

# **BRIDGING THE BUDGET GAP**

## **THE 2009–2010 BUDGET CHALLENGE**

**City of Kirkland**

**Fall 2008**

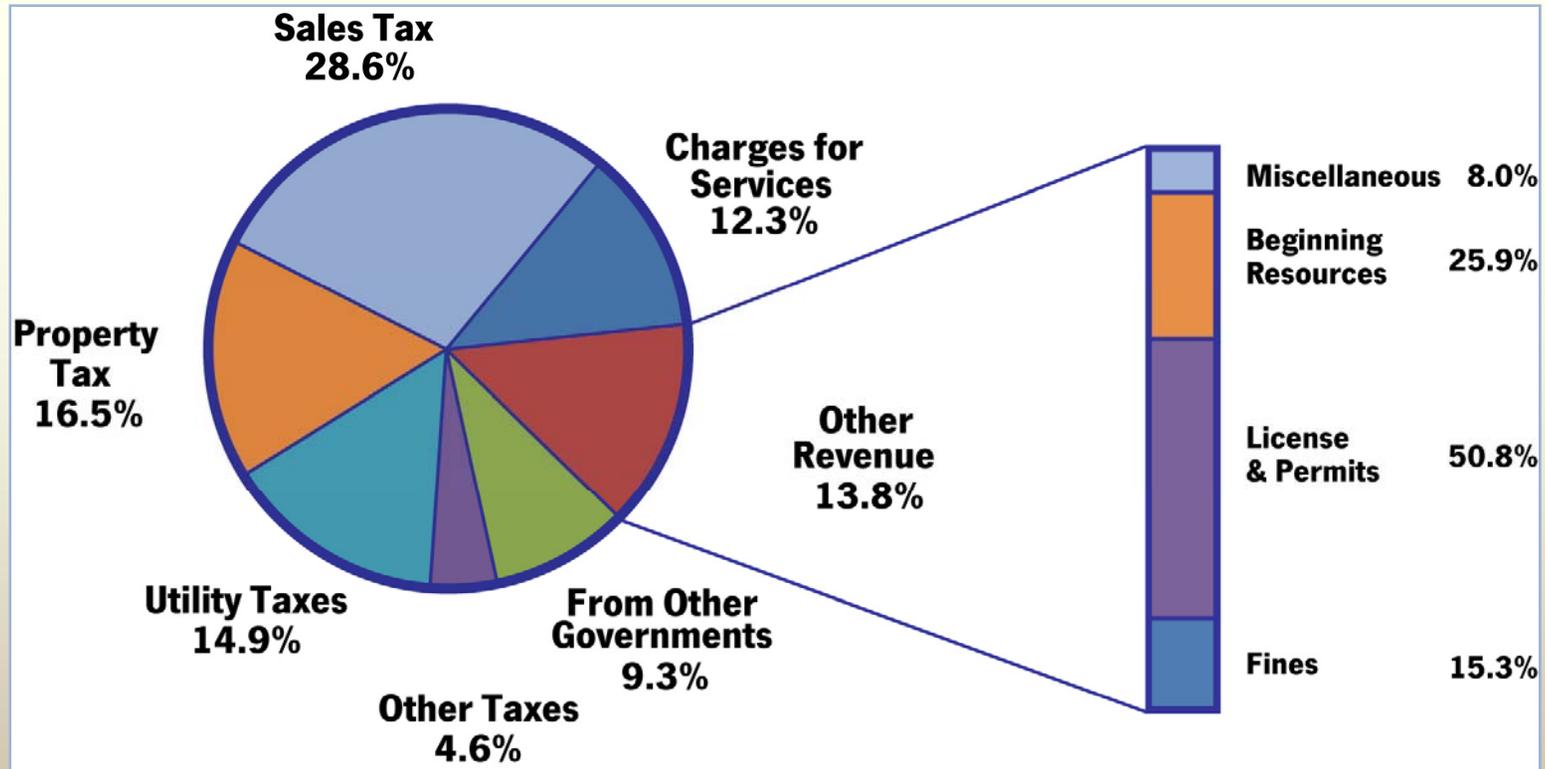
# Context

## *What the Community Values*

- Residents believe Kirkland is a great place to live
- Residents rated public safety as the number one service in importance and quality
- Residents believe they get a good value for their tax dollar and that the City is focused on the “right things”

# Context

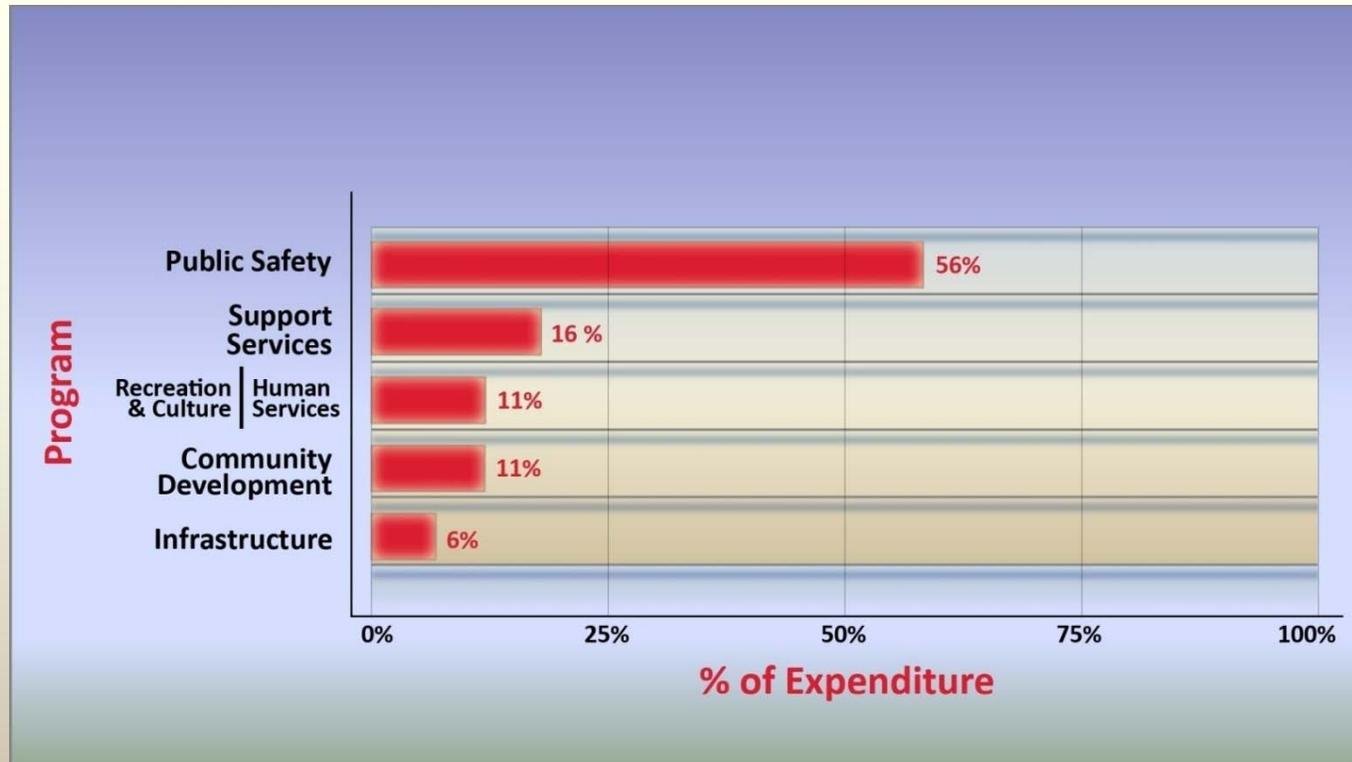
## Revenue



*Most of the City's general fund operating revenue comes from taxes.*

# Context

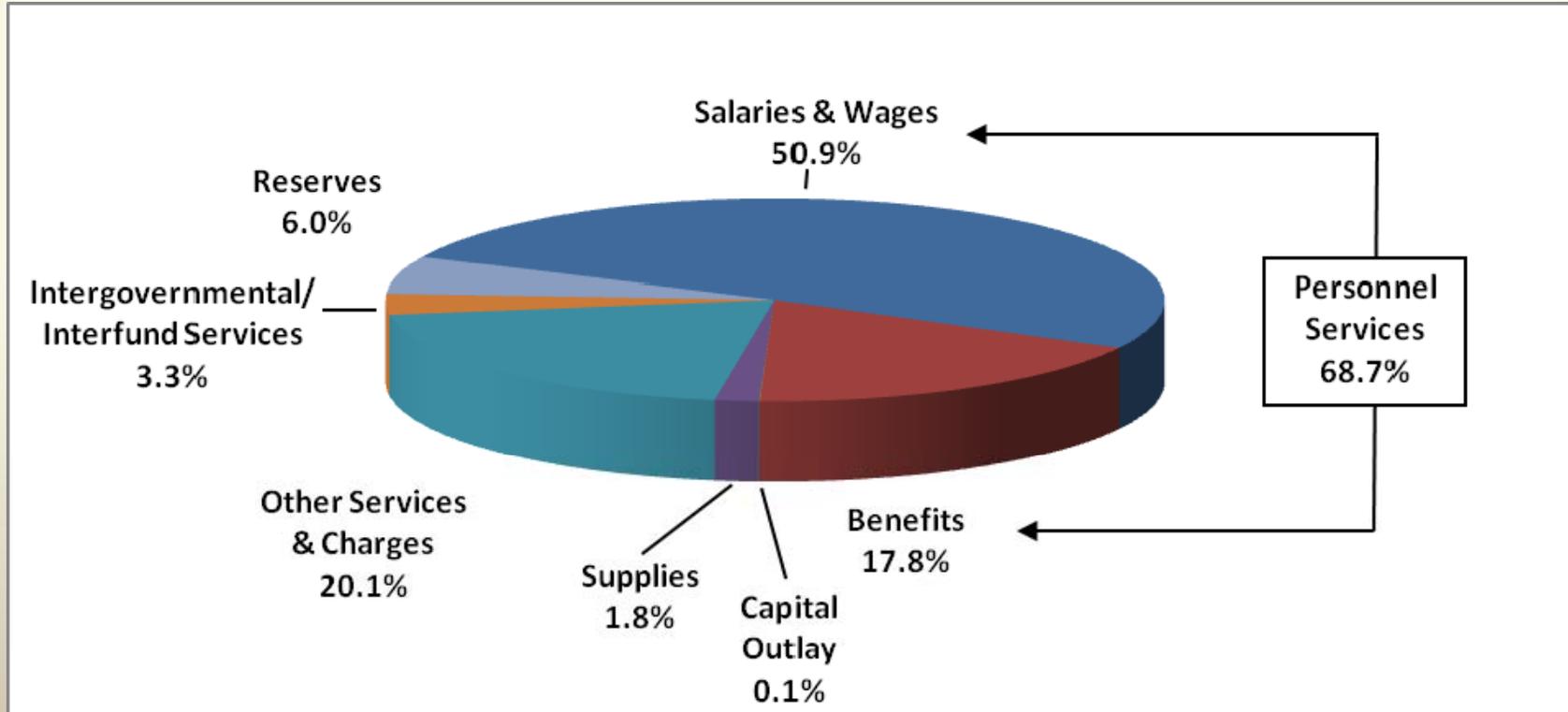
## *Services*



*The majority of tax revenue supports public safety services*

# Context

## *Expenses*



*Most of the City's expenses pay for wages and benefits of employees that provide basic services*

# The Problem

- Kirkland is facing a gap between revenues and expense for the 2009–2010 budget biennium of \$13 million to \$17 million depending on economic conditions
- The City cannot afford to maintain the current level of services with the resources projected to be available

# The Causes

- City revenues are growing at a slower pace than expenses
  - Property tax revenue growth is limited to 1% per year from existing tax base
  - Sales tax revenue is declining due to fewer large construction projects and reduced consumer spending
  - Two large sales tax producers have plans that will negatively impact on-going sales tax revenues
- Inflation is high and the cost of goods and services is rising
  - Commodity prices for fuel and building materials
  - Employee cost of living adjustments tied to the consumer price index (for year ending June 2008 CPI = 6.19%)

# Financial Planning

- What did the City Council do to prepare for this?
  - “Banked” property tax capacity
  - Set aside reserves
  - Budgeted conservatively
  - Implemented an economic development program

# The Challenge

- The City Council must adopt a balanced budget
  - Estimated revenues equal planned expenses
  - The City works on a two-year (biennial) budget
- Cities have limited tools available to balance the budget
  - Reduce expenses
  - Use reserves
  - Raise revenue

# The Strategy

## *A Diversified Approach*

- The budget balancing strategy uses all three tools
  - Expenditure reductions of at least \$6 million
  - Use of Reserves and One-Time Resources of \$2.3 million
  - Revenue increases of \$4.9 million
  - Additional reductions may be necessary if economic conditions worsen

# Expenditure Reductions

- Departments directed to absorb inflationary increases in non-labor costs in their existing budget
- Departments directed to identify up to eight percent in reductions to their budget
- Service impacts are under review (budgets were not due until September)

# Use of Reserves and One-Time *Resources*

- Use \$1 million from Rainy Day Reserve
  - Reserve designated as revenue stabilization
  - Uses about half of the reserve
- Assume \$700,000 in one-time “savings” will be available at the end of 2008 that can be used
  - From 2007-2008 position vacancies
  - From department-identified savings

# Revenue Increases

## *Property Tax*

- Use Banked Property Tax
  - Available tax capacity remaining from years when City Council could have increased taxes but didn't
  - Produces \$290,000 for the biennium
  - Estimated impact to a home valued at \$500,000 is 50¢ per month
    - *The 2007 average assessed value of a home in Kirkland is \$494,900*

# Revenue Increases

## *Utility Tax on City Utilities*

- Increase the tax on City utilities by 3%
  - Applies to water, sewer and garbage services
  - Produces \$1.4 million for the biennium
  - Estimated impact to the average home is \$3.25 per month
    - *The average monthly utility bill for water, sewer, and garbage service is \$108 – customers receive a bill every two months*

# Revenue Increases

## *Business Tax*

- Restructure the City's business tax to a "head tax"
  - Businesses pay a fixed rate per "FTE" (full-time worker equivalents)
  - Produces \$1.4 million for the biennium
  - Impact to businesses will vary based on the number of worker hours

# Revenue Increases

## *Utility Tax on Private Utilities*

- Increase the tax on private utilities by 1.5%
  - Requires voter approval
  - Applies to electricity, natural gas, telephone and cable services
  - Produces \$1.8 million for the biennium (assuming 1/1/10 effective date)
  - Estimated impact to an average home is \$5.90 per month
    - *The average combined monthly utility bill is estimated at \$392 (electric, gas and cable)*

# Revenue Increases

## *Combined Impact and Process*

- Combined impact of all tax increases on an average home in Kirkland is \$9.65 per month
- The 1.5% increase in private utility tax requires approval by Kirkland voters
  - *Measure to be presented to voters in 2009*
  - *If measure is not passed, further expenditure reductions or revenue increases will be needed*

# Looking into the Future

- How can we prevent it from happening again?
  - *The situation can't be prevented but we can be prepared*
  - Replenish reserves when times are better
  - Live within our means (ongoing revenue for ongoing services)
  - Diversify the revenue base

# How are we getting the word out?

- Special “Budget” edition of *City Update*
- Community meetings
  - Neighborhood association meetings
  - To schedule, call 425-587-3016
- City web page: [www.ci.kirkland.wa.us/budget](http://www.ci.kirkland.wa.us/budget)
- City Council meeting broadcast & video stream
  - Meetings are broadcast live on Channel 21 KGOV
  - 1<sup>st</sup> and 3<sup>rd</sup> Tuesday/each month

# How you can stay involved

- Attend study sessions and public hearings at City Council meetings
- Email the City:  
[09-10budget@ci.kirkland.wa.us](mailto:09-10budget@ci.kirkland.wa.us)
- Host an informational meeting
  - To schedule, call 425-587-3016

# **Upcoming Key Days**

**October 30, November 4 & 10**

City Council Study Sessions

**November 18**

Public Hearing on Proposed Budget &

Preliminary 2009 Property Tax Levy