Demystifying City Finances and Budgets

May 16, 2012

Content and Focus

- Overview of City Finance and Budget
  - Budget Basics
  - Your Property Taxes
  - City Finances
  - Setting Levels of Service
  - Citizen Involvement
- Budget Decision-Making -- You Make the Call

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Budget Basics

TRUE or FALSE

The City's Budget is Like Your Budget?

TRUE

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City Budget is Like Your Budget

(Just a Few More Zeroes)

- Operating Budget = Living Expenses
- Debt Service = Mortgage
- Reserves = Savings
- Capital Improvements = Home Improvements

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Balancing the Budget

Basic Budget Compared to Available Revenues

Estimated Revenue

minus Basic Budget Expenditures

if ***0 = Balanced Budget***

< 0 = Cuts Needed

> 0 = Available for Service Packages and Reserves

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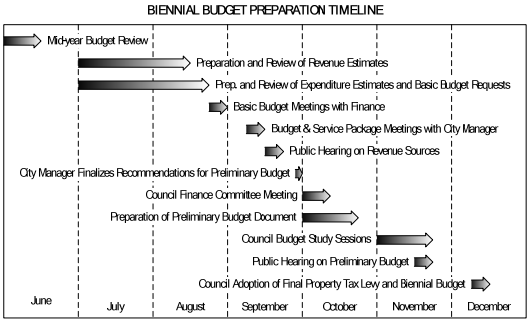

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FACT or FICTION?

The City Imposes all Taxes

FICTION

Different taxes are imposed by the City, County, State and/or Federal Government

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Taxes Imposed by Kirkland

- Property Tax (Local Share)
- Sales Tax (Local Share)
- Utility Tax
- Revenue Generating Regulatory Fee (business license surcharge – "fee per FTE")
- Gambling Tax
- Admissions Tax
- Lodging Tax (Tourism)
- Real Estate Excise Taxes (Capital Improvement Program)

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Other Taxes . . .

. . .Collected by Others and Shared with Kirkland

- Gas Tax
- Liquor Tax (City share eliminated 7/1/12)
- EMS Levy
- Fire Insurance Premium Tax

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Sales Tax

- City's Second Largest Source of General Fund Revenue
- $12.9 million Annually (2011)
- Used for:
  - Transportation Capital Projects ($270,000 per year)
  - General Government Capital Projects ($200,000 per year)
  - General Fund Operations ($12.4 million)

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How Does it Work?

- Collected as Percentage of Sale
  - Clothing
  - Household Goods
  - Automobiles
  - Eating Out
- Destination of Sale Determines Who Gets the Revenue (except automobiles)

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How Much Do I Pay?

- On Most Purchases 9.5%
- Items Not Taxed
  - Unprepared Foods (Groceries)
  - Prescription Drugs
  - Some Public Expenditures
  - Home Sales

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Where Does it Go?

State of Washington	6.50%
King County/Metro	1.00
Criminal Justice Funding	.10
City of Kirkland (1.0 with .15 remitted to King County)	
City Portion	.85
County Portion	.15
Regional Transit	.90
Total Basic Rate	**9.50%**
Additional 0.3% for Car Sales and Leases (Transportation)	9.80%

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Rule of Thumb

On a $100 Purchase

City 1%

$.85 City **$.15 County**

State, Metro Etc. 8.5%

$8.50

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Issues Affecting Sales Tax

- Economic Conditions
- State Mandates and Initiatives
- Local Land Use Decisions
- Economic Development Efforts
- Streamlined Sales Tax

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Your Property Taxes

FACT or FICTION?

My property taxes change every year with the change in assessed valuation

FICTION

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Property Tax Myths

- When the valuations goes up the City gets more revenue
- If the City raises property taxes by 1% my entire tax bill will go up 1%
- The City determines the tax rate, the Assessor determines my value and the City gets whatever revenue results
- My taxes go up every year

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Property Tax Truths

- The City determines its levy (total revenue it needs to balance its budget)
  - Current Levy Plus Allowance for New Construction
  - Optional Tax up to the lesser of . . .
    - Implicit Price Deflator
    - One Percent
  - Banked Capacity (if available)
- The Assessor determines home values based on market values
- The tax rate results from the math

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Factors Affecting Property Taxes

- City Council Decisions
- Decisions of Other Jurisdictions
- Decision of Voters
- County Assessor's Valuation
  - Your Property
  - All Other Properties
  - Your Property Compared to All Others
- New Construction

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Property Tax

- City's Largest Source of Revenue
- $15 million Annually (Regular Levy - 2011)
- Used For:
  - General Fund Operations -- $13.1 million
  - Parks Maintenance -- $840,000
  - Debt Service (voted) -- $914,000

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How Does it Work?

- Ten Taxing Jurisdictions Request Levies
- Levies are Divided by the Assessed Valuation (as determined by County Assessor)
- A "Property Tax Rate" Results
- The "Rate" is applied to every $1,000 of Assessed Valuation on Each Property

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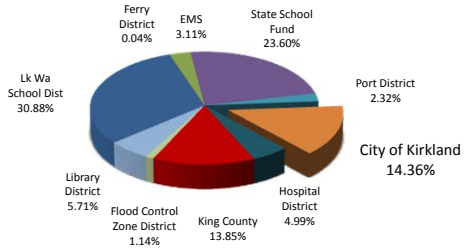
Who Gets the Property Tax?



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City of Kirkland 2011 Total Property Tax Rate

City of Kirkland	2011 Levy Rate (per $1,000 A.V.)
Regular Levy	$ 1.30
Debt	0.09
Consolidated (State, Port, County)	3.84
EMS	0.30
Lake Washington School	2.98
Hospital District	0.48
Library District	0.55
Flood Control Zone District	0.11
Ferry District*	0.00
Total Levy (per $1,000 A.V.)	**$ 9.66**
Property Tax on $480,000 Home	**$ 4,637**

* Ferry District rate is $0.00360/$1,000 A.V.

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Rule of Thumb to Calculate Your Property Taxes

- Look up the Assessed Value of Your Home
  Example: $480,000
- Divide by 1,000 (or lop off the last three digits)
  Example: $480
- Multiply by the Rate Determined by the Assessor
  Example: $480 x $9.66 = $4,637

Your Annual Taxes are $4,637 Per Year

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For a $480,000 Home . . .

- Total Taxes = $4,637
- City Taxes = $666
- A 1% Increase in City Taxes = $6.13 per Year
- Each 1% Increase in the City's Levy Generates about $137,000

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City Finances

Is budget forecasting an art or a science?

Budget forecasting is both an art and a science

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Purpose of Forecast

- Predict Future Fiscal Health
- Identify Structural Imbalances
- Model Different Scenarios
- Provide Context for Current Decisions
- Plan for the Future

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What to Look For

- **Structural Integrity**
  - Maintenance of services
  - Revenue supports expenses
  - Future commitments are supported by growth or planned resource enhancements
- **Safety Net**
  - Reserves to support short-term needs
  - Untapped revenue sources for replacement or enhancement or adding to reserves
- **Planning for the future**
  - For future service needs
  - For funding sources

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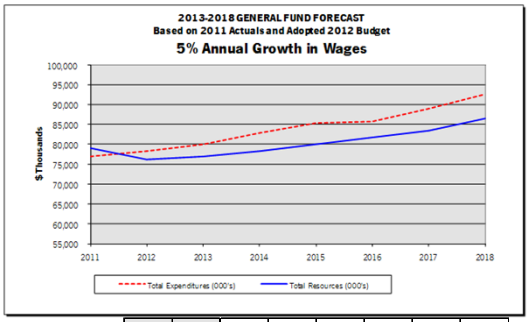

	2011	2012	2013	2014	2015	2016	2017	2018
Total Resources (000's)	78,965	76,093	76,882	78,302	79,964	81,677	83,441	86,453
Total Expenditures (000's)	76,889	78,169	80,026	82,814	85,376	85,742	88,900	92,481
Net Resources (000's)	2,076	(2,076)	(3,144)	(4,512)	(5,412)	(4,065)	(5,459)	(6,027)
Biennium Total (000's)	0		(7,656)		(9,477)		(11,486)	

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Options

Short Term

- Expenditure controls
  - Hold new services
- Use of reserves
- Natural revenue growth (hope)
- Budget more sales tax

Long Term

- Whether/when to ask voters for additional funding
  - Public education
  - Public participation
- Service level reductions
- Efficiency?

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The Bottom Line

- The budget is a plan
- The income has to keep up with the outflow
- People come to expect certain service levels
- We have unmet service needs
- Our job is to find the right balance of resources (revenues) and services (outflow) to meet the needs of the community

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Saving for the Rainy Day

Purpose of Reserves

- Ensure adequate cash flow
- Mitigate short-term impacts of revenue shortages
- Address unanticipated expenditures
- Provide for unforeseen emergencies or changes in conditions
- Demonstrate financial strength
- Represents one-time resources to help deal with the unexpected in a planned manner

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Reserve Targets

- **Contingency Fund**
  - Target: 80% of maximum balance set by RCW ($0.375 per 1,000 AV)
- **General Capital Contingency**
  - Current Target: 10% of the 2-year CIP budget
- **General Operating Reserve (Rainy Day)**
  - Current Target: 5% of Operating Budget less Utility and Internal Service funds
- **Revenue Stabilization Reserve**
  - Current Target: 10% of selected General Fund revenues
- **Building and Property Reserve**
  - Current Target: Minimum balance of $600,000
- **Council Special Projects**
  - Current Target: $250,000
- **Total Target: $16.7 million; current balance: $10.17 million**

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Setting Service Levels

TRUE or FALSE?

All City services are discretionary

FALSE

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Prioritizing Levels of Service

Where Reality Meets Expectations

- Legal and contractual obligations
- Balancing revenues with expenses

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Policy Considerations

- Legal and Contractual Obligations
- Maintenance of Services
- Community Priorities
- Ongoing Versus One-Time Expenditures
  - Ability to Support in Future Years
  - Pilot Projects and Service Expectations
- Ongoing revenue for ongoing services
- Precedent

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Council Goals

Purpose

- Articulate key policy and service priorities for Kirkland
- Guide the allocation of resources through the budget and capital improvement program
- Assure that organizational work plans and projects are developed that incrementally move the community towards the stated goals
- Long term in nature

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Council Goals Continued…

- Neighborhoods
- Public Safety
- Human Services
- Balanced Transportation
- Parks, Open Spaces and Recreational Services
- Housing
- Financial Stability
- Environment
- Economic Development
- Dependable Infrastructure

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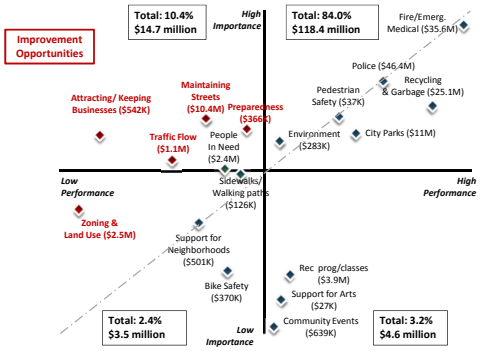
Citizen Survey Reponses to 2011-12 Budget



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Where the Money Comes From

- Taxes
- Permits and Licenses (Regulatory)
- Intergovernmental Payments
- Fees for Service
- Fines and Forfeits
- "Miscellaneous"
  - Rents, Settlements, Grants and Interest Income

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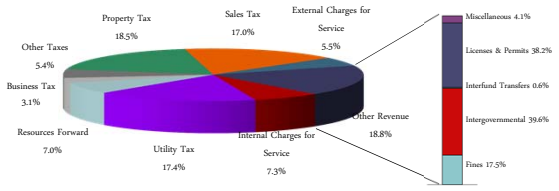
Sources of Revenue

General Fund

(2011-2012)



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Where the Money Goes . . .

- Services
- Capital Projects
- Administration
- Reserves
- Debt

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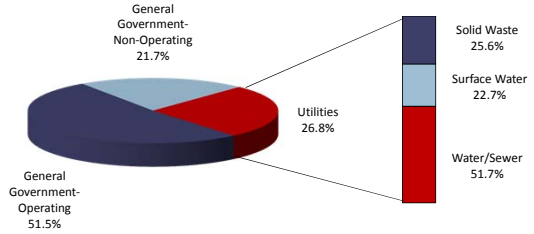
Budget at a Glance
2011-2012



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The Operating Budget

- Accounts for services to the public
- Contains all staff
- Two year focus
- Largest component is General Fund
- Ongoing expenditures must be supported with ongoing revenue

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The Capital Budget (CIP)

- Infrastructure (roads, sewer lines, street lights)
- Buildings and Improvements
- Six-Year Focus
- Different funding sources

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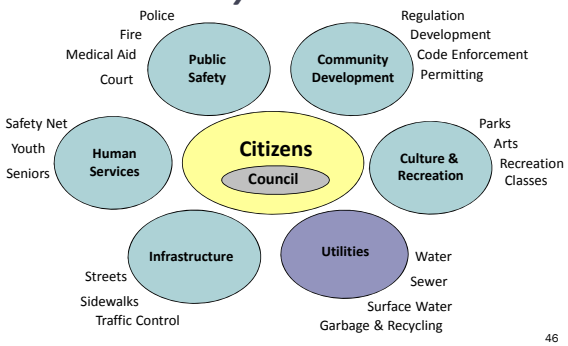
City Services



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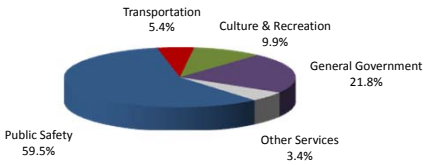
2011-2012 Expenditure By Program



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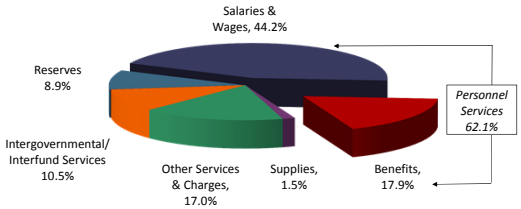
2011-2012 Expenditure By Category



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Kirkland Documents

- Budget
  - Preliminary Budget
  - Service Package Requests
  - Line-Item Detail
  - Issue Papers
  - Budget in Brief
- Six-Year Capital Improvement Program
- Financial Management Report (FMR)

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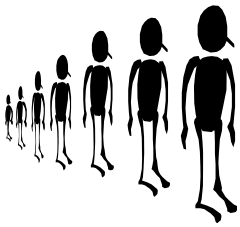
And Now a Word from Our Sponsors . . .



Citizen Involvement

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The Benefits of Public Involvement in the Budget Process

- Better Understanding of
  - City Finances
  - Service Needs and Priorities
  - Levels of Satisfaction
  - Taxation Concerns
- Community Ownership of the Plan
- Community Understanding of the Choices and Decisions that Must be Made

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Opportunities

- Public Hearings
- Focus Groups
- Surveys
- Budget Workshop
- Presentations to Neighborhood Groups
- "Neighborhood U"
- Civics Academy

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How You Can Get Involved

- Be Informed
  - Use the Process
- Write a Letter
- Attend Public Hearings and Meetings
  - Be Early and Be Persistent
  - Address the Council
- Participate in surveys, focus groups
- Subscribe to Budget List Serv

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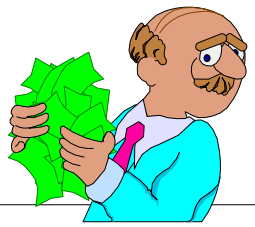
Now It's Your Turn



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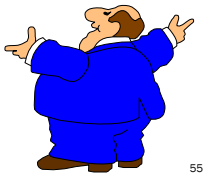
Congratulations!

You have just been elected to the Kirkland City Council and we have a few things that need to be sorted out.

Welcome to the City budget process.



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The Scenario

- The 2013 Preliminary Proposed Budget is balanced and assumes:
  - The Budget is consistent with the Citizen Survey Results and the City's Fiscal Policies
  - 1% optional increase in property tax
  - Includes $906,000 in expenditure reductions as a result of economic conditions, including a reduction of 7.10 FTEs
  - Includes $305,000 in "service packages" (new programs and funding enhancements)
  - Represents the City Manager's best professional recommendation

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The Survey

- 88% of residents believe that Kirkland is a excellent or very good place to live
- Greatest concerns include:
  - Growth
  - Traffic
  - Economic Development
  - Financial Sustainability (and taxes)
  - Environmental Issues

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The Survey

- 80% of respondents are satisfied with the level of service for:
  - Recycling & garbage services
  - Public safety
  - Parks
- Fewer were satisfied with:
  - Attracting/keeping businesses
  - Street maintenance
  - Traffic

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The Survey

- Most citizens believe the City manages its money well
- Most citizens don't know where the City gets their revenue and where their taxes go

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The Bad News

- The proposed state legislative budget reduces liquor profits revenues to the City by $375,000 annually beginning in 2013
- A major retail business which generates $450,000 in sales tax revenue annually for the City, will be leaving Kirkland at the end of 2012
- A number of new funding requests for services were excluded in order to present a balanced budget

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Your Job

- You are the City Council
- Review the budget
- Reach consensus on
  - Service Package Priorities
  - How to fix the short and long term revenue problem
- Report out

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But first, a word from some interested citizens . . .

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