

City of Sultan

Blue Ribbon Citizens Advisory Panel

Outline of Recommendations

- **Interest from Investments:** Interest from investment funds could be used to fill holes short-term until the city can get back on its feet. The interest should only be considered when all other resources have been exhausted and not to be taken into consideration as a supplement to future general fund budgets. Also, because the interest fluctuates from year to year, it is not a reliable source of revenue.
- **Park Fees:** Look at reevaluating park user fees to raise revenue for park maintenance, and advertising our park space to attract teams who are in need to find facilities to practice and play. By doing this the general fund shouldn't have to come up with as much funding to pay for park maintenance and the city won't have to dive into the interest from investment funds to compensate. Also, erecting better and stronger signage regarding user fees and fines for not reserving team/group times. This can help in monitoring and enforcement. Speak to other cities to see how they manage their parks and how to collect fees and monitor fields.
- **Hotel-Motel Tax:** A long-term goal would be to have the council review in greater detail the initiation of a hotel-motel tax on a scaled-tax basis for a several-year period, to ensure this finance vehicle is in place as new lodging facilities arrive in Sultan.
- **Economic development:** City priority needs to be to review specific city codes, fees, and state laws, and in light of its financial picture, to find ways to attract new businesses, as well as help retain current city businesses by providing financial incentives in the form of deferred payment of select fees or other incentives for start-up businesses, or to assist current businesses and attract new retail businesses and revenue by offering a stormwater utility discount or other legislative or financial consideration specifically to retail businesses with large parking lots. By attracting and retaining retail businesses, retail sales tax generated can offset incentives. City needs to continue, or increase its economic development roundtable venues for businesses, and have a city official attend every Chamber meeting. Toward this objective, the city could consider using the current CAP or form another citizen board to review other "Grow Sultan" options.
- **Business License Fees:** Ensure that businesses understand an additional city license is required for them to operate out of Sultan, even if it's only their office that is located within the city limits and they're not doing any business, or have customers located within the Sultan city limits. The city should cross check with the state to see what businesses are located within the city limits and notify those companies that they are not properly licensed here in Sultan. *Educate.* The revenue generated would be modest, but it would give the city a certain oversight capacity and a better understanding of the community and could decrease the likelihood of illegal activity.
- **City Finance Department:** The City should retain a first-class financial professional to fill the Finance Director's position, hire an experienced financial advisor, or at least hire an

independent auditor to dive deeper into the finances to find much needed answers to prevent the reoccurrence of state audits with findings once and for all. When you look at the history of Sultan and its financial problems, it's not just the botched land use development that's occurred here. It's the overall financial picture. Some changes need to be made. A career-level financial professional could come to Sultan (as did Gordon Hey), and present methods by which the city could increase revenue and cut expenses to get Sultan weaned from its dependency on temporary plat development fees as a primary revenue source. Additional expertise and advice would present innovative and professional methods by which the city would soon operate in a manner that would attract new businesses to invest in Sultan, rather than the uncertainty many business owners may now feel. Too many of the positions in the city are wearing more than one hat and this causes distractions when they are trying to accomplish their tasks; they are unable to focus on their main skills and are asked to do things that they may not necessarily be skilled in and mistakes are being made.

- **Levy Lid Lift:** A levy lid lift would not be recommend short-term or long-term. The small amount of money it could generate is not an efficient way to increase revenue. The amount of money that would be generated with a levy lid lift is so little that it really doesn't help out, plus the cost of the lift vote itself might eat up a substantial portion of what a lift could generate.
- **Future Utility Taxes Increases:** The City could delve further into increasing its utility tax, but it would be recommended by the CAP to do this AFTER the library annexation election so that discussion would be informed within an accurate context of the then-financial situation. With the cost and small benefit a levy lid lift would bring, raising the utility tax could generate more revenue immediately and long-term. This is a tax and should not be considered lightly. If council chooses to increase the utility tax, either or both of the following recommendations may be considered by the council to be included in the executing/enabling ordinance: (1) Ensure any increase will be used/set aside for a specific use or purpose [i.e., police maintenance/purchase, pay off the interfund loan, pay for park maintenance, pay for the position of Finance Director]; and/or (2) include a sunset date whereby enabling legislation to increase the tax will automatically expire, thus, requiring new vote and approval for continuation (or escalation).
- **Future Disposition of the CAP:** The council should consider continuing the CAP, either in its entirety or in a reduced form. It took several weeks to educate the CAP members and that shortened the time available to review and develop recommendations. Council should consider having the CAP meet monthly or quarterly, if nothing else, at least after the library levy vote regardless of the outcome. By doing this the CAP can concentrate on the accurate context of the then-financial situation of the city.

Memo

To: Mayor, City Council

From: Deborah Knight, City Administrator

Date: 12/7/2007

Re: Blue Ribbon Citizen Advisory Panel – Meeting Minutes and Transcriptions

Attached are the meeting minutes and transcriptions for the CAP meetings.

The meeting minutes and transcriptions for October 17, 2007 and November 5, 2007 will be available on-line at http://www.ittakesgrit.org/Blue-Ribbon_CAP_page.htm prior to the Council meeting on December 13, 2007.

Notes from Blue Ribbon Panel - First Meeting September 10, 2007 6:30 – 8:00 PM

All members of the panel were in attendance except "Interim" Chairman Derek Boyd and Alternate CAP Member Burl Champeaux. Also attending were City Administrator Deborah Knight and Deputy Finance Director Laura Koenig.

Discussed forming of panel; Chairman, Vice-chair, Secretary, and definitions and responsibilities of each position. It was agreed that The Blue Ribbon Panel Chairman would be Jeff Beeler, Vice-Chair would be Steve Wright, and Secretary Traci Hoenstine.

The Chairman will conduct the meetings. The Vice-Chairman will serve as a back-up and support to the Chairman, The Secretary will take notes.

Rules Agreed Upon By The Panel

- 1) We agree to respectfully disagree. All voices will be heard, and all ideas considered, free of judgment.
- 2) With the exception of the 2nd meeting set for Monday, September 17th, future CAP meetings will be on the first and third Mondays of each month through the end of November, with the need for future/subsequent meetings decided at that time.
- 3) A simple 51% will constitute a majority vote for the Blue Ribbon Panel/CAP. However, the minority will still be heard and respected, and upon request, minority views will be included in written recommendations to council.
- 4) The "life" of the Board/Panel is short, only eight or so meetings. Thus, the absence of a member from three meetings, regardless of the reason, will mean automatic removal from the Panel/Board. The only exception is if the member can demonstrate he/she has listened to the audio of at least one of those three meetings prior to the subsequent meeting of the board following the third absence.

Subjects to be covered at the Sept. 17th meeting:

- What happened to Sultan between the years 2000 and 2007:
 - A) Further examination into The Prothman Report and City Audits
 - B) What steps have already been implemented in resolving the City's financial problems?
 - C) What were, and/or remain the ramifications of not implementing new ideas?
 - D) Understanding the growth that didn't happen and why.
 - E) How does the consistency within the Sultan Municipal Code (SMC) and security/law enforcement play into the future economic development of Sultan?
- Clearly defining where we have been and the role that plays in where we are now.
- Overcoming some obstacles like the Eyman Initiatives

Notes - Blue Ribbon Citizens Advisory Panel (CAP)
Meeting Monday, September 17, 2007. 6:30 PM to 8:30 PM

An announcement was made that Councilman Boyd is removing himself from the panel and will be replaced by Councilman Flower. All CAP members were in attendance with the exception of alternate panel member Burl Champeaux and the recently-resigned Councilman Boyd. City Administrator Knight and City Clerk-Deputy Finance Director Laura Koenig were also present.

The meeting began with a brief discussion of the Wagley LID 97-1 project, its elevated costs and assessments, and the impact it has had on the city's ability to attract new business. Councilman Jim Flower explained one of the realities, which is that the assessment is a first-line decision factor if/when new businesses considers moving or starting a business here; Koenig explained that they will be paid "in an 18-year period." Although each parcel's assessment is transferable to a new owner, the primary problem rests with the banks because they do not want to be second in line for debt payment, and require the assessment be paid in full. Per Councilman Flower, the project was originally proposed to cost only \$2.0 million, but because of substantial problems, it ran upwards of \$6.0 million. Laura Koenig corrected that amount, stating the project totaled only \$3.5 million.¹

1) Discussion of how I-695 (and I-747) has affected government revenues

Budget Shortfall document from the City of Des Moines, WA was provided, reflecting its position at the close of 2004 (sent to all Des Moines citizens), anticipating their 2005 budget process; explained lack of funds due to the passing of the Eyman initiatives. This information outlined their problem and approach for solving this shortfall. All citizens were encouraged to attend several informal budgetary meetings to gather additional citizen input. (Knight and Storm were both struck by the fact that the document's material contents seemed to mirror Sultan's current situation.)

A few of Des Moines' ideas for handling the shortfall:

- A) Increase building permit fees;
- B) Increase utility tax rate from 5 to 6%;
- C) Fees for recreation programs and classes were increased (other options were costs of closing parks);
- D) Efficiency studies were conducted for the Surface Water Management Utility, park maintenance and the building permit processes. Also, a property tax levy rate would be voted on for \$1.60 per \$1000.00 assessed valuation. Zoning considerations were being reviewed to see if it could be streamlined to make the process easier.

¹ **Re total LID 97-1 costs:** Excerpt from MacCauley & Associates' report to Thom Graafstra dated 2/25/02, p. 27; link to document: http://www.ittakesgrit.org/Wagley_LID_97_Protests.htm (scroll down page to "DOCUMENTS" to find Bird's Assessment Study, in four parts.): "The LID also includes reimbursement to the City of Sultan for repayment of two developer extension contracts, as required by RCW, benefiting parcels within the LID. Total project cost is \$6,075,020. Part of the cost will be recouped by grant funds (\$1,396,500) [a \$1.2 grant from the Economic Development Administration and \$200,000 from the U. S. Forest Service] and facility charges [\$450,000]. The \$4,228,520 balance is the total LID assessment to be paid by the affected property owners." In the Feb, 2002 Tanaka Assessment Hearing Mr. Bird stated the project costs ran 347% over projections.

Review of OFM 2005 Report² (Wash. State Office of Finance 2005 Report; Chapter 4, Page 87) re land use and local government, which offered a summary of a survey performed by OFM of various county and city governments of the impacts I-695 and I-747 has had on their financial viability and services.

Chart of general fund revenues for cities and counties³ was distributed. For Sultan the chart indicates a \$300,000 jump in general fund revenues between 2004 (\$1.6 m) and 2005 (\$1.9). Ms. Knight explained the difference as the City dipping into "a savings account."⁴ (See the transcription at the end of these notes.)

The general consensus from the research gathered seem to support the general assumption that most governments experienced a revenue shortfall (of approx. 30%). It is clear that the financial repercussions are still having an effect on the financial shortfalls today (particularly in Sultan), but most governments took steps early on to evaluate their options concerning cost-cutting measures or methods by which revenue could be increased.

2) **Prothman Group Recommendations and Sultan Audit Reports**⁵

Recommendations made in the Prothman Report were discussed at length, as well as Sultan's past several audits; consideration was given as to how this plays into our current fiscal shortfall. We considered what had been implemented based on recommendations by the Prothman Group, and what has yet to be implemented. It was decided the city would provide for the next meeting what steps had been taken to correct past issues based on these reports, as well as has yet to be implemented.

3) **General & Misc:**

- Members were encouraged to attend the **Sultan City Council Retreat** which will focus on 2008 budgeting issues October 13th, 2007 from 9:00 a.m. to 2:00 PM at the Monroe Library.
- It was noted that Sultan remains \$90,000 in the red currently.
- Vice-chairman Steve Wright (who is a Sultan resident and a King County Sheriff Deputy) is looking into talking with Monroe about their program to receive corporate sponsorships (advertisements) for Sultan's police department vehicles.
- The group discussed and agreed that some meeting time would be set aside for just the Blue Ribbon Panel to meet without Sultan officials Laura Koenig and/or **Deborah Knight present; the intent of which is to discuss and address current shortfall concerns in an atmosphere unconstrained by their presence.**

² Chapter 4 only of this OFM report will part of the City's planned CAP webpage for citizen viewing.

³ Sultan General fund annual revenues, beginning from 1999: \$1,753,859; \$1,623,453; \$1,583,469; \$1,476,529; \$1,368,825; \$1,553,117; and \$1,917,721 (2005).

⁴ Ms. Knight is obviously referring to the two city interfund loans; \$200,000 via Resolution 02-06 in March, 2002, and \$150,000 via Resolution 03-17 in Dec., 2003.

⁵ Being mindful that the city has cut staff and is laboring under a personnel shortage, it's still important to note that at least two CAP members did not receive the City information (annual reports and other info) via snailmail until just before the start of the 9/17/07 CAP meeting.

The next meeting will be Monday, October 1, 2007 at 6:30 PM.

Thanks,
Traci Hoenstine

**TRANSCRIPTIONS from
Blue Ribbon Citizens Advisory Panel (CAP) Meeting - Sept. 21, 2007**

D. Knight's explanation for the \$300,000 increase in general fund revenues from 2004 to 2005:

Deborah Knight: What I thought was the most interesting was when you take a look at Sultan, you can see that the general fund revenues start off at \$1,753,000 in 1999 and drop down to \$1,553,000. Now if you go in the City's annual report and you take a look at what was our adopted budget and what was our amended budget, our adopted budget was \$1.5 million for 2005 and the amended budget was \$1.9 million. Well, we took money out of savings in order to cover expenses. So it wasn't that we suddenly got more property taxes or more sales tax revenue in our general fund, it's because we took money out of savings.

Steven Wright: Yeah, the reserve fund.

Deborah Knight: Reserve funds. Yeah, we had a savings account at one point of \$350,000, and every time we over-spent our budget, rather than cutting expenses we just took money out of our savings account the same way that you would at home, when you exceeded your checking account, basically.... And, so, Laura, you want to tell us what happened in 2005 that caused us to go dip into our savings account? Do you have an idea of what happened in that year?.... We know what happened last year.

[brief, unrelated comments not transcribed]

Laura Koenig [unintelligible] In 2005, it's actually, our revenues went up from the 1.8 initial Year-to-date \$1.9 –

Deborah Knight: Right. I see that on –

Laura Koenig I think it's in the last *[unintelligible]* --and I'm finding – I think that's the year that we first imposed utility taxes on our own utilities....

Deborah Knight: So it does sound like it's something we need to go back and research for you, then, if you want to know what happened in that particular year.

Laura Koenig The taxes didn't go up that much.... And, actually, the revenue increase isn't all that much, \$100,000. In 2004 to 2005, we also got substantial money *[unintelligible]* in the general fund with planning. We got well over \$100,000 in planning grants from CTED to help us with our comprehensive plan.

NOTE:

Re Prothman Report Recommendations & State Auditor Reports since 1998:

Hoenstine He (*Prothman*) suggested getting a finance director and a deputy clerk treasurer. Do we have both of those now?

D. Knight No. We don't have a finance director.

Hoenstine So Laura was doing Deputy Clerk Treasurer –

D. Knight And Finance Director.

Hoenstine 'Cause I thought she was recently promoted to that. Is that not –

D. Knight No.

Hoenstine She's not promoted?

D. Knight No. She's doing the finance – the deputy finance director city clerk job. We don't have it defined –

Hoenstine Combined and it's all one?

D. Knight Yes.

Hoenstine Has it always been all one?

D. Knight No. There was city clerk. What it used to be called was city clerk was –

L. Koenig It was Clerk Treasurer.

D. Knight Clerk Treasurer.

J. Flower Clerk Treasurer.

Hoenstine Which was it now?

D. Knight *[unintelligible]* old-fashioned.

L. Koenig Which was both of them. It was finance director and city clerk.

Hoenstine Yeah, it's what it's called out here is deputy clerk-treasurer, right?

D. Knight No, she's –

Jeff Beeler No. She was Clerk-Treasurer. If you look at the above title –

Hoenstine Finance Director?

Jeff Beeler It was –

Hoenstine Oh, I'm looking at the –

Jeff Beeler *[unintelligible]* had a chart.

Male This must be –

Male She was the clerk –

Hoenstine I'm looking at the proposed –

Jeff Beeler Right. She was the clerk-treasurer. She's now the....

D. Knight City Clerk Deputy Finance Director. So she' doing the two jobs.

Hoenstine But wasn't the point of the Prothman *[Report]* that you would have two people doing that job --

Female Yes.

Hoenstine -- and not combine them?

D. Knight Well, and the point of the job really was is to have a Finance Director, somebody who has that expertise to kind of oversee all the finance piece of it. And we actually got fairly far down the road of hiring somebody, again, before I took a look at the budget and thought, "Good Lord. This person's going to cost us, like, \$75,000 a year or more. I don't know that we're going to have that money available to us." And so I said to council, "Hold off on it." And if it's this group's decision to –

Hoenstine Well, my – my –

D. Knight -- or recommendation....

Hoenstine -- my other thought on this is that I believe, wasn't that a recommendation by both the auditors and the Prothman Report?

D. Knight I don't know about the auditors. I know that the auditor's had talked a lot about is to do – have separation of duties. And it could be – *[asking of Laura Koenig]* – did the recommend that we have a finance director?

L. Koenig They won't make that recommendation.

Hoenstine They won't make the – I thought they had said that it required more than one position.

D. Knight That's separation of duties.

Female Right.

Hoenstine Okay. So how did that separate her duties?

D. Knight I actually took over por-- a portion of that. So for example now, I know, all of the vouchers that come through for payment, I review them and sign them. So Laura puts them together, I review them and sign them, and then the council also reviews them. So they're reviewing them. Paychecks are the same way.

Hoenstine And that wasn't how it was before?

D. Knight No. It wasn't how it was before.

Hoenstine Got it.

D. Knight So paychecks, same way. When the—when they're paid—when the pays—when they're paid – I don't know what we call those – sheets? Timesheets come through –

L. Koenig Time sheets come through.

D. Knight -- I review all of them, after department directors have seen them. I question them. I eventually review them and sign off on them and then I also sign off on the paychecks as well. So I'm matching those up. So that's how they went in that –

Hoenstine About doing that?

D. Knight -- in separating some of those duties.

Hoerstine Okay.

D. Knight I shared your concerns.

L. Koenig That's what the auditors were recommending, is that somebody with knowledge review what I was doing. Because -- and it's actually an extra protection for me, because before nobody was looking at what I was doing. And --

Hoerstine Yeah. See, one of the things that is strikingly concerning in the last six years' audits -- and I don't mean to diminish that we got a good one [*this year*], 'cause I think that's wonderful -- but it was -- the number of times that something was called out [*by the auditors*] and not corrected. And...you know, um...when you look at the grand scheme of things, that does a city money. Because you are not running efficiently. And when you are not running efficiently, it is costing money somewhere. We had leaks. We had problems. We had someone embezzle \$7,500 in 1998. And our processes did not change to make that so that it can't happen again in all the areas that it needed to. And I think that's sad. I really do. I really -- of everything, that right there speaks to the heart of what we're dealing with because it wasn't just, "This could happen," it *did* happen. Someone embezzled money from the City. And our processes that were in play to have enabled that person to do that did not change until recently when we got a good audit. So six years from the time that that person -- I don't know if they were technically convicted, I don't know how that played out -- but six years from that point, we continued on a road of permitting an environment that enabled that. It's not good. So I mean, I just want to say on the one hand it's great to look at where we are and say, "Okay, we're in a more positive place," But if we're to study how we arrived at that bad place in July, part of doing that is understanding where the cracks weren't sealed. And over, like I said, over a six-year period, when you're not operating efficiently, when you have a situation set up where, as the auditors pointed out, "We can't tell ya; you know, we can't trace it. We don't know." That the environment would permit it; if it happened, it happened; if it didn't, it didn't. I mean, we just don't want to put ourselves in that place, especially having been there already.

J. Flower I believe we've sealed those cracks with the new Springbrook software system.

Hoerstine That's great. That's great.

J. Flower And that was bumps and grinds in getting that going. The first company we contracted for went broke and we had to start to process all over again. We were, like, six to eight months behind. And then if you'll note on the close of the exit on the 2006 or 5 -- I forget which one -- they mention that there's some findings. However, the auditors were under the impression that once the Springbrook software was in place, they were satisfied that it would solve that issue. And that is also why now that we have a clean record, because this new system is allowing multiple access for information, multiple oversight. Whereas before, it was only Laura that could access it. And so it was a system that could lead to severe problems. So we spent quite a bit of money and effort getting switched over to the Springbrook software. And then a lot of training for staff in how we use it. And it was bit of a strain getting up to speed on that, but we've made great strides.

D. Knight It's the same -- if anybody's ever been through a conversion before? Ohmigosh! I mean, the fact that they managed to pull it off, you know, relatively quickly in--in a year and that the conversion went as smoothly as it did. We're trying to do something similar in our Building Department and are not having as much success there.

Hoerstine Yeah. See, we went from 1998 til 2007, which I'm saying it was fixed or corrected in 2007. But from 1998 to roughly 2006 we had these problems existing. They're clearly pointed out here in the -- and there's a lot of them. You know, and it's not to diminish that we--we've sealed those cracks. It's to say...how much was lost in the time it wasn't sealed? Because that's part of our job here, is to look at that and--and just recognize that that was an area where, um, we coulda been operating more efficiently. And then that "time is money" and all the other, you know? Just the whole... I also had a question, um, when it takes an auditor longer to do a report, does it cost the city anything?

D. Knight It does.

Hoerstine How much extra money did we incur over six years of bad audits.

D. Knight Well, it's not the bad audits that cost you money. It's the time that they spend doing the audit.

Hoerstine Yeah, right.

D. Knight Right. So I don't know that they spent any real time [*unintelligible*] --

L. Koenig [*unintelligible*].

Hoenstine Well, I know one of the audit reports identifies that, in fact, it—it did cost them – or it did—it did take them more time, which was an added expense to the city. I don't – I would have to go through these. I've got it highlighted somewhere. So I'm—I'm just curious, what would that cost have been to the City?

L. Koenig The only cost overrun I've had in the audits is a \$300 loan in 2005. Other than that, they come in with a budget, and they stay within their budget. In fact, they were within two hours of budget this year.

Jeff Beeler Thinking of the Prothman Report...there were recommendations. If you were to go through this, the recommendations, can you tell me, like in #1, "creating city administrator." Yes. That was done.

[Discontinued the transcription here. The audio is available. The CAP requested that the City present the status of the recommendations made by Prothman; what's been done, etc.]

Notes/Minutes: Sultan's Blue Panel CAP (Citizens Advisory Panel)
October 1, 2007 Meeting
319 Main Street, Sultan, WA

Chairman Jeffrey Beeler opened the meeting by summarizing what we had covered to date to include: past audits, the Prothman Report, budget considerations, such as the Eyman Initiatives, and building permits. At the previous meeting, the CAP had invited dialogue from City Administrator Deborah Knight to learn what recommendations made in the Prothman Report have been implemented.

Deborah Knight provided a report that showed the Prothman recommendations and what the city had done to address those considerations. (provide link to this document on GRIT and city web site)

We briefly discussed that Linda Hjelle, Chief Deputy from the Snohomish County Assessors office, will be attending our next meeting to inform the Panel on levies. Also, a guest speaker and expert on city governance from the AWC (Assn. of Washington Cities) will also be invited to speak (subsequent to the 10/1 meeting, and in order to accommodate the schedules of these guests, the CAP rescheduled its regular Monday meeting to Wed., Oct. 17th).

It was briefly discussed the method by which the City of Sultan hires for positions such as the recent appointment of Laura Koenig as the Deputy Finance Director. It begins with consults and a sketchy consensus between the mayor and city administrator of a list of possible members to serve on a Hiring Panel for an open position. Once members for the panel have been selected and agree to serve, a fairly rigorous recruitment and interview process is developed and implemented until a successful candidate is offered the position.

Brief discussion occurred re possible cost-saving measures:

- Levies
- Leasing space to Sno-Isle.
- Utilizing interest received from investment funds to pay down debt
- Stormwater Utility
- Implement fee studies on water, garbage, cemetery and salary surveys.

Brief discussion ensued, with input from Councilman Jim Flower on the Springbrook accounting software now being used in the city's finance department. Questions arose as to why it took so long to implement this program. Mr. Flower suggested that previous councils had perhaps not taken enough initiative, with Deborah Knight suggesting that council is sometimes hesitant to spend money. *[Secretary's Note: The irony of this statement may be that we DID consistently overspend as shown in past audits even*

without the expense of this software program which would have, in the long run, saved the city money.]

Confusion among some CAP members prompted Chairman Jeffrey Beeler to ask for a clarification from Deborah Knight re specifics of what the City needs, or is seeking at this point from the CAP, that will help the City further clarify its goals. Deborah Knight stated the CAP's function was to determine where we are currently at, and what future considerations the panel could suggest (as it specifically applies to the 2008 budget).

Loretta Storm raised the question of whether building permits were sent to the Assessors office in a timely manner, as that is the "starting gun" for the city's receipt of future property tax revenue. She also inquired about the state's new "Streamlined Sales Tax" laws and process providing for new tax revenue to the City (from sales made outside of Sultan but will be shipped here), and when the city will communicate this to council members (Council members to whom she's spoken are ignorant of this new revenue source). Loretta also questioned Laura Koenig re the discrepancy of 2005 revenue (three separate published documents indicate three different figures).

Before the meeting closed, Loretta asked for group confirmation that Burl Champeaux be officially eliminated from the CAP, in accordance with the CAP rules approved during its first meeting Sept. 10, 2007. (The CAP had agreed to remove any CAP member who missed three meetings.)

**Transcription: Excerpt of Oct. 1, 2007 Blue Ribbon CAP Meeting:
Discussion re Interest income received from City of Sultan Investments**
(This discussion begins approx. 1 Hr., 36 min. after the start of the meeting)

CAP Member L. Storm Do you have any answer earlier – of my earlier question today about investments?

City Admin. D. Knight Yes, I did. Ask me the question again 'cause I checked with.... *[trails off]*

CAP Member L. Storm Well, we have, I think, practically \$15 million in various investments. And Jim *[Flower]*, you'll remember this question, I think, that came up *[in council]*. And it was asked -- I thought by Bruce *[Champeaux]*, um, maybe it was you -- whether or not the interest from those investments could be used or borrowed from or waylaid into, you know, to help with the deficit.

Deputy Fin. Director L. Koenig His question was actually, "Can't we just cash in an investment and have money?"

CAP Member L. Storm Was that it?

Deputy Fin. Director L. Koenig Yeah – And the question is, well – *[simultaneous comments]*.

City Admin. D. Knight But you know what? Your question, though, is the same one that Stan Finkelstein *[from AWC]* asked me earlier today, but I forwarded it onto Laura.

CAP Secty. Traci Hoenstine That's interesting.

Deputy Fin. Director L. Koenig Yeah, it was.

City Admin. D. Knight And so what was the answer? I'm sorry. I interrupted you.

Deputy Fin. Director L. Koenig Okay. The answer to—to the question is the investment interest, and part of the investment policy, will be also a new resolution to allocate interest. But all of the interest can be receipted into the General Fund except for funds that have specific purposes, or are owed that money – like a bond fund. I can't take interest from a bond fund and give it to the general fund. But all other interest from – and in fact, right now, most of the interest from the utility funds and that, is all receipted into the general fund and has been for years.

Male Including the sewer fund? Or –

Deputy Fin. Director L. Koenig Yes. Water, sewer and garbage, the interest is –

CAP Chair Jeff Beeler Are you talking about this page here?

Deputy Fin. Director L. Koenig Yeah.

CAP Chair Jeff Beeler So the bill is –

City Admin. D. Knight What page are you looking at?

CAP Chair Jeff Beeler B 3-1

[simultaneous comments]

Deputy Fin. Director L. Koenig So those funds that have specific purposes, that interest is going to those funds?

Male Like an enterprise fund.

Deputy Fin. Director L. Koenig Right. But in doing the research, I find that some of these other ones, too, really aren't restricted, so we could make the recommendation that all interest other than bond funds be receipted into the general fund.

CAP Chair Jeff Beeler Okay, so now –

Deputy Fin. Director L. Koenig And that's – that's a policy that basically that the subcommittee's [*Council's Finance Subcommittee*] already made that decision, is that any—any money that doesn't have to go to a specific fund, go to the general fund.

CAP Chair Jeff Beeler Currently you said, though –

Deputy Fin. Director L. Koenig This is the interest. This is what is distributed.

CAP Chair Jeff Beeler Right. Is that annual interest? Or is that –

Deputy Fin. Director L. Koenig Oh, no. That's a quarter.

CAP Chair Jeff Beeler Uh—oh –

Deputy Fin. Director L. Koenig That's—that's just one quarter.

City Admin. D. Knight July through September, 2006, it says at the top there.

CAP Chair Jeff Beeler Okay. And it says forty-one thousand dollars [*\$41,957.09*] in—in interest from those funds?

City Admin. D. Knight Yeah.

CAP Chair Jeff Beeler And that is – you said is currently put into the general fund currently?

Deputy Fin. Director L. Koenig Well, this is the breakdown of this particular \$41,000, what funds it went to.

CAP Chair Jeff Beeler What funds it did go to?

Deputy Fin. Director L. Koenig Right. Now there's –

CAP Chair Jeff Beeler And you're suggesting that –

Deputy Fin. Director L. Koenig Their policy decision could be –

Male To put it all into the general fund.

Deputy Fin. Director L. Koenig -- all of the money go into the general fund, except for those funds that are restricted by their ordinances [*unintelligible*].

CAP Chair Jeff Beeler Right. Is any money going into the general fund now?

Deputy Fin. Director L. Koenig Oh, yeah.

CAP Secty. Traci Hoenstine In—in interest?

Deputy Fin. Director L. Koenig Like on this one, \$13,000 went in [*\$13,768.16*].

City Admin. D. Knight [unintelligible].

CAP Chair Jeff Beeler Okay. Uh—you're right. The "General Fund" is right up there.

Deputy Fin. Director L. Koenig Yeah.

CAP Chair Jeff Beeler Okay. And is that money accounted for in budgets, then?

Deputy Fin. Director L. Koenig Yes. It's actually a budgeted item.

CAP Chair Jeff Beeler So that's not extra money that we could say, "Hey, well here!" Except for those other funds that aren't currently going in the general fund?

Deputy Fin. Director L. Koenig Right.

CAP Secty. Traci Hoenstine And which funds –

Deputy Fin. Director L. Koenig If—if the recommendation – and I say the subcommittee has already made the recommendation that all monies go into the general [fund]. So, yes, that would be additional money going into the general fund.

CAP Chair Jeff Beeler There's a –

City Admin. D. Knight You'd have to get –

CAP Chair Jeff Beeler -- forty-one minus thirteen is, what? Twenty-eight?

City Admin. D. Knight Well, it's the first as Laura said, for example --

CAP Chair Jeff Beeler Minus the [unintelligible]?

City Admin. D. Knight Fund #403 is water/sewer bonds that probably you can't – limited tax bonds you probably could --

CAP Chair Jeff Beeler Police bonds....

City Admin. D. Knight Yeah.

Deputy Fin. Director L. Koenig Right.

City Admin. D. Knight So you'd have to go through each one of those funds, read the ordinance and the restrictions and determine, "Okay, what's left [unintelligible]?"

CAP Chair Jeff Beeler They could be \$10,000 a quarter.

Deputy Fin. Director L. Koenig Yes.

CAP Chair Jeff Beeler And that may mean \$40,000 a year.

City Admin. D. Knight Right. And it was something that Stan mentioned to me when he and I were talking on the phone today. So that seems like, again, something that would be reasonable for the city to –

CAP Member M. Anderson Well, I—I question – if I'm reading this I'm reading it wrong, it really [is] borrowing – taking money from Peter to pay Paul, 'cause some of these funds essentially are--or may well be a little bit on the lean side. And that—if that—if, you know, if –

CAP Member S. Wright If you take the \$10,000 from –

CAP Member M. Anderson -- utility -- is there -- um, say, I—I don't know, CR Utilities would -- I'm thinking like sewer plant money, you know, can—can you take the interest from that?

[simultaneous comments]

CAP Chair Jeff Beeler Would it be reasonable to take the interest, I guess is the question.

Deputy Fin. Director L. Koenig Again, that—that's a policy decision, because the—the source of money for the CR Utility Reserve is connection fees and timber sales. So there may be a portion of that, because there are restrictions on what we can do with the money from the timber sale itself. And I haven't—I haven't read the ordinance in years as to whether the interest earned on that also has to go to that fund. But you're right. That's a policy decision, because we need to build up that fund because that's where a major source of our money for the new sewer plant is going to come from.

Male Right.

Deputy Fin. Director L. Koenig And the water reservoir that needs to be built.

City Admin. D. Knight You're *[unintelligible]* robbing Peter to pay Paul.

Deputy Fin. Director L. Koenig Yes.

City Admin. D. Knight That's what you -- that's what you would be doing. And the question is, you know, "Can Peter afford it?"

Deputy Fin. Director L. Koenig Yeah.

CAP Member C. Van Pelt And these interest incomes been closer to the current rate?

Deputy Fin. Director L. Koenig Well, this is a sample from 2006.

CAP Member C. Van Pelt *[unintelligible]* It was third quarter?

Deputy Fin. Director L. Koenig Not for the third quarter. I just *[unintelligible]* finished them --

[simultaneous comments]

CAP Member C. Van Pelt So this will go into the fourth quarter?

City Admin. D. Knight No, it'll go into the third quarter. We'll just make those adjustments.

CAP Member C. Van Pelt So we'll have more money?

CAP Chair Jeff Beeler So to close the meeting....

[end of excerpt]

**Transcription: Excerpts from Sultan Blue Ribbon Citizens Advisory Panel
November 19, 2007
(No city staff present, at CAP's request)**

What follows is each CAP member's initial input to Council re additional Revenue or expenditure cuts for 2008 or beyond

[This transcription has been distilled to reflect the material content of each member's recommendations. Where extended discussions occurred, it has been omitted, although MP3 audio is available. To hear the full audio, visit <http://www.ittakesgrit.org>]

CHAIRMAN JEFFREY BEELER (time code location approx. 1 hr., 35-min. audio mark):

Loretta asked me if we could still go around the room and just give a brief "thinking" from each person on what we're talking about doing over the next two to three *[unintelligible]*, which is just what you're formulating right now as a recommendation. And I'll use myself as an example and go first. Looking at everything we've done....hearing the list that *[sounds like, "focus"]* said out loud there, the things that should good to me as recommendations would be:

- To recommend that interest from *[unintelligible]* be used to fill holes short-term until the city can get back on its feet. And it sounds like the city is getting there. I would be comfortable in suggesting that.
- I would be open to looking at the parks fees looked at as a way to raise revenue for to taking care of the parks. That way the general fund doesn't have to come up with that and we don't have to use interest to pay for that.
- A long term goal would be to have the council look at a hotel-motel tax and get that in place.
- I think that a levy lid lift, I wouldn't recommend short-term or long-term. Because the amount of money it would generate I don't think is sufficient enough to put the money out to – put it on a vote. So I don't think myself – and I don't think the town would do it, particularly if they're going to vote – let's say they do vote yes on the library. I don't know if in a year or two they'd also say yes to another tax increase. The amount of money that you could end up with a levy lid lift is so little, that it really doesn't help out.
- And I would be comfortable in making the recommendation that the City look at increasing the tax on its own utilities. I'm not suggesting they should, but it's a recommendation I would feel comfortable saying, "You can look at this as an option because it can generate a lot of money." (Jim Flower: "Throw that one out for discussion.") Exactly. I would throw it out for discussion. With my numbers, a lid lift would give you 1/4th what a 1% increase would be.

That would be my recommendations right now without looking *[unintelligible]*.

COUNCILMAN JIM FLOWER (1:39:00):

- I'll see your recommendations and raise you economic development.

- We're already leaning towards economic development as one of the themes of the last council retreat. The long-term *[unintelligible]* is economic development.
- And so sometimes this can be subtle. It may be in the form of deferred fees for start-ups. Or [as] I've mentioned a few times like this stormwater utility that says retail businesses with large parking lots, giving them a discount specifically toward a retail business because we're going to get that back with a retail sales tax.
- Looking at small ways to attract new businesses and retain businesses we've got.
- *[Extended discussion between Traci Hoenstine and Jim Flower and others re certain local small new businesses that have failed, especially in the same location; city needs to do the equivalent of an "exit interview" for those businesses to determine what a failed business own learned that could be corrected in the future. She feels the better one can define the source and reasons for past failures, the better the chance of future success.]*

STEVEN WRIGHT

You've pretty much touched on everything I would think of covering except before we recommend any money shifting and usage, I think we need to be sure on our *[investment]* interest, of what they are and where it is and where they plan to go and is it projected a year in advance? There should be some type of projection, and if that's the case then I would feel comfortable making recommendations on what we should do with the interest and things, and recommendations. But without knowing where we're at, I don't feel comfortable recommending anything; it's almost like moving money blindly. It's [like] paying a bill because you got something in the mail that says you owe [it]. And if you don't know what it's really for, why do you send them the money? I guess that's where I'm uncomfortable. That's the only thing – from what Jeff covered -- he and I are almost a mirror image. That's where my question comes up with -- we would stop as "What have we done with our interest and how's it going to be used? Once we're into stone (sic) with that, then [we can] make the recommendations financially.

[Traci Hoenstine question: Did we ever determine if it's a variable interest or a fixed rate? Flower – "Variable."]

MATT ANDERSON –

[NOTE: Transcription of Mr. Anderson's comments are pending his review/approval.]

Flower: I want to add a little to that, though. When it comes to revenue from building permit fees, that is supposed to be used *[unintelligible]* that those funds go to pay for your building official and associated costs.

Anderson And each house pays about \$1,000 in sales tax. So that's something you might want to back out of the sales tax revenue which does go to the general fund. And if you're assuming you're going to get \$500,000 in sales

tax and your building permits fall short, then all of sudden you're \$25-30,000 short. So in a perfect world you'd say, "Oh, we're gonna back this out of there and every year we're gonna – Whoopee!! We'll have paved this street or replace this sewer or whatever it is, but this isn't a perfect world and right now you need that money *[unintelligible]*.

[Substantial discussion on general issues ensues, between Jim Flower and Matt Anderson, joined later by Steven Wright.]

I'll write up all of this, and some of these recommendations [and send it to you.]

And on the expense side, the only thing you really say is if you think you're going to do six *[i.e., police officers]*, and four is ridiculous, six you might be able to handle, seven maybe, but if you try to go more than that at \$80,000 to \$100,000 an officer, that's – unless you're really solid with all the other revenue catchings (sic), that's the only place you can reduce or not.

[Extended Discussion between Traci Hoenstein, Jim Flower, Matt Anderson, Jeff Beeler and Steven Wright re SPD officers funded via Sultan's "voluntary" developer agreements to pay for a prorated share of a police officer for a year.]

CHARLES VAN PELT

- Levy Lid lift I'd say maybe in 2009, 2010.
- Business fees *[City business license]* – anybody who doesn't have a business fee in the city needs one.
- Hotel-Motel tax, I'd say yes. Very low to start with so when somebody comes in we've got them on the hook.
- Admission Tax, no.
- Other fees and charges: I'd like to see a park fee for the soccer field. And I'd like to see some way – and this is kind of a different -- on the break on mitigation fees for businesses if someone wants to come in and open a business on Main Street. If he's a little guy, "I got \$50,000 to invest, or \$100,000" -- I'm barely going to make it if I have to pay all these mitigation fees. If I'm a McDowell's (sic) or Safeway or Albertson and I come on the Plateau *[Sultan Basin Road]*, piece of cake. I can take it right out. But I think there ought to be a break to allow mitigation fees to be spread out so the guy can get in business and get started. *[Brief discussion.]*
Lease Agreements for the City – I'd like to see what everybody else pays for *[it]* – like for the Post Office.
- Interest – I would like to see short-term use. Not a sweetheart deal but short-term use. Utilities, maybe 7%.
- Economic Development – It's a big deal for the city. I think the Chamber ought to be involved in that.

JACKIE PERSONEUS

Mrs. Personeus had to leave early. She requested that Loretta Storm give her input to the CAP members re her recommendations, which was" I agree with everything Matt Anderson has said."

LORETTA STORM

Everything's been said. I agree with a lot of it. I'll put everything in writing and send it off to you.

- Number One, I think that the city should consider keeping us in place.... Or some type of civic/citizen-based organization [to review] the city fees and charges, the [fee] schedule. That's really important. I have had a sense for years that a LOT has been going through the cracks.
- Impact fees and attracting businesses, I think yeah, we should try to get some – attracting [businesses] by dangling carrots, maybe waiving some fees, or delaying them somehow, but I absolutely don't believe in give-aways to attract. I just don't. Just like I don't believe in increasing taxes just because it's so easy to do.
- And this is the most important thing I wanted to say – and this wasn't really covered in our mandate, I suppose, but I feel like it's absolutely essential that the City have, and retain a first-class financial professional. When you look at the history of Sultan and it's financial problems, it's not just the botched land use development that's occurred here. It's the financial picture. And I feel that something very.... [pause] Yeah, well, something needs to be done here. I think some changes need to be made. (2:18:20-minute mark)

[Further discussion ensues; to hear complete audio, follow link provided at the beginning of this file.]

I have watched budget after budget after budget process, and until Gordon *[Hey, Interim Financial Director]*, I couldn't even begin to fathom what it was all about.

Chairman Beeler Do you think this should be considered short-term getting done, or long-term *[unintelligible]* --

Loretta Storm *[talking over]* I think it's needed. Right now. I think a professional, a true career professional could come in here and save the city – yes, it would be a high salary – but I think he or she could make changes and revisions and just whip the city financially into shape in pretty quick order. That's my feeling. And I think if we have to cut back on some other salaries or some of the positions to do that, I think that's absolutely necessary also. *That* is the area that I'm most concerned about.

TRACI HOENSTEIN

And I simply need time to process. I have to process. I take the data in, and then process the data out. And I'm not there yet.