

TUMWATER CITY COUNCIL WORK SESSION

MINUTES OF VIRTUAL MEETING

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CONVENE: 6:01 p.m.

PRESENT: Mayor Debbie Sullivan and Councilmembers Peter Agabi, Michael Althausen, Joan Cathey, Leatta Dahlhoff, Angela Jefferson Eileen Swarthout, and Kelly Von Holtz.

Staff: City Administrator Lisa Parks, City Attorney Karen Kirkpatrick, Community Development Director Michael Matlock, Finance Director Troy Niemeyer, Police Chief Jon Weihs, Fire Chief Brian Hurley, Parks and Recreation Director Chuck Denney, Assistant Finance Director Shelly Carter, and Deputy City Clerk Marnie McGrath.

MUNIFIN 201 - REVENUES:

Director Niemeyer reported the review is one of a series of four reviews in preparation of the Mayor's budget. The sessions cover revenues, expenditures, debt, and budget followed by three work sessions on the budget and several public hearings prior to the adoption of the budget in December 2024.

Director Niemeyer described the day-to-day operations and responsibilities of the Finance Department and his role as the Director. He manages a staff of 12. The Department's work is guided by a code of ethics following City policies, and guidelines by the Government Finance Officers Association (GFOA) and Association of Certified Fraud Examiners (ACFE), and state ethics rules. Professional standards are guided by Generally Accepted Accounting Principles (GAAP) definitions, standards and rules, Governmental Accounting Standard Board (GASB), and federal and state laws and the State Auditor's Office.

Revenues in the City are distinguished by different fund types. Most activity occurs either in the general fund or business (enterprise) fund (Utilities and Golf). General fund covers all essential public services (police, fire, streets, parks, community development, and all support systems). Most funds in the general fund are generated by taxes, state and federal grants, and Medic One revenue. Business funds are from rates and fees for service.

Director Niemeyer reviewed general fund revenue by category with property tax the largest portion.

Previously, the Council discussed the structural deficit or the financial cliff. With a cap on property tax of 1%, the City has a structural deficit. Today, property tax adds approximately \$100,000 in revenue a year while expenses increase approximately \$1.1 million each year. As a result, revenues are not keeping paces with expenditures creating a structural deficit

Director Niemeyer displayed a line graphic depicting a scenario of property tax with a line reflecting actual revenues because of the 1% cap and a line reflecting revenue if the cap did not exist (up to 6% allowed previously by law). Another graph depicted actual property tax

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collections of 1% plus new construction property tax. Staff monitors sales tax and property tax collections throughout the year and advises the Council of any downward trends.

Despite the limit on increasing property tax for the City, other entities collecting property tax include schools, state, county, and junior taxing districts. For each property tax dollar collected by Thurston County, schools collect 39¢.

Many residents question the City's rates for services. Factors to consider are inflation, cost of capital projects, wages, state and federal regulations, and maintenance and operations of the systems. City utility rates are lower than other surrounding cities. Staff is in the process of conducting a survey of utility rates.

Councilmember Cathey asked whether the figures for capital projects are for all Citywide projects. Director Niemeyer explained that the graph is reflective of only utility capital projects. He cited the increase in costs in the construction industry. When the City's recent water main replacement project along Israel Road was initially estimated, the cost was approximately \$800,000. However, actual cost of the project totaled \$4 million, which is reflective in all cost increases the City is experiencing for all capital projects.

Other contributors that directly affect both utility rates and the general fund are inflation, wages, and material costs.

Councilmember Cathey asked how cities can continue to increase utility rates. Sales taxes, property taxes, and utility rates are affecting many customers as evidenced by the City experiences with some water shut-offs because customers are unable to pay. She asked whether there is an unlimited ability for cities to continue to increase utility rates. Director Niemeyer responded that there is no legal limit in terms of utility rates similar to the cap on property tax of 1%; however, public outcry and elected officials voted out of office because of high utility rates has often occurred. As a former employee with the State Auditor's Office, he encountered some smaller jurisdictions in the 2008-2010 timeframe where elected officials refrained from raising rates as they viewed it as a tax. Some jurisdictions over the course the next 10 to 15 years eventually had to turn over their utility systems to the county because they could no longer afford to maintain the system because of failure by the jurisdiction to keep pace with inflation and maintenance costs of utility systems.

Councilmember Cathey pointed out that many people do not understand why utility rates continue to increase. She recommended communicating information to customers as the rates reflect more than the just the provision of a specific commodity. Director Niemeyer offered to work with Communications staff to improve messaging to the community to help explain utility rates. Additionally, the City offers the lifeline

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program for disabled or low-income senior citizens qualifying for a 50% reduction in rates.

City Administrator Parks emphasized that the business funds are rate supported funds. The needs of the system drive the rate structure. If the City should reach a point where rates are no longer affordable, the Council would need to consider policy decisions concerning level of service. The City must follow state regulations in terms of public health and safety for utility systems. There are circumstances that could dictate policy changes that could change the level of service the City is providing to potentially lower costs as well as rates and fees.

Councilmember Dahlhoff noted that the Deschutes Estuary project is another example as the funds for the City's contribution is from the stormwater fund. It is an example of how the City is contributing to another project of importance to the region using funds from a City business fund.

Councilmember Jefferson inquired about the timeline associated with reviewing the City's structural deficit. Director Niemeyer explained that a previous illustration of the City's pending structural deficit could be described as intimidating. Staff reframed it to reflect a performance measure rather than a visual depicting the City falling off a cliff edge financially. Rather than regenerating the same message, staff monitors the City's financial performance and provides updated graphs and data for the Council's review.

Councilmember Jefferson asked about the process required to budget for a major expense, such as police body-worn cameras. Director Niemeyer replied that the issue of body-worn cameras entails an extensive discussion. The City is scheduled to collect new taxes generated from the Proposition 1 Public Safety Measure the county passed last November. The City anticipates receiving the first payment in June. The new tax will be part of the larger budget discussion.

SERVICE PROVIDER AGREEMENT WITH HALEY AND ALDRITCH FOR THE INTEGRATED PLANNING GRANT FOR THE DOT CAPITOL BLVD. PROPERTY:

Director Matlock reported the service provider agreement is funded by the state for an environmental assessment on the vacant site of the Washington State Department of Transportation (WSDOT) facilities off Capitol Boulevard. The buildings have been vacant for several years. The site was identified as an important parcel within the Capitol Boulevard Corridor Plan as it is the largest site for brownfield redevelopment.

The \$250,000 grant funds the assessment to identify contaminants on the site to enable the City to prepare a redevelopment plan for the site. The Corridor Plan's vision is for both residential and retail uses on the site with a public plaza and small public park. The intent is for the City to purchase the property from the state and sell the property to a selected developer to afford control of future development on the site. The Plan

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calls for one-third of the site for affordable housing, one-third for market rate housing, and one-third for commercial and public uses. The grant requires no match.

Staff released a Request for Qualifications (RFQ) for the grant. Six RFQs were received and ranked by a staff committee. Staff selected Haley and Aldritch, an experienced environmental assessment firm to complete the work. Staff requests the Council place the service provider agreement on the May 7, 2024 Council consent calendar for consideration. The grant covers a two-year period.

Councilmember Cathey asked about the process if the City sells the property to a developer, as it might complicate the City's plan for the property. Director Matlock said the process enables the City to have some control because if a developer purchases the property outright, the City would not have input on development of the site. Only developers willing to develop based on the City's plans for the property would be considered as a purchaser.

Councilmember Dahlhoff asked about the possibility of developing the new community center on the parcel. Director Denney affirmed that the site is one of four sites to evaluate for the community center.

The Council supported placing the proposal on the May 7, 2024 Council consent calendar.

SERVICE PROVIDER AGREEMENT WITH HALEY AND ALDRITCH FOR THE BROWNFIELD ASSESSMENT EPA GRANT:

Director Matlock reported the grant is a national competitive \$500,000 grant. Former Manager Austin Ramirez submitted the application. It is rare for an applicant like the City to secure a grant in its first application submittal. The community-wide assessment grant from the Environmental Protection Agency (EPA) is similar to the prior grant as it will fund an environmental assessment of contaminants within the Brewery District and the Capitol Boulevard Corridor involving the brewery knoll property and warehouse properties in Tumwater Valley. Part of the grant could help fund the assessment of the WSDOT site. A number of tasks would be completed to include a robust public involvement plan with the public, owners, developers, and real estate professionals through public workshops to seek input. The work includes a site inventory for both Phase I and Phase 2 assessments to determine the type and extent of contaminants with potential identification of mediation and reuse of the targeted sites. The grant funds the very early stage of a lengthy process to redevelop the sites.

The Council previously authorized the Mayor to sign the EPA grant. The grant requires no match. One recent change to the service provider agreement changes the amount of the agreement from \$500,000 to \$476,500.

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Staff requests approval to place the proposal on the May 7, 2024 for Council Consideration rather than the consent calendar as the work program with the EPA requires a community meeting to describe the project to the public and to meet the City's consultant. Placing the proposal as a Council Consideration satisfies those requirements. Another proposed change to the service provider agreement is the addition of a monthly status report to the City on progress to assist the City when submitting required quarterly progress reports to the EPA.

Councilmember Cathey asked whether the grant would provide any visual activity on the sites. Director Matlock acknowledged that a Phase 2 environmental review includes some testing on the sites that will involve activities the public might notice.

City Administrator Parks added that the grant requires community input. The City is planning to include a page on the website devoted to the project, as well as communicating regularly with the community. The Council will receive updates and talking points to address questions from the public about site activities.

Director Matlock said the grant covers four years.

Councilmember Dahlhoff expressed interest in learning about any increase in calls to the police department generated by site activity from testing. The police department should direct callers to information on the website about the assessment activity.

ORDINANCE O2024-002 BUDGET AMENDMENT NO. 2:

Director Niemeyer presented a proposed budget amendment. The City's new system includes new budget control features. One is a safety feature preventing departments from exceeding budget by overspending. The new feature has created some frustration; however, the feature is important. The proposed amendment adds \$4.9 million in revenue and \$4.5 million in expenditures. On the expenditure side, the amendment addresses some of the most significant salary compression issues and corrects an issue with revenue and expenditures for the Sewer Fund related to charges from LOTT Clean Water Alliance.

As part of the Sewer Utility, the City collects LOTT wastewater fees and forwards the fees to LOTT. The process balances incoming fees with outgoing fees. The City budgeted \$3.5 million for LOTT expenditures with the actual amount required of \$7 million. Previously, the difference did not require rectification; however, with new budget controls in place, better control of the budget is required. Although, the amendment is substantial, revenues will eventually equal expenditures with no additional charges incurred by the City.

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Within the Utility Funds, several electric vehicle upgrades are included of a van and a truck. The remodel of space at South Puget Sound Community College for Water Resources and Sustainability is costing more than forecasted for furnishings and the addition of several interns.

The budget includes a small amount to address some of the most severe wage compression issues. Information was shared with the Council during its retreat on a salary study underway to assess compression issues and salaries in comparison to comparable cities and surrounding cities. Non-represented employees lacking union representation have lagged in salaries. The amendment includes an increase in salaries to increase parity with union employee salaries. The proposal is for six positions of approximately \$53,000 in the general fund and \$3,000 in the Utility Fund.

Inflationary increases involve the Fire Kitchen Remodel at Station at T-1 of \$35,000 to complete the remodel. The City Hall sign amendment is \$6,000 to complete the new sign. The police camera system is in progress placed at different locations in the City to help detect stolen vehicles and other types of crimes. The Parks and Recreation Department is requesting funds for youth programs. The department will receive grants to cover the expense. Additionally, the City received a grant from the Department of Commerce for a solar electric vehicle charger. As the expense is paid prior to receiving the grant, the amount must be included in the budget.

The total budget amendment represents \$323,000 in expenses and \$102,000 in revenue resulting in a net of \$221,000 in expenditures in the general fund.

Director Niemeyer advised that a public hearing is scheduled on May 7, 2024 followed by consideration by the Council to approve the amendment.

MAYOR/CITY ADMINISTRATOR'S REPORT:

City Administrator Parks reported Director Smith has advised that the Department of Energy created a certification for recognizing employers and employees leading efforts to address climate change and lowering emissions by providing clean transportation options for employees. The City received a designation of EVAL (Electric Vehicle Adoption Leadership) as a certified employer and is listed in the silver category.

ADJOURNMENT:

With there being no further business, Mayor Sullivan adjourned the meeting at 7:01 p.m.