



DATE: October 29, 2021

TO: Anne McEnery-Ogle, Mayor
City Council

FROM: Natasha Ramras, CFO
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RE: Improving Fire Services – property levy design

Executive Summary

The November 8 workshop is intended as an opportunity for Council to:

- Review available property tax tools to fund increased fire services cost and fire station resiliency.
- Finalize the overall package and associated revenues.
- Establish direction on the levy design.

Linked under “other resources” at the end of this memorandum is the MRSC Revenue Guide for Washington Cities. Staff strongly recommends Council read the sections for G.O. Bond Excess Levies (Page 33) and Levy Lid Lifts (Pages 44 – 58) of this guide, as well as the other materials delivered on this topic to be best prepared for the November 8 discussion.

Background

At the October 4 session, Council reviewed the request to increase Fire services to the community. The proposal included adding additional 1 Fire Truck, 1 Squad and staffing the new vehicle and the two squad vehicles purchased during 2021 on a 24/7 basis as well as continuing to operate the new fire station 11 with full time professional staff. During the workshop, Council requested considering adding a capital component of replacing two existing fire stations 3 and 6 and seismically remodeling stations 4, 5, 8 to increase the resilience of these fire stations to withstand a seismic event.

Due to a large capital cost portion of the resiliency funding, a combination of ballot measures for operating and capital purposes will likely be required and different property tax tools utilized. These are:

- **Option 1 - Excess levy for capital** combined with a **levy lid lift**. This scenario would include two separate ballot measures, one for a voter approved 20-year excess bond levy for capital and a

companion permanent levy lid lift to fund operating cost increases and related vehicle purchases.

- **Option 2 – Two levy lid lift measures.** This scenario would include two separate ballot measures on the same ballot, one for a levy lid lift to support a 9-year debt issue for capital and a companion permanent levy lid lift to fund operating cost increases and related vehicle purchases.

The operating proposal has been well defined. Additional work related to scoping and costing of the resiliency-related capital costs will be necessary before the package is finalized. It is very likely this work will take at least 12 months to complete.

A comparison of the two potential scenarios is included below:

	<u>Option 1</u>	<u>Option 2</u>
Total Annual Amount Generated, Operating	<u>\$10 mil</u>	<u>10 mil</u>
Total Amount Generated, Capital, estimated	<u>\$60 mil</u>	<u>\$60 mil</u>
Operating Levy Lid Lift, permanent	\$0.34	\$0.34
Capital Levy Lid Lift 9 yr.		\$0.21
Excess Levy: Capital Bond, 20 yr.	\$0.12	
Total levy per \$1,000 AV, 2021	\$0.46	\$0.55
<i>Annual Impact on an owner of a \$441,000 House</i>	<i>\$203</i>	<i>\$243</i>
<i>Monthly Impact on an owner of a \$441,000 House</i>	<i>~\$17</i>	<i>~\$20</i>

Both options above anticipate Fire District 5 continuing to support the joint operations in a consistent manner over the foreseeable future, which might mean asking the voters to increase its funding if the property tax revenue is not sufficient to cover the cost of the baseline support and this projected cost increase. District #5 has represented to the City that they anticipate being able to fund their share of service enhancements contemplated here for the foreseeable future.

In addition to the levy design considerations, Council may wish to consider outcomes in the event of a levy not passing at ballot, or one of the City levies not passing at ballot and the impact from similar decision by Fire District 5.

Below is the listing of the cost increases to be funded by the levy, proportionate to the City's funding of the Fire Services, as follows:

Cost Component		One-time Capital Costs (assumes debt financing)	TOTAL ANNUAL COSTS (including annual debt service)
Operating Costs	Staffing and other operating costs		8,992,000
	Vehicle- related annual costs		285,000
Capital Costs	Squad vehicle (1 new)	302,000	
	Ladder truck company (1 new)	2,156,000	
	Station 8 remodel	3,151,000	
	Debt Service to fund Equipment and Facility Remodel		692,000
Station 11	On-Going Funding to Sustain beginning in 2025		2,823,000
	Staffing and other operational costs		
	TOTAL PROJECTED ANNUAL COST		12,792,000
<u>Total costs represent all-inclusive costs to the system, using 2025 as an example of a full year</u>			

Capital Costs for Resiliency

Replacement of FS 3, 6 and seismic remodel of stations 4, 5 and 8. ~\$60 mil.

With respect to an excess levy or levy lid lift, the Council may also wish to consider recent history of municipal ballot titles across the state. Each community is unique relative to values and expectations of their electorate; that said, according to research compiled by MRSC the results of municipal (city) ballot measures state-wide in the last 5 years were:

Levy Lid Lift:

All levy lid lift types: 28 measures; 21 pass, 7 fail (71% passage rate)

Excess Bond Levy

All bond types: 24 measures; 15 pass, 9 fail (62.5% passage rate)

The full, searchable database can be found at [Local Ballot Measure Database \(mrsc.org\)](http://Local Ballot Measure Database (mrsc.org)).

Revenue Phasing

Currently is not incorporated in the estimates.

Structural Deficit

Property tax levy revenues in the state of Washington are subject to the 1% annual revenue increase limitation plus the value of new construction at the prior year's levy rates. The operating proposal is likely to be funded over the initial 10-year time period but will likely be subject to the structural deficit in the future.

The term structural deficit refers to the fact that the City's general fund revenues do not consistently grow at a rate that is sufficient to keep pace with the growth in demand for services from new population and inflation. This is due to both the structural (statutory) limits of the taxing structure as well as the structural and practical limits to the City limiting its costs. As a result, year over year the real per capital revenue to the City's general fund declines while the cost of services increases. The primary contributing factors since 1990 are:

- The phase out of local business and occupation tax taxes between 1992 and 2001.
- Statewide tax initiatives in the late 1990s and early 2000s (I-695: \$30 Car Tab Limitation and I-747: 1% property tax limitation)
- A tightening of the state budget resulting from Initiative-driven revenue impacts and mandates on the state
- Our adjacency to a sales tax free state and the resulting lower per-capital sales tax revenues than other comparable communities.
- The legacy impacts of the Great Recession.
- Growth in population and associated demand for services.

This is representative of dynamics that have influenced the City over time. The City has focused on efficiency, effectiveness, evolving the service delivery model, retiring debt, using one time revenues for one-time expenses, prioritizing services and focused increases in revenues – such as for police or streets - to continue to maintain operations within these constraints.

Other resources

In addition to the above and presentation materials, linked below for your reference and in support of Council's discussion are:

- [Ballot measure requirements | Washington Department of Revenue](#)
- The [Revenue Guide for Washington Cities and Towns \(mrsc.org\)](#)