
Meeting Date: November 25, 2024

Subject: Final Public Hearing for 2025 Budget

Attachments: N/A

Presented by: Adam Vaughn, Finance Director

Approved for Agenda by: Dan Ford, City Manager

Discussion:

This is the final budget hearing for the 2025 operating budget. The City Council and the public can provide their feedback, and the Council has the opportunity to direct staff to bring back changes for the 2025 budget.

Throughout the last year the Council has had discussions about the City's budget deficit. As it sits now, the deficit is \$1.4 million in the 2025 budget. While the City has the fund balance to be able to weather that deficit through 2025, the reality of the situation is that the long-term budget is not structurally sustainable. The longer the deficit remains, the worse the City's financial position will get. As one example, the less money the City has in its fund balance the less of a return it will receive from its investments. Currently the City expects about \$300,000 in investment revenue in 2025. So again, if we do not address the budget deficit soon, we will not be able to utilize investment revenue to the same extent.

As mentioned previously, it is City Staff's goal to lower utility costs for our citizens. We are constantly reminded of how high our utility prices are for customers compared to surrounding municipalities. We are not overcharging our customers, but perhaps we are offering more services than what our community can reasonably afford.

With these challenges in mind, staff would like to present the following options to the City Council and ask for direction so that staff can take the necessary steps to begin pursuing long-term sustainable solutions.

Option 1 – Cuts to staff and services

This option would cut City Recreation, Aquatics, and Parks services while also reducing 6-8 staff across all City departments. I want to be very clear, when we talk about these options we are not talking about temporary reductions or pauses in services. We have a large gap in revenue available to our City and the expenses that we currently have. This option is not to close the pool and freeze these positions for one year, it is to close the pool indefinitely and to move forward as a City without those positions. As a City there are things that we have to do by function of being a City, and some things that are amenities for our citizen's to enjoy. We put out the Metropolitan Park District to the Community as an opportunity to provide direct funding for items that are not essential to City operations. It would be an option in the future to go back to the community for alternate funding opportunities for these services, but right now we do not have that directive from the community.

A 6-8 FTE reduction in the City's workforce is not an easy fix, but something that the City could do to be successful in the long-term. This would be about a 12 to 15% reduction in the City's workforce. This would impact every City department.

Option 2 – Fire Services Modification

The other option would be for the City to pursue an alternative to our current City Fire Services.

"State law does not contain specific requirements regarding the level of fire services to be provided by Washington counties, special districts, cities, or towns. Provision of such services and the level of service is a policy decision for each jurisdiction's legislative body to determine (MRSC.org, Local Government Fire Services – Authority and Requirements)." There is no specific statute in the state constitution that requires cities to provide fire protection services.

The two options within this path are 1.) Annexation into Fire District 5 and 2.) Forming a Regional Fire Authority (RFA). With either option, the City would no longer have a fire department under its direct control. Staff would recommend retaining a fire employee to act as the City's Fire Marshall to continue building fire inspections.

Annexation requires approval from both the City and the District 5 Commission and a public vote that needs a simple majority within the City and Fire District. Upon annexation the residents would pay Fire District 5's property tax levy which is currently \$0.88 per \$1,000 of assessed value.

The formation of a Regional Fire Authority would require cooperation from surrounding municipalities to send representatives to be on the planning committee to develop a plan of operations including funding through property tax and RFA fees. The RFA would be a new municipal organization. It would also require a public vote with all the participating jurisdictions, with a 50% or 60% vote depending on the revenue structure highlighted in the RFA plan. Staff has had initial conversations with surrounding jurisdictions and there is some interest in further discussions and analysis.

With either of these plans, the City will need to commit now to no longer providing fire services in the way that it currently operates. **If this option is chosen, staff would recommend taking steps highlighted in option 1 as temporary steps while work is done to get the annexation or RFA in place, including modifying current fire services.**

Conclusion

Staff hopes that the Council can provide direction as to an option to pursue. There is uncertainty about both options but there will be gained clarity into the role of our City Government and the services that we provide. While hard, it is easier to make this decision now, with some different flexibility than it would be if we ride it out until we are out of money. Employee retention will be critical throughout this process.