



CITY OF KIRKLAND
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MEMORANDUM

To: Kurt Triplett, City Manager

From: Michael Olson, Director of Finance and Administration
Sri Krishnan, Deputy Director of Finance and Administration
Chip Corder, Temporary 2021-2022 Budget Development Staff

Date: September 9, 2020

Subject: PUBLIC HEARING ON REVENUE SOURCES FOR THE 2021-2022 BUDGET

RECOMMENDATION:

City Council holds a public hearing on revenue sources for the 2021-2022 Budget as required by RCW 84.55.120.

BACKGROUND:

This is the first of three scheduled public hearings on the 2021-2022 budget (two of which are required by statute). This first public hearing addresses revenue sources. The second and third public hearings on the 2021-2022 Preliminary Budget are scheduled to be held on Wednesday, November 4th and Tuesday, November 17th.

General Fund Revenue Projections

The City Council received its last full briefing on the City's financial outlook at its May 29, 2020 Retreat. The Council will receive an update to the financial outlook during the October 6 study session. Two General Fund forecast scenarios were presented on May 29, reflecting the estimated financial impact of COVID-19 on the City's revenues in 2020-2026: 1) V-Shaped Recovery, and 2) Big-V Recovery. The scenarios were based on guidance from the Government Finance Officers Association (GFOA).

It should be noted that in May 2020 the City had very little actual data on which to base its COVID-19 related forecasts. Fortunately, actual revenues over the past 3-4 months have been much better than projected back in May 2020, when the level of economic uncertainty was extremely high. The City's updated General Fund revenue forecast incorporates actual sales tax revenue through August 2020 and actual property tax, utility taxes, development fees, and other revenues through July 2020.

Forecasted revenues in 2021-2022 are compared to budgeted revenues in 2020 in the following table.

General Fund Revenue (000's)	2020 Budget	2021 Forecast	2022 Forecast	% Change	
				21 vs. 20	22 vs. 21
Taxes:					
General retail sales tax	23,130	23,933	23,933	3.5%	0.0%
Criminal justice retail sales tax	2,603	2,478	2,478	-4.8%	0.0%
Public safety retail sales tax	1,834	1,961	1,961	7.0%	0.0%
Property tax	19,996	20,596	21,111	3.0%	2.5%
Public utility taxes	5,760	5,921	6,080	2.8%	2.7%
Private utility taxes	8,451	7,598	7,423	-10.1%	-2.3%
Rev. generating regulatory lic. fee	3,088	2,733	3,014	-11.5%	10.2%
Other taxes	1,554	1,136	1,507	-26.9%	32.6%
Total Taxes	66,415	66,356	67,506	-0.1%	1.7%
Licenses & Permits:					
Building, structural & equip. permits	5,003	4,347	4,347	-13.1%	0.0%
Business license/franchise fees	4,386	4,660	4,747	6.2%	1.9%
Other licenses & permits	988	886	891	-10.3%	0.6%
Total Licenses & Permits	10,377	9,893	9,984	-4.7%	0.9%
Intergovernmental:					
Grants & federal entitlements	354	1,585	1,585	347.4%	0.0%
State shared revenues	1,441	1,500	1,506	4.1%	0.4%
EMS	1,352	1,581	1,626	17.0%	2.8%
Total Intergovernmental	3,147	4,666	4,717	48.3%	1.1%
Charges for Services:					
Internal charges	8,235	7,580	7,623	-8.0%	0.6%
Engineering services	2,135	1,779	1,779	-16.7%	0.0%
Plan check fees	1,405	1,750	1,750	24.6%	0.0%
Planning fees	2,008	1,480	1,471	-26.3%	-0.6%
Recreation fees	1,604	1,176	1,616	-26.7%	37.5%
Other charges for services	2,368	1,647	1,919	-30.5%	16.5%
Total Charges for Services	17,754	15,411	16,157	-13.2%	4.8%
Fines & Forfeits	1,995	1,649	3,021	-17.3%	83.2%
Miscellaneous	1,659	2,338	1,866	40.9%	-20.2%
Total Revenues	101,347	100,313	103,250	-1.0%	2.9%
Other Financing Sources:					
Annexation sales tax credit	3,935	2,468	-	-37.3%	-100.0%
CARES Act grant	2,668	-	-	-100.0%	N/A
Interfund transfers	795	208	208	-73.9%	0.0%
Insurance recoveries	50	50	50	0.0%	0.0%
Total Other Financing Sources	7,448	2,725	258	-63.4%	-90.5%
Total Resources	108,795	103,038	103,508	-5.3%	0.5%

Key revenue forecast assumptions for 2021-2022 are summarized below.

General Fund Revenue	2021	2022
General retail sales tax	3.5% > 2020 budget (equals 2020 forecast)	3.5% > 2020 budget (equals 2020 forecast)
Annexation sales tax credit	Credit ends 6/30/2021: \$1.97M base + \$500K extra	\$0
Property tax	1% optional + 2% new construction	1% optional + 1.5% new construction
Public utility taxes (water, sewer, surface water & solid waste)	2.8% > 2020 budget	2.7% > 2021 forecast
Private utility taxes (gas, electric, cable & telephone)	10.1% < 2020 budget	2.3% < 2021 forecast
Revenue generating regulatory license fee	11.5% < 2020 budget	10.2% > 2021 forecast
Development fees	11.3% < 2020 budget	0.1% < 2021 forecast

For the coming biennium, total revenues per the updated General Fund revenue forecast are projected to decline 5.3 percent in 2021 and to grow only 0.5 percent in 2022 primarily due to the following:

- Consistent with the City's conservative sales tax budgeting policy, sales tax revenue is projected to be the same in 2021 and 2022 as what is estimated for 2020.
- The annexation sales tax credit ends on June 30, 2021, going from \$4.94 million in 2020 to \$2.47 million in 2021 and then to \$0 in 2022. Of the \$4.94 million, \$1.0 million is not budgeted in 2020, because it is being reserved to help balance the 2021-2022 Budget.
- Development activity is projected to slow down significantly in 2021, with development fees declining 11.3 percent relative to the 2020 budget. In 2022, development revenues are projected to be flat relative to 2021.
- The \$2.67 million CARES Act grant, which was awarded to the City in the first half of 2020, is a one-time revenue source. In addition, the City learned on September 2, 2020 that it will be receiving an additional \$1.33 million in one-time CARES Act grant funding. It is not reflected in the General Fund revenue forecast table above, because the 2020 budget has not been amended yet.

Revenue Assumptions for 2021

Based on City Council direction there are no new taxes or rate increases assumed in 2021, except for property tax. The following two revenue sources are noteworthy:

- **Property Tax** – The 1.0 percent optional increase, which requires City Council approval in November 2020, is assumed in 2021. It should be noted that a super majority vote by the City Council (i.e., 5 to 2) will be required to approve the 1.0 percent optional

increase for the 2021 fiscal year, because the Implicit Price Deflator (IPD) for personal consumption expenditures, which is a measure of inflation, is currently less than 1.0 percent (0.60152 percent). The Washington Department of Revenue (DOR) calculates the IPD using the most recent quarterly numbers reported by the federal Bureau of Economic Analysis (BEA). Under state law, no local government may increase its property tax levy by more than 1.0 percent in a given year, and local governments with a population of 10,000 or more are limited to the lesser of 1.0 percent or the rate of inflation as measured by the IPD for personal consumption expenditures published on August 27 (this year) prior to the statutory deadline of September 25 ([RCW 84.55.005](#)). If inflation falls below 1.0 percent, a jurisdiction with a population of 10,000 or more must adopt a resolution of "substantial need" to increase the levy (or bank the excess capacity) by 1.0 percent. Staff are planning on bringing such a resolution for Council action at the November 17, 2020 meeting. The last time Kirkland adopted a "substantial need" resolution was in 2015 for setting the 2016 property tax levy.

- **Fire & Emergency Medical Services Ballot Measure** – The City Council adopted [Ordinance O-4731](#) at its July 21st meeting, placing a \$0.23513/\$1,000 levy lid lift on the November 3, 2020 ballot. Using Kirkland's assessed valuation (AV) in 2020, this levy would generate approximately \$7.3 million per year, with approximately \$3.7 million per year dedicated to funding the construction of a new fire station and modernizing and seismically renovating existing fire stations and approximately \$3.6 million per year dedicated to hiring additional firefighter/EMTs and staff. The 2021-2022 Preliminary Budget will not include this potential funding source or the related expenses, because it will be presented to the Council and the public prior to November 3, 2020.

Revenue Assumptions for 2022

While there are no new taxes or rate increases assumed in 2021, except for property tax, which includes a 1.0 percent optional increase, staff anticipates that the City Council will want to review and potentially increase the following three revenue sources in 2022 to offset the loss of the annexation sales tax credit and sustain some of the investments in the current "one time" funding list that are approximately \$2.5 million per year:

- **Revenue Generating Regulatory License Fees (RGRL)** – The Council generally reviews business license fees during the biennial budget process. The RGRL fees were last increased in 2017 to fund Public Safety investments. As a result of the pandemic, the City Council directed staff to assume no adjustment to these fees for 2021. The City Council could review these fees for potential changes in 2022.
- **Parking Fees** – To potentially fund some of the temporary transportation-related positions in 2022, the City Council authorized staff to explore the expansion of locations where parking fees are charged.
- **School Zone Cameras** – The City has received requests from residents to evaluate expanding the school zone safety camera program. Speed and volume studies for other school locations are budgeted. If traffic analysis safety conditions warrant, the Council may consider the expansion of the current School Zone Camera program to other locations. As required by code, any revenue generated above operation costs would be dedicated to funding safer routes to school and other pedestrian safety projects.

Budget Process

The 2021-2022 budget is especially challenging because the City is working to:

- Address the impact of COVID-19 on the City’s 2020 revenues;
- Address the expiration of the annexation sales tax credit;
- Bridge any gap in 2021 with the use of one-time resources and reserves;
- Plan for economic recovery in 2022;
- Fund the initiatives authorized by Resolution R-5434;
- Provide Fire and Emergency services with and without approval of the ballot measure;
- Deal with economic uncertainties and social change; and
- Meet the service expectations of the community as Kirkland grows and thrives.

At the City Council’s May 29, 2020 retreat, the City Manager proposed a three-year budget framework to guide the organization through 2020 and the next biennium. The overarching goal was to preserve ongoing service levels to the community to the extent possible. To that end, the following specific strategies were recommended:

- **2020 “COVID-19 Budget”**
 - Use one-time strategies (i.e., reduce planned expenditures and use available General Fund cash balance at the end of 2019) to bridge the revenue shortfall.
 - Don’t use reserves.
- **2021 “Bridge Budget”**
 - Prepare a base budget (no service packages unless the costs are fully offset).
 - Use available General Fund cash balance at the end of 2019 and then reserves, if needed, to bridge programs and maintain current service levels.
- **2022 “Recovery Budget”**
 - Prepare base budget + targeted service packages.
 - Use available General Fund cash balance at the end of 2019, if any, and then reserves to sustain programs and maintain current service levels.
 - Implement new revenues as necessary to balance the budget.

City Council’s 2021-2022 Budget Calendar

Date	Purpose
September 15	Public hearing on revenue sources for 2021-2022 Preliminary Budget
October 20	Distribution of 2021-2022 Preliminary Budget to City Council and public
October 27	City Council budget work session (3:00-9:00 pm)
November 4	Additional budget study session and public hearing
November 10	Additional budget study session, if needed
November 17	Public hearing on 2021-2022 Budget and 2021 Preliminary Property Tax Levy
December 8	Adoption of 2021-2022 Final Budget, 2021-2026 CIP, and 2021 Final Property Tax Levy (if available)