CITY OF ELLENSBURG
Minutes of Council Meeting, Special Session
October 16, 2009
8:30 a.m.
Council Chambers, 501 North Anderson Street

Roll Call.

Present: Bassett, Bottcher, Elliott, Miller, Lillquist.

Absent/Excused: O’Brien, Tabb.

Others present were City Manager Barkley, Finance Director Ariwoola, Public Works Director Akers, Energy Services Director Titus, Parks & Recreation Director Case, Library Director DeSoer, Police Chief Miller, Financial Analyst Pasco and Deputy Clerk Keno.

BUDGET RETREAT – DISCUSSION REGARDING 2010 PRELIMINARY BUDGET

Mayor Lillquist called the special meeting to order at 8:40 a.m.

Councilmember Bottcher arrived at 8:42 a.m.

City Manager Barkley presented a general overview of the preliminary budget. While National and State data supports the view that the economy is no longer contracting, analysis shows we are probably not thorough the worst of the “Great Recession” in terms of municipal revenue and operational impact. While it appears the economy is no longer shrinking it is not growing appreciably either. Staff is forecasting stabilization in revenue at a new lower level. It is not expected that many of the general fund revenue sources will return to 2008 levels for some time--possibly years.

The City’s contribution rate to the PERS retirement system has more than doubled in the last year and will continue to increase. Insurance costs are going up. The City is currently in negotiations which hopefully will result in significant cost savings for health insurance benefits. The preliminary budget does not fund Town Talk. The budget proposes a maintenance and completion bond to fund some major capital projects. There is little or no system growth in utility tax. Decisions need to be made about the future of the Racquet and Recreation Center. The Fire Relief and Pension Fund continues to cost the City now and into the future.

Finance Director Ariwoola distributed a handout detailing the 2010 Preliminary Budget presentation and topics for discussion. Staff reviewed the reasoning behind the maintenance bond proposal as well as the advantages and disadvantages of debt financing. Council reviewed the projects list and costs. The City’s ratio of general obligation debt to assessed value, per capita, legal debt limit and debt serviceability was reviewed. The expected cost of borrowing the money is low and the City can afford the debt service amount.
Administrative costs will affect utility rates. The old allocation rate and the assumptions tied to that rate were not current. Administrative costs are allocated in the preliminary budget under a new process involving all stakeholders. Council reviewed the current allocation among the four utilities, the proposed allocation for 2010, the allocated administrative costs and the accumulation of allocated cost. Council asked questions about funding the community support programs from the utilities and some councilmembers expressed concern with funding these programs through the ratepayers.

The Debt Service Budget includes the General Obligation Bond Land Debt Fund which was created for the purchase of the Williams property. In 2010 the debt payment on this bond from the Sales Tax Fund is $171,159. The debt payment on the General Obligation Bond City Hall Debt Fund is $368,858 from the Sales Tax Fund. The General Obligation Bond Library Construction Debt Fund is $142,013 from property tax. The General Obligation Bond Debt Service Fund consists of mainly loans from the Public Works Trust Fund and acts as a placeholder for $100,000 to pay interest on the maintenance bond in 2010. The annual payment is approximately $8,400.

Councilmember Miller arrived at 9:06 a.m.

Total revenues to the Sales Tax Fund are projected to drop 12.97% to $2.8 million with total expenditures from the Fund projected at $3.3 million. Sales tax revenue has been going down gradually since 2008. The preliminary budget does not utilize the 1% allowed by property tax. Revenue from lodging tax and criminal justice sales tax is also expected to decline in 2010. Proposed utility rate increases will hopefully increase revenues. The City will transfer $640,000 from the Sales Tax Fund to service debt, excluding the Library Bond. As a result of little or no new construction in the non-government sector, there will not be any significant property tax growth from new construction. The City did not have dedicated property tax in 2009 and the next property valuation is not due until 2011 for 2012. The City’s property value is expected to remain almost the same.

Annette Sommer, Seattle Northwest Vice President, answered questions about bond financing. An estimated average borrowing cost for the financing is 4.25%, which is at near or historic low rates. The proposed Maintenance Bond would provide long-term financing for several capital projects and save current cash for operation. The list of projects total $2.6 million; some of the projects require match money. Council discussed the proposed project list.

Councilmember Bottcher left at 9:50 a.m.

Staff clarified that project #5 – Completion of Alder Street Park at $375,000 is for Phase I only. Council discussed adding the library parking lot, removing the two new fields at the Rotary Park softball field and adding the remainder of the work needed to completely finish Alder Street Park to the project list. Council consensus was to add the library parking lot and the last phase of Alder Street Park to the project list.

Council took a ten minute break at 10:26 a.m.
Council reconvened at 10:37 a.m.

General Fund expenditures decrease $73,000 to $11.2 million in 2010. Special Revenue Funds increase $2.7 million to $12.2 million. If Council changes the proposed bond project list the G.O. Bond debt will change. The Fire Relief and Pension Trust Fund will increase $19,468 to $270,333.

Total Enterprise and Internal Service Funds increase $13 million to $71.3 million with the Light Construction Fund rolled into operations and repayment by the Water and Sewer Funds of the $2.9 million interfund loan to the Light Department to cover 2008-2010 construction.

DEPARTMENT PRESENTATIONS

Public Works

No departmental changes are planned for 2010. The Salaries line item increases 6.31% due to a retirement payout. Director Akers gave a presentation of the issues associated with rate increases in the four utilities. The existing rates in all four utilities are not sufficient to cover future operational costs and satisfy debt retirement. A primary driver of the need for rate increases for all four utilities is the increased cost of general fund administration which is proposed to increase by almost $574,000 in 2010. Other drivers for the water and sewer utilities include increased capital costs for programmed construction, and a significant decrease in new construction connection revenue that was the backbone of the capital plan adopted. In addition, some modification of the existing rate structure is appropriate to fairly distribute costs among the various customer classes in each utility.

Councilmember Bottcher returned at 10:50 a.m.

Council reviewed summaries of the Capital Improvement Plans (2009-2013), revenue requirements, Rate Transition Plans (2009-2013), and costs of service for the sewer and water utilities along with summaries of proposed residential and commercial rates. The sewer utility is under collecting at a rate of $150,000 per year. In 2010 a rate increase of 12.7% would be needed. The proposed rate adjustment is 5.5% for four years of the program. In order to adequately cover cost of service the City would need to increase residential rates by 18% and decrease commercial rates by 0.8%. Staff will provide Council with rate examples from comparable cities.

The under collection of plant investment fees for new connection service is driving the proposed rate increase in the water utility. The proposed rate adjustment for 2010 is 9%. The numbers are large because the City is not collecting new construction. The driving force in the water utility is four new wells and significant infrastructure upgrades.

Council discussed the proposed rate increases.

Energy Services

Director Titus distributed a handout of his presentation and reviewed its highlights. The I-Net Fund
includes a $20,000 capital expenditure to replace aging equipment (batteries). Staff is looking at long term replacement of equipment in the future. Projected revenue of $9.7 million in the Gas Fund does not include a rate increase. Significant budget changes from 2009 include a decrease in energy sales revenue ($529,204) and a decrease in purchased energy costs ($736,389). The Gas utility applied for and is receiving federal stimulus funds to provide additional funding for a conservation program for its customers. The final budget will need to be adjusted to reflect this funding. A half-time auditor position is proposed for the future. Significant budget changes from 2009 in the Light Fund include a decrease in capital expenditures ($141,682), along with increases in customer service ($107,285), purchased energy ($296,732), Renewables Park – Smart Grid Project ($374,817) and an increase in energy sales revenue of $43,100. Staff feels confident it will be successful in obtaining federal stimulus dollars to pay for half of the Smart Grid project. Although expenditures exceed revenue by $668,000 the Light Fund has a reserve balance of $6 million dollars. Major capital projects are being deferred because of the economy. An electric rate increase may be needed in 2012.

Significant changes from 2009 in the IT Fund include an increase in expense for PC/printer replacements ($88,500) and a decrease in GIS expense ($77,400). All PC/printer replacements were deferred to 2010 due to the economy; GIS implementation costs are down. The City will be looking at moving from Windows XP to Windows 7 if early adopters do not experience problems. With the development of an enhanced City website in 2010 the City will be able to provide further enhancements in late 2010; this budget does not include funds for those enhancements. The CATV Fund budget is status quo. Significant budget changes from 2009 in the Lodging Tax Fund include a decrease in event seed money ($10,000) and a decrease in grand stand/fair renovations ($25,000). The Lodging Tax Committee is in transition and has not been using funds appropriated. Policy discussions are underway; the Committee is in a holding pattern due to the absence of a permanent Chamber Director. The Electric Utility Rural Economic Development Revolving Fund (EUREDRF) budget includes the $70,000 contribution to the Ellensburg Business Development Authority (EBDA).

Council recessed for lunch at 12:00 p.m. for 30 minutes.

Council reconvened at 12:33 p.m.

**Public Comments**

Ron Criddlebaugh, Ellensburg Business Development Authority Director, distributed the Authority’s 2010 Work Plan and updated Council on the work accomplished to date. Council requested a budget breakdown and quarterly report. Council would like to see how the City’s $70,000 appropriation is applied.

Jeff Slothower and Dave Burgess, representing the Kittitas Valley Junior Soccer Association, spoke about their proposal to have an indoor soccer facility at the Racquet and Recreation Center. The Association has the ability to make a significant capital improvement to the Center and would like to work with the Parks Department.
The public comment portion of the meeting concluded.

Parks and Recreation

Since a lot of Parks and Recreation activities are fee-based programs, those programs have taken a hit with the downturn in the economy. Adult Activity Center expenditures decrease 10% in 2010 due to a change in benefits for the Adult Activity Center Coordinator. Due to changes in the Community Schools Program, the city is moving into its first season of operating a basketball program. Pool expenditures increase 13% due to utilities and program costs. The 2010 budget includes $15,000 in a dedicated line item for weed abatement. The administrative secretary function has been relocated to the swimming pool to improve consistency and customer service. Staff is preparing a draft agreement between the Youth Soccer Association and the City for an indoor soccer facility at the Racquet Center. Anticipated revenue is approximately $20,000. It is also time to increase the fee for gymnastics at the facility with the overall goal to increase revenues by $30,000 in 2010. Utility and employee costs are the major expenses to the Racquet Center. Council discussed holding a special meeting on October 26, 2009 to discuss the indoor soccer facility proposal. No expenditures are budgeted from the Parks Acquisition Fund in 2010.

Police

The budget is status quo for 2010 and decreases approximately $12,000 from 2009. A new item for 2010 is a memorandum of security with the Ellensburg School District to provide school security through the use of police reserves. This is completely separate from the current school resource officer position and will be a break even program for the Department. Sheriff’s Office reserves have diminished and the City has graduated a new class of police reserves. A reimbursement system is planned with the School District; the City will bill the District for services. The City will continue to receive $10,000 yearly from the District to support the reserve program. The budget includes funds for purchase of a magnetometer to detect weapons entering the Department building and Lexipro software (policy, role training and report tracking software) liability reduction tool. The budget includes two unfilled officer positions; after the first quarter of 2010 the Department hopes to move forward with filling these positions. KITTCOM and jail bills continue to climb at a rate the City cannot control. KITTCOM and jail costs comprise $500,000 of the Department’s budget. Revenue projections for the Criminal Justice Fund are down for 2010.

Library

Director DeSoer reviewed the Library’s organizational chart and explained the reorganization of the budget. The Hal Holmes Manager position is eliminated in the 2010 budget and the Library’s Administrative Assistant position becomes full time with responsibility for management of the Hal Holmes Center. Computer rental costs decrease due to software maintenance provided by off-site servers. The Library was able to turn off three servers and no longer needs to budget funds for their maintenance. If Council decides to proceed with completion of the parking lot project the Library will
lose the revenue from the rental properties. It appears the County Commissioners will continue to fund the library at the current contribution level of $88,000. Circulation and patron counts are up 20%. Since the City does not have control over the Hal Holmes Trust Fund and it is no longer valued as a City asset, the fund balance has been removed from the books for budget purposes. Council would like to see the terms and content of the will and trust documents.

Council took a ten minute break at 2:15 p.m.

Council reconvened at 2:25 p.m.

**Community Development**

City Manager Barkley provided an overview of the Department’s budget. Overall revenues will be down considerably in 2010 and income from Licenses and Permits is projected to be down over 50%. A senior planner and building inspector position remain vacant. The budget does not include funds for a City Code re-write. Council needs to decide how to approach this re-write at its planning retreat. The Department does not have the staff capability to handle this work and there is no revenue stream at this time for the project. Grant applications are in process. Staff will research whether the Sidewalk Improvement Fund could be a possible funding source for Community Development projects.

Council held a lengthy discussion on the budget process for reallocation of administrative costs among the utilities, and in particular, the community support program allocation.

The status of the Anderson annexation was discussed. Council consensus was to use the 1% from property tax in the 2010 budget and not bank it.

Council discussed having a special meeting on November 9 to discuss the public participation plan and a special meeting with the Economic Development Group on December 14. Council will clarify the project list for the proposed maintenance bond at the October 19 meeting.

**ADJOURN** Motion to adjourn at 4:05 p.m. Miller

Affirmed

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Mayor

ATTEST: _________________________________

City Clerk