

**FIFE CITY COUNCIL
STUDY SESSION
MINUTES**

**Fife City Hall
Council Chambers**

**Date: March 17, 2009
Time: 7:00 p.m.**

EXECUTIVE SESSION Mayor Pro Tem Brooks convened an executive session at 6:00 p.m. for the purpose of Real Estate RCW 42.30.140 for approximately 55 minutes.

ADJOURNMENT Mayor Pro Tem Brooks adjourned the executive session at 6:55 p.m.

**CALL TO ORDER AND
ROLL CALL** Mayor Pro Tem Brooks called the study session of the Fife City Council to order at 7:00 p.m. with the following Councilmembers present: Richard Godwin, Glenn Hull, Butch Brooks, Rob Cerqui, and Nancy de Booy.

Excused absence: Mayor Barry Johnson and Councilmember Kim Roscoe.

Staff present: City Manager Steve Worthington, Finance Director Steve Marcotte, City Attorney Loren Combs, Police Chief Brad Blackburn, Public Works Director Russ Blount, Parks, Recreation & Community Services Director Kurt Reuter, Administrative Assistant Andrea Richards, Acting Community Development Director Carl Durham, Municipal Court Judge Kevin Ringus, Financial Analyst Dave DeGroot, and Recording Secretary Valerie Gow.

**PLEDGE OF
ALLEGIANCE** Councilmember Cerqui led the pledge of allegiance.

**CHANGES, ADDITIONS,
OR DELETIONS TO
THE AGENDA** There were no changes, additions, or deletions to the agenda.

STUDY SESSION

**2008 Budget and 2009
Sales Tax Results** Mayor Pro Tem Brooks reported the Council is receiving a series of budget presentations over the next several months. The briefing is step one in preparation for the Council's briefing on March 24, 2009.

Director Marcotte reported the City is going through one of the most significant economic downturns the City has ever experienced. In August and September of 2007 when the 2008 budget was developed, the future looked optimistic, the economic forecast predicted ongoing growth, and the state's September report was optimistic. The City's revenue projections were tracking well with projections. The Council adopted the budget in November 2007, and soon thereafter, the economy began to change and continued to decline. In 2008, the City ended the year with a significant drop in revenues of approximately \$1.5 million below the projected budget. Overall, general fund revenue collections were \$13,563,468. Early on, the City Manager recognized the problems associated with the economy and implemented a reduction plan saving the City approximately \$1 million. The net effect,

coupled with adjustments to accounts payable balances, was a general fund budget of approximately \$460,000 less than expected at the end of the year.

Actual property tax collection was \$2,180,476 or approximately \$45,000 short of the levy amount. It's unusual not to collect the full levy amount and the decline can be attributed to foreclosure of homes and nonpayment of property tax.

Actual collection of sales tax was \$6,245,398, which includes one quarter of sales tax sourcing mitigation payment from the state. If the City had received mitigation for both quarters, total revenue would have been \$6.4 million. The fall-off is approximately \$1.6 million from the actual sales tax collected in 2006 and 2007. The sales tax budget projected for 2009 is \$6.8 million.

Director Marcotte reviewed a series of financial graphs:

- 2008 General Fund Revenue Sources - \$13,563,468
- 2008 General Fund Expenditures - \$14,421,993
- Property Tax Trends reflecting large payments in May and November. The property tax levy for 2009 is approximately \$225,000 larger than the property tax levy in 2008. Normally, the revenue is secure and reliable.
- Sales Tax Trends. Sales tax in 2006 was over \$8 million. In 2007, sales tax was \$7.9 million falling to \$6.2 million in 2008. The first payment of mitigation was \$145,000. The second mitigation payment will be \$137,000 on March 31, 2009. Sales tax receipts in January and February reflect business activity occurring in November and December 2008. There is some indication on the national level that February sales will be higher. Sales tax receipts in 2008 well under performed both the projections and prior actual experience. The trend for 2009 does not reflect better conditions.
- Permit Revenue Trends. Building permit fees and plan check fees are closely related and are significant sources of revenue for the general fund. At one time, revenues were over \$1 million dropping to \$613,198 in 2007 and to \$151,457 in 2008.

Director Marcotte reviewed the aggregate ending fund balance for 2008 of \$3,734,374:

Component	<u>2008 Ending Fund Bal</u>	<u>Projected 2009 Ending FI</u>
Undesignated	\$ 651,482	(\$ 96,681)
Crime Prevention	60,773	57,673
Tribal Interlocal	681,379	1,531,379
Required 17%	2,340,740	2,385,790
Total Fund Balance	\$3,734,374	\$3,878,161

The primary revenue source for the Growth Management Fund is Real Estate Excise Tax (REET) in two components; REET 1, and REET II, which was adopted in mid-2008. REET I was budgeted at \$750,000 with no projected budget for REET II. The actual revenue collected from both sources was \$437,776. If REET II had been in effect all year, revenue would have totaled \$600,000 for both sources, which is less than the 2009 budget of \$700,000.

The primary revenue source for Stadium and Convention Center Fund is hotel/motel tax or lodging tax fund. Expenditures of the revenue are restricted to tourism related purposes. The fund is performing above revenue projections and continues to grow each year.

The Public Safety Fund is a new fund from the Photo Red Light Enforcement Program. Revenues were budget at \$993,500 with actual collection at \$423,344, primarily because installation of equipment was not completed at all planned intersections.

Water, Sewer, and Storm Sewer utilities continue to perform well and are expected to perform as projected.

Director Marcotte commented on national financial issues that are impacting local governments. There's much speculation about when things are anticipated to improve. However, there is nothing in past history that can predict the nature of the financial situation and crisis facing the U.S.

Councilmember Godwin asked staff to provide information on the items represented in the "undesignated" account. Director Marcotte said the account is the residual that remains from one year to the next or in terms of 2009, a deficit.

Councilmember Hull referred to billionaire Warren Buffet's comments that until people's confidence changes their spending habits will not change. As a Council, it's important not to send a negative message to the community affecting more negative spending. He suggested making the appropriate changes and moving forward. Director Marcotte said if the Council must act, the earlier it occurs the less likely it will involve deeper cuts. However, the national economy is an unexpected and extraordinary event. The City is better prepared than most other jurisdictions to handle the event. The Council has a range of options not available to neighboring communities. Many local communities do not have reserves with many using their 2008 reserve to balance budgets.

Councilmember Cerqui asked whether the Council is limited on certain funds to make up the gap. Director Marcotte said there are 22 funds in the City and the majority is restricted to specific purposes. There are some areas where the Council has imposed a restriction and can change that restriction. The City has a contingency fund of \$400,000, which requires action by a super

majority of the Council if the Council elected to redirect the funds.

Councilmember de Booy asked for clarification on the potential to utilize and move funds, such as funds from Red Light Photo Enforcement. Director Marcotte said the Council created a Public Safety Fund by ordinance when the program was implemented. To use the funds differently, the Council needs to amend the ordinance. Department funds not expended in 2008 are included in the ending fund balance.

Mayor Pro Tem Brooks commented that the situation is likely not a temporary situation. Unemployment is over 8% and the state forecast for 2010 is 10%. The odds of the economy turning around in the short-term are unlikely. There are ways to utilize some of the funds. However, some of the funds are budgeted and allocated for priorities. The Council will need to make some tough decisions and consider identifying those necessary essential services. Although the figures look fine on paper, the issue is that the assumptions are used from the budget. The City is beginning to see an alarming trend in the downturn in revenues. Property tax is alarming because it reflects something extraordinary. Mayor Pro Tem Brooks said although he's hopeful the second half of the year will be better, it will not match last year or 2007. The budget forecast is too optimistic especially for sales tax. Permits and fees is another area that is likely to suffer. The decision process the Council is going to undertake will involve big numbers.

City Manager Worthington said the questions are valid, but he's more optimistic about the outlook. There have been some small, positive changes. Within the next 30 days after another sales tax report is released, the City may see something positive. Because the directors took the downturn seriously, they reduced expenses and saved \$1.1 million from the budget last year. The directors deserve credit for their response to the issue. The budget programmed for expenses in 2009 is not at the same level as in previous years. A number of positions remain vacant that are still included in the budget totaling approximately \$300,000. As administration worked through the budget last year, there was a commitment to follow the budget closely and monitor trends to make any warranted adjustments.

Director Marcotte reported he compared the 2008 actual budget against the projected budget to ascertain shortages or overages. The areas of concern involve sales tax, building permits and fees, and REET. The remaining sources are on track. However, it's important that the Council monitor sales tax revenue because it is likely the projection will not be achieved unless some level of recovery occurs in 2009. Sales tax is a volatile revenue source, making it difficult to project.

Councilmember Hull cautioned against too much optimism based on how the numbers are tracking to date. It's not realistic and the Council needs to make some tough choices. Staff has cut their budgets and the reserve account

places the City in a better position.

Mayor Pro Tem Brooks acknowledged the efforts of staff to reduce spending and contingency planning. However, staff will need direction as all the easy cuts have occurred. He said the Council is pleased with how staff reacted in uncertain times and made quick adjustments. Councilmember de Booy extended her thanks to staff and reminded the Council that it will be up to the Council as well to determine reductions. Councilmember Godwin agreed there will be projects placed on hold. It's also time to look at efficiencies within City operations.

Gang Graffiti

Police Chief Brad Blackburn displayed several pictures of graffiti and reviewed how the City is actively responding to graffiti by removing graffiti quickly. The goal of the state is to be a graffiti-free state by the end of 2009. It's a good idea, however; there is no funding attached. The City took the same models and made some quick changes.

Police Chief Blackburn displayed a photo of Waste Connections, which is constantly hit with graffiti. Most of the dumpsters have graffiti and it has been difficult to keep up with removing the graffiti.

The cycle of graffiti is from groups from California called the Cyclones and the Night Owls. The City works with businesses, property management, and neighborhoods to remove graffiti as soon as possible. Some are quick to respond, while others are slower. The City is working to stay on top of the issue.

Director Reuter described how directors handle complaints of graffiti. Typically, Parks Department staff discover instances of graffiti. The first point of contact after documenting the graffiti is an e-mail message to the Police Department. The police respond and compile photo evidence and then crews are scheduled within 24 hours to remove graffiti.

Police Chief Blackburn said the department works with local enforcement and sends the email picture and receives identification of the group or person with a criminal history. Most of the taggers are from the Pacific area. The Night Owls live in local apartments, have a connection in the City, and are tied in with Seattle gangs. The group had six homicides in Seattle last year.

Director Blount shared information on how the department handles graffiti in public rights-of-way. A similar process is undertaken to document and notify the Police Department. The graffiti is removed before lunch the following day.

Police Chief Blackburn shared additional information on the City's efforts and process as well as working with other agencies, such as the Washington State Department of Transportation to remove graffiti from freeway

overpasses and other state infrastructure, as well as working with phone companies who carry paint. Telephone companies prefer painting their own infrastructure.

City Manager Worthington reported the effort is a coordinated process between departments.

Acting Director Durham described how Code Enforcement Officer Chris Larson uses existing nuisance codes and tours the City each morning or responds to calls from community contacts when graffiti is discovered.

Police Chief Blackburn advised that the City has established a relationship with Home Depot to provide free paint to citizens to cover graffiti.

Police Chief Blackburn reported the City is experiencing a similar cyclical pattern with gang activity experienced in the late 80s and early 90s. Enforcement occurred in the 90s where many gang members were jailed. Those gang members are now being released and are coming back as transplants and are building new groups. Last week there were 22 arrests of gang members from King County, which resulted in one Fife Police Officer injured and hospitalized. The gang member went to jail but posted cash bail. There is a distinct pattern that is permeating to the south side where more of those behaviors are occurring in the apartments. Anywhere where the City has concentrations of people and young people, there are dangers along with crimes.

Fife is experiencing some problems. Not filling several positions and officers unavailable to work because of on-the-job injuries or other reasons, has resulted in a 16% shortage of staff, which results in a fine line of a burnout phase for officers. It's the first time in Fife, where the department is reactive rather than proactive. Police Chief Blackburn cautioned that the department at this point is doing okay, but is uncertain how long that can be sustained. Felony arrests have increased by 100 in January over last year.

Councilmember Godwin inquired about the role of the Council in supporting the department by contacting legislators and sharing information on the issues and potential consequences. Police Chief Blackburn shared information on the arrest of the individual charged with assaulting the Fife Police Officer. Although the officer is the victim of the assault, the City is also a victim because 8,400 citizens have been denied the service of the police officer. It's important to pursue criminal charges and prison time for gang members. Another tool the department is working on is through the Fife Municipal Court and Judge Ringus, who are working on listing Fife as a felon restricted area.

Councilmember Godwin commented on his willingness to assist in any way possible to help control crime within the City.

Councilmember Hull said gangs are organized recruiters. He asked whether the City posts information that the City has zero tolerance for gangs in the City. Police Chief Blackburn said the City has signs posted for zero tolerance for drugs and DUIs. Fife has a zero tolerance for gangs. He cited the example of Sunnyside where the Council reacted to gangs by passing laws later deemed unconstitutional. The Council can assist, but it's important to learn from Sunnyside's mistakes to ensure it's structured correctly. Councilmember Hull asked for the Council to receive monthly reports on crime activity in the City. Police Chief Blackburn acknowledged the request.

Police Chief Blackburn responded to questions about crime statistics. Based on population, the City is number two in the state because of the high transient population. The City doesn't have an active block watch and there is a disconnect with motels and hotels that don't want a police presence because it discourages business.

Councilmember Cerqui advocated for a three-legged stool approach, which includes prevention as well. He advocated for filling one of the police officer vacancies and offered to work with the department in terms of budget or policy to add another officer. Adding an officer is a priority as well as gang and crime prevention because it will affect hotels and motel business, residents, and businesses.

Police Chief Blackburn reported one directive by City Manager Worthington is to seek alternative sources of funding, such as grant sources. The City's Police Department has a good relationship with officials in Washington, D.C. who advise him on the availability of grants and other funding options. The City can secure extra points by submitting applications early. The department also participates proactively with local task forces in different kinds of crime sweeps.

City Manager Worthington commented on the dilemma associated with attending to a variety of important priorities while staying within budget constraints. The Police Department represents 36% of the general fund.

Segregation of Local Improvement Assessment

City Attorney Combs reported Local Improvement Districts (LID) is a financing tool used to fund public improvements, which are then assessed to the property owner to pay over a series of year dependent upon the amount of the bond. In Fife, there are many large tracts of undeveloped land that are subsequently subdivided. Segregation laws allows subdivision of land as well as the segregation of LID assessments to each lot created in the subdivision through a prorated share of the larger LID assessment. The City however, is not required to segregate. It's important for the Council to set policy on when the Council will not allow segregation because the City has historically allowed segregation of LID assessments with the logic that it will encourage development. It's important for the Council to establish policy to avoid being

accused of arbitrary and capricious decisions.

City Attorney Combs reported that several homeowners are in default for paying their assessments because they were not aware of the assessment because they didn't read their respective title report. Some homeowners are in foreclosure action because they can't afford mortgage payments. In that case, the City's LID assessment is priority over the mortgage and once the properties are closed the lender is responsible for paying the assessment.

Councilmember Godwin said he's had concerns since the Council began segregating LID assessments. A prior law firm assured the Council that a lender would never let an LID assessment go unfinanced and that the assessments would be included in the mortgage. That apparently is not occurring based on previous history. He expressed concerns with segregation as more people are not aware of the assessment and many people are losing their homes. This puts the City at risk. The Council needs to consider the issue.

City Attorney Combs advised that the City has an LID reserve fund to cover circumstances of default. In the Radiance subdivision, notices apparently were not properly provided to homeowners by the lenders, title companies didn't include the liens, and the lender didn't include the assessment as part of the loan. There were a series of mistakes during the "hot" mortgage market that has led significantly to the economic crisis of the nation as well as shoddy practices in the way they dealt with consumers. A number of title companies have been sued for having sweetheart deals with lenders and realtors.

Councilmember Godwin commented that the reserve fund may cover a residential project, but it will not cover the City for a large warehouse tract. City Attorney Combs advised the Council on various protections available to the City through the LID process. The LID process is working properly, is properly funded, and properly protected. However, there was activity occurring in the marketplace where many homeowners were not aware of the assessment.

Councilmember Hull said lenders allow LID assessments to move forward because they treat it as monthly debt payable over equal payments. He views the issue as a property rights issue between the property owner and the developer. By definition, developers should be responsible for developing all basic utilities. He said he doesn't oppose LID segregation for commercial and industrial properties but opposes applying segregation to a single-family residential zone. There may be future implications to the City and to some of the property owned by the City, which is zoned single family. Because there are no guarantees in the mortgage industry of how such disclosures occur to consumers, he advocated for erring on the side of caution and not allowing segregation of LID assessments for single-family residential zones.

Councilmember Cerqui asked whether the LID assessments were supposed to be included in each mortgage. City Attorney Combs advised that for some reason, some mortgage companies didn't require any protection against an LID foreclosure. An LID is for a public improvement. Radiance wasn't the only subdivision affected, as the utility improvements were citywide improvements affecting the entire City. Another element of the issue is that many developers will not sign LID petitions if the City requires them to pay the cost upfront before they can sell lots. It's a policy decision of the Council. Councilmember Cerqui asked about the possibility of a compromise where when the lot sells, the developer pays off the LID assessment. City Attorney Combs advised that the lien is not against the developer, it's against the property. Developers of smaller properties generally fund the improvements because the private sector can complete the work at less cost than a public entity. Government markup averages 25% because of the requirements jurisdictions are required to meet.

Councilmember de Booy said she tends to lean more for segregation, especially for single-family homes. She asked whether the Council can include exceptions within its policy. City Attorney Combs advised that it's possible to include exceptions.

Mayor Pro Tem Brooks said he agrees market drives the price of homes. Should the City convey a message that the City will not segregate LID assessments, it's likely development in some areas of the City will no longer occur or growth in residential developer will be delayed. Last year at this time, banks required a loan to value ratio of 85%, requiring developers to have invested 15% in a project to secure a loan. Today, the loan to value ratio is 70%. If developers are required to roll LID assessments in areas that have been rezoned residential near the freeway area, it may be more difficult for developers to obtain loans. The carrying cost alone for 200 lots is approximately \$1,500 a year with developers incurring up to \$5,000 for each lot before any construction begins. He said he understands the issues that occurred and that they were deceitful and dishonest, but is unsure of how the Council should move forward in avoiding a similar situation. However, the unintended consequence of not allowing segregation is a problem.

City Manager Worthington said if the Council elected not to allow segregation for single-family residential development; it will be a strong statement for any future residential development of any size in the City, resulting in less single-family residential growth. That is one of the drawbacks of such a policy decision. He noted that in the Radiance project, the City had a number of owners come forward. DR Horton is large residential construction firm and knows the business both regionally and nationally. Mayor Pro Tem Brooks asked about the potential for a consumer educational process that the City can promote. City Manager Worthington said state law establishes responsibilities for disclosure. There is some level

of protection through state law. The City will typically provide information to buyers regarding the financial obligations for the plat at the time of closing on the property.

EXECUTIVE SESSION

Councilmember Brooks requested an executive session to discuss a potential sale of real estate.

RECESS

Mayor Pro Tem Brooks recessed the meeting at 8:48 p.m. to an executive session to discuss the sale of real estate for five minutes.

RECONVENE:

Mayor Pro Tem Brooks reconvened the meeting at 9:54 p.m.

Councilmember Hull asked whether it's possible for the City to contract with public finance to establish a system of payments to include a coupon book of payments to help homeowners budget and pay the assessment over the course of the year rather than in one lump sum. Director Marcotte replied that it's possible if public finance, as a company, chooses to pursue that avenue. He said he's never encountered a similar situation. It would need to be explored in terms of any legal barriers against helping a property owner build a reserve to pay the LID assessment. City Manager Worthington advised that homeowners also have the option of allocating the payment to individual saving accounts. There are many ways for the homeowner to account for the assessment without involving a direct role of the City.

Mayor Pro Tem Brooks advised staff that the Council will continue considering the issue and revisit the issue when all Councilmembers are present.

**Overview of City
Manager's Office**

Mayor Pro Tem Brooks advised that the first briefing is the first in a series of presentations on each of the departments in the City in terms of expenses, staffing level, and responsibilities.

City Manager Worthington provided an overview of the functions of the Executive Department. The briefing is in preparation for the 2010 budget process.

City Manager Worthington displayed an organizational chart of the City Manager's Office, comprised of four full-time staff members, and an organizational chart of the entire City.

Currently, the Assistant City Manager position is vacant. The Civil Service Secretary is currently filled by Helen Ware, who provides staff support to the Civil Service Commission. Previously, the City pursued recruitment activities, but has since used an external testing agency to provide a broader range of candidates and reduce the City's recruitment costs.

The Marketing Coordinator is housed at the Chamber office and administers

the City's marketing program. The Human Resources Coordinator provides required human resource services to the City to include appropriate record keeping and responsibilities associated with risk management. The Confidential Administrative Assistant reports to the City Manager. The IT Division now reports to the Finance Department.

City Manager Worthington reviewed the budget for the Executive Department. Legal and assigned counsel budgets are included within the department's budget and control. The three areas are contracted services. Legislative includes the City Council budget, which is included in the Executive Department's budget. The largest component of the budget is for salaries. He noted the Civil Service Secretary position is still budgeted at full cost within the department's budget of approximately \$65,000, which is vacant. The Assistant City Manager's salary and benefits totals approximately \$150,000, which is also included in the budget.

Councilmember Godwin asked staff to provide actual expense amounts for the department rather than the budget.

Councilmember Hull asked about the costs associated with Legislative and whether there are ways the Council can reduce costs. City Manager Worthington replied that the City Council began reducing costs last year through reduced travel and attendance to conferences. Included in the budget is \$100,000 of professional services with \$65,000 committed to the lobby service contract as well as several other contracts. He offered to provide a list of potential cost savings.

Mayor Pro Tem Brooks said the briefings are helpful to the Council to prepare for the 2010 budget. As the Council continues its review and begins working on decisions, more detailed information will be required.

Councilmember Cerqui questioned whether funding for unfilled positions has been allocated elsewhere in the budget. City Manager Worthington advised that the funds have not been allocated within the budget for other expenses.

Councilmember de Booy expressed appreciation for the information and looks forward to receiving more detailed information and actual numbers.

City Manager Worthington commented on the steps involved in preparing the 2010 budget and the goal statements under development by the Council. He asked the Council to continue its work on developing goal statements and also provide input on what each Councilmember believes is the economic outlook for the nation to help guide staff in developing a draft 2010 budget.

OTHER BUSINESS

City Manager Worthington reported on staff's efforts for preparing the 2008 Annual Report. The goal is to publish the report by the end of May. The approach this year will be different to help reduce costs. The report will be

posted on the City's website in a pdf format as well as a newspaper insert of a summary report to each resident. He asked the Council asked about their interest in writing a statement about their views during the past year.

**REVIEW OF
UPCOMING COUNCIL
AGENDAS**

City Manager Worthington reported the Council will receive briefings from each department at each meeting until June.

Mayor Pro Tem Brooks reviewed the March 24, 2009 Council meeting agenda.

ADJOURNMENT

Mayor Pro Tem Brooks adjourned the meeting at 9:30 p.m.

Butch Brooks, Mayor Pro Tem

Steve Marcotte, City Clerk/Finance Director

Prepared by Valerie Gow, Recording Secretary/President
Puget Sound Meeting Services