



**MEMORANDUM**

**To:** Kurt Triplett, City Manager

**From:** Michael Olson, Director of Finance and Administration  
Tom Mikesell, Financial Planning Manager

**Date:** September 30, 2016

**Subject:** RCW 82.46.015 Real Estate Excise Tax Funding Report

The purpose of this memo is to report on Real Estate Excise Tax (REET) usage in the operating and capital budgets. RCW 82.46.015, which is included as Attachment A, requires that this report be adopted with the operating budget to qualify the City to use REET for maintenance of capital projects in the 2017-2018 Operating Budget.

**Background**

In 2011, the legislature approved the temporary use of up to \$1,000,000 of REET revenue for operations and maintenance of capital projects. This temporary provision expires on December 31, 2016. In the 2015 state legislative session, new legislation was approved to allow the use of REET for maintenance of REET-eligible capital projects, up to the greater of \$100,000 or twenty-five percent of available funds, but not to exceed \$1,000,000 per year. Unlike the prior legislation, this authority is ongoing, but it comes with specific reporting conditions.

Each year a city using REET for maintenance of capital projects must adopt a report that satisfies four requirements. The requirements, and data to meet each requirement for the City of Kirkland, are included below.

- 1) Demonstrate that a city "has or will have adequate funding from all sources of public funding to pay for all capital projects, as defined in RCW 82.46.010, identified in its capital facilities plan for the succeeding two-year period".

The City of Kirkland's Preliminary Capital Budget for 2017-2018, the "succeeding two-year" time period covered by the reporting requirement, totals \$89 million as shown in the following table.

**2017-2018 Capital Budget (in thousands)**

<b>Program</b>	<b>2017</b>	<b>2018</b>	<b>Two year total</b>
Transportation	26,885	14,944	41,829
Surface Water	4,001	1,922	5,923
Water/Sewer	7,229	4,935	12,164
Parks	2,659	3,414	6,073
General Government	10,563	12,487	23,050
<b>Total</b>	<b>51,337</b>	<b>37,702</b>	<b>89,039</b>

The planned revenue sources to fully fund the Preliminary Capital Budget in 2017-2018 are detailed in the following table.

**2017-2022 Preliminary Capital Improvement Program  
Revenue Sources (in thousands)**

<b>Dedicated Revenue</b>	<b>2017</b>	<b>2018</b>	<b>Two year total</b>
<b>Transportation</b>			
Gas Tax	610	622	1,232
Gas Tax (Transportation Package)	100	150	250
Business License Fees	270	270	540
Real Estate Excise Tax (REET) 1	398	410	808
Real Estate Excise Tax (REET) 2	1,205	1,242	2,447
Street & Pedestrian Safety Levy	2,626	2,652	5,278
Transportation Impact Fees	3,440	2,300	5,740
Park Impact Fees	-	1,110	1,110
King County Park Levy	-	300	300
Walkable Kirkland	520	400	920
Utility Rates	1,026	806	1,832
Solid Waste Street Preservation	300	300	600
REET 2 Reserve	3,158	1,579	4,737
REET 1 Reserve	100	-	100
External Sources	13,132	2,803	15,935
<b>Subtotal Transportation</b>	<b>26,885</b>	<b>14,944</b>	<b>41,829</b>
<b>Parks</b>			
Real Estate Excise Tax 1	215	868	1,083
Impact Fees	594	796	1,390
Parks Levy	1,250	1,250	2,500
King County Park Levy	-	-	-
REET 1 Reserve	100	-	100
Carryover PY Funds	-	-	-
External Sources	500	500	1,000
<b>Subtotal Parks</b>	<b>2,659</b>	<b>3,414</b>	<b>6,073</b>
<b>General Government: Technology, Facilities &amp; Public Safety</b>			
General Fund Contributions for:			
Public Sfty. Equip. Sinking Fund	155	173	328
Technology Equip. Sinking Fund	289	1,197	1,486
Utility Rates	456	256	712
Health Fund Transfer	1,000	-	1,000
Facilities Life Cycle Reserve	425	554	979
Maj Sys Replacement Rsv	1,300	-	1,300
General Capital Reserves	-	-	-
REET 1 Reserves	772	3,700	4,472
General Fund Cash	3,360	1,937	5,297
Facilities Cash	-	-	-
Fire District 41 Reserves	2,656	-	2,656
Carryover PY Funds	150	-	150
REET 1	-	4,200	4,200
Land Sales Proceeds	-	470	470
<b>Subtotal General Government</b>	<b>10,563</b>	<b>12,487</b>	<b>23,050</b>
<b>Utilities</b>			
Utility Connection Charges	865	865	1,730
Utility Rates - Surface Water	1,801	1,872	3,673
Utility Rates - Water/Sewer	3,764	4,070	7,834
Debt	-	-	-
Reserves	4,450	50	4,500
External Sources	350	-	350
<b>Subtotal Utilities</b>	<b>11,230</b>	<b>6,857</b>	<b>18,087</b>
<b>Total Revenues</b>	<b>51,337</b>	<b>37,702</b>	<b>89,039</b>

2) Identify how REET revenues were used by the city or county during the prior two-year period:

The following tables show 2015 actual and 2016 projected uses of REET 1:

	2015 Actual	2016 Projected	Two year Total
<b>REET 1</b>			
<b>Operating &amp; Maintenance Uses</b>			
Teen Center Debt/Bond Defeasance	47,934	-	47,934
CKC Maintenance	63,500	63,500	127,000
Parks Maintenance	108,249	109,266	217,515
<b>Subtotal O&amp;M Uses</b>	<b>219,683</b>	<b>172,766</b>	<b>392,449</b>
<b>Capital Uses</b>			
<b>Transportation Program</b>			
ST0087 - 6th Street South Corridor Study	17,400		17,400
ST9999 - Regional Inter-Agency Coordination	82,000	82,000	164,000
NM0012 - Crosswalk Upgrade Program	70,000		70,000
NM0057 - Annual Sidewal Maintenance Program	200,000	70,000	270,000
NM0084 - South Kirkland TOD/CKC Multi-Modal Connection	5,600		5,600
NM0086 100 - NE 124th St/124th Ave NE Ped. Bridge (Totem Lake Non-Motorized)	-	234,000	234,000
NM0095 - 124th Avenue NE Sidewalk Improvements	-	95,200	95,200
NM0114 - CKC Bridge Connecting to Houghton Shopping Center	175,000	-	175,000
NM0115 - CKC Emergent Projects Opportunity Fund	-	100,000	100,000
NM0116 - Rose Hill Pedestrian Path	100,000	-	100,000
PT0001100 - Sound Transit 3 Project Study	250,000	-	250,000
TR0118 - General Parking Lot Improvements	-	720,000	720,000
<b>Subtotal Transportation Program</b>	<b>900,000</b>	<b>1,301,200</b>	<b>2,201,200</b>
<b>Parks Program</b>			-
PK0087 100 - Waverly Beach Park Renovation	468,015	-	468,015
PK0049 - Open Space, PK Land & Trail Acq Grant Match Program	100,000	-	100,000
PK0066 - Park Play Area Enhancements	50,000	50,000	100,000
PK0121 - Green Kirkland Forest Restoration Program	75,000	75,000	150,000
PK0123 - Peter Kirk Pool Liner Replacement	-	125,000	125,000
PK0133 401 - Edith Moulton Park Renovation Phase 2	-	135,000	135,000
PK0134 - 132nd Park Playfields Renovation	509,600	-	509,600
PK0135 200 - Juanita Heights Park Expansion	-	200,000	200,000
PK0139 200 - Totem Lake Park Master Plan & Development (Phase 1)	125,000	535,000	660,000
<b>Subtotal Parks Program</b>	<b>1,327,615</b>	<b>1,120,000</b>	<b>2,447,615</b>
<b>General Governmental Program</b>		-	-
GG0037 002 - Maintenance Center Expansion	1,000,000	-	1,000,000
<b>Subtotal Capital Uses</b>	<b>3,227,615</b>	<b>2,421,200</b>	<b>5,648,815</b>
<b>Total REET 1 Uses</b>	<b>3,447,298</b>	<b>2,593,966</b>	<b>6,041,264</b>

The following tables shows 2015 actual and 2016 projected uses of REET 2, and summarizes total REET uses in 2015 and 2016:

	<b>2015 Actual</b>	<b>2016 Projected</b>	<b>Two year Total</b>
<b>REET 2 Uses</b>			
<b>Operating &amp; Maintenance Uses</b>			
Temporary Grounds Crew	103,863	82,329	186,192
<b>Subtotal O&amp;M Uses</b>	<b>103,863</b>	<b>82,329</b>	<b>186,192</b>
<b>Capital Uses</b>			
Transportation			
ST0006 - Annual Street Preservation Program	588,000	570,000	1,158,000
ST0080 - Annual Striping Program	350,000	400,000	750,000
ST0087 - 6th Street South Corridor Study	132,600	-	132,600
NM0007 - Cross Kirkland Corridor Connection - NE 52nd Str	-	60,000	60,000
NM0012 002 - NE 124th Street Crosswalk Upgrade	-	80,000	80,000
NM0057 - Annual Sidewalk Maintenance Program	-	110,000	110,000
NM0084 - South Kirkland TOD/CKC Multi-Modal Connectio	792,000	132,600	924,600
NM0086 100 - NE 124th/124th Ave NE Ped. Bridge (Totem Lake Non-Motorized)	-	93,100	93,100
NM0087 - Citywide School Walk Route Enhancements	-	550,000	550,000
NM0095 - 124th Avenue NE Sidewalk Improvements	-	146,800	146,800
NM0110 - Citywide Accessibility Transition Plan	-	50,000	50,000
NM0113 001 - Citywide Greenways Network Project - NE 75th Street	-	42,500	42,500
TR0085 - NE 68th/108th Avenue Intersection Improvements	19,243	-	19,243
TR0116 - Annual Signal Maintenance Program	-	150,000	150,000
TR0117 001 - Flashing Yellow Signal Head Safety Improvements	-	50,000	50,000
TR0117 002 - Vision Zero Safety Improvement	-	50,000	50,000
TR0117 003 - Neighborhood Traffic Control Program	-	50,000	50,000
<b>Total REET 2 Uses</b>	<b>1,985,706</b>	<b>2,617,329</b>	<b>4,503,035</b>
<b>Total REET Uses</b>	<b>5,433,004</b>	<b>5,211,295</b>	<b>10,544,299</b>

- 3) Identify how funds authorized for allowed maintenance purposes will be used during the succeeding two-year period.

The Preliminary 2017-2018 Operating Budget includes amounts for approved maintenance as shown in the following table:

	2017	2018	Total
<b>Base Budget</b>			
REET 1			
CKC Maintenance	63,500	63,500	127,000
<b>Subtotal Base Budget</b>	<b>63,500</b>	<b>63,500</b>	<b>127,000</b>
<b>Service Packages</b>			
REET 1			
Park Maintenance	112,364	113,013	225,377
Park Maintenance for Hazen Hill Park	25,100	19,300	44,400
Park Maintenance for Edith Moulton Park	23,720	23,720	47,440
<b>Subtotal Service Packages</b>	<b>161,184</b>	<b>156,033</b>	<b>317,217</b>
<b>Total - REET Maintenance Uses</b>	<b>224,684</b>	<b>219,533</b>	<b>444,217</b>

- 4) Identify what percentage of funding for capital projects within the city or county is attributable to REET compared to all other sources of capital project funding.

As shown in the table under Requirement 1, the 2017-2018 Capital Budget includes \$89 million from all sources. Of this amount, 20.2 percent is from REET revenue either collected in 2017-2018 or in prior years.

As stated earlier, this report must be adopted as part of the regular, public budget process. To meet this requirement, staff recommends this report be referenced as an attachment to the biennial budget adoption ordinance presented to the City Council on December 13<sup>th</sup>, 2016. Though the City operates using a biennial budget, the law makes no distinction. Therefore, an updated report will be provided in fall of 2017 and presented for adoption with the mid-biennial budget adjustments in December 2017.

It is worth noting that staff consulted with the Municipal Research and Services Center concerning the format for this report. In brief, it is the MRSC position that the various reporting elements may be already covered through the adoption of the operating budget, the capital budget and the capital facilities plan. Though the pieces of information included in this report, by their very nature, are drawn from these separate documents, staff opted for a format that ties them together in one place.

**RCW 82.46.015****Maintenance of capital projects—Use of tax funds.**

(1) A city or county that meets the requirements of subsection (2) of this section may use the greater of one hundred thousand dollars or twenty-five percent of available funds, but not to exceed one million dollars per year, from revenues collected under RCW [82.46.010](#) for the maintenance of capital projects, as defined in RCW [82.46.010\(6\)\(b\)](#).

(2) A city or county may use revenues pursuant to subsection (1) of this section if:

(a) The city or county prepares a written report demonstrating that it has or will have adequate funding from all sources of public funding to pay for all capital projects, as defined in RCW [82.46.010](#), identified in its capital facilities plan for the succeeding two-year period. Cities or counties not required to prepare a capital facilities plan may satisfy this provision by using a document that, at a minimum, identifies capital project needs and available public funding sources for the succeeding two-year period; and

(b) The city or county has not enacted, after September 26, 2015, any requirement on the listing, leasing, or sale of real property, unless the requirement is either specifically authorized by state or federal law or is a seller or landlord disclosure requirement pursuant to RCW [64.06.080](#).

(3) The report prepared under subsection (2)(a) of this section must: (a) Include information necessary to determine compliance with the requirements of subsection (2)(a) of this section; (b) identify how revenues collected under RCW [82.46.010](#) were used by the city or county during the prior two-year period; (c) identify how funds authorized under subsection (1) of this section will be used during the succeeding two-year period; and (d) identify what percentage of funding for capital projects within the city or county is attributable to revenues under RCW [82.46.010](#) compared to all other sources of capital project funding. The city or county must prepare and adopt the report as part of its regular, public budget process.

(4) The authority to use funds as authorized in this section is in addition to the authority to use funds pursuant to RCW [82.46.010\(7\)](#), which remains in effect through December 31, 2016.

(5) For purposes of this section, "maintenance" means the use of funds for labor and materials that will preserve, prevent the decline of, or extend the useful life of a capital project. "Maintenance" does not include labor or material costs for routine operations of a capital project. [2015 2nd sp.s. c 10 § 2.]