

**TUMWATER BUDGET & FINANCE COMMITTEE
MINUTES OF VIRTUAL MEETING
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CONVENE: 12:00 p.m.

PRESENT: Chair/Mayor Debbie Sullivan and Councilmembers Peter Agabi, Michael Althausen, and Eileen Swarthout.

Staff: City Administrator Lisa Parks, City Attorney Karen Kirkpatrick, Finance Director Troy Niemeyer, and Deputy Finance Director Shelly Carter.

Others: Morgan Shook and Zoe Fairlie, ECONorthwest.

**APPROVAL OF
MINUTES:
BUDGET &
FINANCE
COMMITTEE,
FEBRUARY 28,
2025:**

MOTION: Councilmember Agabi moved, seconded by Councilmember Swarthout, to approve the minutes of February 28, 2025 as presented. A voice vote approved the motion. Councilmember Althausen abstained.

**TEN-YEAR
FINANCIAL PLAN
UPDATE:**

Morgan Shook, Director & Partner, ECONorthwest, updated the committee on the status of developing a fiscal model for the City. The model provides scenario analysis, evaluates current funding and spending priorities, explores future funding needs and spending scenarios, and tests potential strategies to align budget decisions with community goals.

The model represents the City's financial structure of personnel, non-labor investments, and capital outlays. The combined departments are folded into two different funds of general purchase funds and enterprise funds and/or restricted funds. Following the input of department spending, the funds are identified in terms of how they interrelate. For example, the model decipheres how the public safety fund relates to the general fund to determine within the 2025 budget the trajectory in terms of funding commitments and capital facility projects. The information enables the evaluation of a set of scenarios that have long-standing impact on expenditures and delivery of services and revenues.

Following work to build the model, the team is engaging different constituents and sources around fiscal opportunities and challenges to consider different scenarios for how the City envisions the delivery of services. The approach involves three inputs: (1) current commitments in the 2025/2026 budget, (2) engaging department leadership to consider a

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strategic plan for the delivery of services from a financial perspective, e.g. need for additional FTEs, need for non-labor spending, or important capital projects, and (3) alignment with the Council's strategic planning process and input from the community.

City Administrator Parks advised that at the Council's April 8, 2025 meeting, more information will be presented on the status of the work plan for the Council's strategic planning process. The intent is obtaining an understanding of the totality of City actions that are mandated by law and support Council and community priorities. The financial component and the Community Survey will be important background information as the Council undertakes a process to prioritize City actions to assist staff in organizing and prioritizing work plans and budgets.

Mr. Shook described the framework for Council decision-making as core and required services (essential services required by law or necessary for basic community function), current community commitments (existing programs and services reflecting past community decisions and commitments), and enhanced service and infrastructure investments (proposed improvements or expansions in service quality, scope, or scale that would require new or increased revenues).

Information from the framework is used to develop different scenarios:

- Scenario A: Status Quo
 - Maintain current service levels and revenue structures.
 - Evaluate sustainability and financial stability if current spending patterns continue.
- Scenario B: Service Expansion with Revenue Adjustments
 - Identify areas where service expansion may be desirable (e.g. public safety, parks, or infrastructure).
 - Pair expansions explicitly with revenue options (e.g., property taxes, utility fees, or user charges).
 - Discuss trade-offs: affordability, community expectations, and impacts on fiscal stability.
- Scenario C: Prioritizing Large Capital Investments
 - Focus resources on major capital projects and infrastructure improvements.
 - Evaluate funding strategies (bonds, grants, partnerships, etc.).
 - Explore long-term impacts: debt capacity, operational costs, and benefits of strategic investments.
- Scenario D: Economic Stress Scenario
 - Evaluate the City's financial resilience under economic downturn conditions (recession, decreased tax revenue).
 - Identify essential services and potential budget adjustments

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or emergency reserve needs to withstand downturn periods.

Mr. Shook said efforts are moving to the next phase of the project to address many of the issues as part of the project. He invited questions from the committee.

Councilmember Agabi said the modeling process is both user-friendly and visual. He asked whether the model can evaluate long-term consequences to the general fund when a position is filled. Mr. Shook said the construction of the model includes trade-offs in terms of forecasting accuracy when hiring FTEs. The model is intended to forecast longer-term issues such as what impact would result if the City added 10 FTEs today without any revenue or minimal adjustments in revenue to gauge how it might change the City's baseline. The model could reveal that the City has capacity moving forward or it could foretell potential cost issues moving forward. The model is a tool to assist the Council in assessing commitments for current expenses that are tied to specific existing revenues, as well as assessing how the addition of FTEs could affect future Council decisions for balancing the budget.

**YEAR-TO-DATE
BUDGET UPDATE:**

Director Niemeyer provided an update on the 2023-2024 biennial budget and the status of the 2025-2026 budget. The Council is scheduled to receive a briefing on the 2023-2024 biennial budget at an upcoming work session.

At the last meeting, Councilmember Agabi asked several questions requiring some follow-up. One question pertained to sales tax revenue in 2023 and 2024 and potential outcomes to the budget if collections are less than forecasted moving forward. Director Niemeyer cited some examples. If the City forecasts some dips in sales tax and other taxes, potential actions to accommodate a decrease in revenue could include a hiring freeze, delaying projects, or reducing costs. If revenues reduce dramatically because of a recession or a downturn in the economy, the City could consider reducing positions or implementing more serious spending cuts. Staff monitors revenues closely and will provide monthly updates to the committee.

Director Niemeyer reviewed the 2023-2024 general fund reflecting budget versus actual for revenues and expenditures. The forecast for property tax was accurate nearly to the dollar. Sales tax revenues were much higher than budgeted. The forecast was conservative based on the assumption the nation would experience a recession, which did not occur. Business and Occupation (B&O) tax was on track with the forecast as well as utility tax. Building permits exceeded the forecast with Medic One revenue less than forecasted. Miscellaneous revenues account for other types of revenue, such as motor vehicle fuel tax, liquor tax, marijuana tax, leasehold tax, etc.

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Actual receipts for miscellaneous revenues exceeded the budget by approximately 11% in 2023.

During 2024, revenues were similar to 2023 revenues. Medic One revenue was less than forecasted. In total, all revenues combined exceeded budgeted revenues by 10%.

Director Niemeyer reviewed a graph comparison of actual revenue for 2023 and 2024. Over the biennium, the City gained \$569,000 in property tax (+6%) with sales tax revenue experiencing a loss of nearly \$1 million from 2023 to 2024 although higher than historical norms. In 2024, the City began receiving Public Safety Sales Tax revenue (County's Proposition 1). The City created a special revenue fund to track the sales tax separately.

Director Niemeyer explained how historical budgets were reviewed to assist in establishing revenue projections from 2006 to the present. He reviewed a graph of property tax revenue over 18 years reflective of an overall increase over the years. The City is restricted to a 1% increase in property tax each year; however, new construction is also added.

Director Niemeyer displayed a similar graph for sales tax revenue from 2006 to the present. The City was fortunate through the COVID pandemic in both sales tax collections and internet shopping. Sales tax revenue spiked in 2020, reduced slightly in 2021, and began increasing in 2022, 2023 with a small drop in 2024. B&O tax continued to reflect steady revenue throughout the historical record. Building permit revenue varies based on the amount and type of development activity. Utility tax revenues reflect some variance over the years. Utility tax also includes private utilities in addition to City utilities. Variances in revenue are likely due to weather of either hot summers or colder winters. Medic One revenues reflect a steady trajectory with some dips in revenue. In 2025, Medic One revenue will increase because of the new medic unit. Other revenues from 60+ sources reflect a strong trajectory with large spikes in 2020 and 2021 because of stimulus funds received from the federal government.

Director Niemeyer reviewed a tax remittance from the Office of the State Treasurer. Typically, sales tax revenues remitted by the state are delayed because of business reporting deadlines. In March, the City received \$769,000 for February sales tax activity.

Director Niemeyer reviewed the status of the 2025-2026 budget. Property tax is collected in April and October and the figures reflect a prorated amount. Sales tax is based on actual receipts reflecting a small dip in sales tax revenue or 22.4% of the budget forecast for the first quarter. B&O tax is on track with the budget forecast. Utility tax is lagging to some degree in part due to lag time reporting as February billings are not paid until March.

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Overall, the budget forecast through the end of March for expenditures should reflect 25% with actual amounts ranging from 17% to 22%.

Director Niemeyer reviewed expenditures and revenues to date for Utilities and the Golf Course.

Councilmember Agabi noted that although property tax increases are capped at 1% each year, the trend graph from 2006 to 2024 reflects a steady increase in property tax revenue. He asked why staff indicates property tax revenue is not sufficient despite the trend reflecting an increase each year. Director Niemeyer replied that the City is restricted to a 1% increase in property tax each year; however, new construction contributes more property tax revenues. Revenue trends are influenced by inflation and wages, which exceed more than 1% each year.

ORDINANCE NO.
O2025-006
AMENDING TMC
2.14 EXECUTION
OF CONTRACTS
AND OTHER
LEGAL
DOCUMENTS:

City Administrator Parks explained that state law authorizes cities to delegate authority for some decisions to the Mayor. In Tumwater, the code authorizes the Mayor to delegate authority to the City Administrator or Department Directors. The proposed ordinance is intended to keep pace with organizational growth and economic realities. The intent is to update the thresholds for contracting and other decision-making that is authorized to be delegated to improve efficiency. The ordinance identifies Council authority. Dollar thresholds are commensurate with the RCWs. She cited the types of contracts and agreements that fall under the authority of the Council. Some exceptions are included for delegation of authority. The primary change pertains to the execution of documents by expanding the authority to Department Directors to render decisions that are commensurate with the Mayor's delegation of authority. Some special delegation of authority is requested for financial services, legal services, and some collective bargaining agreements for amendments or memorandums of understanding (MOUs) with one of the City's unions as long as the action does not obligate the City to more than what is allowed to be delegated by statute. All actions are within the approved budget regardless of delegated decision-making.

City Attorney Kirkpatrick explained that the proposal is to improve internal efficiency within the organization. The Council approval authority remains unchanged with several exceptions applicable to interlocal agreements (ILAs) under \$100,000 or within the existing budget and grants. Staff forwards many requests for grants and often the process encounter delays as grant applications are processed for approval.

Councilmember Althausen cited an example of interlocal agreement with the Regional Housing Council (RHC) for participation with no funding associated with the ILA other than staff support from the City. He asked whether that circumstance requires the Council's approval. City Attorney

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Kirkpatrick said the proposal contemplates not only expenditures of funds but also in-kind and staff participation. Any type of match or contribution is not considered monetary within the ILA. Councilmember Althausen questioned the number of ILAs that did not require Council approval. City Attorney Kirkpatrick responded that more often, the issue surrounds MOUs that are less formal and typically apply to service agreement with neighboring jurisdictions for fleet services or other types of services that are routine.

City Administrator Parks added that the RHC ILA includes a financial obligation in addition to staff resources. An example of an MOU is the two MOUs with the LOTT Clean Water Alliance last year to evaluate the potential purchase and sale of LOTT properties. In those examples, no monetary obligation in excess of \$100,000 was included. Later, staff had to request amendments to the MOUs to extend time for the evaluation process. Those are examples of the type of activity that would be covered in a MOU that would not need to be approved by the Council.

Councilmember Althausen asked whether the proposal is tied to emergent need or timing or whether the proposal only speaks to the monetary threshold. City Administrator Parks explained that although the proposal involves the financial threshold, staff cannot expend more than the approved budget authority. Councilmember Althausen said he is more comfortable with the proposal applicable to MOUs rather than ILAs, as they tend to be more policy-related.

City Attorney Kirkpatrick added that another consideration for the proposal was a request for the City to align its procedures with neighboring jurisdictions.

Councilmember Swarthout asked whether the proposal would increase the threshold for the Mayor from \$50,000 to \$100,000. City Attorney Kirkpatrick advised that the current threshold is \$100,000. Currently, the Council is required to review all ILAs. The proposal would change the review process to enable all ILAs under \$100,000 to be under the Mayor's authority.

City Administrator Parks pointed out that the monetary amount is dependent upon the contract or ILA. Any obligation of financial resources is limited to \$100,000 by state statute to the Mayor. The City's current code limits the amount to \$100,000 as well as limiting what can be delegated to Department Directors. The proposal would amend the code to be commensurate with the Mayor's authority for Department Directors.

Councilmember Swarthout questioned how the proposal would affect public works contracts. City Attorney Kirkpatrick said the proposal affects ILAs,

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grants, and other provisions. However, the Council retains authority for real estate documents that often involve public works projects or Community Development permit applications. The proposal is to ensure those types of processes are completed correctly and quickly. Directors are currently authorized to approve change orders within a 10% threshold. The proposal expands that authority to public works contracts as well as other contracts to improve the efficiency of the process.

Councilmember Agabi asked whether the impetus of the proposal is because of the delays in contracts because the Council was unable to timely review contracts. City Administrator Parks conceded that it is part of the reason because there are often delays in executing contracts because of the Council's meeting schedule and the Council's standard review process. The Council's committee structure has improved the process; however, in some circumstances the timing is not consistent with a committee meeting date. The proposal is intended to provide some efficiencies, particularly in terms of minor contracts and change orders that occur frequently.

The committee agreed to defer action on the proposal until the committee's next meeting to afford additional time to review the proposal.

Councilmember Agabi disconnected from the meeting.

ADJOURNMENT: **With there being no further business, Chair Sullivan adjourned the meeting at 1:01 p.m.**

Prepared by Valerie L. Gow, Recording Secretary/President
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