



City of Olympia

City Hall
601 4th Avenue E
Olympia, WA 98501

Information: 360.753.8447

Meeting Agenda Finance Committee

Wednesday, September 10, 2014

5:00 PM

Room 112

1. **ROLL CALL**

2. **CALL TO ORDER**

3. **APPROVAL OF MINUTES**

3.A [14-0840](#) Approval of August 11, 2014 Finance Committee Meeting Minutes

Attachments: [Minutes](#)

4. **COMMITTEE BUSINESS**

4.A [14-0856](#) Arts Commission Referral for Direction on City Hall Public Art Funds

4.B [14-0823](#) Review Proposed Utility Rates

4.C [14-0778](#) Continue Discussions on Long Term Revenue Strategies

4.D [14-0866](#) Oral Reports - Five-Year Budget Projections

5. **ADJOURNMENT**

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City of Olympia

Finance Committee

Approval of August 11, 2014 Finance Committee Meeting Minutes

Agenda Date: 9/10/2014
Agenda Item Number: 3.A
File Number:14-0840

Type: minutes **Version:** 1 **Status:** In Committee

Title

Approval of August 11, 2014 Finance Committee Meeting Minutes



City of Olympia

City Hall
601 4th Avenue E
Olympia, WA 98501

Information: 360.753.8447

Meeting Minutes - Draft Finance Committee

Monday, August 11, 2014

5:00 PM

Council Chambers

Special Meeting

1. ROLL CALL

Present: 3 - Chair Jim Cooper, Committee Member Nathaniel Jones and Committee Member Cheryl Selby

2. CALL TO ORDER

Chair Cooper called the meeting to order at 5:00 p.m.

3. APPROVAL OF MINUTES

3.A 14-0777 Approval of June 24, 2014 Finance Committee Meeting Minutes

The minutes were unanimously approved.

4. COMMITTEE BUSINESS

4.A 14-0778 Continue Discussions on Long Term Revenue Strategies

City Manager Steve Hall began the discussion with an overview of the past and current financial situation of the City.

Chair Cooper explained the City Council has a goal of developing a sustainable budget and a key piece to a sustainable budget is evaluating major revenues. Earlier this year the Committee recommended the Council apply the utility tax to Cable TV. Further, the Committee has been assessing the Business and Occupation (B & O) tax. The tax has not changed substantially since its inception in 1959. Previous Committee meetings have included a discussion of removing the religious exemption, setting a threshold for the nonprofit exemptions and providing some relief for the small businesses. Tonight's meeting was to discuss partnership options with the hospital.

Providence St. Peter Hospital representatives Medrice Coluccio, Chief Executive, Denise Marroni, Chief Financial Officer, and Kevin Haughton, Primary Care Chief, met with the Committee. They explained the hospital has been in Olympia for over 125 years, is the largest private employer and is the region's health care safety net. They welcome the opportunity to develop partnerships but do not want the nonprofit exemption removed or capped at a specific dollar amount.

Committee Member Selby asked how many for-profit clinics St. Peter Hospital has acquired in the last few years. She also asked about their decision to close the chemical dependency center.

The Committee will continue the discussion of long-term revenue strategies at the September 10 meeting.

4.B 14-0760 Deferral of Impact Fees as Economic Development Incentive

The City Council adopted an ordinance in 2009 allowing developers to delay payment of impact fees until final inspection. During the time the program was in effect, a total of 28 deferrals were processed. Because few developers used the option, the ordinance was allowed to sunset on August 1, 2011. Staff is recommending reestablishing the deferral program without a sunset clause.

Presently impact fees for a single family dwelling are \$3,127 for Transportation, \$5,090 for Parks and \$5,895 for Schools for a total of \$14,112. The proposed impact fee deferral program does not include General Facility Charges or LOTT Capacity Charges. These charges are assessed at the time of building permit, relate to the sewer and drinking water utility and add over \$12,000 to the cost of the permit.

Impact fee deferrals do necessitate additional administrative work; however, it is not an unreasonable amount of work and can be accommodated within existing resources. Financial impacts are minimal. The deferral program changes the timing of impact fee payment only.

The Committee asked staff to reach out to the School District to understand what impact a deferral program would have on them.

The Committee agreed to recommend re-enacting the impact fee deferral option as part of the 2015 budget process.

4.C 14-0416 Briefing on Tax Exempt Financing and Debt Limit

Administrative Services Director Jane Kirkemo gave a briefing on tax exempt financing. Used by state and local governments, tax exempt financing funds public *capital* improvements that are important to sustained economic growth. Debt financing is accomplished by issuing bonds to pay for specific projects or services. The goal of Olympia's debt policy is to maintain the ability to provide high quality, essential services in a cost effective manner. Unlike corporate debt issues, the interest received by holders of state and local governments is generally exempt from federal taxes and most state and local taxes. Consequently, investors will accept a lower interest rate on tax exempt issues; thereby reflecting their reduced tax burden. This lower rate reduces borrowing costs for most governments by approximately 25%.

There are two types of tax exempt bonds: general obligation bonds and revenue bonds. General obligation bonds are backed by the "full faith and credit" of the City. This means the City pledges to guarantee the repayment of the debt. In Washington

State there are two types of general obligation bonds: councilmanic and voter approved. Councilmanic bonds are authorized (within state limits) by a simple majority of the City Council; whereas voter approved bonds must be authorized by the voters. Voter approved debt (e.g. 4th Fire Station) requires a 60% approval from the voters to increase their property taxes to repay the debt. Councilmanic debt is repaid within the general operating budget.

Revenue bonds are issued for a specific project, such as constructing a sewer pipe line, and are paid from the revenues (rates) received from the utility. Because they are not backed by the full faith and credit of the issuer, revenue bonds generally pay a slightly higher interest rate than general obligation bonds to reflect the fact they are backed by a particular stream of revenue. As a matter of policy, the City of Olympia raises any necessary rates *prior* to issuing debt.

Different than most local government functions, tax exempt financing is controlled first and foremost by the federal government - specifically the Securities and Exchange Commission (SEC) and the Municipal Securities Rulemaking Board (MSRB). Additionally, Washington State Constitution limits the amount/type of debt that may be issued. To ensure existing and future bond holders have relevant financial and operating information about the City, the City Treasurer must provide or disclose information about the bonds and the City before, during, and *after* issuing municipal securities. Since certain municipal bonds are exchanged between buyers and sellers in a secondary market; continuing disclosure remains necessary for decisions being considered by investors in the municipal market. Electronic Municipal Market Access (EMMA) is the portal that must be used by the City to provide ongoing disclosure.

The discussion was completed.

4.D 14-0782 Oral Report: Mid-Year Retreat Preparation

City Manager Steve Hall discussed the upcoming mid-year Council retreat. He explained the proposed agenda has each of the 4 Council committees discussing their accomplishments. The Committee also felt there should be a discussion of the Affordable Care Act (ACA), public defender and retirement costs.

Mr. Hall stated the full Council will set the agenda for the retreat at the August 19 Council meeting.

The report was received.

4.E 14-0775 Oral Report: Updates

This item was discussed under Item 4D, File 14-0782.

The report was received.

5. ADJOURNMENT

The meeting was adjourned at 7:10 p.m.



City of Olympia

Finance Committee

Arts Commission Referral for Direction on City Hall Public Art Funds

Agenda Date: 9/10/2014
Agenda Item Number: 4.A
File Number:14-0856

Type: report **Version:** 1 **Status:** In Committee

Title

Arts Commission Referral for Direction on City Hall Public Art Funds

Recommended Action

Committee Recommendation:

Move to approve the Arts Commission's recommendation to split the remaining funds (\$180,000) for Public Art associated with the construction of City Hall so that part of the funds remain with the project, and the remainder becomes available for other art projects.

City Manager Recommendation:

Move to approve the Arts Commission's recommendation to split the remaining funds (\$180,000) for Public Art associated with the construction of City Hall so that part of the funds remain with the project, and the remainder becomes available for other art projects.

Report

Issue:

\$180,000 remains of the 1% for Art funds generated by the construction of City Hall. In a referral, the Finance committee proposed splitting the funds in order to make up for \$1 per Capita Public Art funds that have been used to fill budget shortfall since 2009.

Staff Contact:

Stephanie Johnson, Arts & Events Program Manager, Parks, Arts & Recreation, 360.709.2678

Presenter(s):

Trent Hart, Chair, Olympia Arts Commission
Stephanie Johnson, Parks, Arts & Recreation

Background and Analysis:

At their June 12, 2014 meeting, members of the Olympia Arts Commission determined to split the 1% for Art funds generated by construction of City Hall as suggested by the Finance Committee. While the suggested split from Finance Committee was \$80,000 for City Hall and \$100,000 for the Municipal Art Fund, the Arts Commission would like to finalize their request for funds for City Hall Public Art within their presentation of the Municipal Art Plan (MAP) later this year. The MAP will present proposed Public Art Projects for Council approval, along with proposed budgets and source

of funds. Those projects will then be brought back to Council individually for approval once a Call for Artist (RFQ) is developed.

Neighborhood/Community Interests (if known):

Unknown.

Options:

1. Split the remaining funds (\$180,000) for Public Art associated with the construction of City Hall so that part of the funds remain with the project, and the remainder becomes available for other art projects.
2. Do not split the remaining funds for Public Art associated with the construction of City Hall, keeping \$180,000 for public art at City Hall.
3. Do not split the remaining funds for Public Art associated with the construction of City Hall, directing \$180,000 to become available for other public art projects.

Financial Impact: \$180,000 from 1% for Art funds for City Hall (still in the project account), would be transferred to the Municipal Art Fund with the understanding the funds will be split between public art for City Hall and other public art projects.



City of Olympia

Finance Committee

Review Proposed Utility Rates

Agenda Date: 9/10/2014
Agenda Item Number: 4.B
File Number: 14-0823

Type: information **Version:** 1 **Status:** In Committee

Title

Review Proposed Utility Rates

Recommended Action

Committee Recommendation:

Develop recommendation to forward to full Council.

City Manager Recommendation:

Review the 2015 Utility rate proposals and recommend the proposed rates to City Council for final review during budget deliberations.

Report

Issue:

Utility rates are considered annually as part of the Council's budget deliberations, with advance review and a recommendation from the Finance Committee.

Staff Contact:

Dan Daniels, Public Works Waste ReSources Director, 360.753.8780
Andy Haub, Public Works Water Resources Director, 360.753.8475

Presenter(s):

Dan Daniels, Public Works Waste ReSources Director, 360.753.8780
Andy Haub, Public Works Water Resources Director, 360.753.8475

Background and Analysis:

The proposed 2015 Utility rates focus on maintaining existing service levels and ensuring stable revenue. Emphasis is placed on minimizing rate increases while ensuring that essential Utility services are provided reliably and without interruption. Potential expenditures have been reduced and inflationary increases in costs absorbed in order to lessen rate increases.

2015 Rate Proposals

Storm & Surface Water Utility: 3% rate increase proposed

The proposed 2014 Storm and Surface Water Utility budget maintains current services. It seeks to meet the expectations in our community for flood mitigation, water quality improvement, and aquatic habitat enhancement as well as the regulatory requirements of the NPDES (National Pollution

Discharge Elimination System) Phase II permit.

The proposed 3% rate increase covers a revenue shortfall of approximately \$78,000. With the proposed rate increase, single family residences would see a \$0.48 bi-monthly increase in their storm and surface water rates. Single family and duplex storm and surface rates in 2014 are \$22.88 bi-monthly.

The proposed budget incorporates various inflationary increases and several regulatory requirements. It also acknowledges the need to increase funding for the maintenance of publicly-owned water quality treatment facilities at a cost of \$40,000. In recent years, the Utility has installed numerous underground media filter systems for treating runoff. These systems require annual maintenance and filter replacement in order to function as needed.

Stormwater rates are based on a flat-rate monthly charge for single family and duplex residential accounts. Other accounts including commercial, multifamily, and institutional developments are charged based on the quantity of impervious surface on the site and the year of development. Older developments consistently provide less onsite stormwater treatment and storage infrastructure than newer developments. Therefore, non-residential accounts incorporate a three-tiered rate structure with older developments paying more than new developments.

The Storm and Surface Water Utility and its finances will be comprehensively evaluated in 2015 as part of updates to the Utility's 2003-2011 management plan.

Wastewater Utility: 2% rate increase proposed

The Wastewater Utility safely conveys wastewater from our home and businesses to the LOTT Clean Water Alliance treatment facility in downtown Olympia. The proposed operating budget for City-managed wastewater services reflects the guidance provided by the City's 2013 - 2018 Wastewater Management Plan. The Wastewater Utility generates stable revenues.

The 2015 proposed budget for the City's Wastewater Utility is anticipated to increase by approximately 2% or \$92,000. Additional wastewater rate increases are proposed by the LOTT Clean Water Alliance as discussed in a following section.

Inflationary costs incurred by the City Wastewater Utility account for \$20,000 of the proposed rate increase. The remaining rate increase (\$72,000) is tied to the need to correct a financial imbalance between the Wastewater and Storm and Surface Water Utilities. Operations and maintenance staff are shared between the two Utilities. However, necessary repairs to wastewater pipe systems are dominating their work. The rate increase of \$72,000 will provide funds to bring shared staff into the Wastewater program and subsequently allow the stormwater program to meet its staff needs.

The Wastewater Utility relies upon flat-rates for single-family residences and duplexes. Accounts, other than single-family residences, and duplexes are charged a minimum flat rate plus charges based on drinking water usage. City wastewater rates for single family residences and duplexes in 2014 are \$38.56 bi-monthly.

Consistent with the Wastewater Management Plan, a tiered wastewater rate system is being

considered for implementation in 2015 or 2016. The tiered system would provide a lower rate for consumers that use very low quantities of drinking water and therefore generate low volumes of wastewater. An additional tier level could encourage water conservation among high drinking water users.

Wastewater Treatment and Capacity Charges - LOTT Clean Water Alliance: 3% rate increase proposed

The LOTT Alliance collects revenue for its operations through the utility billings of the local jurisdictions. An inflationary adjustment in LOTT rates of 3 percent is anticipated for 2015. This increase continues to implement the long-term funding strategy of LOTT.

With the proposed rate increase, LOTT charges would increase approximately \$1.05 per month for a single family residence. The current LOTT charge is \$70.02 bi-monthly for single family residences. LOTT rates are approved by a Board comprised of local elected officials.

Drinking Water Utility: 6% rate increase

The City Drinking Water Utility provides us with healthy water. Services of the Utility are consistent with the 2009-2014 Water System Plan. The Plan is being updated in 2014 with adoption of the new plan by City Council anticipated in 2015.

The proposed 2015 budget reflects both increases due to inflation, taxes and debt service payments as well as fluctuating revenues. An ongoing dynamic for the Drinking Water Utility is the appreciable costs associated with meeting State and federal mandates and assuring a healthy water supply. Drinking water capital projects are costly. No non-inflationary or unmandated costs are proposed for 2015.

Drinking water revenues vary with summer water consumption, water conservation effectiveness, and wholesale water sales to neighboring jurisdictions. Subtle decreases in revenue coupled with increasing capital project costs can result in revenue needs well above inflation. While debt financing is critical to the Utility, annual loan payments are appreciable.

For 2015, the revenue shortfall is expected to be approximately \$330,000. The Utility budget for 2015 is \$11.6 million. The shortfall would necessitate a 4% rate increase. Additionally, staff recommends a 2% supplemental rate increase to begin covering the cost of loan payments for the Log Cabin Reservoir. Loan payments will begin in 2018 and will require a rate increase of 7.5%. The proposed 2% increase will begin offsetting future revenue and rate needs by generating about \$138,000 annually.

The base water charge for a single family residence in 2014 is \$42.42 bimonthly. Total charges vary with water use and customer class.

Waste ReSources Utility: Varying rate increases proposed

The Waste ReSources Utility provides a wide range of waste management services. It implements

programs for residential, commercial, drop box, and organics customers. Policy direction is set by the *Towards Zero Waste: Olympia's Waste ReSources Plan 2008-2013*. Work to update the Plan in 2014 and 2015 is well underway.

The proposed 2015 budget is limited to inflationary increases including tipping fees, salaries, benefits, equipment, and fuel. Services will remain unchanged.

On the revenue side, recycle commodity values have not yet stabilized and, in some cases, continue to decline. Paper products are incurring the largest reduction in value. While processing and handling fees remain stable, the value of recycled commodities is projected to fall short of fees. Given this dynamic, staff recommends a \$76,500 increase to residential special disposal fees.

Thurston County raised disposal fees for municipal solid waste (garbage) over 48% in 2010. At the same time, Olympia adopted an increase in the municipal utility tax. In an effort to minimize impacts to customers, excess reserves above minimum requirements were used to help smooth rate increases. These efforts continued up to and including 2014.

Based on projected 2015 revenue and expenditures, the Waste ReSources budget is out of balance by approximately \$370,000. Staff recommends ending rate smoothing for municipal solid waste in 2015 and implementing rate increases for garbage in both the residential and commercial service classes. Conversely, continuing to smoothing rates for the organics program, as subscriptions continue to grow, is recommended.

Proposed rate increases for 2015 include the following:

- Drop box 0%
- Residential 6%
- Commercial 4%
- Organics 8%

The proposed rate increase for an average residential customer (65-gallon with recycle, bi-weekly) follows:

	2014	2015	Difference
Residential (65-gallon with recycle, bi-monthly) • 6% garbage rate increase	\$41.42	\$43.90	\$2.48
• 8% Yard Waste/Organics	\$16.36	\$17.66	\$1.30
Total bi-monthly with garbage, recycle and organics subscription	\$57.78	\$61.56	\$3.78

Neighborhood/Community Interests (if known):

City utilities provide essential public health services to Olympia residents.

The Utility Advisory Committee (UAC) will conduct a review of proposed Utility and LOTT Alliance rates during its October 2 meeting. The UAC will provide formal recommendations to the City Council.

Options:

1. Support draft staff recommendations for 2015 Utility rates and forward to City Council for their comprehensive review. Incorporate UAC and community input.

2. Provide additional guidance to staff regarding draft recommendations for 2015 rates. Forward to City Council.

Financial Impact:

None at this time. Financial implications of the proposed rate increases will be further evaluated by the Utility Advisory Committee and City Council.



City of Olympia

Finance Committee

Continue Discussions on Long Term Revenue Strategies

Agenda Date: 9/10/2014
Agenda Item Number: 4.C
File Number:14-0778

Type: discussion **Version:** 1 **Status:** In Committee

Title

Continue Discussions on Long Term Revenue Strategies

Recommended Action

City Manager Recommendation:

Provide guidance to staff on revenue strategies to pursue for the 2015 budget.

Report

Issue:

Discussion of ideas on long term revenue strategies.

Staff Contact:

Jane Kirkemo, Administrative Services Director, 360.753.8499

Steve Hall, City Manager, 360.753.8447

Presenter(s):

Jane Kirkemo, Administrative Services Director

Background and Analysis:

During the Budget Process staff discussed several potential revenue options to be evaluated for the 2015 budget:

1. Utility Tax on Cable
2. Business and Occupation Tax Revisions
3. Legislative Changes to Transportation Benefit Districts (TBD)
4. Voter approved TBD increases
5. Levy Lid Lifts
6. Local Improvement Districts (LIDs)
7. Councilmanic Debt Issuances
8. One-Time Revenues

The committee discussed these items at the April and May meetings.

During the April meeting the committee gave staff direction to move ahead with the utility tax on cable

as a part of the Capital Facilities Plan (CFP). The committee recommended the revenue would go towards major maintenance in the CFP.

At the May meeting, the Committee discussed a proposal with hospital representatives on the B & O tax. Subsequent to this proposal, staff met with Providence Hospital to discuss revenue options. Tonight's meeting is to continue the discussion with the Committee.

Neighborhood/Community Interests (if known):

The hospital is concerned about the financial impact of the proposed changes. They are concerned about the impact it will have on their charity care.

Options:

The hospital will discuss other potential partnerships with the City.

Financial Impact:

Not determined at this time.



City of Olympia

Finance Committee

Oral Reports - Five-Year Budget Projections

Agenda Date: 9/10/2014
Agenda Item Number: 4.D
File Number: 14-0866

Type: report **Version:** 1 **Status:** In Committee

Title

Oral Reports - Five-Year Budget Projections

Recommended Action

Committee Recommendation:

Not referred to a committee.

City Manager Recommendation:

N/A

Report

Issue:

Five-year budget projections for the General Fund (revenue and expenses)

Staff Contact:

Dean Walz, Finance Manager, Administrative Services, 360.753.8465

Presenter(s):

Dean Walz, Finance Manager

Background and Analysis:

The 2014 Finance Committee work plan includes discussion of a five-year operating budget projection. Staff will distribute a five-year projection at the meeting.

Neighborhood/Community Interests (if known):

The projections if approved by the Committee could be posted on the website as part of Budget 365.

Options:

N/A

Financial Impact:

N/A