

**GRANDVIEW CITY COUNCIL
STUDY SESSION MINUTES
NOVEMBER 3, 2008**

1. CALL TO ORDER

Mayor Norm Childress called the study session to order at 5:00 p.m. in the Council Chambers at City Hall.

Present were: Mayor Norm Childress and Councilmembers Mike Bren, Pam Horner, Diana Jennings, Jan McDonald, Bill Moore, Jesse Palacios and Joan Souders.

Staff present were: City Administrator Scott D. Staples, City Treasurer John Myers, Public Works Director Cus Arteaga, Parks & Recreation Director Mike Carpenter and City Clerk Anita Palacios.

2. 2009 PRELIMINARY BUDGET

Mayor Childress presented the proposed budget for fiscal year 2009, to provide city services for the period January 1, 2009 to December 31, 2009.

City Administrator Staples provided an overview of the budget message. As in previous years, staff work on the 2009 budget began in mid-summer and required several reviews in order to finish. Each year during the budget preparation process, new challenges or circumstances were presented. In May 2008, the voters declined to approve a ballot proposition to provide additional revenue to the Current Expense Fund to sustain city services at their then current level. Following deliberations, the Council identified approximately \$67,000 in savings by reducing animal control, recreation, parks maintenance, and museum services. In addition, the management team identified another \$28,000 in cuts by eliminating employee training as well as certain planned capital outlays for the balance of 2008. As a result of these proactive steps taken in the summer of 2008 to reduce \$95,000 in costs, the City was able to balance the Current Expense Fund budget for 2008 as directed by the Council at your May 22, 2008 special meeting. In addition, by carrying over these service level reductions into the 2009 budget year, the City was able to avoid approximately \$100,000 in service costs in 2009. These policy decisions by the Council earlier this year played a major role in putting the City in a position to balance the 2009 budget.

Key components that were important to a comprehensive understanding of the proposed budget plan were:

- 2009 Budget Highlights
- 2008/2009 Council Targets
- Enterprise Funds
- Personnel
- Revenue Enhancements
- Vehicle Replacement
- Capital Improvement Needs
- Budget Message Summary/Recommendations

2009 BUDGET HIGHLIGHTS

- The proposed budget included 2009 expenditures of \$4,448,490 in the Current Expense Fund, which represented a 1.8% increase over 2008 projected expenditures and a decrease of 2.2% from the adopted 2008 budget. The projected 12/31/09 Current Expense Fund balance was \$724,230, which represented a fund balance equal to approximately 16.3% of the proposed 2009 expenditures, which met the Council's direction to maintain a minimum 15% fund balance.
- The 2008/2009 Budget Summary displayed, over a 24-month period, fund balances, revenues and expenditures for each fund. The purpose of this document was to provide the Council and the public with a snapshot of the financial conditions of the City over a period of time.
- It was estimated that property tax revenue for 2009 would increase from \$1,220,000 to \$1,240,000 or 1% plus new construction. Property tax revenue represented about 28% of the Current Expense Fund revenues. The estimated annual tax payment to the City for a house assessed at \$100,000 would be \$313 or \$26 per month.
- It was estimated that sales tax revenue would decrease from \$787,000 in 2008 to \$748,600 in 2009, or 4.9%. Sales tax revenue represented about 17% of the Current Expense Fund revenue in 2009. The estimates were cautious because of the unknown impact of the implementation of the streamlined sales tax legislation.
- Property taxes, sales tax, private utility taxes and city utility taxes were the primary sources to pay for services in the Current Expense Fund and accounted for 81% of total Current Expense Fund revenue.
- The primary service costs in the Current Expense Fund were related to public safety services. It was noted that one of the services funded from the Current Expense Fund was library services. Grandview was unique among cities in Yakima County in that we have a city funded library, as opposed to being part of the Yakima Regional Library System, which was funded from a separate property tax levy of 48.3¢ per \$1,000 assessed valuation. Funding this valuable service from the Current Expense Fund presented additional challenges not faced by other cities in Yakima County, in that it required approximately \$235,000 in resources that in other cities were paid for by an independent property tax levy.
- The proposed 2009 budget provided full funding for the replacement of vehicles and equipment, except for major fire apparatus. The vehicles to be replaced were as follows:

<u>Department</u>	<u>Vehicle</u>	<u>Funding Source</u>
Fire	1997 Ford Explorer (#120)	Capital Improvement Fund
Fire	1994 Jeep Cherokee (#214)	Emergency Medical Services Fund

- The proposed budget contained funding to support several community programs and/or organizations, including:

1.	Association of Washington Cities	\$6,000
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2.	Yakima Valley Conference of Governments	\$5,000
3.	Yakima County Development Association	\$5,000
4.	Yakima County Air Quality	\$2,560
5.	Yakima County Emergency Management	\$6,770

- The 2009 budget contained funding for a School Resource Officer with the costs being shared 75% by the School District and 25% by the City.
- As part of the budget process, Department Directors were asked to examine all current rates for fees and charges to determine if adjustments needed to be made. As a result, the proposed budget included a rate increase for water, wastewater, solid waste and irrigation fees.
- The budget for 2009 was formatted into specific programs within each department. The purpose of this approach was to identify and segregate services provided by a department into program budgets, to help understand the total costs of each service. A program statement has been prepared for each separate program budget to provide more detailed information.

2008/2009 COUNCIL TARGETS

In December 2007, the Council concluded a two-day retreat to develop its targets or objectives for 2008/2009. Twenty-two (22) separate targets were identified and prioritized. The Council, City Administrator, and staff have done a good job of completing reviews and/or implementing most of the 2008/2009 City Council targets.

UTILITY RATES

Utility rate increases were needed to offset the increasing cost of labor, supplies, fuel, and outside utilities. The base rates listed below were for a typical single family residence. A water and sewer rate analysis was conducted by Huibregtse, Louman Associates, Inc. in October 2008.

Utility	Proposed Rate Increase	2008 Rate	2009 Rate	Last Rate Increase
Solid Waste	\$3.50	\$10.00	\$13.50	2008
Water	\$1.29	\$21.45	\$22.74	2002
Wastewater	\$3.98	\$19.90	\$23.88	2008
Irrigation	\$1.56	\$7.80	\$9.36	2008
TOTAL	\$10.33	\$59.15	\$69.48	

PERSONNEL

The proposed budget provided for sixty-five (65) full-time equivalent employees in 2009. The proposed budget included dollars for wage adjustments for all city employees. Adjustments for the 42 unionized employees were as provided in the 2007/2009 collective bargaining agreements. A 3% cost of living increase was provided for non-union personnel. The ordinance to adopt the 2009 Pay Plan would be presented to the Council for consideration at the December 1st regular meeting.

Over the last two years, staffing levels have decreased. In the 2008 budget, the library technician position was eliminated, following the incumbent's retirement. Later in 2008, several positions were eliminated as a result of retirements, resignations or having not yet been filled, including Animal Control Officer, Public Works Technician, part-time seasonal laborers in parks, part-time museum caretaker, and seasonal playground aides.

In the 2009 budget, the part-time recreation supervisor position was not funded as a cost savings measure. These reductions represented a staff reduction of approximately 3.75 positions.

Annual health insurance costs to the city for medical, dental, vision and life coverage would increase by approximately 2%, from \$830,000 in 2008 to approximately \$846,000 in 2009. The actual premiums would go up approximately 8%, but the reduced impact to the City was a result of several factors. Over the last two years, the City and its employees have worked together to implement three (3) changes to reduce the increase of health care costs. This included converting to a PPO (preferred provider option) plan, establishing a dual medical incentive program, and employees paying a share of health care costs starting January 1, 2009. These three steps represented an aggregate savings of approximately \$90,000 annually.

A major impact on the proposed budget was the state mandated employer costs for the various state retirement systems, of which city employees were members. This mandate would increase the City's payroll costs by approximately \$57,000.

REVENUE ENHANCEMENTS

One of the challenges as a City was to maintain current services at their current level, particularly in the Current Expense Fund. Under current state law, cities were quite limited in terms of options available to raise additional general purpose revenue to fund services in the Current Expense Fund.

The information outlined below was meant to be for information purposes only:

<u>REVENUE SOURCE</u>	<u>APPROVING AUTHORITY</u>	<u>COMMENTS</u>
Utility tax on private utilities	Voters	1% increase = \$160,000
Utility tax on public utilities	City Council	1% increase = \$40,000
Vehicle license fee	City Council	\$20/year = \$180,000
Vehicle license fee	Voters	\$100/year = \$900,000
Property tax lid lift	Voters	1% increase = \$11,000
Real Estate Excise Tax	City Council	2 nd ¼% increase = \$50,000

CAPITAL IMPROVEMENT NEEDS

During the process of developing the proposed 2009 budget, a number of unfunded capital improvements were identified.

The greatest challenge in this regard is in the areas of major fire apparatus, local transportation infrastructure, parks restrooms, swimming pool upgrades and parks playground equipment that

complies with federal safety and ADA standards. No financing mechanism was currently in place to make certain that the City was investing in these areas. In 2007, the State Legislature adopted legislation providing for a local option vehicle license fee. The Council could impose a \$20 vehicle license fee which would generate approximately \$180,000 annually to be used only for transportation improvements. The voters could approve a fee of up to \$100 annually, which would generate up to \$900,000.

The following areas of major unfunded potential capital needs were identified:

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| • Street renovations/reconstruction | \$9,000,000 |
| • Health and safety improvements in parks | \$ 500,000 |
| • Major fire apparatus | \$2,300,000 |
| • Swimming pool upgrade | \$3,500,000 |
| • Police station renovation/replacement | unknown |
| • Animal Shelter Facility | \$ 300,000 |

VEHICLE REPLACEMENT

The proposed 2009 budget included full funding for the replacement of vehicles and equipment, except major fire apparatus. A list of the vehicles proposed for replacement were previously identified.

SUMMARY/RECOMMENDATIONS

- As has been the case in previous years, it continued to be a significant challenge to sustain the current level of services in the Current Expense Fund with the existing revenue stream. As was discussed with the Council last summer, the City's ongoing revenue sources were growing at the rate of approximately 2 ½% per year while the cost of maintaining current service levels increases about 5% per year.
- In an effort to reduce 2009 Current Expense Fund Expenditures, no proposed capital items were included in this fund. Instead, they were either included in the Yakima County Law and Justice Tax Fund, the Capital Improvement Fund or not funded at all. Ideally, the Current Expense Fund should generate sufficient revenue so that capital outlay items needed to deliver services could be funded from that fund. Under ideal circumstances, the Capital Improvements Fund should only be used for major capital projects.
- The 2007 legislature provided cities and counties with a new local option as it relates to transportation. The legislation permits the establishment of a Transportation Benefit District and the use of a vehicle license fee to fund transportation projects that were part of an adopted plan. This annual fee could range from \$20 to \$100 and would generate \$180,000 to \$900,000. Any fee greater than \$20 per year would require voter approval. This option was available as of January 2008. I believe the Council should consider this new option as a means by which to start seriously addressing local street maintenance needs. Since the passage of Initiative 695 in 1999, street maintenance budgets have been sharply reduced and streets continue to deteriorate.
- Options to generate additional revenue for the Current Expense Fund were limited. The Council could increase the city utility tax and each 1% increase generates approximately

\$40,000 annually. The voters could increase the utility tax on private utilities and each 1% increase generates approximately \$160,000 annually.

- Property tax revenues in 2009 were expected to increase by \$20,000 or 1.6%. As you may recall, Initiative 747, passed by the voters in November 2001, limits property tax levy increases to 1% per year, plus new construction. Sales tax levels were established by the state legislature, or were approved by the voters for specific purposes, such as criminal justice or emergency medical services. While the levy increase was capped at 1%, the cost of delivering services has increased approximately 5% per year.
- When Initiative 695 was approved by the voters in November 1999 and enacted by the state legislature, the City lost approximately \$500,000 annually in funds that were used for to pay for police, fire, parks, recreation, library, street maintenance and cemetery services. Since 2000, that amounts to \$4.5 million in lost revenue. Since then, the State Legislature has not identified and funded any permanent replacement revenue for cities in the State. The estimated state support in 2009 would be \$73,500.

The Mayor and City Administrator both thanked the Council and management staff for the proactive steps taken in 2008 to place the City in a healthier position for 2009. Had these actions not been taken, the City would be facing service cuts of approximately \$150,000. Instead, the City was in a position to avoid further cuts, balance the budget, and maintain a minimum 15% fund balance in the Current Expense Fund.

Councilmember Palacios requested a revised five-year revenue/expenditure projection based on the adopted 2009 budget.

City Treasurer Myers noted that in 2010, the City would be faced with the same situation as earlier this year. In 2010, the deficit would be the difference between the percentage change in revenues and the percentage change in expenditures.

City Administrator Staples added that revenues were increasing 2.5% and expenses 5% historically. The City could solve the budget problem easier by reducing services 5%.

Councilmember Palacios questioned why the City received more than anticipated from the State for brokered natural gas utility taxes.

City Treasurer Myers explained that the City received brokered natural gas utility taxes at the end of August that exceeded the prior 30 months total. This was due to enforcement activity on the part of the Department of Revenue which resulted in the collection of delinquent taxes from the end of 2007 to the beginning of 2008. The Department of Revenue has no means of forecasting taxes due. The natural gas user determines whether or not to purchase brokered natural gas or use the Cascade Natural Gas delivery system, which depended on the gas market and the need by the industry. It would be difficult to determine the breakdown of revenues between brokered natural gas use and Cascade Natural Gas. He was confident that the estimates would cover the combined.

Public Works Director Arteaga presented his budgets as follows:

Graffiti Removal Services – All graffiti removal would continue in accordance with the approved 2006 Standard Operating Procedure for graffiti removal.

Councilmember Souders asked whether the City had applied for the graffiti abatement grant program that was funded by the 2008 Legislature. Mayor Childress indicated that staff would check into the program.

Code Enforcement Services – No notable changes for 2009.

With respect to the rental property registration and inspection program, staff advised that this program had not been implemented due to the lack of personnel. The funding and implementation of this program would be considered by Council the first of the year. Ideas for discussion would include contracting out for these services.

It was noted that as part of the mid-summer 2008 budget cuts, \$10,000 for abatement services was eliminated from the 2008 budget, but was included again in the 2009 budget.

Inspection and Permits – No notable changes for 2009.

Parks Maintenance Services – No notable changes for 2009.

It was noted that the two full-time employees budgeted were only working eight months out of the year in parks maintenance. During the winter months, those two employees were performing other duties to reduce the cost to the current expense fund. In addition, one of the full-time parks maintenance employees was transferred to the street fund to fill a vacant position from a retirement earlier this year. With these two cost saving measures, salaries have been reduced \$25,000 from 2007 to 2009 in parks maintenance. Also with the elimination of three out of the four seasonal positions this summer, parks maintenance was reduced 50 hours per week. Manicuring of the parks was not at the level it was the previous year. This trend would continue next year.

Street Fund – No notable changes for 2009.

It was noted that the budget included reduced weekly street sweeping, vegetation control, pothole repairs, sign maintenance, street lighting and snow and ice removal. In addition, no seal coating was scheduled for 2009. Staff was working with the City Engineers to develop a street plan for potential implementation of a Transportation Benefit District and the use of a \$20 annual vehicle license fee to fund transportation projects.

Following discussion, Council requested that staff develop a sealcoat program for 2009 at an estimated expense of \$25,000 per mile.

Cemetery Fund – Notable changes included continued expansion of Block 8 (trees) in the amount of \$2,000.

Water/Sewer Fund – Ted Pooler, PE of Huibregtse, Louman Associates (HLA), Inc., presented an analysis of the 2009 revenues and expenditures for Grandview's water and sewer fund, and

examination of the rates necessary to meet projected revenues. The analysis considered the loss of revenue caused by the Wild River Foods fire and assumed they would not be back in operation in 2009. Had Wild River Foods remained on operation for a full year, they would have generated about \$130,000 in water charge revenues and about \$750,000 in sewer charge revenue. As discussed, with this significant loss of revenue, a 5-year plan was developed to bring water and sewer revenues back to the level where each department was self-sufficient.

Water Department – The water department has a significant fund balance of about \$2 million, which provided flexibility in addressing the lost revenue. HLA was also updating the City's Water System Plan, and have included recommended capital improvements in the water system cash flow analysis. The City has committed \$335,000 in water funds to the CDBG neighborhood improvement project, and it was assumed the year 2011 and 2012 water system improvements would be financed with an \$800,000 loan. Based on the analysis, it was recommended that water rates be increased 6% per year from 2009 through 2013.

Sewer Department – The water and sewer systems were combined into a single fund, but the revenues and expenditures were tracked separately. It was projected that the 2008 year-end sewer department balance would be negative. The goal in generating sewer revenue was to make the fund self-sufficient (revenue exceeds expenditures) by the end of 2013. Therefore, deficit spending would continue in the sewer department and the fund balance would continue to decline until then, when it would begin to build to a positive balance. However, the water department balance was large enough to meet this deficit. Three options were examined to generate the needed sewer revenue:

Option 1: Return industrial charges to 2007 rates, increase domestic rates 33%, and follow with 4 successive years of 4% increases to all users. The net effect would be a 56% increase to all users over a 5-year period.

Option 2: Return industrial charges to 2007 rates, increase domestic rates 20%, and follow with 4 successive years of 6% increases to all users. The net effect would be a 68% increase to industrial users and a 52% increase to domestic users over a 5-year period.

Option 3: Return industrial charges to 2007 rates, increase domestic rates 10%, and follow with 4 successive years of 7.5% increases to all users. The net effect would be a 78% increase to industrial users and a 47% increase to domestic users over a 5-year period.

HLA recommended the City consider Option 2. While Option 1 would raise revenues faster, it did not allow for a "wait and see" approach in the event another industry returns to Grandview. Option 3 placed more of the burden on industrial users and increased the City's dependency on industrial revenues. Option 2 struck a balance in these areas and the proposed future 6% sewer rate increases matched the proposed water rate increases.

Water Pumping, Treatment & Delivery – Notable changes:

- CDBG water improvements \$335,000
- Water meter, auto read conversion \$100,000
- (5) chlorinator packages \$20,000
- (2) gas leak detectors \$5,000

- (2) pipe locators \$4,000
- Balcom & Moe roof repair \$4,000

Wastewater Collection Services – Notable changes:

- Video camera for sewer jet truck \$20,000

Wastewater Treatment Services – No notable changes for 2009.

Water/Sewer Debt Service & Operating Transfers – Notable changes included maturity of 1989 PWTF loan in 2008.

Irrigation Fund – Notable change included a 20% rate increase.

3. ADJOURNMENT

The study session adjourned at 6:55 p.m.

Mayor Norm Childress

Anita Palacios, City Clerk