ROLL CALL was answered by Councilmembers Bassett, Carlson, Collins, Lillquist, O'Brien, Perrie, and Mayor Barry.

Others present were City Manager Barkley; Finance Director Carpenter; Budget and Accounting Supervisor Snider; Deputy Clerk Keno; and two members of the audience.

The purpose of the special session is to review the Preliminary 2006 Budget including Revenues, City General, Finance and City Manager.

City Manager Barkley presented an overview of the 2006 preliminary budget. The preliminary budget is different from past preliminary budgets in that Council will not be able to adopt a balanced budget through the use of reserves to support continued services in all areas without increased revenues. As the City continues to experience increased residential growth the tax revenue generated by that growth is not sufficient to support City services. In addition, the City’s contributions to the State pension fund are going up considerably over the next few years.

The preliminary budget assumes no action by the Council to increase revenues, except for a 1% increase in the property tax and the use of a small part of the City’s banked property tax authority to fund the Fireman’s Relief and Pension Fund. In effect, the continuation of all services at present levels will significantly exhaust the City’s reserves in 2006. The budget presented to Council is not the recommended budget; it is a discussion and development draft. The recommended budget will be presented following the presentations, public discussions and deliberations conducted through the month of October.

Council will be asked to consider a number of rate and fee increases for utilities. The need for these changes arises from several directions. Utility connection fees for new services are not presently set at a level that recovers costs. Historically, this has been a common utility practice, stemming from a time when utilities steeply discounted connection fees in order to attract more development. The effect of this policy was to transfer some of the cost of growth into the existing customer rate base. This needs to be adjusted in all City utilities so that growth more nearly pays its own way.

The regulatory environment for all utilities has become more expensive each year, and the cost of energy commodities continue to climb. In addition to the regular replacement of aging infrastructure, growth is driving new extensions and the upgrading of capacity in all City utilities. This translates into the need for increases in rates and fees, and the need to issue utility bonds. An unintended effect of raising utility rates will generate more tax revenue for the General Fund.
Council will also consider changes to fees charged in two other policy areas—building permit fees and emergency medical services. The 2005 budget projects ambulance revenues of $625,450 and expenditures of $859,503. Recent changes in federal policies allow for increased Medicare and Medicaid reimbursements—new reimbursement rates that are higher than our current rates. Council needs to consider raising these rates to take advantage of the higher reimbursement rates and to decrease general fund subsidy provided to this fee based service.

Building permit fees and licenses, which support the Community Development department, reflect a similar situation. For 2005, the City is projecting new income of $428,817 against a projected expenditure level of $633,417, a difference of $204,600. The difference for 2006 will grow according to current projections, and will grow to over $300,000.

Taxable retail sales have continued to grow; however, there are no new large projects “on the books” at this point for next year. For the past several years, the City has had at least one very large project each year. Taxable sales from eating establishments is up 8% for the year, accommodations are up 8%, and the overall total is up 11% to date.

In the last eight months the City has issued over 175 new single family housing permits. Over the past year, the City has approved over 600 new utility connections. Virtually all of this new growth is residential; almost none is commercial or industrial. Community Cost of Service Studies show that residential growth creates a new fiscal drain when not balanced with industrial and commercial growth. This is the situation the City faces. Council will need to consider over the next few months where the revenue will come from to support the community. Choices might include policy changes that support more industrial and/or retail growth.

Our growing community makes the traditional approach to funding transportation infrastructure more and more difficult. The permanent loss of the motor vehicle excise tax, the increase in the City’s share of most improvement district funded projects, and the lag time between impact and receiving of revenue from construction generated property taxes, all combine to make it very challenging to properly fund streets. An increased interest in non-motorized transportation adds to the funding challenges. In the preliminary budget there are two significant street projects funded with sales tax money—about $300,000—that represent major maintenance projects. Council may wish to consider street impact fees to help absorb the impact of growth, and more specifically to provide funding that would ease the impact on the existing community caused by arterial street improvements to accommodate growth.

The General Fund and the Sales Tax Reserve Fund form the working core of support for basic services provided by the City. Support for Fire, EMS, Police, Animal Control, Community Development, Engineering, the Library and Hal Holmes Center, the swimming pool, the Adult Activity Center, the Youth Center, the Racquet Center, the Finance Department, Legal, Human Resources and Management and the City Council all come from the General Fund. Major sources of revenue to the General Fund include property, sales, utility, gambling, telephone, cable TV, and solid waste taxes,
which together comprise half the revenue. Licenses and permits—primarily building permits—account for about 4%, fines and forfeitures about 1%, interfund charges about 23%, and intergovernmental grants, distributions, and contractual agreements generate about 8% of General Fund revenues. Charges for service, including everything from swimming pool admission and ambulance charges to senior tour fees and photocopying come to 11% of the General Fund. The balance is from a variety of smaller sources.

The 2006 preliminary budget shows a combined General Fund and Sales Tax ending fund balance of $819,576. As a matter of prudence and preparedness, this number should rarely be below $1,000,000, and preferably remain in the $1.25 million to $1.5 million range at a minimum. The Council’s task will be to adjust revenues and expenditures to accomplish a reasonable financial safety margin. Over the past several years the City has implemented efficiencies and cut costs (or the growth rate of costs) in several key areas, including staffing and medical insurance benefits. While there are surely additional efficiencies to be gained, Council will need to look at the revenue side of the ledger as well.

The City still has no information regarding health insurance benefit costs for 2006. The City’s claims experience has been quite good over the past five years, but will be dismal for 2005. It is expected that the Premera Blue Cross renewal quote will be quite high—an approximate 30-40% rate increase—based upon quotes other cities are receiving. The City is constrained by existing labor contracts. Group Health is offering a competitive product in our market this year, and may well be a realistic option for the City. There is also potential for the Teamsters Benefit Trust, which currently insures some of the labor unions, to submit a bid for City services.

The total preliminary budget for the City Manager’s office is $545,813 and includes the management, legal and human resource functions of the City. The budget covers six employees. One change from the preliminary budget presented is the maintenance of the Executive Assistant position as a full-time position. Currently, both the Executive Assistant and the Human Resource Assistant are three-quarter time positions. At some point, management may want to look at one of these positions going back to full-time. In answer to Council inquiry, the current 10-12 hour temporary position is paid from the difference between the three-quarter and full time salary of the Executive Assistant. The temporary position was to cover staffing shortages due to vacations and is not a long term solution. Staffing is stretched very thin in the human resource area while a software purchase approved by Council should help diminish some of the work in the legal area. It is anticipated that staff changes would be addressed over time.

The 2005 Finance Department budget is status quo on staffing levels and increases costs by $130,000. This year Council added one Meter Reader position and increased the hours of the RPZ Clerk. Finance Director Carpenter advised Council the City is finally on top of meter reading with two full time meter readers and one 16 hour-a-week meter reader. The Accounting Analyst position again remains unfilled in this preliminary budget. Staff would like to keep this position in the budget in the event of a possible Department reorganization in 2006 due to the retirement of the Finance Director.
The advantages of going to monthly meter reads was briefly discussed. If the City decides to implement this change, then an additional billing clerk will need to be added to the Department.

Council reviewed the budget summary and the preliminary budget for the City General account group. Staff anticipates an outcome of the current audit will be a requirement that the City have signed contracts with each of the organizations receiving program support from the City. The City Manager will be working with the Finance Department to produce a budget that can be recommended to Council as fundable. Staff recommends the public hearing and first reading of the budget be held at the December 2, 2005 regular meeting to allow sufficient time for staff to assemble a budget that can be recommended for adoption based on Council’s directives. Council will have the ability to make some assumptions on the need for utility rate increases based on data to be used in a forthcoming comprehensive utility rate study. If Council decides to use its banked capacity to raise property taxes to make the Fire Relief and Pension Fund actuarially sound, then a second ordinance on property taxes will likely need to be adopted. Finance Director Carpenter explained the history of the Fire Relief and Pension Board as well as the creation of the Fund and its purpose.

**ADJOURN** Adjourn at 8:35 p.m. Carlson

Affirmed

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Mayor

ATTEST: _____________________________ City Clerk