

February 26, 2020

The Everett City Council Retreat was called to order at 4:00 p.m., Wednesday, February 26, 2020, in the City Council Chambers of the William E. Moore Historic City Hall, Council President Tuohy presiding. Upon roll call, it was found that Mayor Franklin and Council Members Roberts, Murphy, Vogeli, Stonecipher, and Tuohy were present. Council Member Bader was expected to be a few minutes late, and Council Member Moore was excused.

Council Member Murphy led the Pledge of Allegiance.

RETREAT PURPOSE AND GOALS

President Tuohy announced that Bob Bolerjack, Administration, would serve as the facilitator today.

Mr. Bolerjack reviewed the schedule for today's meeting. He stated that during the retreat, the latest in the staff's work would be presented on the City's financial sustainability, and that staff would provide Council and the community with detailed information on the following:

- General Government Structural Deficit
- General Government Budget Balancing History
- Revenue & Expenditure Budget Constraints
- Alternative Service Delivery and Funding Models
- Direction Forward / Next Steps

GENERAL GOVERNMENT STRUCTURAL DEFICIT

Susy Haugen, Finance, presented information about City services, including general government versus non-general government, as well as a general government five-year forecast.

Council Member Bader entered the council chambers at 4:15 p.m.

February 26, 2020

GENERAL GOVERNMENT BUDGET BALANCING HISTORY

Susy Haugen reviewed the steps taken by staff to balance the budget over the past 10 years, and she explained why continuing to apply those steps to future balancing efforts is not sustainable.

REVENUE AND EXPENDITURE BUDGET CONSTRAINTS

Susy Haugen presented information about revenue budget constraints that limit the City's control over general government expenditures, including property tax history with and without the 1% limit, retail sales tax base shift, and tax rates. She also reviewed expenditure budget constraints relating to CPI (Consumer Price Index) and M&O (Maintenance and Operations), long-term obligations, and other non-discretionary spending.

Mayor Franklin reviewed expenditure budget constraints related to labor. She stated that labor costs represent 70% of the overall general government expenditures, and that in controlling growth in the City, the cost of labor can be complicated for several reasons due to State law and regional competition for staffing. She spoke about population versus FTE (full-time equivalent) change and expenditure constraints relating to non-discretionary work.

Paul Kaftanski, Administration, provided information about general government expenditure budget constraints relating to City facilities and infrastructure. He noted that slide number 17 lists a total number of 143 buildings surveyed; however, only 124 are general government buildings.

Council Member Roberts expressed concern that the City does not have an asset management structure in place.

Mr. Kaftanski explained that what the City has today represents a baseline, and that currently available software, as well as additional software modules, will be utilized for future management of assets.

Discussion ensued as follows:

February 26, 2020

- Impact on City tax collection as a result of the repeal of the Boeing tax package and future discussions with Boeing
- Review of service delivery efficiencies that might be gained in various departments through deployment of additional technology
- Review of deficiencies by building to determine what percentage of assets may be considered for sale
- Review of potential surplus property that could be sold to pay off debt
- Request for a list of all discretionary spend throughout departments
- How and when a review of revenue and expenditure aspects outlined in the Berk study could occur
- Request for a list of all general government FTE changes, total dollars, and growth history
- Review of marginal changes that could also be implemented

ALTERNATIVE SERVICE DELIVERY AND FUNDING MODELS

Library Services – Sno-Isle:

Library Director Abigail Cooley provided an overview of library services provided by Sno-Isle, the governance body, maximum levy rate, and potential challenges of a possible merger.

Susy Haugen presented information relating to the potential financial impact associated with a Sno-Isle merger. She stated that after review of all alternatives, a Sno-Isle merger is not recommended.

Council members commented as follows:

- What is the staffing cost as a total percentage of the Everett Library budget?
- Have we done any benchmarking related to the Everett Library labor costs versus Sno-Isle labor costs?
- What is the total non-staff budget costs, and how is that money spent in terms of purchasing books and technology?
- What percentage of City services are used by the Library?

February 26, 2020

- How would the City impact salaries of represented employees under labor contract restrictions?

Everett Transit:

Paul Kaftanski presented the historical and future timeline relating to Everett Transit options beginning April 2019 through November 2022.

President Tuohy noted for viewers that Everett Transit is a non-general government department; therefore, it does not affect the general government structural deficit.

The following comments were presented by council members:

- There could be potential risk and impact on the General Fund if Everett Transit has to be bailed out.
- Before increasing sales taxes or putting a ballot measure before the voters, service levels and the cost within Everett Transit should be reviewed.
- Look at benchmark comparables that other transit agencies have set for fare box revenue targets.
- What is the scenario if Everett Transit went out of business? Would Community Transit come in and attempt to expand?

Parks:

Parks Director Lori Cummings presented information about the governance, formation, and differences between Park Districts and Metropolitan Park Districts as alternative service delivery/funding models.

Finance Director Susy Haugen spoke about the fiscal administration of each district type, levy rate impacts to taxpayers, and revenue generation.

Council members commented on the following:

- Are both district models eligible for parks and recreation grants?

February 26, 2020

- What is the advantage of developing another district versus the City issuing bonds and levies to support our Parks Department and build new infrastructure?
- Do we have any historical information on levies that may have been put forward by other municipalities for M&O versus capital investment?

Fire Service:

Fire Chief Dave DeMarco presented information about the governance, formation, and differences between Fire Districts and Regional Fire Authorities as alternative service delivery/funding models.

Finance Director Susy Haugen spoke about the impacts in reductions in Everett's regular levy rates, banked capacity and property taxes, three-year district implementation timeline, and general levy lid lift funding options.

Council members commented as follows:

- Financial impacts of fire services provided to the Port of Everett
- An equity question exists if the City continues to subsidize these costs and the ask taxpayers to pay for certain services.
- Measurement of equity based on risk associated with providing services to commercial properties
- The effects of fire services and risk associated with fire services provided to Burlington Northern Santa Fe
- Would it make sense for the City to form its own regional fire authority, and how would labor contracts be handled?
- How do the governance models protect taxpayers from excess spending?

Susy Haugen noted that regardless of which option, if any, is selected to put before voters, it will not provide a permanent fix for the City's structural deficit as long as the 1% limit on property tax growth remains in effect.

Council members recessed for a break and reconvened at 5:56 p.m.

February 26, 2020

NEXT STEPS

Council Member Roberts inquired about how these issues should be laid out and timing issues surrounding next steps.

Mayor Franklin stated a citizen poll would be conducted over the next few weeks. She explained the goal is to gain feedback from residents about their understanding as to how city is doing financially, the areas that are a priority, and what services they deem essential and worth investing in. She stated the results should be available within the next four to six weeks.

Deputy Mayor Nick Harper stated it is not a perfect tool because the survey is not a political poll and there are limitations about questions that may be asked.

Discussion ensued about the option of a general levy lid lift and ballot timelines for the alternative service delivery and funding models.

Mayor Franklin also provided a status report and meeting timeline for the newly formed Financial Advisory Council.

Council members discussed the following:

- Ballot timing and voter involvement trade-offs
- Request to review questions for the upcoming poll
- Request for summary of the success of levy lid lifts in other jurisdictions
- Concern that the impacts for the Financial Advisory Council members might not be representative of the general Everett population
- Concern that decisions fall to the City Council and the importance that council members are involved in discussions
- Importance of looking at all discretionary expenses such as surplus property, labor costs, etc. before asking for tax increases
- Request for a list as soon as possible that includes all City discretionary expenditure areas
- Next steps and role of Council Budget Subcommittee
- Timeline for balanced budget and to what degree does the Council need to plan

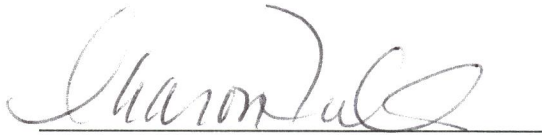
February 26, 2020

- The possibility of changing to a two-year budget process
- Importance of briefing entire Council on large items rather than just Budget Subcommittee

Mayor Franklin stated it would be helpful to get some guidance from Council in the next month or two if there are certain alternatives it is interested in pursuing.

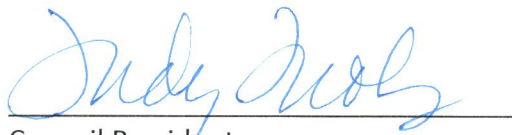
Mayor Franklin announced that prior to looking at a workforce reduction to balance the budget, the City will be bringing forward another voluntary separation proposal.

The City Council Retreat was adjourned at 6:54 p.m.

A handwritten signature in black ink, appearing to read "Sharon Dale", written over a horizontal line.

City Clerk

Read and approved as printed.

A handwritten signature in blue ink, appearing to read "Judy Quols", written over a horizontal line.

Council President