

# 2011-2012 BUDGET IN BRIEF



The City's Mission Statement and Basic Values summarize the qualities that are an integral part of its management efforts:

*We are committed to the enhancement of Kirkland as a community for living, working, and leisure with an excellent quality of life which preserves the City's existing charm and natural amenities.*

***Basic Values:***

*Integrity*

*Excellence*

*Respect for the Individual*

*Responsiveness*

## ABOUT KIRKLAND

The City of Kirkland is located on the eastern shore of Lake Washington. It is a suburban city surrounded by other suburban cities and pockets of unincorporated King County. The City is near several major transportation routes including Interstate 405, State Highway 520, and Interstate 5. These routes connect the City economically and socially to the greater Seattle area.

At the time of incorporation in 1905, the City of Kirkland's population was approximately 530. The current estimated population including the annexation area added on June 1, 2011, is 80,505. Kirkland is the twelfth largest city in the State of Washington and the sixth largest in King County.

Since its incorporation, Kirkland has grown in geographic size to eighteen square miles - approximately twenty times its original size. This growth occurred primarily through the consolidation of the cities of Houghton and Kirkland in 1968, the annexations of Rose Hill and Juanita in 1988 and the annexation of North Juanita, Finn Hill, and Kingsgate areas (JFK area) in 2011.

Kirkland operates under a Council-Manager form of government. The City Council is the policy-making branch of Kirkland's government and consists of seven members elected at large to staggered, four-year terms. The Mayor is elected from within the Council. The City Council is supported by several advisory boards and commissions and the City Manager. The City Manager is appointed by the City Council and serves as the professional administrator of the organization, coordinating its day-to-day activities.

The City government offers a full range of municipal services which are provided by ten operating departments. The City boasts forty-five parks, including eleven that are located on the waterfront, as well as two community centers, a swimming pool, and a teen center. The broad range of recreational facilities provides year-round services for citizens of all ages.

### Kirkland at a Glance\*

Founded .....	1888
Incorporated .....	1905
Annexation Date (JFK area) .....	6/1/2011
Population .....	48,797/80,505*
Elevation .....	14 to 500 feet*
Land Area .....	11/18* square miles
Average Temperature .....	46.8 degrees
Average Annual Precipitation.....	38.6 inches
Miles of City Streets.....	149/254*
Miles of City Sewers .....	116
Miles of Water Lines .....	167
Residential Dwellings .....	24,342/36,153*
City Retail Sales Tax .....	9.5%
Fire Department Rating Class.....	4
City Employees (Full Time Equivalents).....	461.43/541.93*
General Obligation Bond Rating: Moody's .....	Aa2
Standard and Poor's.....	AAA

\*Including annexation area

## THE BUDGET PROCESS

Beginning in 2004, Kirkland changed from an annual to a biennial budget process. State law requires that the first year of a biennial budget be an odd numbered year. Accordingly, the preparation of the biennial budget occurs during an even numbered year, beginning in June and continuing through the end of the year.

The City is constantly looking for ways to streamline operations, be more efficient, and make adjustments to improve service delivery. Many of the Council's actions have budgetary implications for the coming biennium. In addition, citizen input and ideas received are reflected in the budget proposals prepared by City staff. There are also public hearings that are specifically related to the budget. The following are key steps that the City takes to prepare its budget:

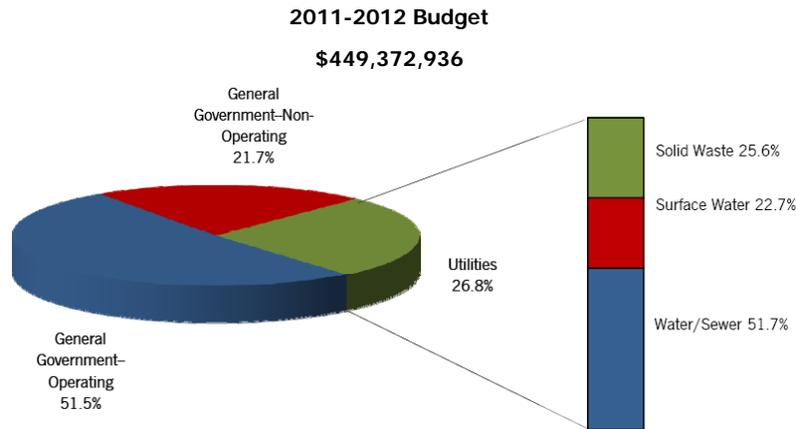
- Jun** *City Council holds its mid-year budget review meeting in June and receives a status report on the current biennium's budget and an updated six-year financial forecast, with an emphasis on the coming biennium. In addition, the City Manager requests input from the City Council about budget priorities and overall direction for the coming biennium.*
- Jul-Sep** *Each City department prepares its Preliminary Budget, which consists of a "Basic Budget" (i.e. the projected cost of maintaining current service levels) and "Service Packages" (i.e. requests for new services, equipment, and projects) or potential service reductions.*
- In September, the City Manager meets with each City department to review their basic budget and service package requests and any potential reductions.*
- Sep** *A public hearing is held in mid to late September to gather citizen input on proposed revenue sources for the coming biennium.*
- The City Manager finalizes the Preliminary Budget proposal by the end of September.*
- Oct** *The Department of Finance and Administration prepares and prints the Preliminary Budget document.*
- Nov** *The City's Preliminary Budget is made available to the public by November 1<sup>st</sup>.*
- The City Council holds a series of study sessions dedicated to the review of the Preliminary Budget.*
- In mid to late November a public hearing is held to gather citizen input on the Preliminary Budget and preliminary property tax levy and on any modifications that were made by the City Council during their review.*
- Dec** *The City Council adopts the final property tax levy for the coming year and the Final Budget for the coming biennium each by ordinance via a simple majority of the members present.*
- Jan-Mar** *The City publishes the Final Budget document during the first quarter of the new biennium.*

## GUIDE TO KIRKLAND'S BUDGET

The City's Budget is composed of 24 separate funds that are independently balanced (i.e. revenues equal expenditures) and divided into four primary sections—General Government, Water/Sewer Utility, Surface Water Utility, and Solid Waste Utility. Within each primary section there are operating and non-operating funds, with the exception of the Solid Waste Utility which is comprised of an operating fund only. Taxes, fees and charges, and intergovernmental revenues are the major funding sources for general government functions. General government operating funds account for services to the public, such as public safety, street maintenance, development, and parks and recreation. General government non-operating funds account for principal and interest payments on outstanding debt, capital improvements, and reserves.

Distinct from the general government funds are the City's three utilities -- the Water/Sewer Utility, the Surface Water Utility, and the Solid Waste Utility. Each utility operates like a business ("enterprise"), with customer charges ("rates") supporting all costs. Utility operating funds account for the cost of providing services to their customers and maintaining all utility-related infrastructure. Utility non-operating funds account for principal and interest payments on outstanding debt, capital improvements, and reserves. Resources of the utilities cannot be used to subsidize general government functions.

The City's 2011-2012 Budget totals \$449,372,936 which is a 12.8 percent increase from the 2009-2010 budget of \$394,260,761. Factors contributing to the change include increased costs related to providing services to the annexation area, offset in part by reductions necessary to balance the non-annexation budget due to economic conditions. Additionally, significant accounting standard changes that required consolidation of funds have impacted budget comparisons.

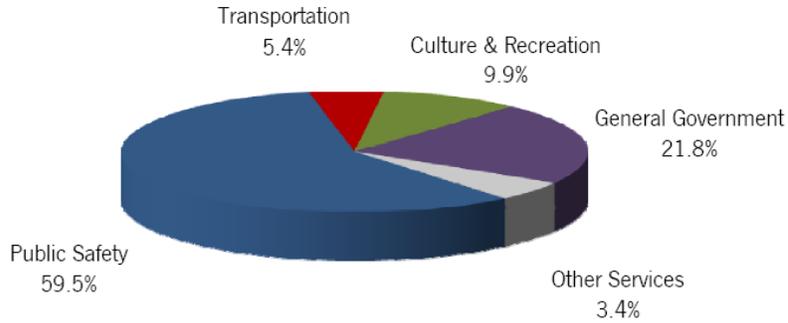


The General Fund is the City's largest operating fund and accounts for public safety, development, parks and recreation, and other general government services. Its 2011-2012 Budget is \$158,468,558 which represents a two-year increase of 30.6 percent over the previous two-year period. Of the increase, \$25.7 million is due to costs associated with annexation and \$9.5 million is related to fund changes. Normalizing for these two factors, the General Fund would be decreasing by 0.7 percent primarily due to service level reductions. Most of the City's tax revenue goes to the General Fund. The charts on the two following pages provide an overview of the expenditures and revenues accounted for in this fund.

## KIRKLAND'S GENERAL FUND BUDGET AT A GLANCE

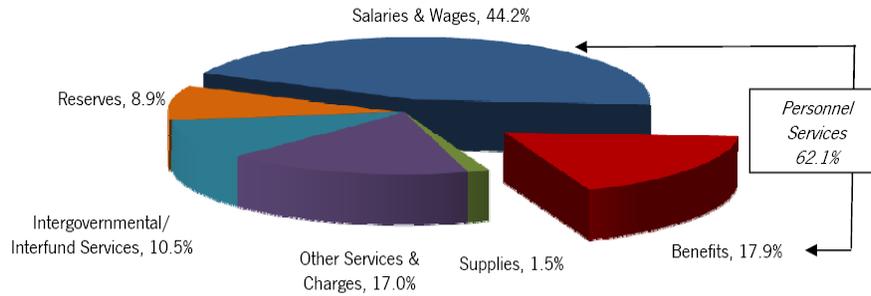
### EXPENDITURES BY PROGRAM

The General Fund accounts for about 92 percent of the City's General Government Operating expenditures. The majority of the expenditures in the General Fund are devoted to Public Safety (police, fire, building inspection, and municipal court services).



### EXPENDITURES BY CATEGORY

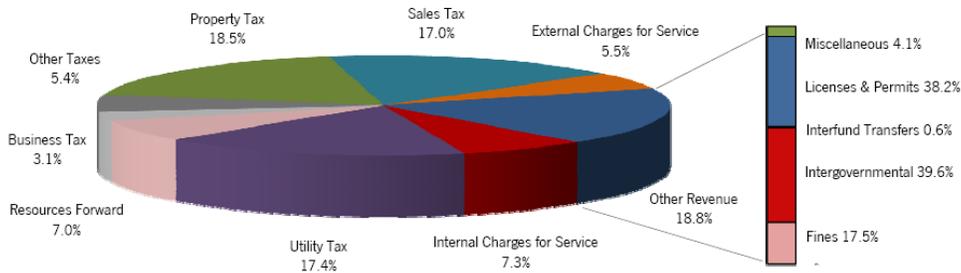
Salaries & Wages and Benefits comprise 62 percent of the General Fund budget, with Public Safety representing over 52 percent of these expenditure categories. Other Services & Charges is primarily composed of contracted services and internal charges from other General Government Operating Funds to the General Fund for facilities, fleet, information technology services and self-insured health benefits.



## REVENUE SOURCES

With few exceptions, General Fund revenues are typically available for any public purpose. Over 61 percent of all General Fund revenue sources come from taxes, with property tax being the City's largest general purpose revenue source.

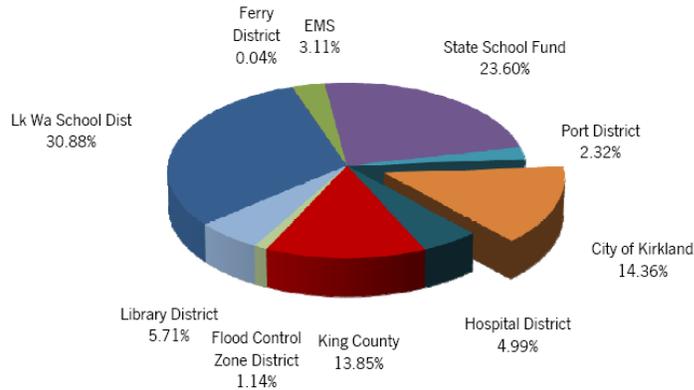
### 2011-12 Budgeted General Fund Revenue



## PROPERTY TAX DISTRIBUTION

By statute, the City is limited to an annual increase on its regular property tax levy of the lesser of the Implicit Price Deflator or one percent, plus an allowance for new construction. The City can exceed this limitation with the approval of voters or by using its "banked" capacity—taxing authority that wasn't used in prior years. The 2011-2012 Budget includes an optional property tax increase of 1.0 percent and annual growth from new construction of 1.0 percent in each year. The City used the last of the remaining banked capacity in 2009. Other factors that impact an individual's property tax bill include the assessed valuation of the property, growth or decline in the City's overall assessed valuation, and levy increases by other governments. Although property taxes represent a major source of funding for City services, the portion of each property owner's total tax bill that goes to the City is relatively small. In 2011, the total property tax rate in Kirkland is \$9.66 per \$1,000 of assessed valuation. Of that total, 14.36 percent or \$1.39 per \$1,000 assessed valuation goes to the City.

### 2011 PROPERTY TAX DISTRIBUTION Total \$9.66/\$1,000 AV



## BUDGET NOTES

### INTRODUCTION

The 2011-2012 biennium is a time of transition. First, the City has moved from a time of economic expansion into what is being termed the "Great Recession." In this aspect, we are not alone. Governments across the region and throughout the United States are struggling to recognize the new fiscal realities and communicate what they mean to their constituents. Kirkland, through its conservative fiscal policies and quick recognition of the decline, has fared better than many jurisdictions, but the transition has been difficult and has meant adjusting the City's service levels to match the expected revenues.

The second major transition is that the City will become substantially larger on June 1, 2011. With the completion of the annexation of Finn Hill, Juanita, and Kingsgate, the City will grow by over 33,000 residents, which represents both a challenge and an opportunity. The challenge is ramping up to provide services to the new area and the opportunity is to incorporate the resources from the annexation area, both human and financial, to help build toward the City's vision.

In response to the recession, the City used a combination of expenditure reductions, revenue enhancements, and the use of reserves to balance the budget in 2009-2010. General Fund projections for 2011-2012 indicated an on-going shortfall of \$7 million. This shortfall was primarily due to:

- Use of one-time resources to balance 2009-2010 (one-time cash, reserves, and furloughs) in hopes that economic conditions would improve looking forward. These one-time measures allowed the City to make fewer reductions than would otherwise have been necessary and reflected the cooperative spirit of the City's labor unions and the prudent financial policies of the City Council that set funds aside in reserve against economic downturn. Unfortunately, while the economic situation has not continued to deteriorate, it has not significantly improved, meaning that we continue to have the \$5 million shortfall between on-going revenues and expenditures that existed in 2009-2010.
- Increase in Fire overtime (\$800,000) and Police contract jail costs (\$600,000) reflecting current trends.
- Removal of Liquor Control Board Profits (\$700,000), pending the outcome of initiatives that would have eliminated this revenue source, which ultimately failed. The final budget restored this revenue source, which funded a reserve for public safety.

Because of these factors and the uncertainty of any economic recovery, reductions in current service levels are necessary to present a balanced 2011-2012 budget. The budget was balanced using expenditure reductions totaling \$6.19 million and revenue increases totaling \$1.64 million.

This budget is intended to continue the City's conservative fiscal management, while setting up the City to be able to capitalize on any economic recovery. Specific actions used to balance the budget include:

- **Sustainability** was a key objective in developing this budget. As a result, the budget was balanced without using one-time actions, such as the use of reserves or furloughs. Other considerations related to sustainability, such as establishing sinking funds for equipment replacement, are identified as future priorities as revenues improve.
- **Service level reductions** are a substantial component to the strategy. The budget reflects tough decisions based on the City's priorities that result in reductions of approximately 4.1% overall but that impact different City services to varying degrees. The "Core Services" exercise that the City Council undertook in July 2010 helped to inform the process of identifying reductions and preserving the City's high priority services.
- In addition, we continued to focus on making sure that our **resources match our workload**, which is best illustrated by development services. With the continued downturn in development activity and related revenues and the uncertainty of any economic recovery, Building, Planning, and Public Works evaluated potential changes in workload

expected in the upcoming biennium. Four school district projects in 2011 and expected revenues associated with Park Place redevelopment in 2012 help to maintain current resources. If the Park Place project does not proceed or other activity does not occur, further reductions in these areas may be necessary later in the biennium.

- In terms of **revenue sources**, the City Council is considering implementing Emergency Medical Service (EMS) Transport Fees, which could help prevent reductions in the fire service. These revenues are not reflected in the budget because Council has not acted on the fees at the time of adoption. The Council approved the potential creation of a Transportation Benefit District (TBD) to enhance current road maintenance activities, which has been factored into the adopted Capital Improvement Program (CIP). However, the decision whether to implement or not was deferred until 2011 with the understanding that no TBD projects would be implemented prior to a final decision.

At the same time, the City is gearing up for annexation. Hiring for Police and related support functions to serve in the annexation area began in 2010 and will continue throughout 2011 and 2012. Consequently, expenditures will be growing throughout the biennium. The annexation service packages proposed as part of this budget are intended to match the revenue expected from the annexation area, including funds from the state annexation sales tax credit. As a result, they did not contribute to the shortfall that needed to be closed to balance this budget.

Another objective in balancing the budget was to identify strategies to preserve our most important resources, our skilled and dedicated staff, to the extent possible. Annexation provided an opportunity to move some staff that would have faced a layoff into a position needed to provide service in the annexation area. In some cases, there was a timing difference between the date a position would be eliminated and the start of the new position associated with annexation. These gaps are funded one-time as "annexation bridge funding."

Further complicating this budget are required changes in the City's fund structure due to changing accounting regulations. Given this requirement, City staff also viewed it as an opportunity to simplify the City's fund structure. These changes result in an increase in the size of the General Fund budget, primarily due to bringing reserves back into the fund rather than accounting for them in a separate fund. However, absent changes associated with annexation, the result would be to reduce the total budget by eliminating many interfund transfers. There is also a new internal service fund added to recognize the move to self-funded medical insurance.

The number of non-annexation **service packages** considered was limited compared with past budgets. Many of those recommended for funding came with their own funding sources (new revenues or expenditure offsets) or addressed high priority needs.

As mentioned earlier, prudent financial planning by past City Councils provided the City with reserves to help weather the economic storm. We used over \$4.0 million in reserves in 2009-2010. **Reserve replenishment should represent the first priority as funds become available, to ensure that reserves will be available when needed in the future.** The City's fiscal policies call for planned replenishment of reserve uses over time. As a result, the budget includes returning \$600,000 to the Revenue Stabilization Reserve and replenishing the uses of the Contingency (\$150,000) and Council Special Projects Reserve (\$50,000). While the reserves continue to be below target levels, this represents a start at building them back up. Note that reserve targets are currently based on the budget before annexation. During 2011-2012, staff will undertake a detailed evaluation of reserves to determine appropriate target levels for the new, larger City.

In the midst of these challenges, the City continues to pursue a number of initiatives:

- The City is pursuing the expansion of **City facilities**, through the renovation of a recently purchased property for a new public safety building and upgrades to other City facilities.

The needs are driven both by annexation and existing City space needs and will be financed using some cash resources set-aside for that purpose and with long-term debt. The debt service will be supported by existing City revenues freed up by retiring existing bonds and annexation area revenues.

- **Fire Station consolidation** continues to be pursued by Fire District #41 (in partnership with Kirkland). The hope is to have the project underway before the annexation effective date, when the City will assume the district in its entirety and it will be dissolved.

The City will be evaluating the impacts of annexation and will begin updating the numerous plans that are currently in place, such as the strategic plans developed for Police and Fire, master plans in Parks, and comprehensive plans for the utilities. However, the availability of resources will likely continue to limit the ability to fully implement these plans.

While many of these budget balancing actions make progress toward a more sustainable budget, forecasted expenditures continue to grow faster than forecasted revenues. As a result, the projected imbalance in the City's financial picture will continue to be a primary topic of discussion and decision-making. This issue is not unique to Kirkland, but is faced by cities throughout the state.

## REVENUE TRENDS

Beginning in 2008 and continuing throughout 2009-2010, a number of the City's major revenue sources declined due to the impacts of the "Great Recession". While the revenue decline appears to have bottomed out in 2010, the prospects for economic recovery remain uncertain. As a result, the assumptions on revenue growth reflect caution.

Another area of concern is the interest earned on the City's investments. In 2007-2008, the interest earned reached levels that had not been seen in several years. However, interest rates have declined in recent months, resulting in lower projected interest revenues for 2009-2010. This revenue source can be volatile and the City's policy of using the revenues for discretionary purposes, rather than relying on them as an on-going component of the budget, continues to be prudent.

No increases in tax rates are reflected in the budget, except for the 1 percent optional increase in property tax and an increase in the water utility tax rate to reflect the impacts of a recent state-wide Court decision, which ruled that fire hydrant maintenance must be paid from taxes rather than water utility rates. As a result, water rates were reduced to remove these costs and the water utility tax rate was increased to pay for hydrant maintenance.

**Sales tax** revenue continues to be one of the City's largest sources of general purpose revenue and is one that has proven volatile over the past few years. At the end of 2009, revenues had declined by 19 percent over 2008 levels, which themselves represented a decline of almost 10 percent from 2007. 2010 revenues ended the downward trend and, through September, have increased almost 6 percent from 2009 levels.

The 2011 budgeted revenues reflected the City's one-year "lag" budget strategy, which set 2011 sales tax revenues equal to expected 2010 revenues. For 2012, we are projecting a modest increase of 3 percent from 2011. While this is lower than many sales tax forecasts that are projecting growth in the 6-7 percent range, the sustainable budget strategy would argue for caution in assuming such a significant turnaround during these uncertain economic times.

**Property tax** is another major source of revenue for the operating budget and supports services in the General Fund, Street Operating Fund and the Parks Maintenance Fund. A one percent increase in new construction is assumed along with a one percent optional increase in the levy, consistent with the assumptions used in the long-term forecasting model.

The allocation of property tax revenues to the Street Operating Fund is complicated in this budget due to the nature of the annexation revenues during the first year of the annexation. The City's property tax rate does not apply until 2012, however, the City receives the County Road Tax levy collected for 2011 after the effective date of June 1, 2011. The Road Tax levy

must be restricted to road purposes and, as such, will be placed in the Street Operating Fund. The bulk of the revenue is expected at the end of 2011, but there will likely be some receipts in early 2012. To provide funds for annexation activities in the General Fund, no property tax allocation is made to the Street Fund in 2011 and a reduced level is planned for 2012.

For the Parks Maintenance Fund, property tax is the sole source of income, which is legally restricted to new construction growth plus one percent. The growth in revenues is not sufficient to offset the growth in costs. For 2011-2012, there was a projected shortfall in revenues to support the current level of service. Staffing in the fund was reduced by one position (which will assume an annexation position in 2012) and the required working capital was reduced based on historical trends. Given the property tax growth limitations, this problem is likely to continue in future years.

**Utility taxes** are a growing share of the General Fund revenue base, due in part to the decline in sales tax. Changes in budget estimates from one year to the next reflect anticipated changes in utility rates and potential variations in consumption. The telecommunications and cable sector continue to be worth watching as the regulatory environment (and potentially our taxing authority), changes to reflect current technology and consumer usage patterns respond to economic conditions.

**Business license fees** reflect the structure put in place by the City Council in 2009, which consists of a base fee of \$100 that is shown in the license and permit category and the revenue generating regulatory license fee of \$100 per full time equivalent employees (FTEs), which is shown in the tax category. The revenue for 2011 and 2012 assume a 2 percent annual increase in FTEs over 2010 estimated revenues.

**Development fee** revenues declined significantly in 2008 and 2009, necessitating reductions in resources, and are relatively flat in 2010. The 2011-2012 budgeted revenues assume that the level of development activity will remain flat at this reduced level, with two exceptions. In 2011, there are four school renovation projects that will require significant resources. In 2012, the initial Park Place redevelopment permits are expected. These activities help maintain current development services resources. If they do not occur, further adjustments may be necessary.

The City established the Development Services reserve in 2005 to recognize that development revenues associated with building activities are often collected in advance of the time that the work is conducted (for example, required inspections may occur in a subsequent budget period). In periods where revenues are reduced, the reserve is there to help maintain staff to get the workload completed and to help retain critical skills. The reserve has been used to backfill shortfalls in 2008 and 2009 and was not needed in 2010. Depending on 2011-2012 activity, the City may utilize additional reserves if needed. Any revenues from annexation or Park Place that are in excess of current workload will be added to the reserve during the biennium. If development activity exceeds these assumptions, resource adjustments will be brought back to the Council.

**Interest income** is expected to decline in the next biennium due to continuation of historically low interest earnings rates. Earnings, which are currently 1.5 percent are expected to level out between 0.6 percent and 0.9 percent for 2011-2012. In accordance with the City Investment Policy and Washington state statutes, available funds are invested in a manner which provides maximum security with the highest investment return while meeting the daily cash flow requirements. Portfolio investments are primarily limited to the Washington State Local Government Investment Pool, Government Sponsored Enterprises (GSE's) such as Federal Home Loan Bank (FHLB) and state or local government bonds with the highest credit ratings.

## EXPENDITURE TRENDS

The impact of inflation, as measured by the consumer price index which drives wage increases, is relatively minor in the upcoming biennium. The City's labor contracts escalate based on the June to June Seattle-Tacoma-Bremerton consumer price index, which was -0.1 percent as of June 2010 (the basis for 2011). As a result, no cost of living adjustments are assumed for 2011 and inflation is estimated at 2.5 percent for 2012. Note that the 3.4 percent salary reduction in place in 2010 expires at the end of the year, returning salaries to 2009 levels.

Benefit cost increases have grown well in excess of inflation for a number of years. In addition, the Association of Washington Cities announced that the City's current health plans would be discontinued at the end of 2011. During the past year, there has been a detailed evaluation of how we can best meet our long-term health care insurance needs, how to do so at an affordable price, and how to have more direct control over our costs through proactive health promotion activities. This effort has resulted in a move toward a self-insured medical program starting in 2011. This approach keeps the cost increase for 2011 at approximately 10 percent. After we have one year of claims history, the hope is that we will be able to moderate the cost increases based on our specific claims experience.

Jail contract costs and fire overtime are projected to increase based on 2009-2010 actual experience. These expense line items reflect an increase of \$800,000 (fire overtime) and \$600,000 (jail costs) for 2011-2012.

At some point during the next biennium, each of the City's collective bargaining agreements with its labor unions will be open for negotiation. Reserves against potential wage settlements have been set aside.

The City made a number of adjustments to the fund structure in an attempt to simplify the overall budget structure. These changes impact the General Fund comparison of 2009-2010 to 2011-2012 because we rearranged the costs that had been budgeted in separate funds in a manner that increased the general fund total, but do not represent new costs to the City. These fund changes address a variety of issues and include consolidating most reserves into the General Fund and result in an increase to the general fund budget of approximately \$9.5 million, but do not increase the City's costs.

## EXPENDITURE REDUCTIONS

As discussed in the Introduction, a series of expenditure and service level reductions are an integral part of the budget balancing strategy. In addition, some City departments identified additional revenues or cost reallocations to help close the budget gap.

Reductions were not applied on an across-the-board basis but impact different City services to varying degrees. The "Core Services" exercise that the City Council undertook in July 2010 helped to inform the process of identifying reductions and preserving the City's high priority services. Overall, these reductions total 4.1 percent of the General Fund budget (5.1 percent when revenue increases are taken into account) and are in addition to the reductions that were made in 2009-2010. The expenditure reductions total \$6.23 million plus \$1.48 million in revenue enhancements/reallocations for 2011-2012.

While there are impacts throughout the organization, some of the key program impacts are highlighted as follows:

- **City Manager's Office** – Eliminate Neighborhood CIP (\$100,00) and use a portion (\$25,000) to fund other neighborhood and human services programs; eliminate 0.75 FTE Administrative Assistant II support for the CMO and Council; eliminate the mailed issue of City Update (all electronic).
- **Municipal Court** - Reduce 0.25 FTE Judicial Support Associate II, which will be bridged to an annexation position; reduce on-call and intern help.
- **Human Resources** – Reduce program line items; move some training in-house; shift some costs to departments; reduce hourly support.

- **City Attorney's Office** – Reduce use of outside counsel; negotiate reduction in prosecution/public defender contract.
- **Parks and Community Services** – Eliminate 1.0 FTE Human Services Manager position (unfilled) and 0.9 FTE van driver (consolidate service with Northshore Senior Center); eliminate remaining seasonal maintenance hours. In Parks Maintenance Fund, eliminate 1.0 FTE Groundsperson (bridged to annexation position).
- **Public Works (General Fund)** – Eliminate remaining Neighborhood Traffic Control Program staffing (0.5 FTE Traffic Control Engineer); reduce 0.35 FTE Transportation Engineer; reduce 0.5 FTE Program Assistant position.
- **Finance & Administration** – Reduce 0.20 FTE Budget Analyst; reduce 0.25 FTE Receptionist/Admin Clerk; reduce 0.20 FTE Buyer; discontinue Park Smart support (reduce 0.25 FTE Customer Account Associate, restored to meet annexation needs); eliminate 0.5 FTE Accounting Support Associate (bridged to fill annexation position); reduce 0.25 FTE Senior Accounting Associate (backfill to meet self-funded medical plan financial reporting).
- **Planning & Community Development** – Eliminate 1.0 FTE Senior Planner (filled with an annexation position) and reduce neighborhood plan updates.
- **Police** – Eliminate ProAct Unit and reassign 4.0 FTEs to annexation positions, reduce 1.0 FTE Corporal position (related to annexation hiring), eliminate 1.0 FTE Corrections Officer position (vacant).
- **Fire & Building** – Eliminate remaining 0.45 FTE Community Education and Information Specialist position; institute "rolling brown outs" when staffing falls below minimum levels. Note that if the EMS Transport Fees are approved, the latter reduction could be restored.
- **Streets** – Reduce 0.9 FTE Utilityperson, which is bridged to an annexation position; reduce power costs; reduce expenses in support of annual Central Business District Spring Cleaning; reduce supplies, inventory, and small tools.
- **Facilities** – The base budget for Facilities included reductions of costs to reflect actual spending levels, so no additional reductions were recommended.
- **Fleet** – Eliminate 1.0 FTE Technician position (will backfill position required for annexation); 5% reduction in replacement charges.
- **Information Technology** – PC replacement cost reductions, reduced software maintenance and financial system contract costs, reduce shared copiers.

In total, 16.13 FTEs are reduced or eliminated, impacting the service levels in the existing City. Annexation provides the opportunity to keep some of the skilled individuals that can fill positions needed to serve the annexation area. 11.40 of the 16.13 FTEs are proposed to move to annexation positions as they become available, however, there are some layoffs as a result of the recommended reductions.

In addition to the reductions, several departments identified revenue enhancements. The bulk of the revenue recognized is related to expected development permits associated with the Park Place redevelopment. Further reductions in Building and Planning would be likely if the permits are delayed or do not occur. Other revenue enhancements include increased parking enforcement revenue and a proposed increase to pool admission fees by \$1 per admission and improving concession revenues.

### **SERVICE PACKAGES & OUTSIDE AGENCIES**

The guidance provided to departments for preparation of the 2011-2012 Budget directed that only service packages with offsetting new revenue or expenditure reductions be submitted for consideration, with a few exceptions as directed by the City Council or City Manager. As a result, only those packages that met those criteria were considered and are presented

in the budget. This is a departure from prior budgets where all requests were shown, regardless of whether they were considered for funding.

Of those service packages considered, some were not recommended for funding at this time but could be brought back for consideration if funding became available.

In the non-annexation service package list for all funds, departments requested 4.95 ongoing positions, of which 3.95 are recommended for funding. For those service packages recommended for funding in the General Fund, 6 percent are funded from expenditure offsets, 25 percent with additional revenues, and the remaining 69 percent from one-time resources. In the non-General Fund departments, 89 percent of the funded requests use one-time resources, with the bulk of the remainder funded using expenditure offsets.

Service packages associated with annexation were evaluated against the potential revenue that is expected to be available from the annexation area.

The following discussion provides highlights of the service package recommendations included in the 2011-2012 adopted budget.

**Service packages** approved for funding include:

- **1.0 FTE Judicial Support Associate II.** Earlier in 2010, the need for additional resources to support increased probation workload was identified and funded one-time; this one FTE continues that position on an on-going basis using probation revenues associated with the increased workload.
- The increased administration for the new self-funded medical coverage is included as part of the cost of the new program. Addition of **0.7 FTE Human Resources Analyst** and restoration of **0.25 FTE Senior Accounting Associate** which was a recommended service level reduction.
- Creation of a **0.75 FTE Police Budget Analyst** in 2012 to recognize a planned re-organization and is funded from expenditure offsets.
- Conversion of the temporary **0.75 FTE Web Assistant** to an on-going position to recognize that the position supports an existing level of service.
- The **Community Survey** is conducted every other year and is integral to the City's performance measures.
- The **Citizen-Based Budget Process support** is related to increased public involvement in the 2013-2014 budget process.
- Continuation of the **state legislative advocate.**
- A Regional Coalition for Housing (**ARCH**) funding to continue at the previous level of \$216,000 per year (\$432,000 for the biennium).
- One-time funding in 2011 for **Human Services** agencies.
- Enhanced **parking enforcement technology** should improve parking enforcement and provide a tool to modify parking behavior. This service package includes the technology costs for the change and the addition of a **0.5 FTE Judicial Support Associate II** at the Court to handle increased workload and is funded from increased parking fine revenues achieved by the new technology.
- **Municipal court security** was provided in the previous biennium using a Corrections Officer on overtime to staff at key times. This was grant funded and the grant will run out in mid-2011. This service package continues the current level of security at the Court through 2012.
- Two service packages to complete replacement of **Police and Fire radios** and required costs are funded from one-time resources.
- Required costs related to replacement of **Fire personal protective equipment** are funded with one-time resources.
- **Street costs** related to the Retro-Reflective Sign Program will be absorbed in the basic budget. The maintenance and operations costs of the Milling Machine, which is included

in the CIP, will be brought back for later consideration once a more detailed cost/benefit analysis is completed.

- **Information Technology costs** associated with two temporary 0.25 FTEs will be funded with IT Fund cash until those positions can fill on-going annexation service packages in mid-2011. One-time IT cash is also used to fund planned copier replacements.
- An **upgrade to a Surface Water Utility** vehicle funded from utility reserves.
- There are three items labeled "**Annexation bridge funding**" on the approved service package list. These items represent the costs of carrying individuals in positions that have been recommended for reduction until they can fill new positions created as part of annexation.
- **Annexation service packages** represent a large increase in the adopted budget. The adopted service packages are funded with revenues from the annexation area, as are the on-going costs in 2011-2012 of those annexation service packages approved in 2010 (a total of 29.4 FTEs, 26 of which are in the Police department). The recommended annexation service packages total \$16.4 million in the General Fund for the biennium and \$18.8 million in other funds, most notably the Solid Waste Utility. These costs are in addition to over \$6 million in interfund transfers and almost \$7 million in on-going costs associated with service packages approved in 2010. The approved service packages contemplate the addition of 80.5 FTEs during the biennium, some of which will be filled by individuals displaced due to the budget reductions described earlier.

A noteworthy service package that was not funded is:

- Continuation of the **emergency preparedness coordinator** was not recommended and program options are under evaluation.

## CONCLUSION

Balancing the 2011-2012 budget has been very challenging, but we believe that the measures taken can help place the City on a more sustainable budget footing. This budget represents a City in transition due to both the uncertainties of the economy and the annexation. Because of all the changes, it represents a baseline for evaluating the future. At the end of this biennium, we hope to have a clearer picture of the economy, the annexation, and the prospects for the redevelopment of Park Place and Totem Lake.

Initiatives that will require further discussion in 2011 include:

- Implementation of the EMS Transport Fee
- Final decision on implementation of a Transportation Benefit District,
- The recent Totem Lake Symposium focused on revitalizing the City's largest business district and identified the potential for reprioritizing spending to help fund a Totem Lake Action Plan.

We expect that we will be revisiting the budget with the City Council frequently during the biennium and making adjustments as conditions warrant. At a minimum, we expect to provide an update at the Council Retreat in March, with the mid-year budget in June, and with the mid-biennium budget update in November.

Given all the changes, the development of this budget has been an enormous task for the City staff, especially the Financial Planning staff. We have every reason to be proud of the work done day in and day out by all City staff. With the support of the City Council, it is their efforts that make the City work and make Kirkland an exceptional place to live.

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