



MEMORANDUM

To: Kurt Triplett, City Manager

From: Michael Olson, Director of Finance and Administration
Sri Krishnan, Deputy Director of Finance and Administration
Chip Corder, Temporary 2021-2022 Budget Development Staff
Robby Perkins-High, Senior Financial Analyst
Andrea Peterman, Budget Analyst
Kevin Pelstring, Budget Analyst

Date: December 8, 2020

Subject: **2021-2022 BUDGET ADOPTION**

RECOMMENDATION:

Council approves the attached budget ordinance for the 2021-2022 biennium and the 2019-2020 Real Estate Excise Tax (REET) report.

BACKGROUND DISCUSSION:

By adopting the attached ordinance, the Council adopts the 2021-2022 Budget. The Final Budget ordinance and Exhibit A to the ordinance are included as attachments at the end of this memorandum. In addition to formally adopting the 2021-2022 Budget, the Council will need to adopt a report on the uses of REET in 2019-2020, which is included as Exhibit B to the ordinance, as required by State law.

REET Maintenance Report

RCW 82.46.015 requires the adoption of a report on the uses of REET in the operating and capital budgets. This qualifies the City to use REET for maintenance of capital projects in the 2021-2022 Operating Budget within the required guidelines. This information is included as Exhibit B to the budget ordinance.

2021-2022 Budget Adoption

The attached ordinance (Ordinance O-4748) adopts the 2021-2022 Budget as proposed by the City Manager and amended by the City Council. By state law, the budget must be adopted by December 31, 2020. The budget is adopted at the fund level, which sets the total expenditure authority for the biennium for each fund.

The total appropriation increased \$14,969,222 as a result of changes to the Preliminary Budget. At the November 17th Council Meeting, Council approved the following changes proposed by the City Manager:

- Set aside \$424,000 of 2021 funding, which was originally allocated to support the implementation of the Body-Worn Camera Pilot Service Package, for a Human Services Reserve for the 2021-2022 biennium.
- Allocate \$32,000 of the R-5434 Citywide Implementation Service Package to specifically support Diversity in Special Events and another \$18,000 to support Diversity in Public Art.
- Eliminate Pre-trial Alcohol Testing Fees (approximately \$90,000 revenue reduction).
- Use \$250,000 in REET 1 Reserves to fund Median Maintenance, Landscaping, and ROW Trees.
- Use approximately \$122,000 in one-time General Fund cash for City Manager's Office Outreach, including a 0.5 FTE Communications position, to continue to engage with the community on R-5434 work and potential new revenues.
- Use \$50,000 of one-time General Fund cash for a Revenue Impact Study in 2022.

In addition to the Council-directed changes listed above, other notable budget adjustments include:

- Increase REET revenues by \$3,651,034 based on updated 2020 revenue estimates. Use increased revenues and REET reserves to fund \$4 million for 100th Ave Improvements and \$2 million for 124th Ave Improvements (replacing unsecured grants).
- Use \$2,500,000 in REET 1 reserves, \$3,296,341 in REET 2 reserves, and \$1,703,744 in General Fund cash for The Village at Totem Lake Infrastructure Agreement.
- Increase Human Services funding by \$152,880 from multi-family tax exemption revenues being passed through to the City via the developers at The Plaza Project at 330 4th Street.
- Decrease Marine Patrol contract costs by \$39,083.
- Increase the Central Way Street Preservation project by \$525,000, funded via prior year street preservation program savings.
- Create a Pedestrian Safety Improvements (Downtown & NE 124th Street) project, funded with \$1.614 million in new grant funding from WSDOT and \$51,000 in reallocated current project funding.
- Increase the NE 132nd St/116th Way NE (I-405) Intersection Improvements project by \$202,125 via new grant funding from WSDOT.

Lastly, there is an additional proposed use of \$80,000 in General Fund Working Capital to fund City Commute Trip Reduction Program Enhancements (ORCA) program. This was not included in the Preliminary Budget due to an administrative oversight. This change is a short term stop gap action to ensure the ORCA program does not expire on January 1st, 2020. Because all Kirkland employees receive the ORCA card and many are funded by utility rates, fees and charges, a proportional cost distribution plan for the ORCA program across all funds will be brought to the Council in the mid-biennial budget process in 2021. The new allocation will return some cash to the general fund.

The tables below summarize the revenue and expenditure changes to the 2021-2022 Preliminary Budget.

Revenue Adjustments by Fund to Preliminary 2021-2022 Budget	Ongoing	One-time	Total
General Fund			
Increase in Resources Forward for VTL Infrastructure Agreement Carryover	-	1,703,744	1,703,744
Reduction in Resources Forward due to Increase in Carryovers	-	(357,698)	(357,698)
Multi-Family Tax Exemption (Plaza Project)	-	152,880	152,880
Eliminate Pre-Trial Alcohol Testing Revenue	-	(90,432)	(90,432)
Operating Transfer from Surface Water Fund (Tree Bank)	-	50,000	50,000
Administrative Corrections	-	33,492	33,492
Correction to Community Programs and Events Service Package Revenue	-	(16,000)	(16,000)
Subtotal	-	1,475,986	1,475,986
Special Revenue Funds			
Increase in Resources Forward due to Increase in 2020 Revenue Estimate (REET)	-	3,651,034	3,651,034
REET 1 Maintenance Transfer (to Street Fund)	-	250,000	250,000
Reduction in Resources Forward due to Increase in Carryovers (Cemetery)	-	(22,000)	(22,000)
Subtotal	-	3,879,034	3,879,034
Capital Projects Funds			
Transfer from General Fund, REET 1 & REET 2 for VTL Infrastructure Agreement	-	7,500,085	7,500,085
WSDOT Grant Funding (Pedestrian Safety Improvements - Downtown & NE 124th St)	-	1,614,000	1,614,000
Street Preservation Project Savings	-	525,000	525,000
WSDOT Grant Funding (NE 132nd St/116th Way NE I-405 Intersection Improvements)	-	202,125	202,125
Subtotal	-	9,841,210	9,841,210
Internal Service Funds			
Reduction in Resources Forward due to Transfer to Capital Projects in 2020 (IT)	-	(110,891)	(110,891)
Reduction in Resources Forward due to Increase in Carryovers (Fleet)	-	(101,292)	(101,292)
Miscellaneous Adjustments (Information Technology & Facilities)	-	(14,825)	(14,825)
Subtotal	-	(227,008)	(227,008)
Total Revenue Adjustments (All Funds)	-	14,969,222	14,969,222
Preliminary 2021-2022 Budget			812,490,348
Final 2021-2022 Budget			827,459,570

Expenditure Adjustments by Fund to Preliminary 2021-2022 Budget	Ongoing	One-time	Total
General Fund			
Transfer to 320 for The Village at Totem Lake Infrastructure Agreement	-	1,703,744	1,703,744
Remove Ongoing 2021 Funding for Body-Worn Cameras	-	(423,563)	(423,563)
Increase Human Services Reserve	-	423,563	423,563
Allocate Portion of R-5434 (Citywide Implementation)	-	(140,432)	(140,432)
Allocate Diversity Inclusion Service Package Funding to Special Events	-	32,000	32,000
Allocate Diversity Inclusion Service Package Funding to Public Art	-	18,000	18,000
Working Capital (City Council Directed Uses)	-	(172,967)	(172,967)
CMO Outreach (Retain Communications 0.5 FTE)	-	122,967	122,967
Revenue Impact Study	-	50,000	50,000
Other Salary & Benefit Adjustments	(327,182)	-	(327,182)
Human Services Grants (Multi-Family Tax Exemption)	-	152,880	152,880
Working Capital (Other Changes)	-	(81,803)	(81,803)
City Commute Trip Reduction Program Enhancements (ORCA)	-	80,000	80,000
Correction to PCS Human Services Support Options Service Package Offset	-	77,862	77,862
Decrease Marine Patrol Contract Costs	(39,083)	-	(39,083)
Subtotal	(366,265)	1,842,251	1,475,986
Special Revenue Funds			
Net Changes in REET Reserves	-	(8,145,307)	(8,145,307)
Use of REET 1 & 2 for 100th Ave Improvements	-	4,000,000	4,000,000
Use of REET 2 for 124th Ave Improvements	-	2,000,000	2,000,000
Use of REET 1 & 2 for Village at Totem Lake Phase 2	-	5,796,341	5,796,341
Median Maintenance, Landscaping, ROW Trees (Streets)	-	250,000	250,000
Working Capital Changes (Cemetery)	-	(73,157)	(73,157)
Move 0.25 FTE Customer Accounts Associate from General Fund (Cemetery)	51,157	-	51,157
Subtotal	51,157	3,827,877	3,879,034
Capital Projects Funds			
The Village at Totem Lake Infrastructure Agreement	-	7,500,085	7,500,085
Pedestrian Safety Improvements - Downtown & NE 124th St	-	1,614,000	1,614,000
Central Way Street Preservation	-	525,000	525,000
NE 132nd St/116th Way NE I-405 Intersection Improvements	-	202,125	202,125
Subtotal	-	9,841,210	9,841,210
Internal Service Funds			
Working Capital Changes (IT)	-	(123,891)	(123,891)
Working Capital Changes (Fleet)	-	(100,574)	(100,574)
Working Capital Changes (Facilities)	-	(1,825)	(1,825)
Miscellaneous Adjustments (Fleet)	(718)	-	(718)
Subtotal	(718)	(226,290)	(227,008)
Total Expenditure Adjustments (All Funds)	(315,826)	15,285,048	14,969,222
Preliminary 2021-2022 Budget			812,490,348
Final 2021-2022 Budget			827,459,570

A summary of the 2021-2022 Final Budget by fund is compared to the 2019-2020 Revised Budget in the table below.

	2019-20 Amended Budget	2021-22 Final Budget	% Change
GENERAL GOV'T			
General Fund	268,950,156	266,974,628	-0.7%
Other Operating	37,184,640	36,832,363	-0.9%
Internal Service Funds	80,603,694	83,284,249	3.3%
Non-Operating Funds	259,121,735	232,997,282	-10.1%
UTILITIES			
Water/Sewer	118,010,553	114,394,972	-3.1%
Surface Water	56,525,644	51,455,970	-9.0%
Solid Waste	39,108,580	41,520,106	6.2%
TOTAL BUDGET	859,505,001	827,459,570	-3.73%

The 2021-2022 Final Budget totals \$827.5 million, which represents a decrease of 3.73 percent relative to the 2019-2020 Revised Budget. The 2021-2022 Final Budget document will reflect this comparison.

Funding for Human Services and related activities is incorporated into a variety of operating and non-operating budgets. The table on the following page provides a breakdown by program area, comparing the 2021-2022 Final Budget to the 2019-2020 Revised Budget.

Finally, as requested by the Council during its review of the 2021-2022 Budget, staff will address the following items in the first half of 2021:

- Continued refinement of the Human Services and Related Investments table;
- Comparison of the Kirkland Police budget to national standards and larger cities;
- Estimated benefits to Kirkland residents from regional taxes paid to other governments (e.g., King County and Sound Transit);
- An equity analysis of proposed revenue options for 2023-2024;
- Research on the implications of continued work-from-home on RGRL revenues; and
- Data and policy analysis on pre-trial alcohol monitoring and other criminal justice user fees.

Copies of the final budget document will be available during the first quarter of 2021.

Program/Funding Source	2019-2020 Budget	2021-2022 Budget	Budgeted Department
Human Services Program grants (including CDBG) ¹	2,497,847	2,577,838	Parks & Comm. Svcs.
Prop 1: Women and Family Shelter Operations	100,000	200,000	Parks & Comm. Svcs.
Prop 1: Mental Health and Human Services Programs	352,953	420,000	Parks & Comm. Svcs.
Human Services Forum and Other Regional Programs	26,634	18,028	Parks & Comm. Svcs.
Human Services Coordination (including CDBG)	505,140	584,664	Parks & Comm. Svcs.
Prop 1: Mental Health and Human Services Program Coordination	-	280,000	Parks & Comm. Svcs.
Senior Center Operations	790,011	578,667	Parks & Comm. Svcs.
People in Need Subtotal	4,272,585	4,659,197	
WA HB 1406: Rental Assistance	-	423,336	Planning & Bldg.
A Regional Coalition for Housing (ARCH) ²	1,320,574	1,486,561	Planning & Bldg.
Housing Initiative	-	150,000	Non-departmental
Affordable Housing Subtotal	1,320,574	2,059,897	
Community Safety Initiative: 4 Community Safety Responders	-	1,430,494	Non-departmental
Community Safety Initiative: Diversity and Inclusion Position/Initiative/Outreach	-	642,311	Non-departmental/CMO
Community Safety Initiative: Community Court Pilot	-	50,000	Municipal Court
Inclusive & Welcoming Community Subtotal	-	2,122,805	
Community Safety Initiative: MIH-Funded Firefighter/EMT and Social Worker	-	648,376	Fire
Fire & Emergency Medical Services Subtotal	-	648,376	
Domestic Violence Advocacy in the Police Department	904,742	996,089	Police
Prop 1: Mental Health Professional and Neighborhood Resource Officer ³	180,000	240,000	Police
Police School Resource Program (City-funded portion)	256,718	377,928	Police
Prop 1: 4 SROs in Kirkland Middle Schools (City-funded portion)	672,528	755,856	Police
Police Services Subtotal	2,013,988	2,369,873	
Senior Discounts for Utility and Garbage Services	91,402	97,475	Solid Waste
Kirkland Cares (assistance with utility bills from utilities customer donations)	6,450	6,450	Solid Waste
Recycling & Garbage Collection Subtotal	97,852	103,925	
King County Alcohol Treatment Programs	46,700	48,000	Non-departmental
Community Youth Services Program/Teen Center ⁴	577,158	742,666	Parks & Comm. Svcs.
Rent Subsidy for Youth Eastside Services ⁵	78,000	78,000	In-kind
Recreation Class Discounts	6,000	14,000	Parks & Comm. Svcs.
Other Program Areas Subtotal	707,858	882,666	
Total Human Services and Related Activities Funding	8,412,857	12,846,739	
TOTAL SPENDING PER CAPITA 2019-2020:	\$ 93.68		
TOTAL SPENDING PER CAPITA 2021-2022:	\$ 141.70		
SPENDING WITHOUT POLICE SERVICES PER CAPITA 2019-2020:	\$ 71.26		
SPENDING WITHOUT POLICE SERVICES PER CAPITA 2021-2022:	\$ 115.56		

¹ Additional Human Services funding approved by the Council is not included in these figures. The Council approved almost \$900,000 of CARES Act finding for Human Services needs, which is expected to be supplemented from additional CARES Act funds of up to \$300,000. All of these funds need to be obligated before the end of 2020.

² 2019-20 ARCH funding reflects the base budget amount of \$234,550, ongoing funding of \$256,024 from Community Development Block Grants (CDBG), and one-time service package funding of \$830,000. In addition to these amounts, Affordable Housing in Lieu fees totaling \$3,711,000 are expected to be remitted to ARCH or directly invested in affordable housing in 2019-20 that are not reflected in the table above. The 2021-2022 Budget includes the same funding elements with adjusted base budget (\$360,689) and CDBG (\$295,872) amounts.

³ 2021-22 Budget includes the full expenses of running the Kirkland Teen Union Building after the YMCA contract.

⁴ Rent is waived completely; figure represents a conservative market rent equivalent.

⁵ 2019-20 funding only included one and a half years of proposed mental health response services from Prop 1. Two full years of services are incorporated in 2021-2022 Budget.