CITY OF KIRKLAND
CITY COUNCIL

Penny Sweet, Mayor • Jay Arnold, Deputy Mayor • Neal Black • Kelli Curtis
Amy Falcone • Toby Nixon • Jon Pascal • Kurt Triplett, City Manager

Vision Statement
Kirkland is one of the most livable cities in America. We are a vibrant, attractive, green and welcoming place to live, work and play. Civic engagement, innovation and diversity are highly valued. We are respectful, fair, and inclusive. We honor our rich heritage while embracing the future. Kirkland strives to be a model, sustainable city that values preserving and enhancing our natural environment for our enjoyment and future generations.

AGENDA

2021 KIRKLAND CITY COUNCIL RETREAT
Virtual/Kirkland City Hall
Friday, May 28, 2021
12:00 p.m.

1. Call to Order	12:00 p.m.
2. Roll Call	
3. Agenda Overview	
4. Financial Update	
a. Staff Presentation	12:05 – 1:15 p.m.
b. *BREAK*	1:15 – 1:30 p.m.
c. Council Discussion	1:30 – 2:45 p.m.
d. *BREAK*	2:45 – 3:00 p.m.
5. Neighborhood and Park Signage	
a. Staff Presentation	3:00 – 3:15 p.m.
b. Council Discussion	3:15 – 3:30 p.m.
6. Good of the Order	3:30 p.m.
7. Adjourn	4:00 p.m.

Times provided are our best estimate. The order of items is subject to change during the Retreat.

CITY OF KIRKLAND
Department of Finance & Administration
123 Fifth Avenue, Kirkland, WA 98033 425.587.3100
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MEMORANDUM

To: Kurt Triplett, City Manager

From: Michael Olson, Director of Finance and Administration
George Dugdale, Financial Planning Manager

Date: May 19, 2021

Subject: CITY COUNCIL RETREAT – FINANCIAL PLANNING

Recommendation

Council receives a financial update on year-end 2020 financial results, year-to-date 2021 financial performance, the 2021-2026 forecast, and an update to the American Recovery Plan Act (ARPA). The primary focus of the information will be on the General Fund, although analysis of resources in the Capital and Utility Funds is included. Suggested strategies for the use of one-time resources are included for Council discussion and, following this discussion, any budget action items will be brought to the June 15th Council meeting as part of the mid-year budget adjustments.

Year End 2020 General Fund Status

Between the time 2020 year-end projections for the 2021-2022 Adopted Budget were made and the final year actual results, the City received $8.5 million in additional revenues, which was slightly offset by $600,000 in expenses above projection, for a net increase of $7.9 million. Of this total, $1.7 million was added to the 2021-2022 budget by Council in March as carryovers above those originally identified. This was primarily because of $1.38 million in revenue from a one-time sales tax audit, which was added to three reserves. A further $900,000 of this revenue is restricted as it is from the public safety sales tax and must be used for these purposes. This leaves a remaining unreserved balance of $5.95 million, which can be programmed for other expenditures. These changes can be seen in Table A.

Table A: Change in General Fund Balance from Budget to Year End

Category	Amount
Original Unreserved Balance	562,737
Additional 2020 revenue above projections	8,508,745
Additional 2020 expenses above projections	(550,146)
Additional carryovers above original budget projections	(1,682,137)
Revenue reserved for Police Proposition 1	(887,483)
Net new unreserved resource	**5,951,716**

In addition to this balance, the City expects to receive around $300,000 in reimbursements for FEMA eligible work in 2020 and has received $232,000 in State reimbursements for wildland fire deployments in summer 2020. These revenues for 2020 activity will be recognized in the upcoming mid-year budget adjustments but will be offset by Council directed expenditures related to analysis of the NE 85th Station Area which total approximately $525,000.

The financial update below provides detail on the changes to 2020 described above, early indications of revenue in 2021-2022 and analysis of trends and factors that will impact future budget cycles. There is also information on Capital and Utility funds to help provide additional context and a fuller picture of the City's financial health. This information is presented to help explain the rationale behind staff recommendations for how to use the $5.95 million General Fund balance, and to give Council the background needed to provide staff additional direction.

General Fund Revenues

As mentioned above, General Fund revenues finished 2020 $8.5 million above budget projections. The budgeted fund balance was estimated using projections made in July 2020 when the pandemic was expected to produce an overall reduction in revenue. There is a variance between that projection and final amounts across most individual revenues, although approximately half the variance was from sales tax revenue. Early indications of 2021 revenue are that overall growth has continued, again particularly in sales taxes. This change may help to mitigate the impact of the end of the Annexation Sales Tax Credit (ASTC) and the projected 2023-2024 budget deficit.

Sales Tax

Table B shows the various sales tax revenues to the City's General Fund and how they varied from projection to actual results.

Table B: Difference in sales tax revenue between projected and actual results

Category	Projected	Actual	Difference
Retail Sales Tax	23,932,560	26,176,231	2,243,671
Retail Sales Tax - one time audit revenue		1,384,690	1,384,690
Annexation Sales Tax	4,935,000	5,246,286	311,286
Police Proposition 1 Sales Tax	1,960,999	2,258,777	297,778
Affordable Supportive Housing Sales Tax	615	123,478	122,862
Total	**30,829,174**	**35,189,462**	**4,360,288**

The largest variance in 2020 was in the retail sales tax items, which increased a total of $3.6 from July projections. This was partly attributable to a one-time sales tax audit of a company that resulted in $1.38 million of revenue to Kirkland. At the March 16 Council meeting, Council directed staff to put this funding into three separate priority areas.

- Human Services Reserve, $834,690
- 2023-2024 Deficit Reduction Reserve, $500,000
- Parks & Community Services Scholarship Fund, $50,000

The remaining increase in sales taxes represents growth above expectations due to significantly better than expected sales in Kirkland. Since COVID-19 began to impact the economy in early 2020 staff have presented various forecasts on the effect of the pandemic on resources in Kirkland. Sales tax receipts at the time the budget was created were estimated to decline by 10%, which was a much smaller reduction than national models were projecting at that time. Actual year-end results (excluding the one-time audit) showed a decrease of closer to 2%.

Sales tax has also continued to grow in 2021 and the most recent sales tax memo, included as **Attachment A**, shows year-to-date revenues through April to be 10.3% higher in 2021 than in 2020.

There are a number of potential reasons for the continued strength of sales tax in 2020, and for strong sales tax growth in recent years in general, but a key identifiable component is the success of The Village at Totem Lake. Since 2018, when new businesses began to generate sales tax revenue, there has been growth in both overall revenue and revenue from new businesses.

Using annual sales tax data to compare revenues received from The Village at Totem Lake shopping center with revenues received from the former Totem Lake retail center shows the impact of these new businesses. In Table C below, revenue for the years 2017-2020 has been broken out into pre-development businesses—those that remained open and became part of The Village at Totem Lake—and new businesses. The pre-development column shows an annual baseline of sales taxes received from all businesses in the shopping center prior to development.

Because most businesses in the prior retail center closed as demolition began during 2016, sales tax receipts from 2015 ($271,628) were used as the pre-development baseline. Three of the 21 businesses from the former retail center remained open and became part of The Village at Totem Lake. Sales tax from those businesses made up almost half ($124,179) of the total 2015 sales tax revenue. Although revenues declined for these businesses during 2017 when construction was underway, they recovered in 2018 and 2019.

Table C: Annual Sales Tax Revenue from Village at Totem Lake/ Totem Lake Retail Center

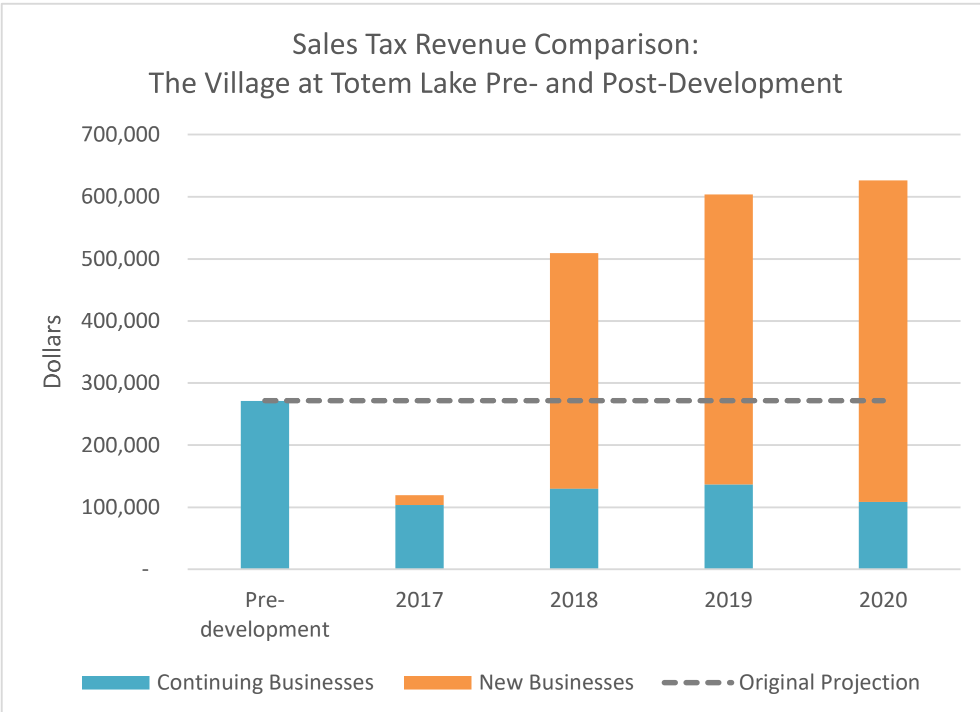
Sales Tax Revenue Comparison: Village at Totem Lake Pre- and Post-Development						
	Pre-development	**2017**	**2018**	**2019**	**2020**	**2017-2020 Total**
Pre-Development Businesses	*271,628*	103,491	130,187	136,871	108,635	479,184
New Village at Totem Lake Businesses	-	16,146	378,810	466,543	517,721	1,379,220
Total	*271,628*	**119,636**	**508,997**	**603,414**	**626,356**	**1,858,403**

Comparing pre-development sales tax revenue from continuing businesses to new businesses, there was a net revenue increase of $1.38 million for the years 2017 to 2020. The Village at Totem Lake opened in December 2017, with tax revenues from that year primarily from the three continuing businesses from the prior shopping center. Sales tax revenues have increased each year since, and more businesses are slated to open in 2021.

This revenue growth is also higher than the projected growth that was included in forecasts made prior to 2018. At that point, new businesses were anticipated to generate $680,000 in additional sales tax between 2018-2020, whereas the actual number shown above is $1,379,220. Part of this difference is that businesses opened earlier than originally anticipated, so revenue above projections received through the end of 2020 does not necessarily indicate long term revenues will be above projection. For example, the original estimates assumed new businesses would generate $605,000 in 2021, which is higher than 2020 actuals. Staff will continue to track actual performance against original projections as part of efforts to improve future forecasts.

Chart D below makes clear how much of the growth has been driven by new business arrivals, particularly in 2018. In 2017, when The Village at Totem Lake Phase 1 was under construction, revenues dropped about $152,000, or 56% below pre-development levels. After that, however, sales tax receipts from businesses at The Village at Totem Lake increased to 87% above the baseline in 2018, 122% above baseline in 2019, and 131% above baseline in 2019. Growth continued in 2020, despite a reduction in revenue to those businesses that pre-dated the development. This suggests that new business openings helped to offset what would otherwise have been a decline in revenues from those already open.

Chart D: Sales tax from The Village at Totem Lake 2017 - 2020



One important factor in the positive revenue results from The Village at Totem Lake was the City's proactive decision not to issue debt for the $15 million in public infrastructure projects as contemplated in The Village at Totem Lake development agreement. Instead, in the 2017-2018 and 2019-2020 budgets, Council approved investing higher-than-projected Real Estate Excise Tax and General Fund cash to purchase those assets, resulting in all sales tax revenues from The Village at Totem Lake being available for General Fund purposes, rather than for paying debt service.

The impact of the continued strength of sales tax is twofold. Firstly, as shown above, there is a net positive impact to the amount of unreserved fund balance at the end of 2020. Secondly, because of the timing of the 2021-2022 revenue projections, there are likely to be significantly more sales tax revenues than are currently budgeted. This revenue impacts both the current budget and the General Fund forecast. Chart E shows the timeline of when projections are made and what information was used.

The 2021-22 budget, along with the three strategic anchors, were developed using the 2019 actual revenues along with projections made in July 2020. Actual revenue and expenditures results are not incorporated into the budget until the final fund balances are known, which happens after the 2020 financial year is closed. This impacts all funds for both expenditures and revenues but is most obvious for revenue sources with significant volatility, such as sales tax. Table F illustrates this using sales tax during the 2021-2022 budget process. This difference between projected sales tax and actual results always exists, and has some impact on the ongoing forecast, but given the additional uncertainty in 2020 the likely impact in this budget cycle is more dramatic.

Chart E: Timeline of Revenue Projections in the Budget Process

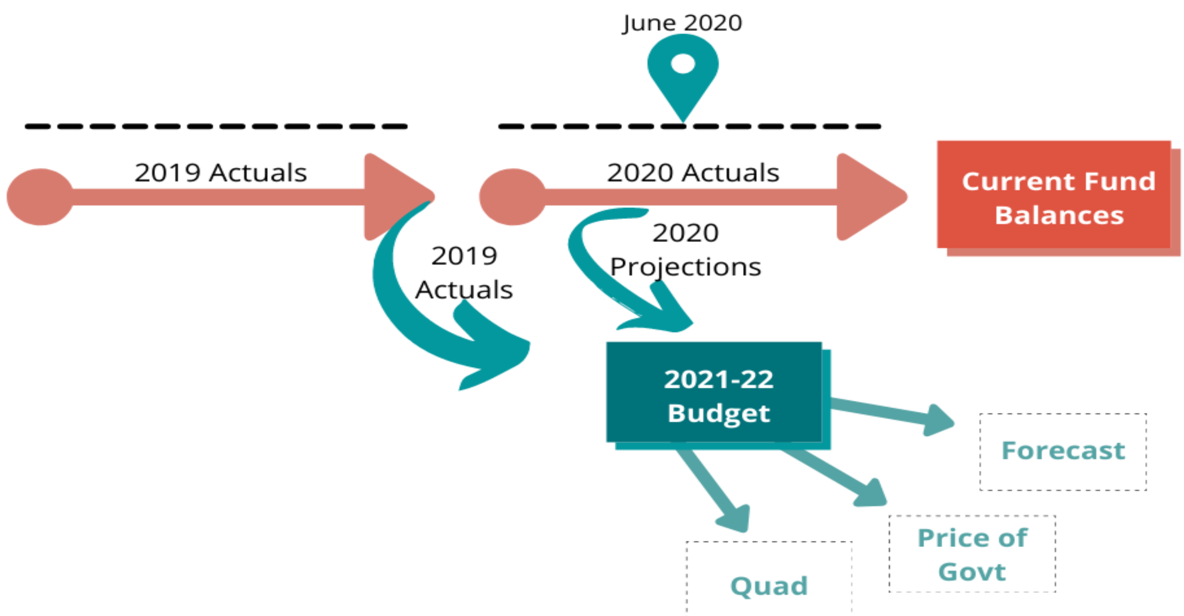


Table F: Sales tax projections vs actual revenues 2020

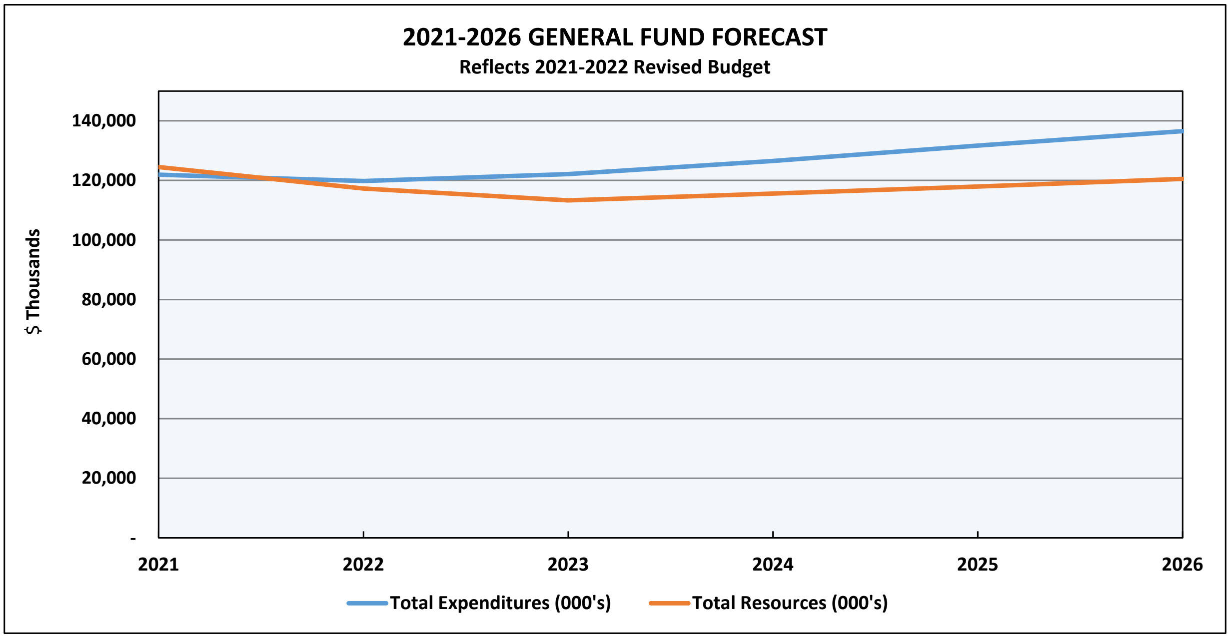
Sales Tax	2019	2020 Projection	2020 Actual*	2021 Budget	2022 Budget
First half of year (actual)		$ 11,906,332	$ 11,906,332		
Second half of year (forecast)		$ 12,026,228	$ 14,269,899		
Full year	$ 26,591,733	$ 23,932,560	$ 26,176,231	$ 23,932,560	$ 23,932,560

*excluding one time sales tax audit

Given the table above, and that early indications in 2021 are of continued revenue growth, it is important to remember that there were significant revenue declines in the second quarter of 2020, and that this budget was created during a time of great uncertainty with the aim of providing fiscal stability. As we move through the 2021-2022 biennium and into 2023-2024 budget planning the City will continue to follow conservative budgeting principles while recognizing that locally we appear to have avoided the worst-case economic downturn scenarios.

In that context, the General Fund forecast as of March 2021 is shown below as Chart G. The only significant change from the preliminary budget is an increase in ongoing revenues and expenditures from Fire Prop 1, which passed after the budget was completed. As can be seen there is a projected $19 million deficit in 2023-2024, which increases to almost $30 million in 2025-2026, consistent with the forecast in the 2021-2022 budget document.

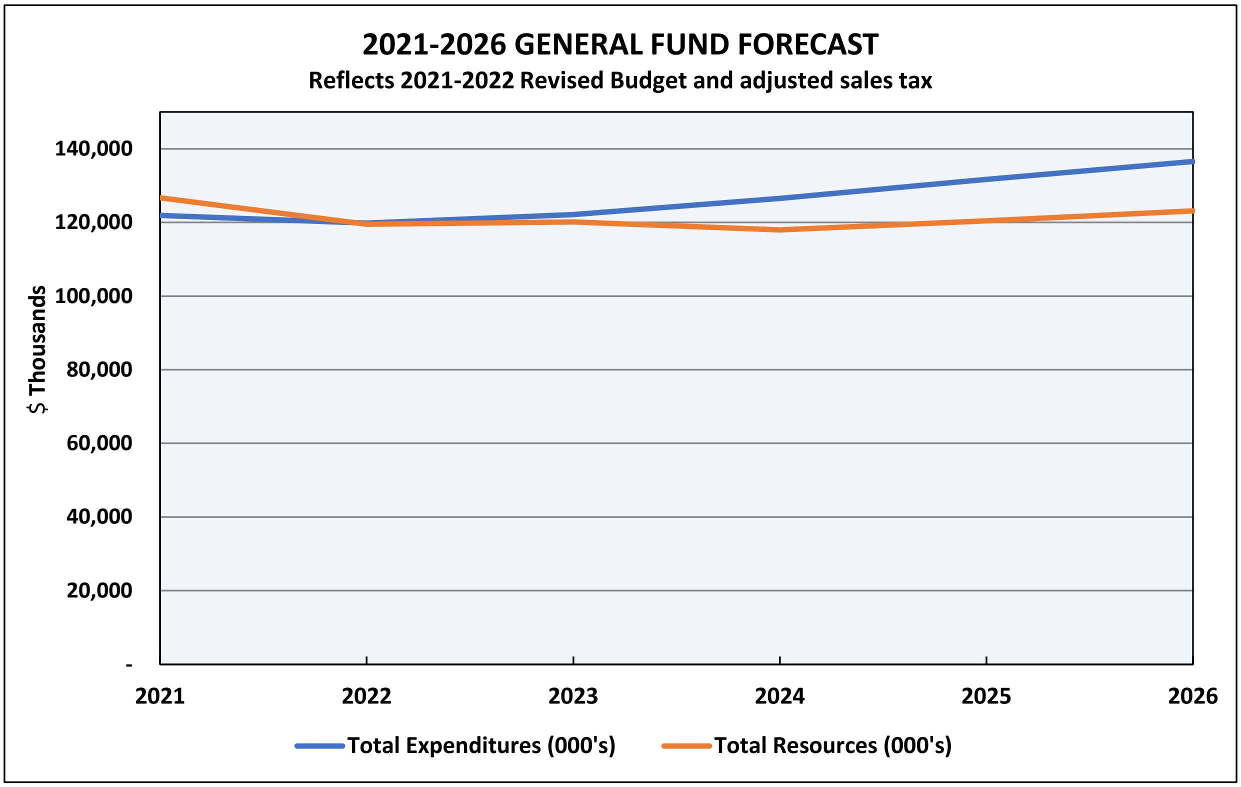
Chart G: General Fund Forecast - Scenario 1: Budgeted Forecast Plus Fire Prop 1



	2021	2022	2023	2024	2025	2026
Total Expenditures (000's)	121,928	119,789	122,105	126,531	131,694	136,541
Total Resources (000's)	124,464	117,252	114,428	116,694	119,042	121,621
Net Change (000's)	**2,536**	**(2,537)**	**(7,677)**	**(9,837)**	**(12,652)**	**(14,920)**
Net Less Additions to Reserves	**2,536**	**(2,537)**	**(8,798)**	**(10,958)**	**(13,773)**	**(16,041)**
Biennial Net Resources (000's)		**(0)**		**(19,756)**		**(29,814)**

However, if the 2021-2022 sales tax budget was based on the actual 2021 sales tax revenue, and projected increases were kept at 4% per year in 2023-2026 (the same as in Scenario 1) this would roughly halve the deficit, as approximately $10 million in additional sales tax would be assumed across the four-year period from 2021-2024. This is shown in Scenario 2, which is Chart H below.

Chart H: General Fund Forecast- Scenario 2: Budgeted Forecast plus Fire Prop 1 & Sales Tax Adjustment



	2021	2022	2023	2024	2025	2026
Total Expenditures (000's)	121,928	119,789	122,105	126,531	131,694	136,541
Total Resources (000's)	126,708	119,496	121,249	119,121	121,570	124,265
Net Change (000's)	**4,780**	**(293)**	**(856)**	**(7,410)**	**(10,124)**	**(12,275)**
Net Less Additions to Reserves	**4,780**	**(293)**	**(1,977)**	**(8,531)**	**(11,245)**	**(13,397)**
Biennial Net Resources (000's)		**4,487**		**(10,508)**		**(24,642)**

As we are still early in the biennium and the 2021-2022 budget is balanced without any additional sales tax revenue, staff does not recommend making any changes to sales tax at this time. However, as Council approaches decisions on how to use the current General Fund balance and planning for the mid-biennial and next full budget process begins, the likelihood of sales tax revenue ending the biennium above current budget is valuable context.

Property Tax

Following the successful passage of Fire Prop 1, property tax is the largest revenue source in the General Fund, with a 2021 budget of $27 million. As described in detail at the March 16 Council meeting, this increase has enabled the City to fund additional and existing fire services, freeing up other resources in the General Fund to help pay for debt service to complete the fire station capital program.

In general, as property tax is capped at 1% overall growth plus new construction, this plays a significant role in the diverging lines in the forecast model shown above. However, it also makes property tax both predictable and stable which means there is lessened risk or volatility. In recent years, property tax in Kirkland has grown by an average of 2.9% per year, as there has been strong new construction during the protracted period of economic growth. This is illustrated by the assessed valuation (AV) at Kirkland Urban and The Village at Totem Lake, which has grown from approximately $60 million between the two sites in 2016, to $800 million in 2020.

Once new construction is complete, increases in AV are considered as part of the overall 1% growth, but the first year it does create additional property tax revenue. As construction continues at these two large sites, and other development in the City continues to be strong, the forecast contains 3.0% growth in 2021, declining to 2% growth for years 2023 – 2026.

Other Revenues
All other revenues in the General Fund have been left unchanged from the 2021-2022 adopted budget in the forecast scenarios shown above. This is partly because there has been little substantive change to major categories such as utility taxes and Parks recreation fees, and partly because other major revenues such as development fees are restricted revenues, so revenue above budget would not help close the overall General Fund gap. Although there might be changes to recreation fees if programs can be run closer to capacity than originally assumed, this will not provide enough of a shift in overall General Fund revenues to significantly alter the forecast.

Future Revenue Considerations
Although growth in sales tax will likely help reduce the current predicted 2023-2024 budget deficit, it will not eliminate the need for other strategies to help balance the budget. Council has already budgeted resources in 2022 to look at additional revenue options, and during the recent budget development process staff presented an issue paper on alternative revenue options, included as **Attachment B**. As a reminder, this issue paper included the following options:

- **Parking Fees** – expanding the areas in which parking fees are charged
- **Parks Cost Recovery** – increasing cost recovery percentage and activities within Parks and Community services
- **Special Event Fees** – expand or increase charges for special events within the City
- **REET flexibility** – including additional positions in the list to be funded with REET flexibility
- **Revenue Generating Regulatory License (RGRL)** – increasing per employee business fees, which were last increased in 2017
- **Street Maintenance Funding** – explore alternative funding sources for Street Maintenance that would free General Fund resources
- **School Zone Safety Cameras** – increase the number of school zone safety cameras in the City to slow traffic and reduce unsafe driving, based on resident requests
- **Development fees** – reduce or eliminate general fund subsidies for development activity

The implementation of one or more of these revenue options could help to further reduce the deficits currently predicted in future years.

General Fund Expenditures

General Fund Expenditures in 2020 were approximately $600,000 above projections. However, this is due to fire overtime expenditures, which finished the year $750,000 over the projected expenses. Fire overtime expenses were high both due to the ongoing response to COVID-19, and also because of wildland fire response, both of which are funded by external sources, and for which reimbursement has been received in 2021. These reimbursements will be adopted into the budget as part of the mid-year adjustment is June.

The example of fire overtime in 2020 illustrates that General Fund expenditures are largely driven by personnel costs, which account for 48% of the 2021-2022 budget. Salaries alone represent 31% of budgeted expenditures in 2021. However, pay increases agreed to by most bargaining units in the City were relatively low in 2021 due to a mutual agreement with the City's labor unions to approach the expected economic impact of COVID-19 in partnership. To help mitigate the impact of the COVID-19 pandemic, a 1% increase for non-public safety employees was negotiated, and the IAFF agreed to a 2% one-year agreement. Personnel costs remain a large percentage of the General Fund and only the police unions have settled pay increases beyond 2021. The potential impact of pay increases greater than the amounts assumed in the forecast in 2022 and beyond would put significant pressure on City resources.

Additionally, recently-released CPI rates show a sharp increase from the April to April year over year time frame. The Seattle metro area rate currently sits at 3.7%, 60% higher than the 1.4% in February 2021, and up 2.2 percentage points from April 2020. Although this annual increase partly reflects price decreases last spring, it is widely predicted that as the national economy recovers there will be increases to inflation.

Impact of Cost Of Living Adjustments (COLA) Increases on General Fund
Due to the timing of the budget process, budgeted salaries for 2021-2022 are based on 2020 salary schedules. Therefore, staff estimated a contract reserve from which potential increases can be drawn. The City's contract reserve is used to cover total personnel increases beyond original budgeted salaries, including any increases in variable benefits. The reserve was calculated prior to the 2021 salary adjustments being known and so has enough funding to absorb slightly higher salary increases in 2022. However, larger increases have a compounding impact into future years as they increase the base salary from which future increases are given. Therefore, the decisions made in each year have impacts beyond the current contract reserve.

Given the potential gap between 2021 increases in pay and inflation, staff have prepared scenarios to show the impact on the City's General Fund between now and 2026 of various increases.

The impact of wage increases through 2026 was estimated using three scenarios of annual increases: 1%, 2%, and 3%. The 2022 salary projection for ongoing positions was established using 2020 salary schedules, plus known 2021 increases and a 2% assumed wage increase for 2022.[1] The 2022 salary estimate used for this analysis also includes step increases and known 2021 market rate adjustments. Additionally, salaries for ongoing positions from 2021-2022 service packages (3.5 FTE) and Fire Prop 1 (20 FTE) were added. As noted above, the 2% assumption for 2022 may be low, as the City enters new contract cycles with AFSCME, Teamsters, and IAFF later this year. For 2023 through 2026, step increases were estimated at 1% per year and known market rate adjustments were included. Variable benefit rates were calculated using 2022 rates and applying a 6.1% increase each subsequent year, which is the same assumption used in the forecast.

The City also has a number of one-time funded positions in the General Fund that are set to end at the end of 2022 and are not included above. In previous budget cycles at least some of these positions have been renewed. Table I shows the impact of these positions under the three COLA scenarios, using the same assumptions for variable benefits and step increases. It is

[1] Police union contract increases through 2022 were already established in 2020 and incorporated into the 2021-2022 projections.

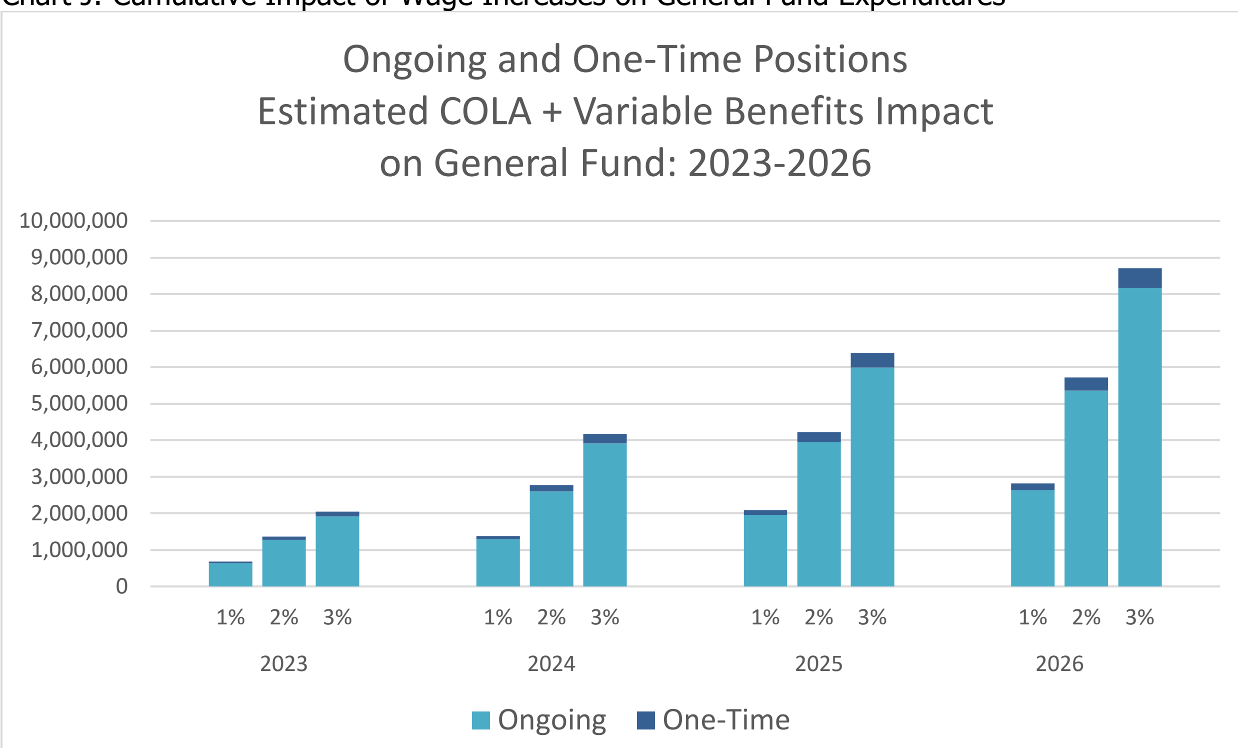
important to note that around 40% these one-time positions are funded either with development revenue or from capital projects and will only be extended if they can continue to be backed by their respective restricted revenue source.

Table I: Impact of One Time Salary and Variable Benefit Increases 2023-2026

Wage Increase	Increase in one-time salary costs	Increase excluding development and capital fund positions
1%	176,639	107,750
2%	358,711	218,814
3%	546,328	333,260

Chart J below shows the cumulative annual General Fund impact under each scenario for 2023 through 2026. The projected impact includes salary increases and associated variable benefit increases. As shown, each additional 1% increases General Fund personnel costs by slightly over $600,000 in 2023, which rises to close to $3 million per 1% increase in 2026. This is due to the compounding impact of these increases. A bargaining unit that had 1% increases between 2023 and 2026 would have a total increase of slightly over 4%, but if this was increased to 3% per year, this would be over 12% across the four-year period.

Chart J: Cumulative Impact of Wage Increases on General Fund Expenditures



Given the number of bargaining contracts open in 2022, staff recommends Council consider using some of the General Fund balance to increase the size of the contract reserve in 2022 in anticipation of upcoming labor negotiations. Anything that is unspent from the reserve in the current biennium can be carried forward into future budgets and used for the same purpose.

Capital Funds

Two key dedicated sources of Capital funding are Real Estate Excise Tax (REET) and Impact Fees. Revenue in both of these funds is driven by development activity and real estate sales, which after a brief blip in early 2020 have remained strong throughout the rest of the past year.

Revenue Overview

Real Estate Excise Tax (REET) Revenue
Table K shows the REET 1 & REET 2 sources and uses as adopted by City Council over the next six years, including changes made through the May 18 Council meeting, as well as a fiscal note that will be brought to the June 1 Council meeting.

Table K: 2021-2026 REET Sources and Uses

REET 1 Sources & Uses Table						
Sources	2021	2022	2023	2024	2025	2026
REET 1 - Estimated Starting Balance	8,150,775	3,237,119	3,513,025	2,867,275	2,497,525	2,461,775
REET 1 - Current Revenues (Budget)	2,250,000	2,250,000	2,250,000	2,250,000	2,250,000	2,250,000
REET 1 - Interest Earnings (Estimate)	26,775	22,656	-	-	-	-
REET 1 - NE 132nd St Sidewalk	25,769	-	-	-	-	-
Total REET 1 Sources	10,453,319	5,509,775	5,763,025	5,117,275	4,747,525	4,711,775
Uses						
REET 1: Debt Service	(600,000)	(780,250)	(780,250)	(780,250)	(780,250)	(780,250)
REET 1: Maintenance REET 1 Flexibility	(388,500)	(388,500)	(263,500)	(263,500)	(263,500)	(263,500)
REET 1: Parks CIP	(172,000)	(62,000)	(1,119,000)	(859,000)	(692,000)	(347,000)
REET 1: Public Works Transportation CIP	(736,000)	(766,000)	(733,000)	(717,000)	(550,000)	(950,000)
REET 1: 100th Avenue Improvements	(1,500,000)	-	-	-	-	-
REET 1: Village at Totem Lake Phase 2 Payment	(2,500,000)	-	-	-	-	-
REET 1: Kirkland Ave/Lake St Intersection	(555,000)	-	-	-	-	-
REET 1: 132nd Square Park*	(764,700)					
Total REET 1 Uses	(7,216,200)	(1,996,750)	(2,895,750)	(2,619,750)	(2,285,750)	(2,340,750)
REET 1 Balance	**3,237,119**	**3,513,025**	**2,867,275**	**2,497,525**	**2,461,775**	**2,371,025**
REET 2 Sources & Uses Table						
Sources	2021	2022	2023	2024	2025	2026
REET 2 - Estimated Starting Balance	8,958,876	105,310	316,966	620,966	733,966	1,443,966
REET 2 - Current Revenues (Budget)	2,250,000	2,250,000	2,250,000	2,250,000	2,250,000	2,250,000
REET 2 - Interest Earnings (Estimate)	26,775	22,656	25,000	25,000	25,000	25,000
Total REET 2 Sources	11,235,651	2,377,966	2,591,966	2,895,966	3,008,966	3,718,966
Uses						
REET 2: Debt Service	(600,000)	(600,000)	(600,000)	(600,000)	(600,000)	(600,000)
REET 2: Public Works Transportation CIP REET 2	(1,593,000)	(1,461,000)	(1,371,000)	(1,562,000)	(965,000)	(1,537,000)
REET 2: 100th Avenue Improvements	(2,500,000)	-	-	-	-	-
REET 2: 124th Ave NE Improvements	(2,000,000)	-	-	-	-	-
REET 2: Village at Totem Lake Phase 2 Payment	(3,296,341)	-	-	-	-	-
REET 2: Set Aside for Affordable Housing	(1,141,000)	-	-	-	-	-
Total REET 2 Uses	(11,130,341)	(2,061,000)	(1,971,000)	(2,162,000)	(1,565,000)	(2,137,000)
REET 2 Balance	**105,310**	**316,966**	**620,966**	**733,966**	**1,443,966**	**1,581,966**
**To be reviewed by City Council on 6/1/21*						

There have been several changes since the budget was adopted in December 2020. Most notably, $4,457,846 of REET 1 that was set aside as contingency funding for Fire Station 27 is now available to be programmed as the passage of the Fire Prop 1 levy fully funded this project. The first use of this available REET 1 was to replenish minimum reserves. There were no adopted REET 1 minimum reserves in the 2021-2022 budget, while previous policy has set these as $1 million. After reserve replenishment, Council approved $555,000 in additional funding for the Kirkland Ave/Lake St Intersection project and will be brought a request for the use of $764,700 for 132nd Square Park at the June 1 Council meeting. With these two requests included in the table above, REET 1 has a projected ending 2026 balance of $1.37 million above the reserve level. If no additional requests on REET 2 funds are made, the balance will be back above minimum reserve requirements by 2025.

Year-to-date revenues for REET have been robust. Through April, the City has received a combined $5,021,599, which is $521,599 higher than the annual budget. Using a conservative estimate of monthly revenues as budgeted for the remainder of the year, total REET will exceed budget by $3,521,599 in 2021. If REET revenues matched the average 2020 distribution for the remaining months, total REET would exceed budget by $9,164,079. Table L shows REET revenues by month for 2021 compared to 2020.

Table L: REET Revenues in 2020 and 2021

REET Revenues	2020	2021
January	386,334	772,814
February	507,832	987,779
March	883,756	1,328,406
April	551,747	1,932,600
May	1,031,423	375,000
June	1,047,734	375,000
July	1,347,056	375,000
August	1,134,352	375,000
September	1,583,894	375,000
October	1,817,810	375,000
November	1,053,475	375,000
December	1,618,312	375,000
Total Actuals	12,963,726	8,021,599
Budget	2,500,000	4,500,000
Budget to Actual	10,463,726	3,521,599

The actual revenue results in table L are not included in the REET sources and uses table (table K), and so the ending 2021 balance for both REET 1 and REET 2 will likely be significantly higher than what is currently projected.

Impact Fees
Transportation and Park impact fees have also been very strong through the early months of 2021. The City has received $3,708,410 in Transportation impact fees (annual budget of $1,500,000) and $1,030,050 in Park impact fees (annual budget of $1,200,000). Revised projections for these revenues will be presented at the CIP study session on August 4. Both fees are being updated in 2021, with a target effective date of 1/1/2022. Planned increases will be presented to Council at the June 1st (Parks) and July (Transportation) meetings.

Fire impact fees were adopted by City Council at the May 5th meeting via Ordinance 4758. These fees will apply to residential and commercial development, going into effect on July 1st, 2021. Due to the variable nature of impact fees, staff will monitor revenues for the second half of 2021, and incorporate new revenues into the development of the 2023-2028 Capital Improvement Program.

Impact fees are charges assessed to address increased demand for services created by development. Because of this, impact fees must be used on projects that are "system improvements", and not current existing deficiencies. Impact fees can also only fund a proportionate share of a project, so cannot be used to fully fund any projects.

Expenditure Overview

Although capital revenues have continued to be strong, there are also significant cost pressures within the Capital Improvement Program (CIP). Construction inflation is very high, with city staff expecting an annual inflation of 5% on CIP projects. Additionally, COVID-19 has added high variability in construction material availability and cost, which will continue to put pressure on current projects. Because of these two factors, staff intend to use 2021 and the upcoming CIP update process to focus on completing projects already underway, to ensure that the City can deliver on the promises already made to residents.

City staff kicked off the 2021-2026 CIP update last month and are reviewing current and upcoming projects for anticipated changes. These will be presented to the City Manager for review in mid-June. Based on staff input and City Manager direction, an update will be brought to Council at the study session on August 4.

In conjunction with the CIP update process and on the theme of completing current city projects, Financial Planning and Public Works staff have completed an internal audit of existing capital projects. The goal was to make any funding in completed projects available for reprogramming, to confirm external funding amounts were both correct and fully billed, and to make any project adjustments necessary for complete projects. As in prior biennia, this process will be part of the mid-year budget adjustments presented to City Council on June 15. Preliminary funding made available by the audit is presented in Table M.

Table M: Estimated Net Funding Returning to Funding Source as Part of Capital Project Closeout

Capital Fund	Closeout Amount	General Fund - 010	Transportation Impact Fees - 156	Parks Impact Fees - 156	REET 1 - 190	REET 2 - 190	Water/ Sewer Capital - 413	Surface Water Capital - 423
GENERAL CAPITAL - 310 Fund	130,011	368,358			11,653		(82,500)	(167,500)
TRANSPORTATION - 320 Fund	373,985	176,736	9,054		16,653			171,542
WATER/SEWER - 413 Fund	1,228,161						1,228,161	
SURFACE WATER - 423 Fund	2,030,527							2,030,527
Totals	3,762,684	545,094	9,054	-	28,306	-	1,145,661	2,034,570

Along with ensuring all existing projects are on track and fully funded, staff is also planning to focus on current work in 2021 as there is the potential for additional federal funding to be available by the time the 2023-2028 CIP is planned. Potential funding could come from either the City's American Recovery Plan Act (ARPA) funding allocation, which is discussed later in this update, or via a potential federal infrastructure bill. The current uncertainty around any infrastructure bill and the plan for two separate ARPA distributions means that improvements funded via these two sources would be added as part of the 2023-2028 CIP. A small number of projects, including HVAC improvements in city facilities, could be added in 2021 if Council direction is given.

<u>Utility Funds</u>

During the Council's ARPA retreat in April, the impact of COVID-19 on the City's utility revenues, and the corresponding impact on Kirkland utility customers was discussed. Since that time staff has continued to analyze the utility funds and the discussion below reflects updated analysis on utility funds. There is also a General Fund impact of the changes to utility revenues as utility taxes are a function of revenue to the City's utilities.

Utilities across the United States have been impacted by COVID-19 and the resultant recession, although its effects have varied widely based on regional pandemic response. Relief measures, such as the Washington moratoria on utility disconnections and late fees, have provided individual relief that has helped individuals and families to avoid shutoffs but has created a challenge for providers as the economic recovery begins and those organizations seek to address the reduced revenue.

In Kirkland, the impacts to utilities have also not been uniform – with Water and Sewer experiencing greater revenue gaps than Surface Water or Solid Waste utilities. Because of the relative short timespan from which to draw conclusions and the cyclical nature of some utility revenues, it is difficult to pinpoint the exact causes of some revenue impacts and will require greater scrutiny over the next few months as restrictions on business activity are lifted and economic relief measures expire. To that end, Public Works and Financial Planning will be preparing a full Council study session to review the COVID-19 impacts to revenues and expenses for each of the utility funds in August or September.

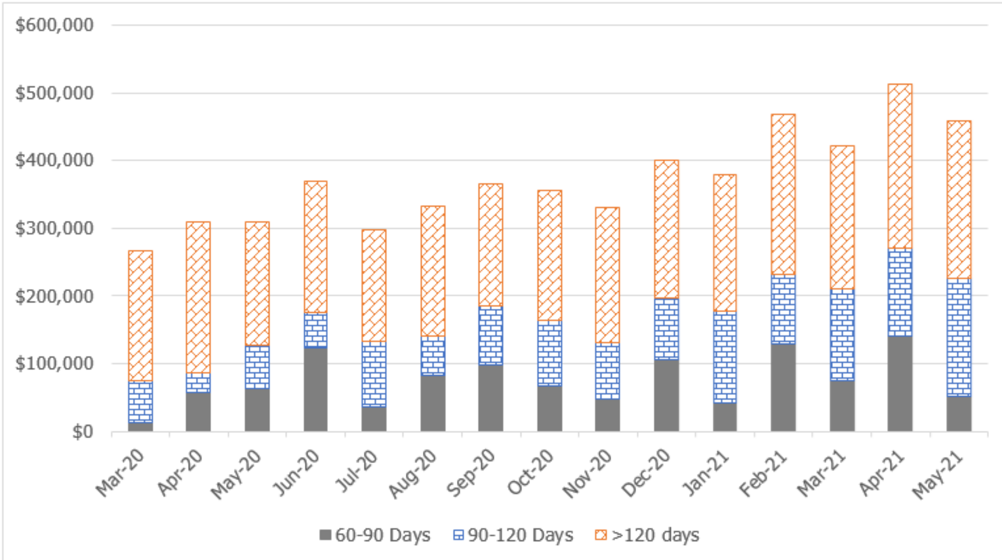
Additionally, due to a "ransomware" attack[2] at the City's former bill printer and lockbox facility, the City experienced billing delays in early 2021, and these delays have only recently been resolved. There were concerns about substantial decreases in utility tax revenues over the first couple of months of 2021, which staff expect will temper as billing catches up, although this delay does not account for all of the utility revenue declines, as discussed below. It is possible that utility revenues may continue to fluctuate as businesses navigate reopening so we will continue to monitor these trends closely.

Utility Billing & Delinquencies

Since the start of the pandemic, utility bills over 60 days late for customers served by the City have grown 71%, as shown in Chart N. The Governor's emergency proclamation currently prohibits water service from being disconnected until July 31, 2021, and the City Manager's local order extends this until at least August 31, 2021. Additionally, all late fees must be waived through January 27, 2022. At some point in 2021 these orders will most likely expire, and the City will be faced with a large policy decision around collecting these fees and shutting off customers in arrears.

[2] No City data was compromised in this incident and the City has since switched providers.

Chart N: Outstanding Utility Bill Payments Over 60 Days Late for Kirkland Customers

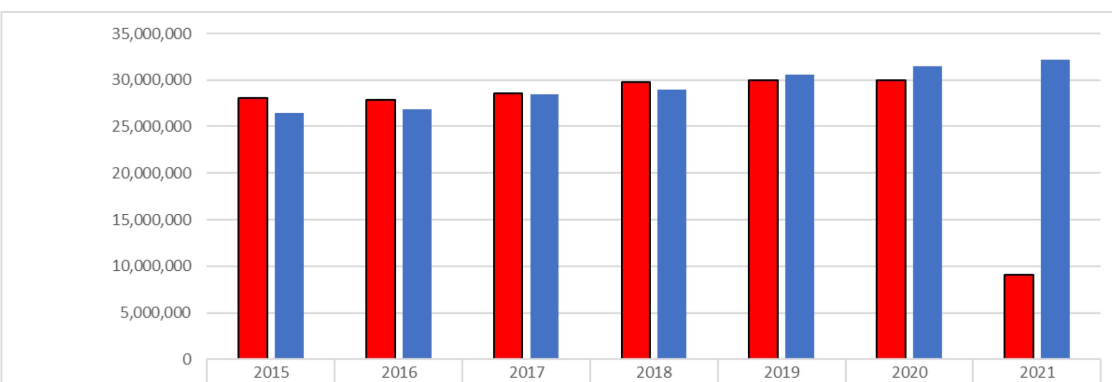


As shown above, this currently equates to approximately $460,000 in arrears for City utility customers. In addition, current estimates from NUD and WWD put the amounts over 60 days in arrears for Kirkland customers at $384,000 and $15,000, respectively. As discussed at the April retreat, staff's proposed approach is to use ARPA funds to reimburse the utility funds for this revenue, which would clear these customers in arrears. This is further discussed in the ARPA update section of this memo.

Water Sewer Utility – 411 Fund

The utility with greatest revenue shortfalls in 2020 was Water Sewer. Chart O shows the utility's past six years revenue, with revenues coming in under budget in 2019 and 2020, and below the 2019 actuals in 2020. Prior to that revenue within the fund was growing on an annual basis.

Chart O: Water Sewer Total Revenues 2015-2021



	2015	2016	2017	2018	2019	2020	2021
Revised Budget	26,451,995	26,905,563	28,419,059	29,008,658	30,605,407	31,492,014	32,154,149
Actual	28,028,683	27,880,725	28,564,811	29,760,584	30,018,755	29,966,721	9,070,736
Over (Under) Budget	1,576,688	975,162	145,752	751,926	-586,652	-1,525,293	
% of Budget	106%	104%	101%	103%	98%	95%	

Table P below shows the breakdown of water and sewer sales in 2020 by customer class. Given the need for many office workers to work from home during the pandemic and the closure or restrictions on retail businesses during much of the year, it is unsurprising that the largest revenue gaps are in commercial as consumption demand fell and some businesses no longer had income to pay their utility bills. Additionally, due to the prohibition on utility late fees, the fall in water and sewer service penalties is also expected, although these fees make up a negligible portion of the total utility's budgeted revenue (0.43 percent).

Table P: 2020 Water Sewer Utility Revenues Affected by COVID-19

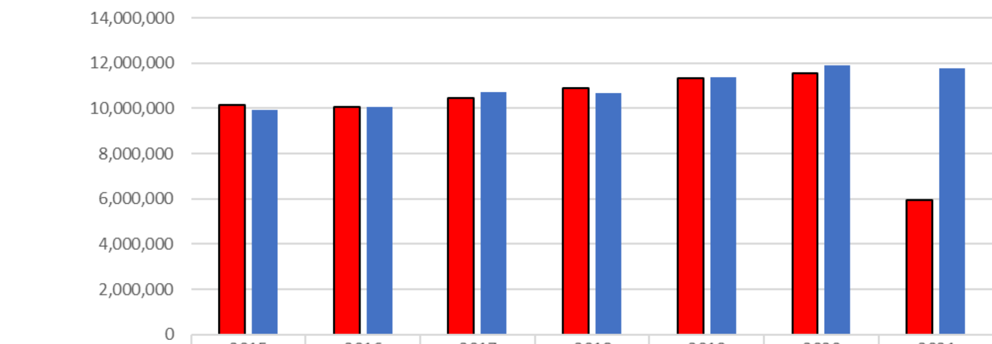
Revenue	Over (Under) Budget		% of Budget
Water			
Residential Sales	$	(42,022)	99.4%
Multi-Family Sales	$	(91,449)	97.1%
Commercial Sales	$	(536,459)	78.7%
Water Svc Penalty	$	(57,341)	5.7%
Eff Utility Tax	$	(109,318)	93.3%
Sewer			
Residential Sales	$	106,416	101.2%
Multi-Family Sales	$	63,694	102.1%
Commercial Sales	$	(782,701)	68.6%
Sewer Svc Penalty	$	(65,337)	14.0%
Eff Utility Tax	$	(70,062)	95.3%

Because many residents began to work from home during the pandemic, we would expect residential and multi-family consumption to rise as a result. Although it will take further review to determine the exact effect on collections and consumption, the structure of Water revenue, which has a relatively high base charge accompanied by a smaller variable portion, means that if customers did not consume more than the base their increased consumption did not yield more revenue. An increase in some residential/multi-family water consumption above the base charge may explain why net revenue from those customer classes did not fall despite increasing arrearage. However, Sewer residential charges are based on the previous winter's average use, and therefore Sewer revenues would not have been responsive to increased use in 2020.

Surface Water Utility – 421 Fund

Distinct from other Kirkland utilities, Surface Water charges appear on property tax bills, which provides a much more stable revenue less likely to be missed during economic hardship. 2020 Residential and Commercial Storm Drainage Fees both came in at 98.6 percent of budget and overall revenues came in 97.3 percent of budget for the utility.

Chart Q: Surface Water Total Revenues 2015-2021

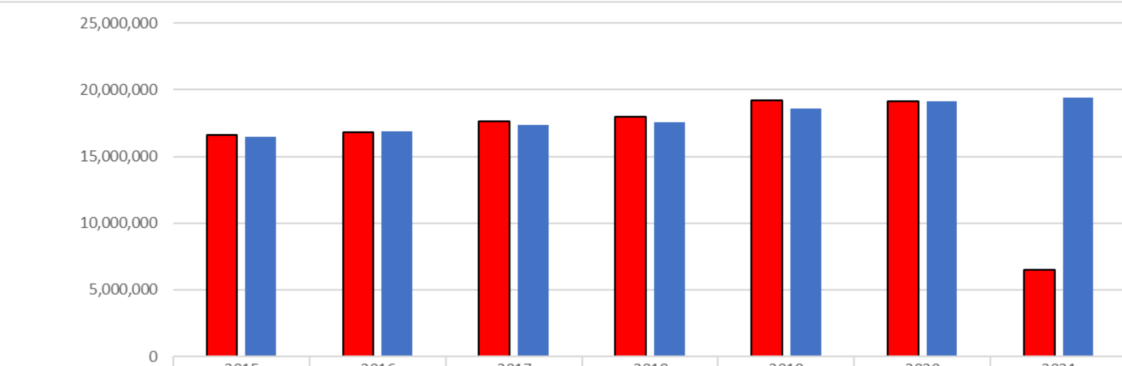


	2015	2016	2017	2018	2019	2020	2021
Revised Budget	9,939,650	10,047,501	10,701,307	10,669,088	11,358,488	11,889,589	11,776,432
Actual	10,156,458	10,080,326	10,440,048	10,880,374	11,347,040	11,564,704	5,957,140
Over (Under) Budget	216,808	32,825	-261,259	211,286	-11,448	-324,885	
% of Budget	102%	100%	98%	102%	100%	97.3%	51%

Solid Waste Utility – 431 Fund

As shown in Chart R below, despite being on the same bill as water and sewer, total 2020 Solid Waste Utility revenues came in 100.0 percent of budget, consistent with revenues over the past six years ending right at or slightly above budget. As with Water Sewer, there was a drop in revenue for commercial collection, but it is far closer to budget with Commercial Collection Charges coming in at 97.7 percent of budget, as shown in Table S. Solid Waste Penalty revenue ended the year at 19.6 percent of budget, as expected given the previously mentioned moratorium on late fees. It will require further review to understand and explain the differences between commercial solid waste charges remaining strong compared to the substantial drop in commercial water/sewer charges.

Chart R: Solid Waste Total Revenues 2015-2021



	2015	2016	2017	2018	2019	2020	2021
Revised Budget	16,445,443	16,853,760	17,354,535	17,590,939	18,615,275	19,159,358	19,411,627
Actual	16,590,112	16,786,691	17,604,577	18,007,792	19,185,677	19,167,015	6,517,944
Over (Under) Budget	144,669	-67,069	250,042	416,853	570,402	7,657	
% of Budget	100.9%	99.6%	101.4%	102.4%	103.1%	100.0%	

Table S: 2020 Solid Waste Utility Revenues Affected by COVID-19

Revenue	Over (Under) Budget	% of Budget
Solid Waste		
Residential Collection	$ (42,299)	99.5%
Multi-Family Collection	$ 170,487	105.7%
Commercial Collection	$ (104,210)	97.7%
Solid Waste Penalty	$ (88,391)	19.6%
Eff Utility Tax	$ 25,411	101.5%

Analysis of the City's overall revenue sheds further light on some of the causes for revenue declines in 2020, particularly for Water Sewer. However, there are further questions requiring additional analysis, such as why solid waste bills did not see a similar decline despite appearing on the same bill as water sewer. The key remaining question that will be explored as part of the upcoming Council study session is whether this decline is a one time in nature and will therefore be remediated with distribution from the ARPA funds, or whether the impacts are likely to become ongoing in nature and may require structural changes to the utilities.

American Recovery Plan Act (APRA) Update

At the April 29 Council retreat, staff presented initial funding estimates and early strategic planning on how Kirkland plans to invest ARPA funds. Since that retreat, staff have refined estimates, particularly around the staffing need, and the Federal Government has released updated guidance on funding amounts and eligible uses. Below is a summary of those updates along with a proposed timeline for implementation that allows for flexibility for future Council decisions.

Final Funding Amounts
Previous estimates had suggested a total ARPA distribution of approximately $20 million to Kirkland, based on a simple population metric. In updated guidance released on May 10, Kirkland is now estimated to receive a distribution of approximately $10 million, roughly half the original number. This is because in creating the final estimates, Treasury moved Kirkland, along with other similarly sized cities, from the non-entitlement category into the entitlement category. This move changed the funding allocation methodology from population to modified CDBG, which includes metrics on housing and poverty.

This funding change was applied to other cities over 50,000 in population, including others in Washington State. Table T shows the funding revision for Kirkland along with neighboring cities. Those that were moved to entitlement from non-entitlement status are shown in italics. Each one of these cities saw a decrease in funding allocation of over 10%, although the decline in distribution to Kirkland was the largest in absolute terms.

Table T: Estimated Funding for Select Washington Cities

City	Revised Distribution (in Millions)	Original Estimated Distrbution (in Millions)	Change	Percentage Change	Moved from Non-Entitlement?
Seattle	232.34	239.02	-6.68	-2.79%	No
Spokane	80.99	84.36	-3.37	-3.99%	No
Tacoma	60.97	63.03	-2.06	-3.27%	No
Vancouver	33.14	32.61	0.53	1.64%	No
Kent	28.17	28.41	-0.24	-0.86%	No
Bellingham	20.93	21.00	-0.07	-0.35%	No
Everett	20.70	22.63	-1.93	-8.54%	No
Bellevue	20.11	20.75	-0.64	-3.07%	No
Federal Way	19.22	18.33	0.89	4.84%	No
Renton	*18.11*	*22.16*	*-4.05*	*-18.26%*	*Yes*
Spokane Valley	*16.01*	*22.01*	*-6.00*	*-27.28%*	*Yes*
Auburn	14.75	15.76	-1.01	-6.40%	No
Bremerton	10.85	11.37	-0.52	-4.56%	No
Burien	10.81	11.22	-0.41	-3.68%	No
Kirkland	***10.16***	***20.26***	***-10.10***	***-49.87%***	***Yes***
Redmond	*9.93*	*15.66*	*-5.73*	*-36.60%*	*Yes*
Shoreline	*7.53*	*12.42*	*-4.89*	*-39.34%*	*Yes*
Sammamish	*4.76*	*14.35*	*-9.59*	*-66.83%*	*Yes*

Despite the funding decrease, being considered an entitlement city means Kirkland will receive ARPA funds directly from the Treasury. This means that funds will be received sooner than for non-entitlement cities, for whom the funding is distributed via the State. This gives Kirkland slightly more control over planning for when ARPA funds will be received and confirms that the proposed strategy to treat the funding as two separate distributions matches how the funds will be received.

Updated Guidance

Along with the final funding distribution, Treasury also issued an "Interim Final Rule" document, which provides 150 pages of guidance on the State and Local Fiscal Recovery Funds portion of ARPA. The guidance provides confirmation of the four main areas that are considered eligible expenses for ARPA funds:

1. to respond to the public health emergency with respect to the Coronavirus Disease 2019 (COVID–19) or its negative economic impacts, including assistance to households, small businesses, and nonprofits, or aid to impacted industries such as tourism, travel, and hospitality;
2. to respond to workers performing essential work during the COVID–19 public health emergency by providing premium pay to eligible workers of the metropolitan city, non-entitlement unit of local government, or county that are performing such essential work, or by providing grants to eligible employers that have eligible workers who perform essential work;
3. for the provision of government services to the extent of the reduction in revenue of such metropolitan city, non-entitlement unit of local government, or county due to the COVID–19 public health emergency relative to revenues collected in the most recent full fiscal year of the metropolitan city, non-entitlement unit of local government, or county prior to the emergency; or

4. to make necessary investments in water, sewer, or broadband infrastructure.

Staff is still analyzing the full details of the report, but the ruling is notable for its repeated use of flexibility as a descriptor of how funds can be used within those categories above. For example, "*within the eligible use categories outlined in the Fiscal Recovery Funds provisions of ARPA, State, local, and Tribal governments have flexibility to determine how best to use payments from the Fiscal Recovery Funds to meet the needs of their communities and populations.*"

In addition to the complete interim final rule, Treasury has released a frequently asked questions document detailing eligible uses and restrictions of funds, which is included as **Attachment C**. Among the answers is direction that the use of funds is for expenses incurred after March 31, 2021, that are specifically related to the four areas outlined above. Therefore, it seems that infrastructure projects beyond water, sewer or broadband infrastructure would need to respond to one of the other broad categories to be eligible. Staff will continue to seek additional guidance from expert bodies as planning for the second distribution continues.

Implementation of Proposed Kirkland Strategy
At the April 29 Council retreat staff presented the outline of the strategy shown in Table U.

Table U: Possible Uses of ARPA Funds By First and Second Distribution

Category	First ARPA Distribution	Second ARPA Distribution
Recovery and Resilience		
Effective Management	Executive Oversight Citywide Coordination Accounting and Finance Support	Executive Oversight Citywide Coordination Accounting and Finance Support
Immediate Response	Utility Billing Delinquencies Facilities Improvements PPE purchases Summer Action Plan and Recovery Interns Human Services Economic Recovery	Regional support for vaccination and testing
Equity and Innovation		
Equitable Recovery	Tax equity study	Alternate fiscal policies Revenue replacement
Investment and Innovation	Technology and connectivity	Technology and connectivity Capital infrastructure investment

Since that point, Council received updates on the Summer Action Plan at both the May 4 and May 18 Council Meetings. At these meetings, staff proposed additional staffing for both the summer action plan and the recovery interns, with a combined new cost of slightly over $1.2 million. These total requests are shown as Table V below.

Table V: Summer Action Team and Recovery Intern Proposals

Summer Action Team Service Proposal Summary			
Title	**Dept**	**Top of Cost Range**	**Notes**
Phase 1			
PCS Phase 1 Programs and Events (presented 5/4/21)	PCS	$504,548	0.5 LTE, contingent hours, equipment and supplies thru 2022
PCS Phase 1 Enhanced Services for P&R (presented 5/4/21)	PCS	$142,723	Additional seasonal staff, equipment and supplies
Phase 2			
Temporary Market Wage Schedule	PCS	$108,583	COVID-related market adjustment for seasonal staff
Expanded Garbage and Recycling	PCS	$13,135	Pilot project in Marina Park and Houghton Beach Park
Additional Assistance to those Experiencing Homelessness	*PCS*	*$134,750*	*No new funding - funded from Human Services Reserve 5/4/21)*
Roving Code Enforcement Ambassador	P&B	$41,550	Assumes on-call code enforcement officer
Increased Police Bicycle Patrols	PD	$138,539	Overtime, purchase 4 patrol bicycles
Downtown Bike Parking	PW	$18,000	4 locations
Downtown Parking/Wayfinding	PW	$54,194	Consultant fee
Kirkland Green Trip: Alternate Way to Access Downtown	PW	$35,000	Consultant fee - top of range
Total Estimated Cost		**$1,191,022**	
New Funding Requested		**$1,056,272**	*excluding previously approved funding above*

Recovery Intern Summary		
Title	**Dept**	**Tasks**
Communications/Neighborhood Safety/Startup 425	CMO	SAT support, suggest-a-project analysis, 425 operating manual
Police Communications/Event Support	PD	Social media marketing, video production, NNO/events
Human Resources Backfill Support	HR	Catch up on backlogged tasks due to COVID response
IT Support of Return to Work	IT	Setup, tracking, documentation, and support of return to work
GIS Backfill for R-5434 and Summer Action Plan	IT	Backfill for support of dashboards, map updates, etc.
Transportation Recovery Intern	PW	Support Summer Action Team items and plan updates
Budget/ARPA Support	F&A	Backfill Resources to support ARPA/SAP
Cultural Navigators for ARPA Programs	Various	Help connect public to local/state/federal programs
Number of interns	**8**	**Assumes one intern per request**
Max cost of 6-months	**$ 178,214**	**Maximum Funding Requested based on Graduate Top Step**

These requests have prioritized getting staffing in place so that the City can rapidly expand capacity to deliver on the intent on the APRA funds. As mentioned at the Council meetings, the summer of 2021 will be a critical period for recovery from the pandemic as people and businesses are able to restart activities outside and restrictions on indoor activities are gradually relaxed. Staff is still assessing the interim final rule and how many of the expenses above are eligible for ARPA reimbursement. However, given that both of these programs are a high priority for the City, staff is recommending that both be added to the June adjustments and that the unreserved General Fund balance be used to fund any portion that is not ARPA eligible.

In addition to the funding shown above, staff recommends recognizing the remainder of the 2021 ARPA distribution in June and placing the funds in a non-departmental account. This would allow for maximum flexibility to act as the City Manager could authorize budget transfers to provide funding for specific programs. This would be accompanied by regular reports from the City Manager at Council meetings to update Council on planned uses. Staff will prioritize hiring positions for the effective management portion of the above, which will also be brought to Council to be recognized as part of the mid-year adjustments.

Staff Recommendations

As illustrated throughout this memo, the City experienced relatively strong revenue growth in the second half of 2020 in many areas, which has carried into 2021. In particular, Capital revenues have continued to come in at high levels and sales tax receipts are driving higher-than-budgeted General Fund revenues through the first quarter of 2021. However, there are some signs of continued revenue issues in the Utility funds, which impacts General Fund utility taxes, as well as ongoing revenue loss from recreation fees, Tourism and other funds.

On the expenditure side the City is facing significant pressures across all funds. There are significant City and community needs that are beyond the capacity of Kirkland's ARPA distribution, and these are accompanied by large inflationary increases for infrastructure projects. Additionally, the City has a number of open bargaining contracts and whatever the outcome of those negotiations, personnel costs will continue rise, especially in an era of potentially higher inflation.

Combined, these paint a picture of qualified good news for Kirkland. The City does not face immediate revenue shortfalls that would necessitate cutting programs added in the recent budget process, nor using the initial ARPA distribution to backfill for revenue loss. However, there is also a looming deficit starting in 2023-24 that will require a thoughtful and potentially difficult decision-making process as we build the 2023-2024 budget.

In this context, staff are recommending that Council consider the first ARPA distribution and the General Fund balance as an $11 million balance available to deliver on three strategies:

1. Complete the ambitious 2021-2022 City Workplan using ARPA funds where eligible and General Fund balance if additional funds are required;
2. Deliver on the Immediate Investment strategy set out at Council's April 29 ARPA retreat, and expanded on in May Council meetings: hire staffing to manage and oversee the process, deliver on phase 1 and 2 of the Summer Action Plan, and hire Recovery Interns; and
3. Reserve remaining funds to maintain Council options during the 2023-2024 budget process.

To achieve these goals, staff recommend recognizing the $5.95 million in General Fund balance, as well as the $5 million in ARPA funds during the June adjustments. In addition, expenses would be recognized for internal staffing, and the first stages of the City's response. The remaining ARPA funds would be placed into a non-departmental account that would allow the City Manager to administratively approve expenditures that were included on the items Council has already seen. These would include items such as utility bill forgiveness and economic development activities. The City Manager will regularly report to Council on the status of ARPA funds at Council meetings.

The remainder of the General Fund balance that is not appropriated for specific items in the June adjustments, such as the Station Area Plan fiscal analysis or additional contract reserve, will be added to the City's reserves. This would mean that the appropriation would be recognized, and Council could add additional funds to specific work plan items at future budget adjustments, for example at the Mid Biennial Adjustments in December.

Reserve Balances
During the development of the 2021-2022 Budget all General Purpose Reserves with targets balances were brought to their target level of 80% of the calculated target. The only exception to this were the REET 1 and REET 2 reserves, which will be replenished with additional revenue in 2021-2022. These reserves are shown in Table W.

Table W: All City Reserves With Targets

Reserves	Estimated 2021 Beginning Balance	Projected Changes	Projected 2022 Ending Balance	2021 - 2022 Target	Revised Over (Under) Budget
GENERAL PURPOSE RESERVES WITH TARGETS					
Contingency	6,292,477	63,411	**6,355,888**	**6,355,888**	**-**
General Capital Contingency[1,2]	5,803,237	-	**5,803,237**	**3,583,140**	**2,220,097**
General Oper. Reserve (Rainy Day)	5,649,288	358,909	**6,008,197**	**6,008,197**	**-**
Revenue Stabilization Reserve	3,622,632	(132,741)	**3,489,891**	**3,489,891**	**-**
Council Special Projects Reserve	250,000	-	**250,000**	**250,000**	**-**
Building & Property Reserve	661,599	-	**661,599**	**600,000**	**61,599**
General Purpose Reserves with Targets	**22,279,233**	**289,579**	**22,568,812**	**20,287,116**	**2,281,696**
ALL OTHER RESERVES WITH TARGETS					
Excise Tax Capital Improvement[3]					
REET 1	8,150,775	(7,801,665)	**349,110**	**1,000,000**	**(650,890)**
REET 2	8,958,876	(8,641,910)	**316,966**	**1,000,000**	**(683,034)**
Other Reserves with Targets	**17,109,651**	**(16,443,575)**	**666,076**	**2,000,000**	**(1,333,924)**

Beyond these reserves, there are $30 million of additional reserves in the General Fund. About half of this amount is in the Development Services Reserves and the remainder split between various special purpose and restricted accounts. These include donation accounts, Police Prop 1 reserve, Human Services Reserve, and the 2023-2024 Deficit Reduction Reserve.

The $5.95 million in unreserved General Fund balance is in addition to these reserve amounts. The City's reserve policies, included as **Attachment D,** require 50% of year end General Fund balance to be put towards reserve replenishment until all target reserves are at 80% of target. As that threshold has now been reached, the policies state:

"The remaining 50% shall be available for one or more of the following needs, depending on the nature of the funds available (one-time or on-going) and in the following order of priority:
- *Fund liabilities related to sinking funds for public safety and information technology equipment,*
- *Maintain current service levels,*
- *Fund one-time projects or studies,*
- *Increase funding for capital purposes,*
- *Restore previous program service reductions,*
- *Potential program and service enhancements."*

The balance and potential liabilities of the City's capital sinking funds will be brought as part of the CIP study session on August 4, and Council could choose to use some of the one-time balance to replenish any deficit. Beyond that the policies prioritize maintaining current service levels, which would include delivering on the Council Workplan that was adopted along with the current budget.

CITY OF KIRKLAND
Department of Finance & Administration
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MEMORANDUM

To: Kurt Triplett, City Manager

From: Michael Olson, Director of Finance & Administration
George Dugdale, Financial Planning Manager
Kevin Lowe Pelstring, Budget Analyst

Date: May 17, 2021

Subject: April 2021 Sales Tax Revenue

Background

The Financial Planning Division prepares a monthly sales tax revenue memo analyzing monthly and year-to-date activity by business sector, forecasting sales tax revenue in the current year, and tracking key economic indicators to provide additional context for the state of the economy. The general retail sales tax is the City's largest single revenue source after Property Tax, accounting for 18 percent of total budgeted revenues in the General Fund and, along with property and utility taxes, funding public safety and other general government (i.e., non-utility) services. It is also more sensitive to economic cycles than other tax revenues. Accordingly, it is monitored closely by staff—even more so given the economic disruption and uncertainty caused by COVID-19.

There is a two-month lag between when sales tax is generated and when it is distributed to the City by the Washington State Department of Revenue (DOR). Therefore, April sales tax revenue relates to February retail activity in Kirkland.

April 2021 vs. April 2020

Business Sector Group	April		Dollar Change	Percent Change	Percent of Total	
	2020	2021			2020	2021
Services	233,485	315,772	82,287	35.2%	13.9%	15.4%
Contracting	481,137	528,303	47,166	9.8%	28.6%	25.7%
Communications	38,464	37,764	(700)	-1.8%	2.3%	1.8%
Retail:						
Auto/Gas Retail	252,122	367,829	115,707	45.9%	15.0%	17.9%
Gen Merch/Misc Retail	191,275	221,749	30,474	15.9%	11.4%	10.8%
Retail Eating/Drinking	82,108	110,050	27,942	34.0%	4.9%	5.4%
Other Retail	238,056	269,363	31,307	13.2%	14.1%	13.1%
Wholesale	79,719	89,253	9,534	12.0%	4.7%	4.3%
Miscellaneous	87,587	114,373	26,786	30.6%	5.2%	5.6%
Total	**1,683,953**	**2,054,456**	**370,503**	**22.0%**	**100%**	**100%**

Comparing April 2021 to April 2020, sales tax revenue is up $370,503, or 22.0 percent. As this period covers activity from February to February, the 2020 amount was prior to the full impact of the COVID-19 pandemic being felt on the economy in Kirkland. Therefore, this increase is mostly unrelated to the initial shock of

COVID-19 on sales tax, though some early reports of local cases may have affected retail activity in some sectors (e.g., Retail Eating/Drinking, which fell notably in February 2020).

Significant growth occurred in Auto/Gas Retail (up $115,707 or 45.9 percent), Services (up $82,287 or 35.2 percent), Gen Merch/Misc Retail (up $30,474 or 15.9 percent), Retail Eating/Drinking (up $27,942 or 34.0 percent), and Miscellaneous (up 26,786 or 30.6 percent). A negligible decline occurred in Communications (down $700 or 1.8 percent).

Within the Auto/Gas Retail sector, the Motor Vehicle category is up $115,114 or 47.7 percent compared to the same period in 2020, reflecting strong car sales, although YTD increases are more modest and are only up 6.9 percent.

YTD 2021 vs. YTD 2020

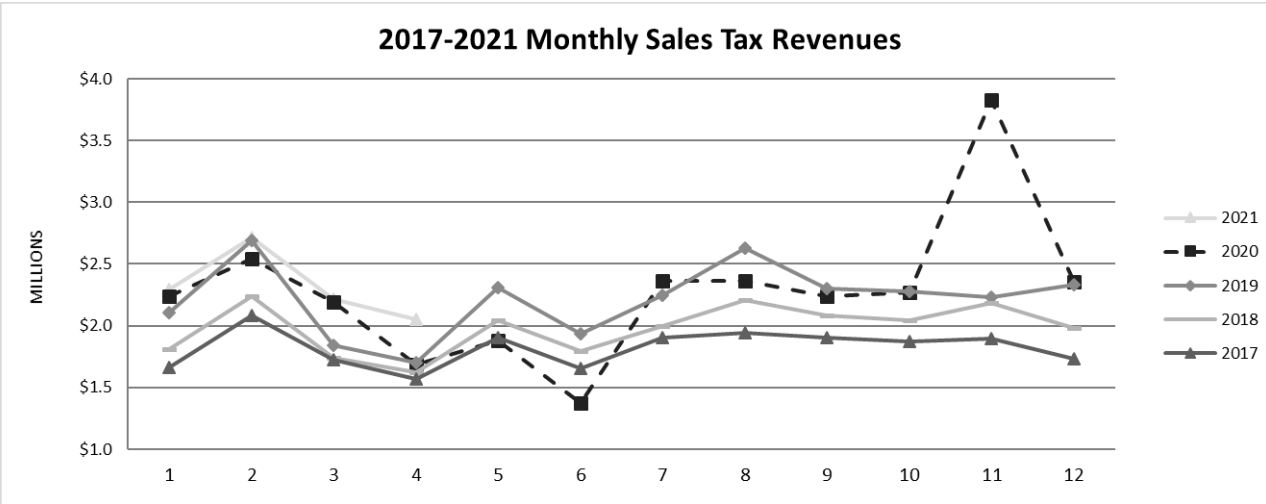
Business Sector Group	YTD		Dollar Change	Percent Change	Percent of Total	
	2020	2021			2020	2021
Services	1,418,869	1,369,448	(49,421)	-3.5%	16.4%	14.8%
Contracting	2,100,261	2,380,907	280,646	13.4%	24.3%	25.6%
Communications	176,248	159,101	(17,147)	-9.7%	2.0%	1.7%
Retail:						
Auto/Gas Retail	1,550,280	1,652,458	102,178	6.6%	17.9%	17.8%
Gen Merch/Misc Retail	956,141	1,097,510	141,369	14.8%	11.0%	11.8%
Retail Eating/Drinking	539,570	445,206	(94,364)	-17.5%	6.2%	4.8%
Other Retail	1,121,363	1,284,091	162,728	14.5%	13.0%	13.8%
Wholesale	353,345	413,313	59,968	17.0%	4.1%	4.5%
Miscellaneous	440,225	480,798	40,573	9.2%	5.1%	5.2%
Total	**8,656,303**	**9,282,832**	**626,529**	**7.2%**	**100%**	**100%**

Comparing 2021 to 2020, year-to-date (YTD) sales tax revenue is up $626,529, or 7.2 percent. However, this includes a $238,456 taxpayer remittance error, which overstated Services retail activity in January 2020 (resulting in higher distributions to the City in March 2020) and was later adjusted in June 2020 by the Washington Department of Revenue (DOR). **Excluding the March 2020 remittance error in the Services sector, YTD sales tax revenue is up $864,985 (10.3 percent) overall** and YTD Services sector is up $189,035 (16.0 percent).

Looking at business sectors, the most significant growth has occurred in Contracting (up $280,646 or 13.4 percent), Other Retail (up $162,728 or 14.5 percent), Gen Merch/Misc Retail (up $141,369 or 14.8 percent), and Wholesale (up $59,968 or 17.0 percent). The growth in Other Retail has been led by the Sporting Goods, Non-store Retailers, Electronics, and Building & Garden sub-sectors.

Noteworthy declines occurred in Retail Eating/Drinking (down $94,364, or 17.5 percent), and Communications (down $17,147, or 9.7 percent). Retail Eating/Drinking is down due to the Governor's stay-at-home order, which was in effect from November 17th through January 4th, 2021, as well as social distancing requirements, which have limited the number of customers that can be served throughout 2021 YTD period. This report shows February 2021 retail activity which is the first full month following the Governor's 'Roadmap to Recovery' phased reopening plan in which King County moved from Phase 1 to Phase 2 on January 29th.

The chart below shows Kirkland's monthly sales tax revenue through April 2021 compared to the prior four years.



Key Economic Indicators

Information about wider trends in the economy provides a mechanism to help understand current results in Kirkland and to predict future performance. The combination of consumer confidence, unemployment levels, housing data, inflation, and auto sales provides a broader economic context for key factors in sales tax revenues. Since the sales tax figures reported above are from two months prior, some of the figures in the table below can function as leading indicators for where sales taxes may go in future reports.

Indicator	Most Recent Month of Data	Unit	Month			Yearly Average	
			Previous	Current	Change	2020	2021
Consumer Confidence							
Consumer Confidence Index	April	Index	109.0	121.7	12.7	101.0	102.5
Unemployment Rate							
National	April	%	6.0	6.1	0.1	8.1	6.2
Washington State	February	%	6.8	6.4	(0.4)	8.4	6.6
King County	February	%	6.3	5.4	(0.9)	7.6	5.9
Kirkland	February	%	5.3	4.4	(0.9)	6.2	4.9
Housing							
New House Permits (WA)	February	Thousands	66.7	70.9	4.2	44.6	68.8
Case-Shiller Seattle Area Home Prices	February	Index	292.9	300.0	7.0	273.8	296.4
Inflation (CPI-W)							
National	April	% Change	3.0	4.7	1.7	1.2	2.8
Seattle	April	% Change	1.7	3.7	2.0	1.9	2.7
Car Sales							
New Vehicle Registrations	March	Thousands	24.5	24.0	(0.5)	19.4	23.5

The **Consumer Confidence Index** continued to surge from 109.0 in March to 121.7 in April, a 12.7-point jump reflecting positive consumer confidence with expanding vaccine access and individual federal stimulus payments from the American Recovery Plan Act (ARPA).

The national **Unemployment Rate** increased slightly from 6.0 percent in March to 6.1 percent in April and the Washington State unemployment rate decreased slightly from 6.8 percent in January to 6.4 percent in February, after hitting a high of 16.1 percent in April 2020. King County's unemployment rate decreased from 6.3 percent in January to 5.4 percent in February, and Kirkland's unemployment rate decreased from 5.3 percent in January to 4.4 percent in February.

New Housing Permits in Washington State have continued to increase, climbing from 49,400 in December, to 70,900 in February (up 43.5 percent over those months), well exceeding the 2020 average of 44,600, as the housing inventory in Puget Sound region remains low. The **Case-Shiller Home Price Index** saw an increase of 7.0 points in February to 300.0, well above January 2020 index of 256.16, reflecting a continually strong local housing market despite the pandemic.

Inflation, as measured by the CPI-W, in the U.S. increased in April to 4.7 percent from 3.0 percent in March. For the Seattle-Tacoma-Bellevue region, the CPI-W increased from 1.7 percent in February to 3.7 percent in April. The CPI-W is reported as the percentage change over the last 12 months so inflation will likely remain higher in 2021 as a result of falling prices in 2020 during the impacts of the first wave of COVID-19 on the national and regional economy. Additionally, the effects of recent federal stimulus and reopening of retail activity as vaccines become widely administered may contribute to further inflation.

New Vehicle Registrations in Washington State increased sharply from 21,900 in January to 24,500 in February and decreased slightly to 24,000 in March. The 2021 average remains 4,100 above the 2020 average.

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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

<u>Parking Fees</u>
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 to 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.

Coronavirus State and Local Fiscal Recovery Funds

Frequently Asked Questions

AS OF MAY 10, 2021

This document contains answers to frequently asked questions regarding the Coronavirus State and Local Fiscal Recovery Funds (CSFRF / CLFRF, or Fiscal Recovery Funds). Treasury will be updating this document periodically in response to questions received from stakeholders. Recipients and stakeholders should consult the Interim Final Rule for additional information.

- For overall information about the program, including information on requesting funding, please see https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments
- For general questions about CSFRF / CLFRF, please email SLFRP@treasury.gov
- Upon publication of the Interim Final Rule in the Federal Register, Treasury encourages stakeholders to submit public comments on the Interim Final Rule at regulations.gov

Eligibility and Allocations

1. Which governments are eligible for funds?

The following governments are eligible:
- States and the District of Columbia
- Territories
- Tribal governments
- Counties
- Metropolitan cities
- Non-entitlement units, or smaller local governments

2. Which governments receive funds directly from Treasury?

Treasury will distribute funds directly to each eligible state, territory, metropolitan city, county, or Tribal government. Smaller local governments that are classified as non-entitlement units will receive funds through their applicable state government.

3. Are special-purpose units of government eligible to receive funds?

Special-purpose units of local government will not receive funding allocations; however, a state, territory, local, or Tribal government may transfer funds to a special-purpose unit of government. Special-purpose districts perform specific functions in the community, such as fire, water, sewer or mosquito abatement districts.

4. **How are funds being allocated to Tribal governments, and how will Tribal governments find out their allocation amounts?**

   $20 billion of Fiscal Recovery Funds was reserved for Tribal governments. The American Rescue Plan Act specifies that $1 billion will be allocated evenly to all eligible Tribal governments. The remaining $19 billion will be distributed using an allocation methodology based on enrollment and employment.

   There will be two payments to Tribal governments. Each Tribal government's first payment will include (i) an amount in respect of the $1 billion allocation that is to be divided equally among eligible Tribal governments and (ii) each Tribal government's pro rata share of the Enrollment Allocation. Tribal governments will be notified of their allocation amount and delivery of payment 4-5 days after completing request for funds in the Treasury Submission Portal. The deadline to make the initial request for funds is May 24, 2021.

   In mid-May or shortly after completing the initial request for funds, Tribal governments will receive an email notification to re-enter the Treasury Submission Portal to confirm or amend their 2019 employment numbers that were submitted to the Department of the Treasury for the CARES Act's Coronavirus Relief Fund. The deadline to confirm employment numbers is June 7, 2021. Treasury will calculate each Tribal government's pro rata share of the Employment Allocation for those Tribal governments that confirmed or submitted amended employment numbers. In mid-June, Treasury will communicate to Tribal governments the amount of their portion of the Employment Allocation and the anticipated date for the second payment.

Eligible Uses – Responding to the Public Health Emergency / Negative Economic Impacts

5. **What types of COVID-19 response, mitigation, and prevention activities are eligible?**

   A broad range of services are needed to contain COVID-19 and are eligible uses, including vaccination programs; medical care; testing; contact tracing; support for isolation or quarantine; supports for vulnerable populations to access medical or public health services; public health surveillance (e.g., monitoring case trends, genomic sequencing for variants); enforcement of public health orders; public communication efforts; enhancement to health care capacity, including through alternative care facilities; purchases of personal protective equipment; support for prevention, mitigation, or other services in congregate living facilities (e.g., nursing homes, incarceration settings, homeless shelters, group living facilities) and other key settings like schools; ventilation improvements in congregate settings, health care settings, or other key locations; enhancement of public health data systems; and other public health responses. Capital investments in public facilities to meet pandemic operational needs are also eligible, such as physical plant improvements to public hospitals and health clinics or adaptations to public buildings to implement COVID-19 mitigation tactics.

6. If a use of funds was allowable under the Coronavirus Relief Fund (CRF) to respond to the public health emergency, may recipients presume it is also allowable under CSFRF/CLFRF?

Generally, funding uses eligible under CRF as a response to the direct public health impacts of COVID-19 will continue to be eligible under CSFRF/CLFRF, with the following two exceptions: (1) the standard for eligibility of public health and safety payrolls has been updated; and (2) expenses related to the issuance of tax-anticipation notes are not an eligible funding use.

7. If a use of funds is not explicitly permitted in the Interim Final Rule as a response to the public health emergency and its negative economic impacts, does that mean it is prohibited?

The Interim Final Rule contains a non-exclusive list of programs or services that may be funded as responding to COVID-19 or the negative economic impacts of the COVID-19 public health emergency, along with considerations for evaluating other potential uses of Fiscal Recovery Funds not explicitly listed. The Interim Final Rule also provides flexibility for recipients to use Fiscal Recovery Funds for programs or services that are not identified on these non-exclusive lists but which meet the objectives of section 602(c)(1)(A) or 603(c)(1)(A) by responding to the COVID-19 public health emergency with respect to COVID-19 or its negative economic impacts.

8. May recipients use funds to respond to the public health emergency and its negative economic impacts by replenishing state unemployment funds?

Consistent with the approach taken in the CRF, recipients may make deposits into the state account of the Unemployment Trust Fund up to the level needed to restore the pre-pandemic balances of such account as of January 27, 2020, or to pay back advances received for the payment of benefits between January 27, 2020 and the date when the Interim Final Rule is published in the Federal Register.

9. What types of services are eligible as responses to the negative economic impacts of the pandemic?

Eligible uses in this category include assistance to households; small businesses and non-profits; and aid to impacted industries.

Assistance to households includes, but is not limited to: food assistance; rent, mortgage, or utility assistance; counseling and legal aid to prevent eviction or homelessness; cash assistance; emergency assistance for burials, home repairs, weatherization, or other needs; internet access or digital literacy assistance; or job training to address negative economic or public health impacts experienced due to a worker's occupation or level of training.

Assistance to small business and non-profits includes, but is not limited to:

- loans or grants to mitigate financial hardship such as declines in revenues or impacts of periods of business closure, for example by supporting payroll and benefits costs, costs to retain employees, mortgage, rent, or utilities costs, and other operating costs;
- Loans, grants, or in-kind assistance to implement COVID-19 prevention or mitigation tactics, such as physical plant changes to enable social distancing, enhanced cleaning efforts, barriers or partitions, or COVID-19 vaccination, testing, or contact tracing programs; and
- Technical assistance, counseling, or other services to assist with business planning needs

10. May recipients use funds to respond to the public health emergency and its negative economic impacts by providing direct cash transfers to households?

Yes, provided the recipient considers whether, and the extent to which, the household has experienced a negative economic impact from the pandemic. Additionally, cash transfers must be reasonably proportional to the negative economic impact they are intended to address. Cash transfers grossly in excess of the amount needed to address the negative economic impact identified by the recipient would not be considered to be a response to the COVID-19 public health emergency or its negative impacts. In particular, when considering appropriate size of permissible cash transfers made in response to the COVID-19 public health emergency, state, local, territorial, and Tribal governments may consider and take guidance from the per person amounts previously provided by the federal government in response to the COVID crisis.

11. May funds be used to reimburse recipients for costs incurred by state and local governments in responding to the public health emergency and its negative economic impacts prior to passage of the American Rescue Plan?

Use of Fiscal Recovery Funds is generally forward looking. The Interim Final Rule permits funds to be used to cover costs incurred beginning on March 3, 2021.

12. May recipients use funds for general economic development or workforce development?

Generally, not. Recipients must demonstrate that funding uses directly address a negative economic impact of the COVID-19 public health emergency, including funds used for economic or workforce development. For example, job training for unemployed workers may be used to address negative economic impacts of the public health emergency and be eligible.

13. How can recipients use funds to assist the travel, tourism, and hospitality industries?

Aid provided to tourism, travel, and hospitality industries should respond to the negative economic impacts of the pandemic. For example, a recipient may provide aid to support safe reopening of businesses in the tourism, travel and hospitality industries and to districts that were closed during the COVID-19 public health emergency, as well as aid a planned expansion or upgrade of tourism, travel and hospitality facilities delayed due to the pandemic.

Tribal development districts are considered the commercial centers for tribal hospitality, gaming, tourism and entertainment industries.

14. May recipients use funds to assist impacted industries other than travel, tourism, and hospitality?

Yes, provided that recipients consider the extent of the impact in such industries as compared to tourism, travel, and hospitality, the industries enumerated in the statute. For example, nationwide the leisure and hospitality industry has experienced an approximately 17 percent decline in employment and 24 percent decline in revenue, on net, due to the COVID-19 public health emergency. Recipients should also consider whether impacts were due to the COVID-19 pandemic, as opposed to longer-term economic or industrial trends unrelated to the pandemic.

Recipients should maintain records to support their assessment of how businesses or business districts receiving assistance were affected by the negative economic impacts of the pandemic and how the aid provided responds to these impacts.

15. How does the Interim Final Rule help address the disparate impact of COVID-19 on certain populations and geographies?

In recognition of the disproportionate impacts of the COVID-19 virus on health and economic outcomes in low-income and Native American communities, the Interim Final Rule identifies a broader range of services and programs that are considered to be in response to the public health emergency when provided in these communities. Specifically, Treasury will presume that certain types of services are eligible uses when provided in a Qualified Census Tract (QCT), to families living in QCTs, or when these services are provided by Tribal governments.

Recipients may also provide these services to other populations, households, or geographic areas disproportionately impacted by the pandemic. In identifying these disproportionately-impacted communities, recipients should be able to support their determination for how the pandemic disproportionately impacted the populations, households, or geographic areas to be served.

Eligible services include:

- Addressing health disparities and the social determinants of health, including: community health workers, public benefits navigators, remediation of lead paint or other lead hazards, and community violence intervention programs;

- Building stronger neighborhoods and communities, including: supportive housing and other services for individuals experiencing homelessness, development of affordable housing, and housing vouchers and assistance relocating to neighborhoods with higher levels of economic opportunity;

- Addressing educational disparities exacerbated by COVID-19, including: early learning services, increasing resources for high-poverty school districts, educational services like tutoring or afterschool programs, and supports for students' social, emotional, and mental health needs; and

- Promoting healthy childhood environments, including: child care, home visiting programs for families with young children, and enhanced services for child welfare-involved families and foster youth.

Eligible Uses – Revenue Loss

16. How is revenue defined for the purpose of this provision?

The Interim Final Rule adopts a definition of "General Revenue" that is based on, but not identical, to the Census Bureau's concept of "General Revenue from Own Sources" in the Annual Survey of State and Local Government Finances.

General Revenue includes revenue from taxes, current charges, and miscellaneous general revenue. It excludes refunds and other correcting transactions, proceeds from issuance of debt or the sale of investments, agency or private trust transactions, and revenue generated by utilities and insurance trusts. General revenue also includes intergovernmental transfers between state and local governments, but excludes intergovernmental transfers from the Federal government, including Federal transfers made via a state to a locality pursuant to the CRF or the Fiscal Recovery Funds.

Tribal governments may include all revenue from Tribal enterprises and gaming operations in the definition of General Revenue.

17. Will revenue be calculated on an entity-wide basis or on a source-by-source basis (e.g. property tax, income tax, sales tax, etc.)?

Recipients should calculate revenue on an entity-wide basis. This approach minimizes the administrative burden for recipients, provides for greater consistency across recipients, and presents a more accurate representation of the net impact of the COVID- 19 public health emergency on a recipient's revenue, rather than relying on financial reporting prepared by each recipient, which vary in methodology used and which generally aggregates revenue by purpose rather than by source.

18. Does the definition of revenue include outside concessions that contract with a state or local government?

Recipients should classify revenue sources as they would if responding to the U.S. Census Bureau's Annual Survey of State and Local Government Finances. According to the Census Bureau's Government Finance and Employment Classification manual, the following is an example of current charges that would be included in a state or local government's general revenue from own sources: "Gross revenue of facilities operated by a government (swimming pools, recreational marinas and piers, golf courses, skating rinks, museums, zoos, etc.); auxiliary facilities in public recreation areas (camping areas, refreshment stands, gift shops, etc.); lease or use fees from stadiums, auditoriums, and community and convention centers; and rentals from concessions at such facilities."

19. What is the time period for estimating revenue loss? Will revenue losses experienced prior to the passage of the Act be considered?

Recipients are permitted to calculate the extent of reduction in revenue as of four points in time: December 31, 2020; December 31, 2021; December 31, 2022; and December 31, 2023. This approach recognizes that some recipients may experience lagged effects of the pandemic on revenues.

Upon receiving Fiscal Recovery Fund payments, recipients may immediately calculate revenue loss for the period ending December 31, 2020.

20. What is the formula for calculating the reduction in revenue?

A reduction in a recipient's General Revenue equals:

$$\text{Max } \{[\text{Base Year Revenue* } (1+\text{Growth Adjustment})^{\left(\frac{n_t}{12}\right)}] - \text{Actual General Revenue}_t \text{ ; } 0\}$$

Where:

Base Year Revenue is General Revenue collected in the most recent full fiscal year prior to the COVD-19 public health emergency.

Growth Adjustment is equal to the greater of 4.1 percent (or 0.041) and the recipient's average annual revenue growth over the three full fiscal years prior to the COVID-19 public health emergency.

n equals the number of months elapsed from the end of the base year to the calculation date.

Actual General Revenue is a recipient's actual general revenue collected during 12-month period ending on each calculation date.

Subscript *t* denotes the calculation date.

21. Are recipients expected to demonstrate that reduction in revenue is due to the COVID-19 public health emergency?

In the Interim Final Rule, any diminution in actual revenue calculated using the formula above would be presumed to have been "due to" the COVID-19 public health emergency. This presumption is made for administrative ease and in recognition of the broad-based economic damage that the pandemic has wrought.

22. May recipients use pre-pandemic projections as a basis to estimate the reduction in revenue?

No. Treasury is disallowing the use of projections to ensure consistency and comparability across recipients and to streamline verification. However, in estimating the revenue shortfall using the formula above, recipients may incorporate their average annual revenue growth rate in the three full fiscal years prior to the public health emergency.

23. Once a recipient has identified a reduction in revenue, are there any restrictions on how recipients use funds up to the amount of the reduction?

The Interim Final Rule gives recipients broad latitude to use funds for the provision of government services to the extent of reduction in revenue. Government services can include, but are not limited to, maintenance of infrastructure or pay-go spending for building new infrastructure, including roads; modernization of cybersecurity, including hardware, software, and protection of critical infrastructure; health services; environmental remediation; school or educational services; and the provision of police, fire, and other public safety services.

However, paying interest or principal on outstanding debt, replenishing rainy day or other reserve funds, or paying settlements or judgments would not be considered provision of a government service, since these uses of funds do not entail direct provision of services to citizens. This restriction on paying interest or principal on any outstanding debt instrument, includes, for example, short-term revenue or tax anticipation notes, or paying fees or issuance costs associated with the issuance of new debt. In addition, the overarching restrictions on all program funds (e.g., restriction on pension deposits, restriction on using funds for non-federal match where barred by regulation or statute) would apply.

Eligible Uses – General

24. May recipients use funds to replenish a budget stabilization fund, rainy day fund, or similar reserve account?

No. Funds made available to respond to the public health emergency and its negative economic impacts are intended to help meet pandemic response needs and provide immediate stabilization for households and businesses. Contributions to rainy day funds and similar reserves funds would not address these needs or respond to the COVID-19 public health emergency, but would rather be savings for future spending needs.

Similarly, funds made available for the provision of governmental services (to the extent of reduction in revenue) are intended to support direct provision of services to citizens. Contributions to rainy day funds are not considered provision of government services, since such expenses do not directly relate to the provision of government services.

25. May recipients use funds to invest in infrastructure other than water, sewer, and broadband projects (e.g. roads, public facilities)?

Under 602(c)(1)(C) or 603(c)(1)(C), recipients may use funds for maintenance of infrastructure or pay-go spending for building of new infrastructure as part of the general provision of government services, to the extent of the estimated reduction in revenue due to the public health emergency.

Under 602(c)(1)(A) or 603(c)(1)(A), a general infrastructure project typically would not be considered a response to the public health emergency and its negative economic impacts unless the project responds to a specific pandemic-related public health need (e.g., investments in facilities for the delivery of vaccines) or a specific negative economic impact of the pandemic (e.g., affordable housing in a Qualified Census Tract).

26. May recipients use funds to pay interest or principal on outstanding debt?

No. Expenses related to financing, including servicing or redeeming notes, would not address the needs of pandemic response or its negative economic impacts. Such expenses would also not be considered provision of government services, as these financing expenses do not directly provide services or aid to citizens.

This applies to paying interest or principal on any outstanding debt instrument, including, for example, short-term revenue or tax anticipation notes, or paying fees or issuance costs associated with the issuance of new debt.

27. May recipients use funds to satisfy nonfederal matching requirements under the Stafford Act? May recipients use funds to satisfy nonfederal matching requirements generally?

Fiscal Recovery Funds are subject to pre-existing limitations in other federal statutes and regulations and may not be used as non-federal match for other Federal programs whose statute or regulations bar the use of Federal funds to meet matching requirements. For example, expenses for the state share of Medicaid are not an eligible use. For information on FEMA programs, please see here.

Eligible Uses – Premium Pay

28. What criteria should recipients use in identifying essential workers to receive premium pay?

Essential workers are those in critical infrastructure sectors who regularly perform in-person work, interact with others at work, or physically handle items handled by others.

Critical infrastructure sectors include healthcare, education and childcare, transportation, sanitation, grocery and food production, and public health and safety, among others, as provided in the Interim Final Rule. Governments receiving Fiscal Recovery Funds have the discretion to add additional sectors to this list, so long as the sectors are considered critical to protect the health and well-being of residents.

The Interim Final Rule emphasizes the need for recipients to prioritize premium pay for lower income workers. Premium pay that would increase a worker's total pay above 150% of the greater of the state or county average annual wage requires specific justification for how it responds to the needs of these workers.

29. What criteria should recipients use in identifying third-party employers to receive grants for the purpose of providing premium pay to essential workers?

Any third-party employers of essential workers are eligible. Third-party contractors who employ essential workers in eligible sectors are also eligible for grants to provide premium pay. Selection of third-party employers and contractors who receive grants is at the discretion of recipients.

To ensure any grants respond to the needs of essential workers and are made in a fair and transparent manner, the rule imposes some additional reporting requirements for grants to third-party employers, including the public disclosure of grants provided.

30. May recipients provide premium pay retroactively for work already performed?

Yes. Treasury encourages recipients to consider providing premium pay retroactively for work performed during the pandemic, recognizing that many essential workers have not yet received additional compensation for their service during the pandemic.

Eligible Uses – Water, Sewer, and Broadband Infrastructure

31. What types of water and sewer projects are eligible uses of funds?

The Interim Final Rule generally aligns eligible uses of the Funds with the wide range of types or categories of projects that would be eligible to receive financial assistance through the Environmental Protection Agency's Clean Water State Revolving Fund (CWSRF) or Drinking Water State Revolving Fund (DWSRF).

Under the DWSRF, categories of eligible projects include: treatment, transmission and distribution (including lead service line replacement), source rehabilitation and decontamination, storage, consolidation, and new systems development.

Under the CWSRF, categories of eligible projects include: construction of publicly-owned treatment works, nonpoint source pollution management, national estuary program projects, decentralized wastewater treatment systems, stormwater systems, water conservation, efficiency, and reuse measures, watershed pilot projects, energy efficiency measures for publicly-owned treatment works, water reuse projects, security measures at publicly-owned treatment works, and technical assistance to ensure compliance with the Clean Water Act.

As mentioned in the Interim Final Rule, eligible projects under the DWSRF and CWSRF support efforts to address climate change, as well as to meet cybersecurity needs to protect water and sewer infrastructure. Given the lifelong impacts of lead exposure for children, and the widespread nature of lead service lines, Treasury also encourages recipients to consider projects to replace lead service lines.

32. May construction on eligible water, sewer, or broadband infrastructure projects continue past December 31, 2024, assuming funds have been obligated prior to that date?

Yes. Treasury is interpreting the requirement that costs be incurred by December 31, 2024 to only require that recipients have obligated the funds by such date. The period of performance will run until December 31, 2026, which will provide recipients a reasonable amount of time to complete projects funded with Fiscal Recovery Funds.

33. May recipients use funds as a non-federal match for the Clean Water State Revolving Fund (CWSRF) or Drinking Water State Revolving Fund (DWSRF)?

Recipients may not use funds as a state match for the CWSRF and DWSRF due to prohibitions in utilizing federal funds as a state match in the authorizing statutes and regulations of the CWSRF and DWSRF.

34. Does the National Environmental Policy Act (NEPA) apply to eligible infrastructure projects?

NEPA does not apply to Treasury's administration of the Funds. Projects supported with payments from the Funds may still be subject to NEPA review if they are also funded by other federal financial assistance programs.

35. What types of broadband projects are eligible?

The Interim Final Rule requires eligible projects to reliably deliver minimum speeds of 100 Mbps download and 100 Mbps upload. In cases where it is impracticable due to geography, topography, or financial cost to meet those standards, projects must reliably deliver at least 100 Mbps download speed, at least 20 Mbps upload speed, and be scalable to a minimum of 100 Mbps download speed and 100 Mbps upload speed.

Projects must also be designed to serve unserved or underserved households and businesses, defined as those that are not currently served by a wireline connection that reliably delivers at least 25 Mbps download speed and 3 Mbps of upload speed.

36. For broadband investments, may recipients use funds for related programs such as cybersecurity or digital literacy training?

Yes. Recipients may use funds to provide assistance to households facing negative economic impacts due to Covid-19, including digital literacy training and other programs that promote access to the Internet. Recipients may also use funds for modernization of cybersecurity, including hardware, software, and protection of critical infrastructure, as part of provision of government services up to the amount of revenue lost due to the public health emergency.

Non-Entitlement Units (NEUs)

37. Can states impose requirements or conditions on the transfer of funds to NEUs?

As the statute requires states to make distributions based on population, states may not place additional conditions or requirements on distributions to NEUs, beyond those required by the ARPA and Treasury's implementing regulations and guidance.

For example, states may not impose stricter limitations than permitted by statute or Treasury regulations or guidance on an NEU's use of Fiscal Recovery Funds based on the NEU's proposed spending plan or other policies, nor permitted to offset any debt owed by the NEU against its payment. Further, states may not provide funding on a reimbursement basis (e.g., requiring NEUs to pay for project costs up front before being reimbursed with Fiscal Recovery Fund payments), because this approach would not comport with the statutory requirement that states make distributions to NEUs within the statutory timeframe.

38. Can states transfer additional funds to local governments beyond amount allocated to NEUs?

Yes. The Interim Final Rule permits states, territories, and Tribal governments to transfer Fiscal Recovery Funds to other constituent units of government or private entities beyond those specified in the statute, as long as the transferee abides by the transferor's eligible use and other requirements. Similarly, local governments are authorized to transfer Fiscal Recovery Funds to other constituent units of government (e.g., a county is able to transfer Fiscal Recovery Funds to a city, town or school district within it).

39. What is the definition of "budget" for the purpose of the 75 percent cap on NEU payments, and who is responsible for enforcing this cap?

States are responsible for enforcing the "75 percent cap" on NEU payments, which is a statutory requirement that distributions to NEUs not exceed 75 percent of the NEU's most recent budget. Treasury interprets the most recent budget as the NEU's most recent annual total operating budget, including its general fund and other funds, as of January 27, 2020. States may rely for this determination on a certified top-line budget total from the NEU. Funding amounts in excess of such cap must be returned to Treasury.

40. May states use funds to pay for the administrative costs of allocating and distributing money to the NEUs?

Yes. If necessary, states may use Fiscal Recovery Funds to support the administrative costs of allocating and distributing money to NEUs, as disbursing these funds itself is a response to the public health emergency and its negative economic impacts.

41. When will states get their payments for NEUs? When will NEUs get their payments?

States can find their state-level allocations for NEUs on the Treasury website. Treasury plans to issue further guidance on distributions and payments to NEUs in the coming days.

State governments that request their own funds under the Coronavirus State Fiscal Recovery Fund through Treasury's Submission Portal will be considered by Treasury to have requested funding for their non-entitlement units as well.

42. When will NEUs know if they are eligible for payment?

Treasury plans to provide further guidance on distributions and payments to NEUs in the coming days.

Ineligible Uses

43. What is meant by a pension "deposit"? Can governments use funds for routine pension contributions for employees whose payroll and covered benefits are eligible expenses?

Treasury interprets "deposit" in this context to refer to an extraordinary payment into a pension fund for the purpose of reducing an accrued, unfunded liability. More specifically, the interim final rule does not permit this assistance to be used to make a payment into a pension fund if both: (1) the payment reduces a liability incurred prior to the start of the COVID-19 public health emergency, and (2) the payment occurs outside the recipient's regular timing for making such payments.

Under this interpretation, a "deposit" is distinct from a "payroll contribution," which occurs when employers make payments into pension funds on regular intervals, with contribution amounts based on a pre-determined percentage of employees' wages and salaries. In general, if an employee's wages and salaries are an eligible use of Fiscal

Recovery Funds, recipients may treat the employee's covered benefits as an eligible use of Fiscal Recovery Funds.

Reporting

44. What records must be kept by governments receiving funds?

Financial records and supporting documents related to the award must be retained for a period of five years after all funds have been expended or returned to Treasury, whichever is later. This includes those which demonstrate the award funds were used for eligible purposes in accordance with the ARPA, Treasury's regulations implementing those sections, and Treasury's guidance on eligible uses of funds.

45. What reporting will be required, and when will the first report be due?

Recipients will be required to submit an interim report, quarterly project and expenditure reports, and annual recovery plan performance reports as specified below, regarding their utilization of Coronavirus State and Local Fiscal Recovery Funds.

Interim reports: States (defined to include the District of Columbia), territories, metropolitan cities, counties, and Tribal governments will be required to submit one interim report. The interim report will include a recipient's expenditures by category at the summary level and for states, information related to distributions to nonentitlement units of local government must also be included in the interim report. The interim report will cover activity from the date of award to July 31, 2021 and must be submitted to Treasury by August 31, 2021. Nonentitlement units of local government are not required to submit an interim report.

Quarterly Project and Expenditure reports: State (defined to include the District of Columbia), territorial, metropolitan city, county, and Tribal governments will be required to submit quarterly project and expenditure reports. This report will include financial data, information on contracts and subawards over $50,000, types of projects funded, and other information regarding a recipient's utilization of award funds. Reports will be required quarterly with the exception of nonentitlement units, which will report annually. An interim report is due on August 31, 2021. The reports will include the same general data as those submitted by recipients of the Coronavirus Relief Fund, with some modifications to expenditure categories and the addition of data elements related to specific eligible uses. The initial quarterly Project and Expenditure report will cover two calendar quarters from the date of award to September 30, 2021 and must be submitted to Treasury by October 31, 2021. The subsequent quarterly reports will cover one calendar quarter and must be submitted to Treasury within 30 days after the end of each calendar quarter.

Nonentitlement units of local government will be required to submit the project and expenditure report annually. The initial annual Project and Expenditure report for nonentitlement units of local government will cover activity from the date of award to

September 30, 2021 and must be submitted to Treasury by October 31, 2021. The subsequent annual reports must be submitted to Treasury by October 31 each year.

Recovery Plan Performance reports: States (defined to include the District of Columbia), territories, metropolitan cities, and counties with a population that exceeds 250,000 residents will also be required to submit an annual recovery plan performance report to Treasury. This report will include descriptions of the projects funded and information on the performance indicators and objectives of each award, helping local residents understand how their governments are using the substantial resources provided by Coronavirus State and Local Fiscal Recovery Funds program. The initial recovery plan performance report will cover activity from date of award to July 31, 2021 and must be submitted to Treasury by August 31, 2021. Thereafter, the recovery plan performance reports will cover a 12-month period and recipients will be required to submit the report to Treasury within 30 days after the end of the 12-month period. The second Recovery Plan Performance report will cover the period from July 1, 2021 to June 30, 2022 and must be submitted to Treasury by July 31, 2022. Each annual recovery plan performance report must be posted on the public-facing website of the recipient. Local governments with fewer than 250,000 residents, Tribal governments, and nonentitlement units of local government are not required to develop a Recovery Plan Performance report.

Treasury will provide further guidance and instructions on the reporting requirements for program at a later date.

46. What provisions of the Uniform Guidance for grants apply to these funds? Will the Single Audit requirements apply?

Most of the provisions of the Uniform Guidance (2 CFR Part 200) apply to this program, including the Cost Principles and Single Audit Act requirements. Recipients should refer to the Assistance Listing for detail on the specific provisions of the Uniform Guidance that do not apply to this program. The Assistance Listing will be available on beta.SAM.gov.

Miscellaneous

47. May governments retain assets purchased with Fiscal Recovery Funds? If so, what rules apply to the proceeds of disposition or sale of such assets?

Yes, if the purchase of the asset was consistent with the limitations on the eligible use of funds. If such assets are disposed of prior to December 31, 2024, the proceeds would be subject to the restrictions on the eligible use of payments.

48. Can recipients use funds for administrative purposes?

Recipients may use funds to cover the portion of payroll and benefits of employees corresponding to time spent on administrative work necessary due to the COVID–19 public health emergency and its negative economic impacts. This includes, but is not limited to, costs related to disbursing payments of Fiscal Recovery Funds and managing new grant programs established using Fiscal Recovery Funds.

Operational Questions

49. How does an eligible entity request payment?

Eligible entities (other than non-entitlement units) must submit their information to the Treasury Submission Portal. Please visit the Coronavirus State and Local Fiscal Recovery Fund website for more information on the submission process.

50. I cannot log into the Treasury Submission Portal or am having trouble navigating it. Who can help me?

If you have questions about the Treasury Submission Portal or for technical support, please email covidreliefitsupport@treasury.gov.

51. What do I need to do to receive my payment?

All eligible payees are required to have a DUNS Number previously issued by Dun & Bradstreet (https://www.dnb.com/).

All eligible payees are also required to have an active registration with the System for Award Management (SAM) (https://www.sam.gov).

And eligible payees must have a bank account enabled for Automated Clearing House (ACH) direct deposit. Payees with a Wire account are encouraged to provide that information as well.

More information on these and all program pre-submission requirements can be found on the Coronavirus State and Local Fiscal Recovery Fund website.

52. Why is Treasury employing id.me for the Treasury Submission Portal?

ID.me is a trusted technology partner to multiple government agencies and healthcare providers. It provides secure digital identity verification to those government agencies and healthcare providers to make sure you're you – and not someone pretending to be you – when you request access to online services. All personally identifiable information provided to ID.me is encrypted and disclosed only with the express consent of the user. Please refer to ID.me Contact Support for assistance with your ID.me account. Their support website is https://help.id.me.

53. Why is an entity not on the list of eligible entities in Treasury Submission Portal?

The ARP statute lays out which governments are eligible for payments. The list of entities within the Treasury Submission Portal includes entities eligible to receive a direct payment of funds from Treasury, which include states (defined to include the District of Columbia), territories, Tribal governments, counties, and metropolitan cities.

Eligible non-entitlement units of local government will receive a distribution of funds from their respective state government and should not submit information to the Treasury Submission Portal.

If you believe an entity has been mistakenly left off the eligible entity list, please email SLFRP@treasury.gov.

54. What is an Authorized Representative?

An Authorized Representative is an individual with legal authority to bind the government entity (e.g., the Chief Executive Officer of the government entity). An Authorized Representative must sign the Acceptance of Award terms for it to be valid.

55. How does a Tribal government determine their allocation?

Tribal governments will receive information about their allocation when the submission to the Treasury Submission Portal is confirmed to be complete and accurate.

56. How do I know the status of my request for funds (submission)?

Entities can check the status of their submission at any time by logging into Treasury Submission Portal.

57. My Treasury Submission Portal submission requires additional information/correction. What is the process for that?

If your Authorized Representative has not yet signed the award terms, you can edit your submission with in the into Treasury Submission Portal. If your Authorized Representative has signed the award terms, please email SLFRP@treasury.gov to request assistance with updating your information.

58. My request for funds was denied. How do I find out why it was denied or appeal the decision?

Please check to ensure that no one else from your entity has applied, causing a duplicate submission. Please also review the list of all eligible entities on the Coronavirus State and Local Fiscal Recovery Fund website.

If you still have questions regarding your submission, please email SLFRP@treasury.gov.

59. When will entities get their money?

Before Treasury is able to execute a payment, a representative of an eligible government must submit the government's information for verification through the Treasury Submission Portal. The verification process takes approximately four business days. If any errors are identified, the designated point of contact for the government will be contacted via email to correct the information before the payment can proceed. Once verification is complete, the designated point of contact of the eligible government will receive an email notifying them that their submission has been verified. Payments are generally scheduled for the next business day after this verification email, though funds may not be available immediately due to processing time of their financial institution.

60. How does a local government entity provide Treasury with a notice of transfer of funds to its State?

For more information on how to provide Treasury with notice of transfer to a state, please email SLRedirectFunds@treasury.gov.

CITY OF KIRKLAND

FISCAL POLICIES

BACKGROUND AND PURPOSE

The stewardship of public funds is one of the greatest responsibilities given to the officials and managers of the City of Kirkland. Therefore, the establishment and maintenance of wise fiscal policies enables city officials to protect public interests and ensure public trust.

This document incorporates past financial practices in defining the current policies to be used by the City to meet its obligations and operate in a financially prudent manner. These policies have been established to provide general fiscal guidelines and are intended to provide sound direction in the management of the City's financial affairs.

OPERATING BUDGET POLICIES

The municipal budget is the central financial planning document that embodies all operating revenue and expenditure decisions. It establishes the level of services to be provided by each department within the confines of anticipated municipal revenues.

- The City Council will adopt a biennial budget which will reflect estimated revenues and expenditures for the ensuing two years. A mid-biennium review and update will take place as prescribed by law during the first year of the biennium.
- The City Council will establish municipal service levels and priorities for the ensuing two years prior to and during the development of the preliminary budget.
- The City Manager shall incorporate the Council's priorities in the formulation of the preliminary and final budget proposal.
- Adequate maintenance and replacement of the City's capital plant and equipment will be provided for in the biennial budget.
- The biennial budget will be balanced with resources in that biennium.

REVENUE AND EXPENDITURE POLICIES

Annual revenues are conservatively estimated as a basis for preparation of the biennial budget and City service programs.

Expenditures approved by the City Council in the biennial budget define the City's spending limits for the upcoming biennium. Beyond legal requirements, the City will maintain an operating philosophy of cost control and responsible financial management.

- The City will maintain revenue and expenditure categories according to state statute and administrative regulation.
- Current revenues will be sufficient to support current expenditures.
- All revenue forecasts will be performed utilizing accepted analytical techniques.
- All fees for services shall be reviewed and adjusted (where necessary) at least every three years to ensure that rates are equitable and cover the total cost of service, or that percentage of total service cost deemed appropriate by the City.

- Credit card fee surcharges, cash discounts and online payment methods shall be reviewed and evaluated every two years as part of the biennial budget process to ensure that the cost of service is being covered and the City is taking advantage of improving technology.
- Revenues of a limited or indefinite term will be used for capital projects or one-time operating expenditures to ensure that no ongoing service program is lost when such revenues are reduced or discontinued.
- Grant applications to fund new service programs with state or federal funds will be reviewed by the City, as they become available, with due consideration being given to whether locally generated revenues will be required to support these programs when outside funding is no longer available.
- The City of Kirkland will establish and maintain Special Revenue Funds which will be used to account for proceeds from a substantial restricted or committed revenue source used to finance designated activities which are required by statute, ordinance, resolution or executive order.
- Biennial expenditures will be maintained within the limitations of biennial revenues. The City will not use short-term borrowing to finance current operating needs without full financial analysis and prior approval of the City Council.
- In order to ensure the continuity of services, the City will budget no more sales tax revenue than was received in the prior year as a hedge against possible future economic events.
- Net interest income revenue will be used to finance one-time capital or time-limited goods or services including debt service on councilmanic bond issues.
- All authorized positions will be budgeted for a full year (or biennium) unless specifically designated by the City Council as a partial-year position.
- In the event that budget reductions are needed in order to balance revenues and expenditures, the City Council will provide policy direction to staff as to the priority order and combination for using the following strategies:
    - Raise revenue
    - Reduce expenditures
    - Use reserves
- The use of reserves to balance the budget will only be used to address short term temporary revenue shortfalls and expenditure increases.
- The biennial budget will be formally amended by the City Council as needed to acknowledge unforeseen expenditures. All requests for funding will be analyzed by the Finance and Administration Department. The Council will be provided with a discussion of the legality and/or policy basis of the expenditure, the recommended funding source, an analysis of the fiscal impact and a review of all reserves and previously approved amendments since budget adoption.
- A request will not be approved at the same meeting at which it is introduced unless it is deemed an urgent community issue by a supermajority vote of the City Council. Requests made to Council outside of the formal budget adjustment process will be analyzed and presented to the Council for approval at the next regular Council meeting that allows sufficient time for staff to prepare an analysis and recommendation.
- Annual expenditures from the Excise Tax Capital Improvement Fund will be prioritized such that available resources are sufficient to meet all operating budget commitments for the year. Subject to review and approval by the City Council, projected shortfalls in the Excise Tax Capital Improvement Fund in any given year will be balanced with offsetting reductions to capital budget commitments, or use of available reserves, prior to any reduction in transfers to the operating budget.

ENTERPRISE FUND POLICIES

The City will establish enterprise funds for City services when 1) the intent of the City is that all costs of providing the service should be financed primarily through user charges; and/or 2) the City Council determines that it is appropriate to conduct a periodic review of net income for capital maintenance, accountability, or other public policy purposes.

- Enterprise funds will be established for City-operated utility services.
- Enterprise fund expenditures will be established at a level sufficient to properly maintain the fund's infrastructure and provide for necessary capital development.
- Each enterprise fund will maintain an adequate rate structure to cover the costs of all operations, including maintenance, depreciation, capital and debt service requirements, reserves (as established by fiscal policy or bond covenant), and any other cost deemed necessary.
- Rates may be offset from available fund cash after requirements are met for cash flow and scheduled reserve contributions.
- Enterprise fund services will establish and maintain reserves for general contingency and capital purposes consistent with those maintained for general governmental services.
- Revenue bonds shall be issued only when projected operating revenues are insufficient for the enterprise's capital financing needs.
- The City will insure that net operating revenues of the enterprise constitute a minimum of 1.5 times the annual debt service requirements.
- The City will limit the maturities of all utility revenue bond issues to 30 years or less.

CASH MANAGEMENT AND INVESTMENT POLICIES

Careful financial control of the City's daily operations is an important part of Kirkland's overall fiscal management program. Achieving adequate cash management and investment control requires sound financial planning to ensure that sufficient revenues are available to meet the current expenditures of any one operating period. Once steps are taken to ensure that the City maintains a protected cash position in its daily operations, it is to the municipality's advantage to prudently invest idle funds until such time as they are required to make expenditures.

- The City's idle cash will be invested on a continuous basis in accordance with the City's adopted investment policies.
- The City will maintain a formal investment policy which is reviewed and endorsed by state and/or national professional organizations. The complete policy can be found in the appendix of this document.
- The City will invest all funds (in excess of current requirements) in a manner that is in conformance with federal, state and other legal requirements based upon the following order of priority: 1) safety; 2) liquidity and 3) return on investment.
- Investments with City funds shall not be made for purposes of speculation.
- The City is prohibited from investing in derivative financial instruments for the City's managed investment portfolio.
- Proper security measures will be taken to safeguard investments. The City's designated banking institution will provide adequate collateral to insure City funds.

- The City's investment portfolio will be reviewed every three years by a qualified portfolio valuation service to assess the portfolio's degree of risk and compliance with the adopted investment policies.
- An analysis of the City's cash position will be prepared at regular intervals throughout the fiscal year.
- The City Council will be provided with quarterly reports on the City's investment strategy and performance.
- Sufficient cash shall be maintained to provide adequate funds for current operating expenditures.
- Where permitted, the City will pool its cash resources from various funds ("Treasurer's Cash") for investment purposes.
- Net investment income from Treasurer's Cash will be allocated in accordance with KMC 5.24.060 considering 1) average cash balance of the participating fund and 2) the minimum cash balance needs of each fund as determined by the Director of Finance and Administration. Net investment income is the amount of annual investment proceeds after first providing for all costs and expenses incurred in the administration of the common investment fund and an allocation of earned interest is made to certain funds as required by the State and Council-directed obligations are met for General Fund purposes.
- The City of Kirkland will select its official banking institution through a formal bidding process in order to provide the City with the most comprehensive, flexible, and cost-effective banking services available.

ACCOUNTING, FINANCIAL REPORTING AND AUDITING POLICIES

The City of Kirkland will establish and maintain a high standard of accounting practices. Accounting and budgetary systems will, at all times, conform to Generally Accepted Accounting Principles, the State of Washington Budgeting Accounting Reporting System (BARS) and local regulations.

- A comprehensive accounting system will be maintained to provide all financial information necessary to effectively operate the City.
- The City will meet the financial reporting standards set by the Governmental Accounting Standards Board.
- Full disclosure will be provided in all City financial reports and bond representations.
- An annual audit will be performed by the State Auditor's Office and include the issuance of a financial opinion.

RESERVE AND FUND BALANCE POLICIES

Adequate fund balance and reserve levels are a necessary component of the City's overall financial management strategy and a key factor in external agencies' measurement of the City's financial strength.

Maintenance of fund balance for each accounting fund assures adequate resources for cash flow and to mitigate short-term effects of revenue shortages.

City and state regulations have been established to allow the City of Kirkland to create and maintain specific reserve funds. Prudent use of reserve funds enables the City to defray future costs, take advantage of matching funds, and beneficial (but limited) opportunities. Reserve funds provide the City with the ability to exercise flexible financial planning in developing future capital projects. Reserve funds are necessary to enable the City to deal with unforeseen emergencies or changes in condition.

- The City will establish minimum fund balance targets for each fund based on the cash flow requirements of the fund. The City will include all fund balances in the biennial budget.

- The minimum fund balance will be attained and maintained through expenditure management, revenue management and/or contributions from the General Fund.
- All expenditures drawn from General Purpose Reserves shall require prior Council approval unless previously authorized by the City Council for expenditure in the biennial budget or otherwise provided for by City policies. General Purpose Reserves include the following, as listed below and described in the *Reserve Purposes and Targets* section:
  - Contingency Reserve Fund;
  - General Capital Contingency;
  - General Operating Reserve;
  - Revenue Stabilization Reserve;
  - Council Special Projects Reserve; and,
  - Building and Property Reserve.

Reserve Purposes and Targets

- A Contingency Reserve Fund shall be maintained in accordance with RCW 35A.33.145 to meet any municipal expense, the necessity or extent of which could not have been reasonably foreseen at the time of adopting the biennial budget. The target balance will be set at the lower of 80 percent of the statutory maximum of $0.375 per $1,000 of assessed valuation or the budgeted 2020 year end balance plus inflation as measured by the CPI-W.
- The City will maintain a General Operating Reserve at an amount equivalent to five percent of the tax-supported general government budgets (General Fund, Street Operating Fund and Parks Maintenance Fund) for the second year of the biennium. The General Operating Reserve is available to address unforeseen revenue shortfalls or expenditure needs that occur during the current biennium.
- The City will maintain a Revenue Stabilization Reserve to address temporary revenue losses due to economic cycles or other time-limited causes. The Revenue Stabilization Reserve will be maintained at ten percent of selected General Fund revenue sources which, in the judgment of the Director of Finance and Administration, are subject to volatility. The Revenue Stabilization Reserve may be used in its entirety; however, replenishment will be a priority, consistent with adopted policies.
- The City will maintain a Council Special Project Reserve, which is available to the City Council to fund special one-time projects that were unforeseen at the time the budget was prepared. When the reserve is used, it is replenished from the General Fund year-end fund balance to a target balance of $250,000.
- The City will maintain a General Capital Contingency to address unforeseen project expenditures or external revenue shortfalls in an amount equivalent to ten percent of the funded two-year CIP budget, less proprietary fund projects and debt proceeds.
- In establishing targets for the reserves defined above, voted property tax levies will be excluded from the calculations, since the levies are not intended to burden the General Fund and are expected to absorb unexpected costs from levy proceeds.
- The City Manager may authorize the use of capital funding reserves up to an aggregate total of $100,000 per year in increments not to exceed $25,000. The City Manager will provide regular reports to the City Council at a regular Council meeting if this authorization is used. Capital funding reserves include: General Capital Contingency, Street Improvement Reserve, REET Reserves, Impact Fee Reserves, Water/Sewer Capital Contingency, Water/Sewer Construction Reserve, Surface Water Capital Contingency, and Surface Water Construction Reserve.

- The City will maintain a Capital Improvement Project Reserve as a means of assuring the availability of cash resources to leverage external funding when the opportunity arises and to provide flexibility for project scope changes and unanticipated costs. The reserve will be maintained in the Real Estate Excise Tax Capital Reserve Fund and will provide for $1 million of Real Estate Excise Tax revenue from the first quarter percent of the tax and $1 million of revenue from the second quarter percent of the Real Estate Excise Tax. These amounts will be maintained through excise tax revenue received over and above the annual allocation to the Capital Improvement Plan.
- The City will maintain a Building and Property Reserve with a minimum balance of $600,000. This reserve is used for property purchases, building improvements and other property-related transactions. It can also be used as a general purpose reserve to fund Council-approved unanticipated expenditures.
- The City will maintain fully funded reserves for the replacement of vehicles and personal computers. Contributions will be made through assessments to the using funds and maintained on a per asset basis.
- Additional reserve accounts may be created to account for monies for future known expenditures, special projects, or other specific purposes.
- All reserves will be presented in the biennial budget.

Reserve Replenishment

- Reserve replenishments occur in three ways during periods of economic recovery:
    - Planned - A specific amount is included in the adopted budget,
    - Scheduled – After uses of reserves occur, a repayment schedule can be established to repay the use over a specific time period, and
    - Unplanned - Ending fund balances are higher than budgeted, either due to higher than budgeted revenues or under-expenditures.
- Planned amounts are included as part of the adopted budget. Planned replenishments toward 80% of the target level shall be set to at least 1% of the General Fund adopted expenditures less reserves.
- Scheduled amounts are included in the adopted budgets according to the repayment schedule. The amount scheduled for repayment will be assumed as part of the balance for determining performance against reserve targets.
- Unplanned amounts available at the end of each biennium (if any) should help replenish to target faster. A high percentage (up to all) uncommitted funds available at the end of a biennium should be used for reserve replenishment until reserves meet 80% of target and the revenue stabilization reserve is at 100% of target. Some or all of those unplanned funds may be used in place of planned (budgeted) amounts in the following biennium to the extent it meets or exceeds the 1% budgeted amount.
- Once reserves reach 80% of target and revenue stabilization reserve is at 100%, funds may be used to meet other one time or on-going needs. Additional funds should be used to fund a variety of needs, based on the following process:
    - Set 50% of available cash toward reserves until they are at 100% of target.
    - The remaining 50% shall be available for one or more of the following needs, depending on the nature of the funds available (one-time or on-going) and in the following order of priority:
        - Fund liabilities related to sinking funds for public safety and information technology equipment,
        - Maintain current service levels,
        - Fund one-time projects or studies,

    - Increase funding for capital purposes,
    - Restore previous program service reductions,
    - Potential program and service enhancements.

- In terms of priority for replenishing the individual reserves, the following guidelines shall be used:
    - If the Council Special Projects reserve is below target, replenish to target at the start of each biennium.
    - If the revenue stabilization reserve is below target, prioritize replenishing the reserve.
    - To the extent cash is from volatile revenues above budgeted amounts, those funds should be applied to revenue stabilization reserve first.
    - If unplanned funds are available because planned reserve uses did not occur, those funds should be returned to the source reserve.
    - The source of uncommitted funds should be taken into consideration (for example, interest earnings over budget could be applied to the capital contingency, since they are one of the designated sources for this reserve).
    - The degree to which an individual reserve is below target (for example, the reserve that is furthest from its target level on a percentage basis might receive a larger share of the funds).
    - Decisions on how replenishments are allocated to specific reserves will be based on where available funds came from and on each reserve's status at the time the decision is made.
    - The replenishment policy will provide a mechanism whereby Council may take action to suspend replenishment policies if it was found that special conditions existed warranting such action.

DEBT MANAGEMENT POLICIES

The amount of debt issued by the City is an important factor in measuring its financial performance and condition. Proper use and management of borrowing can yield significant advantages. From a policy perspective, the City of Kirkland uses debt in two ways: (1) as a mechanism to equalize the costs of needed improvements to both present and future citizens; and (2) as a mechanism to reduce the immediate costs of substantial public improvements.

- The City will maintain a formal Debt Management Policy which is reviewed and endorsed by state and/or national professional organizations. The complete policy can be found in the appendix of this document.
- City Council approval is required prior to the issuance of debt.
- An analytical review shall be conducted prior to the issuance of debt.
- The City will continually strive to maintain its bond rating by improving financial policies, budget forecasts and the financial health of the City so its borrowing costs are minimized and its access to credit is preserved.
- All debt issued by the City will include a written opinion by bond counsel affirming that the City is authorized to issue the proposed debt.
- The City of Kirkland will not use long-term debt to support current operations.
- Long-term borrowing will only be used for capital improvements that cannot be financed from current revenues.
- Non-capital furnishings, supplies, and personnel will not be financed from bond proceeds.
- Interest, operating and/or maintenance expenses will be capitalized only for enterprise activities; and will be strictly limited to those expenses incurred prior to actual operation of the facilities.

- The general obligation debt of Kirkland will not exceed an aggregated total of 7.5% of the assessed valuation of the taxable property within the City.
- The following individual percentages shall not be exceeded in any specific debt category:
  - General Debt -- 2.5% of assessed valuation
  - Non-Voted -- 1.5% Limited Tax General Obligation (LTGO) Bonds
  - Voted -- 1.0% Unlimited Tax General Obligation Bonds
  - Utility Debt -- 2.5% of assessed valuation
  - Open Space and Park Facilities -- 2.5% of assessed valuation
- The City's policy is to plan and direct the use of debt so that debt service payments will be a predictable and manageable part of the Operating Budget.
- Short-term borrowing will only be used to meet the immediate financing needs of a project for which long-term financing has been secured but not yet received.
- Assessment bonds will be considered in place of general obligation bonds, where possible, to assure the greatest degree of public equity.
- Limited Tax General Obligation (LTGO) bonds will be issued only if:
  - A project requires funding not available from alternative sources;
  - Matching fund monies are available which may be lost if not applied for in a timely manner; or
  - Emergency conditions exist.
- The issuance of bonds shall be financed for a period not to exceed a conservative estimate of the asset's useful life.
- General Obligation bonds will be issued with maturities of 30 years or less unless otherwise approved by Council.
- The maturity of all assessment bonds shall not exceed statutory limitations. RCW 36.83.050.
- The City will use refunding bonds, where appropriate, when restructuring its current outstanding debt.

CAPITAL IMPROVEMENT POLICIES

Kirkland's City government is accountable for a considerable investment in buildings, parks, roads, sewers, equipment and other capital investments. The preservation, maintenance, and future improvement of these facilities are a primary responsibility of the City. Planning and implementing sound capital improvement policies and programs today will help the City avoid emergencies and major costs in the future, therefore:

- The City will establish and implement a comprehensive multi-year Capital Improvement Program.
- The Capital Improvement Program will be prepared biennially concurrent with the development of the biennial budget. A mid-biennium review and update will take place during the first year of the biennium.
- The City Council will designate annual ongoing funding levels for each of the major project categories within the Capital Improvement Program.
- Financial analysis of funding sources will be conducted for all proposed capital improvement projects.

- A Capital Improvement Budget will be developed and adopted by the City Council as part of the biennial budget and will be amended during the mid-biennial budget review process (during the first year of the biennium) to reflect any changes in the updated Capital Improvement Program.
- The Capital Improvement Program will be consistent with the Capital Facilities Element of the Comprehensive Plan.
- The City Manager may authorize the reallocation of CIP project funds between CIP projects within a CIP category up to $50,000 per instance. Funding may only be reallocated within a CIP category (i.e. between Transportation projects, or Parks projects, or Public Safety projects, etc.) when one project is over budget and, in the same period, a second project within the same CIP category has been completed and is closing out under budget. The City Manager will provide regular reports to the City Council at a regular Council meeting if this authorization is used.

CITY OF KIRKLAND
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MEMORANDUM

To: Kurt Triplett, City Manager

From: James Lopez, Deputy City Manager for External Affairs
David Wolbrecht, Senior Neighborhood Services Coordinator

Date: May 21, 2021

Subject: NEIGHBORHOOD AND PARKS SIGNAGE PLANS

RECOMMENDATION:

That the City Council review options for implementing neighborhood and parks signage plans to replace the current large wooden signs at some City facilities, neighborhoods, gateway points into the City, and parks. Staff seek direction from Council on preferred options so that new signs can be implemented in 2021 and 2022.

BACKGROUND DISCUSSION:

The purpose of this report is to provide Council background on Kirkland's current signs and to outline two options for Council consideration. This report is structured as follows:

I. Brief Background on Kirkland's Neighborhood and Parks Signs
II. Options for Replacing and Installing Neighborhood and Parks Signs
III. Next Actions

I. Brief Background on Kirkland's Current Neighborhood and Parks Signs

There are generally four categories of "community location" signs in Kirkland:

Type	Count	Description
Gateway	4	Display "Kirkland" at prominent entry points to the city or to major areas (e.g. downtown)
Park	46	Display the park name at an entrance
Neighborhood	14*	Display the neighborhood or business district name at a major access point, sometimes identified in a neighborhood plan
Facility	4	Display the facility name
TOTAL	68	

*Two neighborhoods currently do not have signs (Evergreen Hill and Finn Hill), and some neighborhoods have more than one sign.

The current signs all share the same general design: the City's seal and main text of the sign painted with gold-leaf, with green and blue stripes underneath the text, all on a brown-painted wood background. The space in and around the seal, text, and lines are all routed such that those elements are three-dimensional. The current design has been used since at least the late 1990s. All are made of wood except for the Moss Bay Neighborhood sign, which is made of high-density urethane (HDU) that is fabricated to resemble wood without needing the same level of maintenance. The Moss Bay Neighborhood sign is the most recent sign to be fabricated.

The maintenance of the wooden signs by the Public Works and Parks & Community Services staff have significantly extended the effective life of the signs. However, several of the signs have reached the point of being beyond meaningful maintenance and need to be replaced.

The signs vary in size, even within a sign category, which was likely influenced by both site conditions and available budget. For the sake of this report, generally the gateway signs would be considered large, park and facility signs would be considered medium, and neighborhood signs would be considered small. Current rough estimates for HDU using the same design are as follows:

Size	**Sign Type (generally)**	**Dimensions**	**Estimate**
Large	Gateway	15' wide x 3'-1" tall x 4" deep	$13,000
Medium	Park and Facility	10' wide x 2' tall x 4" deep	$10,000
Small	Neighborhood	6' wide x 2' tall x 4" deep	$8,000

Ongoing costs for maintenance have for several years been absorbed into the Public Works or Parks & Community Services Department budgets and are not included in the above estimates.

<u>Current Available Funding</u>
$36,000 was carried forward from the 2017-18 budget to help fund the fabrication of new signs and the replacement of current signs. To help guide staff's process for this, staff presented to the former Public Works, Parks, and Human Services Council Committee on June 20, 2019, and received direction to explore a comprehensive signage plan and to engage the community in the process. Based on this feedback, staff began work on a public process for 2020 that was interrupted and delayed by the reprioritization of staff's work plans due to the onset of the pandemic. The $36,000 was again carried forward from the 2019-2020 budget, and staff now return to Council for direction on how to proceed.

II. Options for Replacing and Installing Neighborhood and Parks Signs

The main decision staff seek Council direction on is whether to use the existing sign design or to explore a new design. The current wood structure and design are unique and have considerable history and connection with the community. However, the signs are larger, more expensive "monument" type signs than are typically found in municipalities. The current signs also require more frequent maintenance. Converting the current signs to high-density urethane lowers the cost and maintenance requirements over wood somewhat, but the overall cost still remains higher than most other options.

Proceeding with using the current design would likely be more efficient, however, the prior delays in process around the signs have afforded the City an opportunity to explore alternatives to the current design in the context of diversity, equity, inclusion, and belonging. These signs contribute substantially to placemaking and the community's sense of identity. These signs are prominent "public symbols", which is one of several items called for in Resolution R-5434 Section 3d-e to be evaluated for whether they are "welcoming to all community members". It is with this lens that staff recommend approaching the development of a citywide signage plan if Council decides to explore an alternative design. Alternative design options could include a completely new design, or the current design could be updated with a welcoming tagline such as "Kirkland – Where you belong" or "Where everyone belongs".

For any citywide signage plan option, staff recommend phasing the sign implementation. Phase 1 would be selecting neighborhood and business district signs in 2021 and implementing in 2022. Phase 2 would be the parks signs. The Parks & Community Services Department (P&CS) has on its 2023 work plan a comprehensive signage and wayfinding study intended to yield recommendations and an implementation plan. This study timeline could be accelerated into 2022, with implementation following over the next few years. The parks signage plan will build off the work of the current Parks, Recreation, and Open Spaces (PROS) Plan update currently underway. New parks signs should serve the specific needs of park signage to convey additional information, such as amenities, hours of operation, and rules. The need to convey this additional information is not necessary for the neighborhood signs. If Council directs staff to explore new design options, CMO staff would work in collaboration with P&CS staff on the development of any new design to best support the future study and implementation for P&CS.

Depending on Council's preference for the current or a new design, and based on prior feedback from the former Public Works, Parks, and Human Services Council Committee, staff provide two main options for a process to develop a Phase 1 citywide signage plan to replace and install neighborhood signs.

<u>Phase 1: Neighborhood Sign Replacement 2021/2022</u>

<u>Option 1: New Design</u>

1. **Update Inventory**
   Conduct an audit of all gateway, neighborhood, and facility signs to update the inventory of location and dimensions. Include in the inventory all other City-owned signs, such as the reader boards signs at some fire stations and the North Kirkland Community Center.

2. **Identify Sign Design/Fabrication Firm(s)**
   Issue a Request for Qualifications for design/fabrication firms to help develop design options for a comprehensive, coherent, and branded signage system and to estimate costs for fabrication and installation.
3. **Draft Citywide Signage Plan**
   Develop a plan for comprehensive signage that incorporates key elements of placemaking for belonging, geographic wayfinding, economic development, and emergency management. The plan would also explore other potential sign types to be included, such as blade street signs for micro-placemaking, business directory signs, and other electronic information signs (for example those provided by the company, Soofa[1]). The plan would be based on a gap analysis of the current inventory, estimates from an identified sign design firm, and a civic engagement process to collect community input to help guide and content and/or design of the signage system.
4. **Implement Plan in 2022**

Option 1 Rough Estimate: $220,000 for signs, $55,000 for consultant, plus considerable staff time. This estimate multiplies the number of signs times their HDU estimate. If other materials are selected, the cost may be lower.

Option 2: Current Design

1. **Update Inventory**
   Conduct an audit of all gateway, neighborhood, and facility signs to update the inventory of location, condition, and dimensions.
2. **Identify Sign Fabrication Firm**
   Issue a Request for Qualifications for fabrication firms to create and install signs.
3. **Draft Citywide Signage Plan**
   Based on an analysis of an updated inventory, develop a citywide signage plan that provides a prioritized list of signs that fill geographic gaps and replace signs in poor conditions.
4. **Implement Plan in 2021/2022**

Option 2 Rough Estimate: $220,000 for signs, plus modest staff time, using HDU estimates.

Option 3: Other Council Direction

Staff welcome any other direction regarding the City's Neighborhood signs.

Phase 2: Parks Sign Replacement 2022/2023

1. **Accelerate comprehensive wayfinding/signage study in 2022.**
2. **Implement new signage implementation in 2023 and beyond.**

NEXT STEPS

Staff seek direction from the Council on how to proceed with a citywide signage plan.

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[1] Soofa website. https://soofadigital.com/soofa-sign