



## **MEMORANDUM**

**To:** Kurt Triplett, City Manager

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

**Date:** October 12, 2020

**Subject:** Potential Revenue Options for Consideration in the 2023-2024 Budget

The purpose of this memo is to provide background on revenue options other than ballot measures for the Council to consider implementing for the 2023-2024 Budget.

### **Background**

The 2021-2022 Preliminary Budget is balanced in large part due to over \$18 million in one-time funds available from 2018 and 2019. However, the Financial Forecast that will be presented at the October 27, 2020 Council Study session illustrates that the structural imbalance between the growth of revenues and the growth of expenditures actually increases. The forecast gap for the 2023-2024 Budget is approximately \$19.8 million for the biennium when including the City Manager proposed one-time service packages. Over \$7 million of the gap comes from retaining the 2019-2020 one-time funding investments and adding the *Community Safety Initiative* to respond to the economic impacts of the COVID-19 pandemic and implement R-5434 to make Kirkland safer and more equitable for Black community members. The 2021-2022 City Manager preliminary budget was able to include most of the one-time funded programs and positions with available one-time general fund resources. To continue these high priority positions on an ongoing basis in future budgets will require the City take reductions in other programs or positions, or to implement new revenues as necessary to balance the budget.

The 2021-2022 budget does not assume any of the revenue sources outlined in this paper are implemented. But the development of the 2023-2024 budget occurs in 2022. Any discussion of new revenues must therefore also occur in 2022. This issue paper describes some potential general fund revenue sources to help inform the 2022 Council deliberations. It does not discuss utility rates as those sources may not be used for to support general fund expenses.

### **Potential General Fund Revenue Sources**

#### Parking Fees

At the February 2020 Council retreat, the City Council authorized staff to explore the expansion of locations where parking fees are charged and the potential of increasing the hourly parking rates. Expanding the paid parking program to waterfront parks and other downtown locations could be used to fund some of the temporary transportation-related positions on an ongoing basis beginning in 2023 and continue funding the Park Ranger position ongoing. An analysis of revenues and expenditures will be conducted in 2021 to determine the additional revenue that would be available. A service package funded from the off-street parking reserve has been

included in the Preliminary 2021-2022 Budget to purchase parking payment equipment to facilitate expanding the City's paid parking program in 2023.

#### Parks Cost Recovery

The Parks and Community Services Department conducted a Cost Recovery study in 2017 and 2018 to articulate and illustrate a comprehensive resource allocation philosophy and fiscal policy in order to ensure a sustainable system into the future by using tax revenues and fees in the most appropriate ways. The [Parks and Community fiscal policy](#) was updated at the December 11, 2018 Council Meeting. Implementing more full-cost recovery for activities primarily benefitting individuals or groups consistent with policy would provide revenues for sustaining parks services and programs or free up general fund revenues for other purposes.

#### Special Event Fees

[Special Event fees and processes](#) were reviewed with the City Council at the July 2, 2019 meeting. Current fees do not cover the cost of the staffing and administering the permits and events. The Special Event Coordinator position was converted to one-time in the 2021-2022 Budget. The base budget funding and FTE were used to create the ongoing Diversity and Inclusion Manager in support of the *Community Safety Initiative* as part of the R-5434 implementation. Council could choose to fully fund this position with revenue from special event fees in the 2023-2024 Budget, other parks fees, or reduce this position in 2023.

#### REET Flexibility for Park and Street Maintenance

Staff will evaluate funding additional positions or portions of positions in Parks and Public Works using Real Estate Excise Tax (REET) funds. This could potentially free up general fund revenues. Cities, towns, and counties may use a portion of their REET 1 and REET 2 funds for capital project maintenance, subject to limitations and reporting requirements. Some REET 2 funds may also be used to fund REET 1 projects, subject to the same conditions and reporting. The City currently uses a portion of REET funds for capital project maintenance and prepares the required report annually. State law limits this REET flexibility. The use of both REET 1 and REET 2 may not exceed \$1 million per year. Kirkland is not using all authorized REET capacity, but the state restrictions on allowed use of REET flexibility make it a challenge to do more

#### Revenue Generating Regulatory License Fee (RGRL)

The Council generally reviews business license fees during the biennial budget process. The RGRL fee applies only to those businesses which generate more than \$12,000 annual gross receipts for business in Kirkland. Businesses with 10 or fewer employees are exempt from the RGRL for the first year of business. The RGRL fees were last increased from \$100 per FTE to \$105 per FTE 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 2023. The current RGRL fee for one full time employee is \$105. There are about 28,000 FTE's subject to the RGRL fee. The Council could evaluate increasing fees or creating a more progressive fee structure for larger businesses.

#### Street Maintenance Funding

The City currently dedicates over \$3 million per year in property taxes to the street maintenance. This is in addition to the 2012 street levy revenues. \$275,000 per year of RGRL revenue also go to street maintenance. The Council could explore alternative street

maintenance funding sources to free up some of these general fund revenues to sustain some of the one-time funded programs in the budget.

### School Zone Safety Cameras

The City has received requests from additional neighborhoods to expand the school zone safety camera program. The required speed and volume studies for other school locations are budgeted and will be completed once school is back in session following the pandemic. If traffic analysis safety conditions warrant, the current School Zone Safety Camera program could be expanded to other locations. The current City code requires that any revenue generated above operation costs be dedicated to fund safer routes to school and other pedestrian safety projects. With new revenue from additional cameras, the allowed use could be expanded to support other traffic-related police and/or transportation positions.

### Development Fees

The 2021-2022 Preliminary Budget includes funding for a comprehensive study of the fees that the City charges for review and inspection of new development projects. The City of Kirkland sets its development fees based on a methodology initially established in 1998 and updated periodically since that point in time. The current methodology provides a general fund subsidy of some development review positions. This methodology has served the City well during for the past 22 years, but it was based on development that was more residential and suburban in nature. Refreshing the approach and revisiting cost recovery targets is recommended during this biennium to recognize that the City's regulations have evolved over time, and the scope and scale of new development has changed to larger, more urban projects in recent years. Moving toward a more full-cost recovery approach would free up general fund revenues for other purposes.

### **Summary**

The 2023-2024 funding gap of \$19.8 million is challenging. Closing the gap while sustaining the *Community Safety Initiative* and important one-time funded programs will be difficult. Balancing the 2023-2024 budget will either require a substantial reprioritization of the existing budget, or significant new revenues. Staff recommends that discussions on these potential revenue sources be included with the mid-biennial budget process occurring in late 2021 and continue in 2022 in preparation for the 2023-2024 Budget.