

- 0030 Mayor Larsen opened the budget workshop at 10:00 a.m., with the following councilmembers attending: Khembar Yund, Earl Queen, Mike Mask and Jack Reilly. Staff attending: Police Chief Bob Heuer, Clerk-Treasurer Ryana Covington, and Public Works Director David Vorse. Others: Daily News correspondent Barbara LaBoe and Mr. Wayne Lunday, Quaife's Insurance.
- 0049 Covington reported that in response to council direction from the November 17, 2008 budget workshop meeting, she has met with the public works director and the Street Fund budget has been reduced to eliminate the need for any interfund transfer from General Fund.

In addition, she completed research as requested by the council regarding the feasibility of mortgaging city-owned properties to generate additional revenues to help balance the 2009 fiscal year expenditure requests. According to a response from Municipal Research and Service Center (MRSC), the city council has the option to mortgage or sell public property. However, MRSC was uncertain how this would affect the city's bonding ability and Covington was unable to obtain this information from the city's bonding attorney.

Covington also contacted the State Auditor's office to ascertain if this action would have any negative effects on their reporting, which is scheduled for next year. The auditor reviews the city's files and makes a report regarding the prudent management of public funds. If the city were to mortgage the buildings, the revenues would only be available for one year. If expenditures are not adequately reduced and there are no prospects of additional revenues from other sources, the city's finances would still be facing the same deficit. Covington stated with the added operation and maintenance expenses projected in 2009, the city's finances actually will have a greater deficit than projected for the 2009 fiscal year budget. For this reason, if the city council decides to rely on short-term finance projections (such as the prospect of selling or mortgaging the buildings) to balance the 2009 fiscal budget, the city's report from the State Auditor probably will include an administrative finding.

Councilmember Yund also had sent a request to both Covington and the city attorney regarding researching the option of securing councilmatic bonds to balance the budget deficit. Covington stated the city attorney could not be at this meeting, nor has she received a response from him. Covington noted that she has limited experience with bonding policies and procedures. In lieu of this, she researched documents from Association of Washington Cities (AWC) pertaining to this issue. Covington distributed copies of pertinent sections from the AWC Debt Primer booklet (copyright 1994) that describes various bonding practices.

At a request from the public works director, Covington also researched if there

were any limitations for increasing utility taxes. Covington distributed documentation from AWC that cites ‘there are no restrictions on tax rates for cable, garbage, water, sewer or stormwater utilities.

In answer to Councilmember Reilly’s question, Covington stated she reports the city’s debt capacity annually to the State. She noted that the AWC Debt Primer does not list any restrictions for use of councilmatic bonds. However the section under debt management policies cites that ‘cities should not be using short term borrowing, or borrowing for that matter to cover ongoing operating deficits.’

Councilmember Yund stated that he feels the council agrees with that policy. He noted that ‘should be’ and ‘can’t’ are two separate issues.

In response to Councilmember Mask’s question, Covington stated she could provide the debt capacity amounts to the city council if they wish to pursue this issue. She cautioned that other costs, such as a bonding attorney, could be associated with this line of revenue.

Councilmember Mask felt it would be irresponsible to pursue this line of revenue because the debt would need to be paid back.

Covington stated that she contacted the city clerk from the City of Kalama. She explained that the City of Kalama also faced a revenue shortfall a few years ago.

Covington asked their clerk for a comparison of expenditures for the following departments

<u>Police Department-</u>	<u>Current Year Appropriated Budget</u>
Kalama	\$630,320 (of that \$32,000 is for overtime)
Castle Rock	\$665,540 (of that \$40,000 is for overtime)
	<u>Proposed Fiscal Year 2009 Budget</u>
Kalama	\$652,500 (of that \$38,000 is for overtime)
Castle Rock	\$675,425 (of that \$52,000 is for overtime)

Kalama police department consists of four officers and a chief of police. Currently their police department is operating with one less officer, and their clerk-treasurer estimated the overtime expense to be approximately \$50,000 by the end of this year. Their chief also takes shift coverage when officers are not available due to holiday, illness or vacations.

Councilmember Yund noted that Castle Rock Police Department has received grants and it is unknown if Kalama’s budget includes grant funded projects.

<u>Finance Department-</u>	<u>Current Year Budget</u>	<u>Proposed Budget</u>
Kalama	\$224,200	\$243,300

Castle Rock \$144.469 \$148.863

Kalama's finance department includes four clerks, which are all paid from General Fund resources.

Covington stated that their clerk-treasurer reported higher revenues due to new construction and their licensing fees were higher than in Castle Rock. As an example, a Kalama business license costs \$75/year and a Castle Rock business license costs \$25/year. Their utility tax is 6% (Castle Rock is 5%), their water customers residing outside of the city limits are charged 1.75% over the in-city rate (Castle Rock is 1.50% over in-city rate) and their sales and use tax revenues have increased over their projections.

Kalama's mayor has recently limited the COLA increase for non-bargaining employees to 2% for the 2009 budget. They have also instituted a hiring freeze and have placed controls over travel budgets.

Covington was informed by their clerk-treasurer that when this city faced their revenue shortfalls, they reduced their workforce, mostly by not filling vacant positions. In addition, the clerical bargaining unit staff agreed to reduce their working hours to 32 hours/week in lieu of any reduction in this workforce. To create additional revenues, Kalama's general operating fund borrowed from other funds within the budget. These are considered short-term loans between funds and must be paid back within a three-year period, with interest. For the first year, Kalama deferred principal payments to those funds and opted just to make interest payments.

Covington stated that Kalama's clerk feels that annexations do not generate significant additional revenues, however new construction did increase their tax base. Annexations providing the ability to also increase a city's sales and use tax base will provide the greatest revenue impact.

Councilmember Yund noted that when he initially became a councilmember, the experts all downplayed the benefits of annexing residential areas, because the city's cost to serve those areas (for police and public works expenses) are higher than commercial areas. However, he noted that without residential growth, the business community cannot be supported without the additional capacity. He feels that the city's current situation relates back to the city not taking advantage of certain proposed residential developments which have been suggested in past years.

Covington noted that not all revenues associated with new construction can be considered as on-going revenues. For example, new construction will increase revenues for building and planning services, however these are only short-term.

Councilmember Mask reported that he has spoken to constituents in the city.

Based on these conversations, he feels that taxpayers are split on their consensus for mortgaging or selling city assets. Those opposed feel this would only be a short-term solution and those in favor support actions required to retain the city's existing workforce.

Public Works Director Dave Vorse voiced concern that selling the vacant lot on the east side of City Hall may make the city in non-compliance with zoning ordinances pertaining to parking requirements. Currently this lot is used for parking for both public and private business establishments.

For comparison purposes, Vorse provided a summary of commercially zoned buildings that are currently listed for sale, or have recently sold. Councilmember Mask reported that he has spoken with a representative from a local real estate office. They report that the market is not good and the chances for the city to quickly sell property is remote. Vorse stated he concurs with this statement.

Councilmember Mask stated that most of the constituents that he has spoken to are unhappy with the salary increases that city employees have received. He feels that it might be possible to approach the bargaining units to ask if they would consider renegotiation of their salaries. Councilmember Yund said this was not the official position that the union bargaining unit took during negotiations of those contracts.

Councilmember Mask suggested the city could also consider rolling back salaries for non-bargaining employees. He felt this would be a significant reduction to the General Fund expenses.

In answer to Councilmember Yund's question, Covington stated she is not prepared at this time to provide an accurate overview of impacts from past salary increases. However this could be calculated and provided to councilmembers, if requested.

Councilmember Yund stated if the city reduced salaries for non-bargaining employees, the bargaining units would still receive an increase in their salary for 2009. The city has three bargaining units consisting of the police, public works and clerical employees.

Councilmember Mask suggested that renegotiating with public works to eliminate pay increases for next year, along with other perspective salary increases, could allow the city to forego the need for any increase of the utility rates for 2009.

In response, Vorse noted that State requirements impose mandates which the city must meet. The loans incurred for improvements to the water and sewer plants were decisions made by the governing body to meet those mandates. Vorse stated that impacts from loans are greater factors for increase of utility rates. Councilmember Yund stated that salary increases pose only a small portion of the budget.

Councilmember Queen noted that his utility bill is higher than his electric bill. He attributes this to the new construction at the sewer plant. Queen feels that the city needs to gain a larger customer base to help spread out costs for repayment of the existing loan debt. Councilmember Queen does not feel that the bargaining units will support any pay decreases.

Covington summarized that the city only has a limited revenue base to draw from. If additional revenues are not possible, the city needs to reduce their expenses.

In answer to Councilmember Queen's question, Covington stated in fiscal year 2009, the city will be paying \$178,394 in principal and \$148,072 in interest for repayment of debt for the Regional Sewer plant reconstruction project.

Councilmember Yund suggested that contributions made to the Public Works Vehicle Replacement Fund, from the General Fund, (on behalf of the Street Fund), could be returned to General Fund. Vorse stated that he feels the contributions made toward Street Fund equipment purchases have already been used for purchases. Councilmember Yund suggested that if there are any unexpended funds, these should be returned to the General Fund, before any options of borrowing are discussed. He noted that it would be difficult for the public to understand the purchase of a new truck, when the city is considering options to reduce the General Fund deficit.

Councilmember Yund also suggested funding a portion of the clerk-treasurer's salary from the Water/Sewer Operating Fund, since she also performs functions associated with the financial management of those services. Yund acknowledges this could affect utility rates, but it would help alleviate the deficit in General Fund. Councilmember Mask stated the impact to utility customers could be reduced if salaries for those positions are rolled back. He felt that the rolling back wages, in conjunction with borrowing from other funds within the city would enable councilmembers to balance the budget for the next fiscal year.

Councilmember Yund stated he would support his two recommendations (stated above) instead of any wage rollback. Councilmember Mask stated he did not feel that it is fiscally responsible to borrow from other funds and still provide salary increases for personnel.

Councilmember Mask stated he feels that both bargaining and non-bargaining employees will understand the fiscal situation that the city faces and will do what is needed to help. He feels the city should approach the union representatives to ascertain the feasibility of reducing salaries. Councilmembers Yund, Queen and Reilly stated the city could request a meeting, however it is up to the union representatives to allow this discussion to take place.

- 5912 Councilmember Reilly explained that the process requires a representative from the council to meet with the union's bargaining representative to request such a meeting. The representative will then ask the bargaining unit members if they want to meet.
- 6125 Chief Heuer requested a twenty-minute Executive Session at 11:00 a.m. to discuss possible litigation. No action to be taken.
- 6249 Mayor Larsen reconvened the regular workshop session at 11:19 a.m.
- 6301 Public Works Director Vorse distributed an outline of suggestions to increase revenue projections for General Fund. Vorse noted that the clerk-treasurer has not had the opportunity to review this outline.

Suggestions include the following increases to the 2009 proposed revenue projections:

* Increase the real estate property tax projected revenues an additional \$10,000.

Vorse stated this would bring the estimation to what the city has received this year. He stated that Covington has projected the revenues at \$257,000 and he proposes the estimation to be increased to \$267,000.

* Increase the projected revenues for the retail sales and use tax from the projection of \$285,000 to an estimate of \$295,000. He based this on the average revenues received this year.

* Increase the telephone utility tax projection an additional \$2,000, to \$58,000.

* Increase the electricity utility tax projection from \$61,000 to \$65,000. This is based this on the average revenues received this year. Covington stated these revenues are not paid on a monthly basis and no further payments are expected for the remaining of 2008. .

* Utility tax for water, sewer and stormwater utilities could be increased if the city adopts a 6% utility tax. The current utility tax rate is 5%. Vorse felt this would gain an additional \$10,000 for the city. He noted that the City of Longview will be increasing their utility tax rate from 7% to 9 1/2 %. The City of Kalama, as already noted, is at 6%. In answer to Councilmember Mask's question, Vorse stated this would be an increase of \$1 on a \$100 bill.

* Building permit; increase from \$20,000 projected revenue to \$30,000 projected revenue. Vorse felt that development will need to begin in two pending projects areas, once these subdivisions receive their final plat approvals.

* Increase projection for City Assistance revenues. Vorse acknowledged that the clerk-treasurer has reported this revenue source has been decreasing. He noted that in 2008, the city projected revenues of \$30,000 and has only realized \$24,000 this year.

Vorse stated the above increases would produce an additional \$50,000 in General Fund revenue projections.

Vorse also suggested that the city council reduce the projected ending fund balance from \$150,000 to \$120,000. He acknowledges this may not be the most prudent and is far from the \$300,000 goal recommended by the clerk-treasurer. Covington noted that year-to-date estimates for the 2008 ending fund balance are only \$114,000, when the original projected balance was to have been \$135,000.

Covington stated that each year, approximately \$200,000 of the General Fund reserves are used to balance expenditure needs. The trend to increase revenue projections and not decrease expenditure needs to meet actual revenue streams will not allow the city to recover from the current deficit problem. This year the reserves are no longer adequate enough to help support proposed expenditures, creating a shortfall. Covington cautioned that while the 2009 fiscal year budget has been a difficult process, the budget for 2010 may not be any easier.

Vorse suggested that in the interim, if the city could sell a building, this would help to bridge the shortfall. However it would still leave over \$100,000 that would need to be funded from some other source.

In answer to Councilmember Mask's comments, Vorse stated, with the exception of the electric utility tax, he is suggesting that 2009 projections be increased to reflect revenue totals already received in 2008.

In answer to Councilmember Queen's question, Vorse stated that the 14-lot self-help housing project will begin construction in 2009. He feels that the 29-lot subdivision proposed by ABT Development will have a few lots developed in 2009. Vorse stated he has trimmed \$88,000 in expenditures from the General Fund by reducing interfund needs to the Street Fund. He stated he is just showing councilmembers how they could increase revenues.

At the request of council, Covington offered the following comments pertaining to Mr. Vorse's suggestions to increase revenue projections;

City Assistance Funds: reading from the budgeting calendar booklet provided by the Washington State Department of Revenue, August 2008 – 'the formula to allocate the city assistance is based on sales tax and property taxes. If there are not enough State revenues to fund the distributions, then it will each be reduced proportionately.' Covington noted at the time this resource guide was published, the State was not projecting a deficit. Now the State is projecting a substantial budget deficit, imposing hiring freezes and staff reductions. For this reason she would expect 2009 revenues to be even lower than what was received in this current year.

Sales and Use Tax revenues: Based on information obtained from the Castle Rock Chamber of Commerce, inclement economic conditions will force the closure of five businesses at the beginning of this next year. Most of these are retail businesses, which help to contribute to this revenue source. Unless the city

receives new retail businesses to replace this loss a reduction in these revenues could occur.

Property Tax revenues: based on current economic conditions, Covington stated she has budgeted for the possibility of foreclosures and/or non-payment of property taxes. Currently lending agencies and banks are being selective when entering into property contracts, which could have an effect the new construction. The impact from the self-help housing subdivision was included into the revenue projections for both property taxes and building permits. Lower Columbia Community Action Program has already secured financing for that project through a federal grant program. Covington noted that councilmembers already have commented that the sales of new and existing properties continue to be weak. In response to Councilmember Yund's question, Covington stated property owners could go three to four years without paying for property taxes before the county invokes legal proceedings. In the interim, the city does not get any revenue for that property.

Councilmember Yund felt that these recent foreclosures are the result of loans requiring 'balloon payments' to come due and he feels this is a different circumstance from other loan default situations.

In answer to Councilmember Mask's question, Covington stated once property tax payments are made, the county forwards the city's portion to them.

Utility Tax – Electric; Covington stated she has already commented on the electric utility tax and does not recommend any increase to the projection.

Utility Tax (Water, Sewer, Stormwater): increasing the tax rate is at the discretion of the city council. If an increase of recommended, the revenue projections would be adjusted accordingly.

Building Permits: Covington agreed that the projection is low. However housing starts are questionable at this time.

Covington suggested that councilmembers consider evaluating permit fees such as for business licenses. She noted that increasing this license fee from \$25 to \$35 should generate an additional \$2,000 in revenues.

Covington stated if councilmembers choose to borrow from other funds to bridge the 2009 deficit, there are six funds which can be used; for a total revenue source of \$438,000. She reiterated that any borrowed revenues must be paid back to the source fund. In addition, interest (usually based on current rates from Washington State Investment Pool) must be paid to the funds loaning the money.

Vorse stated that if the city takes over the county's utility customers west of Castle Rock, this would bring in an additional \$4,000 in utility tax revenues

(based on a 5% tax rate).

Covington stated she was also against reducing the projections for the ending fund balance. Building the city's reserves should be an equal priority for the future fiscal health of the city. However all of these decisions are entirely up to the city council.

Covington reminded councilmembers of an earlier recommendation to increase building permit fees to the same amount as currently assessed by Cowlitz County.

In answer to Vorse's statement, Covington stated the proposed phone system still has been included in the 2009 budget estimates.

In answer to Chief Heuer's question, Covington stated there are an estimated 190 business licenses issued by the city. A \$10 increase in the fee will produce \$1900 of additional revenues. Covington cautioned that some of those business licenses are for a partial month only. The city's current rate is \$25 per year; \$15 if applied for after July 1st.

Councilmembers Yund and Reilly agreed that the business licenses should be increased to at least \$50/year.

In answer to Councilmember Reilly's question, Covington showed a comparison of projected building permit revenues, which compared city rates and county rates, based on the city's year to date projects. Covington noted that Cowlitz County is proposing to increase their rates in 2009, based on a COLA percentage. Councilmember Yund suggested building permit rates be increased to the county's 2008 schedule. This will assure that city rates are still below those of Cowlitz County.

Councilmember Mask stated he was against any increase in the utility tax rate. He added that eliminating all cost of living increases for non-bargaining personnel would also help to reduce expenses in the utility funds.

Covington summarized that initially councilmembers had directed staff to increase water rates by \$1.00 per 100 cubic feet of use. She noted that last week, the Regional Utility Board increased rates assessed to both of their customers (which are Cowlitz County and the City) to make up for impacts associated with repayment of the \$1.8 million dollar loan for the Regional Water Plant rehab project. Covington stated she has not been able to recalculate the impacts of this increase on the city's water customer rates. If the impact exceeds the \$1.00 per 100 cubic feet of use that councilmembers have agreed upon, Covington will need to meet with Vorse to further assess if additional proposed expenses can be reduced.

Vorse distributed an outline of reductions that have already been made to the

Water/Sewer Fund in the amount of \$72,000. These include:

- * Reduce the projected amount ending fund balance for both the Water Fund and Sewer Fund from \$40,000 to \$30,000.

Reductions in the Water Fund expenses

- * Eliminate funding for summer part-time employee
- * Reduce the amount for the facility repair and maintenance
- * Reduce the meter replacement project from 100 meters to 75 meters
- * Reduce the amount for building repair and maintenance projects
- * Eliminate the proposed water main replacement project

Reduction in the Sewer Fund expenses:

- * Reduce funding for the sewer inspection program
- * Reduce the equipment repair and replacement projects
- * Reduced fuel costs through conservation
- * Eliminate purchase of a thumb for the backhoe

Vorse stated these proposed reductions were made prior to the Regional Utility Board meeting in anticipation of an increase in their rates. However revenues for these funds will need to be re-evaluated, especially if councilmembers direct that a portion of the clerk-treasurer's salary be funded through the Water/Sewer Fund.

Councilmember Mask spoke in opposition to funding a portion of the clerk-treasurer's salary through the Water/Sewer Fund. He cited that customers will not be able to afford the city's rates. Mask also felt that utility customers will be unhappy if the city increases rate and also increases the salary paid to the public works director.

In answer to Councilmember Yund, Mr. Mask stated that residents on fixed incomes will receive a 5.6% increase from the federal government in 2009. Yund noted this increase is being provided by the federal government in spite of the existing federal deficit.

Councilmember Yund stated if the cost of living actually increased by that amount, he does not feel it is fair to the employees to not provide them with that percentage increase. Councilmember Mask did not feel that the city could afford to increase wages, while borrowing money from other funds and increasing rates to our utility customers. Vorse stated his wages do not come from the General Fund and does not affect the budget shortfall within that fund. Councilmember Mask felt that in fairness, non-bargaining increases should be the same for everyone, regardless of the revenue source.

Covington requested that councilmembers summarize budgetary items in which they agree.

* Building permit fees: by consensus, increase the rates to the county's 2008 fee schedule.

* Business license fees: Councilmembers discussed whether to increase the fees to either \$50/year or to \$75/year.

Business owner, Wayne Lunday stated the license fee does not make any difference to the local business owner. He stated in relation to increasing employee's wages, he knows that all city employees give fully to the city. He feels that the majority of taxpayers would not object to salary increases paid through city taxes and he stated it would be appropriate to award some sort of cost of living increase. He felt that as a business in Castle Rock, the city does not overtax its residents as compared to fees charged by the cities of Kelso and Longview. He noted that utilities are plentiful and not overpriced.

Councilmember Mask felt that some retail businesses are struggling to stay open and have a different customer base than Mr. Lunday.

Councilmembers Yund, Queen and Reilly agreed to increase business license fees to \$75/year.

* Utility tax (water, sewer and stormwater): Councilmember Mask spoke against any increase. Councilmember Yund noted that those customers using less of the services will be impacted the least. A customer having a minimum utility bill will see an increase of approximately 63¢ over their current bill if the utility tax is increased an additional 1% (from 5% to 6%).

Tape 2 of 2

Side - A

0014 Councilmember Yund stated the city needs to increase service costs to pay for higher operation and maintenance expenses. This increase would have a smaller effect on the lower utility consumers.

In answer to Councilmember Yund's question, Covington stated the Low-Income Funding Committee needs to set parameters and eligibility requirements before the funds can be used to assist eligible customers with their utility bills. Councilmember Reilly noted there are other assistance programs available for those in need. Councilmember Mask cautioned that these increases will eventually create hardships.

Councilmembers Yund, Reilly and Queen agreed to defer direction on increasing the utility tax rate for water/sewer and stormwater utilities until impacts from the Regional Utility Board increases can be evaluated.

Councilmember Yund also requested an evaluation be made for comparison purposes of the impacts to utility rates should a portion of the clerk-treasurer's

salary be paid from the Water/Sewer Fund.

Stormwater rate: by consensus, increase the rates approximately 82¢ to fund a portion of the Public Works Maintenance position currently paid from the Street Fund. Vorse noted that those with larger impervious surfaces would see a greater increase in their rates.

Phone system purchase: Councilmembers Queen and Mask felt this expense could not be met. The cost to General Fund would be approximately \$9,000 per year, for a period of five years. Councilmember Yund suggested this project be included in the proposed budget, however not expended. Councilmembers will re-evaluate in mid-year to see if adequate funds exist to move forward with the expense.

Software upgrade and supporting hardware: by consensus, councilmembers agreed that the existing software (DOS based) no longer meets the city's needs for financial, payroll or billing requirements. The impact to General Fund is slightly over \$2,000, and the total expense will be shared throughout other funds. For this reason, the project will be included for funding in 2009.

Covington asked councilmembers to provide direction on the revenue suggestions posed by the public works director. Vorse stated these were only suggestions and not based on research or experience. He stressed that any changes should be a council decision and not based on what he has presented.

Real and personal property tax: Councilmember Mask stated he does not support changing the projections. Councilmember Yund suggested that the changes could be made and then re-evaluated later in the year. Covington cautioned that if payment trends are the same as this year, it will be November before any revenue shortfall can be assessed for these tax revenues. Councilmembers Yund, Reilly and Queen agreed that the revenues should be increased to the amount that the city has received this fiscal year.

Sales and use tax: based on the current economic condition, Councilmembers agreed to leave the tax as the clerk-treasurer initially estimated.

Telephone utility tax: increase an additional \$2,000 to a year end projection of \$58,000.

Electricity utility tax: by consensus, no change from the initial projection.

Utility tax (water/sewer/stormwater): to be reviewed at a later date.

Building permits: increase the estimated revenue to coincide with the increased fee schedule. In answer to Councilmember Reilly's question, Covington stated her estimation took into account the completion of the 14 self-help housing

units. In answer to Mr. Vorse's question, based on the city's 2008 building permit project log, the city would have received an additional \$4,000 in revenue if the county's current fee schedule would have been adopted. Covington noted that the estimation for this fiscal year was \$35,000, which was based on the amount of revenues received in the past three years and the expectation that the self-help housing subdivision would be completed. However, the national economic condition has decreased building projects and the self-help housing subdivision has not received final plat approval. For this reason, year-to-date building permit revenues are only \$14,000.

City Assistance: by consensus, leave the estimate as initially projected.

Councilmembers further discussed revenue projections for building permit services. Councilmember Reilly noted that the ABT Development subdivision is also nearing submission for their final plat and he feels that development will be forthcoming. Councilmember Yund felt that the increased rates and the knowledge that the self-help housing project will be completed in 2009, should provide additional revenues. By consensus, councilmembers requested the revenue projection be increased an additional \$10,000 for building permit fees.

In answer to Mr. Lunday's question, Vorse described the boundaries of the proposed annexation submitted by Mr. Bo Oswald.

Reducing the projected ending fund balance amounts: by consensus, leave the projection at \$150,000.

Vehicle Replacement Fund evaluation: Vorse hesitated to support Councilmember Yund's recommendation for an evaluation to ascertain the contribution amount from General Fund and to return unused contributions back to General Fund. Covington noted that contributions into the vehicle replacement fund were actually from the Street Fund, Water Fund, Sewer Fund, Regional Sewer Fund and Regional Water Fund. The Street Fund has been supported by General Fund transfers. Vorse stated the Street Fund contribution has been eliminated for this next fiscal year. He noted that research needs to be done to evaluate the vehicle purchases since the inception of this fund to evaluate if funds can be returned to General Fund.

Councilmembers discussed options to bridge the General Fund revenue gap. These options included the feasibility of selling city property in this current market environment or securing a loan against other capital funds within the city's budget.

Councilmember Yund noted that if the library excess levy fails, he would not be interested in paying for maintenance costs (such as for electricity) for that building. Mr. Lunday suggested that library services could be relocated to the Exhibit Hall/Visitor's Information Center building.

Covington stated that if it is the intent of the entire council to borrow from their other operating capital funds, then she can make the changes outlined in this meeting and prepare for council budget hearings. By consensus, councilmembers agreed this was their intent.

Covington also requested clarification of the council's intent to provide for cost of living increases for non-bargaining personnel.

Chief Heuer suggested that the \$14,000 increase in his personnel salary budget could be funded through the Criminal Justice Funds. Covington noted that cities cannot supplant expenses for this fund. Chief Heuer stated that all of his personnel work on the various special purpose projects within that fund and he felt that he could justify a portion of the salary and benefit costs to be funded with Criminal Justice revenues. Covington noted that Chief Heuer also has requested his part-time employee wages/benefits to be funded through Criminal Justice revenues.

In answer to Covington's question, Councilmember Yund stated he was adamant that non-bargaining employees receive a cost of living increase. He felt that it was ludicrous for the cost of living to increase 5.6% and the non-bargaining employees not to receive any adjustment.

Councilmember Mask stated he could justify a 2% increase, however he cannot justify a 5.6% increase. In response, Councilmember Yund noted that the city's personnel are their greatest asset.

Mr. Lunday noted that with the reduction in gas prices and the projected decrease in food costs, the cost of living should decrease in this coming year. Councilmembers Reilly, Yund and Queen stated they supported a 3% cost of living increase for non-bargaining employees.

Covington summarized that councilmembers will be borrowing against city assets to balance the General Fund expenses. She asked councilmembers to clarify and identify the assets that they anticipate to occur as a basis for this loan. By consensus, councilmembers agreed that pending identified future growth potential that has not yet been realized is the basis to support this loan. Councilmember Yund noted that the default would be the city's option of sell real property.

In answer to Covington's question, by consensus, councilmembers requested the interfund loan to be for a period of three years, with the first principal payment deferred until after the first year of the loan.

Councilmembers Reilly and Queen both felt that growth potential will bring forth the needed revenues. Both felt that building will increase by this summer.

In answer to Councilmember Mask's question, Covington stated funds available are: Swimming Pool Construction (\$145,000), CDBG Rehab (\$116,000), Cumulative Reserve (\$20,000), and Amy Thompson Library Trust (\$81,000).

Other funds to consider:

Regional Sewer Capital Trust (\$76,000) and the Regional Sewer Fund (\$675,000). The Regional Sewer Fund would require a quicker repayment, since due to yearly increases to the operating expenses.

In answer to Councilmember Mask's question, Covington stated prior to this meeting, the revenue shortfall was \$236,217. Covington would recommend that the loan come from only one or two funds to simplify reporting requirements.

Wayne Lunday, Quaife's Insurance Company, presented a proposal for a medical plan that is age-based. He felt this plan provides similar coverage for employees and will cost less than the city's current medical plan. Not including the two LEOFF I officers, it would cost the city approximately \$13,000 per month in premiums and an additional \$1000 per month for LEOFF 1 retired officers.

Mr. Lunday suggested that the city could also use the Washington State Insurance Pool, to insure the LEOFF 1 retirees.

In answer to Councilmember Yund's question, Covington stated she has already provided Mr. Lunday with information as to the number of employees and their family members participating in the city's current medical/dental/vision/life insurance plan. A comparison will also be made of the AWC medical plan, which most small cities are members of. Covington stated the Mr. Lunday also is requesting earning information to ascertain life insurance benefit programs.

Side - B

Councilmember Yund stated that the city requests that any plan be equitable to, or better than the city's existing plan. Mr. Lunday stated that any union-associated plans includes overhead costs that are passed to the subscriber. Councilmember Yund remarked that the local Teamsters business representative has informed him that the local union does not derive any benefits from medical plan subscriptions.

In answer to Councilmember Mask's question, Covington stated there is no requirement that the city subscribe to medical coverage for the LEOFF 1 retired police officers. However, their retirement plan holds the city responsible for all of their medical bills incurred during their lifetime. The city has chosen to provide medical coverage in lieu of self-coverage, which would come from general operating funds.

In answer to Covington's question, Mr. Lunday stated he would check to see if long-term medical coverage is available for the retirees.

Mr. Lunday stated the plans are medically underwritten. However individuals cannot be disapproved, if the entire unit has received initial acceptance. Councilmember Yund stated he would like to see a comparison between the plan Mr. Lunday is proposing, the AWC medical plan and the city's current medical plan.

Meeting adjourned at 1:10 p.m.

Mayor Barbara Larsen

Clerk-Treasurer