



CITY OF KIRKLAND
Department of Finance & Administration
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MEMORANDUM

To: Kurt Triplett, City Manager
From: Tracey Dunlap, Director of Finance and Administration
Date: September 8, 2011
Subject: **LIQUOR CONTROL BOARD PROFITS AND POTENTIAL USE OF FUNDS**

RECOMMENDATION:

Council receives an update on the Liquor Control Board (LCB) profit revenues set aside and provides direction regarding use of those funds.

BACKGROUND DISCUSSION:

The preliminary 2011-2012 budget did not include the Liquor Control Board (LCB) profits in recognition that during budget development there were pending initiatives to privatize the system (which failed in the November 2010 election). In anticipation of potential State budget reductions and with the understanding that the Council would revisit the potential use of these funds after the State adopts its budget, the adopted 2011-2012 Budget included the LCB profit revenues as follows:

- **Public Safety Reserve** – Set aside the existing City (pre-annexation) portion of LCB profit revenues estimated at \$731,210 (\$364,210 and \$367,000 in 2011 and 2012 respectively) in this reserve. If not needed to fund State or County unfunded mandates, this reserve could potentially fund the partial restoration of the **ProAct** unit that was decommissioned at the end of 2009 and the **Fire Strategic Plan** update.
- **Reimbursement of Pre-Annexation Costs** – Recognized the new neighborhoods area share of the LCB profits \$353,982 (\$98,061 and \$255,921 in 2011 and 2012 respectively), as a revenue which could potentially free up a portion of the State sales tax credit to reimburse some of the pre-annexation costs.

On June 15, 2011, the Governor signed ESHB 1087 establishing the State's 2011-2013 budget which included a 3.4% reduction in LCB profits distributed to cities and counties. This resulted in a total decrease in Kirkland's revenues for the biennium of \$36,896 – existing City portion decreased by \$24,861 and the new neighborhood's portion decreased by \$12,035. These changes were adopted as part of the mid-year budget adjustments on July 19. The revised budget reflects a Public Safety Reserve of \$706,349 and the potential reimbursement of pre-annexation costs of \$341,947. The tables below summarize the changes to the adopted budget as a result of this reduction in the State's distribution.

Liquor Control Board Profits Revenue

Existing City			
	2011	2012	2011-12
Original Assumption	364,210	367,000	731,210
State Budget Impact	(12,383)	(12,478)	(24,861)
Revised Budget	351,827	354,522	706,349
New Neighborhoods			
	2011	2012	2011-12
Original Assumption	98,061	255,921	353,982
State Budget Impact	(3,334)	(8,701)	(12,035)
Revised Budget	94,727	247,220	341,947
Total Revenue			
	2011	2012	2011-12
Original Assumption	462,271	622,921	1,085,192
State Budget Impact	(15,717)	(21,179)	(36,896)
Revised Budget	446,554	601,742	1,048,296

Staff is continuing to show the LCB profits from the new neighborhoods as a potential reimbursement of pre-annexation costs. However, the following uses of the existing City LCB profits (before annexation) are proposed:

- **Help reconstitute the ProAct unit:** In 2012, a K9 Officer and an Eastside Narcotics Task Force Detective were approved as part of the Police Department's annexation staffing. The proposal is to convert these two positions to ProAct Officers and use the LCB profits to fund the ProAct Sergeant and one officer as new FTEs. The support position for the ProAct Unit was not eliminated and is available to return to ProAct support when needed. The annual on-going cost of each ProAct position is approximately \$120,000 and the on-going cost of the Sergeant is about \$140,000.

Staff is proposing to fund these positions now, rather than wait for the mid-biennium process because hiring the new FTEs for the Sergeant and Officer positions street ready may take as long as 9 months (5 months for the basic law enforcement academy and 4 months of field training). The goal is to have the two new positions in place by July 2012 or earlier if possible. The timing of the other two positions is dependent on whether lateral hires are available, which could result in the unit reaching full capacity in mid-2012. Otherwise, the two new positions might follow several months later. The Police Department recognizes and shares the strong desire to begin utilizing a ProAct unit as soon as possible, while maintaining a commitment to hiring highly competent employees. To this end, they will continue to explore strategies and seize upon opportunities which will allow for the earliest possible implementation.

- **Fire Strategic Plan:** Fire District 41 and the City agreed that up to \$70,000 in District funds would be used toward an update of the Fire Strategic Plan. During the 2011-2012 budget process, an additional \$25,000 was requested to supplement that funding, for a total of \$95,000 for the Strategic Plan. Staff recommends that the \$25,000 be funded with LCB profits.

- **Emergency Preparedness:** One-time grant funding for the Emergency Preparedness Coordinator position will run out on October 31, 2011. Staff recommends that \$18,000 of the LCB profits be used to continue the position until the end of 2011. Options for addressing the emergency preparedness program beyond 2011 will be discussed as part of the mid-biennial budget review.

The table below summarizes the budget impacts of this proposed action.

Pro-act Unit Reactivation/Fire Strategic Plan Budget Impact

	2011		2012		2011-12
	Ongoing	One-time	Ongoing	One-time	Total
Budgeted Annexation Positions (K-9 Officer & Narcotics Detective)	-	-	236,090	97,485	333,575
Liquor Profits Added Back	351,827	-	354,522	-	706,349
Total Funding Available	351,827	-	590,612	97,485	1,039,924
Convert Annexation Positions and Add Sergeant plus 1 Officer	55,792	26,478	497,054	98,463	677,787
Fire Strategic Plan				25,000	25,000
Emergency Prep. Coord. thru 2011		18,000			18,000
Balance	296,035	(44,478)	93,558	(25,978)	319,137

Staff further recommends that the remaining LCB funds be considered as seed money for the proposed public safety equipment sinking fund. The final figures may change based on the results of the mid-biennial budget review. It is important to note that the LCB profits may still be in jeopardy given the State's review of options for divestiture of the system and potential ballot initiatives. If the revenues are adversely impacted by future state actions, the on-going funding for ProAct would need to be revisited in the context of future budget deliberations.