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

Others present were City Manager Barkley; Finance Director Ariwoola; Police Chief Miller; 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 2007 Budget (Budget Formation Document) including Revenues, City General, Finance and City Manager.

City Manager Barkley presented an overview of the 2007 preliminary budget. The City's costs to provide services is increasing faster than revenue coming into the City. The 2007 preliminary budget is deficient in two major respects: 1) it does not adequately address capital needs in the long term; and 2) predicted revenues do not fund the budget in its entirety. Unless there are changes in revenue patterns including some changes in rates and fees for services the City provides as well as changes in costs that are growth-related that can be born by the growth activities themselves, the City will no longer be able to operate to support the services it does. This is not the first year Council has seen a budget in this format; however, it is the year Council will have to take action. As the City continues to experience increased residential growth the tax revenue generated by that growth is not sufficient to support City services.

The 2007 budget is the last year in which Fire/EMS services will be provided by the City. The City’s annexation into the District takes effect January 1, 2007; however, the tax authority and support for the District cannot be implemented that fast. When Council approves the budget for Fire and EMS services the net amount of subsidy to that budget that the City provides, i.e., the total budget less the direct payments from CWU for fire services and billings for EMS, will be divided into 12 monthly installments and paid to the District; the District will provide the services under a contractual agreement. The City will provide funding at essentially the same level as before but it will be contracting for the services instead.

The citizen’s tax bill will go down considerably in terms of what they pay to the City though the amount it goes down will in turn be paid to the District for fire and EMS services.

Due to the difference in mill rates in the City and District (the District rate is higher), the annexation creates an opportunity for businesses or owners in the Fire District wishing to annex into the City to cut their total tax bill by 50% or more and decrease their fire insurance rating. The City will still be rated separately from the District. Current District resources (equipment and personnel) will
contribute to the City’s fire rating because they are available as part of the same agency. The City will have a better fire rating and it will always be separate. This property tax issue will become important in terms of revenue to the City.

The City will be reassessed in 2007—the tax rate will go down even though the value of the property will go up because of the reassessment pattern. Staff will be looking at the park impact fee model and how that plays into the overall revenue stream for parks and recreation, and shifting utility billing practices to provide better cash flow and provide a better planning opportunity and capitalization of the utilities. The City will implement monthly utility billing in November, 2006. Staff will have a transportation impact fee model in 6-8 weeks for Council review. Council will receive a menu of increases in development fees designed to cover the costs associated with providing growth and development regulation and administration. Council has received a separate list of new positions being requested by Departments for 2007. These new position requests are not reflected in the formation budget.

Finance Director Ariwoola reviewed a handout detailing the comparison of tax rate and assessments between the City and County for the years 2004-2006. While the tax rate has gone down the collection goes up. City property values are assessed every four years and the City will be reassessed in 2007. The General Fund Summary of the 2007 preliminary budget predicts total revenues of $12,637,357 versus total expenditures of $12,920,245. Expenditures include salaries and benefits increases. For good cash flow management, an average of one month in reserve is needed to pay bills. In addition, a fund is needed to cover unexpected, emergency situations. A plan is needed that will build that reserve over time.

Revenues in the Sales Tax Reserve Fund are budgeted at $3,657,604 in 2007. Total Operating Transfers Out of the Fund are projected at $4,698,324—leaving a negative ending fund balance of $1,109,880.

While taxable retail sales have continued to grow, no major construction projects are planned at this point for 2007. Taxable sales are up only 2%, year to date, for 2006.

In answer to Council inquiry, staff would like to see 1.13 million in the reserve fund for cash flow to pay bills before sales tax and revenue comes in. Staff recommends a minimum of 1 million in an emergency fund. In the past, Council has used the reserve fund as the emergency fund. Staff recommends building the fund over a three year period.

FINANCE DEPARTMENT Director Ariwoola reviewed the Finance Department’s 2007 preliminary budget. The Department is responsible for billing and collection of 4 utility services and serves over 8,000 customers with each customer having between 2 and 4 utility services. The major increase in this budget for 2007 is in staff development/training. The total Training budget is $16,000 compared with $5,000 in 2006.
COUNCIL QUESTIONS

Staff responded to the following inquiries:

In answer to Council inquiry about a bond for a new Adult Activity Center, the City’s debt load on the whole is quite low for a jurisdiction of our size. The Council has councilmanic authority to issue debt that it has not yet used. The voter approved capacity is huge. Director Ariwoola will provide Council with the City’s bonding capacity and how much debt is outstanding.

The increase in Finance Department overtime from $14,017 in 2006 to $32,648 in 2007 is due to continued implementation of the financial software and to cover some of the payroll time in connection with absenteeism.

Professional Services under the Administrative Services account group increases from $4,000 in 2006 to $14,500 in 2007 due to annual bank analysis fees that the City has been paying but were not previously shown in the budget.

In the 2007 General Fund Meter Reading ($118,118) is shown as a revenue under Interfund Charges. Through an Interfund Charge the General Fund receives payment from the Utility Funds to cover meter reading costs.

The expenditure from the Sales Tax Reserve Fund to support the IT Department is $345,334.

General Fund revenue from Plumbing Permit remodels is shown separately from Building Permits and is budgeted at $1,083.

General Fund revenue from Kittitas County Law & Justice increases from $1,000 in 2005 to $10,000 in 2007 due to grants received.

General Fund revenue from Kittitas County for its share of the Animal Shelter increases from $42,448 in 2006 to $43,297 in 2007 under the contractual agreement for an annual 2% increase.

General Fund revenue from Zoning & Subdivision Fees, Design Review decreases to $15,600 from $20,825 in 2006 due to the lack of major construction projects scheduled in 2007.

Election Costs are budgeted at $8,000 for City Council races.

General Fund revenue from Donations for the Animal Shelter are shown at zero because the Friends of the Animal Shelter handle the majority of the donations.

Throughout the budget document Council will see salary adjustments for various non-represented positions that may appear larger than normal. The City has reached the point where represented employee salaries have outpaced the salaries of non-represented employees. It has been over ten years since a salary compensation study has been done. In the process of hiring three new
Department Directors it became apparent that salaries for non-represented employees lagged behind positions in comparable cities in Washington. Staff conducted a market analysis for those positions and salary adjustments were made to maintain internal equity.

City Manager Barkley advised Council at the end of the budget year it can still expect to have approximately $18 million dollars in bank investments. These are resources the City could use to pay any emergency bills. Council does have funds that it could access in an emergency, such as the Shop Fund.

CITY GENERAL

The City General Fund includes the Legislative Services, City Hall, Building Maintenance Service, Other City General Expenditures and Community Program Support account groups. Staff is continuing to look at a long term approach to provide maintenance for City Hall. No decision has been reached and the City continues to contract for janitorial service for this building. The Building Maintenance Service account group contains salary and benefits for one employee responsible for minor repair work and maintenance on all of the City buildings.

CITY MANAGER’S OFFICE

The total preliminary budget for the City Manager’s office is $657,595 and includes the management, legal and human resource functions of the City. The budget covers six employees and an on call position for telephone answering, agenda photocopying, and coverage issues. A change in the 2007 budget is a 0.25 increase in the Human Resource Assistant position to make the position full-time. There are no other significant changes.

HEALTH INSURANCE BENEFITS

At this point the City has no information regarding health insurance benefit costs for 2007; the formation budget contains estimates only. Staff hopes to have the information by the last budget meeting.

FIRE RELIEF AND PENSION FUND

The actuarial obligations now being projected for the City’s Fire Relief and Pension Fund continue to rise. This is a benefit cities are required under law to provide to a select group of retired police and fire employees. As part of looking at the City’s overall insurance package, staff has requested the City’s insurance agent prepare a proposal for an insurance program which will include the payment of Medicare premiums, Medicare Supplement Part B & Part D medicare programs as well as a supplemental insurance program that will address the majority of the parts that Medicare does not pay. While it appears to create an initial larger obligation for the City, it is offset by those claims that would be made directly and be obligations of the City as the medical costs do actually come in. It also levelizes the City’s obligation through time and the City can plan for it a lot better. The City is not
under obligation to do this although some jurisdictions have done it to control and predict costs. Until staff receives a proposal it is unknown whether this can be recommended to Council. This is an expense that will be with the City for a long time although the number of retirees in this group is small. Staff hopes to have this information for Council’s consideration as part of the budget process or within a time frame to allow its operation within the adopted budget.

Council requested an inventory of City owned land along with an explanation of the purpose of owning that land. Council briefly discussed the Catherine Park property.

**TENTATIVE PUBLIC HEARING DATES FOR COMPREHENSIVE PLAN**

The Morgan Middle School Auditorium and Bill Grimes, the City’s comprehensive plan consultant, are both available on November 4 and 18 for the public hearing. Mr. Grimes prefers November 4. Staff has not heard back from all of the Planning Commission members on their availability. The public hearing will be videotaped by ECTV for showing at a later date as a live broadcast is not possible from Morgan.

Council consensus was to tentatively target the public hearing for Saturday, November 4, 2006 at the Morgan Middle School Auditorium subject to the availability of a quorum of the Planning Commission members. Unavailability of a quorum of the Planning Commission or the need to extend the comprehensive plan update process could affect this date. Council can take formal action to set the public hearing at its next Council meeting.

**ADJOURN** Adjourn at 8:45 p.m. Carlson

Affirmed

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Mayor

ATTEST: ____________________________ City Clerk