## City of Kenmore

City of Kenmore - 18120 68th Avenue NE - P.O. Box 82607 - Kenmore, WA 98028
Phone: 425-398-8900 - Fax: 425-481-3236 - E-mail: cityhall@kenmorewa.gov

**City of Kenmore**
**City Council Special Meeting Agenda**
**7:00 p.m., Monday, November 5, 2018**
Kenmore City Hall, Council Chambers
18120 68th Ave. NE, Kenmore, WA 98028

If you have any questions or to confirm agenda items prior to the meeting, or if you require special accommodations, please call the City Clerk at 425-398-8900. You may also stop by City Hall at 18120 68th Avenue NE, Kenmore. Council agendas are also available on our website at www.kenmorewa.gov.

**I. 7:00 p.m. - CALL SPECIAL MEETING TO ORDER**

**II. ROLL CALL**

**III. FLAG SALUTE**

**IV. AGENDA APPROVAL**

**V. CITIZEN COMMENTS**

A. This is an opportunity to express your views on issues that are important to you and to the community. Please limit your comments to three (3) minutes.

**VI. PUBLIC HEARING**

A. Proposed Tax Levy for 2019 - Joanne Gregory, Finance and Administration Director
Agenda Item
Presentation

**VII. BUSINESS AGENDA**

A. Continued Discussion of Proposed Department Budgets and Funds for 2019-2020 (as needed) - Rob Karlinsey, City Manager and Joanne Gregory, Finance and Administration Director
Agenda Item

**VIII. STAFF REPORT**

**IX. COUNCILMEMBER REPORTS & COMMENTS & INITIATIVES**

## X. ADJOURNMENT

**Upcoming Meetings:**
Tuesday, November 13, 2018 - Special Council Meeting
Monday, November 19, 2018 - Regular Council Meeting
Monday, November 26, 2018 - Regular Council Meeting

# City Council Business Agenda Item
City of Kenmore, WA

| | |
|---|---|
| Subject/Topic:<br>Public Hearing On Proposed Tax Levy for 2019 | For Council Meeting Agenda of: November 5, 2018<br><br>Department: Finance and Administration<br><br>Prepared by: Joanne Gregory |
| Proposed Council Action/Motion:<br>Public Hearing on Proposed Tax Levy Necessary to Meet Authorized Tax-Supported Estimated Expenses for the Year 2019.<br>No Council Action is Required. | Initial & Date<br>Approved by Department Head: JG 10-26-18<br>Approved by City Attorney: ______<br>Approved by Finance Director: JG 10-26-18<br>Approved by City Manager: RJK<br><br>Exhibits/Attachments:<br>Presentation to be uploaded by November 2, 2018. |

INFORMATION/BACKGROUND:

A presentation and public hearing will be held November 5, 2018 regarding the proposed tax levy for 2019.

FISCAL CONSIDERATION:

Each year the City must set the tax levy for the ensuing year and hold a public hearing prior to approval of the levy. The City is allowed to increase its levy by the lesser of one (1) percent or the percentage increase in the July IPD (Implicit Price Deflator). The IPD this year is 2.169% (which is more than 1%). The state Department of Revenue (DOR) calculates the IPD using the most recent quarterly numbers reported by the federal Bureau of Economic Analysis (BEA). The IPD is a measure of inflation. Every month BEA publishes an estimate of the quarterly IPD numbers. These quarterly numbers are seasonally adjusted each year in July, and these seasonal numbers form the basis for the prior year IPD personal consumption expenditure number that is used by DOR to calculate inflation.

For 2019, the Proposed 2019-2020 Biennial Budget includes a 3% increase in the levy using banked tax capacity from years when the City Council did not raise the levy by the allowable 1%. The City's banked tax capacity is just over $593,000.

In 2018 the property tax levy was $4,837,631. The County Assessor has only released preliminary assessed valuations and levy information at this time. Based on what has been received, the proposed property tax levy for 2019 would be $5,024,414 which includes the 3.0 % increase over 2018 ($145,128), plus new construction which adds about $41,662 (or .86%) to the tax rolls. Overall, the 3% levy compared to a 1% levy provides an additional $96,745 to the City in 2019 and provides a compounding benefit for future years.

The 3.0% increase in the property tax levy will not have a dramatic increase on the tax that a homeowner pays, especially in this era of rising home values. In fact, with the increase in assessed valuation for the entire City, the levy rate will decline from $1.13 to about $1.04 for each $1,000 of assessed value. The preliminary assessed value is $4,835,437,983, an increase of about 12.4% from 2018.

If the City Council were to take a 1% increase, the levy would be $4,927,669 and the probable levy rate would be about $1.02 per $1,000 of assessed value. On a $500,000 home in the City, the tax effect with a 3% levy increase and a rate of $1.04 would be $520. The tax effect with a 1% levy and tax rate of $1.02 would be $510, or $10 less for the year.

If the City Council were to approve the increase of 3.00% to the levy for 2019, this would generate additional revenue of $96,745 which will also provide a compounding revenue benefit in future levies. The City would continue to have "banked capacity" property tax remaining; approximately $490,000.

COUNCIL GOAL/BUDGET OBJECTIVE BEING ADDRESSED:

RCW. 84.55.120 The legislative body must hold a public hearing for the coming year's budget including consideration of possible increases in property tax revenues, before taking action on the property tax levy.

# City of Kenmore Public Hearing 2019 Property Tax Levies

**City Council Meeting November 5, 2018**

# Other Key dates…

**Nov 13, 2018**

- 2019-2020 Budget Public Hearing
- Review 2017-2018 Budget Adjustments

**Nov 19, 2018**

- Adopt 2019 Property Tax Levy Ordinance
- Adopt 2019 Excess Property Tax Levy Ordinance
- Adopt 2019-2020 Budget Ordinance

**Nov 26, 2018**

- Adopt 2017-2018 Budget Amendments

# Annually the City Council must set the Regular Tax Levy

- Begin with prior year 2018 levy of $4,837,631
- Allowable increase is lower of 1% or IPD (Implicit Price Deflator)= 2.169%
- 1% Increase= $48,376 VS 3% Increase = $145,128
- New construction adds $41,662
- 2019 Proposed Levy with 1% Increase = $4,927,669
- 2019 Proposed Levy with 3% Increase = $5,024,421

**Property taxes and assessed valuation**

## Levy with 1% Increase

- **Proposed** 2019 tax levy = **$4,927,669**
- 1.86% ($90,038) increase over 2018 levy
  - 1% increase adds $48,376
  - New construction:
    - $41,662 added to levy
      - From $36,552,183 new AV (prelim)
- Total 2019 prelim **Assessed Valuation** (AV):
  - $4,835,437,983 including new construction
  - 13.3% **increase in AV** from 2018
    - Greatest increase in AV since 2015
  - tax rate projected at **1.02/$1,000 AV**
    - 4,927,669/4,835,437,983*1000=1.02
      - (doesn't include voted bond levy**)**
  - decrease from 1.14 in 2018

## Property taxes and assessed valuation

### Levy with 3% Increase

- **Proposed** 2019 tax levy = **$5,024,421**
- 3.86% ($186,790) increase over 2018 levy
  - 3% increase adds $145,128
  - New construction:
    - $41,662 added to levy
      - From $36,552,183 new AV (prelim)
- Total 2019 prelim **Assessed Valuation** (AV):
  - $4,835,437,983 including new construction
  - 13.3% **increase in AV** from 2018
    - Greatest increase in AV since 2015
  - tax rate projected at **1.04/$1,000 AV**
    - 5,024,421/4,835,437,983*1000=1.04
      - (doesn't include voted bond levy)
  - decrease from 1.14 in 2018

# Impact of 1% vs 3% levy increase in 2019-2020

| | Levy with 1% increase (a) | Levy with 3% increase (b) | Annual revenue from 1% increase (c) | Annual revenue from 3% increase (d) | Cumulative revenue not taken (b) – (a) |
|---|---|---|---|---|---|
| 2019 | 4,927,669 | 5,024,421 | 90,038 (48,376 plus new const) | 186,791 (145,129 plus new const) | 96,753 |
| 2020 | 4,976,945 | 5,175,153 | 49,277 (includes 0 new const) | 150,732 (includes 0 new const) | 198,208 |



**Banked Capacity = $752,959 – Latest Per King County**

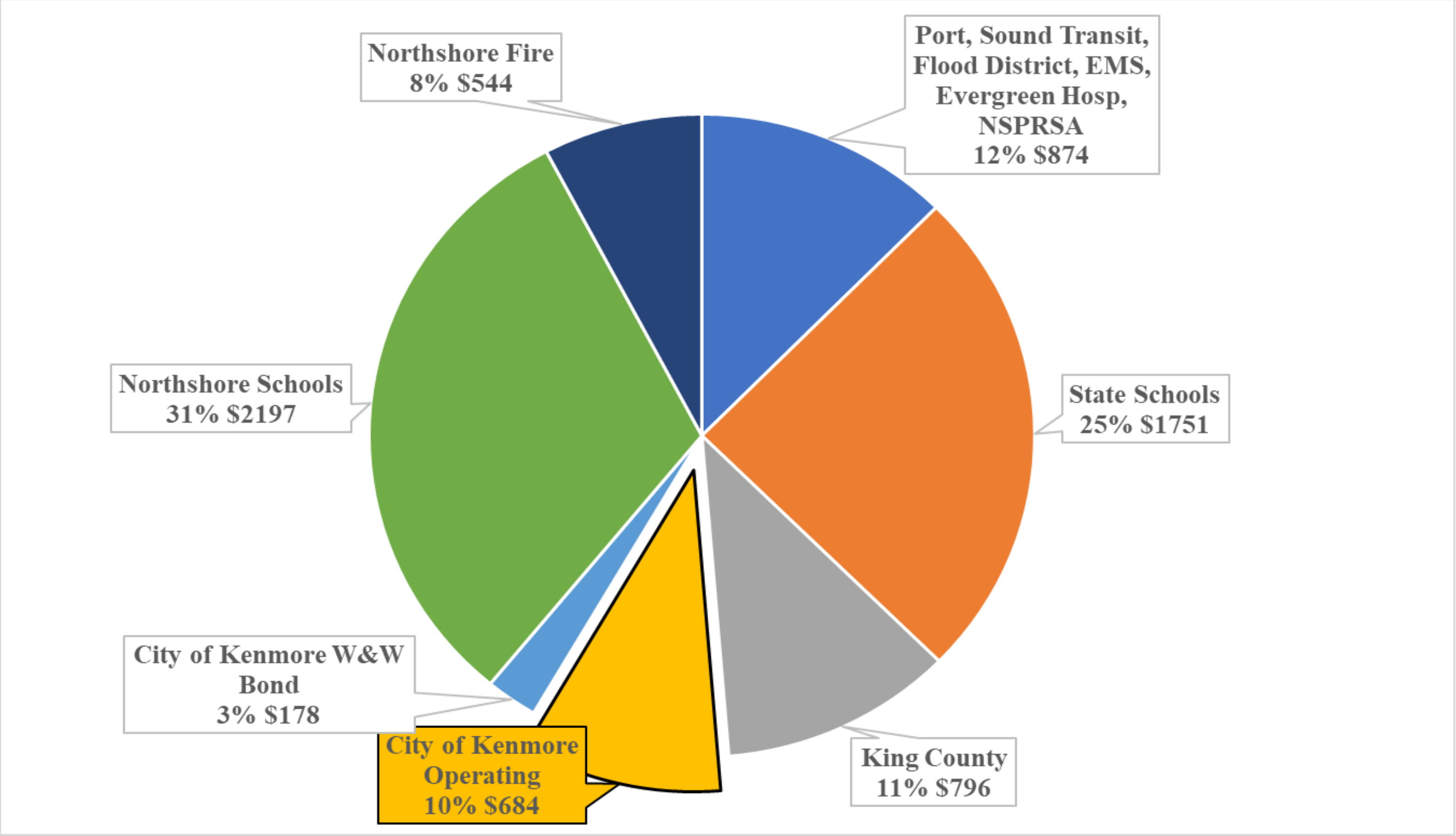
# Tax Effect on Homeowner
## (City of Kenmore Taxes Only)

- Assume 2018 home at $600,000
  - Taxed at 2018 rate of 1.14 = $684

- Assume 2019 NO CHANGE in value of home at $600,000
  - Taxed at 2019 rate of 1.02 (1% levy) = $612 ($72 Less than 2018)
  - Taxed at 2019 rate of 1.04 (3% levy) = $624 ($60 Less)

- Assume 12% increase in value of home to $672,000
  - Taxed at 2019 rate of 1.02 (1% levy) = $685 ($1 More than 2018)
  - Taxed at 2019 rate of 1.04 (3% levy) = $699 ($15 More)

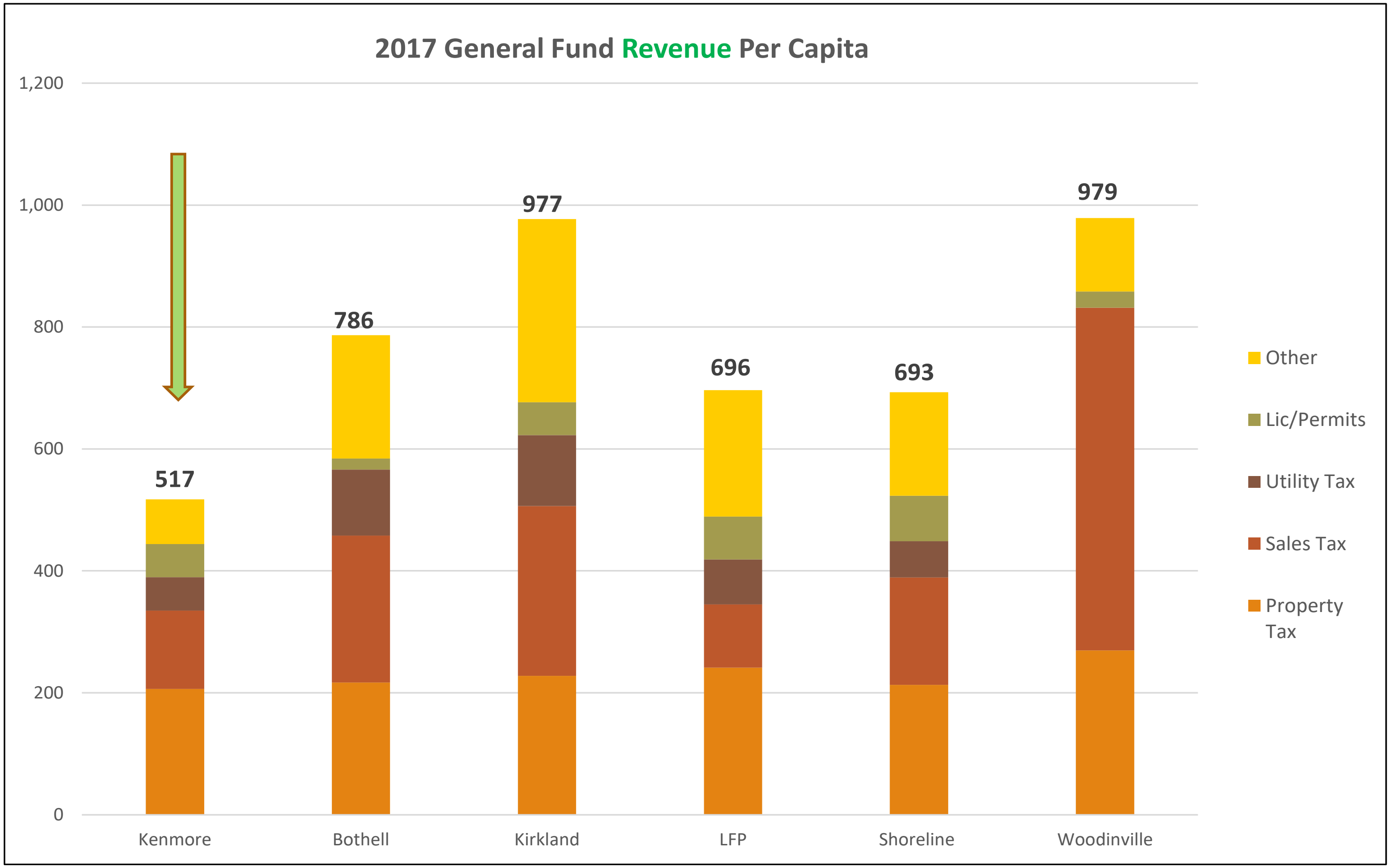
# 2018 Property Tax Distribution for a $600,000 Home




Estimated total tax bill of $7,024

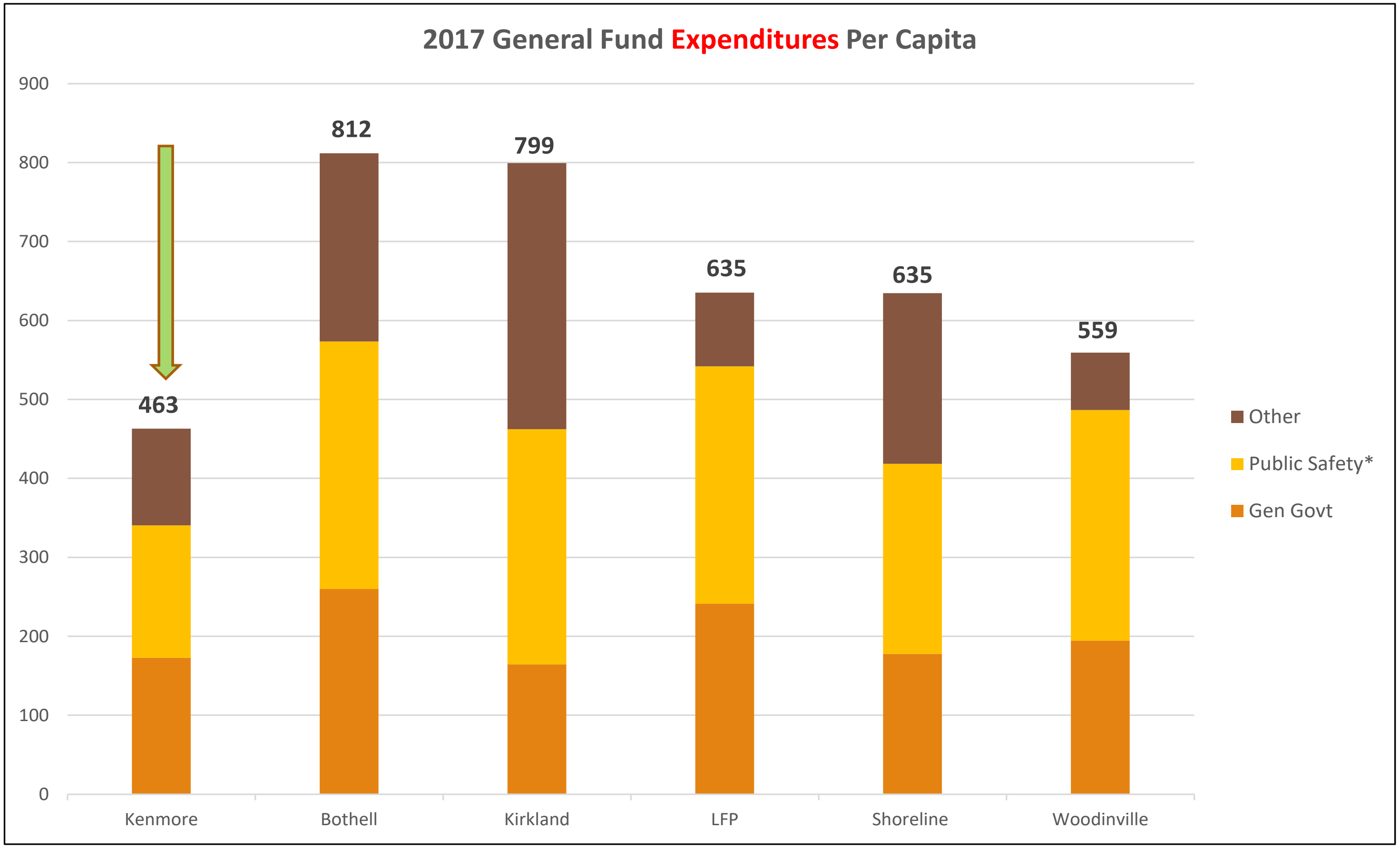
**Percentages of total tax bill are based on tax rates for the various jurisdictions (total $11.70/1000)**

# Kenmore: Lowest General Fund Per Capita **Revenue**




Source: LGFRS-State Auditor's Office 2017 Data; Excludes transfers and reserves

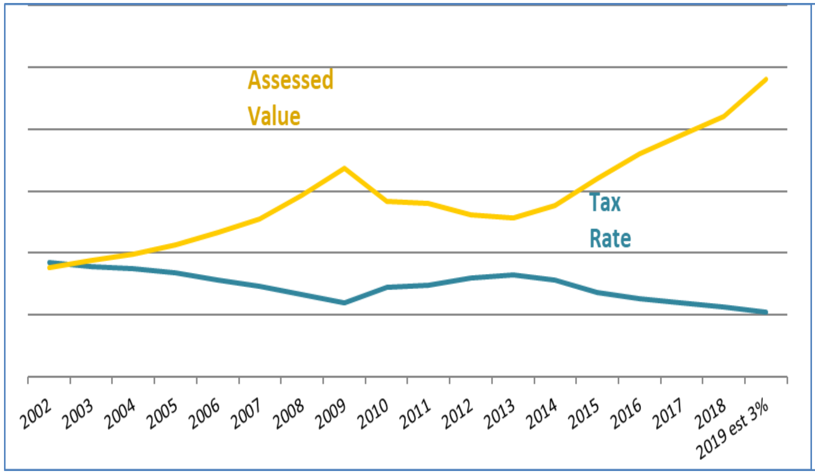
# Kenmore: Lowest General Fund Per Capita **Expenditures**

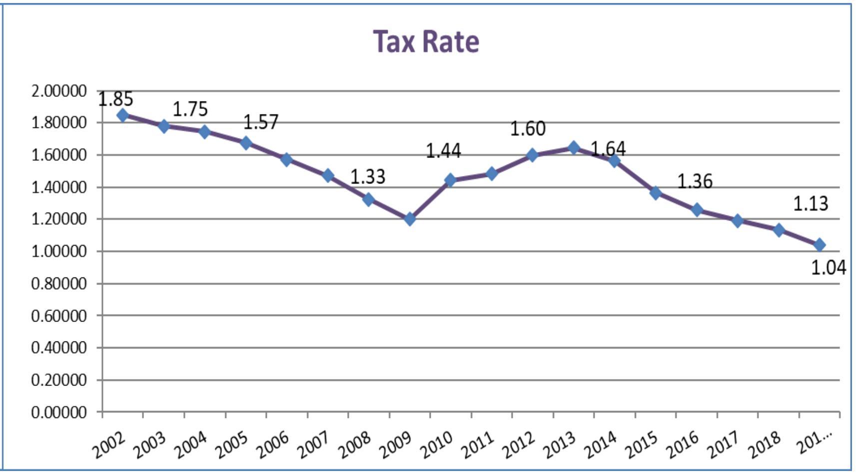


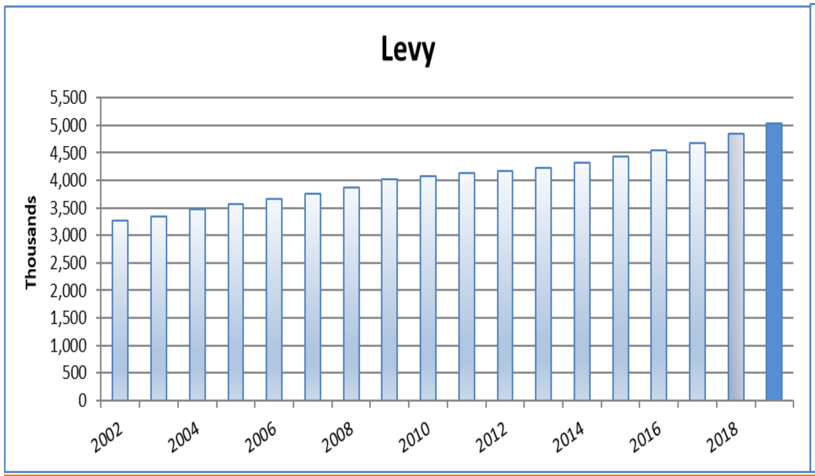

Source: LGFRS-State Auditor's Office 2017 Data; Excludes transfers and reserves

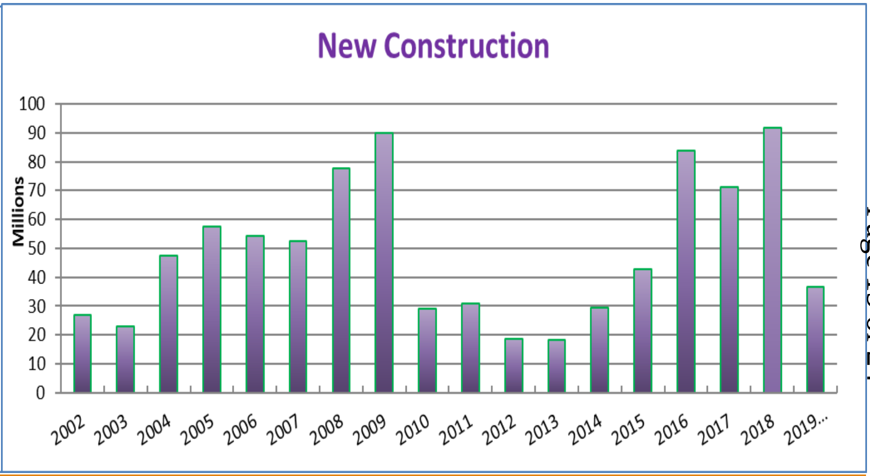
*Does not include Fire/EMS/Protective Inspection Services (revenues also adjusted)

# Property Tax Rates, AV, & New Construction 2002-2019 (w/ 3%)



## Excess Property Tax Levy for Walkways & Waterways Bonds

- **Tax payer voted bond issue yielded $9,220,000 in 2016**
- **$7,445,000 due as of 12/31/2018**
  - Debt Service Required for 2019 Payment= $1,223,150
  - Excess tax levy need = $1,220,000 (about .25/1,000 AV)
- **.25 + 1.04 = 1.29 = Total levy rate for 2019,**
  - **decrease of $.14 from 2018 @ 1.43 AV**

# This concludes the presentation portion of the Public Hearing on the 2019 Property Tax Levies

The next actions will be

- **November 13:**
  - Public Hearing on 2019-2020 Proposed Budget
- **November 19:**
  - Ordinance to set the 2019 Regular Property Tax Levy
  - Ordinance to set the 2019 Excess Property Tax Levy
  - Ordinance to adopt the 2019-2020 Proposed Budget

THANK YOU!

Open for Questions and Public Comment

# City of Kenmore, Washington

Memorandum

Date: November 3, 2018

To: Mayor and City Council

From: Rob Karlinsey, City Manager

Re: Additional Budget Cuts in Lieu of 3% Property Tax Increase

The proposed 2019-2020 biennium budget includes 3% property tax increases in 2019 and 2020. These increases utilize "banked capacity" from prior years when the City Council chose not to increase property tax by the 1% limit per year allowed by state law.

With the Seattle area June CPIW at 3.6% and the continued trend of existing, status quo expenditures rising faster than 1%, I'm recommending that we use some of the banked capacity in property tax and increase it by 3% in both 2019 and 2020.

If the City Council does not wish to use banked capacity and only increase property tax by 1%, then expenditures in the two-year proposed budget will need to be reduced by $295,000. As a result, this memo provides suggested additional cuts to bring the budget into balance, should the Council choose not to tap into banked capacity.

In addition, there are several other potential recent changes that may bring the budget out of balance:

- Last Monday (October 29), several Councilmembers expressed a desire to add a ½-time recreation coordinator to the 2019-2020 budget. This position will cost about $45,000-$50,000 per year, including salaries, benefits, supplies, training, IT, etc.
- On Tuesday I heard some interest from the Council to fund the recommended temporary increase in the ARCH Capital contribution from the General Fund instead of the Strategic Opportunities Fund. Doing so would add $30,000 per year to the General Fund.
- Lastly, I am recommending one-time funding for costs associated with searching for and acquiring a public works shop site (legal, studies, initial financing, etc.): $100,000.

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In summary, potential additional impacts to the two-year budget may include the following:

| | |
|---|---|
| Reduce Property Tax Increase from 3% to 1% | $295,000 |
| ½-Time Recreation Coordinator | $100,000 |
| Move Temp ARCH Capital Increase from SOF to GF | $ 60,000 |
| Public Works Shop Site Acquisition Costs | $100,000 |
| Total | $555,000 |

As a result of these potential changes to the budget's bottom line, this week I have worked with the departments on suggested cuts to bring the budget back into balance. These suggested cuts are listed on the attached spreadsheet and include explanations next to each cut.

There are several things to consider when reviewing these cuts:

1. Note that when we were building the 2019-2020 budget last summer, all departments had already worked to trim expenses and make cuts to bring the budget into balance. My general direction to departments was a status quo budget under the rules of a "zero-sum game," meaning that any new programs or increases had to be accompanied with offsetting revenues and/or cuts. Even under a zero-sum scenario, we had to make further reductions due to costs of existing services rising faster than revenues.

2. With the possible exception of the potential reductions in the Incubator program, none of the attached suggested cuts will result in a reduction in level of service to our citizens and customers.

3. The landscape maintenance reduction in Public Works assumes bringing the maintenance of several landscapes in-house instead of contracting with the private sector for this service. This suggestion also assumes keeping the budgeted five maintenance workers in order to perform the work. Note that while the estimated cost of a maintenance worker is $90,000 (salary and benefits), the cost to the General/Street Fund is half of that ($45,000)—the SWM Fund pays for the other half.

4. At the City Council retreat last January, I suggested that the City may wish to consider forecasting expenditures less conservatively and use more of a "precision budgeting" approach. Conservative forecasting of expenditures has resulted in our year-end actuals to come in comfortably under budgeted amounts every year. After a good discussion, the Council expressed its desire to continue our practice of conservative forecasting, recognizing and preferring that budget-to-actual results will continue to come in favorably.

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However, some of the attached suggested cuts move from this conservative forecasting method and lean closer to the precision budgeting approach. Doing so may result in less flexibility for unforeseen issues and challenges, potentially more budget amendments, and a less favorable budget-to-actual difference at the end of the biennium.

5. There are several items on the attached list of cuts that transfer workload from contractors and consultants to city staff. As you know, my co-workers are already busy, and I appreciate them volunteering to take on these services in order to help balance the budget while not impacting level of service to our citizens and customers.

Even with all of the attached cuts implemented, I still recommend increasing the property tax 3% per year for the next two years. Here's why:

- When it comes to raising rates to keep up with rising costs, a more gradual, incremental approach is generally preferred to using banked capacity all at once.

- Waiting until tough financial times to balance the budget with increased revenues will be even more difficult than it is now.

- Our total operating budget, especially with the above cuts, does not have a lot of room for discretion or unforeseen major issues or contingencies. In addition, we need to start building budget capacity for maintenance costs associated with the Walkways & Waterways projects that will come on line in the early to mid 2020s.

- Revenues and expenditures per capita in Kenmore are noticeably low compared to other cities. Joanne Gregory has included the following graphs in her presentation for this Monday:

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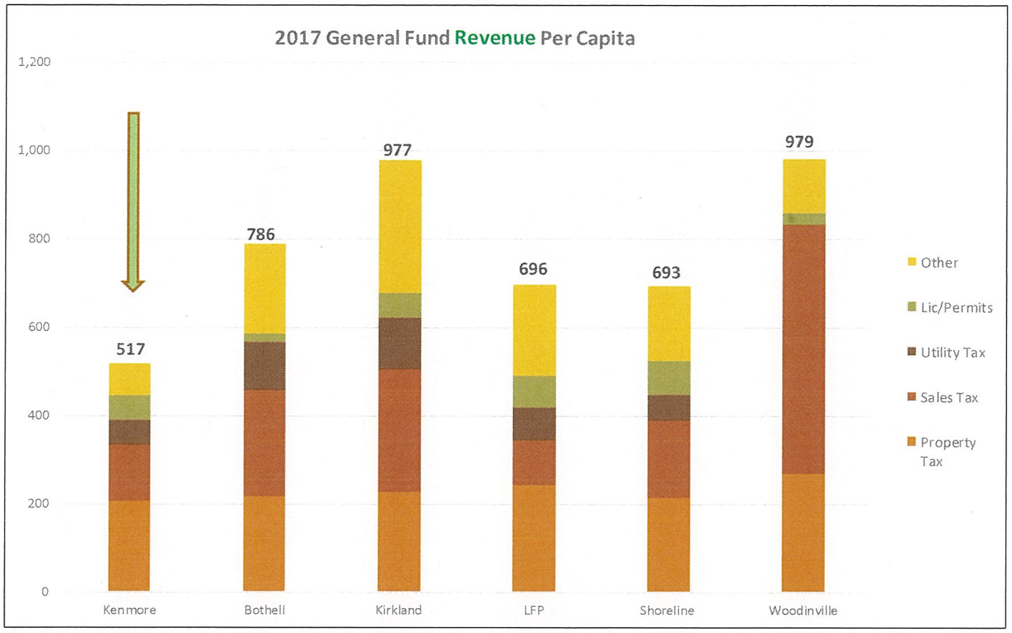


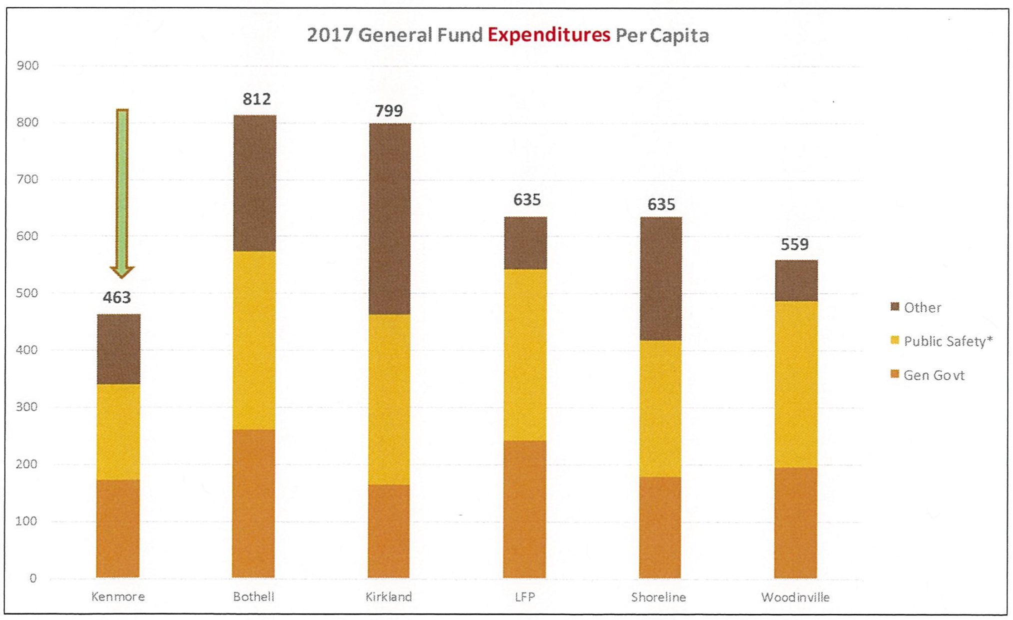


The above two graphs adjust for fire department expenditures/revenues in Bothell and Kirkland.

Lastly, please know that Kenmore is not alone in these budget struggles. More financially endowed cities are experiencing current or predicted deficits—and in these economic boom times (suggesting a structural revenue problem that needs to be addressed at the state level). I'm sure you're aware of Bothell's budget challenges. Even Kirkland is predicting the crossing of its financial lines, as shown in the attached page taken from Kirkland's 2019-2020 biennium budget message.

Can we make the budget work and still accomplish great things for the City even without the 3% increase? Yes we can—we will follow your direction and will gladly work within the resources you give us.

We look forward to discussing the budget with you and seeking your direction.

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**Potential Budget Adjustments for 2019-2020 Budget**

Potential 2019-2020 Budget Adjustments:

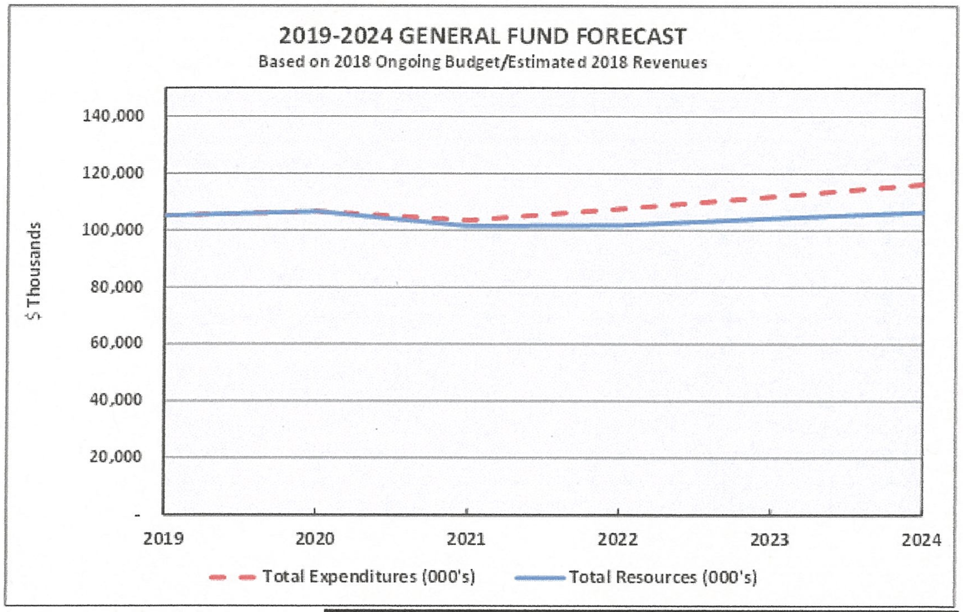
| | |
|---|---|
| $295,000 | Reduce proposed property tax levy increase from 3% to 1% in 2019 and 2020 |
| $100,000 | New part-time recreation coordinator |
| $60,000 | Move increased ARCH Capital contribution from Strategic Opps to General Fund |
| $100,000 | PW Shop Acquistion: Legal, studies, initial financing |
| $555,000 | Total |

Proposed Additional Cuts in 2019-2020 Budget:

| | | |
|---|---|---|
| 1 | $10,500 | Eliminate increase in incubator services due to increase in clients |
| 2 | $50,000 | Transition incubator to a separate, independent nonprofit by 2020; Still provide $50k in support in 2020 |
| 3 | $20,000 | Bring Hangar/Town Square/Post Office Property Management In-house |
| 4 | $74,000 | Bring landscape maintenance in-house: City Hall, Town Square, Post Office (assumes we have 5 maint workers) |
| 5 | $12,000 | Office furniture replacement: extend life of existing furniture |
| 6 | $10,000 | Street banners - reduce cost estimate of installations |
| 7 | $5,000 | Dump Fees: Reduce from $10k to $5k. Historically we have spent less than $5,000 |
| 8 | $20,000 | Bring traffic model and traffic impact fee update in-house |
| 9 | $50,000 | Reduce downtown/LP traffic engineering. Remaining $50k to be used for SW downtown planning |
| 10 | $60,000 | PW reduce consulting/services for streets |
| 11 | $50,000 | Reduce jail budget to be closer to recent trend |
| 12 | $35,000 | Pay for phone system out of Equipment Replacement Fund |
| 13 | $25,000 | Have SWM pay for 25% of GIS costs |
| 14 | $8,000 | Error in overbudgeting benefits in city clerk office |
| 15 | $50,000 | King County Park Levy proceeds in 2019 currently not allocated. Use for park operations |
| 16 | $20,000 | Use a portion of 1% for Art Fund for Concerts/Movies |
| 17 | $50,000 | Include park impact fee update in Munimanage existing contract; reduce other svcs line item in Cmnty Dev Dept |
| 18 | $10,000 | Reduce funding above NEMCO contract amount |
| | $559,500 | Total |

FROM KIRKLAND'S 2019-2020 BUDGET MESSAGE:

The revised forecast reflects a balanced budget for 2019-2020, although there is still a structural imbalance in subsequent years due to the underlying mismatch between predictable growth in revenues and the rate of cost increase to provide City services. The imbalance is exacerbated by the expiration of the Annexation Sales Tax Credit in mid-2021. The gap continues to narrow compared to the prior forecast, due to actions taken to balance this budget and the City's continued focus on "bending the cost growth curve" to a more sustainable level. The following graph portrays the forecast of ongoing revenues and expenditures through 2024.




| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|
| Total Expenditures (000's) | 105,151 | 106,621 | 103,548 | 107,611 | 111,860 | 116,300 |
| Total Resources (000's) | 105,151 | 106,621 | 101,495 | 101,831 | 104,291 | 106,415 |
| **Net Resources (000's)** | - | - | **(2,053)** | **(5,780)** | **(7,568)** | **(9,885)** |
| **Less Developmnt Rev>Budget** | - | - | - | - | - | - |
| **Adjustment to Reserves/NY RF** | - | - | - | - | - | - |
| **Biennium Total (000's)** | | - | | **(7,833)** | | **(17,454)** |

As described at the May retreat, there are a number of one-time expenditures in the 2017-2018 revised budget, including mid-biennial and mid-year adjustments, that are funded with one-time General Fund monies. The majority of those identified needs are funded again with one-time funds. The following table includes service packages that are funded as one-time (OT) in 2019 and 2020 that are not supported by offsetting revenue.