KIRKLAND CITY UPDATE

Special Budget Edition

The Official Newsletter of the City of Kirkland, Washington | Summer '08

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www.ci.kirkland.wa.us/budget

A Message from the Kirkland City Council

What do you value most about living in Kirkland? A recent opinion survey revealed that our citizens value three things most about Kirkland: its location, physical setting and quality of life. Your City Council recognizes and appreciates these same values, especially our quality of life. These values influence the decisions we make on behalf of the City. Today, the biggest decision we face is how to create a balanced budget for 2009-2010 that maintains the quality of life we all value.

One of the most important and challenging responsibilities of the City Council is to balance the City budget. Every year, the cost of maintaining services increases but our revenues do not grow at the same rate. When an economic downturn hits, as it has this year, we are faced with a grim financial forecast. Kirkland is no different than many other cities and businesses in Washington that are struggling to keep pace with inflation and the cost of employee wages and benefits. The choices we have to keep the City's finances in good order are more limited. The City Council must balance the budget and is faced with having to reduce services, raise revenue and use reserves to close the gap between expenses and revenue.

The City's two most important revenue sources – property tax and sales tax – are not growing at the same pace as our costs. Voter-approved property tax initiatives limit the growth in existing property tax revenues to one percent per year. With inflation growing at three to five percent per year, property tax revenue just can't keep pace. Sales tax is the City's largest source of revenue. When the economy is good, sales tax revenue grows. When the economy stalls, sales tax revenue declines. Development of our local retail areas, such as the Totem Lake Mall redevelopment, is taking longer than expected.

We believe that the Kirkland community receives quality services at a reasonable cost. We further believe that the services we provide make Kirkland a unique, special place to live, work and visit. We take our financial responsibility seriously and we expect to make very difficult budget decisions in the coming months that will most likely affect all Kirkland residents and businesses.

We believe that our budget can be balanced if we work together to align revenues with expenses. This is our challenge. It will require thoughtful discussion and carefully-weighed decisions. We hope that you stay engaged in our discussions as we work toward a budget solution.

--The Kirkland City Council

Houghton Beach Park

City Services: A Good Value for Your Tax Dollar

If you were asked to name three services provided by the City of Kirkland, you'd probably quickly list police, fire/emergency medical, and garbage collection. If you were further asked to name the services most important to you and your household, your answer might be the same. If it is the same, your opinion reflects those of more than 420 Kirkland residents who participated in the City's opinion survey conducted in February, 2008.

The opinion survey asked participants to rate the importance of certain services and then to rate the City's performance of those services. Fire, police and garbage collection were rated as the "most important" services and received the highest performance ratings. Participants identified traffic flow, downtown parking and zoning/land use as areas for the City to improve.

As you may know, the City provides many more services than the 18 identified in the survey. Generally speaking, services and programs fall into six categories:

- **Public safety** (police, fire, medical emergency response, disaster preparedness, Municipal Court)
- **Infrastructure** (streets, sidewalks, traffic control, transportation planning)
- **Utilities** (water, sewer, storm water management, garbage and recycling)
- **Community development** (development regulations, land use planning, building permitting, code enforcement, economic development)
- **Recreation and culture** (parks, arts, recreation classes and events)
- **Human services** (social service agency support, youth and senior services)

Utility services, such as garbage collection, are run like a business and are fully self-supported through utility rates. The remaining services are paid for through taxes and fees. In particular, public safety and street maintenance services are almost completely tax supported. As the *"Fuel for Thought" (page 6)* property tax article reflects, what you pay to the City in property, sales and utility taxes funds most of the services listed above. That means that an average household pays about **$156 per month** in exchange for police and fire protection, clean and safe streets, parks and City planning, among other services.

The City Council allocates funding, including staff resources, for services identified by citizens as their priorities. The highest number of employees is dedicated to public safety, infrastructure maintenance and development services.

The opinion survey also asked residents to rate the City's effectiveness (the ability to accomplish its goals), efficiency (providing valuable services at a reasonable cost), and accountability (taking responsibility for its actions). Of those surveyed, 69 percent think that their tax dollars are well-spent in Kirkland and 77 percent said that the City was effective in achieving its goals.

Fire Station 21

The City conducts an opinion survey every two years and the results are shared with the City Council so that it can prepare a work program and allocate resources to the most important services. To view the full results of the 2008 Citizen Survey, go to www.ci.kirkland.wa.us and search "citizen survey."

Key Findings; Citizen Opinion Survey

February 2008

- Kirkland is a great place to live.
- Residents value Kirkland's location, quality of life, size and physical setting.
- Residents feel safe.
- The City is focused on the "right things."
- Kirkland government is generally viewed as effective, efficient and accountable.
- The City does a good job keeping citizens informed.
- Fire, police and garbage collection are rated as the "most important" services and received highest performance ratings.
- The City needs to focus on managing traffic flow, downtown parking and zoning/land use.
- The majority of participants favor "the same level" of business activity.
- Participants expressed some interest in attracting new businesses, such as department and furniture/appliance stores and more family-oriented, small businesses.

City's Budget is Like Your Budget: A Balancing Act

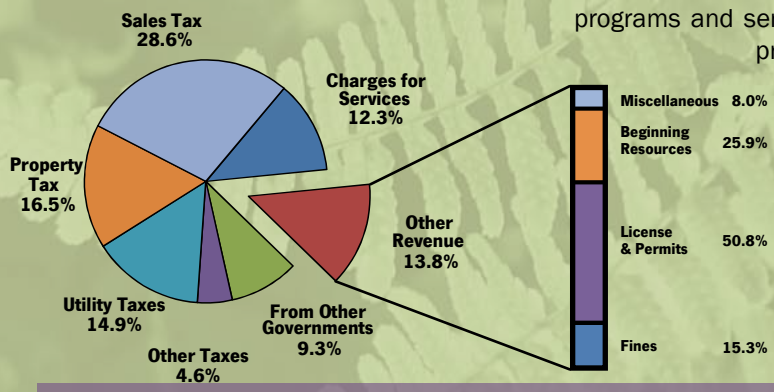
Just as you earn income, so does the City. Just as you spend your money for essential items and services, so does the City. We both have to live within our means and it's a constant balancing act. Let's take a look at how the City's budget is like your budget.

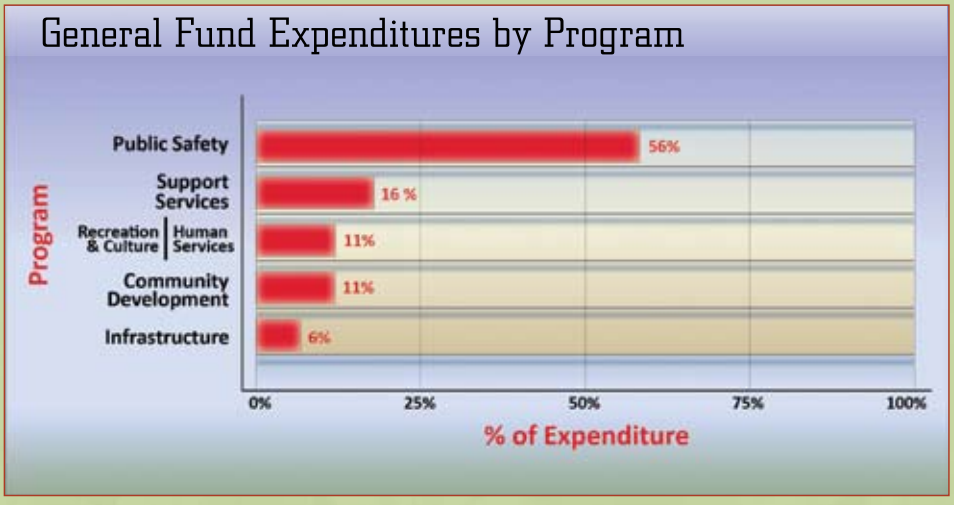
- You probably have a budget for living expenses that is similar to the City's operating budget: utilities, gas for your car, and supplies for your household.
- You probably have debt such as a mortgage; the City has debt for its buildings and major improvements.
- You save some of your money for future or unexpected expenses. The City has reserves for similar reasons.
- You invest in home improvements just as the City invests in repairs and improvements to its roads, parks and utility systems.
- You manage your family's budget within your means; so does the City. And in today's slow economy, it's more challenging to keep our books in balance.

Although there are some similarities between the City's budget and your family budget, there are some distinct differences.

The City's budget document is over 375 pages and is comprised of 30 separate funds (like individual checking accounts). Our largest account is called the General Fund which provides funding for basic services such as police, fire protection, emergency medical services and infrastructure (streets and parks) maintenance.

The primary source of income or "revenue" for your household most likely is your family's wages. As the pie graphic depicts (below), the City receives revenue from a variety of sources. However, the General Fund is mostly funded by taxes, including sales tax, the largest tax source at 28.6%, followed by property tax (16.5%) and utility taxes (14.9%). Fees pay for some services like building permits and are updated on a regular basis to keep pace with the City's costs.





The General Fund accounts for over 70% of the City's general government operating expenses ($108 million) with the majority of the expenditures dedicated to public safety - police, fire, emergency medical and municipal court services (see graph above). Other services – infrastructure maintenance, community development, human services and recreation and culture – account for 28%, with support services making up the remainder. All of these services are provided by City employees which is why the City's largest expense – nearly 70% -- is devoted to wages and benefits.

The budget sets spending limits for the programs and services that reflect the priorities of Kirkland citizens and serves as a work plan and a financial plan. (See page 2, "Good Value for Your Tax Dollar"). The City Council has begun its deliberations on the 2009-2010 Biennial Budget. These deliberations include reviewing current and forecasted financial trends and prioritizing what services the City can afford to provide, at what level, and at what cost to Kirkland citizens.

Just as you plan for your family's financial future, such as retirement and college, so does the City. Naturally it is easier to plan for what is known will happen and it becomes difficult when faced with unexpected circumstances. After careful consideration of the City's financial outlook, the City Council is pursuing a plan to address the budget shortfall.

Budget Basics

2007-2008 Budget[1] by the numbers

- **City total budget = $318,347,331**
- **Operating budget = $152,530,657**
- **Non-operating budget[2] = $74,025,298**
- **Utilities budget = $91,791,376**

To view the 2007-2008 Biennial Budget, go to www.ci.kirkland.wa.us/budget

[1]As originally adopted

[2]Includes Capital Improvement Projects

Bridging the Budget Gap: A Blueprint for Sound City Finances

Just as a bridge needs to be designed to be structurally sound, so do the City's finances. In very basic terms, bridge design involves professional engineers who must first know the distance to be spanned and the type of material the bridge must have in order to withstand all forces of nature. The construction plan, or blueprint, for a bridge must detail how the structure will survive those forces without buckling or snapping.

There are several forces that are causing strain on the City's current and future financial condition. The general state of the economy, higher prices for basic goods (such as fuel) and services and slower growth in jobs and income are pressures being felt by the City; just as they are being felt by you. For the City, there is less revenue available to sustain current levels of services for Kirkland residents and operational costs of the City continue to rise.

A revenue shortfall of over $13 million is projected for the 2009-2010 Budget. If the economic downturn continues, this projected "gap" between revenues and expenses could worsen.

The shortfall represents more than 12 percent of the General Fund Budget which supports essential services such as police, fire and emergency medical ("public safety"), transportation and parks services. The largest expense category is wages and benefits of City employees who provide these services. Employee wages and benefits costs are on the rise, despite past changes to less expensive health care plans for most employees.

At the same time costs are rising, the City's most important source of revenue – sales tax, is declining. Generally, personal spending is down which means lower sales tax revenue for all public agencies. The completion of major construction projects in the City (Evergreen Medical Center and I-405 expansion projects) and an overall slowdown in new construction, have resulted in less construction-related sales tax revenue in 2008. Sales tax revenue is already down about 12 percent from the same period in 2007 -- a little over $1 million from last year. Looking ahead, the City expects less sales tax to be generated from the Kirkland Costco due to the opening of new stores in the surrounding area. A similar impact was felt by the City in 1995 when the Issaquah Costco store opened. Another expected loss will be from the relocation of the sales operation of a major auto dealership. These events could mean a loss of more than $1.0 million over the next two years.

In addition to sales tax supporting the general fund, property tax is the next largest source of revenue and is limited to a 1 percent increase per year which is far less than the rate of inflation. Fees for services, such as permit fees, are updated regularly to reflect the cost of processing a permit. But fees only comprise about six percent of General Fund revenue.

With these forces at work, the City Council has developed a blueprint to bridge the budget gap that will result in a balanced 2009-2010 Budget.

Total estimated increase: $9.65 per month ($115.80 per year) in 2009

A Blueprint to Bridging the Gap

Cities have a limited number of tools they can use to balance the budget: reduce costs, raise revenue and use reserves. The City Council recognizes that no one tool alone will close the gap and is using a combination of strategies that take a balanced approach.

The first strategy will be to reduce expenses which will result in noticeable changes in services to Kirkland residents. Specific reductions have not been identified yet, but will account for almost half of the amount needed to close the budget gap. The General Fund priorities identified by citizens in a recent opinion survey (police, fire/emergency medical services) will be an important consideration when the City Council determines which services can be reduced.

A second approach will be to use reserves ("savings accounts") that were set aside in a "Rainy Day Fund" for situations just like this and savings from currently vacant positions. In addition to $1 million from the Rainy Day Fund, there is an anticipated $700,000 in year-end savings from position vacancies. Also, some revenue and expenditures now dedicated to the Capital Improvement Program will be reallocated to the General Fund for the 2009-2010 Budget.

The third part of the budget balancing strategy will involve increasing revenue. The City Council plans to use a balance of residential and business taxes to generate additional revenue:

- **Banked Property Tax** – A small amount of unused property tax (about $145,000 per year) is remaining from years when the City Council could have increased taxes but chose not to. The estimated impact to a home with a value of $500,000 is about 50¢ per month.
- **Tax Increase on City Utilities** – A 3 percent increase in utility taxes on water, sewer and garbage services is proposed that will raise about $1.4 million over the two-year period. The increase will cost the average homeowner about $3.25 per month.
- **Business Tax Restructure** – A restructuring of the City's business tax from the current license fee and surcharge to a "head tax" based on number of workers ($90 per full time equivalent) is expected to generate an additional $1.4 million for the two years. The City will be working with representatives from the local business community to develop the revised tax structure.
- **Private Utility Tax Increase** – A 1.5 percent tax increase on private utilities (electric, gas, telephone and cable service) will be presented to Kirkland voters in 2009. The current tax rate for private utilities is set at 6 percent -- the maximum rate allowed under state law without a vote of the people. If approved by voters, the increase will provide an additional $1.8 million per year. The average cost per household is estimated at $5.90 per month. If the measure is not passed by voters, further service cuts will be necessary.

If all of these approaches are approved and implemented, the total estimated cost for the average homeowner would be about $9.65 per month ($115.80 per year).

Budget Blueprint:

Bridging the Gap

1. **Service Level Reductions and Expenditure Cuts ($6.0 million)**
   - Almost half of the gap will be closed by reducing expenses.
   - Levels of service will be reduced.
2. **Reserves and One-time Resources ($2.3 million)**
   - Rainy Day Fund reserves and (wages/benefits) savings will be used.
3. **Revenue Increases ($4.9 million)**
   - Unused banked property tax is available from previous years when the City Council chose not to raise taxes.
   - A 3% increase to residential and commercial utility tax (water, sewer & garbage service) is being proposed.
   - The current business tax program is proposed to be restructured to reflect the number of workers in a business.
   - A 1.5% increase in the utility tax on private utilities will be presented to voters in 2009.

The proposed strategy not only bridges the gap for the 2009-2010 budget but also creates a more solid foundation for the future. By diversifying our revenue base and reducing our dependence on sales tax, the City's financial future is stronger. The City's economic development efforts will continue to focus on business retention and recruitment that ultimately bring jobs and tax revenue.

Bridge design defines "force" as "any action that tends to maintain or alter the position of a structure." Economic forces have eroded the structure of the City's budget and it is out of balance. Bridging this gap in the City budget requires a well-engineered blueprint -- one that helps restore the structural integrity of the City's finances for weathering the current economic downturn as well as the long term.

City Property Taxes: Fuel for Thought

Talking about property taxes may not get your attention as much as discussing the rising cost of fuel. But what if the conversation could be about both? Here's some fuel for thought when it comes to understanding just how much the City receives from your property taxes.

Without overwhelming you with percentages and algebraic calculations, presume for purposes of this article that all the mathematics described are examples only and assume averages.

To start the conversation, we must begin with some basic vocabulary. The "levy" is the total amount of property tax revenue the City will collect in a year. The "value" is the assessed valuation (AV) of your property as determined by the King County Assessor. The "rate" is determined by taking the total levy and dividing it by the total property value in the City. The rate is then applied to every $1,000 of your property's value which then determines the amount of taxes you will pay.

The math looks like this:

$$\frac{\text{LEVY}}{\text{TOTAL VALUE OF ALL PROPERTY IN KIRKLAND}} = \text{TAX RATE APPLIED TO EACH \$1,000 OF ASSESSED VALUE}$$

Let's look at that in 2008 real numbers:

Step 1: $\frac{\$14,415,258 \text{ (LEVY)}}{\$11,407,260,325 \text{ (TOTAL AV)}/1,000} = \$1.26 \text{ (RATE)}$[1]

According to the King County Assessor's Office, the 2007 average assessed value of a home in the City of Kirkland is $495,000. Let's assume an average assessed value of a $500,000 home in Kirkland for this example:

Step 2:

$1.26 (RATE) X $500,000/$1,000 = $630

So the City's levy rate for 2008 is $1.26 per $1,000 of AV ($0.13 of which supports voted debt for parks and public safety facilities) which means you pay approximately $52.50 a month in property taxes to the City of Kirkland. The amount is about what you pay to fill up your car's gas tank.

Property tax is the second largest source of revenue (16.5%) for general fund services such as police, fire, emergency medical, and parks and street maintenance (See page 2 for "Value for Your Tax Dollar). For purposes of this analogy, let's assume that you fill up your gas tank about once a week – about five tanks per month. Property taxes represent about one out of five "fill ups" to support the current level of City services. The other four have to be paid from other revenue sources, such as sales tax which is the largest contributor to the City's general operating budget. With today's economic downturn, the City is receiving less sales tax revenue. Combine this reduction with the increased cost of doing business and statutory limits on property taxes (the City can only increase its existing property tax levy by 1 percent each year), and the City is feeling the "pain at the pump."

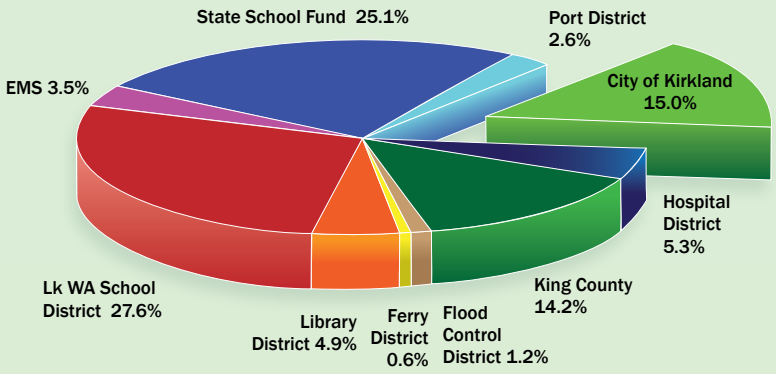
[1] The levy is set as a total dollar amount ($14.4 million). The final rate is calculated by King County and may vary slightly from the rate adopted by the City based on the County's final assessed valuation figure. The total levy dollars does not change.

A Bit about Assessed Value and Property Taxes

- Your property's Assessed Value (AV) is determined by the King County Assessor's Office.
- Assessed value is based on the assessors appraisal of your real and personal property at 100 percent of its true and fair market value.
- There are eight (8) taxing districts on your property tax bill.
- Kirkland represents about 15% of your total property tax bill.
- Voter-approved property tax limitations restrict annual increases to existing property tax revenues to one percent.

For more information about assessed value, visit King County's Department of Assessment website at http://www.metrokc.gov/Assessor/PropertyTaxes.htm.

City of Kirkland 2008 Property Tax Distribution (Total $8.49/$1,000 AV)



Budget Questions & Answers

What service reductions have been identified? When will they become effective?

City departments are preparing their budgets now. At this time, specific service reductions have not occurred or been identified. The City Manager will prepare a budget that has all of the recommended reductions (the "Preliminary Budget") which will be considered by the City Council in early fall. As these deliberations progress during the fall, updates on proposed reductions will be posted on the City's web page (www.ci.kirkland.wa.us/budget).

Is it possible to reduce expenses without reducing service levels?

The City of Kirkland is a service-based organization. We continually improve internal delivery systems that result in more value for your tax dollar. We are active in many regional partnerships that offer cost sharing opportunities for participants and greater efficiencies. We also have an active "continuous improvement" program where departments identify better, more efficient ways of providing services during the year. While it is our intent to try to maintain service levels whenever we can, we expect that the amount of reductions needed to balance the budget ($6 million) will result in noticeable service changes to the public.

Could the City have prevented this shortfall?

For many years, the City has struggled to balance expenses and revenue. In part, this occurred due to voter initiatives that have eliminated or limited certain revenues that could not have been foreseen. This upcoming biennium is being negatively impacted by forces greater than those that have occurred in past years, many of which are beyond our control, including the economic downturn and business decisions by major retailers that are expected to negatively impact the City's baseline revenues. When balancing the budget in the past, the City has implemented some of the same strategies it is proposing to use to balance the 2009-2010 Budget, including making expenditure reductions and increasing revenue. These are "structural adjustments" that create a new base from which to plan future budgets. In addition to these structural changes, the City has also carefully maintained its reserves to help bridge the gap until a more permanent solution can be put in place and economic conditions improve.

What is the City doing to increase sales tax revenue?

One of the purposes of our Economic Development Program is to attract and retain the kinds of businesses that help provide a strong financial foundation. One element of economic development relates to retail businesses and making sure we have the goods and services for not only our own community, but to attract those outside our community to shop in Kirkland. By "importing" sales tax from outside the City, the tax burden on Kirkland taxpayers can be lessened. Over-reliance on sales tax can be risky since it is subject to serious fluctuations in an economic downturn or the loss of a major retailer. This is why increasing sales tax revenue can be only one of the solutions to the City's budget challenges. A diverse revenue base - one that is made up of many different sources - provides greater long-term stability. You can help increase sales tax revenue by shopping at retail stores within City limits.

How does new development help or hurt the anticipated shortfall?

Given the voter initiatives that have passed in recent years, the City has become increasingly dependent on revenues from new development to keep pace with cost growth. New development generates one-time sales tax revenue from goods and services during construction. In the year after final completion of a project, the increased assessed value from the new construction begins to generate additional property tax revenues. If the new development is retail-oriented, it will also (hopefully) generate additional on-going sales tax revenues. It is important to keep in mind that there may be additional costs of providing services to new development that may need to be paid for from these additional revenues.

What will I be asked to vote on next year?

As part of the multi-pronged approach to raising revenue, a ballot measure will be presented to Kirkland voters in 2009 for a 1.5 percent increase to private utility taxes on electric, gas, telephone and cable services. It is estimated that this increase would cost an average household $5.90 per month. The election date has not been set. A voted private utility tax increase requires a simple majority vote (50% + 1).

What if the ballot measure to increase private utility taxes fails?

If the ballot measure fails, further expenditure reductions will need to be made.

For more about the budget, go to www.ci.kirkland.wa.us/budget or attend a budget open house:

- **September 17 · 7:00 - 9:00 pm**
  Peter Kirk Community Center
- **September 29 · 7:00 - 9:00 pm**
  City Hall, Council Chambers

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Special Budget Edition

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2009-2010 Budget Adoption Timeline

Agenda and packet materials are available at www.ci.kirkland.wa.us.

Public Hearing on Proposed Revenue Sources
September 16

City Manager's Proposed Budget
October 21

City Council Study Sessions
October 30; November 5 & 10

Public Hearing on Proposed Budget & Preliminary 2009 Property Tax Levy
November 18

City Council meetings can be viewed live on KGOV Channel 21 and on the City's website on the first and third Tuesday of each month at 6 p.m.
Rebroadcasts are also available.
Go to www.ci.kirkland.wa.us for programming schedules.

Kirkland City Hall
123 5th Avenue, Kirkland, WA 98033
City offices are open Monday-Friday, 8 a.m. to 5 p.m. (excluding holidays)

- Please keep this special budget edition of City Update. You are encouraged to stay informed and get involved.
- Address the City Council at its regular meetings which are held the first and third Tuesday of each month at 7:30 p.m., City Hall, Council Chambers
- Send your email comments and concerns to 09-10budget@ci.kirkland.wa.us
- Visit the 2009-2010 Biennial Budget webpage at www.ci.kirkland.wa.us/budget
- Host an informational presentation by City officials. To schedule a meeting, please call the City Manager's Office at 425-587-3016.
- Subscribe to the City Council Agenda and Neighborhood email subscription services to receive information about upcoming public meetings and events.
- Stay tuned to our government access channels – Channel 21 (KGOV) and Channel 75 (KLIFE) – for budget updates, including public meetings and hearings.

City Manager's Office	**425-587-3001**
Finance & Administration Department	**425-587-3100**