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CITY OF SHORELINE

SHORELINE CITY COUNCIL SUMMARY MINUTES OF WORKSHOP MEETING

Monday, September 15, 2003
6:30 p.m.

Shoreline Conference Center
Mt. Rainier Room

PRESENT: Mayor Jepsen, Deputy Mayor Grossman, Councilmembers Chang, Gustafson, Hansen, and Ransom

ABSENT: Councilmember Montgomery

1. CALL TO ORDER

The meeting was called to order at 6:30 p.m. by Mayor Jepsen, who presided.

2. FLAG SALUTE/ROLL CALL

Mayor Jepsen led the flag salute. Upon roll call by the City Clerk, all Councilmembers were present with the exceptions of Councilmember Hansen, who arrived shortly thereafter, and Councilmember Montgomery.

Upon motion by Councilmember Ransom, seconded by Councilmember Gustafson and unanimously carried, Councilmember Montgomery was excused.

3. CITY MANAGER'S REPORT AND FUTURE AGENDAS

Steve Burkett, City Manager, reminded the Council that the September 22 regular meeting has been cancelled. He also asked for consensus to amend the agenda to complete his report when Wendy Barry, Director of Parks, Recreation and Cultural Services, was ready to present a brief update on playground improvements.

4. COUNCIL REPORTS

Councilmember Ransom reported on his daughter's engagement.

Councilmember Chang reported on the Korean-American event held last Monday night.

Deputy Mayor Grossman reported on the Affordable Housing Conference held in Spokane, and on the dedication of the Richmond Beach Library's new Sculpture Garden.

Councilmember Gustafson reported on the Regional Water Quality Committee's meeting, which focused on different alternatives for odor control at the Brightwater facility.

Mayor Jepsen reported that Shoreline may host the Regional County Mayors' forum in October. He also commented that he and Councilmember Chang heard the final arguments on the Shoreline Merchants Association lawsuit and the decision should be forthcoming this week.

5. PUBLIC COMMENT

(a) Stan Terry, Shoreline, felt it is inappropriate for City Council candidates to use the public comment period to make campaign speeches. He said it is obvious they are addressing their comments to the cameras and not to the live audience.

(b) Cindy Ryu, Shoreline, opposed shifting \$1.8 million from the City's Operating Budget to the Capital Budget for the City Hall Project. She said the Operating Budget needs to be preserved in order to provide basic services to the residents of Shoreline. She said once the basic needs are met and the City can afford it, then a new City Hall should be considered.

(c) Brian Doennebrink, Shoreline, congratulated the City Manager and staff for balancing the budget and for conservative budget planning. While he generally favored the concept of performance measures, he felt that some could present problems because of subjectivity, inaccurate sampling, and other factors beyond the City's control. He complimented staff for the improvements made to the Council of Neighborhoods meetings, noting that the Chair and members are very mindful about keeping the meeting moving. Finally, he was pleased to learn of the Deputy City Manager's intention to meet with Sound Transit to discuss Shoreline's mass transit needs.

(d) Mark Deutsch, Shoreline, was impressed with the City's conservative approach to the budget, noting that there has been no tax rate increase since incorporation and no accumulated debt. He expressed concern about the projected operating deficit and suggested that the City try to balance expenditures with projected revenues. He was pleased to see that the City has already responded by addressing health care spending. He preferred that the City not commit to capital projects with expenditure implications, and expressed concern about disappearing fund balances over the 2004-2009 period.

Mayor Jepsen said Council would address the budget-related public comments during the budget workshop.

Mr. Burkett said the \$1.8 million the Council agreed to transfer to the City Hall Project is one-time funding accumulated through savings. He said the City is in good financial shape because Council has resisted the temptation to use one-time funding for ongoing expenses.

Wendy Barry, Parks, Recreation and Cultural Services Director, provided a brief PowerPoint presentation highlighting the playground improvements made to Brugger's Bog Park, Richmond Highlands Park, and Twin Ponds Park.

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6. WORKSHOP ITEMS

(a) 2004 Budget & City Long Term Financial Projection Update

Mr. Burkett explained that this item is not only a quarterly update but also a preview of the 2004 budget. He said his experience has taught him that long-term financial plans often project deficits. He noted that several factors account for decreased projected revenues, including voter-approved initiatives and other economic changes. He suggested that Council begin considering financial strategies to respond to these projections--either reducing expenses to match revenues, or increasing taxes to match expenses, or some combination of both. He said Council should also consider its policy of annual transference of surplus funds from Operations to the Capital Fund.

Debbie Tarry, Finance Director, provided an update of the City's financial projections for 2004 and beyond, as well as some key policy issues that need to be addressed during the 2004 budget deliberations. She also reviewed the City's schedule for adoption of the 2004 budget. Her report focused on the City's operating budget, which includes the General Fund, City Street Fund, and the Development Services Fund. Her presentation included the following points:

- As of August 2003, the City's operating budget is balanced, and projected operating revenues slightly exceed operating expenses.
- Some of the significant savings that have occurred since the April 2003 update include: 1) a continued decline in jail activity; 2) a lower bid on janitorial services; and 3) an employee committee recommendation to modify the City's health benefits policy, resulting in lower City-paid health benefits than the existing policy.
- The purpose of the long-term projections is to provide information so that staff and the City Council can make resource allocation decisions that provide sustainable public services to the Shoreline community.
- Other significant changes since April 2003 include: projected increase of 23-28 percent in health insurance premiums for 2004; PERS rate increase less than anticipated; and stabilizing permit revenues.
- Other factors impacting the City's budget include: 1) limited property tax and sales tax growth; 2) significant reduction in state funding of I-695 backfill; 3) declining investment interest rates; 4) health premium increases; and 5) slow Northwest economic recovery.
- Financial policies that guide budget decisions include: 1) Balancing on-going expenditures with on-going revenues (recommended best practice); 2) Maintaining general fund reserves equal to 10% of operating revenues; 3) Limiting use of reserves to unanticipated emergencies or one-time expenditures; 4) Continue to fund the implementation of Council goals; 5) Maintaining current level of services before adding new services; and 6) Using conservative revenue projections.

- 2004 Revenue Projections are as follows:
 - Property tax revenues will grow by 1.8
 - Sales tax revenue will grow by 2%
 - Utility taxes and franchise fee will grow by 1.8%
 - State-shared revenues are expected to rise due to an increase in liquor profits and excise taxes
 - Criminal justice sales tax (based on County-wide sales tax), gambling tax, and investment interest will remain flat

- 2004 Expenditure Projections are as follows:
 - General Fund expenditures decrease by 5%
 - One-time transfer of \$1.8 million for City Hall Project in 2003
 - Personnel costs increase by 4.7%
 - Police contract increases by 4.1%
 - Jail costs decrease by 11.6%
 - Technology Plan focuses on integration and management support
 - Capital funding policies remain unchanged

- General Fund Reserves are expected to remain at the 30% level
- The City Street Fund is still affected by Initiative 776, which reduced revenues by \$500,000. One-time funding from general tax funds will be used to maintain a \$700,000 budget for street maintenance in 2004.
- The Gas Tax is projected to decrease by 3%, and General Taxes support 64% of the Street Fund. The only dedicated source for City streets is the gas tax.
- Permit revenues are trending up in the Development Services Fund.
- Long-term forecasts are considered a best practice by the National Advisory Council on State and Local Budgeting and provide an opportunity to plan for short and long-term economic changes.

- Long-term (2005-2009) Revenue and Expenditure Assumptions are as follows:
 - Property Tax: 1.6% Average Annual Increase
 - Sales Tax: 2.5% Average Annual Increase
 - Gambling Tax: Remains flat
 - Utility Taxes and Franchise Fees: 2% Average Annual Increase
 - Permit Revenue: 2% Average Annual Increase
 - Local Vehicle License Fees: Not restored (I-776)
 - Salaries and Benefits: 5% Annual Growth
 - Utility Costs: 3% Annual Growth
 - Police Services Contract: 5% Annual Growth
 - Jail Services Contract: 4% Annual Growth
 - Property & Liability Insurance: 5% Annual Growth
 - Municipal/District Court: No Change
 - Capital Program Allocations: Remain Constant
 - Occupation of New City Hall in 2006
 - King County Road Services Contract: 5% Annual Growth
 - Parks Maintenance: 5% Annual Growth

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- Public Works Maintenance Contracts: 3% Annual Growth
- Technology Plan: Reduction in Funding
- Projected Departmental Savings of 1%

Ms. Tarry concluded by saying that the City is in a good financial position, with reserves exceeding the required levels. Additionally, the 2004 operating budget is balanced and meets all Council goals. However, the warning note is that if current assumptions hold true, expenditures will grow faster than annual revenues, and the City's operating budget will have annual deficits starting in 2005. Therefore, long-term strategies to address this issue will be a major item of discussion during 2004.

Councilmember Ransom explained that the road tax rate has been steadily decreasing since the City incorporated, despite increases in assessed property valuation. Mr. Burkett said staff projected in April that the rate would continue to drop because of the 1% property tax rate limitation. Ms. Tarry clarified that the rate would be \$1.30 next year, and would continue to decline because of the limitation. She noted that Shoreline could statutorily have a rate of \$1.60 per thousand assessed valuation.

Councilmember Ransom suggested that the City could balance the budget in future years by not transferring as much money from the Operating Budget to Capital Projects.

Councilmember Hansen pointed out that the City did not experience deficits as were projected in 2002 and 2003, but actually had budget surpluses. He said while current assumptions predict deficits for 2005-2009, assumptions do not always hold true. He said transferring funds from Operations to Capital is a prudent Council policy, because the City often needs matching funds to qualify for grant funding. He said the "so-called" deficits would likely disappear if those fund transfers stopped.

Responding to Councilmember Gustafson, Mr. Burkett explained that staff is proposing that both the City and employees share the burden of increasing health insurance premiums.

Responding to Councilmember Gustafson, Ms. Tarry clarified that there has been no court ruling on Initiative 776 yet. She also clarified that there will be a new 911 communications center for the County in 2004.

Councilmember Gustafson supported the policy of not using reserves to balance the operating budget over the long term. He concurred that one-time fund transfers from operating to capital is a prudent Council policy.

Deputy Mayor Grossman agreed with the policy of making conservative revenue predictions. He said transferring funds from operating to capital is a sensible policy because it gives the City flexibility to respond to unexpected events. He felt it totally appropriate to make commitments to long-term investments, not just to short-term, "this year," investments. He suggested it would be a disservice to future generations not to have a long-term outlook.

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Councilmember Chang concurred. He viewed 2004 as a "break even point," after which the City might experience deficits if Council does not implement creative financial strategies. He asked Ms. Tarry for her opinion on the validity of long-term projections.

Ms. Tarry said although projections sometimes turn out to be inaccurate due to changing economic factors, they do serve as a useful planning tool. She said the primary reason there is money to allocate to the City Hall Project is because of conservative projections. She felt the City is in a good financial position because the Council is taking a proactive rather than reactive approach.

Mr. Burkett pointed out that there is \$9 million in General Fund Reserves because Council has resisted the temptation to use it for on-going expenses. He clarified that the remaining \$11 million in reserves is programmed for future projects as part of the Capital Improvement Plan.

Mayor Jepsen said the City is in an excellent financial position because of good planning and the use of conservative projections. He said a different approach would not allow the City to have an operating surplus. He felt the City should continue to plan conservatively and explore creative solutions to future challenges.

(b) Overview of the Performance Measurement Program

Mr. Burkett pointed out that performance measures can help ensure that City services are not only effective and efficient, but that they are also competitive with other providers.

Patty Rader, Senior Budget Analyst, provided an overview of the program, noting that performance measurements are a strategy for continuous improvement and a means to evaluate whether the City is accomplishing its mission and key objectives. Performance measures also provide data for operational decisions and resource allocation. She outlined the key terms and elements of performance measurement programs and the process for developing performance measures in the 2004 budget. She also reviewed the timetable for this multi-year project. She said the program should ultimately provide strategic plan measurements, program outcomes, and activity-based measures. The measures will become more refined as the program develops over time, making the data more useful for decision-making and future planning.

Councilmember Ransom was pleased with the overall program but questioned the validity of some of the proposed measures. He felt that performance measures relating to employee termination might be more appropriate for the City Manager's office rather than the Human Resources department. He felt that Human Resources may not have that much control over termination rates.

Mr. Burkett said it is important to track this kind of measure to understand why turnover rates may be increasing or decreasing, despite which department may have more control.

Responding to Councilmember Gustafson, Mr. Burkett explained that the International City Management Association (ICMA) created the Center for Performance Management to help cities produce consistent information and calculate accurate results. He said participation in this cost-effective (\$5,000/year) program will let Shoreline know how it compares with other cities.

Councilmember Gustafson emphasized that the proposal is a "work in progress." He expressed general support for performance measurements, noting that they will help in making allocation decisions and in developing future goals.

Mayor Jepsen said he was still struggling with the meanings of some of the proposed measures. He expressed a preference for linking the key performance measures and strategic plan specifically back to the departmental statements. He also expressed concern that the measures do not include goals, noting his preference to focus on goals rather than on trends. He said it might be helpful for Councilmembers to get a copy of the ICMA recommendation to see if the City's standards align with it.

Mr. Burkett reiterated that the purpose of joining the ICMA is to see how the City compares with other communities. Ms. Tarry explained that the City has tried to create measures that match some of the ICMA's proposed measures so it can be a useful comparison tool.

Deputy Mayor Grossman expressed support for performance measures, but suggested that the economic vitality measure might be more accurately reflected by more specific results in a broader range of categories. He pointed out that sales tax per capita, number of living wage jobs, and property tax values all have an effect on economic vitality.

Ms. Tarry clarified that staff did not expect that the proposed measures would be the ultimate measure of performance. She said it is likely that measures will need to be adjusted and expanded as the program is implemented. She felt that creating hundreds of measures would only serve to overwhelm people and undermine the purpose of the program. She affirmed that staff would like to expand the program to include more information, but would like to do so incrementally.

Councilmember Hansen suggested that one copy of the ICMA materials be provided in the Council office as a reference copy.

Councilmember Ransom questioned how much staff time and resources would be spent on the program. He said he might not be in favor of it if the costs exceed the actual benefit.

Mr. Burkett said although staff time has not been calculated, the annual costs of the ICMA program is \$5,000. He said there is mixed opinion among staff about how much time should be spent on performance measures. He pointed out that the primary focus is on accomplishing the Council goals, which are quite aggressive. He strongly felt the program is worth the investment.

Councilmember Hansen emphasized that all the programs need to be kept in perspective, and that performance measures will help the Council determine what the City does effectively. He said it is helpful to see what staff has selected as key outcomes because he can then determine if they align with his individual Council goals. He said without staff feedback, it can be difficult to evaluate their perspectives.

Councilmember Ransom expressed support for the program, noting that outcome measures will eventually be helpful in managing the City in the future. He pointed out that the County was able to reduce court costs by researching where the losses were occurring, and that performance measures will help accomplish similar goals.

Responding to Mayor Jepsen's concern, Mr. Burkett clarified that some goals will be included in the final program, although goals are more appropriate in some areas than others.

7. CONTINUED PUBLIC COMMENT

(a) Cindy Ryu, Shoreline, suggested that the "number of miles of road being paved *properly*" is a more appropriate outcome measure for the City. She said the resurfacing project on 10th Avenue NE was done properly, but those done on 11th Avenue NE and 12th Avenue NE were not. She suggested that the City check the quality of the material and surface preparation before trying to repair the roads.

(b) Mark Deutsch, Shoreline, commended the Council for its interest in implementing performance measures. He expressed concern that the Capital Improvement Program proposes to spend all of the City's accumulated reserves (\$20 million) by 2009. He was concerned that the City would be forced borrow funds in the future.

The Council and staff discussed Ms. Ryu's pavement concern. It was noted that 11th Avenue NE and 12th Avenue NE were two of the streets included in the failed slurry seal project two years ago. Mr. Burkett said staff would follow up on the pavement concern, adding that this year's slurry seal project was very successful.

Mayor Jepsen confirmed that a site has not been selected for City Hall, even though the Council's Work Plan identified July 2003 as the goal for achieving that. He felt there was Council support for sustainable building practices, although the project is still in the pre-planning phase.

8. EXECUTIVE SESSION

At 8:45 p.m., Mayor Jepsen announced that Council would recess into Executive Session until 10:00 p.m. to discuss potential litigation and real estate issues. At 10:00 p.m. Councilmember Hansen announced that the meeting had been extended for another thirty minutes. At 10:31 p.m. the Executive Session concluded and the meeting reconvened.

9. ADJOURNMENT

At 10:32 p.m., Mayor Jepsen declared the meeting adjourned.

Sharon Mattioli, City Clerk

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