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

MEMORANDUM

To: David Ramsay, City Manager

From: Tracey Dunlap, Director of Finance & Administration

Date: September 22, 2008

Subject: Issue Paper – Fund Changes in the 2009/2010 Budget

At the budget study sessions in May 2008, staff received Council direction on early policy issues related to the budget development process, several of which included changes to the City's existing fund structure. Those changes are reflected in the 2009-2010 preliminary budget and the impacts are summarized below.

Fleet Reserve Funding – Staff analyzed the reasons for the growth in the City's fleet replacement reserve balance and presented recommended policy changes to the Finance Committee for addressing this issue. Council gave direction to proceed with the implementation of the discounted replacement charge (20% discount on replacement charges) approach as part of the budget process, which should result in a more stable reserve balance in the range of $5 million. Replacing the current approach, which fully funds the replacement of each asset, the discounted replacement charge method reduces the cash build up in the fund by recognizing the cash flow needs of the fund as well as the asset replacement schedules. The revised approach reduces the total replacement charges by $280,000 per year, approximately 60% of which would benefit the General Fund. This savings is expected to result in an average reduction in charges of approximately $400,000 per year over the 20-year period (2009-2028). At this stage, we would not recommend removing any of the existing reserve balance until we are able to assess the impacts of the revised rate funding approach.

Recreation Revolving Fund (Fund 126) Restructuring – Finance and the Parks & Community Services Department evaluated the restructuring of the Recreation Revolving Special Revenue Fund and how it relates to the General Fund. Currently, some fee revenues from P&CS activities appear in Fund 126 (recreation programs), while other fee revenues (moorage, rentals, etc.) are treated as General Fund revenues. In addition, many of the department's costs are split between the two funds, complicating the cost recovery process and necessitating a level of general fund subsidy. Staff is proposing to place all fee revenues in Fund 126 and budget all of the costs in the General Fund, with a budgeted transfer of the fee revenues to the General Fund to meet the target cost recovery from fees. While this change is not expected to result in any savings, it simplifies the budgeting process and more clearly defines the cost recovery objectives from fees.

Based on feedback from the May study sessions, the Finance Committee reviewed the proposed change in greater detail (the handout provided at that meeting is included as Attachment A). The Committee recommended proceeding with the option proposed by staff, which is expected to:

- Simplify the budgeting process for recreation programs,
- More clearly define the cost recovery objectives from fees,
- Improve monitoring of recreation program revenues – budget amounts in Fund 126 will essentially act as revenue goals, and
- Eliminate the confusion over the transfer of General Fund revenues to the Recreation Revolving Fund.

The change results in an increase in General Fund expenditures of $2.36 million, offset by an interfund transfer of revenues from Fund 126 to meet cost recovery. In the 2009-2010 budget, Fund 126 will record the detailed revenues received by P&CS, but will only show a single expenditure, the transfer out to the General Fund.

Facilities Internal Service Fund – Unlike the Fleet and IT Internal Service Funds, Facilities is currently set up as a Special Revenue Fund and receives the Cable Utility Tax and Admissions Tax. These resources are General Fund revenues that the City has previously been applied as offsets to Facilities rates. Staff recommended that the Facilities Fund be restructured as an internal service fund, which means that it is fully supported by rates. The Cable Utility and Admissions taxes would return to the General Fund as revenue sources to pay the Facilities rates. Council gave direction to proceed with making the Facilities Maintenance Fund an internal service fund. This action ensures that the utility funds pay the full cost of facilities (rather than a cost subsidized by general tax revenues) and allows the General Fund to benefit from the growth in Cable Utility Tax and Admissions Tax revenues. The impact of the change on the utilities was offset in part by the change in the Fleet replacement method. The two-year impact on the General Fund (an increase in Facilities rates of $1.18 million) is more than offset by bringing the Cable Utility Tax and Admissions Tax revenues into the General Fund (2009-2010 revenues estimated at $2.55 million. In the budget document, Facilities will be reflected in the *Internal Service Funds* section as Fund 527 (as opposed to the previous special revenue fund 127).

The final early policy direction did not involve a fund change, but did impact the transfers related to the Information Technology CIP:

IT Operating/CIP Cost Alignment – Over the last several years, a number of operating costs associated with information technology have been funded from the Capital Improvement Program. In many cases, this has occurred because the implementation began as a CIP project, but it has now transitioned to operational support. Three specific costs were identified:

- The GIS Analyst that supports maintenance of the current system,
- The Systems Analyst supporting the City-wide financial system (IFAS),
- The City's dues to the e-Gov Alliance (the 2009 impact of this change has been offset by revenues, but the impact in 2010 has been incorporated into rates.

The Council gave direction to proceed with the IT and Finance recommendation that these costs be moved from the CIP to the IT operating budget, along with the related revenue now shown in the CIP. By placing the costs in the operating fund, they will be incorporated into the IT rates, which are paid by all City activities. The impact is an increase to the IT operating 2009-2010 budget of $450,000, of which the majority of the General Fund impact will be offset by bringing sales tax revenue back into the General Fund from the CIP.