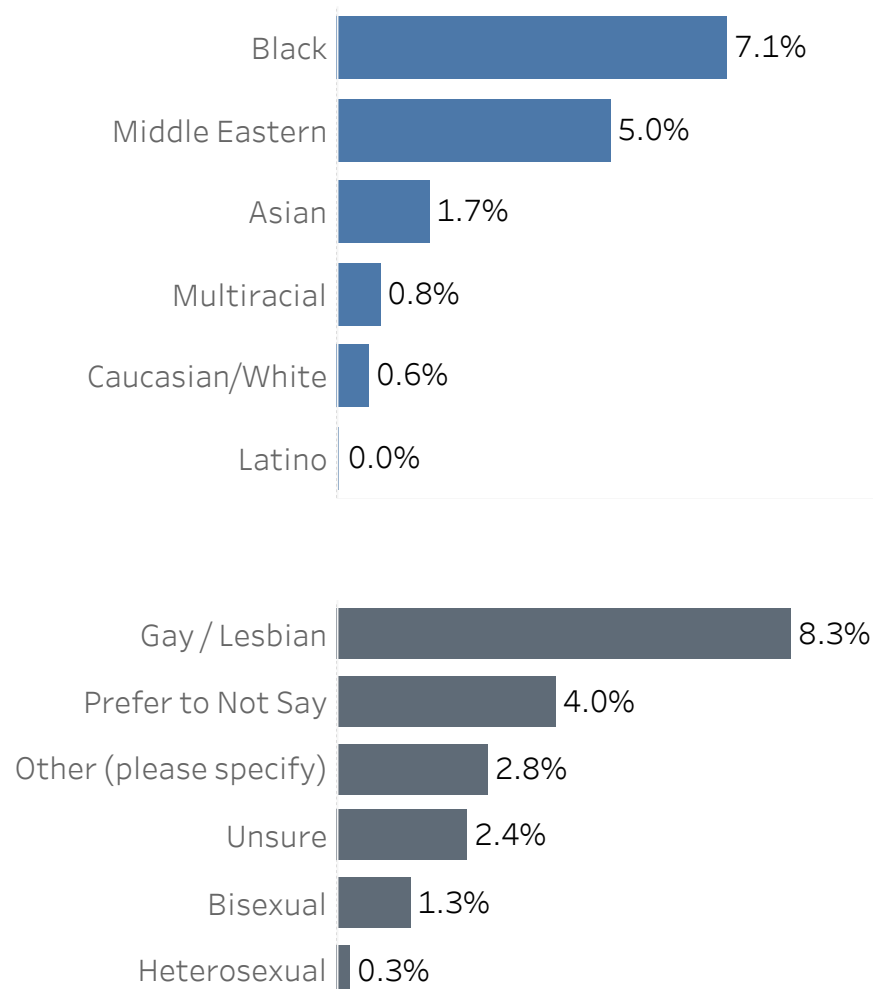
Percentage Who Confide in "Nobody"

Ethnicity	Female	Male
Asian	High (Red)	Low (Gray)
Black	High (Red)	High (Dark Red)
Caucasian/White	High (Red)	Low (Gray)
Latino	Low (Gray)	High (Dark Red)
Middle Eastern	High (Red)	Low (Gray)
Multiracial	High (Red)	Low (Gray)

A high percentage of students is shown in **RED** and a low percentage of students is shown in **GRAY**.



This dashboard shows the percentage of students who feel high levels of discrimination for their race or sexual orientation.





What are potential directions for interventions?

Recommendations for Parents

Resilience rests, fundamentally, on relationships

- “I feel seen & loved for the person I am, at my core”
- This is true for children – and for those who tend them

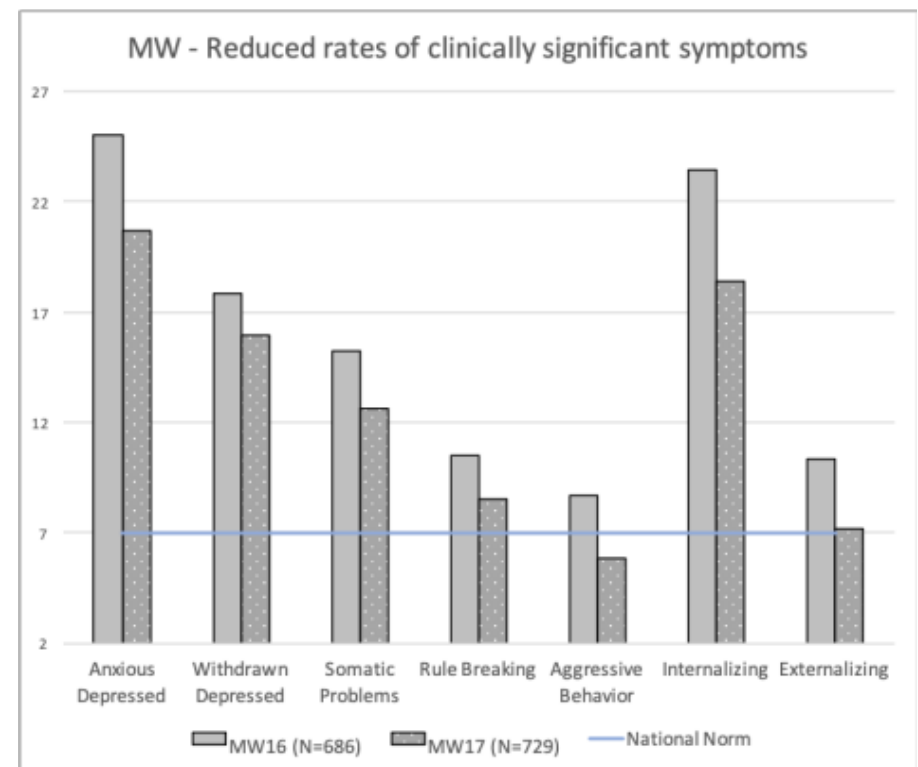
- **Parents (& parent-figures) must foster their own well-being**
“First-responders” to highly stressed youth; risks for own stress, burnout
 - ... which can affect relationship with children (more later...)
- **Good, open communication... starting in early childhood**
 - “I tell my mother about my problems and troubles”
- **Be watchful for your child distancing him/ herself**
 - “Talking over my problems with my mother makes me feel ashamed or foolish”
- **Be vigilant for distress among youth**
 - Check in frequently, sincerely – even when brushed off
 - Seek professional help if at all worried
- **Appropriate, consistent limit-setting:**
Anticipated repercussions for
 - Substance use, rudeness, bullying, rule-breaking, cheating
- **Be a good role model**
 - Kindness & decency, particularly important in competitive subculture

Recommendations: Peers and School Climate

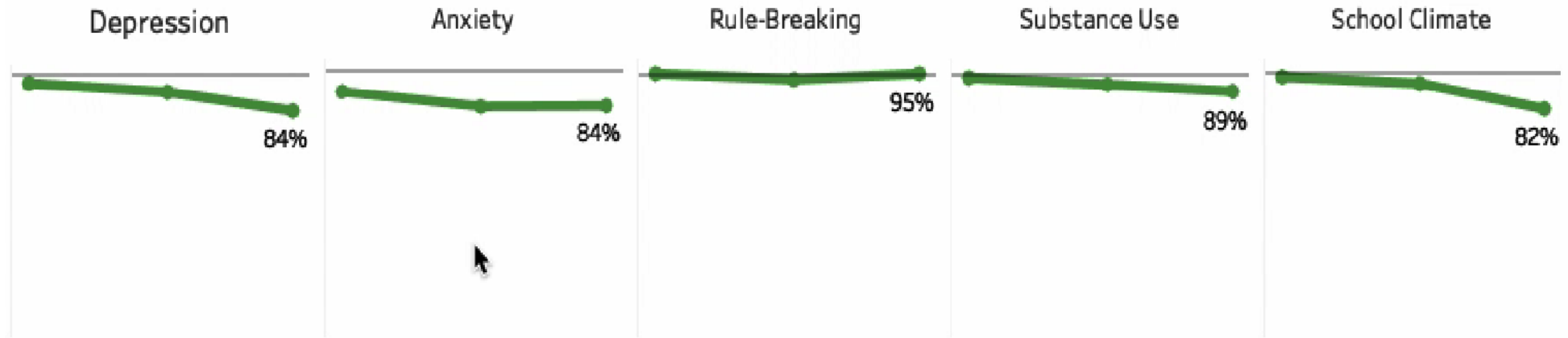
- **Social Media Comparisons**
 - Address issues of competition among peers, particularly for girls
- **“Zero tolerance for meanness”**
 - Students to each other, adults to students
- **Victimization by peers**
 - Anti-bullying programs and initiatives
- **Teacher alienation**
 - Department / faculty conversations
 - Adults can unintentionally leave teens feeling inadequate/ embarrassed / inferior / excluded
 - Vigilance on this front is essential
 - Children cannot learn if they’re in fear, and
 - It takes just one adult to create demoralization

Changes Following the Survey

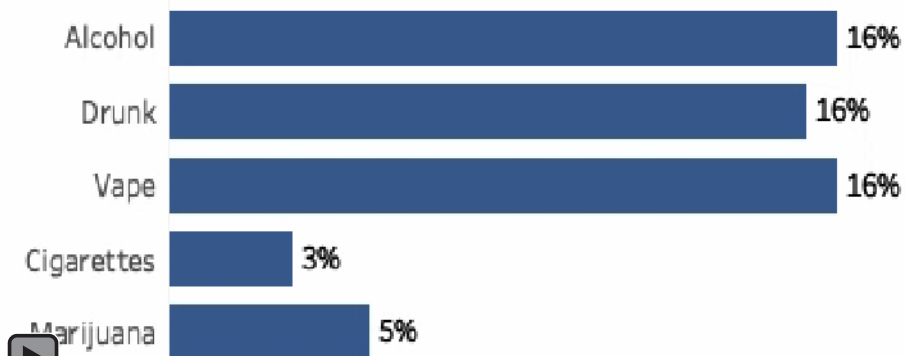
- Midwest independent day school, BR, was surveyed in 2016
- Onsite presentations to faculty and to parents – impartial, scientific data
- Discussions with school administrators, counselors, and students to pinpoint top three intervention directions, including care for adults
- Following year (2017) BR school reassessed; decreases in all symptom areas.



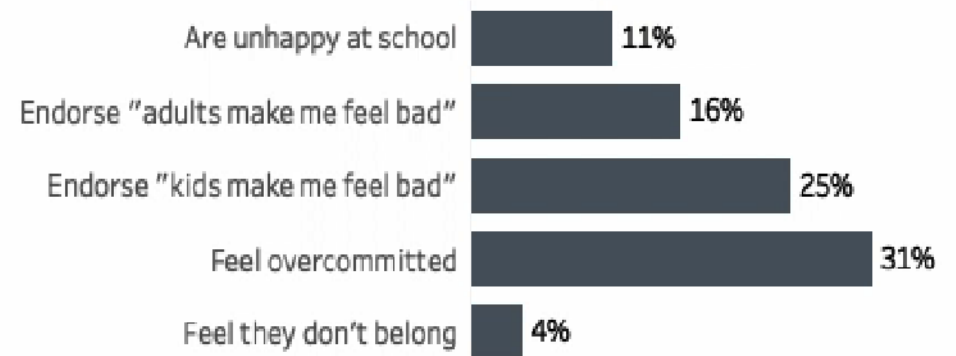
Sex: (All) ▾
 Genders: (All) ▾
 Grade: (All) ▾
 Ethnicity: (All) ▾



Substance Use Above Experimentation, March 2019



School Climate: Problems, March 2019



Top Areas to Prioritize

Parent	Dad Communication Mom Alienation Mom Criticism
Peer	Peer Sexual Harassment Social Media Comparisons Victimization
Pressure	Academic Anxiety Relationship Stress Total Sleep
School Climate	Bullying Positive Peer Climate Teacher Alienation

At Risk Groups

Substance Use	Symptoms
Female	Non-Binary
12th	11th
Latino	Black

Concerning Substances

Top Symptom

Amphetamines
(Adderall, Ritalin)

Been Drunk

Vaping Marijuana

Anxiety

Top 5 Adults Students are Confiding in

School counselor / therapist	36%
Nobody	35%
Academic teacher	30%
Electives teacher	23%
Athletics coach	19%

Thank you for this opportunity!

- Cindy Goodwin, Director, Youth and Family Services
- Fred Rundle, Assistant Superintendent of Learning Services
- Mercer Island Youth and Family Services
- Tambi Cork, Community Development and Administrative Program Mana..



Renee Benoit
Director of AC Groups Resear..



Ashley Ebbert
Director of HASS Research



Nina Kumar
Vice President, Operations



Suniya Luthar
Founder and Executive Director

Visit our Website to learn more
bit.ly/aconnections


City of Mercer Island Fiscal Sustainability Plan – Budget Strategies

Andrew S. Belknap, Regional Vice President
Steve Toler, Partner

April 16, 2019



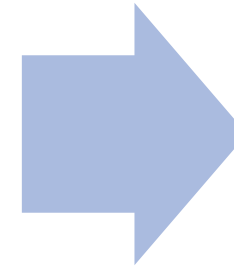
Today's Presentation

- 
- 1. Project overview**
 - 2. Fiscal model recap**
 - 3. Review budget strategies**
 - 4. Strategy packages**
 - 5. Next steps**

Project Objectives

Update the financial forecast model

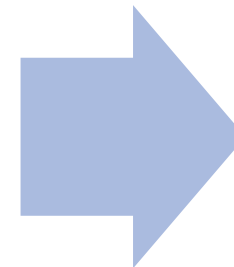
- Provide an impartial third-party review of the City's financial forecast
- Review and recommend changes, where necessary, on assumptions



Deliverable
**Revised General
Fund Forecast**

Develop a set of recommended budget strategies to address General Fund structural deficit

- Review budget strategies
- Review budget scenario packages
- Identify possible set of strategies to pursue
- Finalize into draft comprehensive fiscal sustainability plan



Deliverable
**Budget Strategies
Memorandum;
Council Presentation
on April 16, 2019**

Roles for Today's Presentation

Council

- Review results from fiscal model update
- Review budget strategies and scenario packages
- Determine set of priority budget strategies to be pursued
- Determine next steps

City Staff

- Review results from fiscal model update
- Listen to budget strategies prioritization discussion
- Listen to budget scenario packages discussed
- Clarify issues raised where requested


Members of the Public

- Review results from fiscal model update
- Listen to priorities from Council
- Provide input as requested by Council

Management Partners

- Present results from fiscal model update
- Present results from budget strategies analysis
- Present budget scenario packages
- Provide independent input and analysis into discussion

Today's Presentation

- 
1. Project overview
 2. Fiscal model recap
 3. Review budget strategies
 4. Strategy packages
 5. Next steps

What is Mercer Island's fiscal reality?

Review fiscal
environment

Review forecast
assumptions

Review outcomes
from the fiscal
forecast

Current Fiscal Environment

Challenges in Common with Other Washington Cities

- Facing increasing costs of providing services
- Rising pension and health care costs
- Appropriately funding infrastructure maintenance costs
- Labor market pressures
- Competing fiscal policy matters
 - Property tax growth – limited to 1%
 - Supporting responsible growth
 - Salaries and benefits for police/fire – subject to binding interest arbitration

Unique Characteristics for Mercer Island

- Property tax
 - Higher than average based on per capita basis
 - Lower than average based on tax levy rate
- Sales taxes
 - Lower than average based on per capita
 - Somewhat limited capacity to extend base
 - Post-recession development activity has helped generate one-time revenues related to sales tax on construction costs
- Overall revenues and expenditures
 - Above per capita average

Key Forecast Assumptions

General

- **Recessions:** Every seven years starting FY 2021, 5% reduction in select General Fund revenues; loss made up over subsequent two years
- **Inflation:** 3% (slightly lower than recent average in Seattle Metro area)
- **Reserves:** Based on projected final reserves for FY 2018 (includes General Fund, Contingency Fund and Beautification Fund balances)

Revenues

- **Property Tax:** Assumes annual 1% increase in base levy by Council action, plus 1% growth in base levy due to new construction per year
- **Sales Tax:** Retail sales growth 4% through 2020, 3% per year thereafter; construction assumed to decline to pre-recession levels by 2021, and modest growth of 3% thereafter
- **Other:** modest revenue growth up to 3% per year
- **Parks M&O Levy:** assumes expiration at the end of 2023

Key Forecast Assumptions

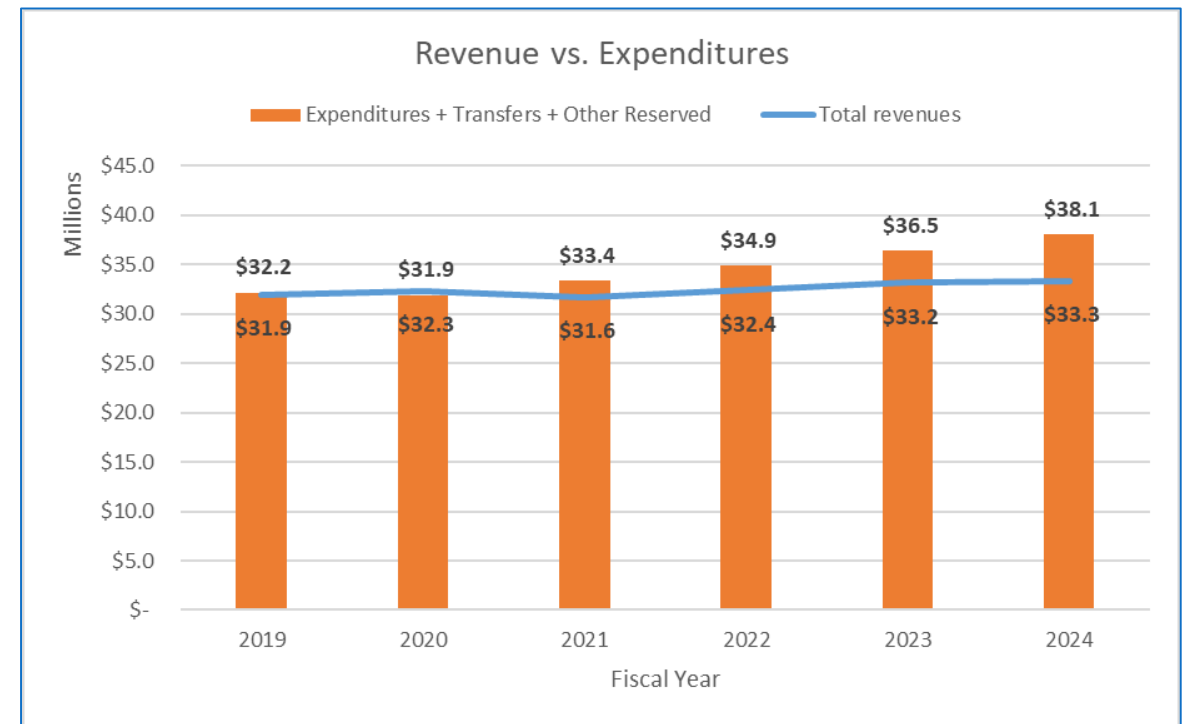
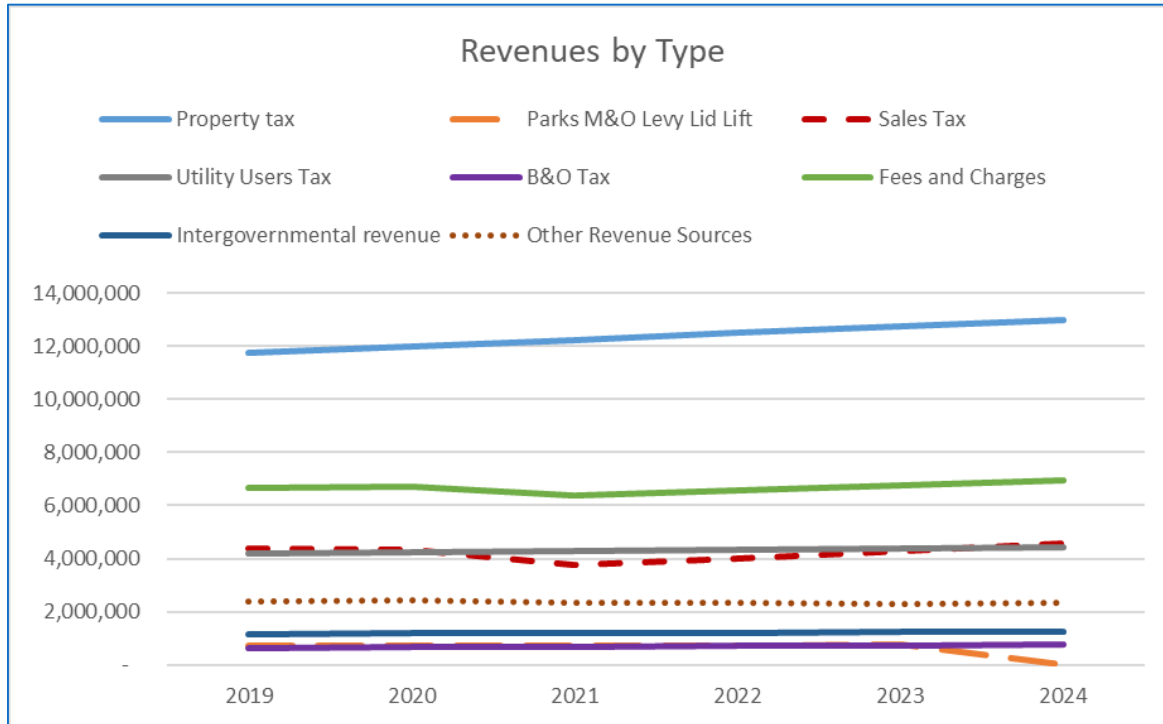
Expenditures

- **Staffing levels:** No change (implications for future population/workload growth)
- **Wage Adjustments:** Current MOUs in 2019, 3% growth based on CPI annually thereafter; additional 1.25% growth for step increases and other adjustments
- **Health:** City contribution annual growth at 6%
- **Pensions:** Based on latest WA-PERS forecasts; assumes discount rate remains at 7.5%
- **Other Services and Supplies:** Averages 3% annual growth

Staff Recommended General Fund Reductions (April 2019)

- Council-approved General Fund expenditure reductions and revenue impacts have been incorporated into the baseline forecast

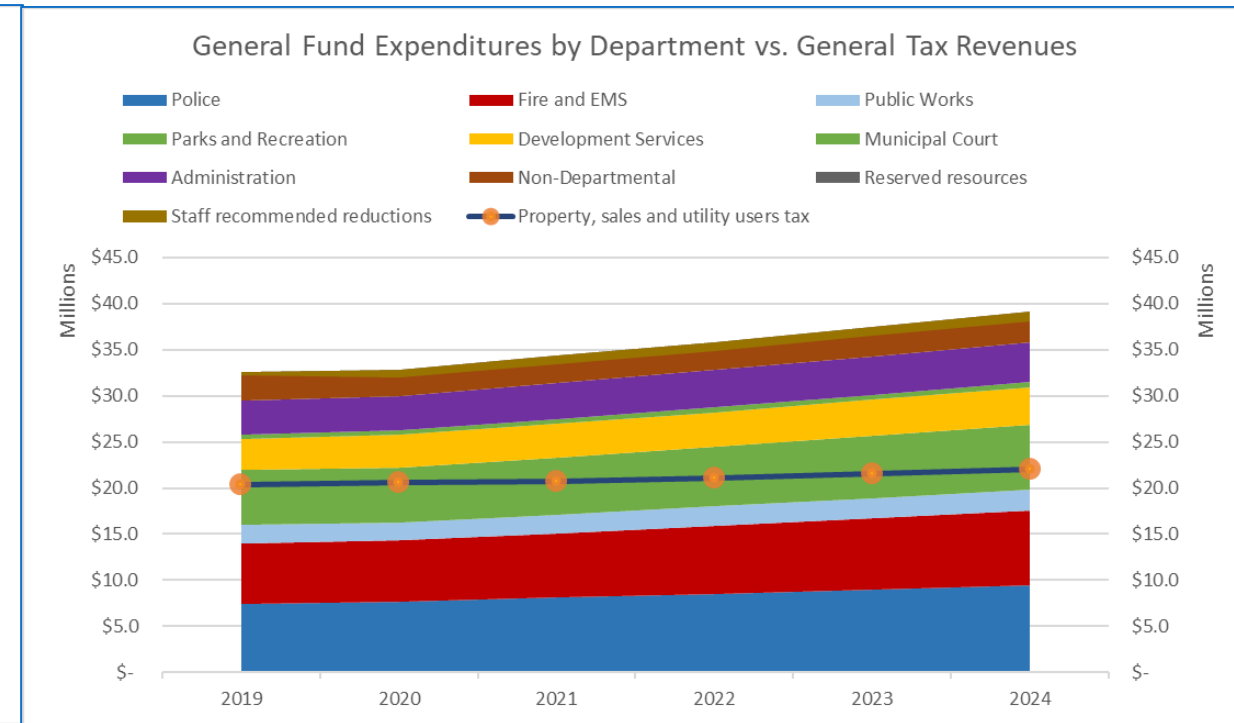
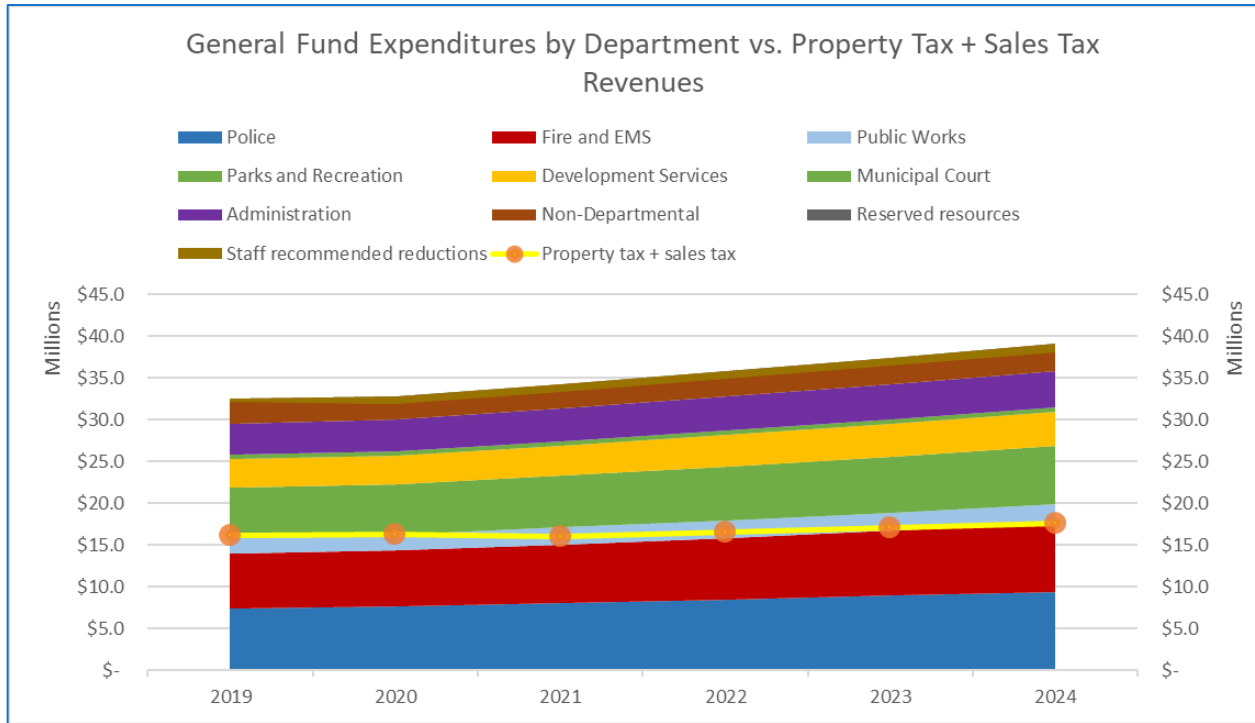
Projected Revenues and Expenditures



- Property tax revenues are single highest revenue source
- Sales tax and fees and charges (primarily development revenues) will be impacted by recessions
- Parks M&O will expire at end of 2023

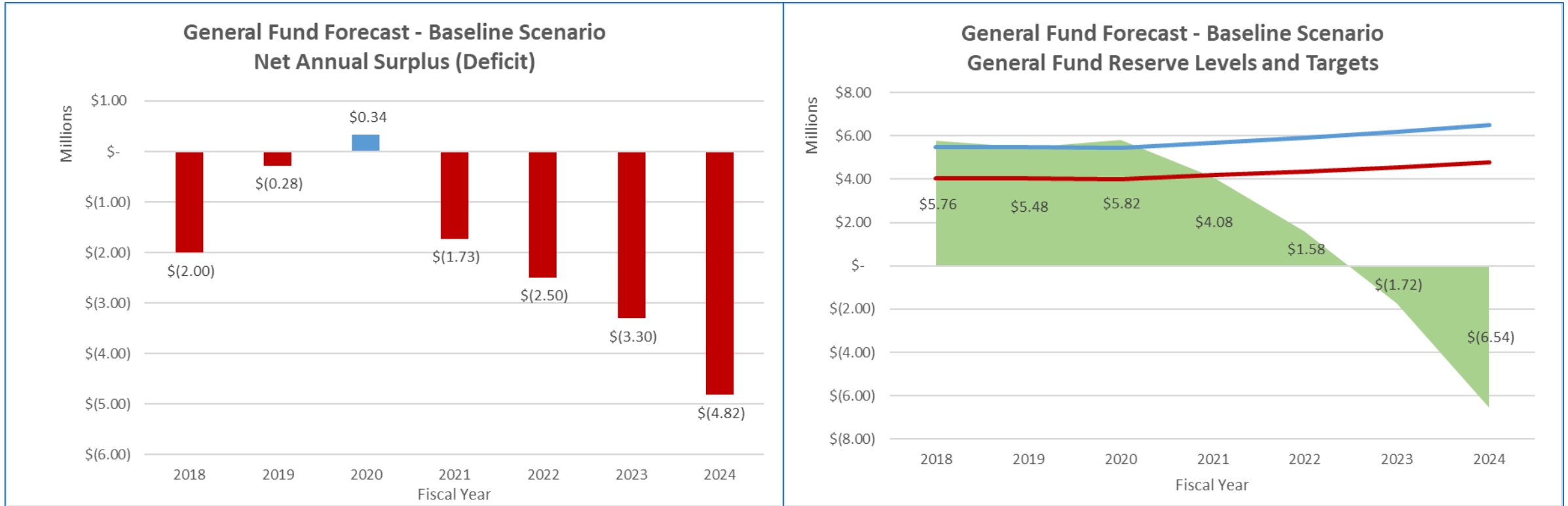
- Existing revenues are not adequate to support projected expenditures

Projected Revenues and Expenditures



- Property and sales taxes currently cover core safety departments - Police, Fire and Public Works services; by 2024, these revenue sources will barely cover only police and fire services
- Property, sales and utility users taxes cover the three core safety departments and a portion of Parks and Recreation
- **Core Issue: revenue growth is lower than expenditure growth.**

Result Is Structural Imbalance and Deficits Without Corrective Actions



- Annual shortfalls rise to \$4.8M by 2024, would be expected to grow beyond 2024 due to imbalance between revenue growth (1% limit on largest source of revenues – property taxes) and expenditure growth (3% or more based on competitive compensation requirements for police/fire under state law and growth of health care and pension costs)

Alternative Outcomes

Potential Outcomes that Would Improve Forecast

- Stronger economic development
- Higher employee vacancy rates
(more vacant positions or vacancies for longer periods of time)
- Delayed or weaker recessions
- Parks M&O excess levy renewed

Potential Outcomes that Would Worsen Forecast


- Weaker sales tax growth
- WA-PERS discount rate cuts
- More severe recessionary losses
- Higher COLAs approved
- Staffing levels increased
- Extreme events
- Unfunded federal/state mandates



Do you have
any questions
on the fiscal
model?



Today's Presentation

- 
1. Project overview
 2. Fiscal model recap
 3. Review budget strategies
 4. Strategy packages
 5. Next steps



Budget Strategy Types

A. Expenditure controls and cost shifts

- **Compensation changes require meet and confer labor negotiations**
- Intent is to maintain service levels by reducing cost of services

B. Service delivery changes

- **Requires case-by-case analysis of potential for savings**
- Intent is to maintain service levels through more cost-effective ways of delivering services

C. Revenue enhancements

- **New taxes require voter approval**
- Most fee increases are within Council budget authority to enact
- Intent is to maintain service levels by growing available resources

D. Service level reductions

- **Within Council budget authority to enact**
- Meet and confer obligations must be met to discuss impacts
- Lower staffing affects service levels

All strategy options represent viable options that have been implemented elsewhere.

Expenditure Controls and Cost Shifts

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

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

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

Background

- Employees receive paid leave as part of benefits package
- Vacation leave is compensable upon separation of employment

Considerations

- Reducing accruals or implementing a “use it or lose it” policy would reduce City’s liability for compensated absences
- While technically legal, “use it or lose it” policy is rare in local government and could impact competitiveness of benefits
- Requires good faith bargaining

Impact

- **Expiring benefits** could reduce liability by 10%, potentially providing **annual savings of \$120,000**

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

Background

- MISD uses City-owned ballfields with unreimbursed net costs totaling \$200,000
- City subsidizes maintenance of Mary Wayte Pool owned by MISD totaling \$140,000 per year
- Parks maintenance operational assessment underway to identify efficiencies/cost savings opportunities

Considerations

- Shared facilities agreement for use of ballfields could be renegotiated to improve cost recovery
- Current interlocal agreement for pool maintenance expires in 2024

Impact

- Potential **savings for renegotiated athletic fields agreement** could improve cost recovery up to **\$200,000 annually**
- **Eliminating subsidized maintenance of swimming pool** would reduce costs by **\$140,000 annually**, but not until after 2024

Expenditure Controls and Cost Shifts Fiscal Summary

Strategy	Approach	Fiscal Impact
1. Reduce vacation benefits, including implementing a “use it or lose it policy” to eliminate the liability	<ul style="list-style-type: none"> Implement “use it or lose it” policy 	\$120,000
2. Renegotiate maintenance agreements with Mercer Island School District for ballfields and pool	<ul style="list-style-type: none"> Eliminate subsidy for pool maintenance Renegotiate athletic fields agreement 	\$140,000 \$200,000
TOTALS		\$460,000

Service Delivery Changes

3. Contract for Police Services with King County Sheriff

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 a 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 a new Fire Protection District , transfer fire services to the new district

Contract for Police Services with King County Sheriff

Background

- King County Sheriff's Office provides law enforcement services to 10 other King County cities.
- Cities across King County and other jurisdictions in Washington and on the West Coast that have shifted to contract services have realized savings.

Considerations

- Service level requirements and cost implications need to be determined to mitigate actual and perceived reduction in services.
- Interlocal agreements with Bellevue and Renton would need to be renegotiated.
- Meet and confer requirements with affected labor groups regarding impacts.

Impact

- Matching service levels to KSCO average cost per capita of \$238, **annual savings** would be **approximately \$700,000**
 - **Assumes Mercer Island would retain Marine Patrol and Emergency Management services** as part of a negotiated agreement with KCSO.

Contract for Police Services with King County Sheriff

King County Sheriff's Office Contracted Partner Agencies Cost per Capita for 2019

City	2019 Police Budget	Population	Cost per Capita
Newcastle	5,134,850	11,681	\$ 440
SeaTac	12,331,000	29,140	423
Woodinville	4,630,100	11,997	386
Carnation	677,700	2,164	313
Burien	\$13,096,100	51,671	253
Shoreline	12,672,000	56,189	226
Covington	4,647,900	20,916	222
Maple Valley	5,599,800	25,758	217
Kenmore	4,328,250	22,867	189
Sammamish	7,629,000	64,548	118
Mercer Island	7,412,900	25,261	293
Average cost per capita (weighted)			\$ 238

Contract Operation of the Mercer Island Community and Event Center

Background

- State-of-the-art Community and Event Center constructed in 2005 and administered by Parks and Recreation (7.75 FTE)
- Current General Fund subsidy of approximately \$586,000 (net of reductions in approved budget)

Considerations

- Contracted services to operate MICEC with third part operators (e.g., YMCA, Boys and Girls Club, private venue operators) could yield savings compared with current costs.
- Would require meet and confer with labor group regarding impacts.

Impact

- A 15% reduction in operating costs **contracting with third-party operator** could yield **annual savings of \$100,000**

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

Background

- City deploys two Medical Aid Units (ambulances) with sworn firefighters in a cross-staffing approach with two engines
- Fire agencies across the West Coast have staffed such apparatus with Emergency Medical Technicians (EMTs) at reduced costs due to lower compensation and benefits packages compared with sworn firefighter personnel

Considerations

- Change one of the two firefighter positions to EMT position
- Switch to non-sworn personnel will have operational impacts and may impact mutual aid agreements
- Would require meet and confer with labor group regarding impacts

Impact

- Salary and benefits **savings estimated to be \$480,000 annually**

Develop a shared services model for fire services

Background

- City provides fire services with two stations
- Geographic adjacency is driving force in shared/contracted fire services models, which has been used extensively across the United States as a cost reduction strategy

Considerations

- Most likely opportunity would be with City of Bellevue
- City's opportunity to manage long-term costs would need to be clarified in negotiated agreement
- Requires meet and confer to discuss impacts based on the shared services model implemented

Impact

- Potential cost savings for **shared/contracted services model** is **\$200,000 to \$300,000 annually**

Create a Metropolitan Park District to fund parks and recreation operations and maintenance

Background

- Metropolitan park districts (MPD) allowed by state law as an alternative funding mechanism for parks and recreation services, maintenance and capital projects; Total of 21 MPDs exist in state, with 6 in King County
- Assesses a property tax levy to fund operating and capital costs

Considerations

- Requires majority vote to implement
- Successful model for specifically funding parks and recreation services, but recent ballot measures have not been as successful
- Impact on property taxpayer would need to be analyzed based on any impacts from existing City general property tax levy

Impact

- Estimate of impact will depend on total budget being transferred to a new MPD and any reductions to existing levy
- Existing Parks and Recreation maintenance budget is \$2.6 million, which would translate to a property tax levy of \$0.23 per \$1,000 assessed value

Establish a Fire Protection District and transfer fire services to the new district

Background

- Fire protection districts (FPD) allowed by state law (2017) as an alternative funding mechanism for fire and emergency services
- Assesses a property tax levy to fund operating costs

Considerations

- Requires majority vote to implement
- Impact on property taxpayer would need to be analyzed based on any impacts from existing City general property tax levy.
- Existing interlocal agreement with Bellevue would require renegotiation and/or three-way interlocal agreement between City, Bellevue and the newly formed FPD

Impact

- Estimate of impact will depend on total budget being transferred to a new FPD and any reductions to existing levy
- Net fire services budget is \$5.1 million, which would translate to a property tax levy of \$0.45 per \$1,000 assessed value

Service Delivery Changes Fiscal Summary

Strategy	Approach	Fiscal Impact
3. Contract for Police Services with King County Sheriff	<ul style="list-style-type: none"> Contract police services 	\$700,000
4. Contract Operation of the Mercer Island Community and Event Center	<ul style="list-style-type: none"> Contract for services yielding 15% operating cost savings 	\$100,000
5. Change one fire engine to EMS apparatus and staff EMS drivers with non-sworn employees	<ul style="list-style-type: none"> Implement one EMT on each Medical Aid Unit 	\$480,000
6. Develop a shared services model for fire services	<ul style="list-style-type: none"> Shared/contracted services model with Bellevue (low/high estimates) 	\$200,000 \$300,000
7. Create a Metropolitan Park District for parks and recreation operations and maintenance	<ul style="list-style-type: none"> Create MPD 	Undetermined ¹
8. Establish a Fire Protection District for fire services	<ul style="list-style-type: none"> Create FPD 	Undetermined ¹
TOTALS	<ul style="list-style-type: none"> Low High 	\$1,480,000 \$1,580,000

¹ – Fiscal impact from creation of MPD or FPD would be dependent upon extent to which the City would reduce its existing property tax levy given the creation of the new districts with their separate tax levy.

Revenue Enhancements

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 Maintenance and Operations (M&O) Levy Lid Lift

12. Increase the Business and Occupations (B&O) 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 tax rates (UUT) on solid waste services

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

Implement a Levy Lid Lift as a general tax increase

Background

- Current property tax levy rate is \$0.93 per \$1,000 assessed value
- Current revenue generated: \$11.9 million (excludes Parks M&O Levy Lid Lift)

Considerations

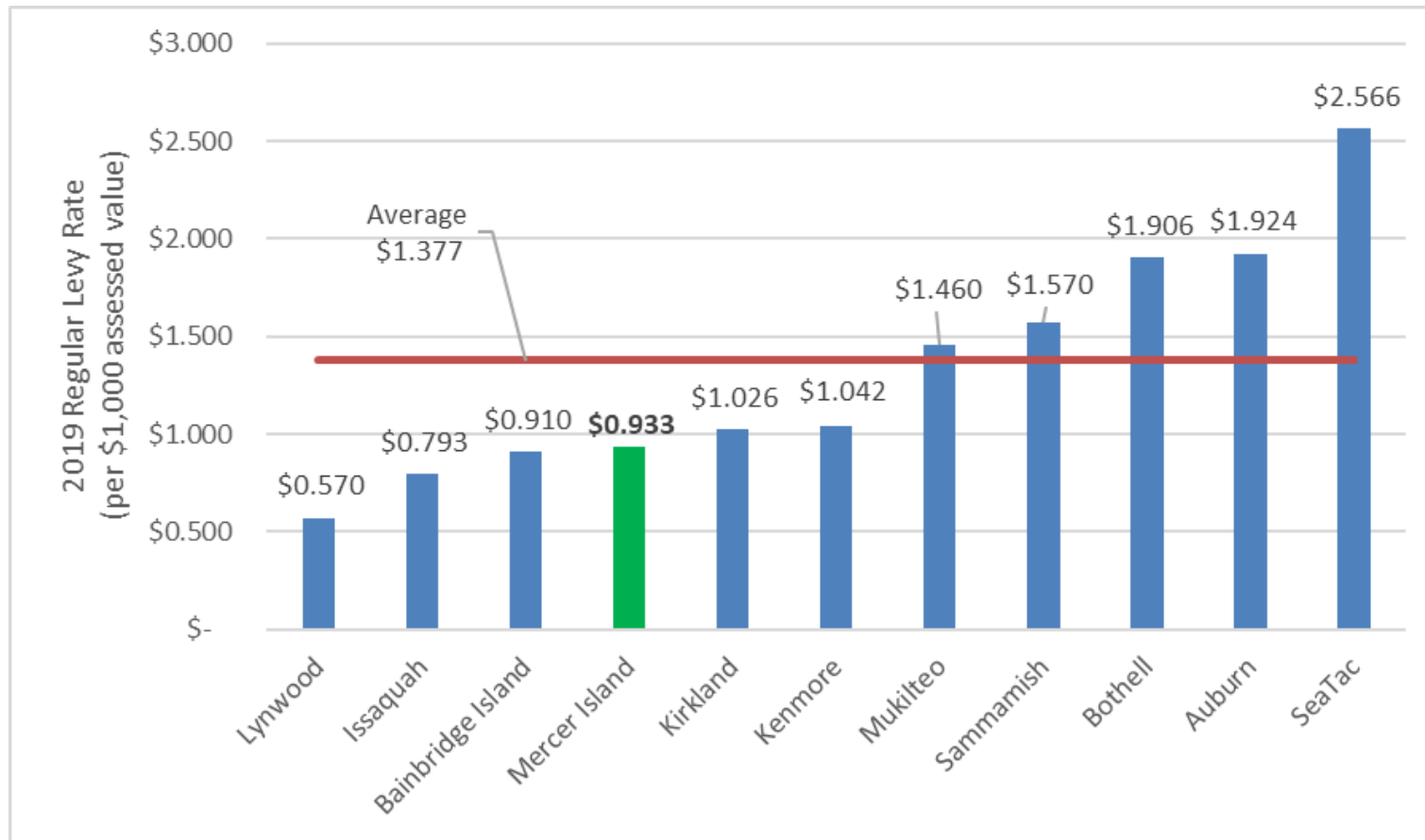
- Requires majority vote
- Can be enacted as lift to the base with or without future increases over a period of time
- Cities now allowed to exempt senior citizens, disabled veterans, and others with disabilities

Impact

- **Increased revenues based on increase in existing levy rate:**
 - \$0.05 per \$1,000 AV: \$632,000
 - \$0.10 per \$1,000 AV: \$1,264,000
 - \$0.15 per \$1,000 AV: \$1,896,000

Implement a Levy Lid Lift as a general tax increase

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



Implement a Levy Lid Lift as a specific purpose tax

Background

- Same circumstances as general levy lid lift (see #9), but specified purpose may be introduced into the ballot measure dedicated to specific uses such as parks maintenance or public safety
- Amount of levy is limited based on state law (see next slide)

Considerations

- Requires majority vote, but may require 60% approval depending on nature of specified purpose (see next slide)
- Subject to 1% statutory limitation on Council approved increases

Impact

- **Increase revenues based on levy rate:**
 - \$0.05 per \$1,000 AV: \$632,000
 - \$0.10 per \$1,000 AV: \$1,264,000
 - \$0.15 per \$1,000 AV: \$1,896,000

Implement a Levy Lid Lift as a specific purpose tax

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

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

Background

- Existing levy lid lift dedicated to parks maintenance and operations expires at the end of 2023
- Revenues expected to reach \$737,000 by 2023

Considerations

- Requires majority vote
- Subject to 1% statutory limitation on Council approved increases

Impact

- Renewing at existing levy rate would generate **\$747,000 annually starting in 2024**

Increase the Business and Occupations (B&O) Tax

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

Background

- City charges a B&O tax based on gross receipts earned by businesses above \$150,000 at a rate of 0.10% (subject to \$20 minimum)
- Current revenues total \$643,000

Considerations

- Can be approved by City Council resolution up to a statutory limit of 0.20% of gross receipts
- Tax rates above 0.20% require majority voter approval

Impact

- **Increased revenues based on tax rate as follows:**
 - Tax rate of 0.15%: **\$350,000**
 - Tax rate of 0.20%: **\$700,000**

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

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

Background

- City recently reduced UUT rate on City-owned utilities in 2019 from 8% to 5.3%

Considerations

- Can be approved by City Council resolution, but state law may require a referendum procedure be included in the enacting ordinance

Impact

- Restoring **tax rate to 8%** would yield an **additional \$526,000** in annual revenues

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

Background

- New franchise agreement with Recology starting October 2019 allows for up to 3.5% “sustainability adjustment” fee by Council action
- Initial contract period will start with a 0% fee based on City Council action approving contract and initial rates

Considerations

- Can be approved by City Council action when approving rates for subsequent years (starting October 1, 2020)
- Impact on ratepayers would need to be considered, given increases in recycling costs and resulting impact on collection rates

Impact

- Implementing fee up to **3.5% of gross receipts** is estimated to generate up to **\$150,000 in annual revenues**

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

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%

Background

- City's current solid waste UUT is 7% of gross revenues
- City's current rate is near the top of all comparable agencies

Considerations

- Can be approved by City Council resolution, but state law may require a referendum procedure be included in the enacting ordinance
- New franchise agreement with Recology starts October 2019, with solid waste rates expected to increase by 8% for typical household consumer

Impact

- Increasing the **tax rate from 7% to 9%** would yield an **additional \$90,000 in annual revenues**

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

Background

- Development fee study was completed in November 2018, with Council adopting rates that achieve cost recovery of 95% of building services, and 80% for planning and engineering services
- Parks and recreation fees are considered to be at the top of what the market will allow based on staff research and analysis

Considerations

- Fees can be increased by Council resolution
- Market realities require consideration in establishing cost recovery targets

Impact

- **Increasing development services fees to achieve cost recovery levels of 100% for building services, and 90% for planning and engineering services, could generate additional annual revenues totaling up to \$100,000**

Revenue Enhancements Fiscal Summary

Strategy	Approach	Fiscal Impact
9. Implement a Levy Lid Lift as a general tax increase	<ul style="list-style-type: none"> Increase of \$0.05 per \$1,000 AV Increase of \$0.15 per \$1,000 AV 	\$632,000 \$1,896,000
10. Implement a Levy Lid Lift as a specific purpose tax	<ul style="list-style-type: none"> Increase of \$0.05 per \$1,000 AV Increase of \$0.15 per \$1,000 AV 	\$632,000 \$1,896,000
11. Renew the existing Parks M&O Levy Lid Lift	<ul style="list-style-type: none"> Renew at existing rate 	\$747,000
12. Increase the B&O Tax	<ul style="list-style-type: none"> Tax rate of 0.15% Tax rate of 0.20% 	\$350,000 \$700,000
13. Increase UUT on City-owned utilities (water, sewer, stormwater)	<ul style="list-style-type: none"> Increase rate to 8% 	\$526,000
14. Implement the sustainability (administrative) fee in the solid waste contract	<ul style="list-style-type: none"> Increase fee to 3.5% of gross receipts 	\$150,000
15. Increase utility users tax rates (UUT) on solid waste services	<ul style="list-style-type: none"> Increase tax rate to 9% 	\$90,000
16. Increase fees and charges to establish cost recovery standards at/near full cost recovery	<ul style="list-style-type: none"> Increase cost recovery to at or near 100% for building services, 90% for planning and engineering services 	\$100,000
Totals	<ul style="list-style-type: none"> Low High 	\$3,227,000 \$6,105,000

Service Level Reductions

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

Take no action

Background

- Projected annual deficit is \$4.8 million by FY 2024
- General Fund reserves would fall below zero by FY 2023

Considerations

- City would likely default on its pension and debt obligations
- General fund would be depleted by December 31, 2023

Impact

- City would have to consider bankruptcy protection
- To continue serving the community, total reductions General Fund operating costs of \$5 million annually (17% of projected annual operating expenditures) would be required by FY 2023, which could be phased in

General Fund Services and Staffing Reductions

Background

- Analysis of operating department budgets would be required to target expenditure reductions where other strategies are not viable or do not yield sufficient savings
- Current employee base funded by General Fund totals 147 FTE

Considerations

- Would likely require 12% to 16% workforce reduction to yield a 15% budgetary savings
- Most dramatic impacts would be to police, fire, and parks and recreation services

Impact

- A **15% reduction in police, public works, and parks and recreation** departments would yield **annual General Fund expenditure reductions of \$3,000,000**
- Evaluate reductions in other internal services fund operations (e.g., IT, fleet, equipment replacement)

Eliminate/brown out one fire station

Background

- City operates two fire stations
- Station 92 is staffed with three full-time personnel 24x7
- Current total budget for operating Station 92 is estimated at \$1.8 million

Considerations

- Impact on response times to southern portion of the island would need to be evaluated
- May have adverse impact on mutual aid agreements with other agencies in King County
- Requires meet and confer regarding impacts with labor group

Impact

- Reduction in service level may require additional support through mutual aid agreements, thereby increasing City costs
- **Net annual budget savings** is estimated to be **\$1,400,000 annually**

Reduce parks landscape maintenance and irrigation

Background

- Annual operating budget for parks maintenance is \$2.6 million
- Parks maintenance staff maintain 500 acres of parks, open space, and various athletic and recreational amenities with 10 FTE

Considerations

- Targeted reduction levels would noticeably impact appearance of parks amenities, potential for overgrowth, and reduced capacity to address significant issues or storm damage

Impact

- **Reduction in service levels** range in annual cost savings **between \$100,000 and \$250,000**

Eliminate or reduce Marine Patrol Services

Background

- City provides marine patrol services for Mercer Island, Bellevue and Renton on Lake Washington
- Cost allocation with Renton charges a fee for MIPD patrol time and activity
- In-kind services provided between Bellevue and the City through an interlocal agreement, which includes Bellevue providing specialized law enforcement, mutual response for fire services, and use of a tiller (ladder) truck

Considerations

- Impacts on interlocal agreement with Bellevue would need to be considered
- City could consider charging a boat docking fee for local residents to reduce General Fund subsidies for the service

Impact

- **Estimated cost savings of \$100,000** pending need to renegotiate agreements with Bellevue and Renton and/or implementing boat docking fees on Mercer Island residents

Reduce law enforcement specialized services

Background

- Specialize law enforcement services include investigations and special programs, special teams, school resource officer, emergency preparedness planning
- Current costs for these services total \$915,000, net of reimbursements

Considerations

- Reductions would impact responsiveness to investigations and school resource officer program
- Mitigation measures could include partnering with other agencies (e.g., KCSO, Bellevue, Renton)

Impact

- **Reduction targeting 50%** in cost savings would **yield \$450,000 in annual savings**, requiring elimination of two FTEs.

Service Level Reductions Fiscal Summary

Strategy	Approach	Fiscal Impact
17. Take no action	<ul style="list-style-type: none"> General Fund would be in a deficit by FY 2020-21; approach is not sustainable, but presented for discussion purposes 	\$ -
18. General Fund services and staffing reductions	<ul style="list-style-type: none"> Service level reductions equating to 15% of operating costs 	\$3,000,000
19. Eliminate/brown out one fire station	<ul style="list-style-type: none"> Eliminate/brown out Station 92 	\$1,400,000
20. Reduce parks landscape maintenance and irrigation	<ul style="list-style-type: none"> Moderate reduction in landscape maintenance and irrigation More severe reduction 	\$100,000 \$250,000
21. Eliminate or Reduce Marine Patrol Services	<ul style="list-style-type: none"> Elimination of service 	\$100,000
22. Reduce law enforcement specialized services	<ul style="list-style-type: none"> Reduce specialized services by 50% 	\$450,000
TOTALS	<ul style="list-style-type: none"> Low High 	\$5,050,000 \$5,200,000

Other Strategies Identified but Not Analyzed in Detail

- ***Expenditure Controls/Cost Shifts***

- Reduce health benefits
- Reorganize parks/open space
- Cost shift of sports field use
- Overgrown vegetation on ROW to private property owners
- Charge event sponsors for in-kind services
- Property swap of City Hall with commercial property
- Reduce City Council compensation
- **Conduct fleet utilization study**

- ***Service Delivery Changes***

- Contract transportation planning services
- Outsource IT Help Desk to private
- Outsource human resources
- Partner with other agencies for economic development
- Implement cloud-based infrastructure and eliminate fiber optics
- Insource library services from County
- **Outsource fleet maintenance**

Other Strategies Identified but Not Analyzed in Detail

- ***Revenue Enhancements***

- Increase transportation benefit district fees
- Increase fees for facilities use
- Increase business license fees
- Increase municipal court concession hearing fees
- Increase billing for EMS
- Increase technology fee on building permits
- Charge parking fee at select parks

- ***Service Level Reductions***


- Reduce open space vegetation management
- Reduce sustainability support services
- Eliminate city-sponsored neighborhood watch events
- Eliminate hospitality funding for Council meetings
- Eliminate commissions not legally required
- Reduce travel/training and professional membership costs

Identifying Budget Strategies

Are there any other strategies that were not reviewed that should be considered?



Today's Presentation

- 
1. Project overview
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 5. Next steps



Criteria Used in Evaluating Budget Strategies

Factors	Minimal Difficulty	Moderate Difficulty	High Difficulty
Potential for community pushback	High	Medium	Low
Technical and operational difficulties of implementation	High	Medium	Low
Timing necessary for implementation	Timely implementation is moderately to highly probable to meet timing required to resolve the structural deficit	Timely implementation is possible, but less than moderately probable	Timely implementation is unlikely to meet the timing required to resolve the structural deficit
Disruptive impact on service delivery	Low	Medium	High
Disruptive impact within City organization	Low	Medium	High

Budget Strategies Quadrant Analysis

		<i>Potential Annual Fiscal Impact (est)</i>		
		Less than \$100,000	\$100,000-\$250,000	Over \$250,000
Difficulty of Implementation	Minimal difficulty	1	2	3
	Moderate difficulty	4	5	6
	Significant difficulty	7	8	9

Potential to Provide Fiscal Sustainability	
Great potential	High fiscal impact; minimal difficulty
Good potential	Medium/high fiscal impact; minimal/moderate difficulty
Moderate potential	Medium/high fiscal impact; moderate/significant difficulty
Low potential	Low fiscal impact; moderate/significant difficulty
Little/no potential	Low fiscal impact; significant difficulty

Budget Strategy Tiers

Categories	Great Potential	Good Potential	Moderate Potential	Low Potential
Expenditure controls and cost shifts	None	None	2. MISD ball fields/ pool maintenance agreements	1. Reduce vacation benefits
Service delivery changes	None	None	3. Contract police services with KCSO 5. EMS apparatus/EMT drivers 6. Shared services model for fire services 7. Metropolitan Park District 8. Fire Protection District	4. Contract Mercer Island Community and Event Center
Revenue enhancements	11. Parks M&O levy lid lift 12. B&O tax	10. Special purpose levy lid lift 13. UUT rates on City-owned utilities 16. Fees and charges to at/near full cost recovery	9. General purpose levy lid lift 14. Sustainability (administrative) fee in the solid waste contract	15. Increase UUT on solid waste services
Service reductions and eliminations	None	22. Reduce law enforcement specialized services	18. General Fund services and staffing reductions 19. Eliminate/brown-out one fire station 20. Reduce parks landscape maintenance 21. Eliminate marine patrol services	17. Take no action

Budget Strategy Scenarios

Budget Strategy Scenarios

Scenario 1 - Strong Revenue Enhancement Strategies

- Property tax levy lid lift – increase existing levy by 7.5% in 2021; 5% growth factor through at least 2024 (November 2020 election)
- UUT on City-owned utilities – increase rate to 8% effective 1/1/2022 (Council action)
- B&O Tax – increase to 0.15% effective 1/1/2023 (Council action)
- Development services fees – increase to achieve at/near full cost recovery by 1/1/2023 (Council action)
- Parks M&O levy lid lift – renew existing levy by 1/1/2024 (November 2023 election)
- General Fund reductions – implement cuts totaling \$400,000 by 2024 (Council action)

Scenario 2 - Balanced Approach — Moderate Revenues; Service Delivery Changes; Minor Service Level Reductions

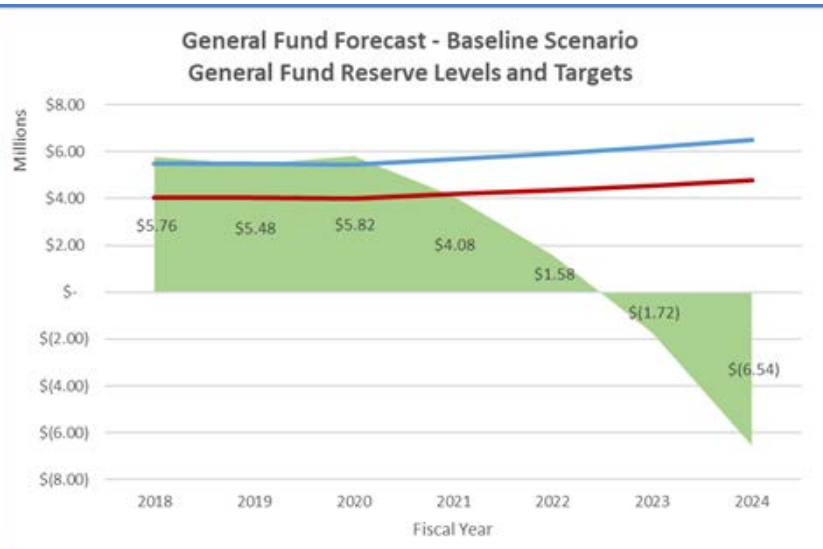
- Property tax levy lid lift – increase existing levy by 5% in 2021; 2% growth factor through at least 2024 (November 2020 election)
- Development services fees – increase to achieve at/near full cost recovery by 1/1/2021 (Council action)
- UUT on City-owned utilities – Increase rate to 8% effective 1/1/2022 (Council action)
- Parks M&O levy lid lift – renew existing levy by 1/1/2024 (November 2023 election)
- Fire EMS Apparatus – implement by 1/1/2022 (Council action)
- Fire shared services – implement shared services model by 1/1/2023 (Council action)
- Contracted police services – contract with KCSO by 1/1/2023 (Council action)
- General Fund reductions – implement reductions totaling \$475,000 by 2024 (Council action)

Scenario 3 - Balanced Approach— Moderate Revenues; Maintain Capital Funding; Larger Cuts to Operations

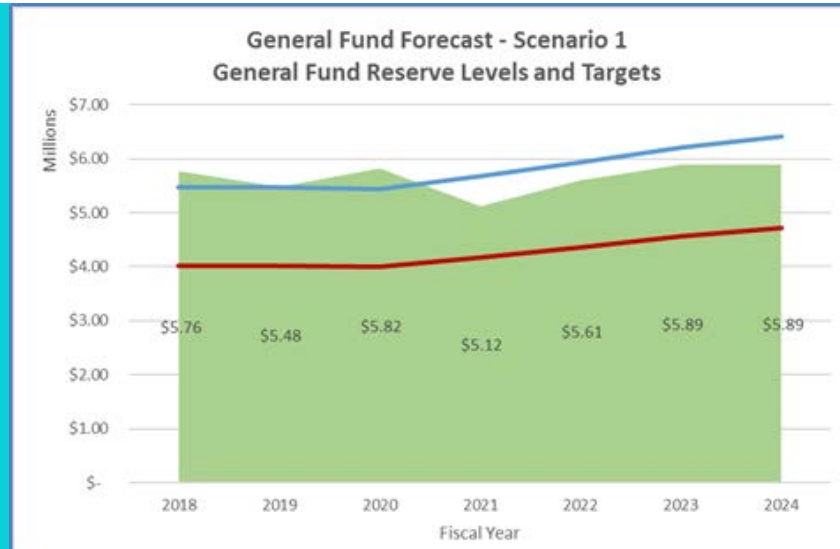
- Parks M&O levy lid lift – renew existing levy by 1/1/2024 (November 2023 election)
- Parks landscaping – reduce landscaping maintenance to eliminate \$100,000 of costs by 1/1/2020 (Council action)
- Fire station elimination – eliminate staffing in Station 92 totaling \$1,400,000 in cost reductions (Council action)
- Law enforcement specialized services – reduce General Fund subsidy by \$450,000 by 1/1/2022 (Council action)
- General Fund reductions – implement reductions totaling \$1,100,000 by 1/1/2023, and an additional \$600,000 (totaling \$1,700,000) by 1/1/2024

Budget Scenarios Lead to Fiscal Sustainability

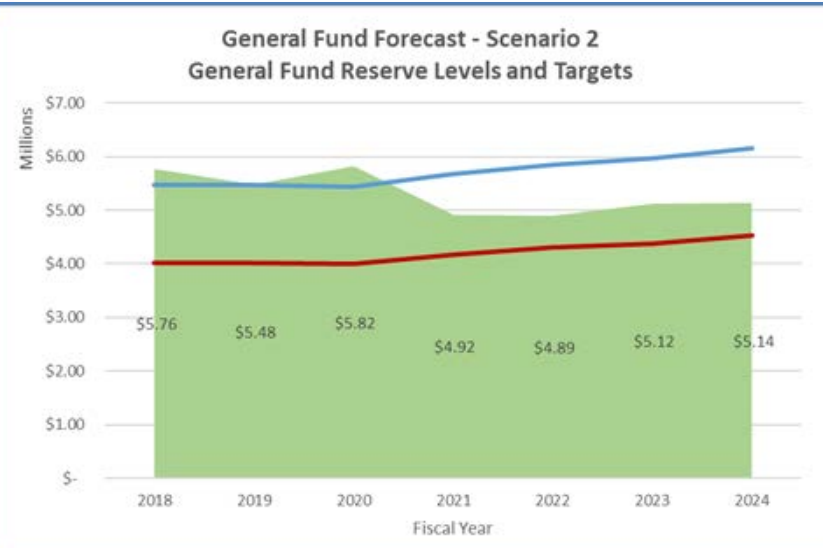
Baseline



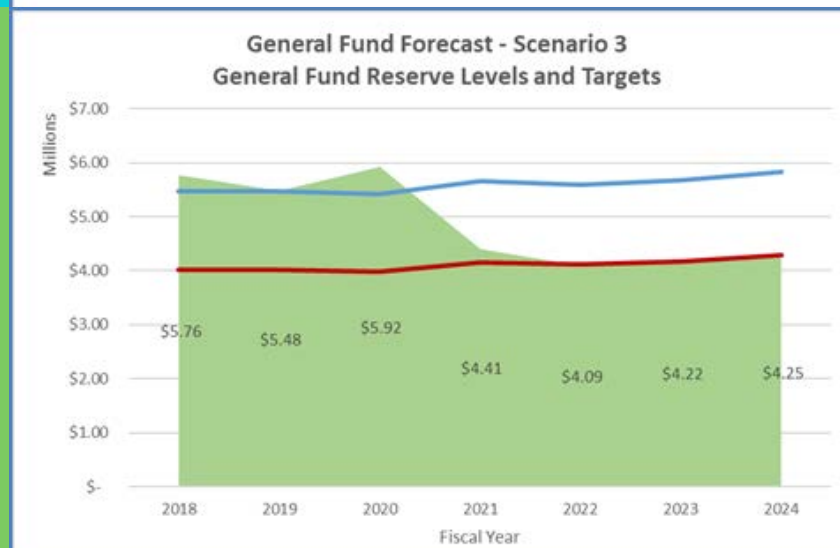
Scenario 1



Scenario 2

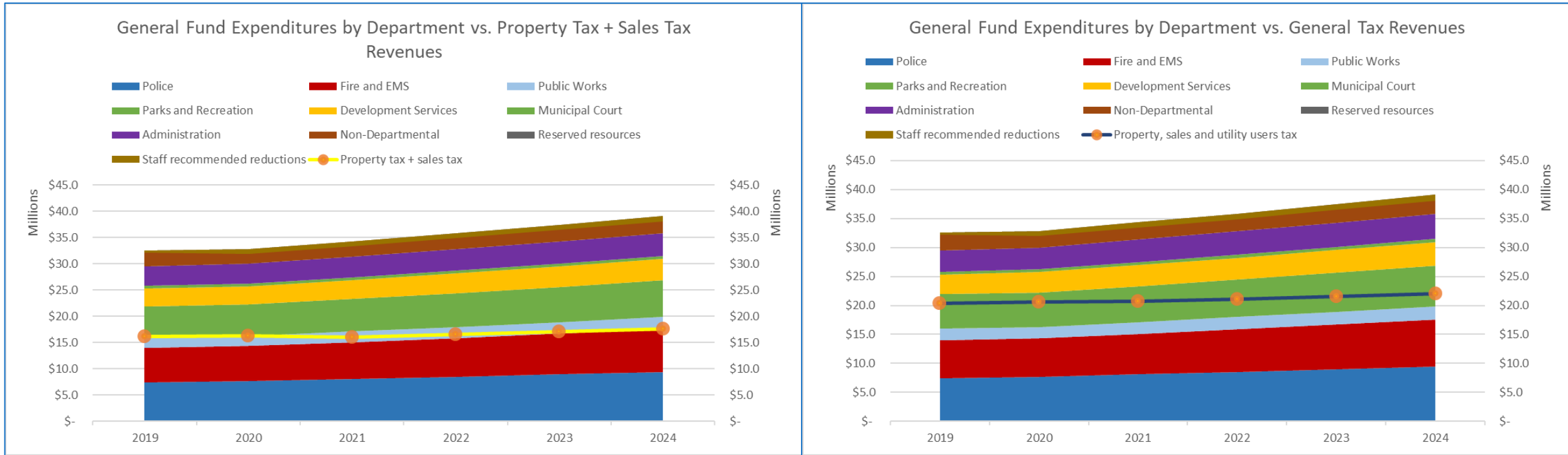


Scenario 3



The three budget scenarios are balanced over time and maintain fiscal reserves at or above Council's adopted reserve policy of 12.5% of annual operating expenditures.

Ultimate Path Towards Fiscal Sustainability



- **Core Issue: revenue growth is lower than expenditure growth.**
- City must find long-term solutions that will correct the disparate growth curves between revenues and expenditures

Finding a Path Forward

Based on the strategies discussed:

- 1. Are there any other strategies that were not reviewed that should be considered?**
- 2. Are there strategies that require additional analysis to assist the City Council in determining a path forward?**



Today's Presentation



1. Project overview

2. Fiscal model recap

3. Review budget strategies

4. Strategy packages

5. Next steps

Management
Partners



THANK YOU!

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BUSINESS OF THE CITY COUNCIL
CITY OF MERCER ISLAND, WA

AB 5552
April 16, 2019
Regular Business

Table with 3 columns: Title (FISCAL SUSTAINABILITY PLAN: REVIEW FINANCIAL FORECAST, BUDGET STRATEGIES, RECOMMENDATIONS, AND PUBLIC ENGAGEMENT PLAN), Action (Receive presentation from Management Partners and discuss), and checkboxes (Discussion Only, Action Needed: Motion, Ordinance, Resolution).

Table with 2 columns: Category (DEPARTMENT OF, COUNCIL LIAISON, EXHIBITS, 2019-2020 CITY COUNCIL PRIORITY, APPROVED BY CITY MANAGER) and Value (City Manager (Julie Underwood), n/a, 1. Budget Strategies Analyses and Recommendations Prepared by Management Partners, 1. Implement a Fiscal Sustainability Plan).

Table with 3 columns: Category (AMOUNT OF EXPENDITURE, AMOUNT BUDGETED, APPROPRIATION REQUIRED), Unit (\$), and Value (n/a).

SUMMARY

BACKGROUND

Since 2014, staff has projected operating deficits beginning in 2017, driven by annual revenue growth failing to keep pace with annual expenditure growth. The City projected operating deficits for the 2017-2018 Biennial Budget; however, was able to balance the budget using one-time monies available through the Criminal Justice Fund (original restrictions to this fund were lifted). Additionally, the City experienced significant development, which infused one-time construction sales tax revenues, allowing the City to continue to maintain services.

The City began educating the community about the City's financial challenges starting in June 2017 with a robust community engagement plan that included convening a 23-member Community Advisory Group (CAG). The CAG met from November 2017 to April 2018 to review and help the City determine how best to address its projected budget deficits in 2019-2024. Most of the CAG members (17 of 23 members, or 74%) recommended that the City place an operating levy on the November 2018 ballot, which would fund the continuation of essential and quality of life services.

In addition, the City conducted its Biennial Community Survey in April 2018. The survey asked the question: "If the City asked voters to approve a 6-year levy lid lift that would raise property taxes enough to avoid reductions in service levels, what is the maximum increase in property taxes that you would be willing to pay?"

The results showed that:

- 21% would pay \$28 per month
- 25% would pay \$21 per month
- 43% do not want increases in taxes
- 11% do not know

When factoring out the “don’t know” responses, the results are as follows:

- 24% would pay \$28 per month
- 27% would pay \$21 per month
- 49% do not want increases in taxes

These results indicated an evenly split community. And as the survey consultant remarked, without a wide-spread education campaign, he predicted it would fail.

PROPOSITION 1: 6-YEAR LEVY LID LIFT

In November 2001, Washington State voters passed Initiative No. 747, limiting cities’ ability to increase their levies by more than one percent per year without voter approval. Initiative 747 did not claim that property taxes could not be raised; the intent of the Initiative was to have governments expressly ask their voters to approve such an increase.

The Council discussed the City’s financial challenges extensively in 2018, including on May 15 ([AB 5422](#)), June 5 ([AB 5440](#)), June 9 ([Council’s Mini-Planning Session](#)), June 19 ([AB 5445](#)), July 10 ([AB 5448](#)), and July 17 ([AB 5457](#)). The City had its General fund financial forecast reviewed by an independent municipal consulting firm, Management Partners, which delivered its report to the City Council on July 10, 2018. Their report indicated that, subject to some minor modifications, the forecast model formed a reasonable basis upon which the City Council could formulate fiscal policies. The “baseline” version of the model indicated a long-term structural deficit in the General Fund that would grow to nearly \$7.8 million annually by FY 2024 if no action was taken to resolve the fiscal gap. Based on this information, the City Council approved an ordinance on July 24, 2018 to place a six-year levy on the November 6, 2018 ballot. The ballot included the following:

Sustaining current levels of police/emergency, mental health counseling, safety net, park/right-of-way maintenance, and recreation services	
2019 Levy Rate Amount (<i>per \$1,000 Assessed Value</i>)	\$0.238
Limit Factor (2020-2024)	3%
Cost to Median Assessed Value Homeowner (\$1.2M)	\$286

The Proposition 1 election outcome was as follows:

YES	5,949	42.51%
NO	8,049	57.49%

2019-2020 BIENNIUM BUDGET

When preparing the 2019-2020 Biennium Budget in the fall of 2018, the City Council and staff assumed there would be no additional property tax levy revenue from a levy lid lift. Thus, to balance the budget, the City made \$1.36 million in reductions and used \$1.83 million in one-time monies. With the failure of the levy lid lift ballot measure, the Council directed staff to reduce the amount of one-time resources used to balance the budget in order to begin the process of transitioning to new lower levels of service. On April 2, 2019 the Council approved an additional \$1.34 million in reductions in 2019-2020, for a total of \$2.7 million in staffing and service level changes over the biennium.

FISCAL SUSTAINABILITY PLAN

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

Additionally, at its annual planning session in February 2019, the Council identified the implementation of a Fiscal Sustainability Plan as one of its priorities. The Council formally adopted their Priorities and Work Plan on April 2, 2019 (see [AB 5549](#)).

This evening, Management Partners will present the attached Budget Strategies Analyses and Recommendations (see Exhibit 1). Part of this discussion includes reviewing the updated baseline General Fund forecast and the three proposed budget scenarios, identifying additional information/data needed, and discussing the proposed public outreach and engagement plan.

Please note that the Youth and Family Services (YFS) Fund, which is also forecasted to experience projected deficits, is not being discussed in the FSP. The Council is scheduled to discuss the YFS Fund separately on April 30, 2019.

PROPOSED PUBLIC OUTREACH AND ENGAGEMENT PLAN

It is imperative to have a thorough and robust communications and engagement plan when discussing the City’s fiscal challenges and the possible solutions as they will have significant impacts on service levels.

The proposed public outreach and engagement process is designed to seek broad community input, which will help the Council in its deliberations to finalize and adopt the FSP. Staff has divided the process into two efforts. A summary outline with proposed activities and timeline are below.

1. Online Engagement – During the summer, it can be difficult to get the community’s attention, and rather than host community meetings during this time, staff is proposing an online engagement effort. This would include setting up “Let’s Talk,” which would host Management Partners’ material, include short 3-4-minute videos (City’s consultant would summarize each of the scenarios), provide a space for Q&A, receive the public’s comments, and conduct online polling.
2. Public Engagement – Starting in the fall, the staff recommends that the City host several meetings including a Town Hall (traditional format) and a Telephone Town Hall that would include Management Partners presenting the material and staff collecting feedback. In addition, staff would visit with various stakeholder groups to seek input.

ONLINE ENGAGEMENT May - October 2019	
1. Prepare Let’s Talk with FSP information & create short 3-4-minute videos	May
2. Launch Let’s Talk page <ol style="list-style-type: none"> a. Promote Let’s Talk via MI Weekly and social media platforms b. Respond to Q&A from the public c. Prepare various polls and promote for public input d. Expand on Q&A, if high community interest, with more information and/or videos 	June-October
PUBLIC ENGAGEMENT September - March 2019	
3. Host at least one Town Hall at the Community Center; Management Partners to present forecast and scenarios and answer questions; staff to collect feedback	September/October

4. City Manager and staff attends/presents at various stakeholder/community meetings: a. Chamber of Commerce b. Mercer Island Preschool Association c. Mercer Island Rotary Club d. Parent Teacher Associations e. Others TBD	September-December
5. Host a Telephone Town Hall (Management Partners to participate via phone)	October
6. City Council and School Board convenes Linkages Meeting	October
7. City Manager presents the "State of City" at the Chamber Luncheon	November
8. Host a Town Hall at the Community Center to collect feedback on Council's direction from 2020 Planning Session to finalize the FSP	March

Please note: the above is subject to change.

It is also worth noting the vital role that the City Council has in this process. The Council provides oversight, clarification, direction and decisions. Over the next year, the Council will play an active part in listening to the public, reviewing proposals and recommendations, and adopting and implementing the City's Fiscal Sustainability Plan. Below is a summary and proposed timeline for the Council's engagement process.

CITY COUNCIL ENGAGEMENT December 2018 - March 2020	
A. Management Partners and staff kick-off the Fiscal Sustainability Plan development process	December 18, 2018
B. Management Partners provides a progress report	March 19, 2019
C. Staff presents additional proposed deficit spending reductions for the 2019-2020 Budget as per Council's direction	April 2
D. Management Partners presents the Budget Strategies Analyses and Recommendations	April 16
E. Staff presents the Year-End 2018 Financial Status Report	May 7
F. Staff presents 1 st Quarter 2019 Financial Status Report	May 21
G. Management Partners provides Council follow-up/responds to information/data requests (if necessary)	June 4
H. Council identifies organizational efficiency assessments it would like conducted	June 4
I. Staff hosts Council Candidate Orientation	June 6
J. Staff works with outside consultants on assessments and presents findings and recommendations	June-December
K. Council provides staff with direction on which strategies, scenarios, and/or recommendations to seek the public's input on	June 21 Mid-year Planning Session
L. Staff presents 2 nd Quarter 2019 Financial Status Report	September 3 or 10
M. Staff presents 3 rd Quarter 2019 Financial Status Report	November 19
N. Staff hosts Council-Elect Orientation	December
O. Council reviews public outreach results, additional financial information/data, and provides direction to finalize the FSP	January/February 2020 Annual Planning Session
P. Council adopts final FSP	March/April

Please note: the above is subject to change.

RECOMMENDATION

City Manager

Receive and discuss the Budget Strategies Analyses and Recommendations prepared and presented by Management Partners



To: Ms. Julie Underwood, City Manager
Mr. Chip Corder, Assistant City Manager/Finance Director
Ms. Ali Spietz, Assistant to the City Manager

From: Andrew Belknap, Regional Vice President
Steve Toler, Partner
Don Rhoads, Special Advisor
Jim Steele, Special Advisor

Subject: Budget Strategies Analyses and Recommendations

Date: April 16, 2019

Executive Summary

Management Partners has been working with the City of Mercer Island during the past several months to identify potential budget strategies that would form the basis of a fiscal sustainability plan to address the City's General Fund fiscal gap identified in its six-year financial forecast.

The six-year forecast for FY 2019 through FY 2024 was developed by staff. Management Partners analyzed impacts of extending the forecast to ten-years to identify long-range revenue and expenditure trends that might impact the City's fiscal health that the six-year forecast does not already show. However, as we began to perform that extension, it became clear that expenditure growth would outpace revenue growth. This is primarily due to the 1% limitation on the annual property tax levy increase per state law, and binding interest arbitration for police and fire personnel that requires the City to meet cost of living adjustments and comparable compensation packages per the requirements under State law.

City leaders must find options to enhance revenue growth in future years. Without significant development or redevelopment projects that would generate one-time construction tax revenues, there will need to be further cuts to service levels.

The fiscal model assumes that revenue growth will be moderate, anticipates a mild recession in 2021 resulting in a 5% reduction in selected General Fund revenues and recovers by 2023, and expenditure growth based on inflationary factors of a modest 3%. The baseline forecast also includes the deficit spending reductions recommended by staff and approved by the City Council at its April 2, 2019 meeting.

With these baseline assumptions in place, the forecast projects a balanced budget during the FY 2019-2020 biennium for the General Fund. Starting in FY 2021, however, a structural deficit exists that grows from \$1.7 million in FY 2021 to \$4.8 million by FY 2024. Without corrective action, the City's General Fund will be almost fully depleted by FY 2022 and will be in a deficit position by FY 2023.

Given the magnitude and timing of the budget deficit forecast, Management Partners conducted an independent analysis of the City's revenues and costs of service delivery relative to the General Fund to develop options, or strategies, for addressing the challenge. The strategies are provided in Attachment A. They were developed along a continuum that included:

- Expenditure control/cost shifts,
- Service delivery changes designed to reduce expenditures,
- Revenue enhancement opportunities, and
- Service level reductions.

Arrayng ideas along such a continuum reflects the priority any organization would have for preserving service delivery to the maximum extent possible consistent with maintaining solvency.

The strategies were developed based on a combination of factors, including Management Partners' experience about approaches other cities and counties throughout Washington state and in other parts of the country are taking as they consider options to address structural deficits. We also identified ideas based on the City's unique opportunities and organizational climate. Several dozen potential strategies were developed in the categories described above.

An important element in developing an appropriate package of strategies for the City is the size and timing of the forecast deficit. Given the timing and size of the fiscal gap (representing nearly 17% of annual operating expenditures), City leaders need to implement significant revenue and expenditure adjustments relatively quickly. Absent such actions, they will almost certainly need to implement significant service level reductions to save \$1.8 million by 2021, growing to \$4.2 million annually by FY 2024 (which represents the least desirable outcome). Such an approach might require positions to be left vacant, or even to consider layoffs, to preserve solvency. In addition, such actions are always disruptive to an organization and often affect operations for a long time.

City leaders must take action in the very near term to implement planned and considered deficit reduction strategies. Because revenue strategies often require voter approval, timing is a critical issue.

Organization of this Memorandum

This memo consists of the following sections and attachments:



- **Comparative Research on Revenues and Expenditures.** This section highlights the results of our comparative research of significant General Fund revenues and expenditures for Mercer Island compared with 10 other agencies.
- **Determining Feasibility.** This section discusses the factors used in determining the feasibility of each strategy.
- **Strategies Considered.** This section identifies the feasibility tiers to which each strategy was assigned.
- **Staff Recommended Budget Strategies Approved by City Council.** Staff presented a series of budget strategies for Council consideration at its February 2019 Planning Session, and the Council formally approved them on April 2, 2019. These strategies are incorporated into our analysis.
- **Budget Strategy Scenarios.** This section discusses three different scenarios that take varied approaches to solve the fiscal gap:
 - Budget Scenario 1: Strong Revenue Strategies, Minor Expenditure Reductions
 - Budget Scenario 2: Balanced Approach – Moderate Revenues; Shared Service Delivery Changes and Minor Service Level Reductions
 - Budget Scenario 3: Strong Operating Expenditure Reductions
- **Attachment A – Detailed Strategies.** This attachment provides an analysis of each of the budget strategies and is organized by four strategy types:
 - **Expenditure Controls/Cost Shifts.** Maintaining service levels through reductions in expenditures or shifting the cost burden away from the General Fund.
 - **Service Delivery Changes.** Maintaining service levels by changing the way that services are delivered, either through contracting for services or insourcing services from other agencies.
 - **Revenue Enhancements.** Maintaining service levels by increasing the resources available to pay for those services through new or increased revenues.
 - **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.
- **Attachment B – Other Strategies Identified Not Specifically Analyzed.** This attachment provides a list of other strategies that were identified during the course of our work but, due to the potential for little or no material impact on the significant fiscal gap, were not researched in detail, however a brief discussion of each strategy identified is included.
- **Appendices** – Two appendices have been included:
 - **Appendix 1** – City Council Approved Net Service Reductions in the 2019-20 Final Budget
 - **Appendix 2** – Staff Proposed General Fund Budget Strategies for the 2019-20 Budget



Comparative Research on Revenues and Expenditures

In order to understand the relative potential of revenue generating strategies compared with cost reduction strategies, Management Partners compared General Fund revenues and expenditures for Mercer Island and other peer cities in the Puget Sound region. Peer agencies were selected based on population, number of housing units, household median income, and median home value. Data for each criterion was taken from the 2013-2017 American Community Survey Five-Year Estimates. The peers selected for this comparison are presented in Table 1.

Table 1. Comparable Agencies Selected for Peer Research

County	City	Population	Median Household Income
King	Auburn	77,440	\$64,400
	Issaquah	35,629	\$100,844
	Kenmore	22,154	\$96,277
	Kirkland	86,772	\$104,319
	Sammamish	62,877	\$157,271
	SeaTac	28,597	\$51,025
Snohomish	Bothell	44,082	\$89,477
	Lynnwood	37,242	\$58,852
	Mukilteo	21,101	\$100,650
Kitsap	Bainbridge Island	23,689	\$109,341
King	Mercer Island	24,768	\$136,644

Compared with other cities in the region, Mercer Island is relatively small in terms of population and area, while its residents enjoy relatively high household incomes. Given the City's nature as a relative outlier, the initial set of demographically-similar peers was supplemented with a selection of geographically-close agencies used by Mercer Island in salary comparisons.

Agencies in this peer group were compared in terms of projected total General Fund revenue, General Fund revenue by source, and total expenditures for the fiscal year 2019 and 2020 biennial budget period. Total biennial revenues and expenditures were used since eight out of ten peer agencies opt for biennial rather than annual budgets, including agencies that did not disaggregate yearly totals in their documents. For those peers that reported only 2019 budget projections (Issaquah and Mukilteo), 2020 revenues and expenses were estimated based on a 2.5% inflationary growth factor year over year. To normalize General Fund revenue data across cities with very different population sizes, we opted to compare budget information on a per capita basis.

Mercer Island's total General Fund revenues fall just above the median per capita, as represented by Bothell, and approximately \$420 over the average per capita for these peer



agencies (excluding Mercer Island). This overall position implies that the City's per capita revenues are roughly in line with those in the rest of the region. Total General Fund revenues, population, and General Fund revenues per capita, as well as Mercer Island's relative position, can be seen in Table 2.

Table 2. General Fund Revenues per Capita, Mercer Island and Peers

FY2019 and FY2020 Biennial Budgets	Total General Fund Revenues	Population	General Fund per Capita (FY19 and FY20)
Issaquah*	\$106,918,088	35,629	\$3,001
Lynnwood	\$109,246,955	37,242	\$2,933
Kirkland	\$245,083,307	86,772	\$2,824
SeaTac	\$80,457,131	28,597	\$2,813
Mercer Island	\$63,612,940	24,768	\$2,568
Bothell	\$107,608,032	44,082	\$2,441
Auburn	\$147,395,853	77,440	\$1,903
Bainbridge Island	\$37,964,830	23,689	\$1,603
Sammamish	\$87,929,243	62,877	\$1,398
Mukilteo*	\$29,320,481	21,101	\$1,390
Kenmore	\$25,877,871	22,154	\$1,168
Peer Average per Capita Revenue			\$2,148

* Provided only FY 2019 Budget projections. Biennial estimate based on 2.5% year over year inflation.

Examining total General Fund revenues per capita on their own may obscure imbalances in revenue generation. Taken in isolation, property tax per capita is higher in Mercer Island than in all peers but SeaTac, as shown in Table 3. Revenues generated by property tax for the combined 2019 and 2020 biennium are, on average, \$617 per resident.

Mercer Island's 2019 levy rate of \$0.93285 per \$1,000 of valuation is significantly lower than the peer average levy of \$1.30388 per \$1,000 of valuation. However, the City's 2017 American Community Survey (ACS) estimated median home value is nearly \$355,000 higher than its closest peer, Sammamish. SeaTac's property tax revenues, on the other hand, are driven by the highest property tax levy rate in this peer group, at \$2.56601 per \$1,000 of valuation. SeaTac also has the lowest household median income and second-lowest median home values in this peer group. Property tax revenues per capita for the 2019-2020 biennium for Mercer Island and its peers can be seen below in Table 3.

Table 3. General Fund Property Tax Revenues per Capita, Mercer Island and Peers

General Fund Property Tax Revenues (FY19 and FY20)	Property Tax Amount	Property Tax per Capita
SeaTac	\$34,859,620	\$1,219
Mercer Island	\$25,171,740	\$1,016
Sammamish	\$58,200,000	\$926
Bainbridge Island	\$15,264,000	\$644
Bothell	\$27,792,847	\$630
Auburn	\$43,450,000	\$561
Mukilteo	\$11,222,550	\$532



General Fund Property Tax Revenues (FY19 and FY20)	Property Tax Amount	Property Tax per Capita
Issaquah	\$18,427,943	\$517
Kenmore	\$10,224,205	\$462
Kirkland	\$39,035,971	\$450
Lynnwood	\$8,400,000	\$226
Peer Average per Capita Property Tax Revenue		\$617

Conversely, Mercer Island’s per capita sales tax revenues are on the very low end of the peer range, at an estimated \$413 per resident for 2019 and 2020. This places Mercer Island approximately 43% below the peer average of \$724 in sales tax revenue per capita. The City’s sales tax revenues as a proportion of the General Fund are also the lowest overall among its peers, comprising only 16% of its General Fund, compared with a peer average of 32%. This disparity could be accounted for by Mercer Island’s relatively small retail base, slowing pace of construction, and relatively low density. Per capita sales tax revenue is shown in Table 4.

Table 4. General Fund Sales Tax Revenues per Capita, Mercer Island and Peers

General Fund Sales Tax Revenues (FY19 and FY20)	Sales Tax Amount	Sales Tax Per Capita
Issaquah	\$70,656,211	\$1,983
Lynnwood	\$47,512,736	\$1,276
SeaTac	\$27,772,000	\$971
Bothell	\$32,895,775	\$746
Kirkland	\$55,394,823	\$638
Auburn	\$37,477,600	\$484
Bainbridge Island	\$10,508,000	\$444
Mercer Island	\$10,228,791	\$413
Mukilteo	\$5,467,500	\$259
Sammamish	\$14,800,000	\$235
Kenmore	\$4,450,000	\$201
Peer Average per Capita Sales Tax Revenue		\$724

Given already-high per capita property taxes and the difficulty of increasing sales tax revenues over the short term, utility users’ taxes (UUT) may represent Mercer Island’s best opportunity for per capita revenue generation. However, the City’s current per capita UUT is third-highest among this peer group, and 45% higher than the peer average of \$234. Mercer Island’s current rates are also at the statutory 6% limit for electric, gas, and telephone users’ tax rates that can be imposed without voter approval. The City’s 7% rate on solid waste and cable, which are not limited by state statute, are within the 6% to 10.5% rates charged by those peers reporting rates in their budget documents. On the other hand, Mercer Island’s 5.3% rate on water, sewer, and stormwater is below the 6% to 13.8% rates charged by peers. Water, sewer and stormwater UUT rates are also not subject to voter approval. Notably, two of the peers in this group, SeaTac and Sammamish, charge no utility users’ taxes at all, lowering the per capita peer average. In the



case of SeaTac, this may be balanced by its unusually high property tax levy. Table 5 shows utility users' tax data.

Table 5. General Fund Utility Users' Tax Revenues per Capita, Mercer Island and Peers

General Fund Utility Tax Revenues (FY19 and FY20)	Total Utility Tax Amount	Utility Tax per Capita
Bothell	\$16,802,965	\$381
Lynnwood	\$12,788,837	\$343
Mercer Island	\$8,427,672	\$340
Kirkland	\$28,446,819	\$328
Auburn	\$24,804,800	\$320
Bainbridge Island	\$6,877,330	\$290
Mukilteo	\$5,518,125	\$262
Issaquah*	\$8,700,864	\$244
Kenmore	\$3,862,923	\$174
SeaTac	\$0	\$0
Sammamish	\$0	\$0
Peer Average per Capita UUT Revenue		\$234

*Issaquah does not report disaggregated UUT in its 2019 budget document. Revenues are based on 2018 actuals provided by Issaquah's Director of Finance.

Finally, Mercer Island's budgeted per capita expenditures fall squarely in the middle of the distribution with peers, just above Bothell's position as the median, and \$441 per resident higher than the average for fiscal years 2019 and 2020 combined. This analysis, coupled with Mercer Island's disproportionately low sales tax revenues and moderate room for growth in per capita utility users' tax revenue implies that the City's fiscal sustainability challenge is insufficient revenue generation rather than annual expenditure growth. Mercer Island's relative per capita expenditures is shown in Table 6 below.

Table 6. General Fund Expenditures per Capita, Mercer Island and Peers

FY2019 and FY2020 Biannual Budgets	Total General Fund Expenditures	Total Revenue less Total Expenditures	Expenditures per Capita
Issaquah	\$107,356,799	(\$438,710)	\$3,013
Lynnwood	\$111,370,669	(\$2,123,714)	\$2,990
Kirkland	\$245,083,307	\$0	\$2,824
SeaTac	\$79,461,708	\$995,423	\$2,779
Mercer Island	\$63,990,409	(\$377,469)	\$2,584
Bothell	\$104,603,536	\$3,004,496	\$2,373
Auburn	\$158,374,570	(\$10,978,717)	\$2,045
Sammamish	\$96,507,767	(\$8,578,524)	\$1,535
Bainbridge Island	\$32,398,310	\$5,566,520	\$1,368
Mukilteo	\$28,155,353	\$1,165,128	\$1,334



FY2019 and FY2020 Biannual Budgets	Total General Fund Expenditures	Total Revenue less Total Expenditures	Expenditures per Capita
Kenmore	\$25,864,307	\$13,564	\$1,167
Peer Average per Capita Expenditures			\$2,143

Determining Feasibility

While all the strategies are technically feasible and have been implemented in other Washington settings, they are distinguished by differing levels of community support, complexity of implementation, implementation timing, and disruption to the organization relative to the financial return. Strategies deemed most feasible are solutions that can be implemented more readily and would be least disruptive to the organization.

Certain revenue changes such as tax measures require voter approval to implement and vary in terms of complexity and community support. Some have a greater impact on voters (e.g., local property tax levy lid lift measures, utility users' taxes) while others have more of an impact on those from outside the city (e.g., sales taxes).

Increasing fees and charges to full cost recovery may help the City's structural deficit but may have adverse impacts on community participation in those services. Voters are more likely to support measures when they know their tax dollars are being spent efficiently, requiring City staff to review cost efficiencies prior to taking those measures to voters. These factors require careful consideration in determining the feasibility of revenue enhancements.

Changes that would be disruptive to the organization will take time because the impacts may be the subject of mandatory bargaining with the City's labor groups. Substantial changes in service delivery methodologies or employee benefit programs should also be weighed against the reality that they might result in ongoing employee relations issues, which can impair more incremental change. Key decisions will need to be made in the next 12 months in order to address the fiscal challenges faced by the City.

The strategies identified in this memorandum have been quantified to the extent possible, based on current information available to Management Partners and City staff. In many cases, they have been programmed into the fiscal model so City leaders can explore the cumulative impact of implementing any package of actions.

Based on these considerations, budget strategies were evaluated considering the set of factors that may weigh on difficulty of implementation as indicated in Table 7 below.



Table 7. Factors Used in Assessing Implementation Difficulty

Factors	Minimal Difficulty	Moderate Difficulty	High Difficulty
Potential for community pushback	High	Medium	Low
Technical and operational difficulties of implementation	High	Medium	Low
Timing necessary for implementation	Timely implementation is moderately to highly probable to meet timing required to resolve the structural deficit	Timely implementation is possible, but less than moderately probable	Timely implementation is unlikely to meet the timing required to resolve the structural deficit
Disruptive impact on service delivery	Low	Medium	High
Disruptive impact within City organization	Low	Medium	High

After factoring implementation difficulty, this is then compared with the potential annual fiscal impact that the City would experience if the strategy were implemented. We stratified fiscal impact into three tiers:

- **Low fiscal impact.** Strategies that would have a fiscal impact of \$100,000 or less per year
- **Moderate fiscal impact.** Strategies that would have a fiscal impact between \$100,000 and \$250,000 per year
- **High fiscal impact.** Strategies that would have a fiscal impact of over \$250,000 per year

Combining implementation difficulty and fiscal impact, we identify those strategies that have the highest degree of potential success to provide fiscal sustainability to the City in accordance with Figure 1 presented below.



Figure 1. Budget Strategies Quadrant Analysis

		Potential Annual Fiscal Impact (est)		
		\$0-\$100,000	\$100,000-\$250,000	Over \$250,000
Difficulty of Implementation	Minimal difficulty	1	2	3
	Moderate difficulty	4	5	6
	Significant difficulty	7	8	9

Great potential of success: High fiscal impact; minimal difficulty	Good potential of success: Medium/High fiscal impact; Minimal to moderate difficulty	Moderate potential of success: Medium/high fiscal impact; Moderate to significant difficulty	Low potential of success: Low fiscal impact; Moderate to significant difficulty	Little/no potential of success: Low fiscal impact; Significant difficulty
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Strategies Considered

Following meetings with City Councilmembers and City staff, Management Partners conducted an independent analysis of strategies that would be appropriate for consideration in Mercer Island. Our experience in working with municipalities across the United States coupled with our research of viable options exercised by other cities in Washington state, led to identifying a set of strategies that could lead toward fiscal sustainability. The ultimate strategies selected for consideration were those with either great, good or moderate potential of success as indicated above.

Table 8 captures the first tier of strategies that have the greatest potential of success.

Table 8. Great Potential of Success

Great Potential of Success	Strategies
Expenditure Controls and Cost Shifts	None
Service Delivery Changes	None
Revenue Enhancement	11. Renew the existing Parks M&O levy lid lift 12. Increase the business and occupations tax
Service Reductions and Eliminations	None



City leaders will need to seriously consider implementing some or all these strategies. Renewal of the Parks maintenance and operations (M&O) levy lid lift could happen at any time but needs to take place before it expires at the end of 2023.

The next level of strategies, those with a good potential of success, shown in Table 9 are considered moderately feasible to implement. Generally, these strategies may take more time to successfully implement and/or be more disruptive to the City organization or community residents via service delivery impacts. City leaders will have to consider some of these strategies as their fiscal impact is considered significant, but the extent to which these will need to be fully implemented will depend on the level of success with those strategies with the greatest potential of success shown in Table 8 above. City staff will need to begin work on some of these strategies for two reasons: 1) those strategies with the greatest potential of success in total will not resolve the fiscal gap, and 2) they are needed as a fallback in case revenue strategies dependent on an election outcome are unsuccessful.

Table 9. Good Potential of Success

Tier 2	Strategies
Expenditure Controls and Cost Shifts	None
Service Delivery Changes	None
Revenue Enhancement	10. Implement a levy lid lift as a specific purpose tax 13. Increase utility users tax rates on City-owned utilities (water, sewer, stormwater) 16. Increase fees and charges to establish cost recovery standards at/near full cost recovery
Service Reductions and Eliminations	22. Reduce law enforcement specialized services

Strategies with a moderate potential of success are shown in Table 10. Several of these strategies fall into this category because of the implementation difficulty primarily due to either the potential for community pushback or disruptive impacts on service delivery. The strategies under expenditure controls and cost shifts do not yield as significant a fiscal impact as those related to service delivery changes or revenue enhancements in this category.

The revenue enhancement with the single greatest potential for fiscal impact, an increase in the levy lid lift, is in this category given the pushback from the community from the results of Proposition 1 in 2018. City leaders will need to address the potential for additional expenditure controls and service delivery changes, identify service level reductions that would otherwise need to be implemented, and engage the community about choices in advance of bringing forward another levy lid lift measure.



Table 10. Moderate Potential of Success

Tier 3	Strategies
Expenditure Controls and Cost Shifts	2. Renegotiate maintenance agreements with MISD for ball fields and pool maintenance
Service Delivery Changes	3. Contract for police services with King County Sheriff's Office 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 Enhancement	9. Implement a levy lid lift as a general tax increase 14. Implement the sustainability (administrative) fee in the solid waste contract
Service Reductions and Eliminations	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

The final tier of strategies, those with low or little/no potential of success, are considered the least feasible to implement in the City's current economic, political and operational environment. These are presented in Table 11. Generally, these strategies have either proven difficult to implement in similar settings or would have a negative impact in the long term on the organization and community. To the extent the City is unable to generate enough revenue increases or expenditure reductions from other strategies, these more difficult options for maintaining solvency might need to be explored.

Table 11. Low or Little/No Potential of Success

Tier 3	Strategies
Expenditure Controls and Cost Shifts	1. Reduce vacation benefits
Service Delivery Changes	4. Contract operation of the Mercer Island Community and Event Center
Revenue Enhancement	15. Increase utility users taxes on solid waste services
Service Reductions and Eliminations	17. Take no action

One strategy included for discussion purposes is taking no action. This is realistically not a viable option, because it would result in a condition of insolvency. The overwhelming majority of General Fund expenditures support personnel costs. When such a circumstance becomes imminent, the only thing a city can do is leave positions vacant when employees retire or separate from employment (sometimes called a hard hiring freeze), and/or lay off employees to reduce costs and maintain solvency. This will have catastrophic impacts on the City's ability to



serve the community. In extreme circumstances, a jurisdiction could be forced to consider or even file for bankruptcy protection. Filing for bankruptcy protection is an unusual circumstance in Washington, most recently experienced by the Kennewick Public Hospital District in 2017. There are no known situations in Washington where a city or county has filed for bankruptcy protection, but this has been experienced in other states such as California, Idaho, Michigan, Alabama and Pennsylvania.

Staff Recommended Budget Strategies Approved by City Council

The approved FY 2019-2020 adopted biennial budget included nearly \$1.4 million in General Fund service level reductions (see Appendix 1). During this project, the City Council requested that the City Manager provide a list of additional recommended budget strategies to them for consideration for the FY 2019 and 2020 budget years. The goal was for staff to reduce the amount of one-time resources used to balance the 2019-2020 General Fund and Youth and Family Services Fund budget by \$1.2 million through expenditure reductions and revenue enhancements, excluding any tax increases.

Staff presented an initial draft of recommended strategies to the City Council at its planning session on February 2, 2019. This list, which was updated, reviewed and unanimously approved by Council on April 2, 2019, had expenditure savings and revenue enhancements totaling \$1.34 million for the biennium. The annual ongoing fiscal impact to the General Fund starting in 2020 is to reduce the fiscal gap by \$913,000.

The staff recommended strategies are shown in Appendix 2. The most significant items in that list that have ongoing fiscal impact to the General Fund are shown below:

- Eliminating pay-for-performance program in 2020 (\$314,000 in cost savings)
- Eliminating General Fund support of Youth and Family Services by 2020 (\$309,000 in cost savings)
- Eliminating Summer Celebration in 2019, including parks maintenance overtime support (\$92,000 in cost savings)
- Eliminating one help desk technician in Information and Geographic Services (IGS) in 2019 (\$79,000 in cost savings)
- Increasing land use fees to 80% cost recovery in 2019 (\$60,000 in revenue enhancements)
- Reorganizing the IGS Department as a division in the Finance Department in 2019 and reclassifying the IGS director to information services manager (\$47,000 in cost savings in 2019, and \$39,000 in cost savings in 2020)
- Eliminating the community center reservations specialist position in 2019 (\$46,000 in cost savings)
- Eliminating special events overtime in the Police Department in 2019 (\$30,000 in cost savings)
- Adding back one deputy fire chief in 2020 that was eliminated in the approved budget (\$215,000 in cost increases)



The staff-recommended strategies were not separately analyzed by Management Partners. We reviewed those strategies with staff and determined that the fiscal impact estimates are reasonable for purposes of incorporating into the revised fiscal forecast, as discussed below.

Other Strategies Identified

Additional strategies were identified during our analysis that were either deemed to provide little or no significant impact (i.e., less than \$50,000 annually) to solving the General Fund's structural deficit or were otherwise determined to be infeasible given the City's current operating environment. Those items are identified in Attachment B to this report, with a brief description of each item and why those strategies were not analyzed further in greater detail.

This is not to say that these strategies could not be studied by the City, but rather that in our opinion the opportunities to address the City's fiscal gap in a timely manner would not be significant or might otherwise erode service delivery to an unacceptable level. For those items where current revenue or expenditure estimates were readily available, the potential savings to the General Fund for all the ideas combined may approach \$500,000 annually. However, given the magnitude of the structural deficit that grows to \$4.8 million by 2024, our efforts were focused on other strategies that would yield greater potential impacts toward fiscal sustainability of the City's General Fund.

Budget Strategy Scenarios

Baseline Scenario

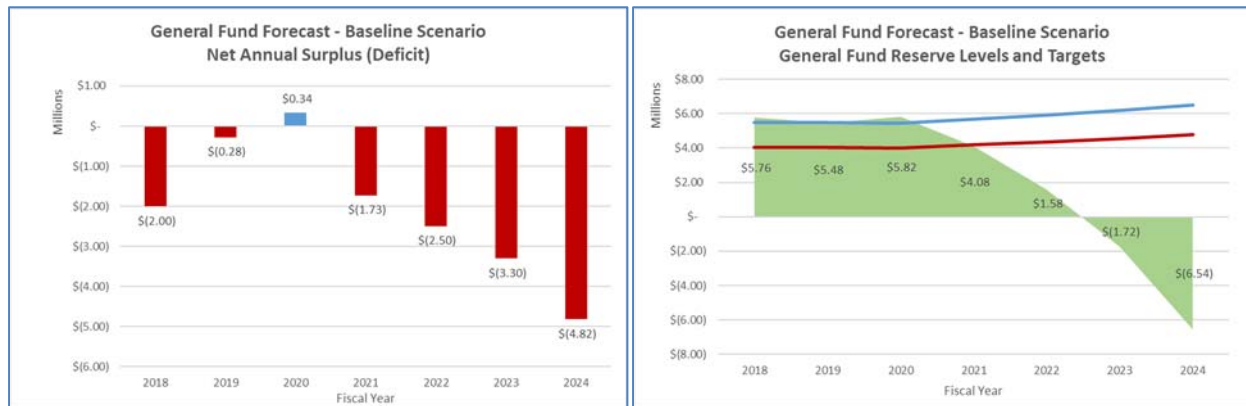
The baseline fiscal model was updated to incorporate the staff recommended FY 2019-2020 budget strategies that the City Council approved for implementation on April 2, 2019. The model now indicates that the General Fund is balanced through FY 2020, but that the annual deficit will increase from \$1.7 million in FY 2021 to \$4.8 million in FY 2024. The largest driver of the increasing structural gap is the fact that expenditure growth is projected to outpace revenue growth. Property taxes, the single largest revenue source for the General Fund, can only grow by Council action at 1% per year plus the impact of new construction on the total tax levy which equates on average to an additional 1% per year.

Personnel costs are the largest expenditure category in the General Fund. Police and fire personnel are subject to meet and confer provisions, and can invoke binding interest arbitration per the provisions of RCW 41.56.450-470. This provision indicates that the arbitration panel must consider its decision based, in part, on "the average consumer prices for goods and services (cost of living)" and "comparison of wages, hours and conditions of employment ... of like employers of similar size on the west coast of the United States." This is a significant driver in the spread between the growth of expenditures (projected based on a conservative cost of living factor of 3%) and the 2% annual growth in property tax revenues.



The City has established a target reserve policy for its General Fund of maintaining undesignated reserves of not less than 12.5% of annual budgeted operating expenditures. The Government Finance Officers' Association (GFOA) has recommended that municipalities establish minimum reserve policies for General Funds of not less than two months, or 17%, of annual operating expenditures, considered by many to be a best practice. If Council takes no action, the model projects that General Fund reserves will not only fall below the City's reserve policy of 12.5% by FY 2021, but they will fall below zero in FY 2023, as shown in Figure 2.

Figure 2. *Historical and Projected General Fund Surplus/Shortfall and Reserves – Baseline Scenario*



Development of Three Budget Scenarios

Management Partners has prepared three scenarios for Council's consideration that address this 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 described in this report are provided as examples of the types of strategies that Councilmembers 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 included in this report employ different strategies and make assumptions with respect to the timing of implementing each strategy. Table 12 summarizes these three scenarios.



Table 12. Budget Strategy Scenarios

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 3 – Strong Operating Expenditure and Service Level Reductions; Parks M&O Measure Renewed	<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 ongoing General Fund expenditure reductions totaling \$1.1 million 2023, and an additional \$600,000 in 2024



Budget Scenario 1. Strong Revenue Enhancement Strategies

Scenario 1 includes the following budget strategies to resolve the fiscal gap. They are centered primarily around revenue enhancements.

- **Staff-Recommended Strategies.** Implement all staff-recommended deficit spending reductions that were approved by City Council in April 2019.
- **Property Tax Levy Lid Lift.** Increase the existing levy by 7.5% in 2021, including a 5% growth factor in future years at least through 2024. This would require majority voter approval in the November 2020 election.
- **Utility Users Tax on City Owned Utilities.** Increase the UUT rate for water, sewer and stormwater utilities from 5.3% to 8% effective January 1, 2022. This can be performed by City Council action, but may require the provision of a referendum in the ordinance revision.
- **Business and Occupation Tax.** Increase the B&O tax from 0.10% to 0.15% effective January 1, 2023. This can be implemented through City Council action amending the existing ordinance.
- **Building/Planning User Fees.** Increase fees for building and planning service to achieve at or near full cost recovery by January 1, 2023. This can be implemented through City Council resolution.
- **Parks M&O Levy Lid Lift.** Renew the existing Parks M&O levy lid lift prior to its expiration at the end of 2023. This would require majority voter approval no later than the November 2023 election.
- **Other General Fund Expenditure Reductions/Revenue Enhancements.** Implement ongoing expenditure reductions or revenue enhancements totaling \$400,000 by 2024. To accomplish this the City can consider implementing some of the more minor impact strategies contained in Attachment B, as they would cumulatively be significant. In addition, the City can consider undertaking strategies which were deemed to be undesirable in terms of community impacts. On the revenue side the City may have to consider adjusting user fees such as recreation fees to fully cover costs, and pursuing other revenue raising options that may become available under State law. Finally, to the extent required, the City can begin holding some positions vacant or even eliminating the positions as attrition occurs (a soft hiring freeze).

Implementing these strategies will eliminate all annual budget shortfalls by FY 2022 and maintain reserves at or above the targeted 12.5% of annual operating expenditures through FY 2024. These trends are shown in Figure 3.



Figure 3. Projected General Fund Surplus/Shortfall and Reserves – Budget Scenario 1



Budget Scenario 2. Balanced Approach – Moderate Revenues; Service Delivery Changes and Minor Service Level Reductions

Scenario 2 includes budget strategies below to resolve the fiscal gap. They take a balanced approach between revenue enhancements and expenditure reductions, attempting to maintain service levels by implementing service delivery changes that provide similar service levels at reduced costs. A moderate amount of other expenditure reductions would be necessary to close the structural gap by 2024.

- **Staff-Recommended Strategies.** Implement all staff-recommended deficit spending reductions that were approved by City Council in April 2019.
- **Property Tax Levy Lid Lift.** Increase the existing levy by 5% in 2021, including a 2% growth factor in future years at least through 2024. This would require majority voter approval in the November 2020 election.
- **Building/Planning User Fees.** Increase fees for building and planning service to achieve at or near full cost recovery by January 1, 2021. This can be implemented through City Council resolution.
- **Utility Users Tax on City Owned Utilities.** Increase the UUT rate for water, sewer and stormwater utilities from 5.3% to 8% effective January 1, 2022. This can be performed by City Council action, but may require the provision of a referendum in the ordinance revision.
- **Parks M&O Levy Lid Lift.** Renew the existing Parks M&O levy lid lift in 2024. This would require majority voter approval no later than the November 2023 election.
- **Fire EMS Apparatus.** Change one fire engine to an EMS apparatus (ambulance) and replace one of the firefighters on the apparatus for each shift with one non-sworn EMT technician by 2022.
- **Fire Shared Services Model.** Implement a shared services model for fire services, incorporating changes to the EMS apparatus service delivery, by 2023.
- **Contracted Police Services.** Contract police services with KCSO by 2023, maintaining marine patrol services as a service delivery component.



- Other General Fund Expenditure Reductions/Revenue Enhancements.** Implement ongoing expenditure reductions or revenue enhancements totaling \$475,000 by 2024. To accomplish this the City can consider implementing some of the more minor impact strategies contained in Attachment B, as they would cumulatively be significant. In addition, the City can consider undertaking strategies which were deemed to be undesirable in terms of community impacts. On the revenue side the City may have to consider adjusting user fees such as recreation fees to fully cover costs, and pursuing other revenue raising options that may become available under State law. Finally, to the extent required, the City can begin holding some positions vacant or even eliminating the positions as attrition occurs (a soft hiring freeze).

Implementing these strategies will result in an annual budget shortfall of \$900,000 in FY 2021, but will eliminate the structural gap by FY 2022 and maintain reserves just above the targeted 12.5% of annual operating expenditures through FY 2024. These trends are shown in Figure 4.

Figure 4. Projected General Fund Surplus/Shortfall and Reserves – Budget Scenario 2



Budget Scenario 3. Strong Operating Expenditure and Service Level Reductions; Parks M&O Measure Renewed

Scenario 3 would have the most significant negative impact on City services. It assumes that most revenue enhancement strategies are not able to be implemented, thus requiring significant cuts to General Fund operations.

- Staff-Recommended Strategies.** Implement all staff-recommended deficit spending reductions that were approved by City Council in April 2019.
- Parks M&O Levy Lid Lift.** Renew the existing Parks M&O levy lid lift in 2024. This would require majority voter approval no later than the November 2023 election.
- Parks Landscaping.** Reduce parks landscaping and beautification efforts sufficient to eliminate \$100,000 of expenditures by 2020.
- Fire Station Elimination.** Eliminate staffing in one fire station, likely Station 92, by 2022.



- **Law Enforcement Specialized Services.** Reduce General Fund subsidy totaling \$450,000 of law enforcement specialized services in the areas of investigations, school resource officer, special programs, special teams, and emergency preparedness planning by 2022.
- **Other General Fund Expenditure Reductions/Revenue Enhancements.** Implement ongoing expenditure reductions or revenue enhancements totaling \$1.1 million starting in 2023, and an additional \$600,000 (cumulative \$1.7 million) by 2024. To accomplish this the City can consider implementing some of the more minor impact strategies contained in Attachment B, as they would cumulatively be significant. In addition, the City can consider undertaking strategies which were deemed to be undesirable in terms of community impacts. On the revenue side the City may have to consider adjusting user fees such as recreation fees to fully cover costs, and pursuing other revenue raising options that may become available under State law. Finally, to the extent required, the City can begin holding some positions vacant or even eliminating the positions as attrition occurs (a soft hiring freeze). Further service level reductions would be necessary, as discussed in Budget Strategy 18.

Implementing these strategies will bridge the fiscal gap and maintain reserves at 12.5% of annual operating expenditures by FY 2024. This strategy, however, will have the greatest potential of needing additional expenditure reductions beyond FY 2024 given the long-term imbalance between revenue and expenditure growth trends, as illustrated in Figure 5.

Figure 5. Projected General Fund Surplus/Shortfall and Reserves – Budget Scenario 3



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

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 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 13. 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 compensate 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 14. 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 280 hrs - eligible for cash out	12 days max 960 hrs - eligible for 50% 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



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

STRATEGY TYPE: Service Delivery Change

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 recovered 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 selected 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 use 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 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.



SERVICE DELIVERY CHANGES

3. Contract for Police Services with King County Sheriff

STRATEGY TYPE: Service Delivery Change

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 15. 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



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

STRATEGY TYPE: Service Delivery Change

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.



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

STRATEGY TYPE: Service Delivery Changes

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.



6. Develop a shared services model for fire services

STRATEGY TYPE: Service Delivery Changes

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.



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

STRATEGY TYPE: Service Delivery Change

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 a 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.



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

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.



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

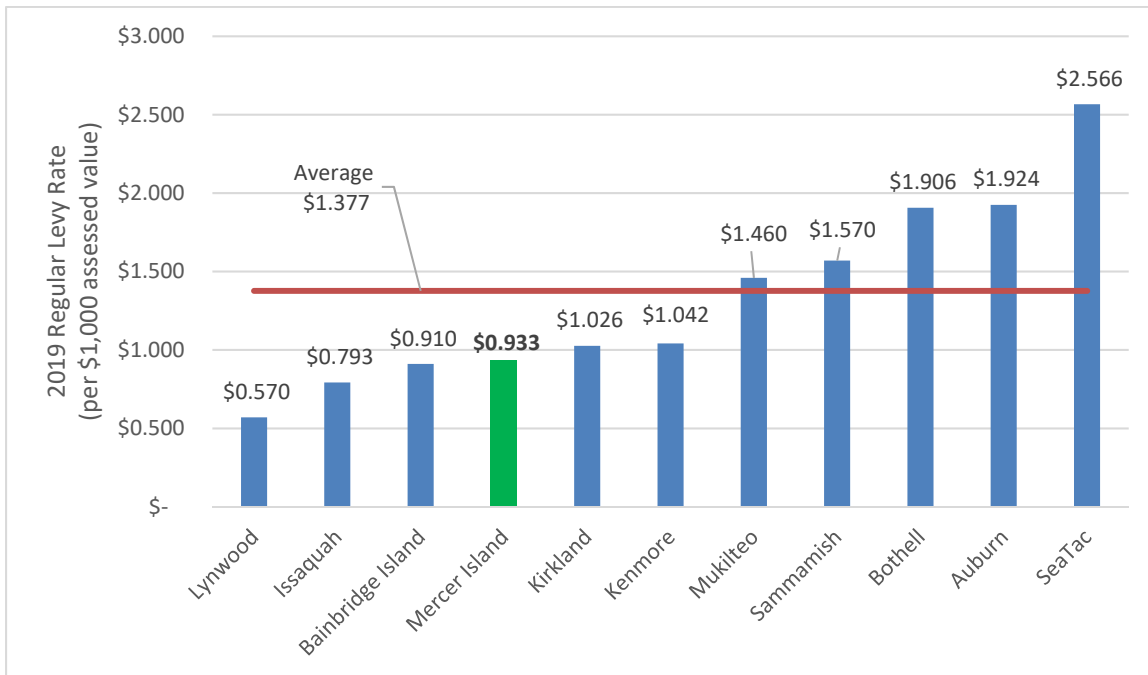
Washington state law provides the opportunity for cities to increase the annual levy on properties by not more than 1% in any one year through Council resolution, plus an allowance for new construction. Increases in any single year, or over a period of multiple years, requires a voter-approved “levy 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 6. 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.



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 16. 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.



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

STRATEGY TYPE: Revenue Enhancement

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.



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

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 17. 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



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 18. 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 19. 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.



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.



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 20. 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



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 21. 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.



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.



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.



19. Eliminate/brown out one fire station

STRATEGY TYPE: Service Level Reductions

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.



20. Reduce parks landscape maintenance and irrigation

STRATEGY TYPE: Service Level Reduction

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
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.



21. Eliminate or Reduce Marine Patrol Services

STRATEGY TYPE: Service Level Reduction

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.



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

STRATEGY TYPE: Service Level Reduction

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

Table 22 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.

Table 22. 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.
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	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 of 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 lower cost than 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. Could not realistically go into effect until after the next election.
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 to 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.
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	Current costs are less than \$10,000 annually.
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.



Appendix 1 – City Council Approved Net Service Reductions in the 2019-2020 Final Budget

Council Approved Net Service Reductions by Fund 2019-2020 Final Budget

Summary

Fund	2019	2020	Total
General Fund:			
Total Service Reductions	-\$459,465	-\$734,042	-\$1,193,507
Plus Police Public Records Support (0.5 FTE)	\$61,572	\$64,058	\$125,630
Youth & Family Services Fund:			
Total Service Reductions	-\$154,005	-\$280,812	-\$434,817
Plus Reduction in Annual Funding from General Fund for YFS Dept	\$46,000	\$91,000	\$137,000
Net Service Reductions	-\$505,898	-\$859,796	-\$1,365,694
2019-2020 Net FTE Reductions	4.33*	1.83	6.16

* Includes GIS Technician (1.0 contract FTE) which is accounted for in the CIP

General Fund

Department	2019	2020	Mandatory, Essential or Discretionary
Fire:			
Eliminate Deputy Fire Chief (1.0 FTE)		-\$215,030	Essential
Non-Departmental:			
Reduce ARCH Contributions	-\$46,000	-\$46,000	Discretionary
Reduce Annual Funding for YFS Dept (funding source for restoring Patrol Officer)	-\$46,000	-\$91,000	Discretionary
Parks & Recreation:			
Reduce Luther Burbank Park & Groveland Beach Lifeguards	-\$46,000	-\$46,000	Discretionary
Reduce MICEC Customer Service/Operating Hours (net of MICEC rental fee loss)	-\$34,332	-\$42,350	Discretionary
Reduce Annual Funding for MICEC Technology and Equipment	-\$22,000	-\$22,000	Discretionary
Eliminate Special Events Coordinator (1.0 FTE), Special Events, & Town Center Holiday Lights	-\$133,536	-\$137,705	Discretionary
Eliminate Recreation Specialist (1.0 FTE, funding source for restoring Patrol Officer)	-\$81,597	-\$83,957	Discretionary
Public Works:			
Reduce Town Center Beautification and Farmers Market Support	-\$50,000	-\$50,000	Discretionary
Total Service Reductions	-\$459,465	-\$734,042	
Plus Police Public Records Support (0.5 FTE)	\$61,572	\$64,058	Mandatory
Net Service Reductions	-\$397,893	-\$669,984	

Youth & Family Services Fund

Department	2019	2020	Mandatory, Essential or Discretionary
Youth & Family Services:			
Reduce Geriatric Specialist by 0.50 FTE (net of Foundation donation reduction)	-\$47,799	-\$49,162	Discretionary
Reduce Administrative Support by 0.50 FTE (net of Foundation donation reduction)	-\$29,628	-\$30,498	Discretionary
Reduce Elementary School Counselors by 0.83 FTE in 9/2019-12/2019 & 0.83 FTE in 9/2020-12/2020 (net of Foundation donation reduction)	-\$30,578	-\$110,152	Discretionary
Reduce Interfund Transfer to Capital Improvement Fund for Thrift Shop Repairs (this was necessary to reduce annual funding for YFS Dept, which is noted above)	-\$46,000	-\$91,000	Discretionary
Total Service Reductions	-\$154,005	-\$280,812	
Plus Reduction in Annual Funding from General Fund for YFS Dept	\$46,000	\$91,000	
Net Service Reductions	-\$108,005	-\$189,812	

Source: City Council Planning Session, "Fiscal Sustainability in 2019-2020 and Beyond", February 1, 2019



Appendix 2 – Staff Proposed General Fund Budget Strategies for the 2019-2020 Budget

Deficit Spending Reductions to 2019-2020 Adopted Budget (General Fund Only) Approved by City Council on April 2, 2019

Proposed Deficit Spending Reductions by Department	2019			2020		
	Expenditure Reductions	Revenue Reductions	New Revenues	Expenditure Reductions	Revenue Reductions	New Revenues
City Council/City Manager's Office						
Reduce Sister City Support in 2020				(6,000)		
Eliminate Senior Project Manager in 2020 (0.58 FTE)				(28,732)		
Community Planning & Development						
Adjusted land use fees to 80% cost recovery level in 2019			60,000			60,000
Combine 2 half-time Code Compliance positions into 1.0 FTE	(4,311)			(4,089)		
Finance						
Department reorganization	(12,000)			(20,000)		
Increase parking permit fees from \$5/yr to \$30/yr in 2020						18,535
Fire						
Restore Deputy Fire Chief (1.0 FTE) cut in adopted budget				215,030		
Human Resources						
Reduce employee service awards				(3,500)		
Information & Geographic Services						
Eliminate IGS Helpdesk Technician (1.0 FTE)	(78,856)			(78,405)		
Reclassify IGS Director to IGS Manager	(46,800)			(39,000)		
Parks & Recreation						
Eliminate Summer Celebration	(93,500)	(25,000)		(93,500)	(25,000)	
Eliminate Parks Maintenance overtime related to SC!	(23,046)			(23,046)		
Eliminate Community Camp Out	(3,325)	(1,900)		(3,325)	(1,900)	
Eliminate Leap for Green	(1,200)			(1,200)		
Eliminate All-Island Track Meet	(2,500)			(2,500)		
Reduce MICEC customer service (casual labor)	(24,668)			(13,719)		
Eliminate MICEC Reservations Specialist (1.0 FTE) & increase casual labor by \$32K/yr	(45,793)			(48,051)		
Police						
Eliminate special events overtime	(30,000)			(30,000)		
Public Works						
Eliminate ROW Team overtime related to SC!	(1,185)			(1,185)		
Eliminate Christmas tree recycling by ROW Team (now covered by Recology contract)	(5,000)			(5,000)		
Reduce City building repair & maintenance	(10,000)			(10,000)		

Source: City Council Regular Meeting Agenda, AB5545, April 2, 2019



**Deficit Spending Reductions to 2019-2020 Adopted Budget (General Fund Only)
Approved by City Council on April 2, 2019**

Proposed Deficit Spending Reductions by Department	2019			2020		
	Expenditure Reductions	Revenue Reductions	New Revenues	Expenditure Reductions	Revenue Reductions	New Revenues
Citywide/Non-Departmental						
Eliminate pay-for-performance in 2020				(313,708)		
Eliminate General Fund support of YFS in 2020				(309,000)		
Phase out Chamber of Commerce support beginning 2020				(7,200)		
Eliminate Mountains to Sound Greenway support in 2020				(10,000)		
Reduce miscellaneous professional services	(12,500)			(25,000)		
Total General Fund	(394,684)	(26,900)	60,000	(861,130)	(26,900)	78,535

Other resource options include:

- 1) Utilize collections for unpaid ambulance transport fees (\$40K/yr).
- 2) Increase annual business license fee from \$30 to \$50 (\$65K/yr).
- 3) Increase B&O tax rate from 0.10% to 0.15% (\$325K/yr).
- 4) Increase utility tax rate on City's utilities (1% tax rate = \$195K/yr).

427,784	Total deficit spending reductions in 2019	(427,784)
	Total deficit spending reductions in 2020	(912,765)
	Total deficit spending reductions in 2019-2020	(1,340,549)
	2019-2020 total reduction target per Council	(1,200,000)
	Total FTE reductions	(1.58)

Source: City Council Regular Meeting Agenda, AB5545, April 2, 2019

