

# TUMWATER CITY COUNCIL WORKSESSION

## MINUTES OF MEETING

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**CONVENE:** 5:34 p.m.

**PRESENT:** Mayor Pete Kmet and Councilmembers Michael Althaus, Joan Cathey, Eileen Swarthout, Debbie Sullivan, Leatta Dahlhoff, Tom Oliva, and Neil McClanahan.

Staff: City Administrator John Doan, City Attorney Karen Kirkpatrick, Assistant City Administrator Heidi Behrends Cerniwey, Finance Director Ursula Euler, Fire Chief Scott LaVielle, Police Chief Jon Weiks, Community Development Director Michael Matlock, Public Works Director Jay Eaton, Parks & Recreation Director Chuck Denney, Communications Manager Ann Cook, and Recording Secretary Valerie Gow.

**2017 FINANCIAL WRAP-UP AND 6-YEAR FORECAST:** City Administrator Doan and Director Euler briefed the Council on the 2017 financial wrap-up and the 2019-2024 financial forecast.

The 2017 financial wrap-up covered the following:

### **Accomplishments:**

- Well City Award from AWC
- Implemented new LEOFF Disability Board
- New Point of Sale software at Golf Course
- Hired 30 new regular-status employees (Attrition & Retirements)
- Completed Design Guidelines
- Updated Comprehensive Plan
- Adopted Low-Impact Development regulations
- Issued permits for 220 residential units
- Welcomed Toyota, Department of Revenue, Evergreen Credit Union
- Tyee/Israel Road Improvements
- Tumwater Boulevard/1-5 Ramp Improvements
- \$2.25 million in pavement improvements
- Promoted a successful Legislative Agenda
- Hosted first Community Summit with partners
- Joint meeting with school board
- Hired several new senior staff
- Emergency protections at Historic Brewhouse
- Initiated Housing and Homeless Study
- Resolved issues with hatchery catchment facility

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- Online utility billing started and added payment method
- Improved budget document
- Completed Station T-2 staffing
- Named and opened Isabella Bush Park
- Task Force studied parks and recreation funding
- Numerous facility improvements
- U Street/Capitol Pedestrian crossing
- Peter G. Sidewalk Improvements
- Grants for Desoto, Trail, Street Light Conversion, Trosper/Capitol Boulevard projects
- Numerous water, sewer and storm water improvements
- CFP update
- Improved Henderson House siding, porch hose cart and outside furniture
- Expanded golf cart fleet
- Added Special Olympics Program to golf
- Added second School Resource Officer
- Logged 13,600 volunteer hours

Councilmember Oliva asked about the status for opening Henderson House. Director Denney replied that staff is working with the Olympia Tumwater Foundation to document and inventory Henderson House archives and records. The intent is to open the Schmidt Mansion, Crosby House, and the Henderson House for historic tours on weekends because each house represents a different period in time. The goal is to feature rotating exhibits in each house to attract repeat visitors. The Henderson House should be open by summer for limited tours on weekends.

Councilmember Cathey asked about the financial partnership between the Tumwater School District and the City for the second School Resource Officer. City Administrator Doan reported the School District funds the officer's salary and the City funds the equipment, vehicle, and any overtime for school events.

Director Euler reviewed the outcome of the 2017 revenue budget. The 2017 budget performed better than the 2016 budget by 14%. The economy is picking up and sales tax revenue does not include the payment of \$624,000 for Tyee Drive improvements. Trends indicate consumer confidence has increased. The anticipated tax cut also contributed to optimism.

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Property tax revenue is constrained because of the 1% limitation with the exception of new construction. Property taxes are a stable source of revenue versus sales tax, which is more volatile.

Councilmember Oliva inquired about the status of the levy lid lift. City Administrator Doan explained that the levy lid lift expired in 2017. The levy lid raised property taxes that were also adjusted to the rate of inflation each year during the period of the levy. At the end of the six-year levy, the adjustment for inflation expired limiting the annual increase in property tax to the 1% cap.

Other revenue includes business & occupation (B&O) tax, utility taxes, shared revenue, planning and permit fees. The budget for other revenue is performing better than forecasted.

Councilmember Cathey asked about the status of efforts to improve the tracking and collection of B&O taxes. Director Euler said some improvements have occurred in the collection of B&O tax with the addition of personnel. The forecast is higher most likely because of improvement in the economy. City Administrator Doan explained that the City is somewhat challenged because of the unavailability of a company that tracked business licenses and B&O collection. Director Euler added that tracking of sales tax against business licenses has been difficult because of the lack of staff resources. Efforts are continuing to improve outcomes.

Councilmember Cathey asked about the cause for the increase in the collection of utility taxes. Director Euler said collection of utility taxes can vary and likely could be contributed to more subscribers, weather, and recent annexations.

Director Euler reviewed expenditures. By law, the City cannot exceed expenditures over income. In 2017, some unfilled vacancies resulted in budget savings in the Police Department, Street Division, and in the Community Development Department. Combined with all other savings, the City achieved savings of \$1.5 million.

City Administrator Doan added that from 2010 to 2014, the City strategically retained some vacancies and did not pursue replacements.

Director Euler highlighted other budget savings and achievements. The City follows a policy of using one-time resources only for one-time items. One-time resources are fund balance, and one-

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time revenue. In 2017, the City used \$923,000 from the fund balance, which was less than budgeted.

City Administrator Doan offered kudos to the Council for their decision in 2011 during the great recession to fund the emergency fund resulting in a fund balance of \$1.2 million.

City Administrator Doan outlined the framework for the six-year financial forecast of 2019-2024. His review included discussion on the purpose of the forecast, forecast limitations, revenue and expenditure drivers, financial picture from 2013 to 2018, inputs and assumptions, financial plan, financial tool box, and key messages.

The purpose of a six-year plan is to examine the longer-term financial picture, detect early warning signs, allows a look at revenue and expenditure levers, forecasts how much capacity exists for expansion or changes in programs and services, provides policy choices, and sets the stage for the 2019-2020 biennial budget.

The Council and staff discussed external factors impacting the budget, such as the tariff and/or a trade wars, increased cost of goods, and the rate of inflation. Washington State is the most trade-dependent state in the nation.

Revenue drivers include consumer confidence, federal policies, uncertainty, population growth, and the price of energy (oil). The City is directly affected by the financial health of the state in terms of shared revenues and the local economy, retail and B&O taxes, available land for residences and businesses, and attractiveness of the City to draw more people and businesses.

The City's General Fund revenue is derived from property tax, sales tax, utility and B&O tax, intergovernmental contracts (Medic One), internal service fees, shared revenues and grants, and other sources of income.

Expenditures include City employees (accounting for 68% of expenses in 2017), inflation on purchases and energy costs, level of service, emergencies, and deferred and routine maintenance.

Councilmember Swartout questioned the City's investment in public safety compared to other cities of comparable size. City Administrator Doan said personnel costs for public safety are consistent with other cities and generally consume approximately 50% of the budget. Counties typically have higher costs because

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of courts and cities lacking a fire department have lower personnel costs.

City Administrator Doan reviewed a snapshot of major budget decisions and actions the City pursued from 2005 through 2017 to balance the budget.

Director Euler reviewed a forecast of revenue assumptions:

- New construction adds \$40 million in assessed value and \$100,000 in property tax
- 1% levy lid, no annexation, no levy lid lift
- Population growth = 1% on average (annually)
- Consumer Price Index (CPI) = 3.5% to 4%    Gross Domestic Product (GDP) = 2.4% declining to 2.0%
- B&O taxes increase by GDP
- Sales, Utility and Other Taxes = increase by population and CPI
- Share revenue and other revenue increase by CPI
- Emergency Fund is fully funded
- Gopher credits used/sold by 2020
- Personnel – maintain status quo – no changes in departments, no new programs or staff, 5% vacancy factor and ‘savings’ in services and materials
- Salaries COLA and steps – 4.5% to 7%
- General operations cost increase by 3.5% to 4%
- Pension rates increase by 3% on average
- Health care benefits increase by 8%

The downside of current economic conditions revolve around:

- White House turmoil, Amazon, tariffs, trade war
- Federal Reserve raising the federal funds rate
- Inflation is now a thing (3.3% as of February 2018)
- Federal and state grants, including earmarks, down or eliminated
- Thurston County fiscal condition impacting the City
- The changing face of retail – 16% over web 2017 from 2016
- Gopher

Councilmember Althaus asked about the status of federal action to ensure retail sales tax is collected on all internet sales. Director Euler advised of a pending federal court case for assessing sales tax on all sales occurring over the internet. Amazon charges sales tax but third party vendors typically do not assess sales tax.

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Current economic conditions having a positive impact on the City's budget include:

- State resolved McCleary and has surplus
- Shared revenue protected this year
- Strong State Investment (Library, Readiness Center, Hatchery, Trust Fund, CBDC)
- High consumer confidence
- Business activity is growing and sales tax strong
- Central Puget Sound very strong
- Toyota very strong
- Strong community support and building the "Tumwater" brand
- Significant opportunities exist in Tumwater

Director Euler reviewed Washington's tax structure that can influence City revenues. Local jurisdictions receive very little revenue from marijuana sales. Marijuana sales tax is divided among all the jurisdictions with marijuana retail sales with the state retaining a major portion.

The Council and staff reviewed a graph of the six-year forecast.

City Administrator Doan reviewed the financial toolbox to balance the budget:

- Implement level of service changes
- Increase revenue sources – recruit more business development, attract more visitors and customers
- Increase efficiencies – partner/consolidation, cheaper products
- Increases taxes and fees, i.e., property, utility, permits, parks
- Consider one-time revenues – savings and reserves, debt budget shifts (staff, funds, equipment)

Major budgeting messages:

- Stability (not growth) in City services will require the City to reduce costs and/or increase revenues by 5% over the projection/year
- The City is running out of general revenue options to increase taxes
- Tumwater's economy is significantly tied directly and indirectly to development, business activity, and taxable retail sales
- Small efficiencies are good but major efficiencies generate gains
- One-time revenues need to be directed to efficiencies and

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- investment with financial payoffs
- Escalating employee costs will drive the budget to a perilous place
- The City remains well positioned to take advantage of long-term revenue-generating development opportunities

Key actions for next two years:

- Parks and Recreation funding stabilization
- Facility maintenance funding
- Fire Regionalization Study – potential action
- Utilize technology to reduce employee costs
- Continue target economic development
- Support state action to raise 1% property tax cap

Major revenue options – Part 1 include:

- Municipal Utility Tax
- Private Utility Tax
- Cable Franchise Fee

Major Revenue Options – Part 2 include:

- Property tax lid lift
- Voted Property Tax
- B&O Taxes

Councilmember Sullivan mentioned the probability of the federal government deferring more funding to local municipalities. She asked whether that action has been considered within the forecast. City Administrator Doan responded that in the previous past when funding sources were threatened, various actions were imposed in the form of increased costs for permits, tickets, or other services to compensate for funding deficiencies. The City should consider how that probability might play out over the long-term.

### **COUNCIL RETREAT PREPARATION:**

City Administrator Doan distributed additional information for the Council's upcoming retreat. Input from Tumwater University 2017 included feedback from participants about what they like or dislike about Tumwater. Similar information was provided to the Council for Tumwater University 2018. A budget exercise was included during the 2018 session, providing the Council with more information on community input surrounding the City's budget. Additionally, the Council received results from the housing and parks and recreation survey.

Other information included an updated status on the Strategic Priorities and Goals and a copy of the 2017 Year in Review information.

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This year, the retreat does not include a speaker. The three main retreat topics are housing, parks and recreation, and the brewery.

Councilmember Swarhout asked whether the retreat discussion would account for all competing tax measures planned by surrounding jurisdictions. City Administrator Doan said the other potential tax measures would be factors in the Council's conversations surrounding Strategic Priorities and Goals.

**OTHER BUSINESS:**

City Administrator Doan reported the City received three Community Development Block Grant (CDBG) applications for CDBG capital funds totaling approximately \$800,000. This CDBG cycle includes approximately \$100,000 more than the last cycle. The City also received applications for CDBG service funds totaling approximately \$450,000. The Council will receive a notebook containing CDBG process information and all applications.

City Administrator Doan and the Council discussed and agreed to the following schedule for the CDBG process.

- April 17 Council Meeting – CDBG Public Hearing – 3-5 minutes presentation by applicant with Q&A not to exceed 10 minutes for each applicant.
- April 24 Council Worksession – Initial discussion on funding
- May 8 Council Worksession – Final review and discussion
- May 15 Council Meeting – Final action

City Administrator Doan reviewed the contents of the application packet. The Council asked staff to provide copies of the application, list of boardmembers, letters of support, and the project timeline (capital fund requests only).

City Administrator Doan requested consideration for approval of a personnel action converting an existing part-time position within the Parks and Recreation Department to a full-time position to fulfill a resource need and retain a talented employee. Following discussion on the request, the Council agreed to support a salary schedule to convert the position from part-time to full-time.

Councilmember Cathey inquired about the status of the City's utilization of the Domestic Violence Fund. City Administrator Doan advised that the funds are generated from court citations for

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people who are charged with a domestic violence fine following adjudication of the charge. However, limited money is received because Thurston County retains the funds because of the City's contract for court services. The City continues to receive some revenue from long-standing fines. The funds are earmarked for domestic violence education and prevention programs. Councilmember Cathey recommended scheduling a future discussion on how the City utilizes the fund.

Mayor Kmet recommended deferring the discussion to the Public Health and Safety Committee. Councilmembers Oliva and Cathey agreed to meet and discuss the scope of her request.

**MAYOR/CITY  
ADMINISTRATOR'S  
REPORT:**

There were no reports.

**ADJOURNMENT:**

**With there being no further business, Mayor Kmet adjourned the meeting at 8:04 p.m.**