



CITY OF KIRKLAND
Department of Finance & Administration
123 Fifth Avenue, Kirkland, WA 98033 425.587.3100
www.ci.kirkland.wa.us

MEMORANDUM

To: Dave Ramsay, City Manager

From: Tracey Dunlap, Director of Finance and Administration
Sandi Hines, Financial Planning Manager

Date: September 4, 2008

Subject: Public Hearing on Revenue Sources for the 2009-2010 Budget

RECOMMENDATION:

City Council hold a public hearing on September 16, 2008 on revenue sources for the 2009-2010 Budget.

BACKGROUND:

This is the first of two required public hearings on the 2009-2010 budget. The second public hearing on the 2009-2010 Preliminary Budget will be held on November 18th.

General Fund Forecast

The City Council began their discussion of the 2009-2010 Budget at their retreat on March 28, 2008. At that time, the forecast showed a projected 2009-10 General Fund budget gap between ongoing revenues and expenditures of \$5.9 million (\$2.54 million in 2009 and \$3.36 million in 2010). Given the weakening economy and declining sales tax receipts, a revised forecast was prepared and presented at the special budget study session on June 5th. The revised forecast projected a General Fund ongoing deficit of \$7.39 million (\$2.96 million in 2009 and \$4.43 million in 2010), which excluded current one-time funded positions/programs. Also presented at the June 5th study session was a forecast that included all current levels of service, funded by both ongoing and one-time resources. The projected General Fund deficit assuming the continuation of current one-time funded positions/programs through 2009-10 was \$13.8 million. The forecast was based on the following revenue assumptions:

- No use of reserves in 2009-2014
- 1% optional property tax and 2% annual growth in new construction property tax in 2009-2014
- 2008 budgeted sales tax adjusted to 2007 actuals
- 2% growth in sales tax over 2008 reflected in 2009
- Recognition of sales tax loss from an auto dealership sales office move (June 2009) and Redmond and Bellevue Costco stores opening (2010 – loss recovered during 2010 through 2015)
- 6% annual growth in sales tax reflected in 2010-2014 projections
- 4% annual growth in utility taxes in 2009-2014
- 2% annual growth in other taxes (revenue generating business license & gambling taxes) in 2009-2014
- EMS levy maintained at previous level since additional funding will come with additional costs

- Includes elimination of leasehold excise tax for 2009 due to Evergreen Hospital credit and nominal amount starting in 2010 (although staff is recommending that this credit be paid in 2008 using reserves to preserve the ongoing revenues for 2009-10)
- 5% annual growth in other revenue in 2009-2014

In addition, a “sales tax risk” scenario was generated assuming a 6.8% decrease in sales tax in 2008, no growth in 2009, and 2% growth in 2010, which produced an estimated gap of over \$17 million.

The Finance staff is currently engaged in balancing each operating fund’s basic budget for 2009-2010. The preliminary budget is being developed within the budget framework reviewed with the City Council on July 15, which includes the following increases in tax revenue:

- The 1% optional property tax increase and use of the City’s remaining banked capacity (an additional 1%)
- A 3% increase in utility tax on City utilities (water, sewer and solid waste)
- A 1.5% voted increase in utility tax on private utilities in 2010 (gas, electric, telecommunications, and cable)
- A restructuring of the City’s business license fee and surcharge to be based on a fee per full-time equivalent employee (FTE)

Things are still in a state of flux with sales tax revenues and development-related fees continuing to lag the 2008 budget. The General Fund Revenue Summary from the June 2008 Financial Management Report is included as Attachment A for reference as to the status of revenues in 2008.

Public Information and Process

In addition to the public hearing, information about the budget was distributed in August as a special edition of the City Update and will be posted on the City’s web page.

Upcoming, significant dates in the budget process include the following:

- September 30th – Finance Committee review of budget issues and process
- October TBD – Finance Committee review of budget issues and process
- October 21st – 2009-2010 Preliminary Budget provided to the City Council
- October 30th (tentative) – Special budget study session
- November 4th (tentative) – Additional budget study session
- November 10th (tentative) – Additional budget study sessions
- November 18th – Public hearing on the Preliminary 2009-2010 Budget and preliminary 2009 property tax levy
- December 2nd (tentative) – Adoption of 2009-14 CIP
- December 16th (tentative) – Adoption of 2009-10 budget and final 2009 property tax levy

CITY OF KIRKLAND
RESOURCE REPORT: GENERAL FUND
For the Period Ending June 30, 2008

| General Fund Resource Category | Year-to-Date Actual | | | Budget | | | % of Budget | |
|--|---------------------|-------------------|--------------|-------------------|-------------------|--------------|--------------|--------------|
| | 6/30/2007 | 6/30/2008 | % Change | 2007 | 2008 | % Change | 2007 | 2008 |
| Taxes: | | | | | | | | |
| Retail Sales Tax: General | 8,086,395 | 7,068,768 | -12.6% | 15,918,981 | 15,756,800 | -1.0% | 50.8% | 44.9% |
| Retail Sales Tax: Criminal Justice | 550,831 | 569,086 | 3.3% | 1,114,253 | 1,050,000 | -5.8% | 49.4% | 54.2% |
| Property Tax | 4,531,858 | 4,825,375 | 6.5% | 8,790,086 | 9,037,710 | 2.8% | 51.6% | 53.4% |
| Utility Taxes | 4,588,082 | 4,985,699 | 8.7% | 8,723,683 | 8,145,822 | -6.6% | 52.6% | 61.2% |
| Rev Generating Regulatory License | 512,755 | 566,150 | 10.4% | 936,671 | 990,000 | 5.7% | 54.7% | 57.2% |
| Other Taxes | 204,663 | 244,678 | 19.6% | 462,597 | 334,654 | -27.7% | 44.2% | 73.1% |
| Total Taxes | 18,474,584 | 18,259,756 | -1.2% | 35,946,271 | 35,314,986 | -1.8% | 51.4% | 51.7% |
| Licenses & Permits: | | | | | | | | |
| Building, Structural & Equipment Permits | 937,418 | 800,081 | -14.7% | 2,078,436 | 2,163,450 | 4.1% | 45.1% | 37.0% |
| Business Licenses/Franchise Fees | 732,932 | 792,595 | 8.1% | 1,421,435 | 1,449,450 | 2.0% | 51.6% | 54.7% |
| Other Licenses & Permits | 88,741 | 157,528 | 77.5% | 188,749 | 193,900 | 2.7% | 47.0% | 81.2% |
| Total Licenses & Permits | 1,759,091 | 1,750,204 | -0.5% | 3,688,620 | 3,806,800 | 3.2% | 47.7% | 46.0% |
| Intergovernmental: | | | | | | | | |
| Grants | 98,795 | 102,002 | 3.2% | 182,160 | 36,784 | -79.8% | 54.2% | 277.3% |
| State Shared Revenues & Entitlements | 331,428 | 318,224 | -4.0% | 623,230 | 645,318 | 3.5% | 53.2% | 49.3% |
| Fire District #41 | - | - | N/A | 3,184,310 | 3,487,428 | N/A | N/A | N/A |
| EMS | - | - | N/A | 504,376 | 793,023 | N/A | N/A | N/A |
| Other Intergovernmental Services | 296,068 | 311,030 | 5.1% | 589,478 | 439,609 | -25.4% | 50.2% | 70.8% |
| Total Intergovernmental | 726,291 | 731,256 | 0.7% | 5,083,554 | 5,402,162 | 6.3% | 14.3% | 13.5% |
| Charges for Services: | | | | | | | | |
| Internal Charges | 1,710,072 | 1,764,207 | 3.2% | 3,443,777 | 3,511,012 | 2.0% | 49.7% | 50.2% |
| Engineering Services | 271,776 | 324,212 | 19.3% | 635,000 | 610,000 | -3.9% | 42.8% | 53.1% |
| Plan Check Fee | 536,445 | 572,904 | 6.8% | 958,700 | 900,000 | -6.1% | 56.0% | 63.7% |
| Planning Fees | 463,770 | 282,676 | -39.0% | 968,900 | 1,194,637 | 23.3% | 47.9% | 23.7% |
| Recreation | 38,824 | 40,511 | 4.3% | 79,516 | 83,000 | 4.4% | 48.8% | 48.8% |
| Other Charges for Services | 459,898 | 313,056 | -31.9% | 880,191 | 677,323 | -23.0% | 52.2% | 46.2% |
| Total Charges for Services | 3,480,785 | 3,297,566 | -5.3% | 6,966,084 | 6,975,972 | 0.1% | 50.0% | 47.3% |
| Fines & Forfeits | 557,145 | 589,744 | 5.9% | 1,317,860 | 1,132,000 | -14.1% | 42.3% | 52.1% |
| Miscellaneous | 191,806 | 205,912 | 7.4% | 553,002 | 404,150 | -26.9% | 34.7% | 50.9% |
| Total Revenues | 25,189,702 | 24,834,438 | -1.4% | 53,555,391 | 53,036,070 | -1.0% | 47.0% | 46.8% |
| Other Financing Sources: | | | | | | | | |
| Interfund Transfers | - | 28,838 | N/A | 988,434 | 190,914 | N/A | N/A | 15.1% |
| Resources Forward | 3,958,622 | 4,190,324 | | | | | #DIV/0! | #DIV/0! |
| Total Other Financing Sources | - | 28,838 | N/A | 988,434 | 190,914 | N/A | N/A | 15.1% |
| Total Resources | 25,189,702 | 24,863,276 | -1.3% | 54,543,825 | 53,226,984 | -2.4% | 46.2% | 46.7% |

* Budgeted and actual revenues exclude resources forward.