City of Kenmore Financial Sustainability Plan

CITY FINANCIAL SUSTAINABILITY TASK FORCE

*The Task Force's Seventh Meeting*

# A G E N D A

Monday, 24 August 2020, 7:00 – 9:00 PM

***Please note that the day of the week and starting time are different than past meetings.***

**Zoom Virtual Meeting Link**

| | |
|---|---|
| Please click the link to the right to join the webinar: | https://us02web.zoom.us/j/86468792724 |
| Or iPhone one-tap: | US: +13017158592,,86468792724# or +13126266799,,86468792724# |
| Or Telephone: Dial (for higher quality, dial a number based on your current location): | US: +1 301 715 8592 or +1 312 626 6799 or +1 646 558 8656 or +1 253 215 8782 or +1 346 248 7799 or +1 669 900 9128 |
| Webinar ID: | 864 6879 2724 |
| International numbers available: | https://us02web.zoom.us/u/k9pjEHS1M |

**NOTE**: In light of the King County Public Health recommendations, Task Force members will participate in this meeting via video conferencing. The meeting will be video streamed live, and the public is welcome to watch and listen to the live video stream on the City's YouTube channel.

Prior to tonight's meeting, the City will host an open house/listening session during which community members will offer their ideas and suggestions to ensure the City's long-term financial sustainability. The meeting will be held from 5:30 to 6:55 p.m. Like the Task Force meeting, the open house will be conducted virtually.

Welcome; and Review Agenda 7:00
**JIM REID, FACILITATOR**

Task Force Update 7:02
**ROB KARLINSEY, CITY MANAGER**

Public Comments 7:05
**TELA GARDNER, ACTING CITY CLERK/JIM REID/MEMBERS OF THE PUBLIC**

- Comments are limited to 3 minutes.

How This Meeting Fits in the Council's Budget Process 7:10
**ROB KARLINSEY**

- How do the Task Force's recommendations fit in the process that will lead to the City Council's budget retreat on September 10th?

Review Public Engagement from Open House and Public Input from the Balancing Act Tool 7:15
**ROB KARLINSEY, CITY MANAGER; JOANNE GREGORY, FINANCE DIRECTOR; TASK FORCE**

- What are our impressions of what we heard just during the open house?
- What can we learn from community comments through the Balancing Act?
- Are there any questions or reactions?

Task Force Members Develop Recommendations 7:35
**TASK FORCE MEMBERS**

- Building on the initial ideas from the August 11th meeting, what does each Task Force member recommend for resolving the City's budget structural imbalance and ensuring the long-term sustainability of the City?
- After each of us has presented, what are the commonalities in our positions?
- What are the differences in our suggestions? How shall we address them?
- As the discussion evolves, Steve Toler will show us how the proposals are addressing the structural imbalance. Are they helping ensure financial sustainability by 2026? What do we need to adjust to achieve that outcome?
- Finalize the recommendations for a six-year Financial Sustainability Plan.

Review Where We Are 8:50
**JIM REID/TASK FORCE MEMBERS/ROB KARLINSEY/JOANNE GREGORY**

- What progress have we made tonight? Have we completed our mission? Do we need to meet tomorrow evening?

Final Comments and Observations 8:55
**TASK FORCE MEMBERS/ROB KARLINSEY/JOANNE GREGORY**

Adjourn 9:00

City of Kenmore Financial Sustainability Plan

CITY FINANCIAL SUSTAINABILITY TASK FORCE

*The Task Force's Eighth Meeting*

# A G E N D A

Monday, 25 August 2020, 6:30 – 8:30 PM

***Please note that the day of the week and starting time are different than past meetings.***

**Zoom Virtual Meeting Link**

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|---|---|
| Please click the link to the right to join the webinar: | https://us02web.zoom.us/j/83739862605 |
| Or iPhone one-tap: | US: +13017158592,,83739862605# or +13126266799,,83739862605# |
| Or Telephone: Dial (for higher quality, dial a number based on your current location): | US: +1 301 715 8592 or +1 312 626 6799 or +1 646 558 8656 or +1 253 215 8782 or +1 346 248 7799 or +1 669 900 9128 |
| Webinar ID: | 837 3986 2605 |
| International numbers available: | https://us02web.zoom.us/u/keuQ56hnX2 |

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Welcome; and Review Agenda 6:30

**JIM REID, FACILITATOR**

Public Comments 6:35

**TELA GARDNER, ACTING CITY CLERK/JIM REID/MEMBERS OF THE PUBLIC**

- Comments are limited to 3 minutes.

Task Force Members Finalize Recommendations

6:40

**TASK FORCE**

- The Task Force will complete its work to finalize recommendations for a six-year Financial Sustainability Plan that it will submit to City Manager Rob Karlinsey.
- Task Force members approve their recommendations.

Next Steps 8:15
**ROB KARLINSEY**

- What steps will we take to present recommendations to the City Council at its budget retreat on September 10th?

Final Comments and Observations 8:20
**TASK FORCE MEMBERS/ROB/JOANNE**

Adjourn 8:30

# The City of Kenmore

**ACCESS to QUALITY CULTURAL, RECREATIONAL, EDUCATIONAL and LEISURE OPPORTUNITIES**

- Collaboratively encourages and supports opportunities to focus on the arts, advance cultural enrichment, cultivate historic preservation, offer community events and provide life-long learning opportunities
- Enhances access to, and opportunities and activities to enjoy the City's waterfront region
- Offers a safe, well-planned community with convenient access to public gathering spaces, emphasizing the City's unique downtown, it's parks, trails and open spaces
- Partners and promotes community events and activities that encourage healthy, active lifestyles and provide entertainment
- Actively seeks out and leverages its public, private, and non-profit community partners and volunteers to support the recreational and educational needs of its community
- Attracts visitors and businesses by creating and advertising a safe, clean, conveniently traversable community with unique tourist amenities

CENTER FOR PRIORITY BASED BUDGETING
*Using a Unique Lens to Focus Community Resources on Results*

# The City of Kenmore

**ATTRACTIVE, WELL-PLANNED, ENDURING and DESIRABLE PLACE TO LIVE and WORK**

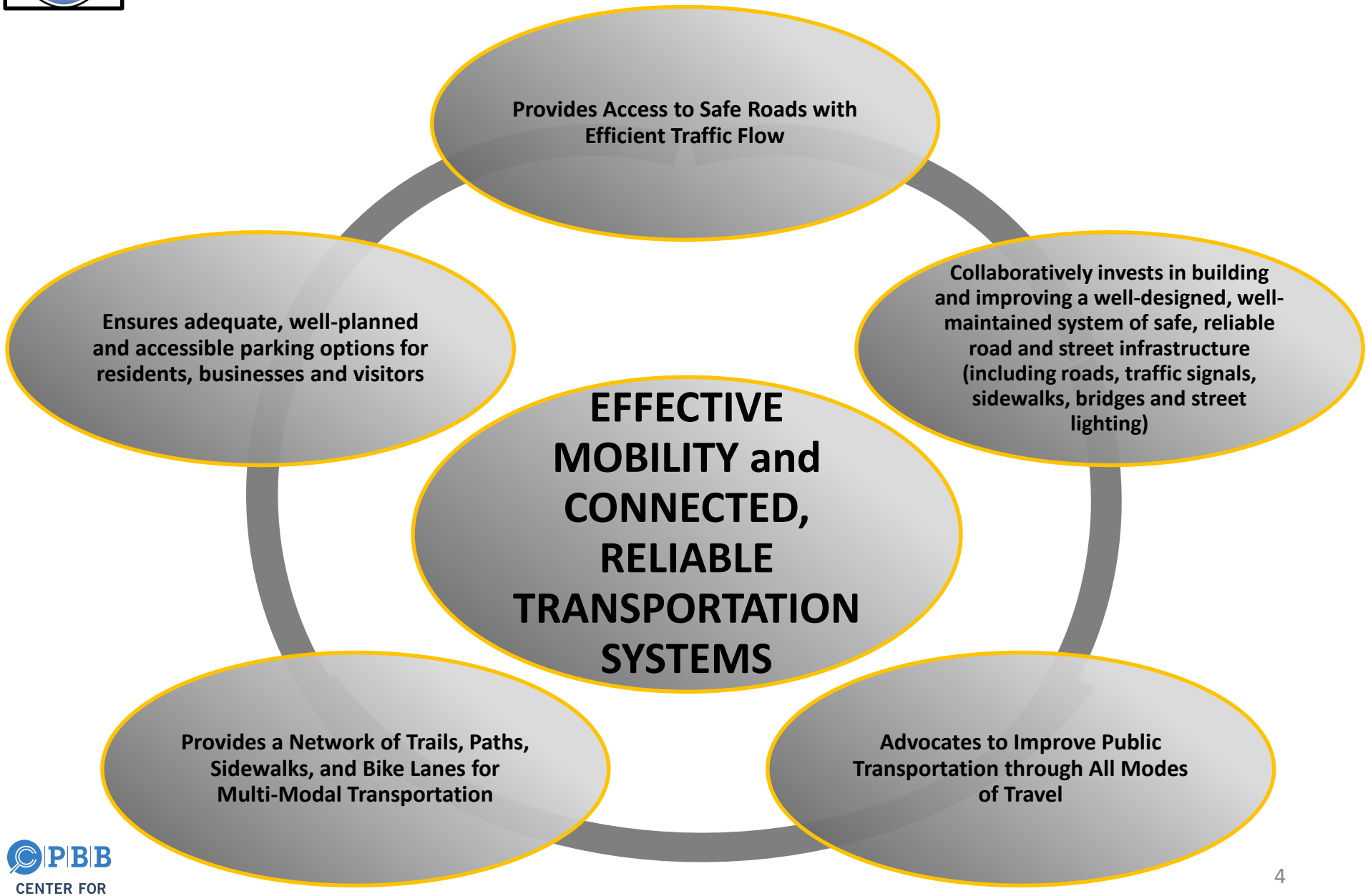
- Develops, maintains and consistently regulates neighborhoods that are safe, attractive and clean
- Offers a variety of shopping and entertainment experiences that attract residents and visitors, and stimulates job growth
- Plans strategically to encourage targeted development, supported by consistently applied design standards, and facilitated by efficient and appropriate review processes
- Provides, maintains and invests in well-planned public infrastructure, focusing on transportation network and public facilities that accommodate the long-range growth needs of the community
- Provides for convenient modes of mobility, through safe, well-marked and well-maintained roads with the capacity to minimize congestion, and paths, trails and sidewalks to promote a walkable community
- Actively markets the City's assets, unique culture and image to attract visitors and community investment
- Builds a strong sense of community togetherness through partnerships and events that stimulate public involvement

# The City of Kenmore

**CONNECTED, INVOLVED and FAMILY-ORIENTED COMMUNITY that VALUES DIVERSITY**

- Encourages and facilitates a culture that values and supports a diverse population
- Empowers citizens to be partners in a connected community, providing opportunities for volunteerism, partnerships, and community input
- Engages community partners in the joint-pursuit of collaboration and connectedness, through the offering of diverse, family-oriented events and activities
- Connects the community through parks and public spaces, bike trails and sidewalks that encourage walkability
- Provides access to adequate housing options and access to services to meet the basic needs of all income-levels

# The City of Kenmore



# The City of Kenmore

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Pro-actively plans and manages storm and surface water for effective flood and sediment control, and manages and maintains its water and air resources to ensure environmental quality

Ensures proactive code enforcement to provide for a safe, healthy environment in which to live and work

**SUSTAINABLE, HEALTHY ENVIRONMENT and the PRESERVATION of NATURAL RESOURCES**

Educates the community and partners with residents and business to protect and preserve its environmental resources

Promotes the design and enforces regulation of strategically planned, low-impact, environmentally sustainable development

# The City of Kenmore

# City Of Kenmore, Washington

## Memorandum

**Date:** February 24, 2020

**To:** Financial Sustainability Task Force

**From:** Rob Karlinsey, City Manager
Joanne Gregory, Finance and Administration Director

**Subject:** Priority Based Budgeting: Results of Government

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In 2014 the Center for Priority Based Budgeting worked with the City Council on an exercise to identify the City's "Results of Government". This was the beginning stage of enabling the City to look at the Budget through a "NEW LENS" to achieve fiscal wellness and support resource allocation decisions based on prioritization of programs.

The City Council was asked to identify the Results that the City of Kenmore strives to achieve for its residents, businesses and visitors. These Results were used as the City implemented its Priority Based Budgeting process. Result Maps were then created in a process that included Council, Staff and Community Members. Result Maps identify the most meaningful way that

the city can achieve the stated Results by "Looking Through a New Lens" at programs the City offers vs line item expenditures. The Result Maps are attached to this memo.

The City has utilized the Priority Based Budgeting (PBB) process since 2014 and is just now completing the latest update based on the 2019-2020 Budget.

The PBB process involves the following steps:

City Programs and Services are Identified

Each department develops an inventory of their programs. This is a comprehensive list of "what we do". Based on the current Biennial Budget, the City identified 181 programs at a cost of $31,499,318 (which includes not only the General Fund and Street Fund, but also the Surface Water Management Fund).

The next task is to identify all the FTEs and personnel costs. Each department allocates all the FTE staff time to the programs, on a % of time spent.

All the 2019-2020 budgeted line item costs are then allocated to the programs based on the FTE allocation or directly applied. If programs have associated revenues, this is captured as best as possible. When this task is complete, all the programs have costs assigned (personnel and non-personnel) and the line item budget can be expressed as a program budget.

Value Programs Based on Results

These are the value/scoring steps. Each program will be scored by the responsible department. The scoring criteria is a measure of how well each program achieves the Results; (does the program have an essential role in achieving a Result or does the program have no influence in achieving a Result?). The outcome provides guidance as to the value of a program based on its influence on Results.

Also during the scoring process each program is assessed against basic program attributes which include:

- Mandated to provide the program
- Reliance on the City to provide the program
- Cost recovery of the program
- Change in demand for the program
- Portion of the community served

When scoring is complete, all the programs and scores are "peer reviewed" by committees composed of individuals that are not involved in the achievement of the programs. This year Community Members and several Councilmembers participated on these peer review teams. If the peer review team does not agree with the score given to a program, it can be changed.

Allocate City Resources Based on Priorities

When the steps above are complete, a Resource Alignment Diagnostic graphic (RAD) is generated. This graphic identifies programs and costs by four quartiles so it can easily be determined which programs are of the highest significance in meeting the Results and how the resources of the City are so allocated. This enables the City to "Look Through the New Lens" by starting these conversations:

- Which programs are of the highest priority in terms of achieving what is expected by the community?
    - *And which are of lesser importance?*
- Which programs are truly mandated for us to provide?
    - *And how much does it cost to provide them?*
- Which programs are offered because they are "self-imposed"?
- Which programs are offered for which there are no other service providers?
- Are there programs might lend themselves to public/private partnerships?
- Who in the private sector is offering programs that are similar in nature?
    - *And should we consider" getting out of that business"?*
- Which programs are experiencing an increasing level of demand from the community?
    - *And which are experiencing a decreasing need?*
- Are there programs offered that are not helping us achieve our intended "Results"?
- What are we spending to achieve our "Results"?

This is the breakdown by quartile of budgeted costs associated with programs in the General Fund and Street Fund.

Attached to this memo is a listing of the city programs that were included.

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**CONNECTED, INVOLVED and FAMILY-ORIENTED COMMUNITY that VALUES DIVERSITY**

Connects the community through parks and public spaces, bike trails and sidewalks that encourage walkability

Engages community partners in the joint-pursuit of collaboration and connectedness, through the offering of diverse, family-oriented events and activities

# The City of Kenmore

Provides Access to Safe Roads with Efficient Traffic Flow

Ensures adequate, well-planned and accessible parking options for residents, businesses and visitors

Collaboratively invests in building and improving a well-designed, well-maintained system of safe, reliable road and street infrastructure (including roads, traffic signals, sidewalks, bridges and street lighting)

**EFFECTIVE MOBILITY and CONNECTED, RELIABLE TRANSPORTATION SYSTEMS**

Provides a Network of Trails, Paths, Sidewalks, and Bike Lanes for Multi-Modal Transportation

Advocates to Improve Public Transportation through All Modes of Travel

PBB
CENTER FOR PRIORITY BASED BUDGETING
Using a Unique Lens to Focus Community Resources on Results

# The City of Kenmore

**PROSPEROUS, VIBRANT and SUSTAINABLE ECONOMY**

- Attracts New Businesses, and Retains and Grows Existing Business through Diversity, Quality Development and Reasonable Tax Support
- Promotes a Business-Friendly Environment through Sensible Regulations and Incentives
- Promotes Job Growth, and Offers Adequate Housing Options and Quality of Life Amenities
- Encourages Development of its Signature Waterfront Asset, and Emphasizes Strategic Development of its Downtown Areas
- Continually reinvests and appropriately maintains its infrastructure assets, providing the type of mobility options, including parking, that businesses require to thrive
- Encourages strategically planned, sufficiently regulated and appropriately balanced development and re-development that stimulates economic growth

# The City of Kenmore

## SAFE and SECURE COMMUNITY

Provides for the physical, social and economic needs and well-being of the community

Provides effective, efficient traffic flow, safe mobility for vehicles, cyclists and pedestrians alike and a well-maintained, connected transportation network

Fosters a feeling of personal safety throughout the community by establishing a visible, accessible presence that proactively provides for prevention, intervention, safety education, and community involvement

Portrays and invests in a visibly thriving community that is safe, clean, attractive and provides for the well-being of its residents, businesses and visitors

Offers Protection, Enforces the Law, Proactively Prevents Crime and is Well-Prepared to Promptly Respond to Emergencies and Calls for Service

Plans for and provides timely and effective response to emergencies and other disaster situations

# The City of Kenmore

Pro-actively plans and manages storm and surface water for effective flood and sediment control, and manages and maintains its water and air resources to ensure environmental quality

Ensures proactive code enforcement to provide for a safe, healthy environment in which to live and work

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# The City of Kenmore

PBB
CENTER FOR
PRIORITY BASED BUDGETING
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## City of Kenmore Program Quartile Ranking (1= Highest, 4 = Lowest)

| 2019 - 2020 Budget | ProgName | Quartile |
|---|---|---|
| $20,387 | City Manager Oversight | 1 |
| $85,991 | Council Meetings | 1 |
| $36,125 | Strategic Goal and Direction Setting | 1 |
| $157,663 | City Council Administrative Support | 1 |
| $796,673 | Department Administrative Support | 1 |
| $241,971 | Leadership to Organization | 1 |
| $193,208 | Organizational Health | 1 |
| $73,787 | Policy Development | 1 |
| $47,948 | Target Zero Education and Strategy | 1 |
| $120,974 | Code Development | 1 |
| $189,908 | Comprehensive Plan | 1 |
| $202 | Park Master Plan Development | 1 |
| $796,594 | Parks Capital Project Management | 1 |
| $165,454 | PROS Plan | 1 |
| $182,083 | Building Inspections | 1 |
| $256,517 | Building Permit Review | 1 |
| $196,310 | Code Enforcement | 1 |
| $32,618 | Development Review | 1 |
| $112,436 | Engineering Inspections | 1 |
| $117,064 | Engineering Review | 1 |
| $17,425 | Land-use Inspections | 1 |
| $249,632 | Land-use Review | 1 |
| $259,524 | Permit Intake and Management | 1 |
| $10,047 | Right-of-way Review | 1 |
| $157,377 | ADA Management | 1 |
| $656,633 | Capital Improvement Program - Transportation | 1 |
| $343 | Development Review and Inspection | 1 |
| $153,010 | Pavement Management | 1 |
| $76,343 | Transportation Planning and Standards (Mandated) | 1 |
| $93,129 | Annual Audit | 1 |
| $122,345 | Biennial Budget Development and Preparation | 1 |
| $19,607 | Budget Monitoring and Amendment | 1 |
| $21,249 | Capital Improvement Program Development | 1 |
| $282,771 | Council Agenda and Minutes | 1 |
| $9,477 | Financial Sustainability | 1 |
| $59,472 | Bridge Inspection & Maintenance | 1 |
| $1,916,086 | Roadway and ROW Maintenance | 1 |
| $111,782 | ROW Vegetation Management | 1 |
| $437,646 | Signal Operations & Maintenance | 1 |
| $22,616 | Snow and Ice Management | 1 |
| $186,971 | Development and Construction | 1 |
| $208,513 | Environmental Planning | 1 |
| $93,544 | Municipal Stormwater Permit (National Pollutant Discharge Elimination System or NPDES) | 1 |
| $1,838,483 | Operations and Maintenance | 1 |

| 2019 - 2020 Budget | ProgName | Quartile |
|---|---|---|
| $40,860 | Contracts and Agreements | 2 |
| $122,527 | Council Meeting Support | 2 |
| $40,860 | Executive Session Support | 2 |
| $163,364 | Internal Legal Support and Advisement | 2 |
| $75,993 | Government Relations | 2 |
| $35,037 | Animal Services | 2 |
| $135,645 | Business Recruitment and Development | 2 |
| $37,697 | Business Registration and Directory | 2 |
| $42,507 | Business Seminars and Events | 2 |
| $386,327 | City Events | 2 |
| $59,624 | Franchise Agreement Management | 2 |
| $141,634 | Front Desk Reception | 2 |
| $61,516 | Hangar/Town Square | 2 |
| $182,493 | Marketing and Media Relations | 2 |
| $329,809 | Public Communications | 2 |
| $81,250 | Regional and Intergovernmental Relations/Agreements | 2 |
| $86,926 | Regional Transit | 2 |
| $170,999 | Service Requests | 2 |
| $186,023 | State Legislative Advocacy | 2 |
| $23,672 | Surface Water Administration | 2 |

| | | |
|---|---|---|
| $349,864 | Affordable housing | 2 |
| $99,414 | Critical Area Regulations/Shoreline Master Plan | 2 |
| $17,399 | Data Collection and Forecasting | 2 |
| $4,427 | Federal and State Regulations Compliance | 2 |
| $50,103 | Planning Commission Administrative Support | 2 |
| $53,356 | Public Education, Participation and Outreach | 2 |
| $200,039 | Emergency Management | 2 |
| $32,361 | Hearing Examiner | 2 |
| $63,218 | Lakepointe Strategic Planning | 2 |
| $79,572 | Code Compliance (ROW) | 2 |
| $227,031 | Franchise Utility/ROW Permits | 2 |
| $81,679 | Traffic Data Collection and Management | 2 |
| $66,834 | Traffic Projects Implementation | 2 |
| $50,889 | Transportation Planning and Standards (Unmandated) | 2 |
| $95,514 | Accounting and Reporting | 2 |
| $92,842 | Accounts Payable | 2 |
| $4,238 | Annual Tax Levy Preparation | 2 |
| $41,367 | Banking and Treasury Management | 2 |
| $73,667 | Employee Compensation and Benefits | 2 |
| $17,287 | Equipment Replacement Program | 2 |
| $89,074 | Geographical Information System (GIS) | 2 |
| $21,823 | Kenmore Municipal Code Codification | 2 |
| $47,632 | Payroll Processing | 2 |
| $61,237 | Priority Based Budgeting Update | 2 |
| $17,721 | Recording and Publishing Legal Documents | 2 |
| $150,041 | Records Management | 2 |
| $491,607 | Risk Management | 2 |
| $31,768 | Supervision and Personnel Matters | 2 |
| $21,304 | W & W Bond Administration | 2 |
| $5,912,453 | Police Contract | 2 |
| $322,904 | Hangar Facility Maintenance & Support | 2 |
| $786,623 | Landscape, Irrigation & Site Maintenance | 2 |
| $1,036 | Non-Franchise ROW Permits | 2 |
| $134,307 | Parks Facility Maintenance | 2 |
| $42,480 | Playground Inspection & Maintenance | 2 |
| $593,325 | ROW Landscape & Irrigation Maintenance | 2 |
| $21,599 | Safety Program | 2 |
| $235,956 | Street Sign Maintenance | 2 |
| $137,406 | Illicit Discharge Detection and Elimination (IDDE) | 2 |
| $40,039 | Public Education and Outreach | 2 |
| $19,883 | Public Involvement and Participation | 2 |
| $46,593 | Source Control | 2 |
| $80,583 | Surface Water CIP | 2 |
| $125,883 | SWM Fund Management | 2 |
| $208,007 | SWM Small Works Projects | 2 |

| 2019 - 2020 Budget | ProgName | Quartile |
|---|---|---|
| $42,125 | Boards and Commissions | 3 |
| $22,649 | Citizen Point of Contact | 3 |
| $29,436 | Informal Informational Meetings | 3 |
| $26,738 | Special Events, Awards, Presentations, Recognition Programs | 3 |
| $7,753 | Arts | 3 |
| $71,832 | External Events | 3 |
| $204,503 | Federal Legislative Advocacy | 3 |
| $45,266 | Historic Preservation | 3 |
| $15,669 | Human Services | 3 |
| $96,284 | Kenmore Business Incubator | 3 |
| $217,330 | Professional Development | 3 |
| $226,025 | Public Records Requests | 3 |
| $85,846 | Recreation | 3 |
| $37,075 | Shared Governance of Regional Groups | 3 |
| $116,069 | Volunteers | 3 |
| $21,009 | Business License | 3 |
| $31,912 | Development Warranty Bonds Mgt & Release | 3 |
| $93,885 | Management of Trakit Permit System | 3 |
| $60,767 | MyBuildingPermit.com | 3 |
| $20,586 | Right of Way Infrastructure Service Requests | 3 |
| $98,669 | Traffic Service Requests | 3 |
| $16,440 | Accounts Receivable | 3 |

| | | |
|---|---|---|
| $32,586 | Annual Financial Report | 3 |
| $3,728 | Building Security | 3 |
| $6,103 | City-Wide Staff Training Coordination | 3 |
| $8,103 | Cost Allocation Plan | 3 |
| $6,240 | Fixed Asset Accountability | 3 |
| $55,189 | Human Resources Management | 3 |
| $104,031 | IT Network Administration (IT) Oversight | 3 |
| $45,122 | New Employee Recruitment and Onboarding | 3 |
| $28,986 | Sharepoint Kennect | 3 |
| $6,240 | Telecom Oversight and Support | 3 |
| $55,136 | Wellness | 3 |
| $272,223 | District Court Services | 3 |
| $854,400 | Jail Services | 3 |
| $271,561 | Misdemeanor Crime Prosecution | 3 |
| $1,373 | 24/7 On-Call, Call Back, Overtime | 3 |
| $70,740 | City Hall Facility Rentals & Set up | 3 |
| $624,132 | City Hall Maintenace & Repair | 3 |
| $297,145 | Fleet Maintenance and Operations | 3 |
| $24,457 | Post Office Building Maintenance & Support | 3 |
| $35,999 | Public Works Operations & Maintenance Center CIP | 3 |
| $53,364 | Public Works Shop/Yard Maintenance | 3 |
| $105,096 | Waste Management & Recycling | 3 |
| $119,616 | Aquatic Weeds Management | 3 |
| $16,818 | Management of Cityworks Program | 3 |
| $51,059 | Mapping and Documentation | 3 |
| $30,686 | Monitoring and Assessment | 3 |
| $41,737 | Regional Coordination | 3 |
| $64,879 | Surface Water Utility Locates | 3 |
| $31,524 | Total Maximum Daily Load (TMDL) | 3 |

| 2019 - 2020 Budget | ProgName | Quartile |
|---|---|---|
| $40,860 | Special Counsel | 4 |
| $4,642 | NWMaps.net | 4 |
| $4,292 | Saint Edward Ballfields | 4 |
| $19,007 | Title VI Reporting | 4 |
| $18,267 | Central Office Supply Inventory | 4 |
| $118,249 | Financial Software Maintenance | 4 |
| $46,661 | Office Equipment Management | 4 |
| $6,103 | Outside Surveys | 4 |
| $273,914 | Eight Grade Drug and Alcohol Education | 4 |
| $164,348 | High School DUI Re-enactment Drill | 4 |
| $50,652 | Junior High Dance Sponsorship | 4 |
| $50,218 | National Night Out Against Crime BBQ | 4 |
| $960,698 | Officer Training Discretionary | 4 |
| $13,696 | Prescription Drug Box Drop Off | 4 |
| $179,000 | Public Defense for Misdemeanor Crimes | 4 |
| $59,348 | Sixth Grade Drug Awareness and Safety | 4 |

EMC research

# City of Kenmore, Washington Finances Survey

December 2019

# Methodology

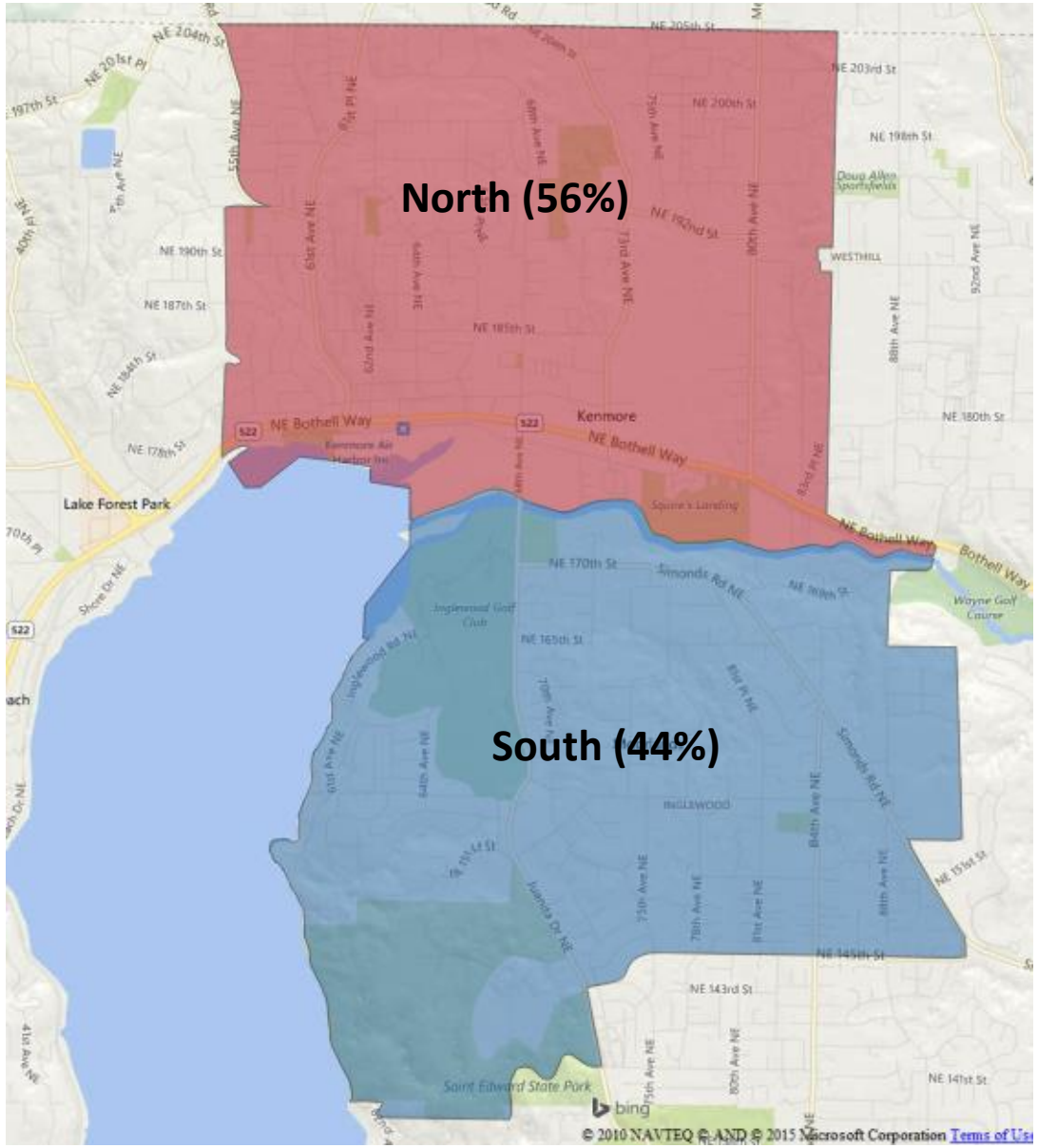
EMC research

- Live telephone and SMS-to-Web survey of registered voters in Kenmore, Washington
- Survey conducted December 4 – 12, 2019
- 300 interviews; overall margin of error ±5.7 percentage points
- Interviews were conducted in English by trained, professional interviewers; landlines and mobile phones included
  - 250 interviews by live phone
  - 50 interviews from SMS-to-Web
- Where applicable, results compared with the following:

| Methodology | Dates | Universe | Sample Size | Margin of Error | EMC # |
|---|---|---|---|---|---|
| Phone | April 24 – May 2, 2016 | All Registered Voters | 300 | ±5.7 percentage points | 16-5967 |
| Phone | December 2 – 10, 2015 | All Registered Voters | 300 | ±5.7 percentage points | 15-5355 |

**Please note that due to rounding, some percentages may not add up to exactly 100%.**

# Map of Kenmore



# Key Findings

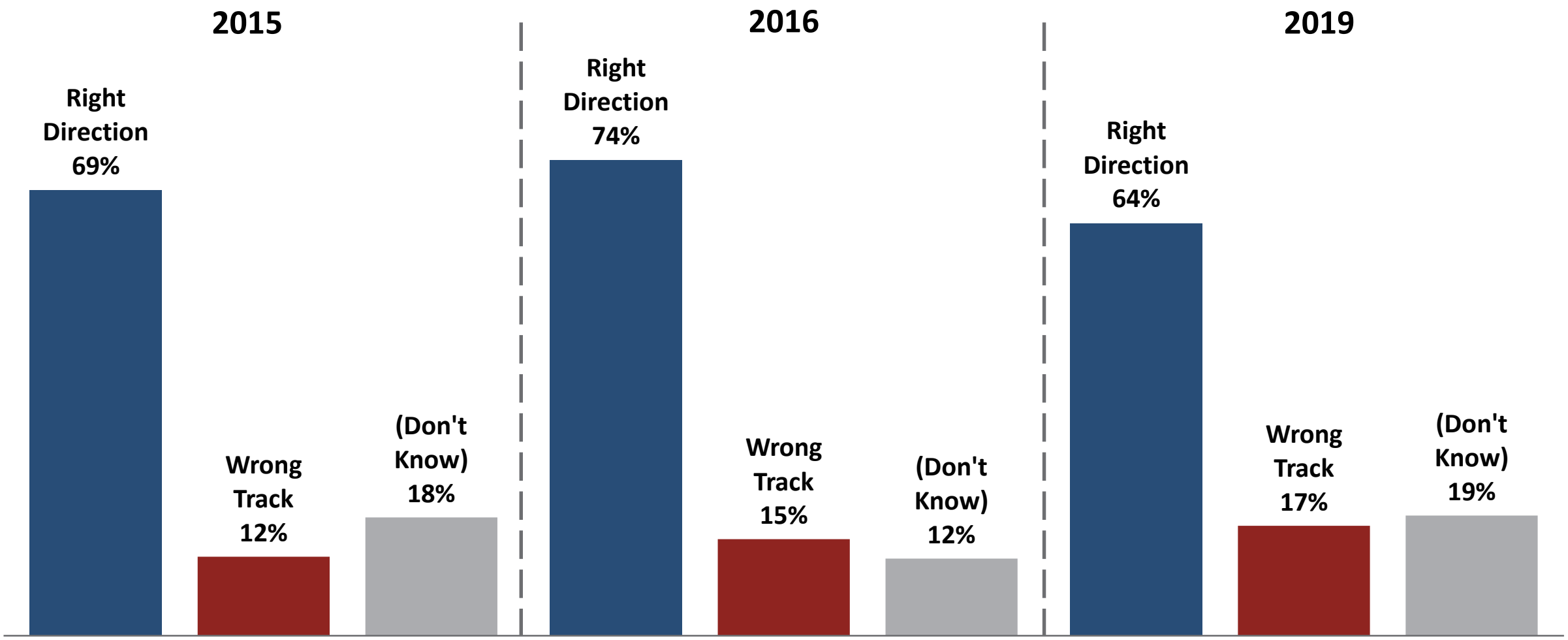
- Kenmore residents are optimistic about the direction of the city and feel the quality of life in Kenmore is good
- Most rate City government and the services it provides positively
- Ratings of the City's financial management are more mixed, and awareness of Kenmore's financial situation and where tax dollars are spent is low
- Public safety and street and road maintenance are top priorities for the City

EMC research

# Kenmore Issue Environment

# Direction of Kenmore

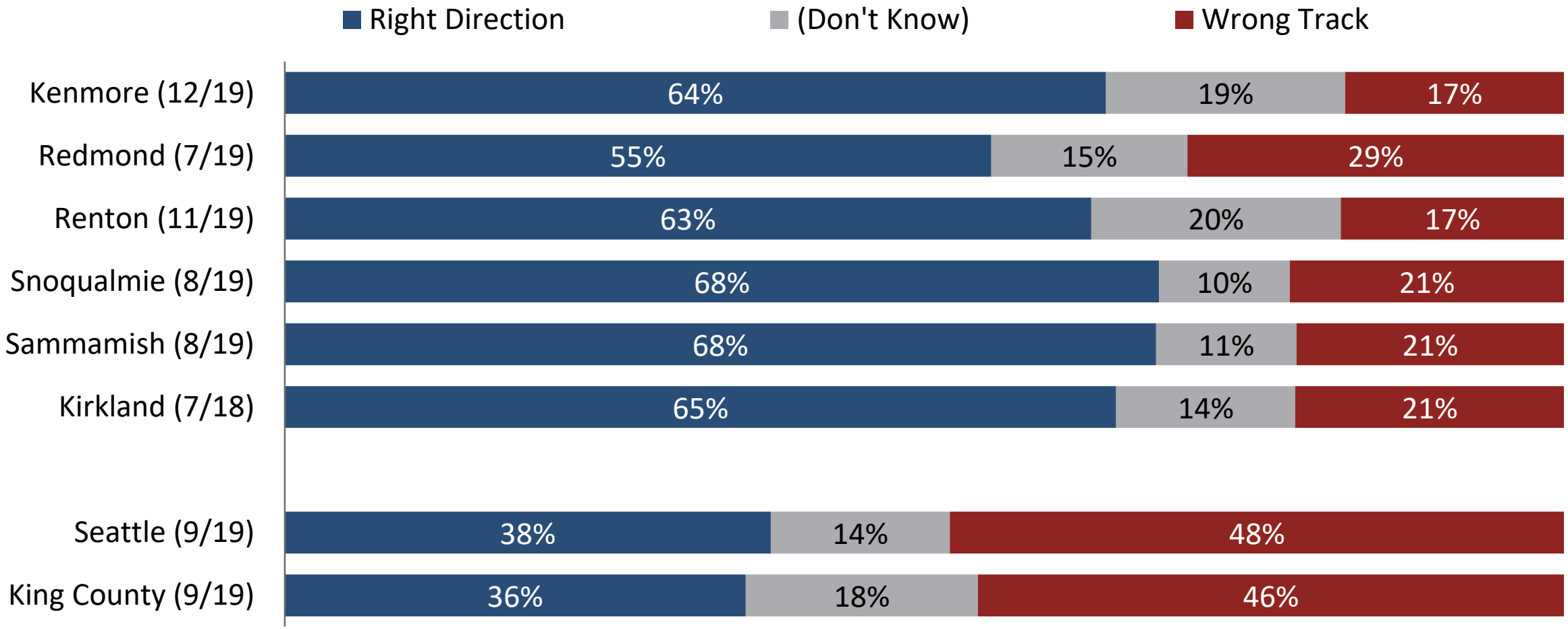
*Residents continue to be optimistic about the direction of Kenmore.*




Q3. Do you feel things in Kenmore are generally going in the right direction, or do you feel things have gotten pretty seriously off on the wrong track?

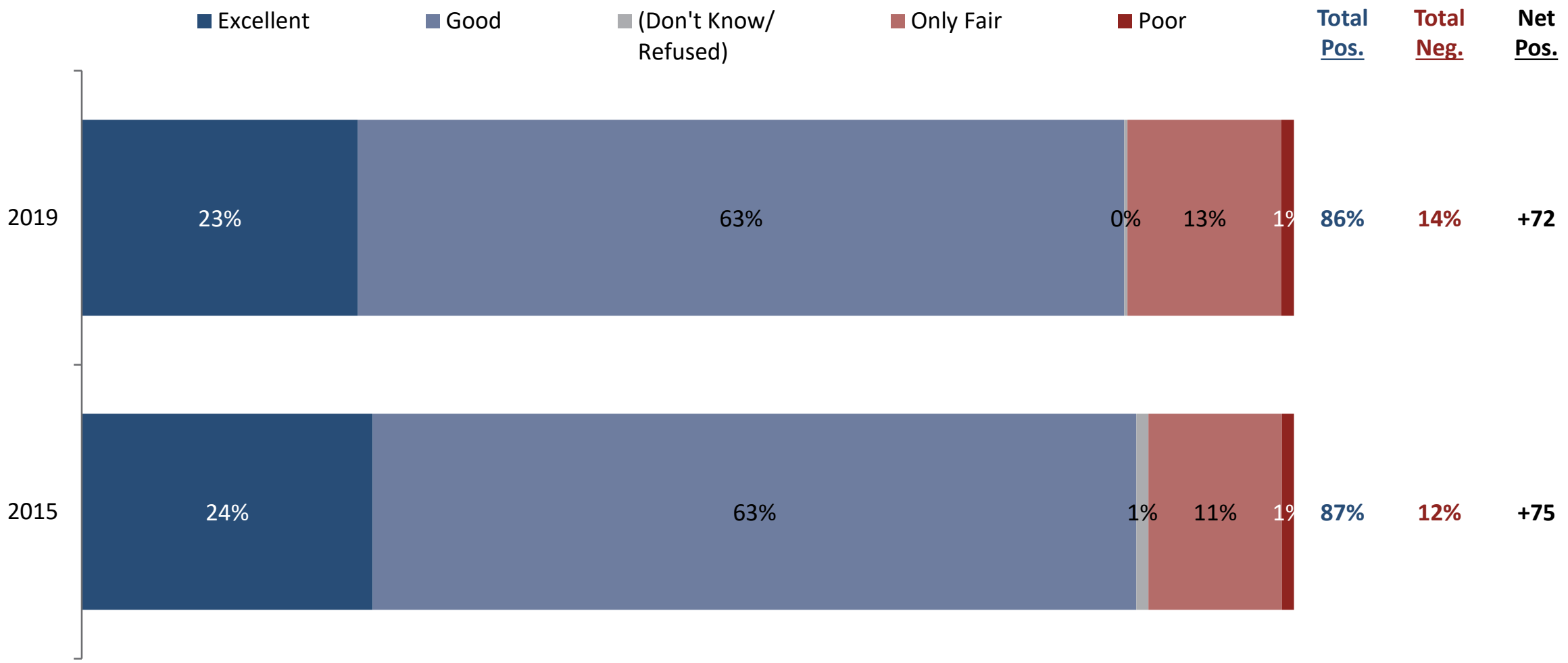
# Right Direction/Wrong Track in the Region

*Levels of optimism in Kenmore are comparable to many Eastside cities.*



# Quality of Life in Kenmore

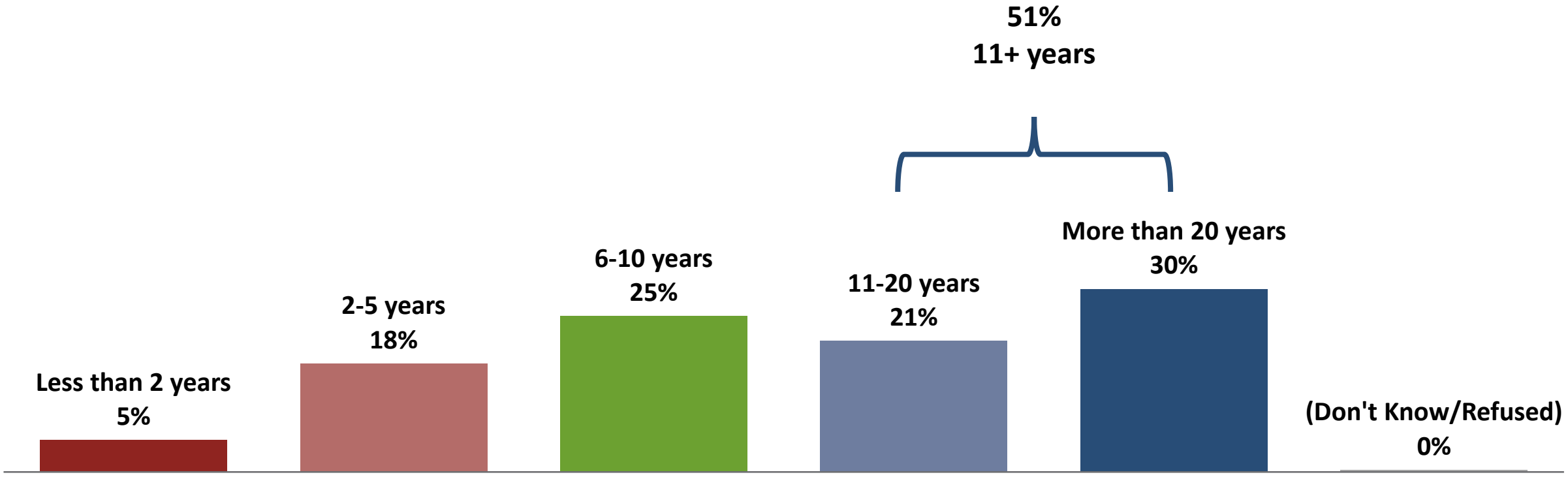
*Nearly all residents continue to feel the quality of life in Kenmore is positive.*




Q5. Using a scale of excellent, good, only fair, or poor, please rate each of the following.

# Length of Residency in Kenmore

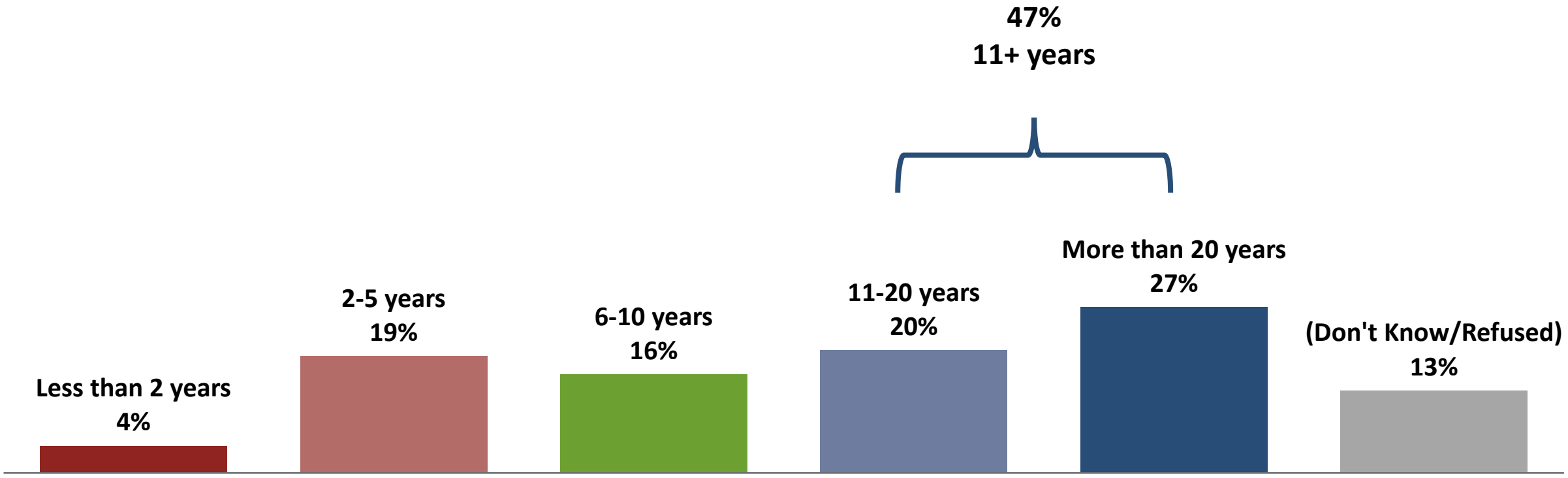
*Just over half of residents have lived in Kenmore for a decade or more. Nearly a quarter are new to Kenmore, having lived in the city for five years or less*




Q41. How many years have you lived in Kenmore?

# Plans to Stay in Kenmore

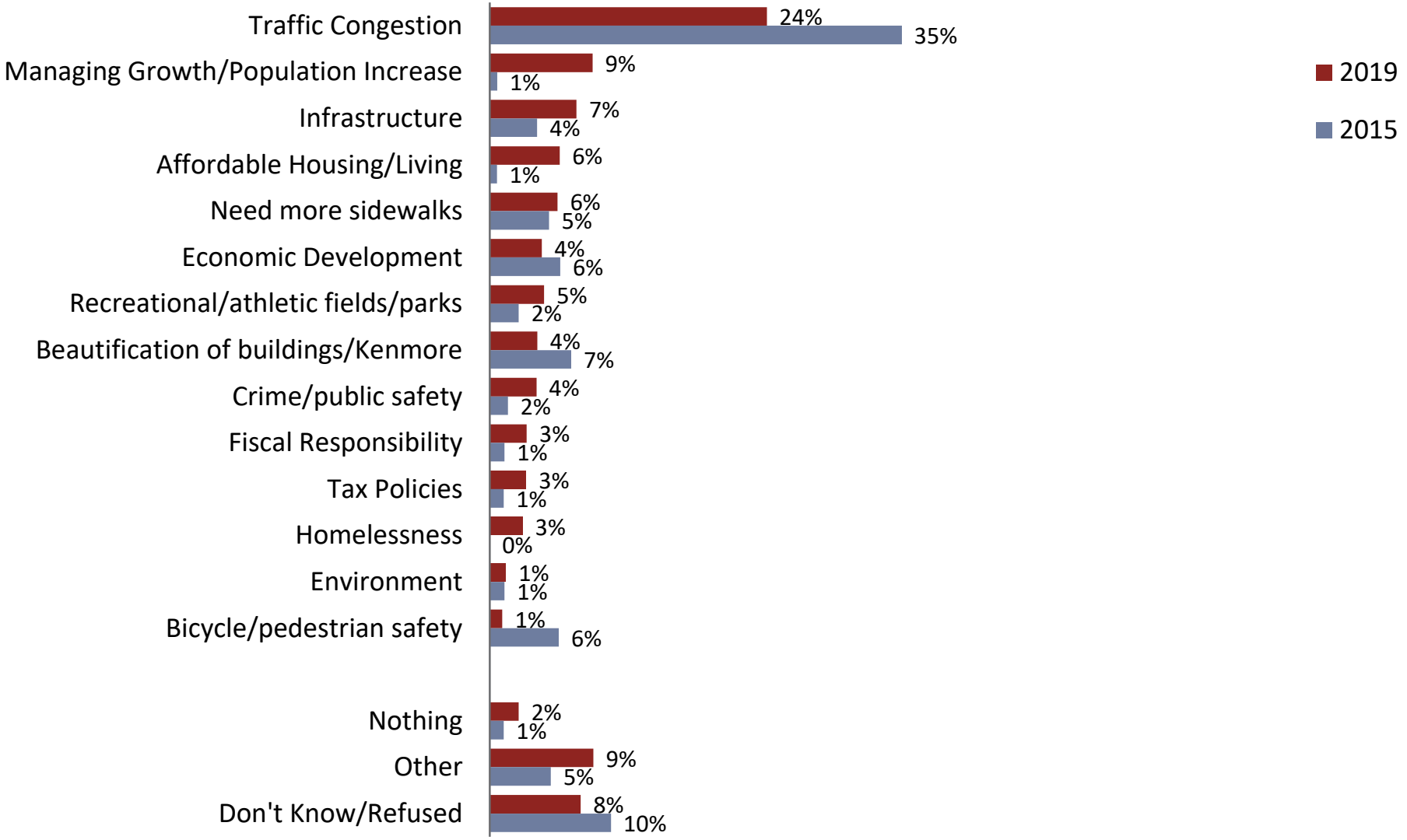
*Few residents have immediate plans to leave Kenmore, with nearly half intending to stay for more than a decade.*




Q42. How many years do you plan to stay in Kenmore?

# Most Important Problem in Kenmore

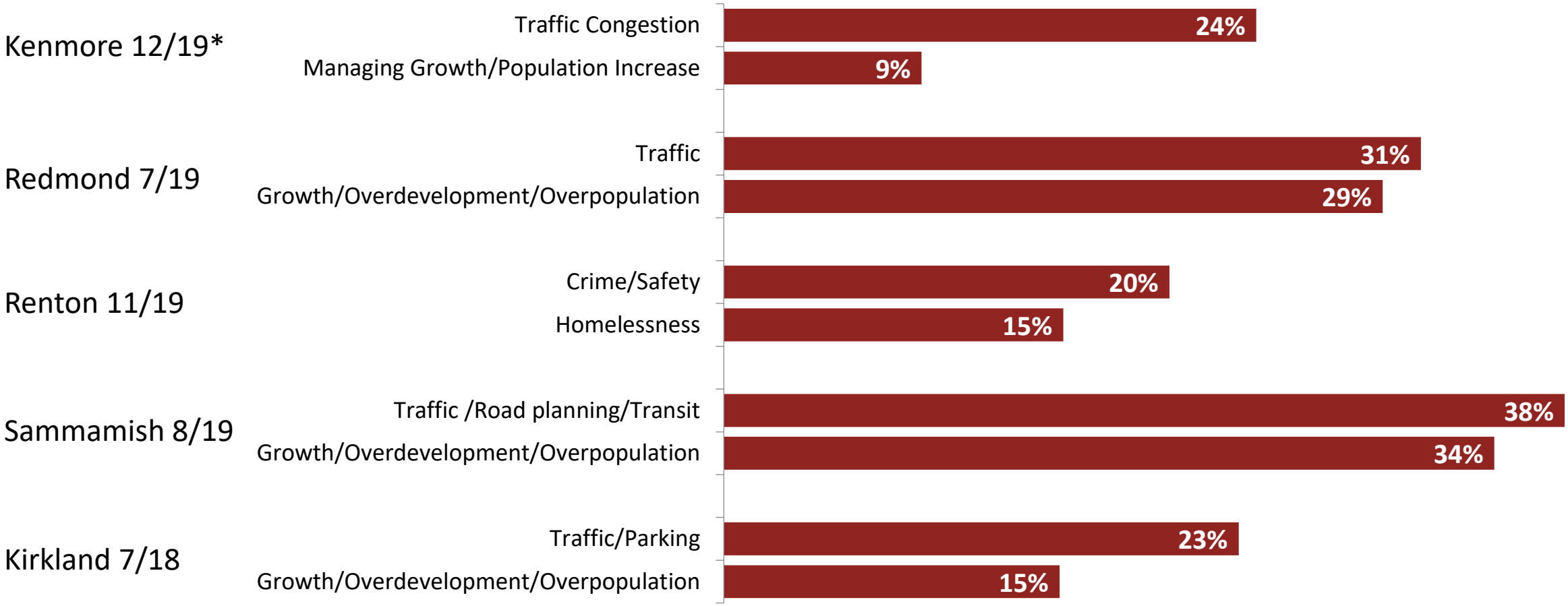
*As in 2015, traffic congestion is by far the top volunteered issue residents would like to see addressed over the next two years.*




Q4. What is the most important issue the Kenmore City council needs to address over the next two years?

# Most Important Problem in the Region

*Traffic and growth concerns are common in communities throughout the region.*




*Kenmore wording was "What is the most important issue the Kenmore City council needs to address over the next two years?" as compared to "What do you think is the most important problem facing the City of X today?"

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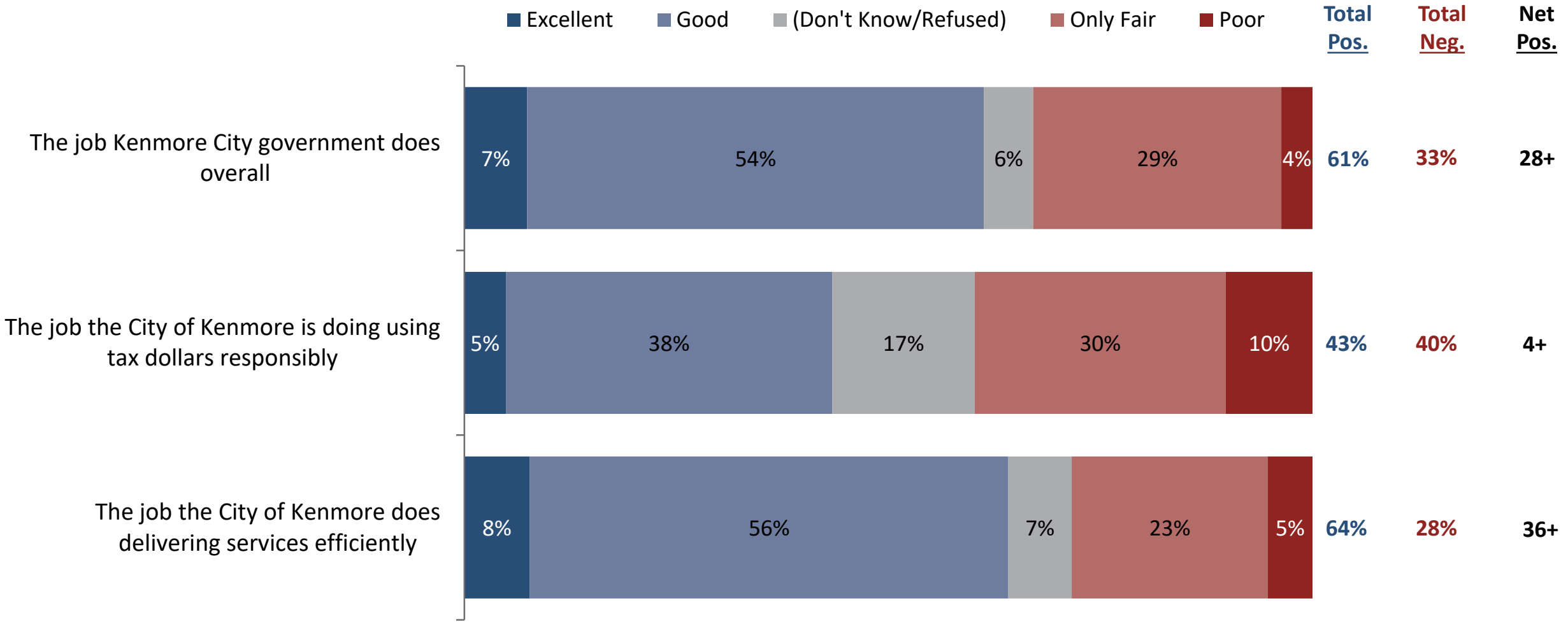
# Perceptions of Local Government & City Services

# Kenmore Job Ratings

*Majorities of residents feel City government does a good job overall and in delivering services. Residents are more divided when it comes to use of tax dollars, with greater uncertainty. Intensity is low on all ratings.*




Q6-Q8. Using a scale of excellent, good, only fair, or poor, please rate each of the following.

# Job Ratings in the Region

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*Ratings of other municipal governments in the region overall, as well as specifically on fiscal management and delivery of services, tend to be similar.*

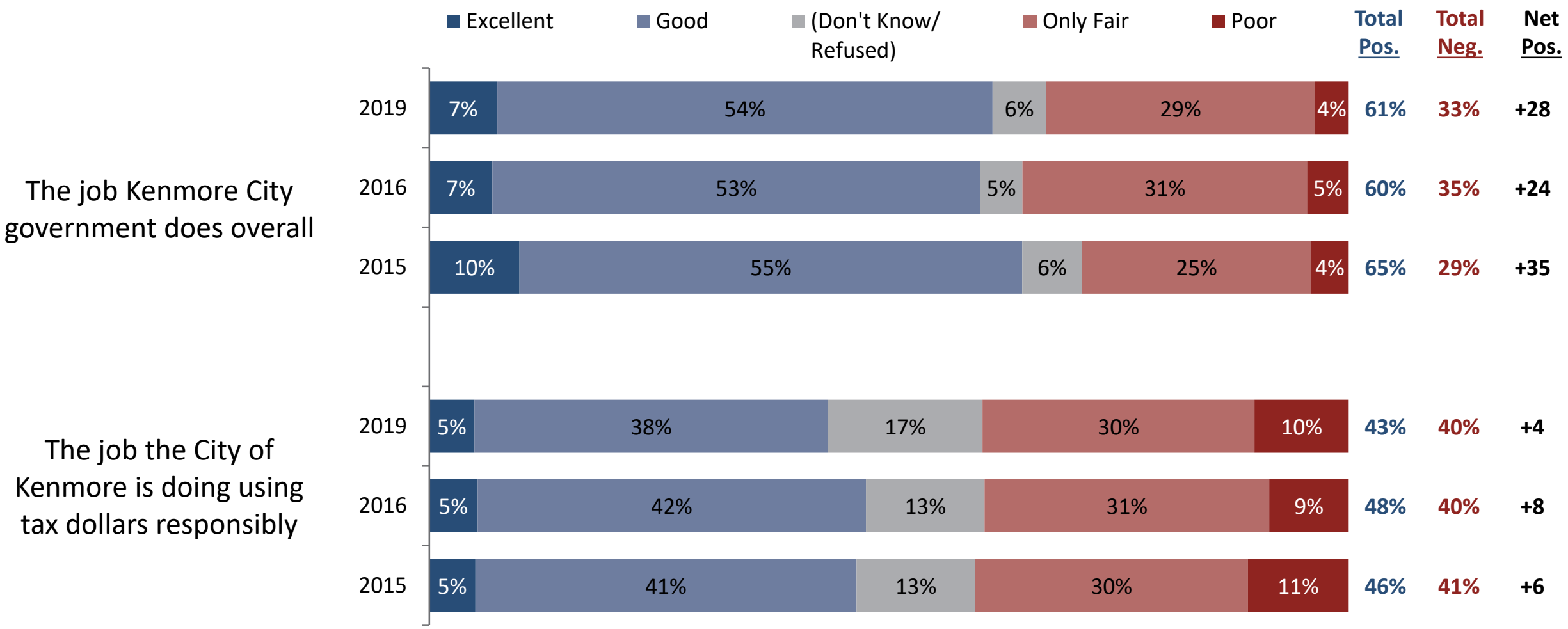
**% Excellent/Good**

| | Kenmore (12/19) | Redmond (7/19) | Renton (11/19) | Kirkland (7/18) |
|---|---|---|---|---|
| Overall | 61% | 62% | 58% | 70% |
| Using tax dollars responsibly | 43% | 39% | 44% | 37%* |
| Delivering services efficiently | 64% | 64% | NA | 69% |

*Wording was "the job the City is doing managing the public's money" rather than "using tax dollars responsibly"

# Kenmore Job Ratings Over Time

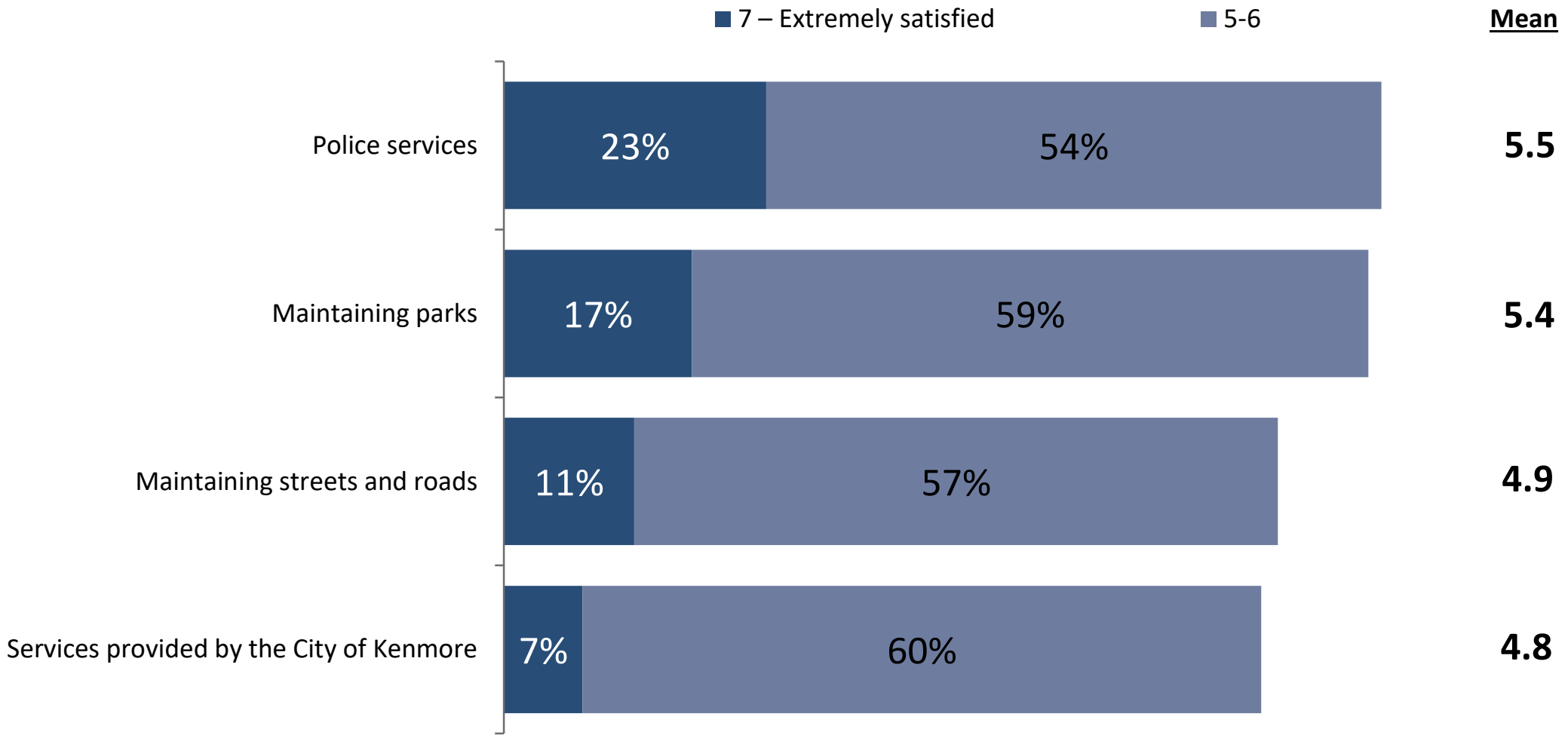
*Ratings of City government have remained stable over time.*




Q6-Q7. Using a scale of excellent, good, only fair, or poor, please rate each of the following.

# Satisfaction with Services in Kenmore

*Strong majorities are satisfied with the services provided by the City of Kenmore overall, as well as when it comes to police, parks, and road maintenance specifically. Intensity of satisfaction is highest for police services.*

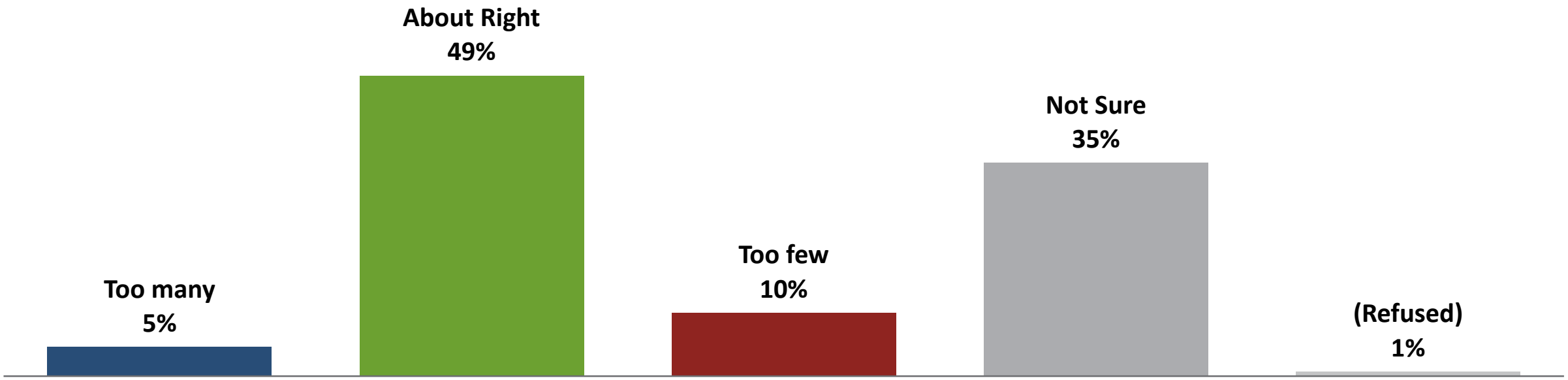



Q10, Q29-31. Using a scale from 1 to 7, where 1 means you are not at all satisfied and 7 means you are extremely satisfied, how would you rate your level of satisfaction?

# Level of Services

*A plurality of residents feel the City currently provides the right level of services, but over a third are uncertain.*

**In terms of public services provided by the City of Kenmore, do you think that overall the city provides too many services, too few services, about the right amount of services, or are you not sure?**

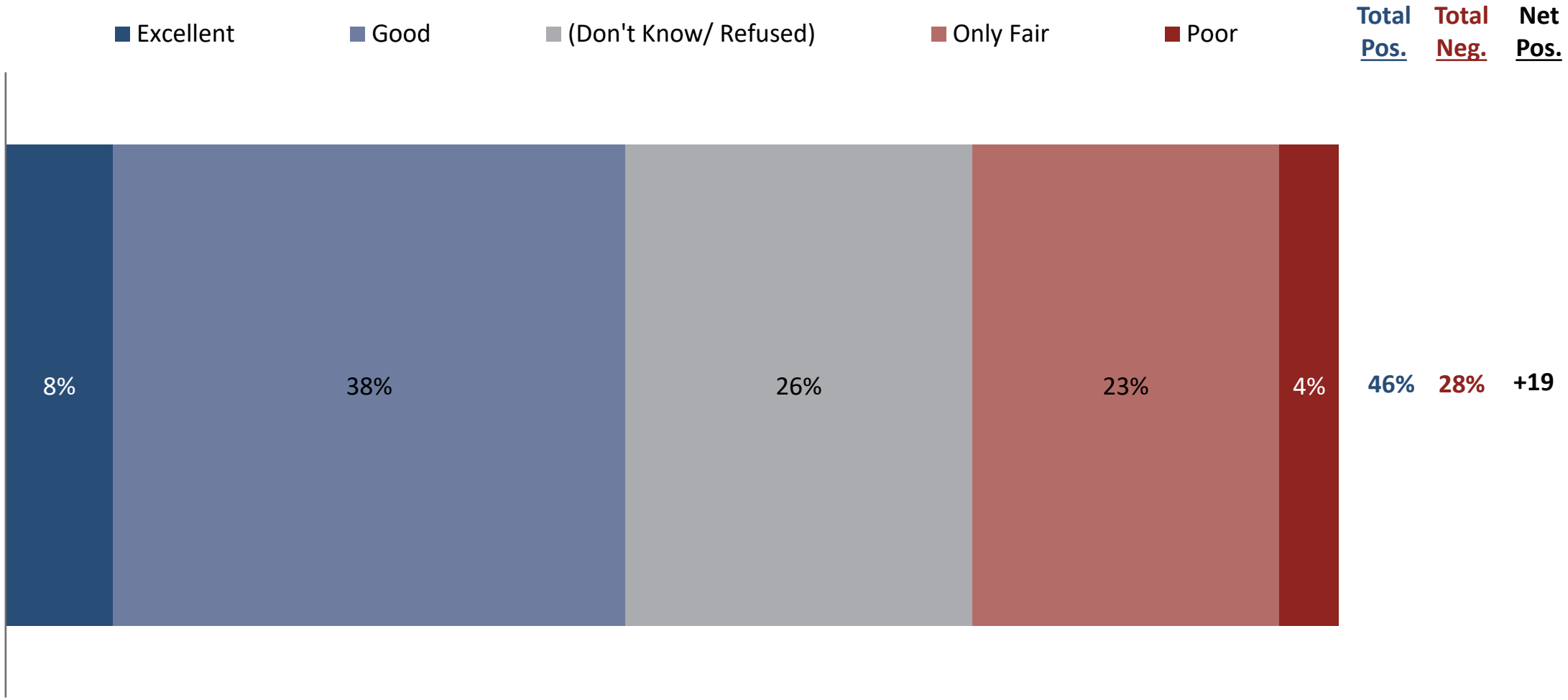



Q39. In terms of public services provided by the City of Kenmore, do you think that overall the city provides too many services, too few services, about the right amount of services, or are you not sure?

# Fiscal Issues

# Overall Financial Health of Kenmore

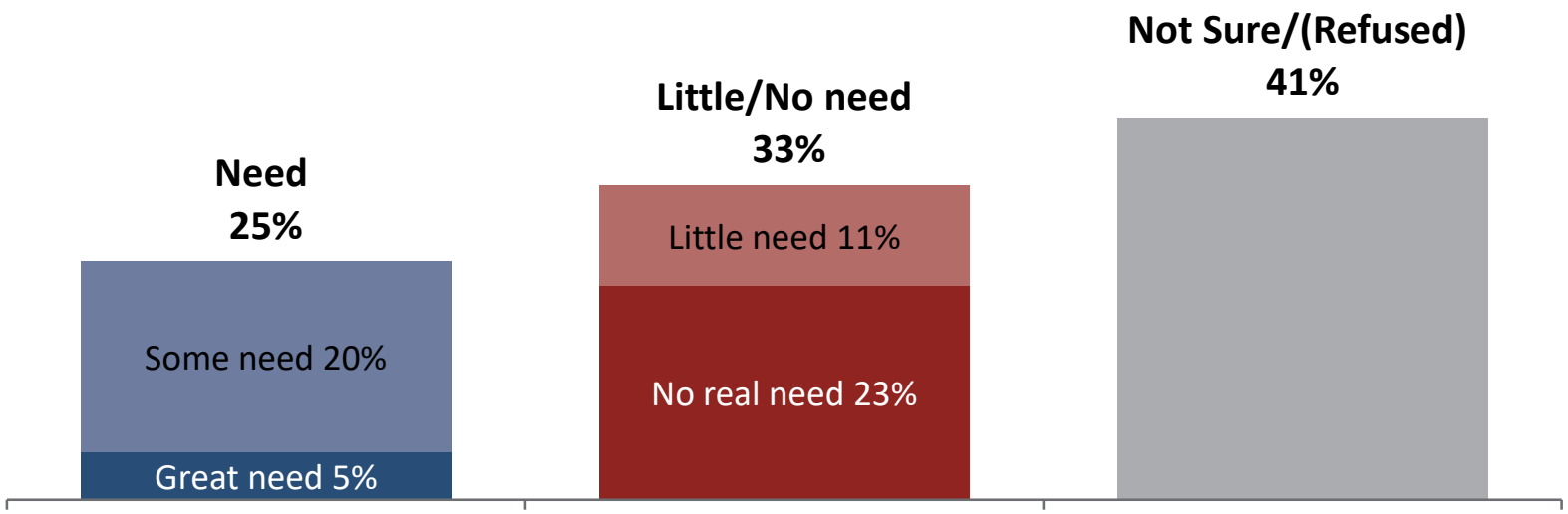
*A plurality of residents believe the City's overall financial health is positive. Just over a quarter rate it negatively, and another quarter are unsure.*




Q9. Using a scale of excellent, good, only fair, or poor, please rate each of the following: The overall financial health of the City

# Perceived Need for Funding

*Knowledge of the City's need for funding is low. A plurality aren't sure of the City's financial situation, and only a quarter are aware there is a need for additional funding.*

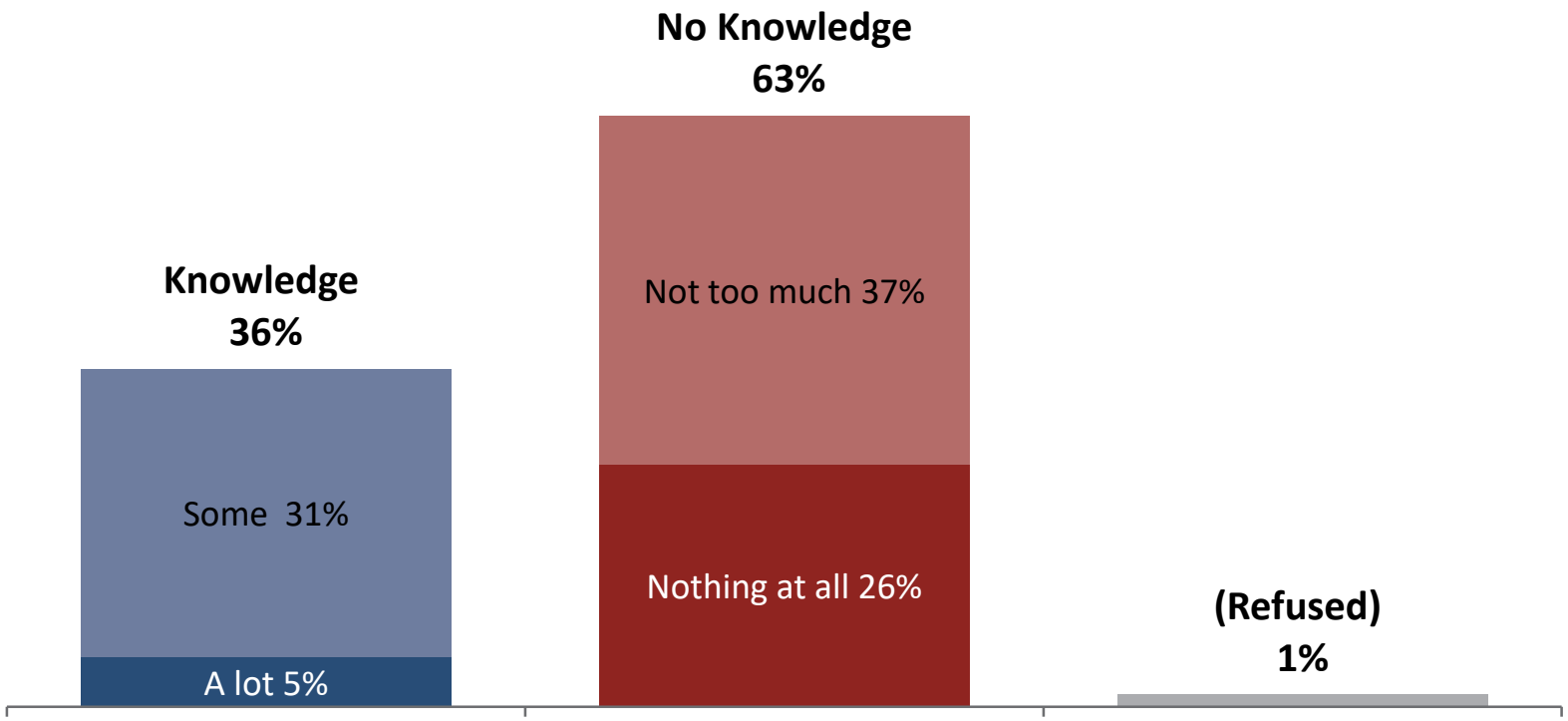



| | Need | No Need |
|---|---|---|
| Overall | 25% | 33% |
| Male (49%) | 24% | 38% |
| Female (51%) | 26% | 29% |
| <50 (48%) | 26% | 34% |
| 50+ (52%) | 24% | 33% |
| North (56%) | 27% | 32% |
| South (44%) | 24% | 35% |
| Children in HH (27%) | 35% | 20% |
| No Children in HH/(DK/Ref) (73%) | 22% | 38% |
| Homeowner (76%) | 25% | 32% |
| Renter (21%) | 26% | 33% |

Q40. Would you say that to maintain essential services, the City of Kenmore has a great need for additional funding, some need, a little need, no real need for additional funding, or are you not sure?

# Knowledge About Spending

*Nearly two-thirds of residents say they have little or no knowledge about what the City spends tax dollars on.*

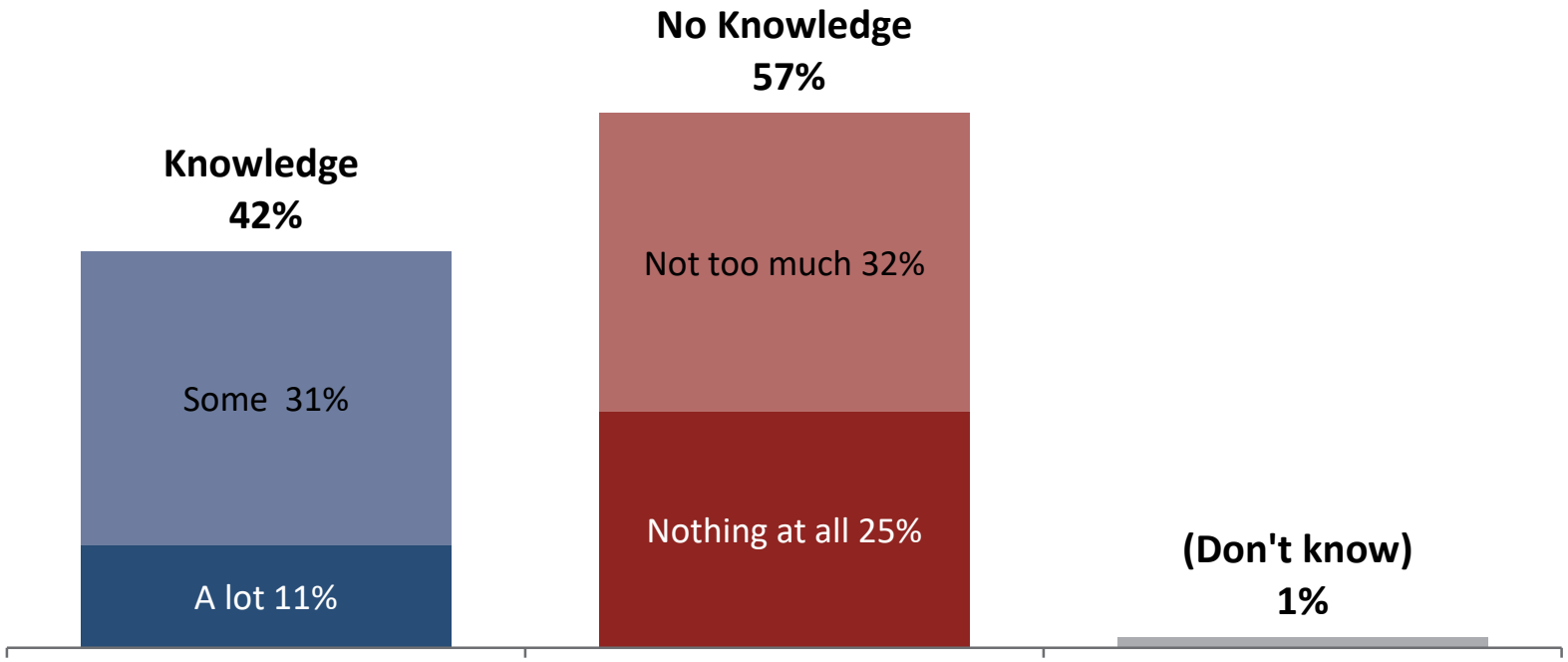



| | Knowledge | No Knowledge |
|---|---|---|
| Overall | 36% | 63% |
| Male (49%) | 37% | 61% |
| Female (51%) | 35% | 64% |
| <50 (48%) | 28% | 70% |
| 50+ (52%) | 43% | 56% |
| North (56%) | 40% | 58% |
| South (44%) | 30% | 69% |
| Children in HH (27%) | 34% | 65% |
| No Children in HH/(DK/Ref) (73%) | 37% | 62% |
| Homeowner (76%) | 39% | 59% |
| Renter (21%) | 27% | 73% |

**Q11. When you think about the budget of the City of Kenmore, would you say you know a lot, some, not too much, or nothing at all about what the City of Kenmore spends tax dollars on?**

# Knowledge About Taxes and Fees

*A majority also say they have little to no knowledge about how much of the taxes and fees they pay go to the City.*

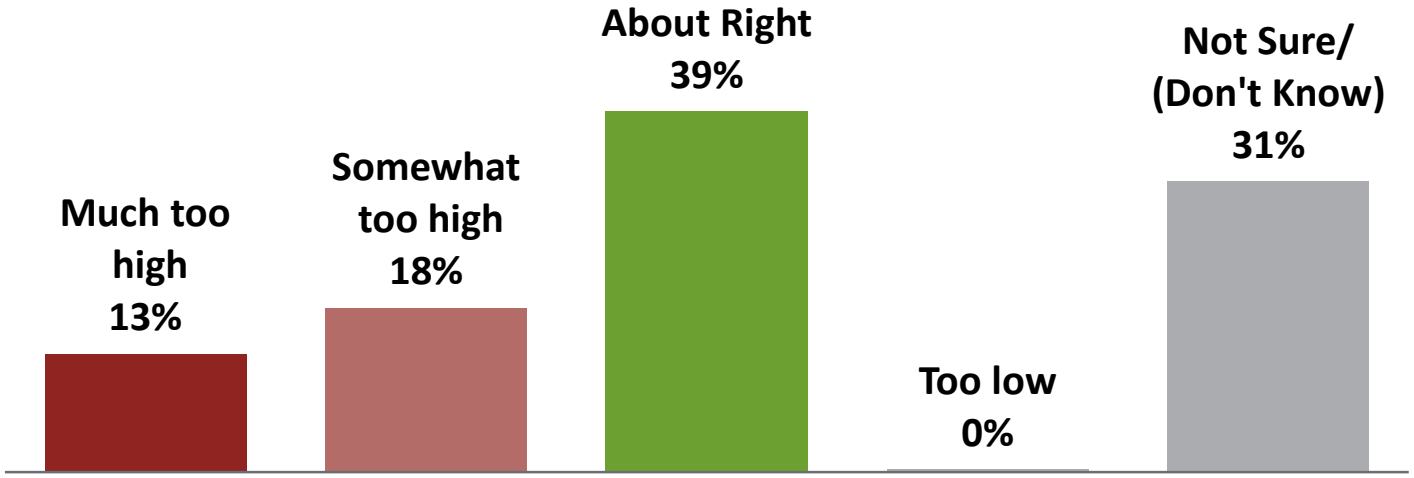



| | Knowledge | No Knowledge |
|---|---|---|
| Overall | 42% | 57% |
| Male (49%) | 43% | 56% |
| Female (51%) | 41% | 58% |
| <50 (48%) | 38% | 61% |
| 50+ (52%) | 45% | 53% |
| North (56%) | 40% | 59% |
| South (44%) | 45% | 54% |
| Children in HH (27%) | 47% | 53% |
| No Children in HH/(DK/Ref) (73%) | 40% | 58% |
| Homeowner (76%) | 46% | 53% |
| Renter (21%) | 31% | 69% |

**Q12. Would you say you know a lot, some, not too much, or nothing at all about how much of the taxes and fees you pay go to the City of Kenmore?**

# Amount of Taxes and Fees

*A plurality of residents say the amount of taxes and fees they pay to Kenmore is about right compared to other cities, but nearly a third are unable to say.*




| | Too high | About Right |
|---|---|---|
| Overall | 30% | 39% |
| Male (49%) | 32% | 39% |
| Female (51%) | 28% | 38% |
| <50 (48%) | 29% | 45% |
| 50+ (52%) | 31% | 32% |
| North (56%) | 31% | 35% |
| South (44%) | 29% | 44% |
| Children in HH (27%) | 30% | 51% |
| No Children in HH/(DK/Ref) (73%) | 30% | 34% |
| Homeowner (76%) | 32% | 39% |
| Renter (21%) | 25% | 36% |

**Q13. Compared to other cities, do you think the taxes and fees you pay to the City of Kenmore are: too high, too low, about right, or are you not sure how much you pay in taxes and fees to the City of Kenmore?**

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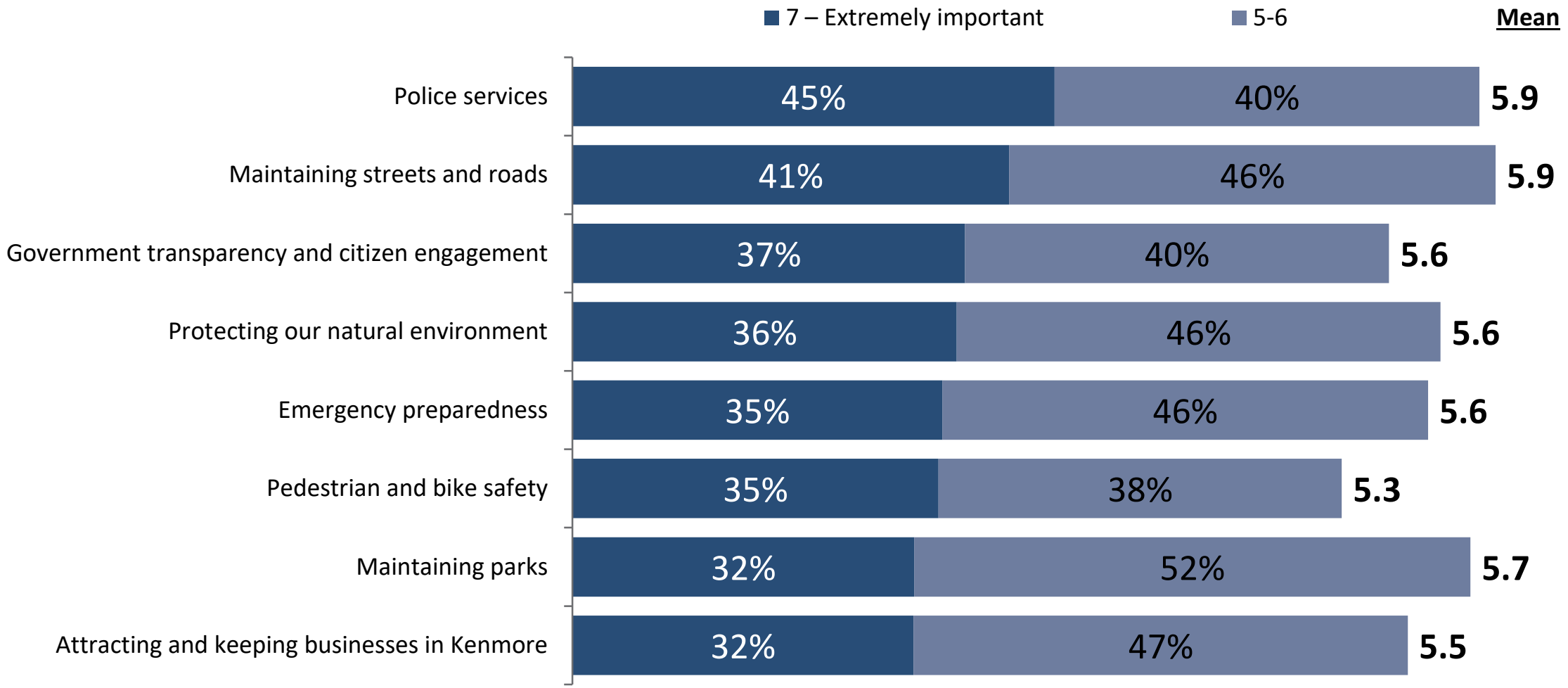
# Priorities

# Importance of Functions

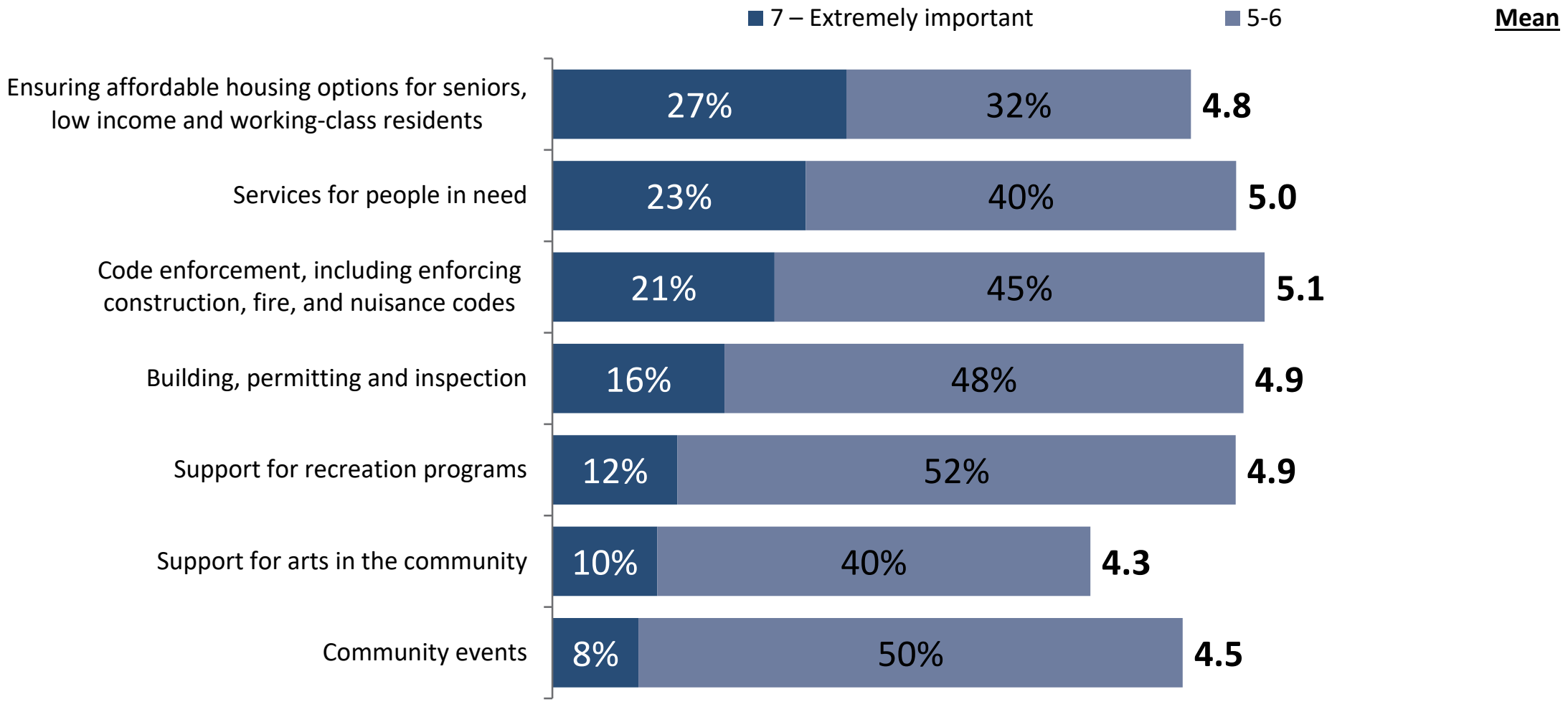
*Police services and maintaining streets and roads rise to the top as the highest priority functions provided by the City.*




**Q14-Q28. Next I'm going to read you a list of services and functions provided by the City of Kenmore. After each one, please rate how important that city function is to you, using a scale of 1 to 7, where 1 means not at all important, and 7 means extremely important.**

# Importance of Functions, Continued

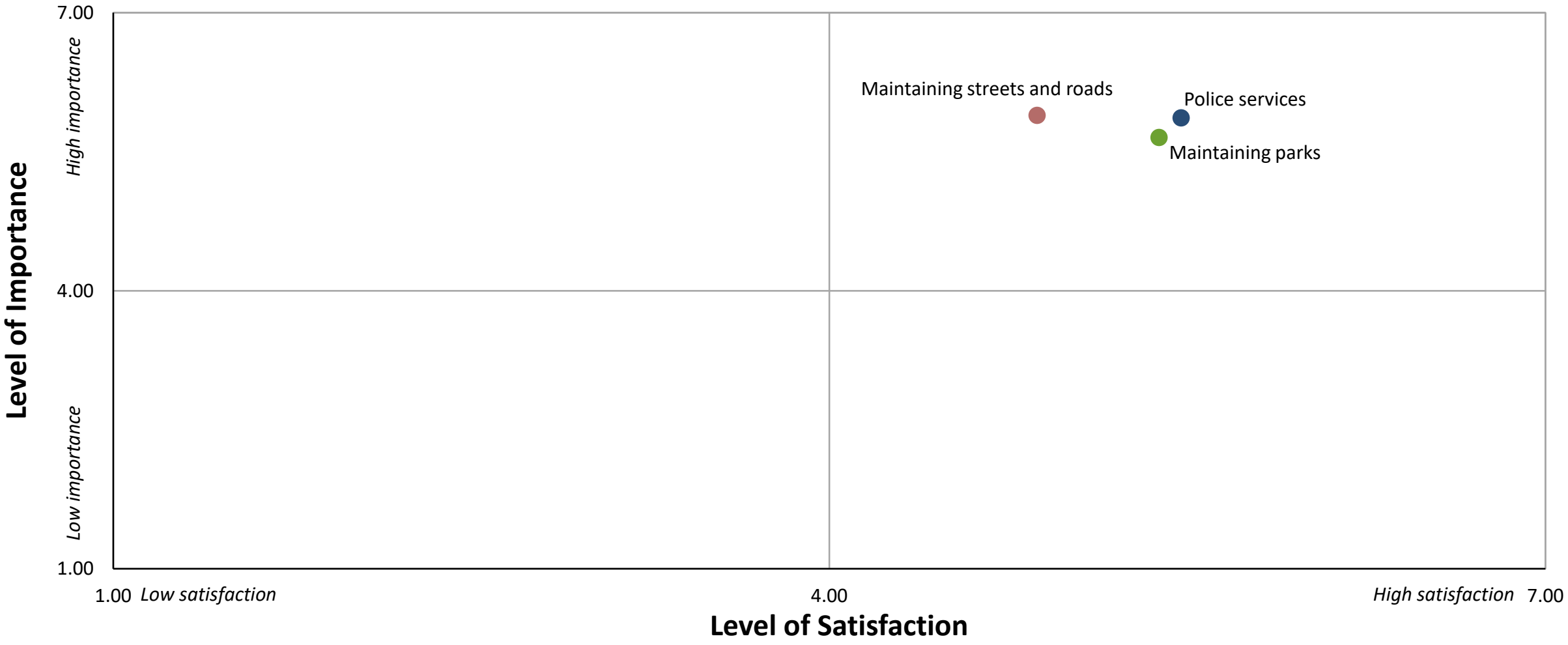
*While majorities still see them as important, community events and support for arts garner the lowest intensity.*




Q14-Q28. Next I'm going to read you a list of services and functions provided by the City of Kenmore. After each one, please rate how important that city function is to you, using a scale of 1 to 7, where 1 means not at all important, and 7 means extremely important.

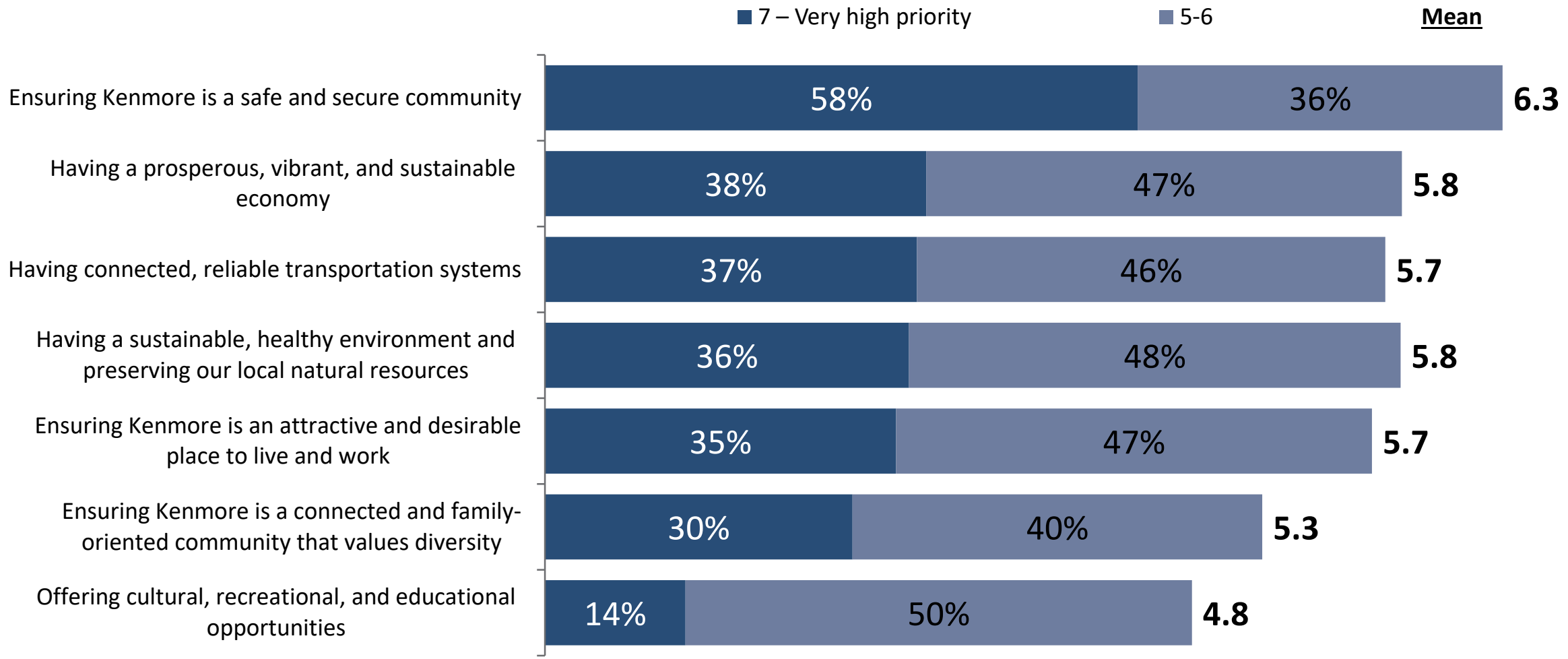
# Importance/Satisfaction Comparison

*Police services, street and road maintenance, and park maintenance are all seen as of high importance for the City, and most residents are also satisfied with current levels of these services.*



# Priority Area Ratings

*Safety rises to the top among priority areas for the City. While a majority still sees them as a priority, cultural, recreational, and educational opportunities draw the least intensity.*




Q32-Q38. Now I'd like to read you a list of outcomes the City of Kenmore could focus on. Please rate each one using a scale of 1 to 7, where 1 means you feel that item should be a very low priority for Kenmore and 7 means that you feel that item should be a very high priority for Kenmore.

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202.849.6524

Management Partners

To: Mr. Rob Karlinsey, City Manager
Ms. Joanne Gregory, Finance and Administration Director
City of Kenmore, Washington

From: Steve Toler, Partner
Jim Steele, Special Advisor
Claire Coleman, Management Analyst

Subject: Fiscal Sustainability Plan – Budget Strategies Analyses and Scenario Packages for Consideration

Date: August 5, 2020

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## Executive Summary

Management Partners has been working with the City of Kenmore during the past several months to identify potential budget strategies that would form the basis of a fiscal sustainability plan to address the anticipated structural deficit in the City's General Fund. This report provides our analysis of the fiscal gap that the City needs to resolve to ensure that reserves stay at or near the reserve goal of 20% of annual operating expenditures and the variety of strategies that may be employed to address that fiscal gap and provide long-term solvency to the City.

Incorporating the impacts of the COVID-19 pandemic recession, the City faces a long-term fiscal gap that grows to $1.8 million per year and will deplete reserves to nearly zero by FY 2025 if not addressed. The gap will continue to grow in future years because the anticipated growth in the City's largest tax revenue source – the property tax levy – will only grow at about 1% long-term without voter approval to increase the levy greater than 1% annually. Meanwhile, expenditures related to personnel and the contract with the King County Sheriff's Office for public safety services is expected to grow at 4% per year. This structural imbalance may only be cured by identifying diversified revenue streams that will grow at the pace of inflation with expenditures. In addition, the City's General Fund revenue per capita is one of the lowest of its comparable cities, and yet the City is still striving to provide services on par with those other cities.

In addition, the City has the potential need to use additional General Fund resources to support the City's long-term streets infrastructure needs. A recent pavement management study indicated the need to add an additional $1 million in capital and maintenance costs per year in order to maintain roads at their existing pavement condition index level. This additional drain

on the General Fund has not been incorporated into the forecasts given the magnitude of these costs on an already burdened General Fund operation.

***Recommendation***

We analyzed three budget scenarios that package corrective action that the City can take using a range of revenue enhancements and cost reduction strategies. The three scenarios include:

1. Reliance solely on revenue enhancements (Scenario 1),
2. Balance of revenue enhancements and expenditure reductions (Scenario 2), and
3. Reliance primarily on expenditure reductions (Scenario 3).

Given the structural imbalance in the growth of revenue and expenditure sources, we believe the City needs to diversify its revenue sources to provide revenues that have the capacity to grow with inflation. Accordingly, we believe that the City needs to focus its efforts on the strategies identified in Scenarios 1 and 2 that introduce increases in existing revenue sources (e.g., exercising banked property tax levy capacity, increase utility tax rates) and seek new revenue sources (e.g., admissions tax on recreation and entertainment venues). This will allow the City's General Fund revenue per capita to approach the average of other comparable cities.

## COVID-19 Pandemic Impacts on Our Analysis

During our work, the COVID-19 pandemic struck the nation, Washington state, and the region. This pandemic brought unprecedented shutdowns of business and government services, requiring people to shelter-in-place to avoid a spread of the virus. From mid-March to mid-May, King County came to a halt – business activity slowed down for all but the most essential services.

In response to the pandemic, the City needed to take swift action to address the operational impacts to the pandemic. The City implemented one-time expenditure reductions totaling $669,000 in the General Fund, plus an additional $430,000 in streets maintenance expenditures in the Streets Fund that will reduce General Fund transfers for FY 2020. These reductions are summarized in Attachment A to this report.

Local agencies throughout the country are reeling from the pandemic impacts on the local, regional and national economies. The robust economic growth experienced in the past few years came to a grinding halt. Business travel all but stopped. Restaurants and many local businesses were forced to close, and several have been forced out of business. The fiscal impacts on the most elastic City revenue sources such as sales tax and development services fees were impacted. Fortunately, just over two-thirds of the City's General Fund revenue sources are considered inelastic, or stable, revenue sources that are not impacted as significantly by economic recessions. Nonetheless, the fiscal impacts will have a lasting effect given the high unemployment levels and how the pandemic has affected on the local business community.

As a result, the City's forecast has been updated using a COVID-19 pandemic recession forecast tool we have developed to demonstrate the General Fund forecast:

1. Prior to the pandemic recession, and
2. Impacts as a result of the pandemic recession.

## Organization of this Memorandum

This memo consists of the following sections and attachments:

- **Baseline and Recession Forecasts.** This section summarizes the City's baseline pre-recession forecast as it entered FY 2020 and the impacts related to the COVID-19 pandemic recession that provides an updated recession forecast used for planning purposes.
- **Comparative Research on Revenues and Expenditures.** This section highlights the results of our comparative research of significant General Fund revenues and expenditures for Kenmore compared with 10 other agencies.
- **Determining Feasibility.** This section discusses the factors used in determining the feasibility of each strategy.
- **Strategies Considered.** This section identifies the feasibility tiers to which each strategy was evaluated and assigned.
- **Budget Strategy Scenarios.** This section discusses three different scenarios that take varied approaches to solve the fiscal gap:
    - **Budget Scenario 1**: Strong Revenue Strategies, Minor Expenditure Reductions;
    - **Budget Scenario 2:** Balanced Approach—Moderate Revenue Enhancement Strategies, Moderate Service Delivery Changes, Moderate Service Level Reductions, and Minor Expenditure Controls; and
    - **Budget Scenario 3**: Strong Operating Expenditure and Service Level Reductions, Moderate Revenue Enhancement Strategies.
- **Attachment A – Budget Adjustments Implemented by the City in Response to the COVID-19 Pandemic**. This attachment provides a summary of the strategies implemented by the City in response to the pandemic as a one-time adjustment pending the outcome of the fiscal sustainability project.
- **Attachment B – Detailed Strategies.** This attachment provides an analysis of each of the budget strategies and is organized by four strategy types:
    - **Expenditure Controls/Cost Shifts.** Maintaining service levels through reductions in expenditures or shifting the cost burden away from the General Fund.
    - **Service Delivery Changes.** Maintaining service levels by changing the way that services are delivered, either through contracting for services or insourcing services from other agencies.
    - **Revenue Enhancements.** Maintaining service levels by increasing the resources available to pay for those services through new or increased revenues.
    - **Service Level Reductions**. If the above strategy types do not yield sufficient fiscal savings to the General Fund, the City would need to explore service level reduction strategies in order to achieve fiscal sustainability.

## Baseline (Pre-Recession) and Recession Forecasts

Our analysis included a review of the City's existing forecast entering FY 2020 ("baseline pre-recession forecast") and a revised forecast based on the recessionary impacts stemming from the COVID-19 pandemic ("recession forecast").

### *Baseline Pre-Recession Forecast*

The original six-year forecast for FY 2020 through FY 2026 was developed by City staff. Management Partners analyzed the forecast, which showed that revenues were expected to outpace expenditures beginning in FY 2022 and would likely continue beyond that time. Due to this structural deficit, reserves would fall below the target reserve policy of 20% by FY 2024 if no corrective action was taken.

The City's long-term structural gap is due simply to an imbalance in the growth estimates between revenues and expenditures. This is because property taxes, which comprise nearly 40% of General Fund revenues, may only be increased by 1% unless banked capacity is exercised or a ballot measure is presented to voters to increase the levy beyond the 1% limit. Utility taxes are expected to only grow by 2% per year given the trend towards "cord cutting" which reduces expected growth in future utility taxes on telecommunications and video services. Meanwhile, expenditures are expected to grow by a reasonable inflationary factor of 3% to 4% per year. As a result, the City needed to develop a long-term fiscal sustainability plan to address the growing fiscal gap in future years.

The baseline pre-recession forecast assumed that revenue growth would be moderate and anticipated a mild recession for FY 2021, not the deep recession that the City, the region and the nation finds itself in as a result of the COVID-19 pandemic which will be discussed later. Other key assumptions included in the baseline pre-recession forecast are presented in Table 1.

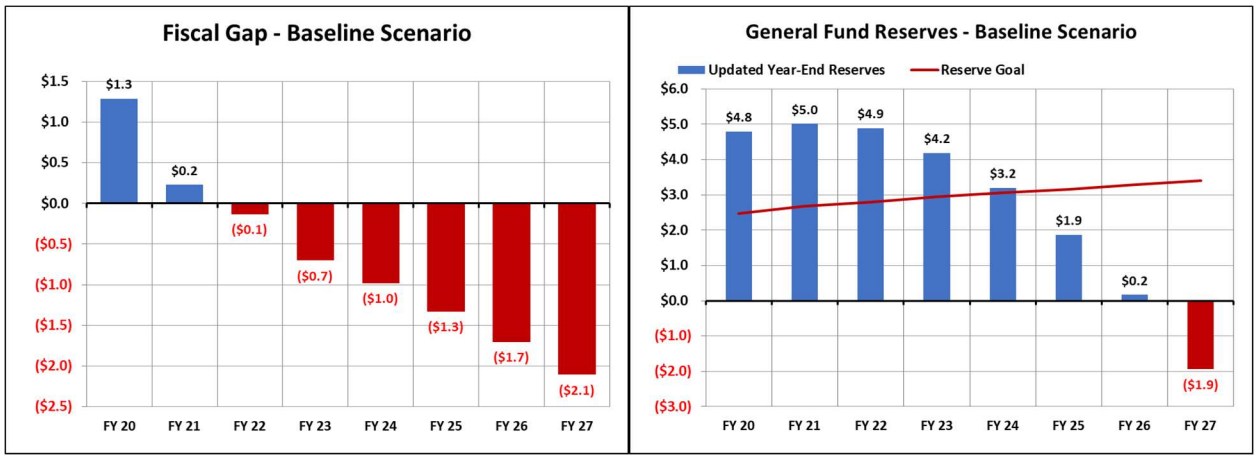
*Table 1. Key Assumptions Used in Baseline Pre-Recession Forecast for FY 2020 to FY 2026*

| General Assumptions | Reserves |
|---|---|
| • **Recession** – Slight recessionary impact in sales tax and development fee revenues in 2020 and 2021<br>• **Service levels** – Maintain existing service levels | • **Minimum reserves** – General Fund reserve policy of 25% of projected development services revenues plus 20% of all other General Fund revenues sources included as minimum reserve target<br>• **Capital project reserve funding** – No significant assumptions related to unfunded capital projects (e.g., Streets Fund projects) to be funded from General Fund |

| Revenues | Expenditures |
|---|---|
| • **Development activity** – Based on known/reasonably anticipated projects in progress for 2019 and 2020; future years based on modest growth of 1% per year<br>• **Property taxes** – New construction-related growth and Council annual approval of 1% statutory allowable increase, except for 2020 where banked capacity of ~3.5% of revenue growth would be used<br>• **Sales taxes** – Growth based on slight recession in FY 2020 and 2021, and 2% growth thereafter<br>• **Utility tax** – Growth of 2% for gas and electric, and 1% for telephony services<br>• **Transportation benefit district** – funding assumed to be eliminated due to voter approval of Initiative I-976<br>• **Other** – modest growth of 2% to 3% of other revenue sources | • **Salary and benefits** – Projections for 2020 based on salaries and benefits for each employee<br>• **Salary increases** - Placeholder of 4% growth in salaries in future years for cost-of-living adjustments and potential merit increases<br>• **Benefits increases** – Costs anticipated to increase by 6% per year (e.g., medical, pension) in future years<br>• **Non-personnel operating costs** - growth based on inflationary impacts of 3% per year<br>• **Streets funding** – Existing annual transfer into the Streets Fund of approximately $600,000, increasing by 3% per year<br>• **Street light maintenance** – Placeholder of $150,000 per year starting in FY 2021 and increasing by 3% per year<br>• **Log Boom and Squires Landing Waterfront Parks** – increased maintenance and operations costs starting in FY 2023 of $275,000 that grows by 3% per year<br>• **Public Works facility** – Debt service (net of lease revenue) of $240,000 per year starting in FY 2021<br>• **Equipment replacement** – Placeholder of a flat $100,000 per year in facilities, fixtures and systems reserves/replacement, plus $90,000 for fleet and other equipment replacement that grows by 3% per year |

Figure 1 shows the impacts of the baseline pre-recession forecast. The General Fund is expected to experience a fiscal gap starting in FY 2022 that grows to $1.8 million by FY 2027 and would continue to grow. Without corrective action, reserves would be drawn down to just above zero by FY 2026 and would fall below zero in FY 2027.

*Figure 1. Projected General Fund Surplus/Shortfall and Reserves – Baseline Pre-Recession Forecast*



### *Recession Forecast*

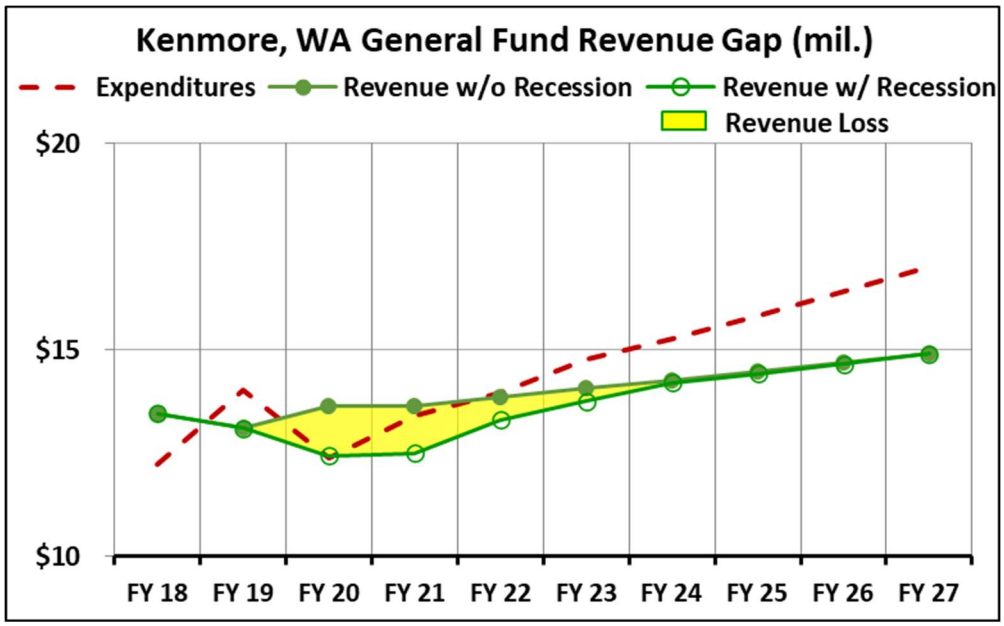
The region, the nation and the world have needed to respond to the impacts of the COVID-19 coronavirus pandemic. Shelter-in-place or "stay home" orders were issued in Washington state and King County in March 2020 as a means of combatting the spread of the pandemic and to save lives. This has had a dramatic impact on people's lives, commerce, and local governments throughout the region. Many businesses were shut down temporarily during the stay home orders, and several businesses closed for good. Federal aid in the form of the CARES Act, enacted by Congress and signed into law in April, provided some relief to individuals, businesses and local agencies.

The previously anticipated mild recession has manifested into a deep recession that is much more severe than the pre-COVID-19 forecast ever anticipated. We anticipate a prolonged recession that will form what economists call an "L-shaped" recovery where revenues will be impacted over the next three- to four-years. The significant impacts on unemployment and the fact that the virus is beginning to see a resurgence in only this first wave of the pandemic makes for a long recession that will have significant impacts on elastic (or economically volatile) revenue sources. Until which time that a vaccine is in place that provides immunity, which the Center for Disease Control and other epidemiology experts are indicating may take 12 to 18 months to develop and deploy to the general population, we are likely to see resurgence of the virus that will require further stay home orders to protect lives. In short, this will likely not be a "V-shaped" recovery that impacts only 2020.

From a revenue elasticity perspective, the City's General Fund revenue sources are well diversified. The largest revenue source – property taxes – currently comprises about 43% of total General Fund revenues and, other than possible delays in collections, is not likely to vary much. Sales tax revenues, however, are quite volatile and are expected to fall by 25% in 2020 alone. A prolonged recession can reduce these revenues even further.

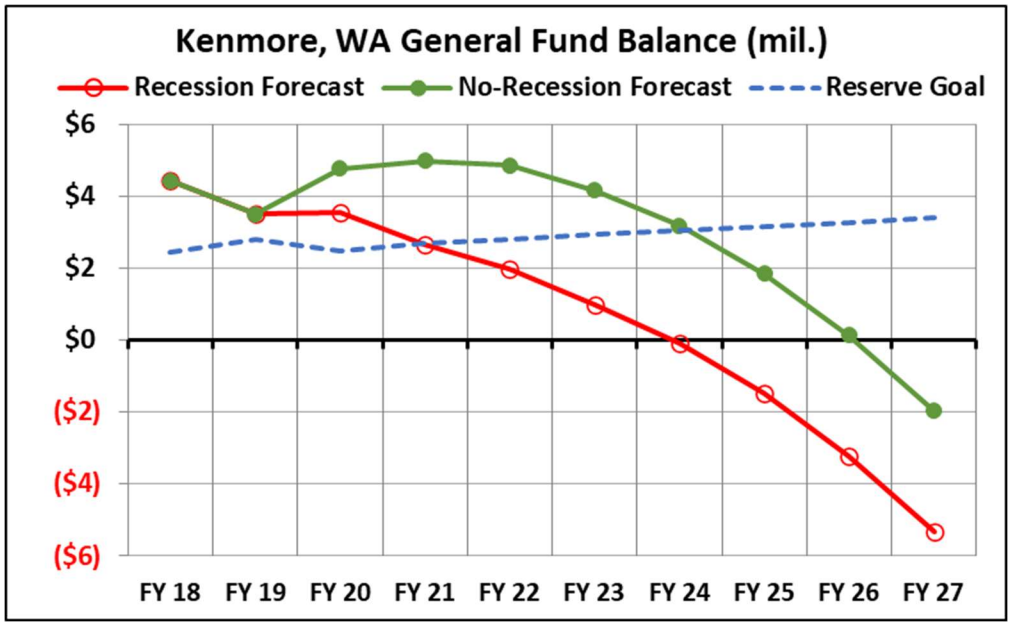
Management Partners has prepared a COVID-19 pandemic recession forecast model for the City's use. The impacts demonstrated in this revised forecast (or "recession forecast") indicate a $3.4 million loss in General Fund revenues from the start of the recession through FY 2024 as shown in Figure 2.

*Figure 2. Anticipated Revenues Losses from COVID-19 Pandemic Recession*




Incorporating the City's one-time expenditure reduction in FY 2020 totaling $1.1 million (see Attachment A), has helped to protect General Fund reserves for the time being. Yet the long-range forecast now shows that General Fund reserves will be drawn down much earlier that was previously anticipated. Figure 3 below demonstrates reserve levels anticipated in the baseline and recessionary forecast and indicates that General Fund reserves will fall below the 20% reserve goal by the end of FY 2021, and without corrective action would be drawn below zero in FY 2024.

*Figure 3. Projected General Fund Reserves – Pre- and Post-COVID-19 Pandemic Recession*



These recessionary impacts have informed the budget strategies analysis presented in this report.

### *Budget Strategies Analysis*

Given the magnitude and timing of the budget deficit forecast, Management Partners conducted an independent analysis of the City's revenues and costs of service delivery relative to the General Fund to develop options, or strategies, for addressing the challenge. The strategies are provided in Attachment B. They were developed along a continuum that included:

- Expenditure control/cost shifts,
- Service delivery changes designed to reduce expenditures,
- Revenue enhancement opportunities, and
- Service level reductions.

Arraying ideas along such a continuum reflects the priority any organization would have for preserving service delivery to the maximum extent possible consistent with maintaining solvency.

The strategies were developed based on a combination of factors, including Management Partners' experience about approaches other cities and counties throughout Washington state and in other parts of the country are taking as they consider options to address structural deficits. We also identified ideas based on the City's unique opportunities and organizational climate. Several dozen potential strategies were developed in the categories described above.

An important element in developing an appropriate package of strategies for the City is the size and timing of the forecast deficit. Given the timing and size of the fiscal gap as well as revenue loss due to COVID-19, City leaders need to implement significant revenue and expenditure adjustments relatively quickly. Even with such actions, there is a possibility that the City may need to implement significant service level reductions. This should be avoided if possible, as such an approach might require positions to be left vacant, or layoffs to be enacted to preserve solvency. In addition, such actions are always disruptive to an organization and often affect operations for a long time.

The City's reliance on contracted services for police and a relatively small employee base will make it extremely challenging to implement $1.8 million (or 11.8% by FY 2024) in cost reductions necessary to close the fiscal gap. Doing so will most certainly impair existing service levels. The City will be in a reactive mode for many of its service delivery functions and would be ill-prepared to deal with significant unforeseen events.

City leaders must take action in the very near term to implement planned and considered deficit reduction strategies. Given the nature of the growing fiscal deficit, and the organizational structure and service delivery mechanisms, without revenue enhancements the City will be

hard pressed to resolve its structural imbalance in future years. Because revenue strategies often require voter approval, timing is a critical issue.

## Comparative Research on Revenues and Expenditures

In order to understand the relative potential of revenue-generating strategies compared with cost reduction strategies, Management Partners compared General Fund revenues and expenditures for Kenmore and other peer cities in King and Snohomish Counties. Peer agencies were selected from incorporated cities in Washington that fall within a 30% range above and below Kenmore in terms of both population and median household income. Data for each criterion were taken from the 2014-2018 *American Community Survey Five-Year Estimates* and statistics published by the Washington Office of Financial Management. We also added a variety of cities that Kenmore considers peers, primarily due to geographic proximity. Table 2 presents the peers selected for this comparison.

*Table 2. Comparable Agencies Selected for Peer Research*

| City | County | Population[1] | Median Household Income[2] | Within 25% Range |
|---|---|---|---|---|
| **Bothell** | King/Snohomish | 46,750 | $94,986 | No; Population is larger |
| **Kenmore** | **King** | **23,320** | **$105,007** | **-** |
| **Kirkland** | King | 88,940 | $109,715 | No; Population is larger |
| **Lake Forest Park** | King | 13,250 | $111,234 | No; Population is smaller |
| **Mercer Island** | King | 24,470 | $142,413 | No; Income is higher |
| **Mill Creek** | Snohomish | 20,590 | $101,239 | Yes |
| **Mountlake Terrace** | Snohomish | 21,590 | $72,765 | No; Income is lower |
| **SeaTac** | King | 29,180 | $58,995 | No; Income is lower |
| **Shoreline** | King | 56,370 | $80,489 | No; Population is larger |
| **Woodinville** | King | 12,410 | $100,306 | No; Population is smaller |

*[1]Source: Washington Office of Financial Management Population Projections 2019;*
*[2]Source: American Community Survey 2014-2018 Five-Year Estimated Median Household Income Projections*

Based on the criteria detailed above, only Mill Creek qualifies as a peer to Kenmore. Many of the selected peers (Bothell, Kirkland, Lake Forest Park, Shoreline, and Woodinville) are within the +/-30% range in median household income but have populations that are either too small or too large. The remaining cities have similar populations to Kenmore but median household incomes that are either higher (Mercer Island) or lower (Mountlake Terrace, SeaTac).

Table 3 contains an overview of the governing structures of each peer, how they provide fire and police services, and their 2020 combined sales tax rate. Bothell has two sales tax rates because the city is located within two counties. Woodinville also has two different sales tax rates within the city due to the Regional Transit Authority (RTA) tax that encompasses only part of the city. Of the selected peers, four including Kenmore provide fire services through a

district. An additional three peers contract with districts for fire services, while three others maintain in-house fire departments. Four of the ten peer cities, including Kenmore, contract with the King County Sheriff for police services. The remaining six cities provide police services in-house.

*Table 3. Peer Agency Overview*

| City | Form of Government[1] | Fire[2] | Police[2] | Combined Sales Tax Rate[3] |
|---|---|---|---|---|
| **Bothell** | Council-Manager | City | City | 10.0% King/ 10.4% Snohomish |
| **Kenmore** | **Council-Manager** | **District - Northshore Fire District (#16)** | **King County Sheriff (Contract)** | **10.0%** |
| **Kirkland** | Council-Manager | City | City | 10.1% |
| **Lake Forest Park** | Mayor-Council | District - Northshore Fire District (#16) | City | 10.0% |
| **Mercer Island** | Council-Manager | City | City | 10.0% |
| **Mill Creek** | Council-Manager | Contract - Snohomish County Fire District | City | 10.5% |
| **Mountlake Terrace** | Council-Manager | Contract - South County Fire Authority | City | 10.4% |
| **SeaTac** | Council-Manager | Contract - Puget Sound RFA | King County Sheriff (Contract) | 10.0% |
| **Shoreline** | Council-Manager | District - Shoreline Fire District #4 | King County Sheriff (Contract) | 10.2% |
| **Woodinville** | Council-Manager | District - Woodinville Fire & Rescue | King County Sheriff (Contract) | 8.6% Non-RTA/10.0% RTA |

*[1]Sources: Municipal Research and Services Center (MRSC)*
*[2]Source: Adopted City Budgets*
*[3]Source: Washington Department of Revenue, consolidated by MRSC*

Jurisdictions in this peer group were compared in terms of projected total General Fund revenue, General Fund revenue by source, and total expenditures for the 2020 budget period. Whenever possible, reported single-year budgets were used to match Kenmore's budgeting process most closely. In the case of Kirkland, Lake Forest Park, and Mill Creek, which publish biennial budgets that are not disaggregated by year, reported revenues and expenditures were halved to approximate a single year. To normalize General Fund revenue data across cities, we opted to compare budget information on a per capita basis.

Kenmore's total General Fund revenues fall below the average per capita of $869.98. Total General Fund revenues, population, and General Fund revenues per capita, as well as Kenmore's relative position, are shown in Table 4.

*Table 4. General Fund Revenues per Capita, Kenmore and Peers*

| City | Total General Fund Revenues for 2020 Budget[1] | Population | General Fund Revenues per Capita for 2020 Budget |
|---|---|---|---|
| **Bothell** | $44,452,477 | 46,750 | $950.86 |
| **Kenmore** | $13,050,404 | 23,320 | $559.62 |
| **Kirkland** | $98,906,358 | 88,940 | $1,112.06 |
| **Lake Forest Park** | $9,847,566 | 13,250 | $743.21 |
| **Mercer Island** | $26,309,019 | 24,470 | $1,075.15 |
| **Mill Creek** | $10,117,804 | 20,590 | $491.39 |
| **Mountlake Terrace** | $16,671,127 | 21,590 | $772.17 |
| **SeaTac** | $29,832,899 | 29,180 | $1,022.37 |
| **Shoreline** | $44,488,908 | 56,370 | $789.23 |
| **Woodinville** | $10,838,224 | 12,410 | $873.35 |
| | | **Peer Average Per Capita Revenue** | **$869.98** |

*Source: Adopted City Budgets*
*[1]Fire costs have been deducted from General Fund revenues for those cities with fire departments and/or those that contract for fire services. This allows a better comparison with those cities whose fire services are provided by fire protection districts with separate property tax levy funding.*

Table 5 shows property tax rates and 2020 total General Fund property tax levy. Kenmore generates a similar level of property tax per capita to its peers, just shy of the median. Kirkland's property tax revenues, when adjusted to remove fire expenditures, appear negative because Kirkland uses sales tax revenues to pay for other General Fund expenditures. In Kenmore, property taxes comprise almost 40% of General Fund revenues, the second highest of the peer cities and about 40% higher than the median.

*Table 5. General Fund Property Tax Revenue per Capita, Kenmore and Peers*

| City | 2020 Property Tax Levy Rate[1] | 2020 Total General Fund Property Tax Levy[2] | Property Tax per Housing Unit | Property Tax per Capita | Percent of General Fund Revenue for 2020 Budget |
|---|---|---|---|---|---|
| **Bothell** | $1.9677 | $1,247,724 | $69.33 | $26.69 | 2.81% |
| **Kenmore** | $1.1036 | $5,199,791 | $573.55 | $222.98 | 39.84% |
| **Kirkland[3]** | $1.0192 | ($2,880,591) | $(75.00) | $(32.39) | -2.91% |
| **Lake Forest Park** | $0.9603 | $3,274,481 | $611.14 | $247.13 | 33.25% |
| **Mercer Island** | $0.9191 | $7,453,645 | $680.14 | $304.60 | 28.33% |
| **Mill Creek** | $1.8385 | $4,505,854 | $526.51 | $218.84 | 44.53% |
| **Mountlake Terrace** | $1.9003 | $3,536,417 | $408.32 | $163.80 | 21.21% |
| **SeaTac** | $2.4938 | $6,941,709 | $673.56 | $237.89 | 23.27% |

| City | 2020 Property Tax Levy Rate[1] | 2020 Total General Fund Property Tax Levy[2] | Property Tax per Housing Unit | Property Tax per Capita | Percent of General Fund Revenue for 2020 Budget |
|---|---|---|---|---|---|
| **Shoreline** | $1.3426 | $13,666,865 | $596.34 | $242.45 | 30.72% |
| **Woodinville** | $0.7929 | $3,420,000 | $646.01 | $275.58 | 31.55% |
| **Peer Median Property Tax Revenue** | | | **$596.34** | **$237.89** | **28.33%** |

*[1]Source: King County and Snohomish County Data*
*[2]Fire costs have been deducted from General Fund revenues for those cities with fire departments and/or those that contract for fire services. This allows a better comparison with those cities whose fire services are provided by fire protection districts with separate property tax levy funding. Source: Adopted City Budgets*
*[3]Kirkland's property tax revenues are insufficient to cover the costs associated with fire prevention services. They rely on other forms of tax generation to support public safety, which includes both police and fire services.*

Kenmore has a median home value that is similar to most of its peers. Major exceptions are Mercer Island, which has much higher home values, and SeaTac and Mountlake Terrace, which both have much lower median home values. Kenmore's median home value of $697,648 ranks fifth highest among peer cities and is 7% higher than the peer median. Median home value, homes per square mile, and assessed values for Kenmore and its peers are shown below in Table 6.

*Table 6. Comparison of Factors Influencing Property Tax Revenues, Kenmore and Peers*

| Agency | Median Home Value (January 2020)[1] | Residential Assessed Value[2] | 2019 Locally Assessed Value[3] | Homes per Square Mile[4] |
|---|---|---|---|---|
| **Bothell** | $651,080 | $638,000 | $11,390,672,261 | 1,486.04 |
| **Kenmore** | $694,648 | $638,000 | $4,851,092,698 | 1,474.15 |
| **Kirkland** | $775,564 | $730,000 | $29,436,086,786 | 3,559.50 |
| **Lake Forest Park** | $712,531 | $617,000 | $3,234,227,325 | 1,517.85 |
| **Mercer Island** | $1,619,414 | $1,393,000 | $14,653,675,301 | 1,734.02 |
| **Mill Creek** | $611,664 | $584,900 | $4,454,155,944 | 1,832.55 |
| **Mountlake Terrace** | $470,069 | $409,200 | $3,565,803,521 | 2,133.25 |
| **SeaTac** | $410,837 | $361,000 | $6,624,985,574 | 1,027.52 |
| **Shoreline** | $606,512 | $517,000 | $10,228,874,349 | 1,963.84 |
| **Woodinville** | $837,686 | $691,000 | $3,690,029,346 | 945.36 |
| **Peer Median** | **$651,080** | **$617,000** | **$6,624,985,574** | **1,734.02** |

*[1]Source: Zillow Median Home Value Estimates, January 2020.*
*[2]Source: King and Snohomish County Data*
*[3]Source: Adopted City Budgets*
*[4]Source: 2018 American Community Survey*

Compared with the nine selected peers, Kenmore has some of the lowest General Fund sales tax revenues. Kenmore has the second lowest sales tax revenues per capita at $95.41, which is 35.8% of the peer average. Kenmore does not have as heavy of a reliance on sales tax revenue as some of its peers, with sales tax revenue constituting just 17.05% of all General Fund revenues as compared to the 30.15% peer average. This is presented in Table 7 below.

*Table 7. General Fund Sales Tax Revenues per Capita, Kenmore and Peers*

| Agency | General Fund Sales Tax Revenues for 2020 Budget[1] | General Fund Sales Tax per Capita | 2020 Sales Tax Revenue as Percent of Total General Fund Revenues |
|---|---|---|---|
| **Bothell** | $16,445,978 | $351.79 | 37.00% |
| **Kenmore** | $2,225,000 | $95.41 | 17.05% |
| **Kirkland** | $28,673,700 | $322.39 | 28.99% |
| **Lake Forest Park** | $1,062,862 | $80.22 | 10.79% |
| **Mercer Island** | $4,348,797 | $177.72 | 16.53% |
| **Mill Creek** | $3,357,500 | $163.06 | 33.18% |
| **Mountlake Terrace** | $2,601,000 | $120.47 | 15.60% |
| **SeaTac** | $13,886,000 | $475.87 | 46.55% |
| **Shoreline** | $9,319,003 | $165.32 | 20.95% |
| **Woodinville** | $6,691,291 | $539.19 | 61.74% |
| | **Peer Average** | **$266.23** | **30.15%** |

*Source: Adopted City Budgets*

*[1]Fire costs have been deducted from General Fund revenues for those cities with fire departments and/or those that contract for fire services. This allows a better comparison with those cities whose fire services are provided by fire protection districts with separate property tax levy funding.*

The 10 cities in this group generate between 5.61% and 19.2% of their General Fund revenue via utility tax, with a range of per capita utility tax revenue between $41 and $180 in 2020. Cities in Washington are authorized by state law to impose up to a 6% utility tax on electricity, gas, steam, and telephone; a utility tax rate comparable to neighboring communities on cable television; and any utility tax rate on sewer, stormwater, water, and solid waste. All of these UTs may be implemented without voter approval, while the limited rates can be raised beyond those levels with a majority vote. Utility tax revenues per capita among peer agencies are shown in Table 8.

*Table 8. General Fund Utility Tax Revenues per Capita, Kenmore and Peers*

| Agency | Total Utility Tax Amount for 2020 Budget | Utility Tax per Capita | Percent of General Fund Revenue for 2020 Budget |
|---|---|---|---|
| **Bothell** | $8,401,483 | $179.71 | 18.90% |
| **Kenmore** | $1,942,189 | $83.28 | 14.88% |

| Agency | Total Utility Tax Amount for 2020 Budget | Utility Tax per Capita | Percent of General Fund Revenue for 2020 Budget |
|---|---|---|---|
| **Kirkland** | $14,223,410 | $159.92 | 14.38% |
| **Lake Forest Park** | $552,750 | $41.72 | 5.61% |
| **Mercer Island** | $4,237,566 | $173.17 | 16.11% |
| **Mill Creek** | N/A | N/A | N/A |
| **Mountlake Terrace** | $3,200,817 | $148.25 | 19.20% |
| **SeaTac** | N/A | N/A | N/A |
| **Shoreline** | $3,967,675 | $70.39 | 8.92% |
| **Woodinville** | $940,000 | $75.75 | 8.67% |
| | **Peer Average[1]** | **$121.27** | **13.11%** |

*Source: Adopted City Budgets*

*[1]Peer average includes only those cities with current utility taxes. Mill Creek and SeaTac are excluded.*

Table 9 contains the utility tax rates for each city broken down by type of utility. Neither SeaTac nor Mill Creek have any utility taxes in FY 2020. Of the eight cities that do have utility taxes, four tax every utility category. Shoreline has taxes on every utility category except for electric and water. Kenmore and Lake Forest Park have the fewest utilities for which they collect utility taxes.

*Table 9. Utility Tax Rates*

| City | Natural Gas | Electric | Telecom | Cable | Water | Sewer | Stormwater | Solid Waste |
|---|---|---|---|---|---|---|---|---|
| **Bothell** | 6.0% | 6.0% | 6.0% | 6.0% | 11.15% | 6.0% | 6.0% | 5.0% |
| **Kenmore** | 4.0% | 4.0% | 6.0% | N/A | N/A | N/A | N/A | N/A |
| **Kirkland** | 6.0% | 6.0% | 6.0% | 6.0% | 11.8% | 9.5% | 6.98% | 9.5% |
| **Lake Forest Park** | 6.0% | 6.0% | 6.0% | N/A | N/A | N/A | N/A | N/A |
| **Mercer Island** | 6.0% | 6.0% | 6.0% | 7.0% | 8.0% | 8.0% | 8.0% | 7.0% |
| **Mill Creek** | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| **Mountlake Terrace** | 6.0% | 6.0% | 6.0% | 5.0% | 13.8% | 10.0% | 10.0% | 10.0% |
| **SeaTac** | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| **Shoreline** | 6.0% | N/A | 6.0% | 6.0% | N/A | 6.0% | 6.0% | 6.0% |
| **Woodinville** | 2.0% | 2.0% | 4.0% | N/A | N/A | N/A | N/A | 4.0% |

*Source: Adopted City Budgets and Municipal Codes*

Beyond utility taxes, every city in the peer group collects a franchise fee for cable services under federal and state law. Other cities also exact a franchise fee from various utilities such as electric, telecom, water and solid waste, for the use of rights of way (e.g., Shoreline for electric, gas and water; SeaTac for solid waste; Kirkland for electric, gas, telecom and water). Kenmore only collects franchise fees for cable services.

Finally, Kenmore's budgeted per capita expenditures are the second lowest among its peers. When adjusted to remove fire costs for cities that contract or provide fire services in house, Kenmore's General Fund per capita expenditures of $560 is 66.5% of the peer average of $842. Kenmore's budget for FY 2020 equates General Fund expenditures to revenues. This is similar to Mercer Island, which is also operating with a balanced budget for FY 2020. With respect to surplus/(deficit) analysis, the data presented in Table 10 represent the 2020 projected amounts and do not consider existing reserve levels or what each of the jurisdiction's long-range forecasts indicate relative to the health of their respective General Fund reserves in the future. Per capita expenditures and surplus/(deficit) figures for peers are shown in Table 10 below.

*Table 10. General Fund Expenditures and Surplus (Deficit) per Capita for Kenmore and Peers*

| Agency | Total General Fund Expenditures for 2020 Budget[1] | Surplus/(Deficit) for 2020 General Fund Budget | Expenditures per Capita | Surplus/(Deficit) as Percentage of General Fund Expenditures for 2020 |
|---|---|---|---|---|
| **Bothell** | $43,198,797 | $1,253,680 | $924.04 | 2.90% |
| **Kenmore** | $13,050,403 | $0 | $559.62 | 0.00% |
| **Kirkland** | $99,190,604 | $(284,246) | $1,115.25 | -0.29% |
| **Lake Forest Park** | $9,825,070 | $22,497 | $741.51 | 0.23% |
| **Mercer Island** | $26,309,019 | $0 | $1,075.15 | 0.00% |
| **Mill Creek** | $10,110,797 | $7,007 | $491.05 | 0.07% |
| **Mountlake Terrace** | $14,451,833 | $2,219,294 | $669.38 | 15.36% |
| **SeaTac** | $29,770,899 | $62,000 | $1,020.25 | 0.21% |
| **Shoreline** | $44,796,652 | $(307,744) | $794.69 | -0.69% |
| **Woodinville** | $9,275,860 | $1,562,364 | $747.45 | 16.84% |
| **Peer Average Per Capita Expenditures and Surplus/(Deficit)** | | | **$842.09** | **3.85%** |

*Source: Adopted City Budgets*

*[1]Fire costs have been deducted from General Fund revenues for those cities with fire departments and/or those that contract for fire services. This allows a better comparison with those cities whose fire services are provided by fire protection districts with separate property tax levy funding.*

Kenmore employs the second lowest number of FTEs per thousand residents, adjusted to exclude FTEs for police, fire and utilities in each city. Kenmore and Shoreline are the only two cities that do not have any staffing for police and fire in-house, while SeaTac and Woodinville each employ one FTE in Police to supplement their contracts with the Kings County Sheriff's Department. Table 11 contains citywide staffing and FTE per 1,000 residents.

*Table 11. Citywide Total Staffing and FTE per 1,000 Residents, Kenmore and Peers for 2020*

| Agency | Citywide FTEs[1] | FTEs per thousand residents[1] | In-house Fire FTEs | In-house Police FTEs |
|---|---|---|---|---|
| **Bothell** | 179.35 | 3.8364 | 69.25 | 94 |
| **Kenmore** | 42.04 | 1.8027 | 0 | 0 |

| Agency | Citywide FTEs[1] | FTEs per thousand residents[1] | In-house Fire FTEs | In-house Police FTEs |
|---|---|---|---|---|
| **Kirkland** | 365.40 | 4.1084 | 116 | 150 |
| **Lake Forest Park** | 34.38 | 2.5947 | 0 | 24 |
| **Mercer Island** | 110.50 | 4.5157 | 31 | 34.5 |
| **Mill Creek** | 33.20 | 1.6124 | 0 | 29 |
| **Mountlake Terrace** | 81.70 | 3.7842 | 0 | 36.5 |
| **SeaTac** | 126.50 | 4.3351 | 0 | 1 |
| **Shoreline** | 153.04 | 2.7149 | 0 | 0 |
| **Woodinville** | 42.15 | 3.3965 | 0 | 1 |

*Source: Adopted City Budgets*
*[1]Fire, police and utility staffing have been deducted from cities with those functions for comparison purposes with those cities whose such services are provided by districts or that contract fire and/or police services.*

As a contract-dependent city, Kenmore's options for reducing personnel expenditures are limited. The long-term agreements for contracted police services make it difficult to address expenditure reductions in a timely manner. While efficiencies may be identified, the relatively low number of personnel employed by the City make it challenging to rely exclusively on personnel reductions to address fiscal sustainability issues.

## Determining Feasibility

While all the strategies are technically feasible and have been implemented in other Washington settings, they are distinguished by differing levels of community support, complexity of implementation, implementation timing, and disruption to the organization relative to the financial return. Strategies deemed most feasible are solutions that can be implemented more readily and would be least disruptive to the organization.

Certain revenue changes such as tax measures require voter approval to implement and vary in terms of complexity and community support. Some have a greater impact on voters (e.g., local property tax levy lid lift measures, utility taxes) while others have more of an impact on those from outside the city (e.g., sales taxes).

Increasing fees and charges to full cost recovery may help the City's structural deficit somewhat, but may have adverse impacts on community participation in those services. Voters are more likely to support measures when they know their tax dollars are being spent efficiently, requiring City staff to review cost efficiencies prior to taking those measures to voters. These factors require careful consideration in determining the feasibility of revenue enhancements.

Changes that would be disruptive to the organization can take time. Substantial changes in service delivery methodologies or employee benefit programs should also be weighed against the reality that they might result in ongoing employee relations issues, which can impair more

incremental change. Key decisions will need to be made in the next 12 months in order to address the fiscal challenges faced by the City.

The strategies identified in this memorandum have been quantified to the extent possible based on current information available to Management Partners and City staff. In many cases, they have been programmed into the fiscal model so City leaders can explore the cumulative impact of implementing any package of actions.

Based on these considerations, budget strategies were evaluated considering the set of factors that may weigh on difficulty of implementation as indicated in Table 12 below.

*Table 12. Factors Used in Assessing Implementation Difficulty*

| Factors | Minimal Difficulty | Moderate Difficulty | High Difficulty |
|---|---|---|---|
| **Potential for community pushback** | Low | Medium | High |
| **Technical and operational difficulties of implementation** | Low | Medium | High |
| **Timing necessary for implementation** | Timely implementation is moderately to highly probable to meet timing required to resolve the structural deficit | Timely implementation is possible, but less than moderately probable | Timely implementation is unlikely to meet the timing required to resolve the structural deficit |
| **Disruptive impact on service delivery** | Low | Medium | High |
| **Disruptive impact within City organization** | Low | Medium | High |

After factoring implementation difficulty, we then assessed the potential annual fiscal impact that the City would experience if the strategy were implemented. We stratified fiscal impact into three tiers:

- **Low fiscal impact**. Strategies that would have a fiscal impact of $50,000 or less per year.
- **Moderate fiscal impact**. Strategies that would have a fiscal impact between $50,000 and $100,000 per year.
- **High fiscal impact**. Strategies that would have a fiscal impact of over $100,000 per year

Combining implementation difficulty and fiscal impact, we identify those strategies that have the highest degree of potential success to provide fiscal sustainability to the City in accordance with Figure 4 presented below.

*Figure 4. Budget Strategies Quadrant Analysis*

| | | Potential Annual Fiscal Impact (estimated) | | |
|---|---|---|---|---|
| | | $0-$50,000 | $50,000-$100,000 | Over $100,000 |
| Difficulty of Implementation | Minimal difficulty | 1 | 2 | 3 |
| | Moderate difficulty | 4 | 5 | 6 |
| | Significant difficulty | 7 | 8 | 9 |

| | | | | |
|---|---|---|---|---|
| **High potential of success:** High fiscal impact; minimal difficulty | **Moderate-High potential of success:** Medium/High fiscal impact; Minimal/moderate difficulty | **Moderate potential of success:** Medium/high fiscal impact; Moderate/significant difficulty | **Low-Moderate potential of success:** Low fiscal impact; moderate/significant difficulty | **Low/no potential of success:** Low fiscal impact; Significant difficulty |

## Strategies Considered

Following meetings with City Council members and staff, Management Partners conducted an independent analysis of strategies that would be appropriate for consideration in Kenmore. Our experience working with municipalities across the United States coupled with our research of viable options exercised by other cities in Washington State, allowed us to identify strategies that could lead toward fiscal sustainability. The ultimate strategies selected for consideration were those with either great, good or moderate potential of success as indicated above. Table 13 captures the first tier of strategies that have the greatest potential of success.

*Table 13. High Potential of Success*

| High Potential of Success | Strategies |
|---|---|
| **Expenditure Controls and Cost Shifts** | None |
| **Service Delivery Changes** | None |
| **Revenue Enhancement** | 11. Exercise the property tax levy banked capacity<br>12. Implement an admissions tax on recreation and entertainment revenues |
| **Service Reductions and Eliminations** | None |

Two strategies appear to have a very positive potential of success. One is to exercise property tax levy banked capacity, and the other is to implement a new admissions tax on recreation and entertainment venues. Implementation of both options is entirely within the purview of City

Council through adoption of an ordinance and is relatively simple to administer. Neither would have a significant impact on service delivery and might not meet significant community resistance. The fiscal impact of exercising the property tax levy banked capacity will raise property taxes by $400,000 per year, and the admissions tax is estimated to be $200,000 per year at a 5% tax rate. While the total of $651,000 is nominal compared with a $1.8 million structural gap, these options would still provide significant relief to the General Fund.

The next level of strategies show a moderate to high potential of success (shown in Table 14) and are considered moderately feasible to implement. The strategy to reorganize the City's organization structure may be disruptive to the City organization and there will likely be temporary service delivery impacts as well as community pushback from the business community. The utility tax will likely generate moderate to high levels of pushback from the community. Yet in both cases, the City has the authority to move forward with those strategies by Council resolution. City leaders will have to consider either or both of these strategies as their fiscal impact is considered significant, but the extent to which these will need to be fully implemented will depend on the level of success with those strategies with the greatest potential of success shown in Table 13 above. City staff will need to begin work on some of these strategies for two reasons: 1) those strategies with the greatest potential of success will not resolve the fiscal gap, and 2) they are needed as a fallback in case revenue strategies dependent on an election outcome are unsuccessful.

*Table 14. Moderate to High Potential of Success*

| Moderate to High Potential of Success | Strategies |
|---|---|
| **Expenditure Controls and Cost Shifts** | None |
| **Service Delivery Changes** | 5. Reorganize the City's organizational structure to provide cost efficiencies |
| **Revenue Enhancement** | 9. Increase and/or implement utility taxes on various utilities |
| **Service Reductions and Eliminations** | None |

Strategies with a moderate potential of success are shown in Table 15. Several of these strategies fall into this category because of the implementation difficulty primarily due to either the potential for community pushback, disruptive impacts on service delivery, or only generate moderate fiscal impact. The strategies under expenditure controls/cost shifts and service delivery changes do not yield as significant a fiscal impact as those related to revenue enhancements in this category.

*Table 15. Moderate Potential of Success*

| Moderate Potential of Success | Strategies |
|---|---|
| **Expenditure Controls and Cost Shifts** | 1. Reduce City's share of costs of the school resource officer program<br>2. Shift the costs of the ballfields and parks lease to private users/sports leagues |
| **Service Delivery Changes** | None |
| **Revenue Enhancement** | 10. Implement photo traffic enforcement to fund public safety costs and roadway improvements<br>13. Implement the business and occupations tax specific purpose tax |
| **Service Reductions and Eliminations** | 21. Reduce travel, meetings and consulting services expenditures<br>22. Eliminate recreation coordination activities |

Strategies with a low to moderate potential of success are shown in Table 16. Several of these strategies fall into this category because of potential for significant community pushback, relying on voter approval for measures that during this recession would be difficult, if not impossible, to seek approval, or the disruptive impacts on service delivery.

*Table 16. Low to Moderate Potential of Success*

| Low to Moderate Potential of Success | Strategies |
|---|---|
| **Expenditure Controls and Cost Shifts** | None |
| **Service Delivery Changes** | 4. Reduce maintenance costs for Log Boom Waterfront Park and Squire's Landing Waterfront Park through a contracted or shared services model |
| **Revenue Enhancement** | 14. Conduct a user fee study and adjust development services revenues to closer to full cost recovery<br>15. Implement a property tax levy lid lift as either a general purpose tax or special purpose tax for public safety<br>16. Implement a 0.2% local sales tax rate dedicated to transportation funding<br>17. Implement a metropolitan park district |
| **Service Reductions and Eliminations** | 19. Implement General Fund service level and staffing reductions<br>20. Reduce street pavement standards |

The final tier of strategies, one with low or little/no potential of success, is considered the least feasible to implement in the City's current economic, political and operational environment. These are presented in Table 17. Generally, these strategies neither provide sufficient fiscal impact, have proven difficult to implement in similar settings, or would have a negative impact in the long term on the organization and community. To the extent the City is unable to generate enough revenue increases or expenditure reductions from other strategies, these more difficult options for maintaining solvency might need to be explored.

*Table 17. Low or Little/No Potential of Success*

| Low or Little/No Potential of Success | Strategies |
|---|---|
| **Expenditure Controls and Cost Shifts** | 3. Update the cost allocation plan for administrative and overhead costs |
| **Service Delivery Changes** | 6. Seek alternative jail providers<br>7. Issue requests for proposals for fleet maintenance services<br>8. Refocus parks capital improvements to lower maintenance uses |
| **Revenue Enhancement** | None |
| **Service Reductions and Eliminations** | 18. Take no action |

One strategy included for discussion purposes is taking no action. This is realistically not a viable option because it would result in a condition of insolvency. The majority of controllable General Fund expenditures is related to personnel costs. The public safety contract with King County Sheriff's Office (KCSO) makes up nearly 28% of the General Fund costs, but the ability to impact cost reductions in the contract is limited.

When such a circumstance becomes imminent, the only thing a city can do is leave positions vacant when employees retire or separate from employment (sometimes called a hard hiring freeze), and/or lay off employees to reduce costs and maintain solvency. This will have catastrophic impacts on the City's ability to serve the community. In extreme circumstances, a jurisdiction could be forced to consider or even file for bankruptcy protection. Filing for bankruptcy protection is an unusual circumstance in Washington, most recently experienced by the Kennewick Public Hospital District in 2017. There are no known situations in Washington where a city or county has filed for bankruptcy protection, but this has been experienced in other states such as California, Connecticut, Idaho, Michigan, Alabama and Pennsylvania.

In a worse-case scenario, the only other option short of bankruptcy would be for the City to disincorporate. State law allows opportunities for cities to disincorporate, however there have been no known instances of disincorporation in the past 20 years. In such a circumstance, the State would take over operations of the city until which time it would transfer responsibility to the County. In the community's eyes, this is perhaps as low a desirable option as taking no action and being required to file for bankruptcy in that the community would be in the hands of other parties and would have little or no say in how the City's services and its structure would be implemented. This strategy has not been incorporated into the set of viable strategies as there appears to be other viable strategies that can resolve the City's fiscal gap.

## Budget Strategy Scenarios

### *Baseline Scenario*

The baseline pre-recession forecast was updated based on the City Council approved FY 2020 budget and the adjustments made based on the City's initial response to the COVID-19

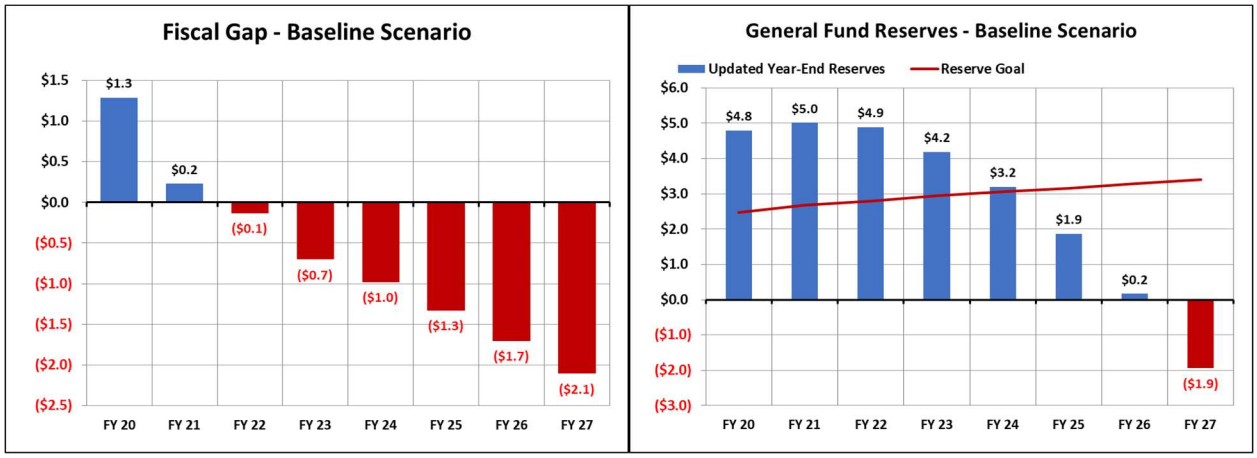
pandemic recession. The baseline pre-recession forecast indicates that surpluses would increase General Fund reserves in FY 2020 and 2021 up to $1.5 million, but that a long-term structural deficit existing starting with a modest $130,000 deficit in FY 2022 that grows dramatically to $1.8 million in FY 2027. The largest driver of the increasing structural gap is the fact that expenditure growth is projected to outpace revenue growth. Property taxes, the single largest revenue source for the General Fund, can only grow by Council action at 1% per year plus the impact of new construction on the total tax levy which equates on average to an additional 1% per year. In addition, the City is onboarding costs associated with maintaining Log Boom and Squires Landing Waterfront Parks that will add an additional $275,000 to the General Fund budget starting in FY 2023.

Personnel costs are the largest expenditure category in the General Fund totaling $4.3 million (or 35% of General Fund expenditures). The City must provide some level of compensation and benefits that are competitive in the regional marketplace for skilled talent to provide services the community expects. The City has already seen turnover as employees leave to work in other jurisdictions with better compensation.

The next largest expenditure of the General Fund is the police contract with KCSO. Unless the City chose to reduce funding the number of officers currently within the contract, there is little opportunity to reduce those costs based on the provision of the contracts.

The City has established a target reserve policy for its General Fund of maintaining undesignated reserves of not less than 20% of annual budgeted operating expenditures. The Government Finance Officers' Association (GFOA) has recommended that municipalities establish minimum reserve policies for General Funds of not less than two months, or 17%, of annual operating expenditures, considered by many to be a best practice. Such a policy helps the City weather the impacts of recessions or in addressing a catastrophic event such as the COVID-19 pandemic that has impacted the entire planet, and especially King County. If Council takes no action, the model projects that General Fund reserves will finish at the City's reserve policy of 20% by FY 2024, and will fall below zero in FY 2027, as shown in Figure 5.

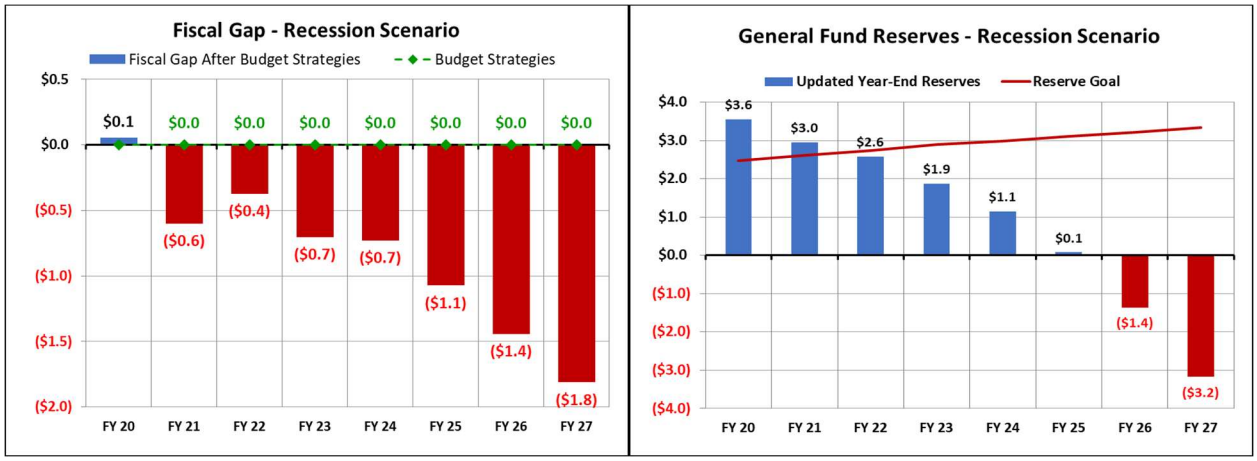
*Figure 5. Projected General Fund Surplus/Shortfall and Reserves – Baseline Pre-Recession Forecast*



### *COVID-19 Pandemic Recession Scenario*

The baseline pre-recession forecast has been adjusted based on a series of recessionary assumptions that will impact key revenue sources, primarily sales tax, development services fees and business and occupations tax. The recession forecast indicates that the General Fund will stand to lose nearly $3.4 million in revenues by the time that the recession's impacts would be recovered in FY 2024. The actions that the City took to reduce expenditures by $1.1 million in FY 2020 averted a deficit. However, without further actions, the deficit will grow to $600,000 in FY 2021 and increase to $1.8 million by FY 2027. The model projects that General Fund reserves will finish just above the City's reserve policy of 20% by FY 2021, will fall below the reserve policy level by FY 2022, and will fall below zero in early FY 2026. These are presented in Figure 6.

*Figure 6. Projected General Fund Surplus/Shortfall and Reserves – Recession Scenario*




### *Development of Four Budget Scenarios*

Management Partners has prepared four scenarios for Council's consideration that address this fiscal gap. Each of the scenarios would allow the General Fund to maintain an appropriate level of reserves, eliminate the structural deficit by 2027, provide the necessary transfers to the Street fund to keep it in balance, and ensure the viability of the City's operations throughout the period included in the fiscal model. The three scenarios include options that could be implemented entirely by Council action.

The budget scenarios described in this report are provided as examples of the types of strategies that Council members could consider to address the long-term fiscal gap. The Council could choose any of these scenarios or develop alternative scenarios that include varying types of strategies to resolve the fiscal gap. The scenarios included in this report employ different strategies and make assumptions with respect to the timing of implementing each strategy. Table 18 summarizes these four scenarios.

*Table 18. Budget Strategy Scenarios*

| Scenario | Description |
|---|---|
| Recession Forecast Before Budget Corrections | • Shortfall of $1.8 million that would likely continue to grow beyond 2027<br>• Depleted reserves by FY 2024<br>• Current staffing levels |
| Scenario 1 – Strong Revenue Enhancement Strategies (Figure 7) | • Eliminate the **school resource officer program** in FY 2021, reducing costs by $55,000<br>• Exercise use of **property tax levy banked capacity** in FY 2022, phased in ratably over a 3-year period to generate additional annual revenues of $400,000<br>• Increase the existing **utility tax (UT)** on gas and electric from 4% to 6%, implement a cable utility tax of 6%, and implement a solid waste utility tax of 6%, generating $1 million in annual revenues starting in FY 2024<br>• Implement the **business and occupations (B&O) tax** fully on all businesses based on the existing 0.2% of gross receipts by FY 2027 |
| Scenario 2 – Strong Revenues Focused on Shifting Costs for Roads and Public Safety (Figure 8) | • Eliminate the **school resource officer program** in FY 2021, reducing costs by $55,000<br>• Exercise use of **property tax levy banked capacity** in FY 2022, phased in ratably over a 3-year period to generate additional annual revenues of $400,000<br>• Implement **photo traffic enforcement** tools to offset cost of traffic mitigation and moving violations enforcement in FY 2022, phased in over a 2-year period, generating $1.7 million in annual funding for public safety and traffic improvements<br>• Capacity to **transfer additional funds for road improvements** totaling $4.5 million by FY 2027 |
| Scenario 3 – Balanced Approach—Moderate Revenue Enhancement Strategies, Moderate Service Delivery Changes, Moderate Service Level Reductions, and Minor Expenditure Controls (Figure 8) | • Eliminate the **school resource officer program** in FY 2021, reducing costs by $55,000<br>• Reduce **travel, training and consulting services** budgets citywide by $50,000 in FY 2021<br>• Reduce **recreation coordination activities** reducing costs by $50,000 in FY 2021<br>• Exercise use of **property tax levy banked capacity** in FY 2022, phased in ratably over a 3-year period<br>• Conduct a **user fee study and adjust development services fees** closer to full cost recovery by $50,000 in FY 2022<br>• Reorganize the **City's organizational structure** to provide cost efficiencies totaling $240,000 annually, phased in over two years starting in FY 2023<br>• Increase the existing **utility tax (UT)** on gas and electric from 4% to 6%, implement a cable utility tax of 6%, and implement a solid waste utility tax of 6%, generating $1 million in annual revenues starting in FY 2026 |
| Scenario 4 – Strong Operating Expenditure and Service Level Reductions, Moderate Revenue Enhancement Strategies (Figure 9) | • Eliminate the **school resource officer program** in FY 2021, reducing costs by $55,000<br>• Reduce **travel, training and consulting services** budgets citywide by $50,000 in FY 2021<br>• Eliminate **recreation and volunteer coordination activities** reducing costs by $90,000 in FY 2021<br>• Conduct a **user fee study and adjust development services fees** closer to full cost recovery by $50,000 in FY 2022<br>• Update the **cost allocation plan** for administrative and overhead costs to shift $50,000 in costs by FY 2022<br>• Shift costs of **ballfields/parks lease** to private users/sports leagues reducing costs |

| Scenario | Description |
|---|---|
| | by $50,000 in FY 2022<br>• Reduce **maintenance costs for Log Boom and Squires Landing Waterfront Parks** through shared service delivery or contracted services saving $100,000 by FY 2023<br>• Reorganize the **City's organizational structure** to provide cost efficiencies totaling $240,000 annually, phased in over two years starting in FY 2023<br>• Exercise use of **property tax levy banked capacity** in FY 2023, phased in ratably over a 3-year period to generate additional annual revenues of $400,000<br>• Reduce **street pavement standards** by decreasing funding totaling $600,000 by FY 2026 |

*Figure 7. Projected General Fund Surplus/Shortfall and Reserves – Budget Scenario 1 (Strong Revenues)*

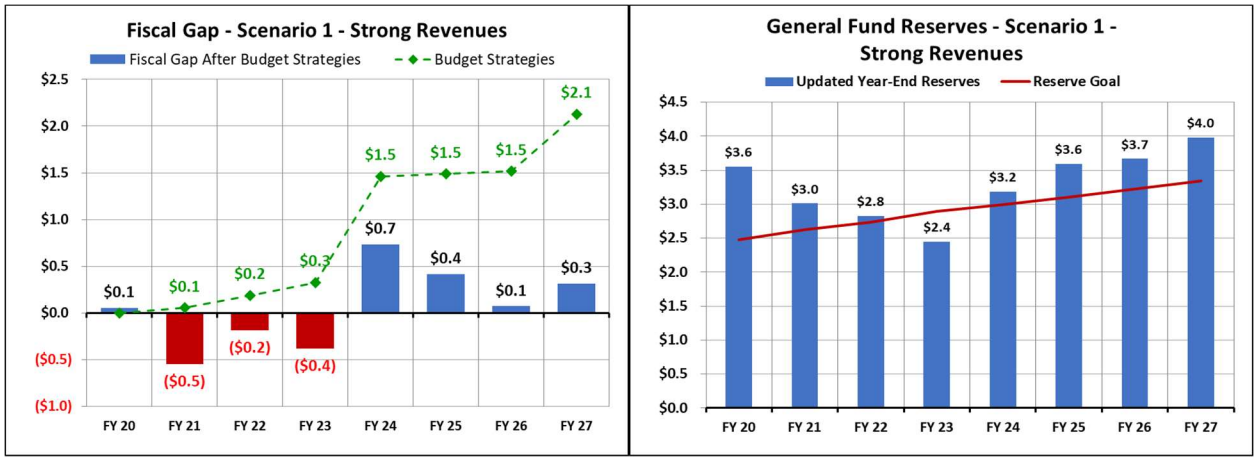



*Figure 8. Projected General Fund Surplus/Shortfall and Reserves – Budget Scenario 2 (Strong Revenues Shifting Costs for Roads and Public Safety)*

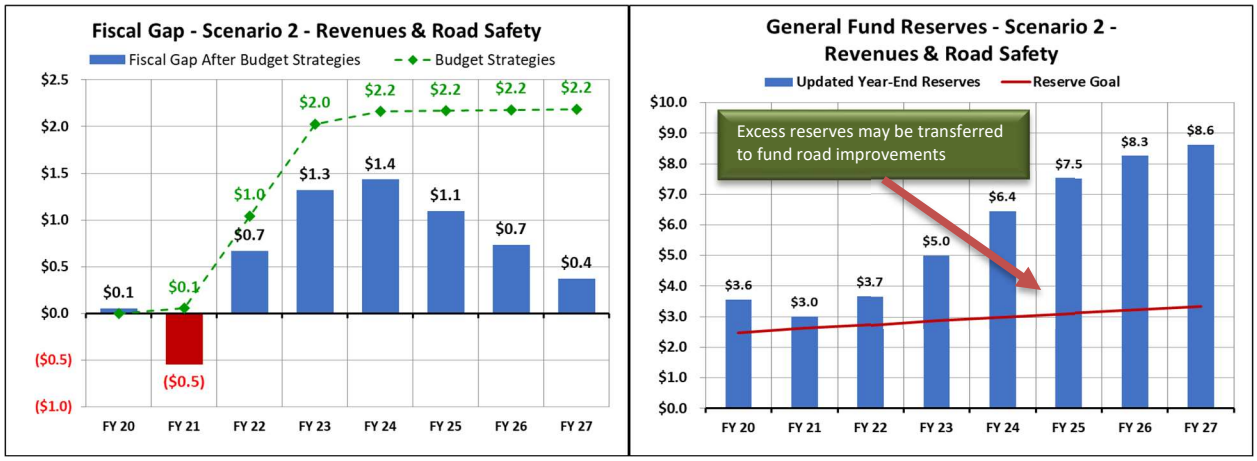


*Figure 9. Projected General Fund Surplus/Shortfall and Reserves – Budget Scenario 3 (Balanced Approach)*

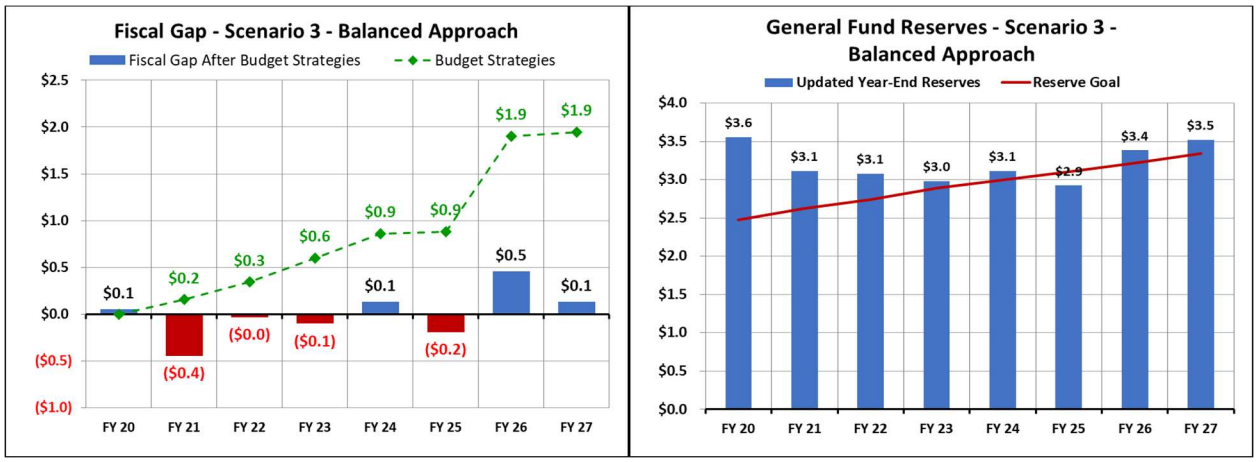
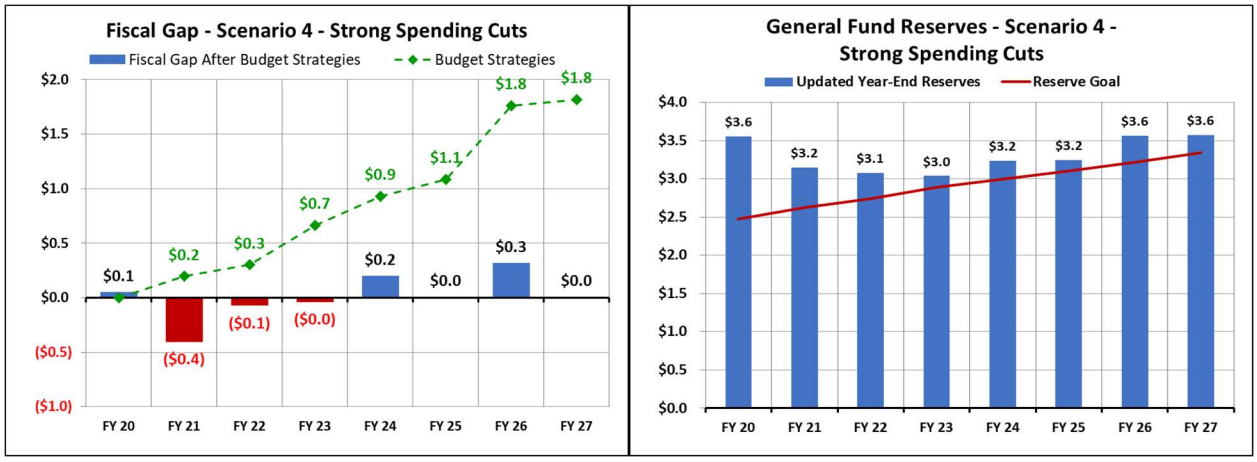



*Figure 10. Projected General Fund Surplus/Shortfall and Reserves – Budget Scenario 4 (Strong Expenditure Reductions)*



## Attachment A – Budget Adjustments Implemented by the City in Response to the COVID-19 Pandemic

The City implemented budget adjustments as one-time measures in response to the COVID-19 pandemic recession that has impacted the country, Washington state, and the King County region. The net reductions totaled nearly $1.1 million and were enacted for the FY 2020 budget by City Council action at the April 27, 2020 City Council meeting.

The budget reductions were made in the General Fund and the Street Fund, the latter of which reduces the transfer from the General Fund, for FY 2020. Budget adjustments included a variety of reductions in such areas as:

- Streets maintenance
- Consulting costs
- District court services
- Software upgrade projects (e.g., GIS system)
- Operating and administrative supplies
- Travel, meals and lodging
- Community event sponsorships, including the 4th of July event, holiday event, and summer concerts
- Public information publication costs

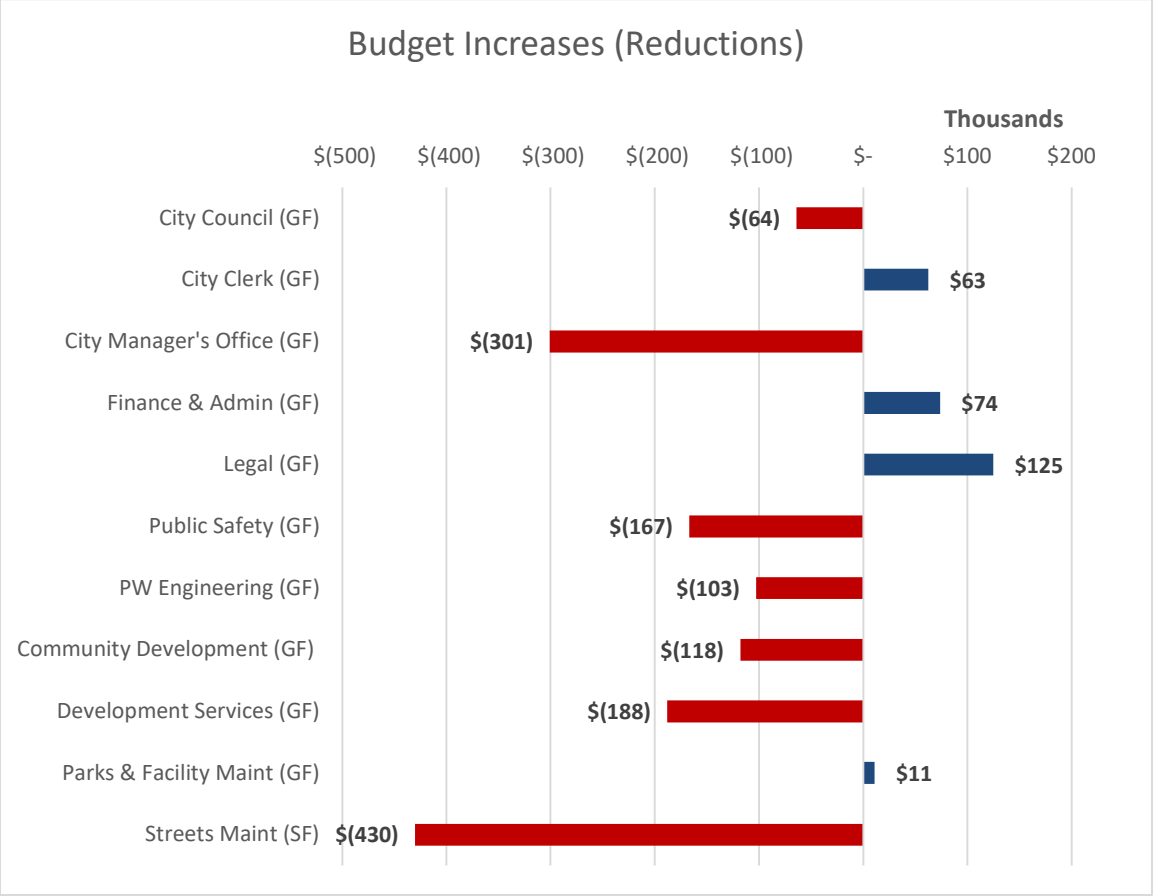
These reductions were partially offset by increases in certain budget areas in response to the pandemic such as:

- Technology to enable work-from-home for City staff
- KCSO officer overtime
- Facility maintenance services and supplies

A total of $300,000 of these reductions were expected to be ongoing reductions. The remaining $800,000 were expected to be one-time. These reductions have been identified as such in the baseline pre-recession forecast. The budget strategies analyzed in Attachment B to this memorandum are considered ongoing strategies rather than one-time strategies.

The net reduction in General Fund expenditures is $669,000, and a net reduction in Streets Fund expenditures of $430,000. A summary of the net expenditure reductions by department within the General Fund (GF) and Streets Fund (SF) is shown in Figure 10 below.

*Figure 11. Budget Increases (Reductions) in Response to the COVID-19 Pandemic – FY 2020*




*Note: Increase in City Clerk was due to increase in human services contributions; Increase in Finance and Admin is due to increased technology costs; increase in Legal is due to increases in anticipated city attorney costs and services*

# Attachment B – Detailed Strategies

## EXPENDITURE CONTROLS/COST SHIFTS

### 1. Eliminate funding of the School Resource Officer program

**STRATEGY TYPE:** Expenditure Controls/Cost Shifts

**IMPACT ESTIMATE**
Eliminating the City's funding of the School Resource Officer (SRO) program would save approximately $55,000 annually for the General Fund.

**FEASIBILITY**
Discussions have begun with the District in light of recent events and public sentiment to reduce or eliminate presence of law enforcement within schools. The District and City would need to agree to jointly terminate the contract. In light of recent events, elimination of this program might be met with little resistance. As much of the program was covered through overtime costs, it is unlikely that there would need to be any changes to the City's contract with KCSO other than clarification that the SRO program would be eliminated.

| Factor | Difficulty Level |
|---|---|
| Potential for community pushback | Low |
| Technical and operational difficulties of implementation | Low |
| Timing necessary for implementation | Moderate |
| Disruptive impact on service delivery | Low |
| Disruptive impact within City organization | Low |
| **Overall difficulty for Implementation** | **Low** |
| | **Rating** |
| **Fiscal Impact** | **Moderate** |
| **Potential of Success** | **Moderate** |

**BACKGROUND/ANALYSIS**
The City provides SRO services through its contract with KCSO under a cost-sharing arrangement with the Northshore School District. That arrangement was updated in 2018 to increase the School District's share to a maximum of $31,250. However, the Police Chief estimated that the city paid $86,000 in overtime in 2019 to pay for the service. (If the program were funded by dedicated staff rather than overtime, the Chief estimated the cost would increase to $207,000).

The recent events in Minneapolis and across the country have led schools and law enforcement agencies to rethink law enforcement presence in schools. The District has started conversations with community members, KCSO and the City in regard to the program. There is strong sentiment to eliminate the program. Eliminating the program would provide initial cost savings of about $55,000 annually. The City would need to negotiate a change in the KSCO contract to eliminate the dedicated SRO position and determine impacts on officer availability within the community.

## 2. Shift cost of ballfields/parks lease to private users/sports leagues

**STRATEGY TYPE:** Expenditure Controls/Cost Shifts

**IMPACT ESTIMATE**

The City budgets $50,000 annually to lease ballfields at Bastyr University for public and sports league use. The City could consider charging sports leagues for a share of these costs. Amount saved would depend on the fees charged by the City. Alternatively, the City could consider shifting the responsibility for the fields to sports leagues for annual savings of $50,000. The City could also consider forming a Metropolitan Parks District, discussed under revenue enhancements.

**FEASIBILITY**

To the extent a wide spectrum of city residents use the ballfields, there could be a high level of community pushback. However, to the extent the ballfields are used either primarily by sports leagues or by residents of surrounding communities, the pushback would be less.

| Factor | Difficulty Level |
|---|---|
| Potential for community pushback | Moderate |
| Technical and operational difficulties of implementation | Moderate |
| Timing necessary for implementation | Moderate |
| Disruptive impact on service delivery | Low |
| Disruptive impact within City organization | Low |
| **Overall difficulty for Implementation** | **Moderate** |
| | **Rating** |
| **Fiscal Impact** | **Moderate** |
| **Potential of Success** | **Moderate** |

**BACKGROUND/ANALYSIS**

Ballfields commonly used by sports leagues are an amenity that does not necessarily get fully utilized by the public at large. The City should consider the relatively high cost of paying for these facilities vs. the opportunities of direct users to pay all, or some of the costs.

## 3. Update the cost allocation plan for administrative and overhead costs

**STRATEGY TYPE:** Expenditure Controls/Cost Shifts

**IMPACT ESTIMATE**
Estimated impact for an updated cost allocation plan is $50,000.

**FEASIBILITY**

| Factor | Difficulty Level |
|---|---|
| Potential for community pushback | Low |
| Technical and operational difficulties of implementation | Moderate |
| Timing necessary for implementation | Low |
| Disruptive impact on service delivery | Low |
| Disruptive impact within City organization | Low |
| **Overall difficulty for Implementation** | **Low** |
| | **Rating** |
| **Fiscal Impact** | **Moderate** |
| **Potential of Success** | **Low** |

**BACKGROUND/ANALYSIS**
A cost allocation plan is a formal study done, often by specialist consulting firms , to build a model which allocates administrative and overhead costs (costs of City Hall, of non-operating department costs, of facilities, etc.) to operating departments that directly serve the public.

The idea is that administrative and overhead costs would not exist except to serve the operating departments that directly provide services, and therefore most if not all those costs should be re-allocated back to service departments. Two results occur. First, funds with other than General Fund sources of revenue, such as Stormwater, pay for their proportionate share of those administrative and overhead costs. Second, departments in the General Fund that charge user fees, such as Community Development, can know the true cost of providing their services and adjust their user fees accordingly. The second result, therefore, should be a more detailed user fee study to ensure full cost recovery.

The City current allocates approximately $570,000 of administrative-related General Fund costs to three funds: Transportation Capital, Surface Water Operating, and Parks Capital. It has been nearly 5 years since the City last performed a comprehensive cost allocation plan review. Costs have been updated based on cost increases in operating department budgets. There is the potential that a revised cost allocation plan might yield the opportunity to transfer an additional $50,000 to $75,000 of eligible costs to other funding sources.

# SERVICE DELIVERY CHANGES

## 4. Reduce maintenance costs for Log Boom Waterfront Park and Squire's Landing Waterfront Park Facilities through contracted/shared services model

**STRATEGY TYPE:** Service Delivery Changes

**IMPACT ESTIMATE**

The Log Boom and Squires Landing Waterfront Park areas are undergoing significant capital improvements, which will increase the City's maintenance and operations costs by $275,000 per year starting in FY 2023. Kenmore could reduce its future cost increases by either contracting for maintenance and operations of all or parts of those parks, or by seeking concessionaires to operate the more active water-sport facilities of those parks in return for either concessionaire maintenance services or revenue sharing to defray the City's costs. Potential impact is targeted at $100,000 annually whether through reduced maintenance costs and/or concessionaire agreements with an operator.

**FEASIBILITY**

| Factor | Difficulty Level |
|---|---|
| Potential for community pushback | Moderate |
| Technical and operational difficulties of implementation | Moderate-High |
| Timing necessary for implementation | High |
| Disruptive impact on service delivery | Moderate |
| Disruptive impact within City organization | Low |
| **Overall difficulty for Implementation** | **Moderate-High** |
| | **Rating** |
| **Fiscal Impact** | **High** |
| **Potential of Success** | **Low-Moderate** |

**BACKGROUND/ANALYSIS**

Kenmore has budgeted for $11.7 million on park improvements between 2019 and 2024. These capital investments include major improvements to both the Log Boom Waterfront Park and the Squire's Landing Waterfront Park. The Log Boom project, when complete, will restore native habitat areas, improve the new main trail, expand the existing beach area, and create a new boat rental building, picnic shelter, and water access for hand-powered watercraft. The Squires Landing Waterfront and Natural Open Space Access project will also restore native habitat areas, trails and walkways with bridges, and river-viewing platforms through enhanced natural areas. In addition, the project will create a public hand-powered watercraft facility with staging areas, float and hand-carry launches, a community plaza, restroom, and parking lot. The

upgraded parks and facilities will increase annual maintenance efforts and costs, possibly significantly.

The more active, water sport-oriented facilities planned for both parks create an opportunity to use a Request for Qualifications process to seek private companies'/concessionaires' participation in running those facilities. Local governments may sign concession agreements with vendors to conduct business within parks (such as selling food and beverages or renting equipment) and charge the vendors a concession fee. Tacoma has a seasonal concession at Mossyrock Park for boat launch and other concessions. Longview has food and beverage concessions at Lake Sacajawea Park. Kirkland has food and beverage and various recreation concessions in their parks seasonally. The intent of seeking out concessionaires would not be for the City to make a profit; rather, it would be to defray/reduce its operating and maintenance costs. Management Partners has not performed a detailed analysis of this option, so additional research would be required if the City were to consider these options.

## 5. Reorganize the City's organizational structure to provide cost efficiencies

**STRATEGY TYPE:** Service Delivery Changes

**IMPACT ESTIMATE**

Reorganizing the administrative, economic development, development services and community development service within the City's organizational structure, including the elimination of the Business Incubator program, can reduce the City's ongoing operational costs by $240,000.

**FEASIBILITY**

Reorganizing the functions of administration, economic development, development services and community development is within the purview of the City Manager. Layoffs and/or reclassifications would need to comply with the City's personnel rules. One-time costs associated with accumulated leave payouts, severance pay, and potential unemployment claims will be more than offset by the long-term cost savings. There will be disruption within the City organization due to changing titles and shifting responsibilities and reporting relationships. Implementation could take place within a six month period, however. The potential for community pushback will likely be minimal as long as customer service is maintained in the areas of community development and development services.

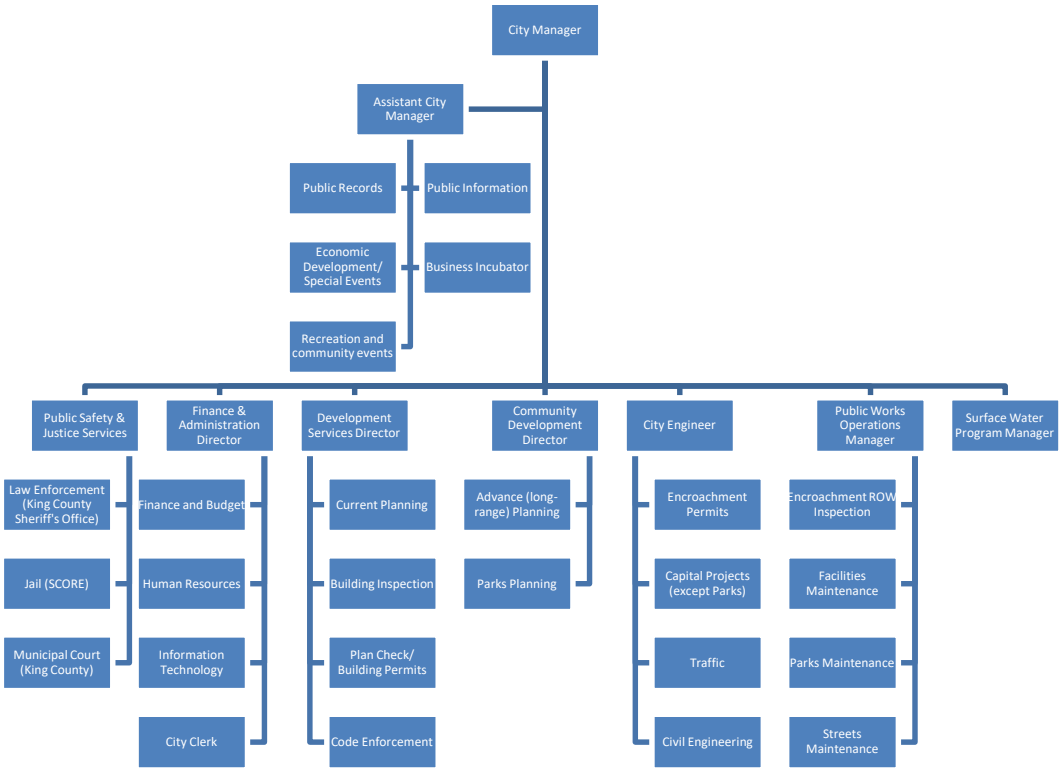
| Factor | Difficulty Level |
|---|---|
| Potential for community pushback | Low |
| Technical and operational difficulties of implementation | Low |
| Timing necessary for implementation | Low |
| Disruptive impact on service delivery | Moderate |
| Disruptive impact within City organization | High |
| **Overall difficulty for Implementation** | **Moderate** |
| | **Rating** |
| **Fiscal Impact** | **High** |
| **Potential of Success** | **Moderate-High** |

**BACKGROUND/ANALYSIS**

An in-depth assessment of the City's organizational structure was not performed, as it was not part of the scope of this project. Such a study would normally include an in-depth assessment of service delivery, reviewing alignment with the organization's strategic plan, assessing customer satisfaction with existing service delivery, review of job classifications and capacity within various positions, and an analysis of workflows and responsibilities assigned to conduct the City's various business processes.

However, when we review the City's organizational structure and service delivery, and compare it with agencies of similar size, we noticed that the City is staffed heavily at the executive team level. Figure 11 displays the City's current organization chart.

*Figure 12. Kenmore Current Organization Chart*




It is not common for an agency to have director level positions at both the Community Development/Planning level as well as Development Services. Typically, cities will consolidate long-range planning, current planning, plan check, building inspection, and code enforcement services under one department with managers and/or supervisors overseeing those various functions. In addition, it is more typically common for economic development, depending on the depth of services provided in that area, to be handled of a city of Kenmore's size by its community development director in collaboration with the city manager.

Furthermore, there is not sufficient capacity within the organization to address human resources needs. Those duties are being handled by the finance and administration director who is also charged with overseeing the finance, budget, information technology and city clerk functions.

Reorganizing responsibilities with remaining staff will maintain many of the services currently provided by the City. Economic development initiatives would be reduced, however, with greater emphasis placed in community events and facilitating economic development through public information, amending the comprehensive (general) plan based on Council policy to drive a thriving local economy, and process improvements in planning, building and code enforcement to support the local economy and new development.

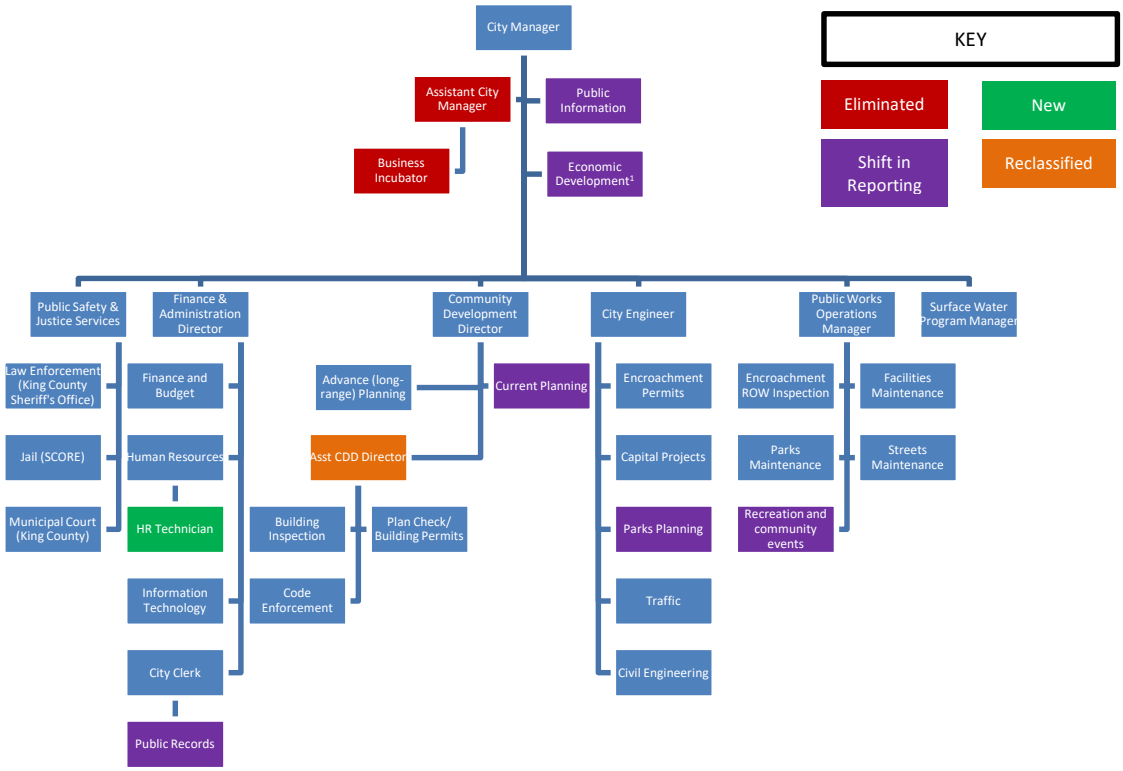
As noted earlier, a study was not conducted on the City's organizational structure. Under this proposed strategy, the City might make the following staffing changes:

- Eliminate the Assistant City Manager position
    - Eliminate the business incubator program (already planned for 2021)
    - Reduce other economic development programs
    - Assign other reporting functions directly to the City Manager and to other departments
- Reclassify Development Services Director to Assistant Community Development Director over building, plan check and code enforcement
- Transfer parks capital project development to the City Engineer
- Hire a Human Resources Technician/Analyst to report to the Finance and Administration Director that can also be cross-trained to assist in supporting community event initiatives

Organizational capacity will be significantly impaired, primarily in the areas of economic development and special events coordination, and will limit the ability to address new initiatives without making choices to eliminate other services.

Net cost savings are estimated to equal $240,000 per year. The revised organization chart might appear as shown in Figure 12.

*Figure 13. Kenmore Revised Organization Chart*




[1] – *Economic development initiatives will only occur in a limited fashion where capacity exists within the City Manager's Office.*

## 6. Seek alternative jail provider(s)

**STRATEGY TYPE**: Service Delivery Changes

**IMPACT ESTIMATE**

Kenmore currently contracts with South Correctional Entity (SCORE) in Des Moines for jail services at an annual cost of $425,000. Additional costs are incurred with the cost of KCSO officers transporting arrestees to SCORE, which is approximately 60 miles round trip from Kenmore, and can take 60 to 120 minutes in travel time overall roundtrip. Deputy Sheriff time is directly impacted in Kenmore's payments to KCSO under its contract. Contracting with alternative jail provider(s) could potentially save the City in both contract costs and transport costs. We estimate potential savings of $50,000, plus the opportunity cost savings by having fewer officers on transport duty during the typical patrol day. It is doubtful, however, that the number of officers could be reduced based on current caseload trends.

**FEASIBILITY**

| Factor | Difficulty Level |
|---|---|
| Potential for community pushback | Low |
| Technical and operational difficulties of implementation | High |
| Timing necessary for implementation | High |
| Disruptive impact on service delivery | Moderate |
| Disruptive impact within City organization | Low |
| **Overall difficulty for Implementation** | **High** |
| | **Rating** |
| **Fiscal Impact** | **Moderate** |
| **Potential of Success** | **Low** |

**BACKGROUND/ANALYSIS**

The FY 2020 budget for jail services with SCORE is $425,000, not counting the hours of Kenmore sheriff staff transporting to Des Moines. Larger cities in northern King County operate their own jail facilities (Kirkland, Bellevue). The City of Kenmore is aware of nearby jurisdictions that either have some excess jail capacity or are considering expanding their capacity and has had some discussions with these jurisdictions. Additional discussions would be required and could be fruitful by combining with other smaller north county cities in similar situations. Options include use of nearby cities' jail facilities or perhaps seeking to create a Joint Powers Authority (JPA) like SCORE in northern King County. Kenmore could not create such a JPA on their own, and the process to do so would be long and complex. However, it is worth considering such undertakings as longer-term investments for cost savings. The City of Kirkland indicates that it has saved significant amounts of money by operating its own jail.

## 7. Issue requests for proposals for fleet maintenance services

**STRATEGY TYPE**: Service Delivery Changes

**IMPACT ESTIMATE**

Vehicle maintenance services are budgeted at $117,000 per year according to the most recent budget document. A precise estimate of potential savings by seeking outside contractors and/or other public agencies to perform fleet maintenance cannot be made without a detailed analysis. A review by Management Partners' long time fleet management experts suggest that using contractors would generate 10 to 20% savings overall (or approximately $20,000 annually for Kenmore).

**FEASIBILITY**

There would likely be little or no public opposition to contracting out services often performed by the private sector or other entities. It would likely take three to six months to seek proposals, and additional time to negotiate agreements, if indeed cost savings could be realized. A transition to a new service provider could require time for the City to consider steps to work with impacted employees to find other positions within City government, in the new service provider, or elsewhere.

| Factor | Difficulty Level |
|---|---|
| Potential for community pushback | Low |
| Technical and operational difficulties of implementation | Low |
| Timing necessary for implementation | Moderate |
| Disruptive impact on service delivery | Low |
| Disruptive impact within City organization | Moderate |
| **Overall difficulty for Implementation** | **Moderate** |
| | **Rating** |
| **Fiscal Impact** | **Low** |
| **Potential of Success** | **Low** |

**BACKGROUND/ANALYSIS**

Fleet maintenance services are currently provided by Northshore Utility District. It is good business practice to periodically test potential cost savings by soliciting proposals for contracting out certain services. Fleet maintenance is a good candidate, as there are many private and public entities available to perform the service, and proposals may very well be competitive with, or more cost effective than an in-house garage. Proposals could be solicited from nearby governmental agencies with larger fleets, school districts, utility districts, and from local repair garages (for sedans and small pickups). Management Partners recommends the City consider issuing requests for proposals for fleet maintenance, targeting those entities with specializations in various types of vehicle that the City can capitalize on. What is key after such proposals are solicited and analyzed, is to ensure that clear and specific performance measures are specified in any resulting contracts on items such as turnaround time, parts costs, pick-up and delivery services, and hourly rates.

## 8. Refocus parks capital improvements to lower maintenance uses

**STRATEGY TYPE**: Service Delivery Changes

**IMPACT ESTIMATE**

Management Partners notes that the City is adding an increasing array of parks facilities to its future maintenance obligations, which will put further stress on its budget beyond the already strained current capacity. It is not possible to estimate potential cost savings for shifting future parks capital improvement work to more passive/lower maintenance uses without a redesign of the existing conceptual plan elements for each park. Nonetheless, the City should consider this strategy as it implements its Parks Master Plan.

**FEASIBILITY**

| Factor | Difficulty Level |
|---|---|
| Potential for community pushback | High |
| Technical and operational difficulties of implementation | Low |
| Timing necessary for implementation | Moderate |
| Disruptive impact on service delivery | Low |
| Disruptive impact within City organization | Low |
| **Overall difficulty for Implementation** | **Moderate** |
| | **Rating** |
| **Fiscal Impact** | **Undetermined** |
| **Potential of Success** | **Undetermined** |

**BACKGROUND/ANALYSIS**

With the City's creative use of grant and non-General Fund sources for parks capital improvements, Kenmore has expanded its future park maintenance responsibilities and costs with more intensive uses. The current fiscal situation is strained and will become more so without changes to current revenues and expenditures.

The City's capital improvement budget includes a total of $11.7 million of parks infrastructure improvements over the period from 2019 to 2024. The General Fund's share is only $500,000. Without additional sources of revenue, the ongoing maintenance of these facilities will cause increased future costs to the General Fund. The following projects include funding for more active uses that include facilities that will require a higher amount of funding for ongoing maintenance compared to more passive uses such as trails and open space:

- Moorlands Park Improvements,
- Rhododendron Park Dock/Float and Boat House,
- Squires Landing Waterfront and Dock/Float ,
- Log Boom Park Waterfront, and
- St. Edward Park Ballfields Improvements.

To reduce the future maintenance costs to the General Fund, the City would need to change the intended designs of these parks and shift to less maintenance intensive park facilities such as more hardscape, low-maintenance planting materials, and open space planning concepts rather than active parks uses. However, doing so would change the scope of what Kenmore residents voted on in the 2016 Walkways and Waterways Bond Measure for Squires and Log Boom Parks. (Another related option of creating a Metropolitan Parks District is discussed under Revenue Enhancements.)

# REVENUE ENHANCEMENTS

## Councilmanic Revenue Options

### 9. Increase existing utility tax to maximum allowed under State law (with two options to create a new tax on water, stormwater, and solid waste)

**STRATEGY TYPE:** Revenue Enhancement

**IMPACT ESTIMATE**
Estimated impact of three options studied below are as follows:

- **Option 1:** Increase the electric/gas tax rate from 4% to 6%; impose a new cable utility tax rate of 6%; impose a new solid waste tax rate of 6% - **Increased annual revenues of approximately $1 million.**
- **Option 2:** Increase the electric/gas tax rate from 4% to 6%; impose a new utility tax rate of 6% on cable, water/sewer/stormwater and solid waste – **Increased annual revenues of approximately $1.9 million.**
- **Option 3:** Increase the electric/gas tax rate from 4% to 6%, impose a new cable utility tax of 6%; impose a new utility tax rate of 10% on water/sewer/stormwater and solid waste – **Increase annual revenues of approximately $2.6 million.**

Option 1 would increase utility tax revenues per capita to $85.05, still 30% below the peer average of $121.27. Option 2 would raise utility tax revenues per capita to $131.16, which would exceed the peer average by 8.2% with four cities (Bothell, Mercer Island, Kirkland and Mountlake Terrace) above that amount. Option 3 would raise utility tax revenues per capita to $161.90, which is 33% above the peer average, but still below Bothell and Mercer Island.

We believe that Option 1 provides the greatest opportunity for success, although Option 2 might also be a viable option. Option 3 might be met with significant public resistance.

**FEASIBILITY**
The City Council can impose a new utility tax on the revenues of utility companies that provide services within City limits. Council action to impose the tax may be performed through adoption of an ordinance. Outreach to utility providers will be needed to allow for sufficient time for the imposed tax rate to go into effect and allow utilities to inform their customers. It could take as long as nine months to properly implement the tax and begin to receive remittances from the utility providers.

While Council may impose a new utility tax by ordinance, there is the potential that a referendum procedure could be required as per Washington State law (RCW 35.21.706). The City Attorney would need to be consulted should the City decide to impose any new or increased utility taxes. Many other cities assume that any such resolution is automatically

subject to referendum and/or place such language in an adopting resolution per State law provisions.

The assessment shown in the table below is based on implementing Options 1 or 2. Option 3 might be met with significant public resistance and, would thus, be downgraded to Low-Moderate potential of success.

| Factor | Difficulty Level |
|---|---|
| Potential for community pushback | Moderate-High |
| Technical and operational difficulties of implementation | Moderate |
| Timing necessary for implementation | Moderate |
| Disruptive impact on service delivery | Low |
| Disruptive impact within City organization | Low |
| **Overall difficulty for Implementation** | **Moderate** |
| | **Rating** |
| **Fiscal Impact** | **High** |
| **Potential of Success** | **Moderate-High** |

**BACKGROUND/ANALYSIS**

A utility tax is an excise tax placed on utilities that provide services in a municipality, including municipal utilities and utility districts. Kenmore currently levies UTs on natural gas, electric, and telephone. Its tax rates are at the maximum for telephone, but not for electric and gas. Potential additional utilities that may be included in a utility tax are cable, water, sewer, stormwater, and solid waste. The utility tax is levied on revenues collected by the utility provider within the city limits. A utility tax generally is more predictable and less volatile than other General Fund revenue sources such as sales tax and development fees and permits, particularly in a predominantly residential community. This is because public usage of utilities is somewhat stable year to year, and the revenue increases over time as the utility raises its rates.

Utility taxes, however, are typically viewed as a regressive tax that more significantly impacts the disposable income of lower income households. Cities have addressed this issue by providing exemptions and/or discounts for low-income seniors and/or low-income households. Cities often leverage existing low-income discounts extended by utilities that are subject to the tax, which by their nature reduce revenues subject to the tax, or will altogether exempt such individuals from the tax itself. Cities might also administer their own programs for exemptions, which may require hiring staff to administer the programs.

Revenues are unrestricted and may be used for any lawful governmental purpose. The maximum tax rate may not exceed 6% for electric, gas, and telephone services unless approved by voters. There is no limitation on the tax rate for water, sewer, solid waste, or stormwater

utilities. Internet and satellite TV may not be taxed per federal law, but cable TV may be subject to a tax with special provisions.

Table 7 earlier in this report indicated the per capita utility tax revenues for comparable agencies and their percentage of total General Fund revenues. Table 19 below summarizes the utility tax rate used by each comparable agency based on the types of utility tax that they levy. The table also includes the per capita revenue amount generated by utility taxes. Kenmore's utility tax per capita is 60% below the average of $121.27 across the peers that have any form of utility tax.

*Table 19. Comparable Agency Per Capita Utility Tax Revenues and Utility Tax Rates by Type 2020*

| City | Utility Tax per Capita | Natural Gas | Electric | Telecom | Cable | Water | Sewer | Stormwater | Solid Waste |
|---|---|---|---|---|---|---|---|---|---|
| **Bothell** | $179.71 | 6.0% | 6.0% | 6.0% | 6.0% | 11.15% | 6.0% | 6.0% | 5.0% |
| **Mercer Island** | $173.17 | 6.0% | 6.0% | 6.0% | 7.0% | 8.0% | 8.0% | 8.0% | 7.0% |
| **Kirkland** | $159.92 | 6.0% | 6.0% | 6.0% | 6.0% | 11.8% | 9.5% | 6.98% | 9.5% |
| **Mountlake Terrace** | $148.25 | 6.0% | 6.0% | 6.0% | 5.0% | 13.8% | 10.0% | 10.0% | 10.0% |
| **Woodinville** | $75.75 | 2.0% | 2.0% | 4.0% | N/A | N/A | N/A | N/A | 4.0% |
| **Shoreline** | $70.39 | 6.0% | N/A | 6.0% | 6.0% | N/A | 6.0% | 6.0% | 6.0% |
| **Kenmore** | **$48.63** | **4.0%** | **4.0%** | **6.0%** | **N/A** | **N/A** | **N/A** | **N/A** | **N/A** |
| **Lake Forest Park** | $41.72 | 6.0% | 6.0% | 6.0% | N/A | N/A | N/A | N/A | N/A |
| **Median** | **$121.27** | **6.0%** | **6.0%** | **6.0%** | **6.0%** | **11.50%** | **8.0%** | **7.0%** | **6.5%** |
| **Mill Creek** | **None** | | | | | | | | |
| **SeaTac** | **None** | | | | | | | | |

*Source: City budgets and municipal codes*

An estimation of possible revenue to be derived from extending the utility tax is contained in the table below. Management Partners took a neighboring peer city's (Mercer Island) utility tax revenues and analyzed them as a percentage of electric and gas utility tax revenues. This allows for an approximation of what utility taxes might be for Kenmore, understanding that the mix of residential and commercial users may be slightly different than Mercer Island.

Management Partners took all of Mercer Island's utility tax revenues and determined the revenue generated for each 1% of tax rate. The proportion of the non-electric and gas utility revenues were then used to extrapolate what Kenmore's non-electric and gas revenues might be as a percentage of its electric and gas revenues assuming a 1% rate. For example, at a hypothetical 1% rate, Mercer Island's solid waste revenues were 16% of its electric and gas revenues.

To estimate what Kenmore could potentially earn from a 1% tax on solid waste, we took the amount Kenmore earned for calendar year 2018 for electric and gas ($757,000 per data

Management Partners received), and divided it by 4. We therefore derived Water/Sewer/Stormwater revenues (at a 1% rate) by applying the 16% to Kenmore's electric/gas revenues at a 1% rate ($189,000). The result is that for each 1% of utility tax, we estimate that the City could generate about $30,000 in solid waste revenue (16% of $189,000). That methodology is not perfect; however, in the absence of other data it is a rough approximation that can give the City an idea of the magnitude of the potential revenue.

Table 20 below shows three options:

- **Option 1:** Increase the electric/gas tax rate from 4% to 6%; impose a new cable utility tax rate of 6%; impose a new solid waste utility tax of 6%;
- **Option 2:** Increase the electric/gas tax rate from 4% to 6%; impose a new utility tax rate of 6% on cable, water/sewer/stormwater and solid waste; and
- **Option 3:** Increase the electric/gas tax rate from 4% to 6%, impose a new cable utility tax of 6%; impose a new utility tax rate of 10% on water/sewer/stormwater and solid waste

All three options would increase or impose rates on electric/gas, cable and phone to the maximum allowed under State law. Water, Sewer, Stormwater, and Solid Waste were set at 10% in Option 3 as a further increase to demonstrate potential revenues from higher rates on those utilities. The results show increases to General Fund revenues ranging from approximately $1,030,000 under Option 1 to $2.6 million under Option 3.

*Table 20. Kenmore Utility Tax Estimates at 6% and 10% for Water, Sewer, Stormwater and Solid Waste*

| | Electric/Gas | Water/Sewer/ Stormwater | Cable | Phone | Solid Waste | Total |
|---|---|---|---|---|---|---|
| **Current** | | | | | | |
| **Rate** | 4% | N/A | N/A | 6% | N/A | |
| **Revenue** | $757,412 | N/A | N/A | $376,638 | N/A | **$1,134,050** |
| **Option 1: Increase electric/gas to 6%; impose cable utility tax of 6%; impose solid waste tax of 6%** | | | | | | |
| **Rate** | 6% | N/A | 6% | 6% | 6% | |
| **Revenue** | $1,136,118 | N/A | $470,697 | $376,638 | $183,116 | $2,116,569 |
| **Additional Annual Revenue** | **$378,706** | **N/A** | **$470,697** | **$0** | **$183,116** | **$1,032,519** |
| **Option 2: Impose a uniform utility tax of 6% on all Utilities** | | | | | | |
| **Rate** | 6% | 6% | 6% | 6% | 6% | |
| **Revenue** | $1,136,118 | $892,073 | $470,697 | $376,638 | $183,116 | $3,058,641 |
| **Additional Annual Revenue** | **$378,706** | **$892,073** | **$470,697** | **$0** | **$183,116** | **$1,924,592** |
| **Option 3: Impose a utility tax rate of 6% on all electric/gas, cable and phone, and a 10% rate for Water, Stormwater, Sewer, and Solid waste** | | | | | | |
| **Rate** | 6% | 10% | 6% | 6% | 10% | |
| **Revenue** | $1,136,118 | $1,486,788 | $470,697 | $376,638 | $305,193 | $3,775,434 |

| | Electric/Gas | Water/Sewer/ Stormwater | Cable | Phone | Solid Waste | Total |
|---|---|---|---|---|---|---|
| **Additional Annual Revenue** | **$378,706** | **$1,486,788** | **$470,697** | **$0** | **$305,193** | **$2,641,384** |

Imposing a utility tax on solid waste could provide the City with the opportunity to fund environmental sustainability efforts, which could separately be explored for consideration only after the tax were implemented.

## 10. Implement photo traffic enforcement to fund public safety costs and roadway improvements

**STRATEGY TYPE**: Public Safety Cost Offset

**IMPACT ESTIMATE**

The amount of fine revenue generated by traffic cameras to reduce traffic accidents and promote safety would depend on the intersections at which such cameras were installed, and the activity at those intersections. The City of Lake Forest Park reports that it has three traffic cameras in operation. Its projected revenues for 2020 for fines from these cameras totals $3.0 million, with enforcement costs at $1.3 million, for a net savings to the General Fund of $1.7 million. This equates to roughly $670,000 per camera annually in net contributions to offset public safety costs and/or provide funding for traffic improvements to mitigate safety hazards.

**FEASIBILITY**

| Factor | Difficulty Level |
|---|---|
| Potential for community pushback | High |
| Technical and operational difficulties of implementation | Moderate |
| Timing necessary for implementation | Moderate |
| Disruptive impact on service delivery | Low |
| Disruptive impact within City organization | Moderate |
| **Overall difficulty for Implementation** | **Moderate** |
| | **Rating** |
| **Fiscal Impact** | **High** |
| **Potential of Success** | **Moderate** |

**BACKGROUND/ANALYSIS**

In Washington state, use of photo enforcement technology can only be used by cities for red light and school zone enforcement. Many police professionals believe that such technology is a valuable tool in promoting safer traffic behavior by motorists. The goal is that by the public knowing the cameras are posted, that they will be extra cognizant of obeying speed laws as well as discouraged from running red lights, especially in school zones. The extra costs associated with purchasing or renting/leasing the cameras, and costs of administering the fines and enforcing collections are more than offset by the revenues generated. Those excess revenues can then be used to offset other public safety costs and opportunities to invest in further traffic safety options in the corridors where installed and throughout the rest of the city.

Photo enforcement should not be viewed as a revenue raising tool, but rather a traffic safety tool that generates fine revenue as a side benefit which allows cities to offset some of their existing public safety and traffic mitigation costs, augment them, or both. There is often some

community pushback from installing traffic cameras, ranging from feeling that the cameras are unfair to feeling like it is an invasion of privacy.

Agencies that implement such tools indicate that traffic safety is a priority within the community and that public information about the cameras will allow residents the opportunity to know about such enforcement and obey traffic laws to avoid any moving violations. Implementing photo enforcement technology using statewide and industry standard protocols regarding placement and timing of the photo taken, and ongoing preventative maintenance of the cameras, reduces the potential for false positives.

## 11. Exercise the property tax levy banked capacity

**STRATEGY TYPE:** Revenue Enhancement

**IMPACT ESTIMATE**

The City's property tax levy rate in 2020 is just over $1.10 per $1,000 assessed valuation and is expected to generate $5.2 million in annual property taxes in 2020. The State of Washington allows local government entities to bank property tax capacity if they do not use the full allowed amount in a given year. They can then use that banked capacity in future years as needed. Kenmore has banked capacity after the 2020 levy in an amount of $400,000 in property tax revenues that could be used to increase the levy, which is equal to a 10% increase in the current levy. Such an increase could be implemented using a phased-in approach to mitigate the increase in any one year.

Exercising banked capacity would increase property tax revenues without requiring voter approval. It could, however, affect the property tax levies of districts in the area due to state laws that limit the overall property tax rates applied to individual properties.

**FEASIBILITY**

The City Council has the authority to exercise the use of banked capacity in setting property tax levies each year. The increase is implemented by instructing the County tax assessor to add the banked capacity to the levy on all properties. This is exclusive of the annual decision by the City Council of increasing the total levy by the statutorily allowed 1% increase. The existing banked capacity amount is 8.5% of the existing tax levy of $5.25 million. If the City were to exercise it all in one year, the increase might receive some community pushback. Otherwise implementation of this strategy is straightforward, and the City Council has history of using the banked levy as it used some of the banked capacity as recently as 2019.

| Factor | Difficulty Level |
|---|---|
| Potential for community pushback | Moderate |
| Technical and operational difficulties of implementation | Low |
| Timing necessary for implementation | Low |
| Disruptive impact on service delivery | Low |
| Disruptive impact within City organization | Low |
| **Overall difficulty for Implementation** | **Low** |
| | **Rating** |
| **Fiscal Impact** | **High** |
| **Potential of Success** | **High** |

**BACKGROUND/ANALYSIS**

In 1986, the Washington State Legislature instituted a policy that allows local governments to levy less than the maximum allowed increase without losing the ability to levy higher taxes as

needed in future years. This was enacted to enable local jurisdictions to levy only what is needed without being penalized.

For many years, the City of Kenmore did not exercise the full allowable levy lift of 1%, which allowed the Council to approve a 3% increase in November 2018. This approved levy lift used banked capacity to address budget shortfalls for FY 2019 and 2020. Kenmore has an additional $400,000 of banked capacity at the close of 2019 that could be used to address budget shortfalls as early as the 2021 tax year.

## 12. Implement an admissions tax on recreation and entertainment venues

**STRATEGY TYPE:** Revenue Enhancement

**IMPACT ESTIMATE**

The City could choose to implement an admissions tax on various recreation and entertainment venues as provided under State law. A typical example is an admissions tax on golf courses, bowling alleys, and theaters and performing arts centers.

Potential revenues from an admissions tax of 2%, 3% and 5% are indicated in Table 21 below, using conservative CPI-adjusted revenue estimates. Actual revenue figures were not publicly available for amenities in Kenmore that could be subject to such a tax, which would enable the estimate to be refined further.

*Table 21. Admissions Tax Revenue Estimates*

| Tax Rate | Tax Revenue |
|---|---|
| **2%** | $80,000 |
| **3%** | $120,000 |
| **5%** | $200,000 |

**FEASIBILITY**

Pushback might come from the owners/operators of recreation and entertainment facilities. However, all such amenities have a regional draw. Patrons are most likely to come from a broad cross-section of nearby communities rather than solely Kenmore residents.

Implementation of the tax could be implemented by City Council action adopting an admissions tax ordinance by majority vote of the Council. It is not subject to voter approval. Collections would be administered by the City's Finance Department, which would prescribe forms and collection methods. The City could include audit provisions in the ordinance, which could be exercised on a periodic basis either with City staff or by contract with an independent accounting firm. This would ensure the appropriate amount of taxes was being received from affected businesses.

| Factor | Difficulty Level |
|---|---|
| Potential for community pushback | Moderate |
| Technical and operational difficulties of implementation | Low |
| Timing necessary for implementation | Low |
| Disruptive impact on service delivery | Low |
| Disruptive impact within City organization | Low |
| **Overall difficulty for Implementation** | **Low** |
| | **Rating** |
| **Fiscal Impact** | **High** |
| **Potential of Success** | **High** |

**BACKGROUND/ANALYSIS**

State statute (RCW 35.21.280) allows cities to create an admissions tax in an amount not greater than 5% of the admission charge for various facilities and events. The tax may be imposed by Council ordinance not requiring voter approval. The use of the funds is unrestricted.

According to state law, an admissions tax can be levied on admission charges (including season tickets or subscriptions) to venues such as theaters, dance halls, circuses, clubs that have cover charges, observation towers, stadiums, and any other activity where an admission charge is made to enter or use the facility or where a charge is made for food and drinks in a place where free entertainment, recreation, or amusement is provided. An admission charge may also be made on rental or use of equipment or facilities for the purposes of recreation or amusement if the rental is a necessary component of the enjoyment. The statute exempts cities from placing an admission tax on any elementary or secondary school activity. Cities also have the authority to exempt non-profit organizations if they so desire.

Admissions taxes are administered by the city that implements the tax, and as such, typical ordinances include the ability for the city to collect and audit the collection and remittance of taxes by affected businesses. Some cities have excepted certain activities sponsored by nonprofit organizations, but this is an option that is determined individually by the agency that imposes the tax.

Seattle, Lynnwood, Auburn, Everett, Kent, and Redmond are six local examples that charge an admissions tax applicable to golf courses and other recreation venues. Other than Everett (4% tax rate), each city charges a 5% admissions tax, the highest allowed by state law.

Applicable venues in Kenmore would include such venues as the private golf club, bowling alleys, and fitness centers.

A typical amenity in which admissions tax is levied is a golf course. According to the National Golf Foundation's 2010 Operating & Financial Performance Profiles of 18-hole golf facilities in the U.S., private 18-hole golf clubs had average total golf revenues of $3,277,000 in 2009. Adjusting those figures for inflation using the Seattle-Tacoma-Bellevue Consumer Price Index (Urban Consumers) from 2009 to 2020, the value of those revenues in today's dollars approaches $4 million. A 5% tax on such an amenity can generate tax revenues to the City of $200,000 per year for this one amenity.

## 13. Implement the business and occupation (B&O) tax for all businesses

**STRATEGY TYPE**: Revenue Enhancement

**IMPACT ESTIMATE**

Assuming a $25 per capita estimate based on peer cities, Kenmore could collect revenues of approximately $583,000 per year by imposing the B&O tax that is in the City's existing ordinances.

**FEASIBILITY**

The City's Municipal Code (Chapter 3.75) authorizes a B&O tax of 0.2% of gross receipts, however the tax is only being imposed on heavy manufacturing companies. Implementing the tax would require the City to issue notice to all businesses that it will begin to collect the tax. Pushback will likely come from the business community, especially in light of existing circumstances surrounding the current recession and its impact on small businesses in particular.

| Factor | Difficulty Level |
|---|---|
| Potential for community pushback | High |
| Technical and operational difficulties of implementation | Moderate |
| Timing necessary for implementation | Low |
| Disruptive impact on service delivery | Low |
| Disruptive impact within City organization | Low |
| **Overall difficulty for Implementation** | **Moderate** |
| | **Rating** |
| **Fiscal Impact** | **High** |
| **Potential of Success** | **Moderate** |

**BACKGROUND/ANALYSIS**

The City's Municipal Code (Chapter 3.75) authorizes a B&O tax in an amount of 0.2% ($2 per $1,000) of gross receipts, however the tax is only imposed on heavy manufacturing companies which is currently generating annual revenues of less than $20,000. Cities are permitted to charge a B&O tax of up to 0.2% of gross receipts on businesses without voter approval. Revenues can be used for any general fund purpose. As an alternative, some cities (like Bellevue and Kent) charge square footage rate on businesses like offices or warehouses that may not generate gross receipts from their locations.

While it is difficult to estimate potential B&O tax collections in Kenmore, a sample of B&O tax collections for Lake Forest Park and Mercer Island and the per capita amounts collected is presented in Table 22 below. (Only those two peers collect a B&O tax.) Their per capita amounts range from $24.79 to $27.06 per year. If Kenmore were to collect the B&O tax, and assuming the

per capita amounts are indicative of the potential tax that could be collected, we estimate that Kenmore could collect approximately $583,000 based on an estimate of $25 per capita.

*Table 22. Survey of B&O Tax Rates and Collections of Peer Agencies*

| City | Population | B&O Tax Collection 2019 | Tax Rate | Per Capita Amount per 0.1% Tax Rate |
|---|---|---|---|---|
| Mercer Island | 24,470 | $662,200 | 0.2% | $27.06 |
| Lake Forest Park | 13,250 | $328,500 | 0.2% | $24.79 |
| Shoreline | 56,370 | $1,565,953 | 0.2% | $27.78 |
| **Kenmore** | **23,320** | **$21,073** | **0.2%** | **$0.45** |
| Bothell, Kirkland, Mill Creek, Mountlake Terrace, SeaTac, and Woodinville | | N/A | N/A | N/A |

## 14. Conduct a user fee study and adjust development services fees closer to full cost recovery

**STRATEGY TYPE:** Revenue Enhancement

**IMPACT ESTIMATE**

Without a detailed user fee study undertaken, a definitive estimate of the additional revenue that could be generated by raising Development Services User Fees and Permits closer to full cost recovery. Management Partners believes that the potential is between $50,000 and $100,000 annually, subject to a user fee study.

**FEASIBILITY**

The determination of a cost recovery target for fee setting purposes is a Council policy decision. For example, if a particular fee is to be charged on a program financially benefitting a specific individual or business, and if the cost of that service can be calculated, full or near full cost recovery is usually appropriate. Otherwise, the general tax base of the City, used to fund non-fee-based services like fire and police, would be making up the cost difference. In a City with a stressed fiscal situation, such as Kenmore, the need for close to full cost recovery for fees and permits to cover Development Services' full costs should be considered.

| Factor | Difficulty Level |
|---|---|
| Potential for community pushback | Moderate |
| Technical and operational difficulties of implementation | Moderate |
| Timing necessary for implementation | Moderate |
| Disruptive impact on service delivery | Low |
| Disruptive impact within City organization | Low |
| **Overall difficulty for Implementation** | **Moderate** |
| | **Rating** |
| **Fiscal Impact** | **Moderate** |
| **Potential of Success** | **Low-Moderate** |

**BACKGROUND/ANALYSIS**

The City's budget for 2019-2020 shows Development Services costs in the General Fund totaling $1.25 million in direct costs (costs for employees, consultants, and supplies and materials). Its 2018 cost allocation plan shows indirect and overhead costs for Development Services add another $633,000, for a total cost to the City of $1,878,000 for providing Development Services. The department's revenues as shown in their general ledger are budgeted for a total of $913,500 annually. The difference between revenues and total expenditures is $964,500. While some of the expenditures in Development Services, such as long-term planning, are not recoverable from user fees, it also appears that the department has a lot of room to raise fees within its cost of providing services.

When determining an appropriate cost recovery level, consideration should be given to the amount of benefit provided to an individual versus the public in general. Charges for services that most benefit a private party (e.g., building services) with limited benefit to all citizens should be recouped at a higher rate than services that at least in part also benefit all residents (e.g., planning services). State law (RCW 82.02) further limits development fees to those costs directly associated with the processing of applications, inspecting, and reviewing plans.

Best practices suggest that cities target cost recovery levels for the following services based upon a comprehensive cost recovery study:

- Building services – 90% to 100%
- Planning services – 75% to 90%
- Engineering services – 75% to 90%

It is possible that charging fees at full, or close to full cost recovery in Development Services could generate anywhere from $50,000 - $100,000 minimum, to perhaps $250,000-$500,000 maximum. Those estimates are speculative; determining better estimates would require a new Cost Allocation Plan and a revised User Fee Study

- a new Cost Allocation Plan would be set to recover not just administrative and overhead costs related to administrative departments' support, as the current Cost Allocation Plan does, but also overhead costs related to a fair share of City Hall costs.
- An updated User Fee study would then be built to reflect total costs in fee for service areas vs. in those program areas within Development Services that are for the general public welfare, (such as long-term planning).

## Revenue Enhancements Requiring Voter Approval

### 15. Implement a property tax levy lid lift as general purpose or special purpose for public safety

**STRATEGY TYPE:** Revenue Enhancement

**IMPACT ESTIMATE**

The City's property tax levy rate in 2020 is just over $1.10 per $1,000 assessed valuation and is expected to generate $5.2 million in annual property taxes in 2020. Increasing the levy through a levy lid lift ballot measure (whether general or special purpose) is estimated to yield the following General Fund fiscal impact (based on existing assessed valuation):

- Tax rate increase of $0.05 per $1,000 assessed valuation: $243,000 increase in General Fund property tax in the first year of implementation
- Tax rate increase of $0.10 per $1,000 assessed valuation: $485,000 increase in General Fund property tax in the first year of implementation
- Tax rate increase of $0.15 per $1,000 assessed valuation: $728,000 increase in General Fund property tax in the first year of implementation

Additional revenues could be achieved if the levy lid lift measure also included a future levy lid lift increase amount beyond the 1% that can be implemented by Council action. Increased fiscal impact would depend on the level of the original levy lid lift and the future increases included in the measure.

**FEASIBILITY – GENERAL PURPOSE LEVY**

A levy lid lift that includes future increases that match the inflationary impacts on city expenditures (most notably, increases in employee compensation and benefits) would have a positive ongoing fiscal impact to resolve the City's General Fund fiscal gap by matching the largest revenue source with expenditure growth expectations.

Increasing the property tax rate, beyond the 1% revenue limit and use of banked capacity, requires majority voter approval. Such a measure, however, is one of the most politically sensitive ballot measures that a Washington city can bring to voters. A significant amount of public engagement and education about the City's fiscal position would be required, likely coupled with cost reduction strategies to demonstrate fiscal conservatism, before such a measure might gain the necessary public support for approval.

| Factor | Difficulty Level |
|---|---|
| Potential for community pushback | High |
| Technical and operational difficulties of implementation | Low |
| Timing necessary for implementation | Moderate |
| Disruptive impact on service delivery | Low |
| Disruptive impact within City organization | Low |
| **Overall difficulty for Implementation** | **High** |
| | **Rating** |
| **Fiscal Impact** | **High** |
| **Potential of Success** | **Low-Moderate** |

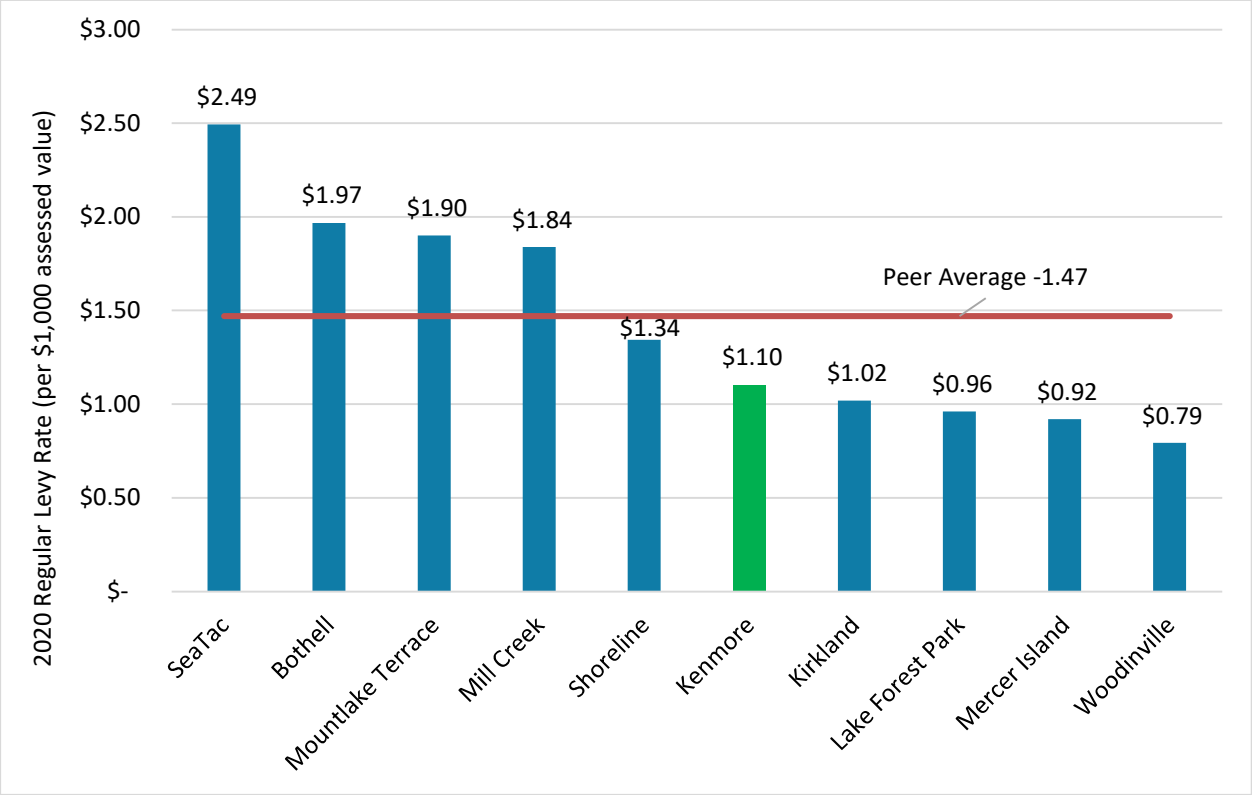
**BACKGROUND/ANALYSIS – GENERAL PURPOSE LEVY**

Washington state law provides the opportunity for cities to increase the annual levy on properties by not more than 1% in any one year through Council resolution, plus an allowance for new construction. Increases in any single year, or over a period of multiple years, requires a voter-approved "levy lid lift." The amount that the levy may be raised is subject to having sufficient "banked capacity" below the maximum aggregate levy rate and the local limit established under state law. The constitutional aggregate limit is $10 per $1,000 assessed value for any taxing area, while the local limit is $5.90 per $1,000 assessed value.

The current levy rate of $1.104 per $1,000 assessed value is expected to generate $5.2 million in total property tax in FY 2020. Property taxes are the single largest revenue source for the City, representing 40% of General Fund revenues in 2020. However, the projected growth in property taxes, which are subject to a 1% maximum increase by Council action not requiring voter approval, will only increase the General Fund portion of property tax revenues by $325,000 by FY 2024. In that same time period, given inflationary pressures on employee compensation and other services and supplies of about 3% per year, salaries and benefits are expected to grow by $826,000.

Current levy rates per $1,000 assessed value among peer agencies are presented in Figure 13 below. Kenmore's rate of $1.10 is about 75% of the peer average of $1.47.

*Figure 14. Property Tax Levy Rates (Regular Levy) Among Comparable Agencies for 2020*




*Source: City budget documents and/or county assessor's offices' websites.*

It should be noted that starting in 2018, cities can exempt senior citizens, disabled veterans, and other people with disabilities from the tax increase resulting from a levy lid lift if desired. Any exemptions would need to be stated in the ballot measure placed before voters.

**FEASIBILITY – SPECIAL PURPOSE LEVY**

In this case, voters would be asked to approve a measure dedicated to a specific purpose. Some agencies find that dedicating revenues to a specific purpose to avoid the elimination of that service meets with greater public support because the public understands what they will be getting for the tax being paid.

| Factor | Difficulty Level |
|---|---|
| Potential for community pushback | Moderate |
| Technical and operational difficulties of implementation | Low |
| Timing necessary for implementation | Low |
| Disruptive impact on service delivery | Low |
| Disruptive impact within City organization | Low |
| **Overall difficulty for Implementation** | **Moderate** |

| | Rating |
|---|---|
| **Fiscal Impact** | **High** |
| **Potential of Success** | **Moderate** |

**BACKGROUND/ANALYSIS – SPECIAL PURPOSE LEVY**

Washington state law allows for cities to create property tax levies for specified purposes. There are limits on the amount of levy that can be charged based on the specified use.

Table 23 shows the special purpose levy limits that might be applicable to Kenmore, along with other specific circumstances applicable to each type of levy.

*Table 23. Special Purpose Levy Limits Allowed under Washington State Law*

| Levy Type | Levy Limit | Other Considerations |
|---|---|---|
| Affordable Housing | $0.50 per $1,000 AV | Revenues restricted to finance affordable housing for "very low-income" households; requires simple majority voter approval |
| Emergency Medical Services (EMS) | $0.50 per $1,000 AV | Restricted to providing emergency medical care or services; may be imposed 6 years, 10 years, or permanently; requires 60% majority voter approval for initial measures; renewal for 6- or 10-year measures require simple majority approval; separate accounting and referendum procedures apply to permanent measures |
| Excess Levy (operations and maintenance) | No limit | Levy is only authorized for one-year at a time; may be used for any lawful governmental purpose, but spent in accordance with purpose(s) specified in the approved ballot measure; requires 60% majority approval |
| Other special purpose levy lid lifts | Subject to maximum statutory rate | Follows regular levy lid lift procedures and limitations; may be implemented for single or multiple years |

*Source: MRSC of Washington Revenue Guide for Washington Cities and Towns, November 2019*

To have the desired fiscal impact, the City would want to focus on levies that would provide ongoing revenue to fund operations. The Excess Levy would be limited to one year and would expire the following year unless renewed. Special purpose levy lid lifts with potential for voter approval could be proposed for the following:

- Public safety (combined police and fire services)
- Police services
- Fire services
- Parks and recreation operations

If such levy lid lifts were proposed, the City would need to determine if those services could be funded without the levy lid lift for the future, and would be best packaged under the provision that the measure is being sought for approval to avoid service level reductions in the specified areas.

## 16. Implement 0.2% local sales tax rate dedicated to the City's Transportation Benefit District for additional funding

**STRATEGY TYPE**: Revenue Enhancement

**IMPACT ESTIMATE**
If the City were to ask voters to approve an additional 0.2% Sales Tax to be used for Transportation Funding, it could generate approximately $540,000 in revenue that could be used for streets, sidewalks, and other transportation purposes. This would help offset General Fund transfers that may be required to backfill such infrastructure maintenance and improvement projects in the future. Roadways were anticipated to be underfunded by $1 million annually based on a 2018 pavement management study. This would help offset some of those deferred needs

**FEASIBILITY**
Voter approval for an increase to the sales tax rate of 0.2% would likely be met with resistance, especially in light of the recessionary impacts being experienced throughout the region. A ballot measure would need to be drafted, and information would need to be disseminated to the public regarding the intended use of the funds to properly inform voters. The earliest a measure could be taken to voters would likely be the general election in 2021.

If approved, the Department of Revenue would handle administration and implementation of the collection of the additional tax by businesses in Kenmore. Funds would then be remitted to the City, which would need to account for those funds as special revenues.

| Factor | Difficulty Level |
|---|---|
| Potential for community pushback | High |
| Technical and operational difficulties of implementation | Low |
| Timing necessary for implementation | Moderate |
| Disruptive impact on service delivery | Low |
| Disruptive impact within City organization | Low |
| **Overall difficulty for Implementation** | **High** |
| | **Rating** |
| **Fiscal Impact** | **High** |
| **Potential of Success** | **Low-Moderate** |

**BACKGROUND/ANALYSIS**
Established in 2012, the Kenmore Transportation Benefit District was created to acquire, construct, improve and fund the City's transportation infrastructure. In 2016, the Kenmore City Council passed Ordinance 16-0424, in which the City assumed the rights, powers, functions,

immunities and obligations of the Kenmore TBD. The separate Transportation Benefit District therefore ceased to be a Special District and is now a special fund within the City.

Initiative 976, approved by voters in November 2019, repeals the authority of TBDs to impose vehicle fees. The courts have thus far ruled in favor of the initiative, thus striking the vehicle fees imposed by the TBD. However, the TBD may impose a special sales tax of up to 0.2% with voter approval for up to 10 years.

Revenues must be used for eligible transportation improvements listed in a local, regional or state transportation plan in accordance with RCW 36.73. Improvements range from roads and transit services to sidewalks and transportation demand management. Construction, maintenance and operating costs are eligible costs that may be funded by TBD revenues. Table 24 summarizes the TBDs created by peer agencies. None of them use the local sales tax option as indicated herein, but given the passage of I-976 that renders vehicle license (cab) fees unconstitutional, these agencies are considering other options including the local sales tax option.

*Table 24. Transportation Benefit Districts of Comparative Agencies[1]*

| Agency | Year Established | Revenue Type | Amount[2] | Powers assumed? |
|---|---|---|---|---|
| **Bothell** | 2015 | Unfunded/No Information | | No |
| **Kenmore** | **2012** | **Vehicle License Fee** | **$20 per year** | **Yes** |
| **Kirkland** | 2014 | Unfunded/No Information | | No |
| **Lake Forest Park** | 2008 | Vehicle License Fee | $40 per year | Yes |
| **Mercer Island** | 2014 | Vehicle License Fee | $20 per year | Yes |
| **Mountlake Terrace** | 2011 | Vehicle License Fee | $20 per year | Yes |
| **Shoreline** | 2009 | Sales Tax at 0.20%, Vehicle License Fee | $40/year | Yes |

*Source: MRSC List of City Transportation Benefit Districts (TBDs) in Washington State, updated December 2019*
*[1]Mill Creek, SeaTac and Woodinville omitted because they do not have Transportation Benefit Districts*
*[2]All TBDs were adversely impacted by the results of I-976 that rendered collection of vehicle license (cab) fees unconstitutional as mentioned earlier in this report.*

The City earned $2.7 million in sales tax in 2019 from its current 1% local tax. If voters approved a 0.2% increase to the sales tax rate, that would generate about $540,000 annually.

## 17. Establish a Metropolitan Park District to fund park operations and maintenance

**STRATEGY TYPE:** Revenue Enhancement

**IMPACT ESTIMATE**

Establishing a Metropolitan Park District (MPD) in the City would transfer all or a portion of the cost of parks maintenance and operations to a new entity, with voter approval. The annual budget savings would be approximately $458,000. However, it should be noted that although this transfer would reduce the City's budget, taxpayers would not see a similar reduction in taxes paid since the MPD would have its own tax levy. In fact, from the taxpayer's perspective the total tax burden might increase due to the new levy.

A tax to fund the current operating budget would be approximately $60 per year on the property taxes of a median priced home in Kenmore as indicated in Table 25. A levy to fund likely operating budget growth for additional capital improvement enhancements would be approximately $69. A higher amount could be levied to generate funds for future capital improvements.

*Table 25. Estimated Metropolitan Parks District Tax on Kenmore Median Value Home:*

| Description | Amount |
|---|---|
| **Kenmore Median Home Value** | $695,000 |
| **Annual Tax Needed, Current Parks Budget ($458,000)** | $60 |
| **Annual Tax Needed, with Future Growth in Parks Budget ($530,000)** | $69 |

**FEASIBILITY**

Implementing an MPD can be done by a Council resolution to submit a proposition to voters within the proposed district boundaries. The City of Kenmore could be such a District in and of itself. The governing board can be either the City Council or a separately elected body. An MPD can also be created through the citizen petition process.

There are at least 21 MPDs in the State. None of the peer cities have MPDs but Kirkland attempted to create one in 2015. Kirkland's proposed MPD initiative would have paid for park improvements and an aquatic/community center. The measure failed with 63% of voters voting against the measure.[1]

[1] Source: MRSC Local Ballot Measure Database

| Factor | Difficulty Level |
|---|---|
| Potential for community pushback | High |
| Technical and operational difficulties of implementation | Moderate |
| Timing necessary for implementation | High |
| Disruptive impact on service delivery | Low |
| Disruptive impact within City organization | Low |
| **Overall difficulty for Implementation** | **High** |
| | **Rating** |
| **Fiscal Impact** | **High** |
| **Potential of Success** | **Low-Moderate** |

**BACKGROUND/ANALYSIS**

State law allows cities to establish metropolitan parks districts to address park needs within the jurisdiction with a majority vote of the public in accordance with the provisions in RCW 35.61. An MPD may fall within city boundaries or extend to include territory in other jurisdictions. The City Council could set itself as the governing body of the District, or the ballot measure could select some other governing body.

Establishing a Metropolitan Park District (MPD) in the City would transfer all or a portion of the cost of parks maintenance and operations to the newly created District, with voter approval. This would relieve the current General Fund budget and could build in additional taxes to cover the higher future costs that will otherwise accrue to the General Fund from its current parks capital improvement projects. The maximum amount that can be levied is $0.75/$1,000 of assessed valuation.

The Park operating budget was $458,000 in 2019. That would equate to a tax levy of $.086 per each $1,000 of a property's assessed valuation. Allowing for future growth in expenditures from expanded waterfront amenities' maintenance, a tax levy of $.10 per $1,000 of assessed valuation would raise $530,000. A higher levy could pay for future capital improvements.

# SERVICE LEVEL REDUCTIONS

## 18. Take no action

**STRATEGY TYPE:** Service Level Reductions

**IMPACT ESTIMATE**

The fiscal impact of taking no action would leave the City's General Fund fully depleted of reserves by FY 2024, at which point the City would be forced to implement hiring freezes or layoffs. To avoid bankruptcy, those hiring freezes and layoffs would need to total nearly $1.0 million per year starting in FY 2023 and grow to $1.8 million per year by 2027, or just short of 17% of the General Fund's annual operating expenditures.

**FEASIBILITY**

The option of "doing nothing" is not feasible without forcing the City into bankruptcy proceedings. The City would face litigation from creditors, employee groups, residents, and agencies such as the state pension fund, risk insurance pools, and others. Ultimately, the City would be placed into a form of receivership by the state and would then be overseen by an appointed court to implement the necessary actions to allow the City to operate.

| Factor | Difficulty Level |
|---|---|
| Potential for community pushback | Significant |
| Technical and operational difficulties of implementation | Significant |
| Timing necessary for implementation | Significant |
| Disruptive impact on service delivery | Significant |
| Disruptive impact within City organization | Significant |
| **Overall difficulty for Implementation** | **Significant** |
| | **Rating** |
| **Fiscal Impact** | **Minimal** |
| **Potential of Success** | **None** |

**BACKGROUND/ANALYSIS**

The fiscal model indicates that the City faces a structural deficit that would increase to an annual shortfall of $1.8 million by FY 2027 and would continue to grow thereafter given the 1% limitation on annual property tax levy increases, cost increases anticipated from KCSO police contracts, and an obligation to provide competitive salaries and benefits to employees to recruit and retain quality workers. Reserves would be fully depleted by FY 2024.

The City would be forced into bankruptcy proceedings, placing the control of fiscal and, in some cases, operational decisions in the hands of the courts, which would take the necessary action to restore the City's fiscal health. This could mean significant reductions or full outsourcing of a variety of services such as police, parks, recreation, and public works. It would

have negative impacts on economic development and quite possibly home prices. The City would face difficulties in recruiting and retaining its workforce as it would have a negative reputation in the labor market.

## 19. Implement General Fund service level and staffing reductions

**STRATEGY TYPE:** Service Level Reductions

**IMPACT ESTIMATE**

The City's General Fund is projected to have a nearly $900,000 budget gap in 2021 that grows to a $1.8 million gap by 2027. If the combination of enacted expenditure controls, service delivery changes, and revenue enhancements do not resolve this fiscal gap, the City would have to implement General Fund service-level reductions. A thorough analysis of all departments' operations would be needed.

Reducing the General Fund to eliminate the structural deficit is difficult given the nature of the contract service agreements for police, which represents 28% of General Fund costs. For purposes of this analysis, reducing the General Fund by $1.8 million might require the following actions:

- Eliminating Street Fund subsidies – $600,000
- Reducing police services with KCSO by 20% – $785,000
- Reducing parks and facilities maintenance by 20% – $250,000
- Reducing staffing and other expenditures in the City Manager's Office, Clerk, Finance, and IT by 20% – $500,000

The actual amount of reductions to close the fiscal gap will depend on the other strategies selected and the resultant fiscal impact of those measures.

**FEASIBILITY**

Achieving a $1.8 million expenditure reduction in the departments above would require significant reductions in positions, which will have an adverse impact on service delivery. The average cost per General Fund employee, inclusive of salaries and benefits, is about $130,000 per year. Based on this average, we estimate that to achieve the necessary cost reductions, the workforce would need to be reduced by three positions, or 38% of the full-time positions in the City Manager's Office and Finance and Administration functions. That would provide almost 80% of the reductions required in those departments.

The reductions outlined above would have dramatic impacts on service delivery. There would likely be significant community concerns if service levels were reduced to this extent. This strategy, however, would be necessary to provide fiscal sustainability if other cost reductions or revenue enhancement strategies are not pursued or are not successful.

| Factor | Difficulty Level |
|---|---|
| Potential for community pushback | High |
| Technical and operational difficulties of implementation | High |
| Timing necessary for implementation | Moderate |
| Disruptive impact on service delivery | High |
| Disruptive impact within City organization | High |
| **Overall difficulty for Implementation** | **High** |
| | **Rating** |
| **Fiscal Impact** | **High** |
| **Potential of Success** | **Low-Moderate** |

**BACKGROUND/ANALYSIS**

Service level reductions represent strategies that would be necessary after cost controls/shifts, service delivery changes, and/or revenue enhancement strategies do not culminate in sufficient savings to close the fiscal gap. Reducing service levels would require departments to review all expenditures, identify prioritized service levels, and develop a list of recommended reductions for City Manager and, ultimately, City Council approval to achieve the necessary fiscal target. The analysis would require a thorough and common understanding of the jurisdiction's core levels of service, legally or contractually required services, and clarity regarding mission and values. In some cases, services may need to be viewed from a programmatic perspective so those that require cooperation from multiple departments receive special consideration.

We have estimated the fiscal impact based on current expenditures in the General Fund. For purposes of our analysis, we assume that a $1.8 million General Fund expenditure reduction target would be implemented, and departments would then need to identify reductions in personnel, services and supplies, and ongoing capital needs to achieve the necessary reduction.

We have excluded community development services from this analysis because it is assumed that City leaders would seek to achieve at or near full cost recovery, generating permit fee revenues to support their operations. The number of officers in the KCSO contract, however, might be able to be reduced to generate a 15% reduction in service costs, but that would severely reduce the number of patrol officers available on any shift.

## 20. Reduce street pavement standards (eliminate transfer from General Fund)

**STRATEGY TYPE**: Service Level Reductions

**IMPACT ESTIMATE**

The General Fund currently includes a budget transfer of about $600,000 annually to the Streets Fund. Reducing street pavement efforts by eliminating the transfer would save up to the full $600,000 annually.

**FEASIBILITY**

| Factor | Difficulty Level |
|---|---|
| Potential for community pushback | High |
| Technical and operational difficulties of implementation | Low |
| Timing necessary for implementation | Low |
| Disruptive impact on service delivery | Moderate |
| Disruptive impact within City organization | Low |
| **Overall difficulty for Implementation** | **Moderate-High** |
| | **Rating** |
| **Fiscal Impact** | **High** |
| **Potential of Success** | **Low-Moderate** |

**BACKGROUND/ANALYSIS**

The City prides itself in its high pavement condition standards. Funding comes primarily through fuel tax revenues deposited into the Street Fund. In order to maintain streets to the minimum standards established by the City, an annual transfer to the Street Fund in the amount of close to $600,000 from the General Fund, and a transfer from the TBD fund in the amount of $380,000, is necessary. A pavement management study in 2018 indicated that roadway improvements were underfunded by a total of $1 million in order to achieve the City's pavement condition index (PCI) goals. This is beyond the $980,000 already provided by the two sources indicated above.

If the City had to cut back on its General Fund commitments to street maintenance, and instead relied on other funding sources or reduced its pavement maintenance efforts, General Fund expenditures could be reduced by $600,000. The City could consider what lower level of pavement condition it was willing to accept, and budget accordingly.

This could have a significant negative impact on the road conditions in Kenmore. The impact to the PCI level would need to be studied in an updated pavement management study (PMS) to quantify and determine the impact on city roadways if funding were reduced to existing dedicated transportation tax revenues such as gas tax revenues. It should be noted that Initiative 976 that repeals vehicle license (cab) fees for the City's TBD would also reduce funding if not replaced. This would exacerbate those impacts on road conditions if the impacts were not otherwise mitigated.

## 21. Reduce travel, meetings and consulting contracts

**STRATEGY TYPE**: Service Level Reductions

**IMPACT ESTIMATE**

Kenmore's General Fund budget for travel, training, and meetings totaled $75,000 for 2019, and its budget for consultant services totaled $403,000. A 10% reduction in both would yield $48,000.

**FEASIBILITY**

The City has already taken actions to reduce expenditures in this category in the short-term due to the pandemic recession. This strategy, if implemented, would permanently reduce such expenditures, which may impact staff training levels and the capacity for Public Works to address capital projects on a timely basis, and for the City Manager's Office to address research projects and other special requests from the City Council.

| Factor | Difficulty Level |
|---|---|
| Potential for community pushback | Low |
| Technical and operational difficulties of implementation | Low |
| Timing necessary for implementation | Low |
| Disruptive impact on service delivery | Low |
| Disruptive impact within City organization | Moderate |
| **Overall difficulty for Implementation** | **Low** |
| | **Rating** |
| **Fiscal Impact** | **Moderate** |
| **Potential of Success** | **Moderate** |

**BACKGROUND/ANALYSIS**

An overall $40,000 to $50,000 reduction in more discretionary General Fund spending could likely be achieved with relatively modest impact on the City.

## 22. Eliminate recreation coordination activities

**STRATEGY TYPE**: Service Level Reductions

**IMPACT ESTIMATE**
Eliminating the recreation coordinator position would reduce personnel and related non-personnel costs by $50,000 per year.

**FEASIBILITY**
The City does not directly provide recreation programs in the community. Eliminating the position that oversees coordination of these activities would likely not directly impact the availability of programs, but would reduce their overall visibility. The City could leverage the work performed by its Communications Specialist to highlight recreation opportunities, or otherwise provide a listing of such opportunities that can be maintained online by agencies posting their opportunities through the City's website.

| Factor | Difficulty Level |
|---|---|
| Potential for community pushback | Low |
| Technical and operational difficulties of implementation | Low |
| Timing necessary for implementation | Low |
| Disruptive impact on service delivery | Moderate |
| Disruptive impact within City organization | Low |
| **Overall difficulty for Implementation** | **Low** |
| | **Rating** |
| **Fiscal Impact** | **Moderate** |
| **Potential of Success** | **Moderate** |

**BACKGROUND/ANALYSIS**
The City employed the services of a recreation coordinator position in 2019 to promote recreation opportunities within the community. The City does not offer recreation programs directly. The position was intended to serve as a liaison between other private, non-profit and government agencies that provide recreation opportunities for Kenmore residents.

Eliminating the position would yield savings of $50,000 per year.

# City of Kenmore

## Fiscal Sustainability Plan Project Report

**Fiscal Sustainability Task Force Meeting**
**August 11, 2020**

**Steve Toler, Partner**

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# Presentation Overview

## Understand Fiscal Impacts of COVID-19

Hear an update on the City's current financial situation, actions taken and planned, and the new recessionary impacts of the pandemic

## Steps Kenmore Has Taken to Address the Pandemic

Hear an update from the City Manager and Finance and Administration Director on steps Kenmore is taking to respond to the potential fiscal impacts

## Next Steps

Discuss next steps toward completion of the fiscal sustainability plan.

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# Summary of City's Expected Fiscal Situation

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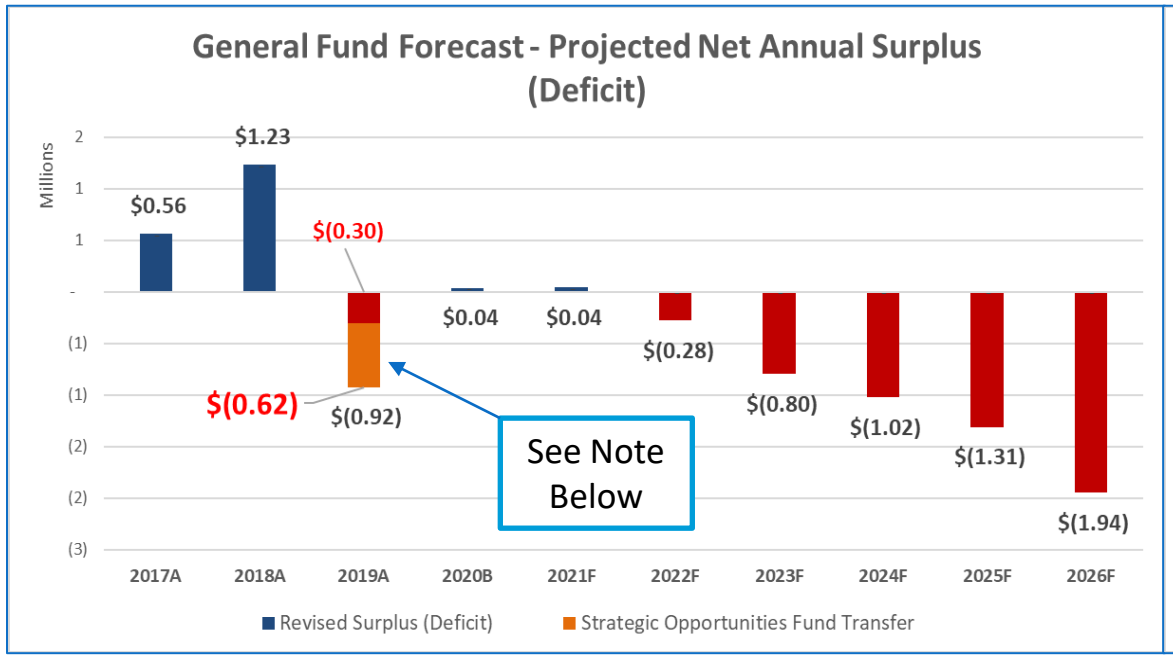
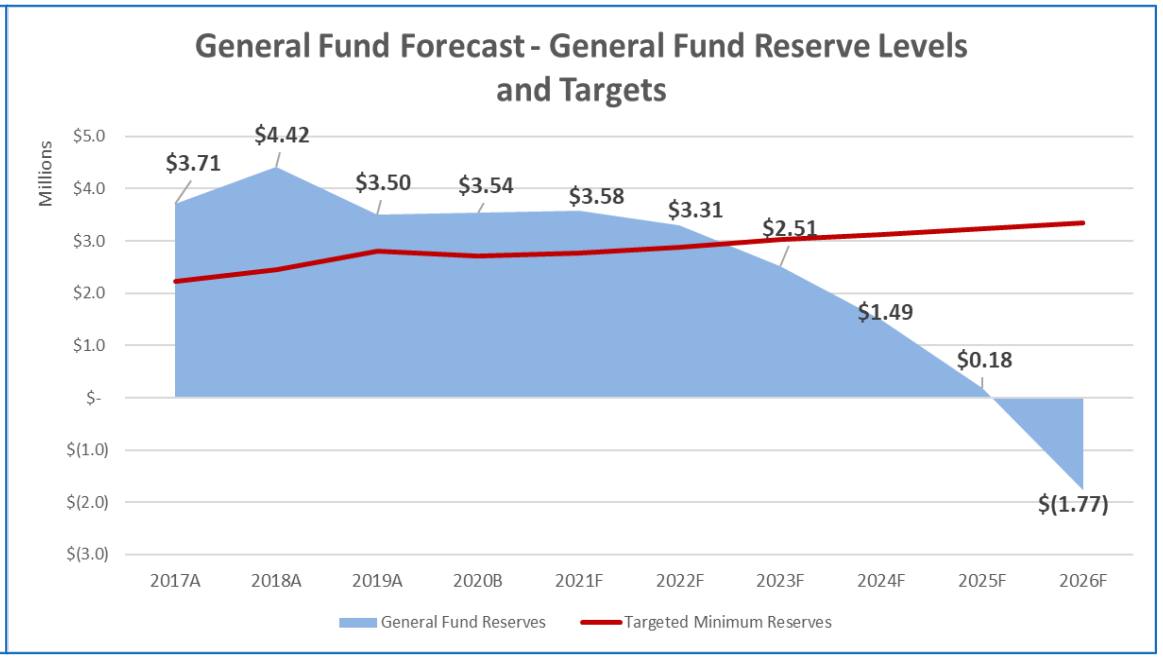
# General Fund Forecast Pre-COVID-19
# Updated Baseline Forecast with 2019 Actuals




- **Annual Structural Deficit** – grows to $2 million by FY 2026, and would continue to grow by $350,000 per year thereafter if no corrective action was taken
- **Reserves** - would fall below minimum reserve target of 20% of annual expenditures by FY 2023, and becomes depleted by FY 2026, if no corrective action was taken

**Note:** Operating budget for FY 2019 was balanced; graph includes one-time transfers to Pavement Preservation and Strategic Opportunities Funds per Council action.

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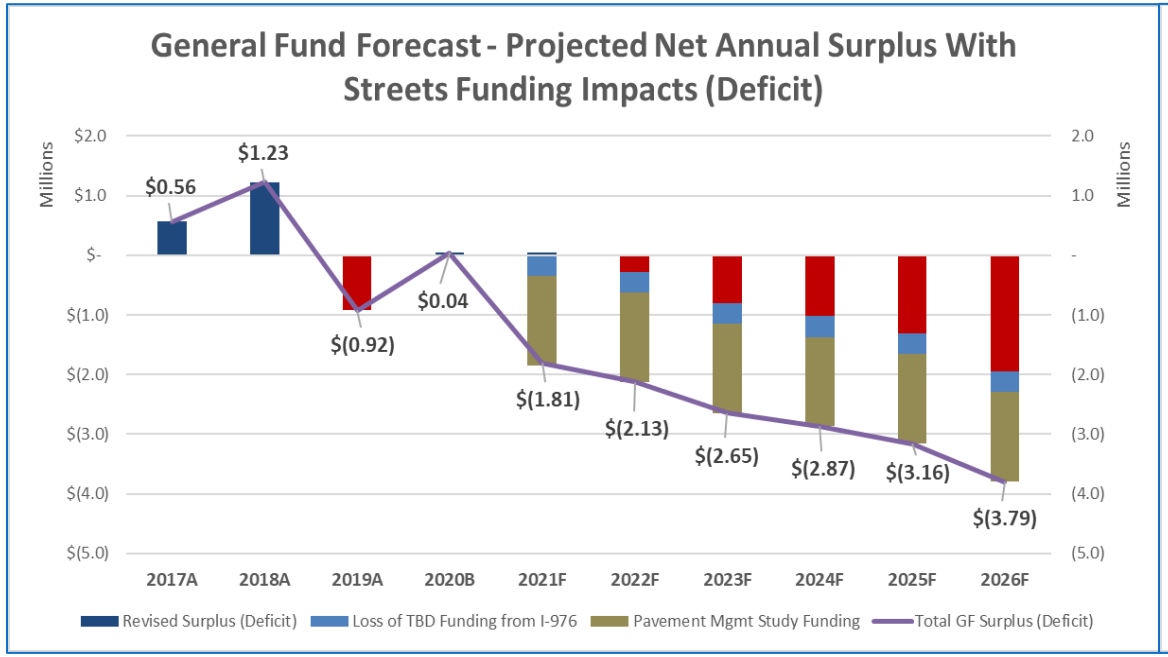
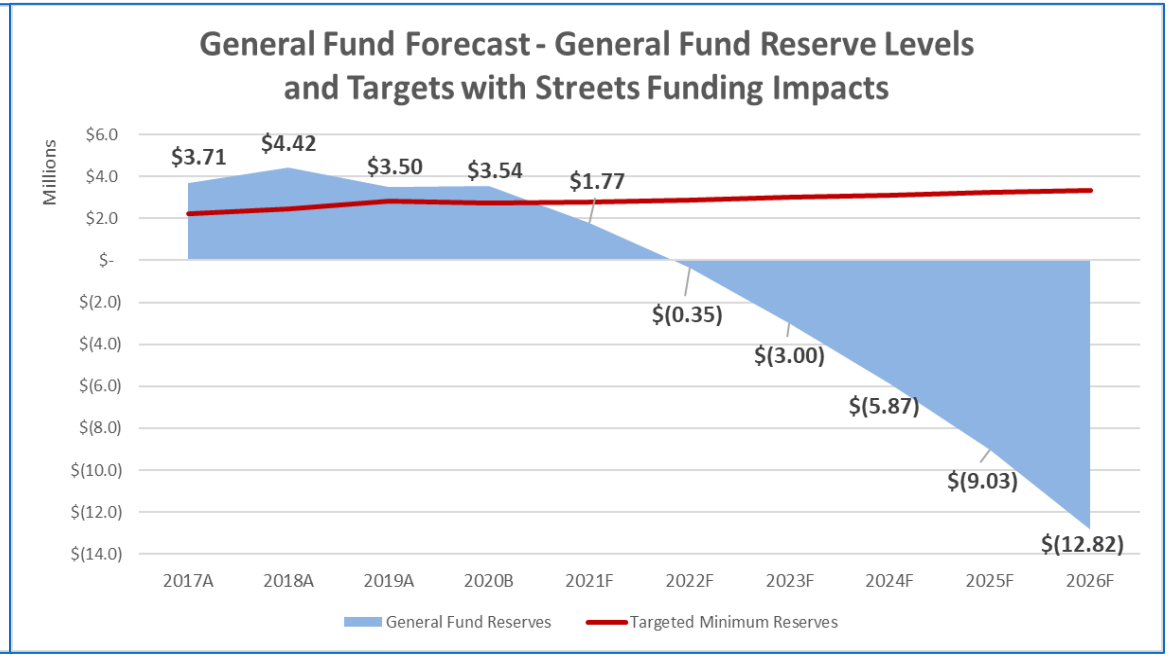
# General Fund Forecast Pre-COVID-19
# Forecast Including Streets Funding




- **Transportation Benefit District Funding** – If I-976 is upheld, an estimated $350,000 in annual General Fund transfers would be required to replace the loss in TBD funds starting in FY 2021
- **Streets Funding** - Pavement management study (2017) suggests additional investment of $1.5 million annually to maintain current PCI levels
- **Combined Impact** – General Fund reserves would be depleted fully in FY 2022

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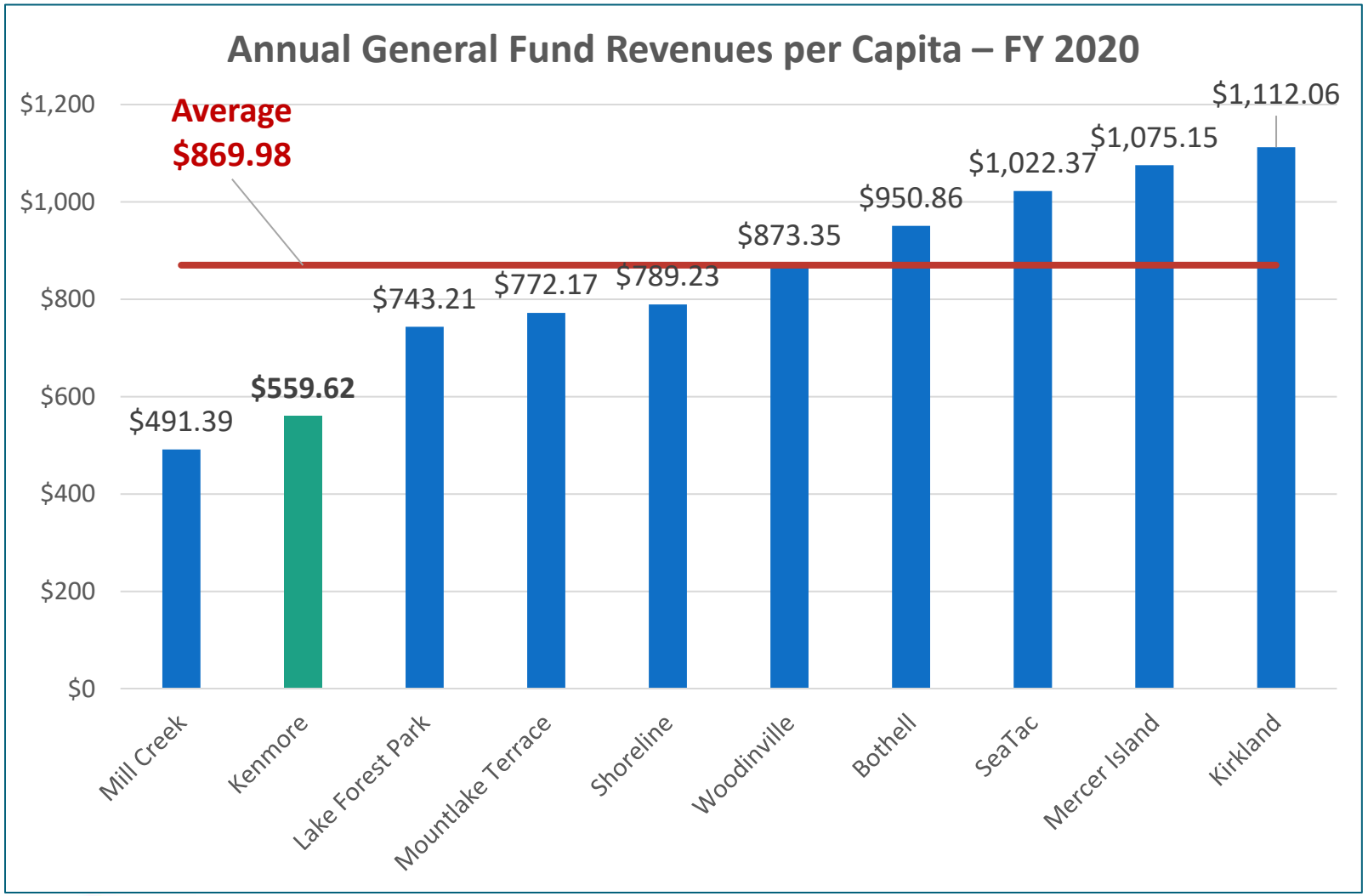
# Kenmore's General Fund Revenues Per Capita Compared to Peer Cities




- Kenmore's revenues per capita is lower than all other peer agencies except for Mill Creek
  - Revenues were normalized for agencies that provide fire services
- Average for peer agencies is 55% higher than Kenmore's per capita revenues

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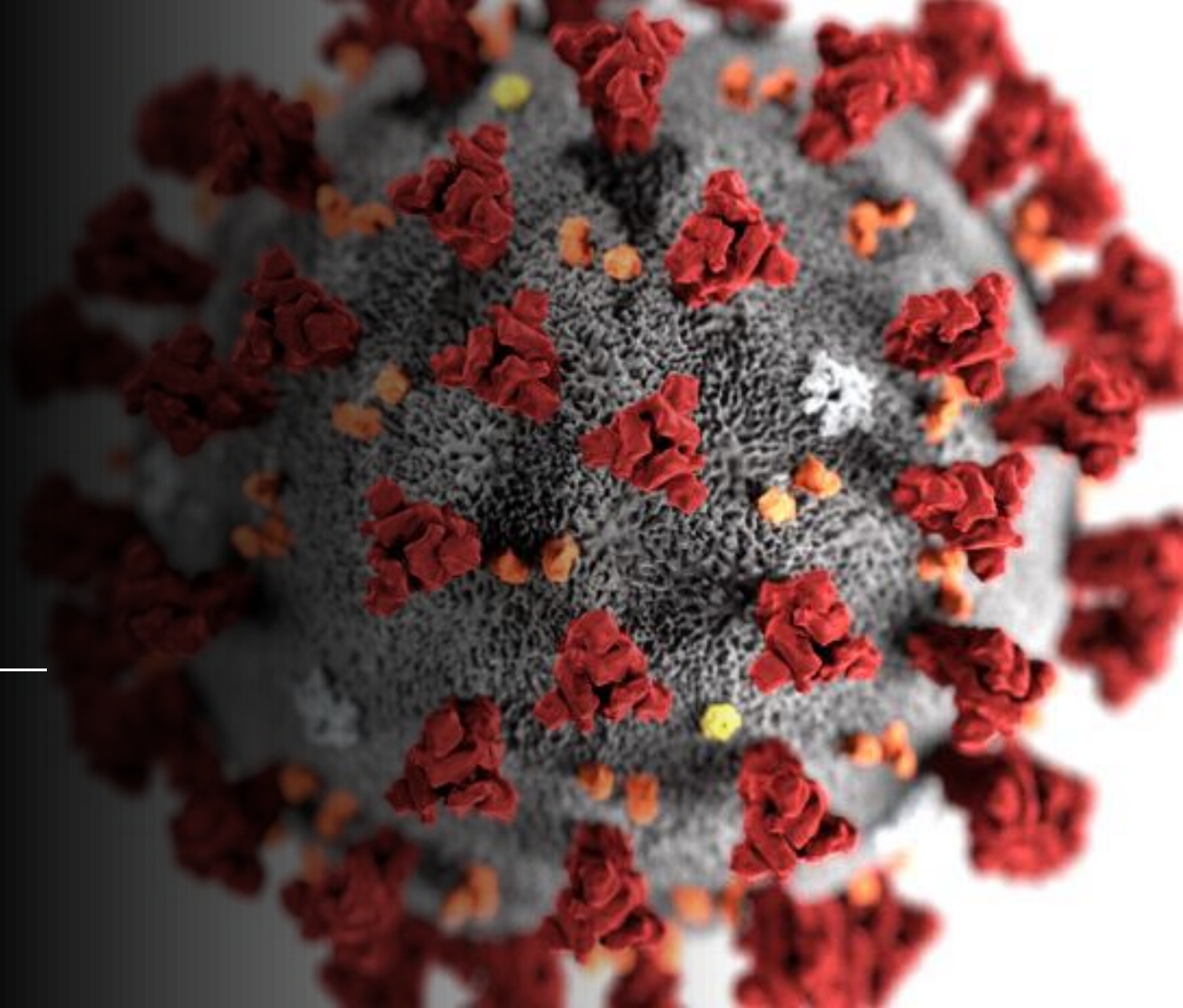
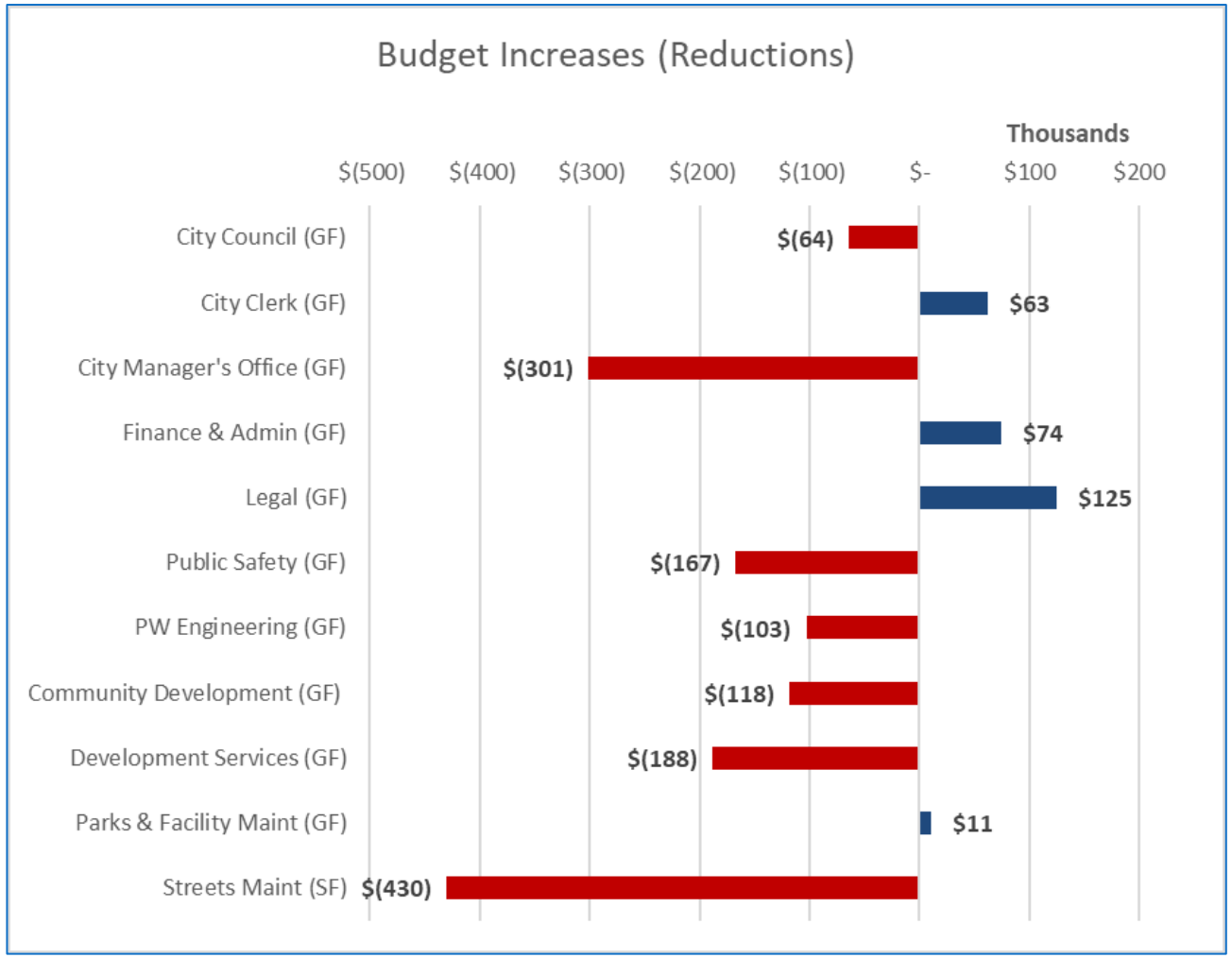
# Revised Forecast Resulting from the COVID-19 Pandemic



# Actions Taken Since Onset of Recession




- Net reductions total $1.1 million for FY 2020
  - Streets maintenance
  - Consulting costs
  - District court services
  - Technology projects
  - Operating and administrative supplies
  - Travel, meals and lodging
  - Community event sponsorships
  - Public information publications
- Ongoing reductions expected to total $300,000 annually

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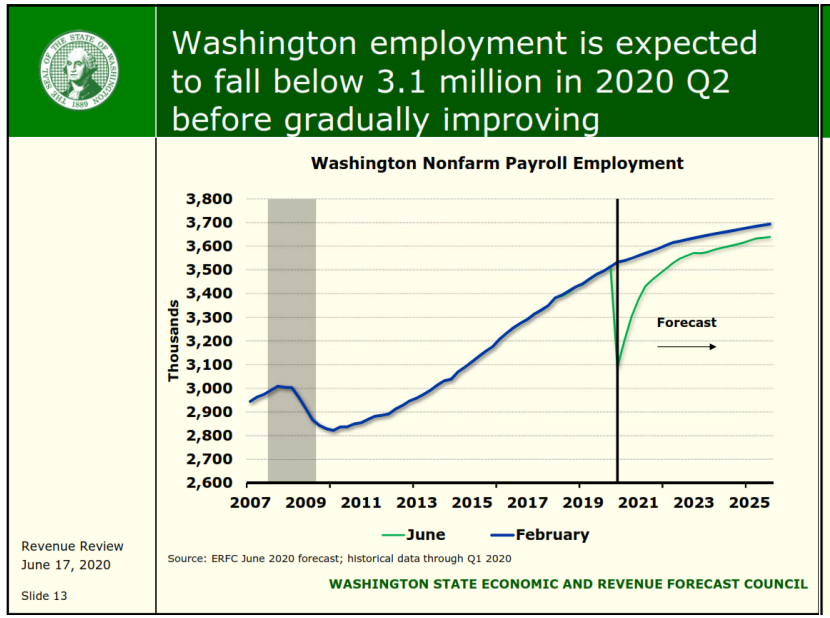
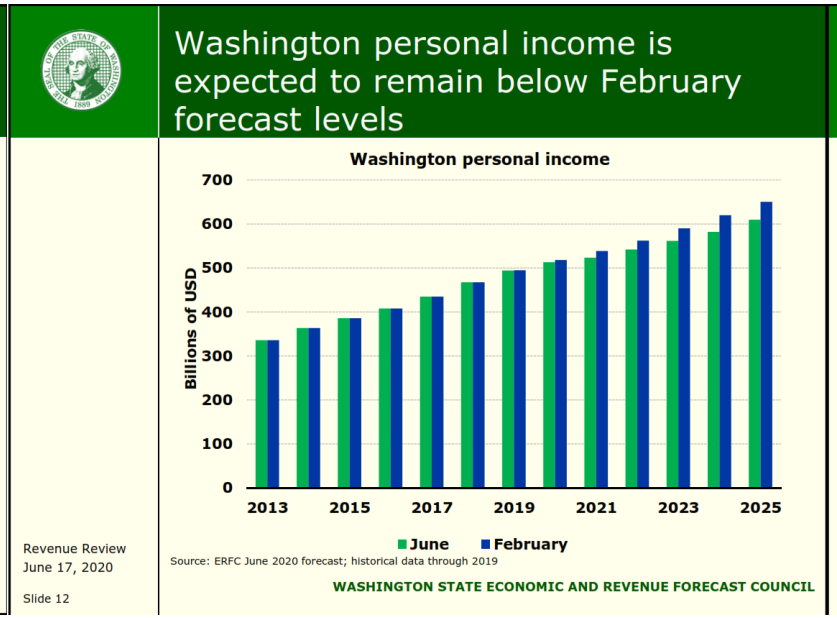
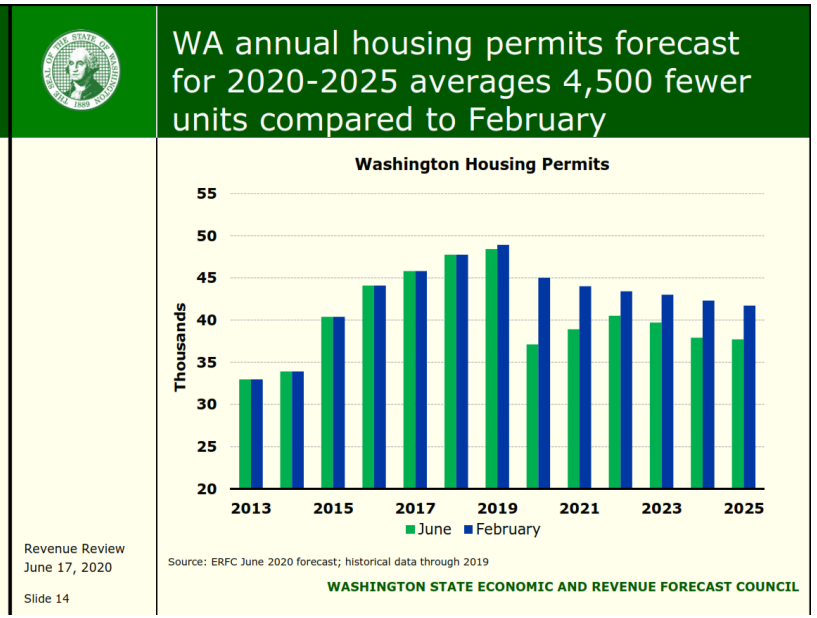
# Headed Towards a Prolonged Recession




- Employment levels have fallen nearly 15% from State's original forecast
- Personal income is expected to be 10% below expectations in 2021
- Housing permits are projected nearly 20% below original expectations

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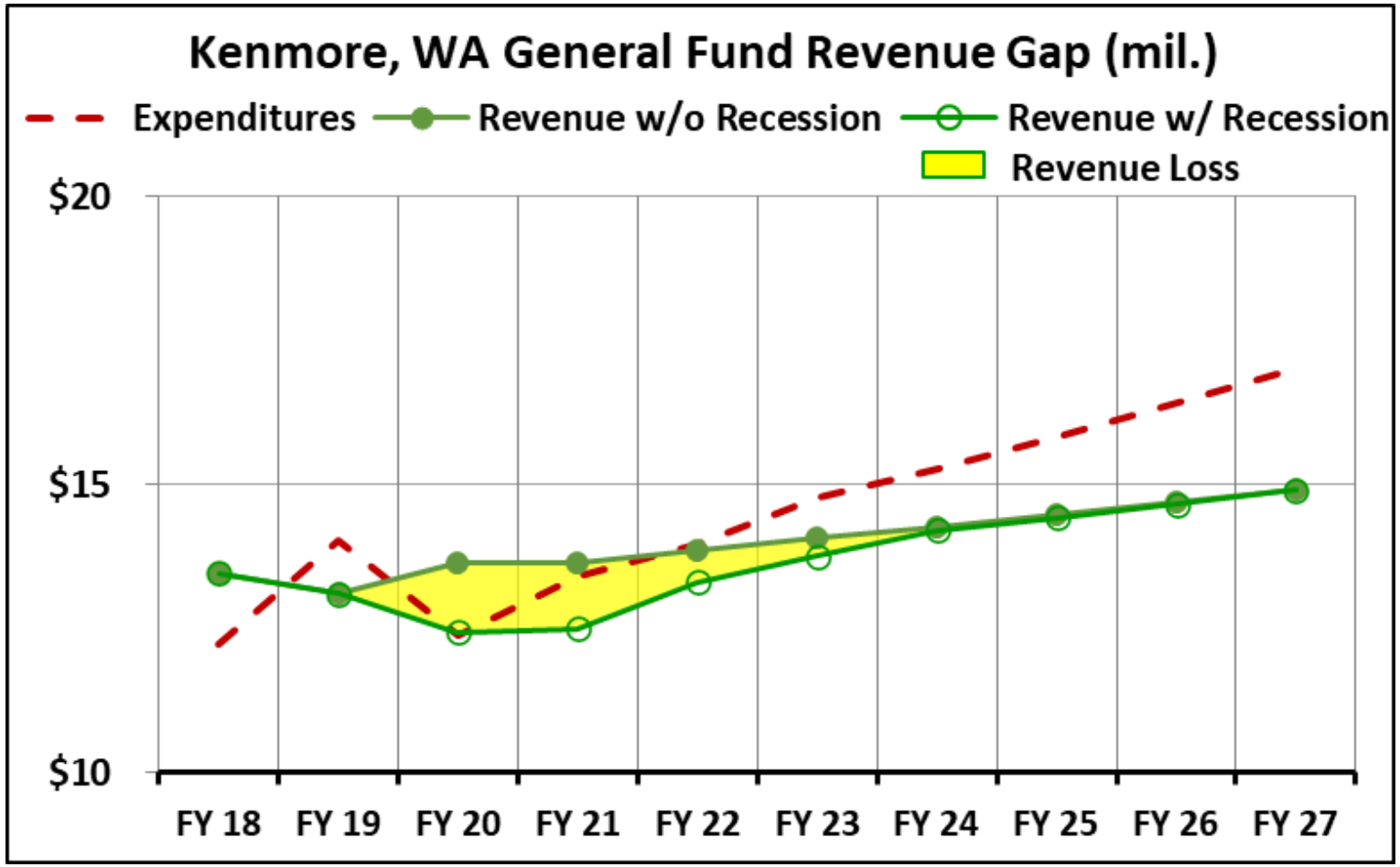
# Anticipated Revenue Losses from Recession




- Prolonged recession anticipated over next three to four years
- Revenue loss likely to approach $3.4 million through FY 2024
- Sales tax loss expected to be 25% in 2020

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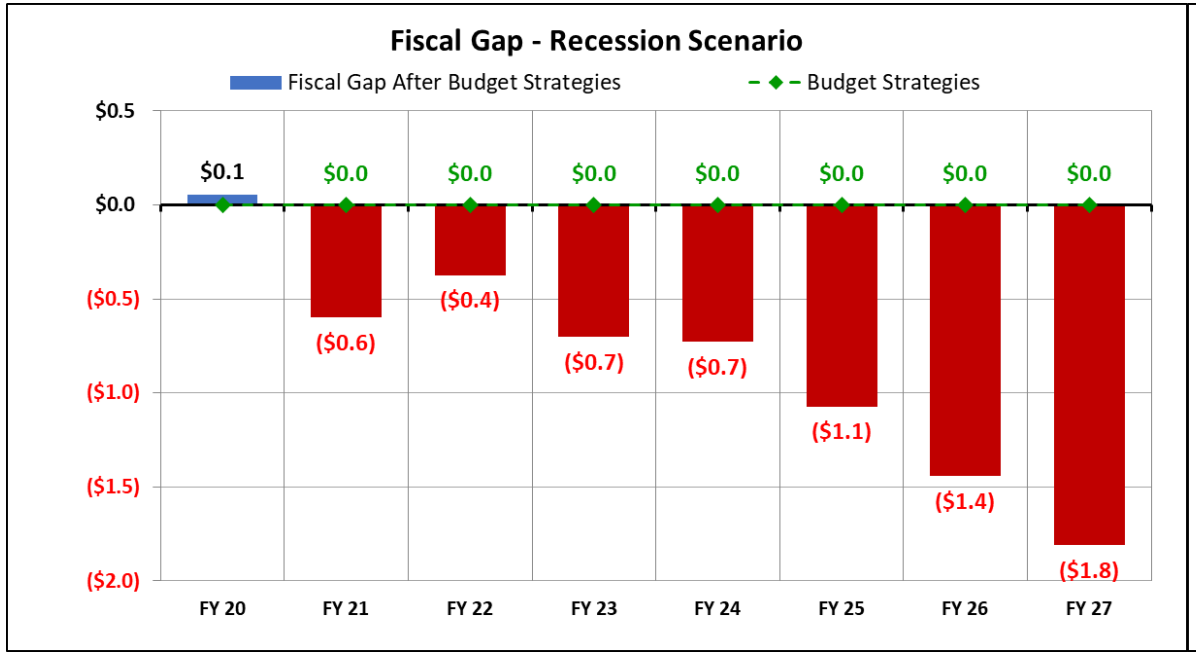
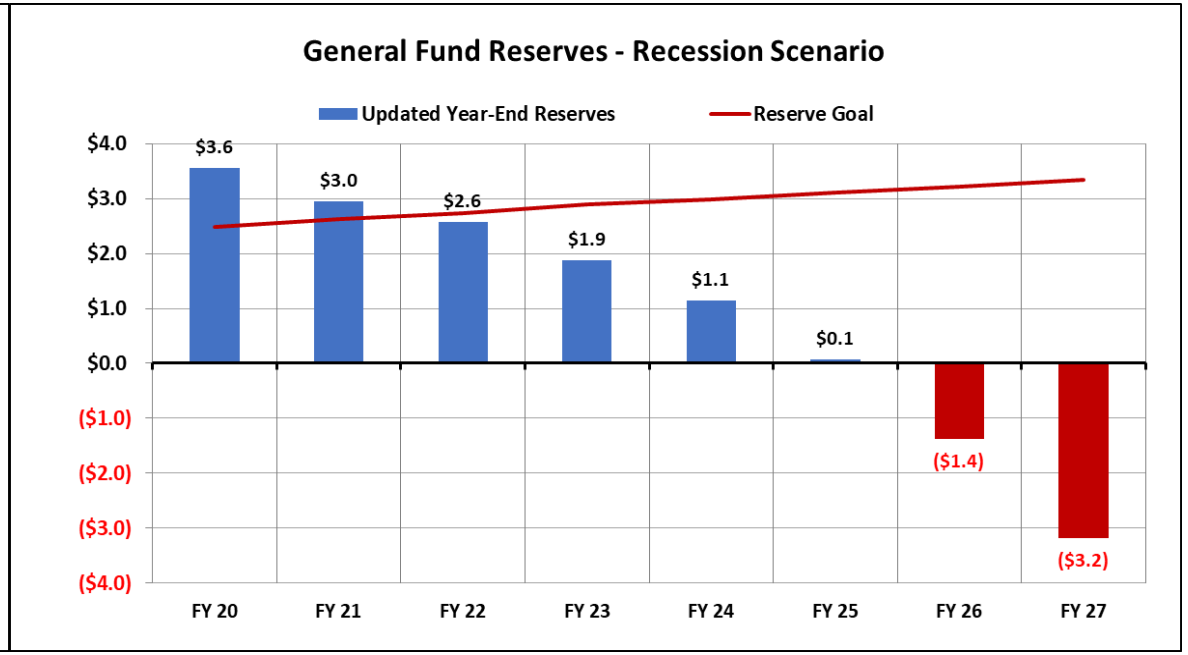
# Revised Pandemic Recession Forecast




- Structural deficit climbs to $1.8 million in FY 2027
- General Fund reserves depleted below zero in FY 2026, would not be restored without corrective action
- Requires nearly $750,000 in annual budget strategies by FY 2022, and over $1.8 million in ongoing budget strategies that keep pace with inflation by FY 2027 to eliminate structural gap

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# Budget Strategies and Scenarios

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# Fiscal Sustainability Planning

- Comprehensive set of fiscal policies and action steps to provide services in the long term without threat of insolvency or default of promised expenditures or liabilities
- Customized to the requirements and priorities of the City
- In-depth analysis of fiscal strategies
  - Fiscal impact
  - Feasibility

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# Budget Strategy Categories

| Expenditure Controls/Cost Shifts | Service Delivery Alternatives | Revenue Enhancements | Service Level Reductions |
|---|---|---|---|
| • Control expenditure growth<br>• Shift costs to other viable sources | • Shared services<br>• Contract out<br>• Insource | • Increase base (e.g., economic development<br>• Increase rate (e.g., tax rate, fees)<br>• Add new source (e.g., new tax, new fee) | • Workforce reductions<br>• Reduce program availability<br>• Eliminate program |

Maintain Service Levels

Reduce Services

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# Factors Used in Evaluating Budget Strategies

| Factors | Minimal Difficulty | Moderate Difficulty | High Difficulty |
|---|---|---|---|
| **Potential for community pushback** | Low | Medium | High |
| **Technical and operational difficulties of implementation** | Low | Medium | High |
| **Timing necessary for implementation** | Timely implementation is moderately to highly probable to meet timing required to resolve the structural deficit | Timely implementation is possible, but less than moderately probable | Timely implementation is unlikely to meet the timing required to resolve the structural deficit |
| **Disruptive impact on service delivery** | Low | Medium | High |
| **Disruptive impact within City organization** | Low | Medium | High |

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# Budget Strategies Quadrant Analysis

| Difficulty of Implementation | Potential Annual Fiscal Impact (est): Less than $50,000 | $500,000-$100,000 | Over $100,000 |
|---|---|---|---|
| Minimal difficulty | **Low-Moderate** | **Moderate-High** | **High** |
| Moderate difficulty | **Low-Moderate** | **Moderate** | **Moderate-High** |
| Significant difficulty | **Low/No** | **Low-Moderate** | **Moderate** |

| Potential to Provide Fiscal Sustainability | |
|---|---|
| **High potential** | High fiscal impact; minimal difficulty |
| **Moderate -High potential** | Medium/high fiscal impact; minimal/ moderate difficulty |
| **Moderate potential** | Medium/high fiscal impact; moderate/ significant difficulty |
| **Low-Moderate potential** | Low fiscal impact; moderate/ significant difficulty |
| **Low/no potential** | Low fiscal impact; significant difficulty |

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# Budget Strategies for Consideration – Maintaining Service Levels

| Expenditure Controls/Cost Shifts | | |
|---|---|---|
| **Strategy** | **Annual Fiscal Impact** | **Potential of Success** |
| 1. School resource officer elimination | $55,000 | Moderate |
| 2. Ballfields/parks lease costs shift | $50,000 | Moderate |
| 3. Cost allocation plan for admin/OH costs | $50,000 | Low |

| Service Delivery Changes | | |
|---|---|---|
| **Strategy** | **Annual Fiscal Impact** | **Potential of Success** |
| 4. Log Boom/Squire's Landing maintenance costs | $100,000 | Low-Moderate |
| 5. City organizational structure | $240,000 | Moderate-High |
| 6. Jail provider alternative | $50,000 | Low |
| 7. Fleet maintenance services | $20,000 | Low |
| 8. Refocus parks capital improvements projects | Un-determined | Un-determined |

| Revenue enhancements | | |
|---|---|---|
| **Strategy** | **Annual Fiscal Impact** | **Potential of Success** |
| **Councilmanic** | | |
| 9. Utility tax | $1.0 to $2.6 million | Moderate-High |
| 10. Photo traffic enforcement | $1.7 million | Moderate |
| 11. Property tax levy banked capacity | $400,000 | High |
| 12. Admissions tax | $200,000 | High |
| 13. Business and occupation tax | $580,000 | Moderate |
| 14. Development services fees to full cost recovery | $50,000 | Low-Moderate |
| **Voter Approval** | | |
| 15. Property tax levy lid lift | $243,000 to $728,000 | Low-Moderate |
| 16. Local sales tax of 0.2% | $540,000 | Low-Moderate |
| 17. Metropolitan park district | $458,000 | Low-Moderate |

# Budget Strategies for Consideration – Reducing Service Levels

| Service Level Reductions | | |
|---|---|---|
| **Strategy** | **Annual Fiscal Impact** | **Potential of Success** |
| 18. Take no action | N/A | None |
| 19. General fund service level and staffing reductions | Up to $1.8 million | Low-Moderate |
| 20. Street pavement standards reduction | $600,000 | Low-Moderate |
| 21. Travel, meetings and consulting contracts | $50,000 | Moderate |
| 22. Recreation coordination activities | $50,000 | Moderate |

| Total Fiscal Impact of All Solutions | |
|---|---|
| **Category** | **Total Annual Fiscal Impact** |
| **Expenditure controls/cost shifts** | $155,000 |
| **Service delivery changes** | $410,000 |
| **Revenue enhancements** | $3.9 million to $5.5 million |
| **Service level reductions** | $2.5 million |
| **Total** | **$7.0 million to $8.6 million** |
| **Goal** | **$1.8 million** |

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# Budget Strategy Scenario Packages

## Baseline Recession Forecast Before Corrections

- $1.8 million gap
- Depleted reserves by FY 2024
- Current staffing levels

## Scenario 1 – Strong Revenue Enhancements

- **School resource officer** elimination in FY 2021
- **Property tax levy banked capacity** over 3 years starting in FY 2022
- **Utility tax** of 6% in FY 2024
- **B&O tax** in FY 2027

## Scenario 2 – Strong Revenues Focused on Roads and Safety Improvements

- **School resource officer** elimination in FY 2021
- **Property tax levy banked capacity** over 3 years starting in FY 2022
- **Photo traffic enforcement** over 2 years starting in FY 2022
- Additional **capacity to fund roads** up to $4.5 million by FY 2027

# Budget Strategy Scenario Packages

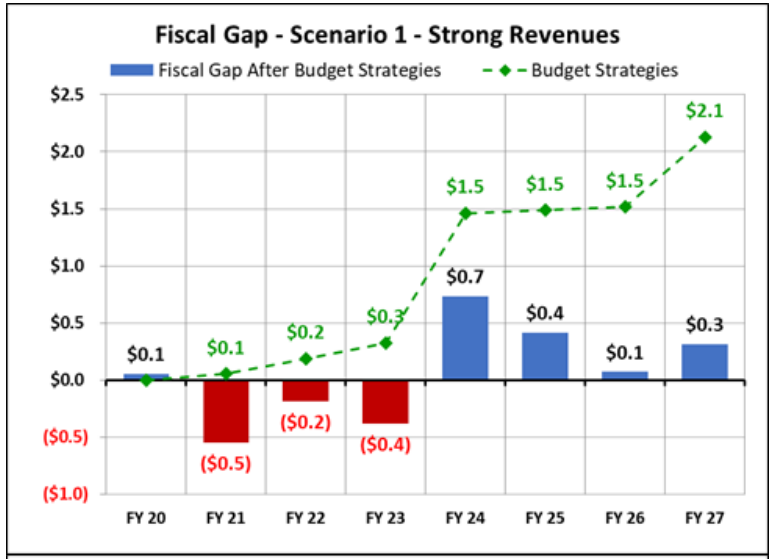
## Scenario 3 – Balanced Approach

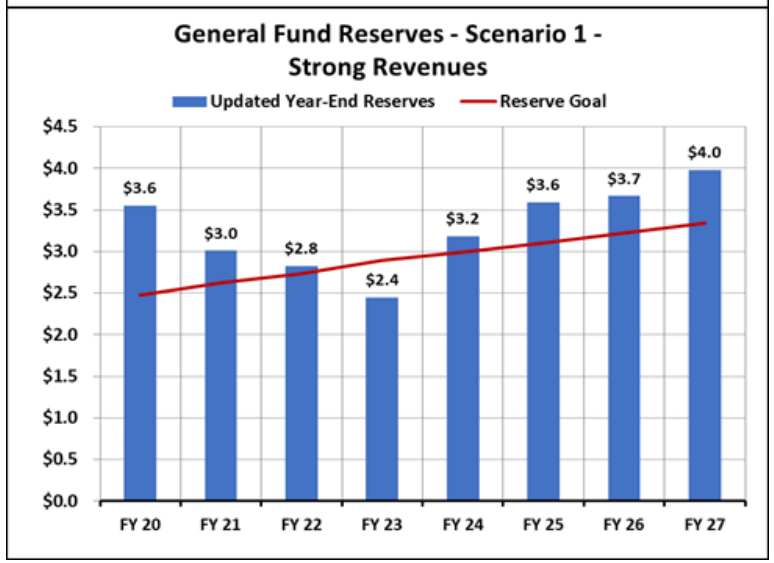
- **School resource officer** elimination in FY 2021
- **Travel, training and consulting services** in FY 2021
- **Recreation coordination activities** in FY 2021
- **Property tax levy banked capacity** over 3 years starting in FY 2022
- **Development services user fees** in FY 2022
- **City organizational structure change** in FY 2023
- **Utility tax** of 6% in FY 2026

## Scenario 4 – Strong Expenditure Reductions

- **School resource officer** elimination in FY 2021
- **Travel, training and consulting services** in FY 2021
- **Recreation and volunteer coordination activities** in FY 2021
- **Development services user fees** in FY 2022
- **Cost allocation plan** in FY 2022
- **Ballfields/parks lease costs** in FY 2022
- **Log Boom and Squire's Landing parks cost** in FY 2023
- **City organizational structure change** in FY 2023
- **Property tax levy banked capacity** over 3 years starting in FY 2023
- **Street pavement standards reduction** in FY 2026

# Scenario 1 – Strong Revenue Enhancements




- **Strategies**
  - **School resource officer** elimination in FY 2021
  - **Property tax levy banked capacity** over 3 years starting in FY 2022
  - **Utility tax** of 6% in FY 2024
  - **B&O tax** in FY 2027
- **Outcome**
  - Reserves restored to reserve goal by FY 2024

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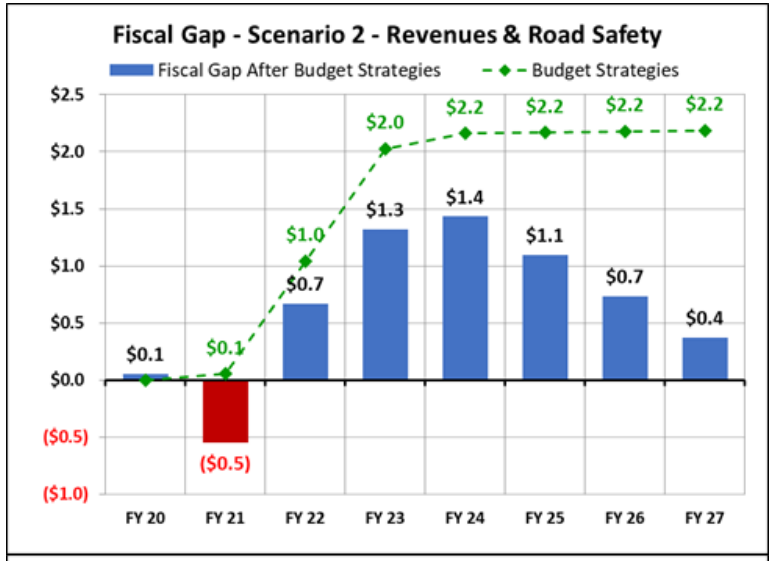
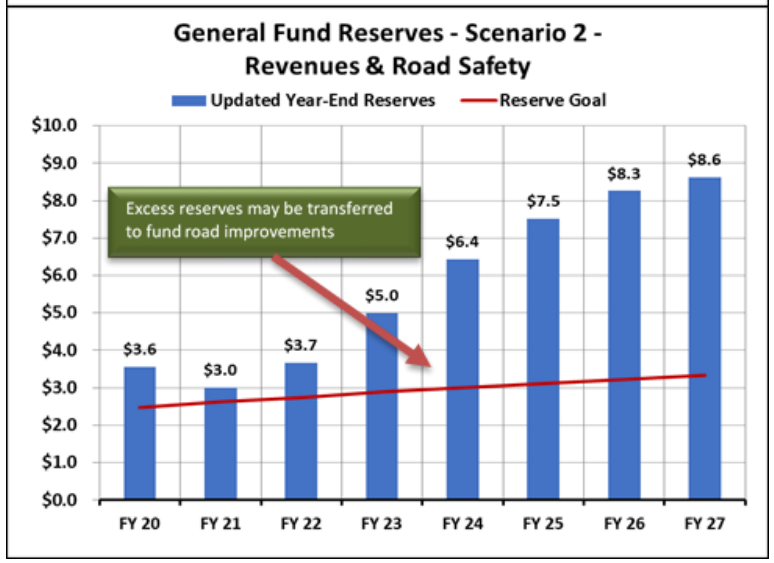
# Scenario 2 – Strong Revenue Focused on Road and Safety Improvements




- **Strategies**
  - **School resource officer** elimination in FY 2021
  - **Property tax levy banked capacity** over 3 years starting in FY 2022
  - **Photo traffic enforcement** over 2 years starting in FY 2022
  - Additional **capacity to fund roads** up to $4.5 million by FY 2027
- **Outcome**
  - Reserves maintained above reserve goal in all years
  - Allows to additional funding to fund road improvements

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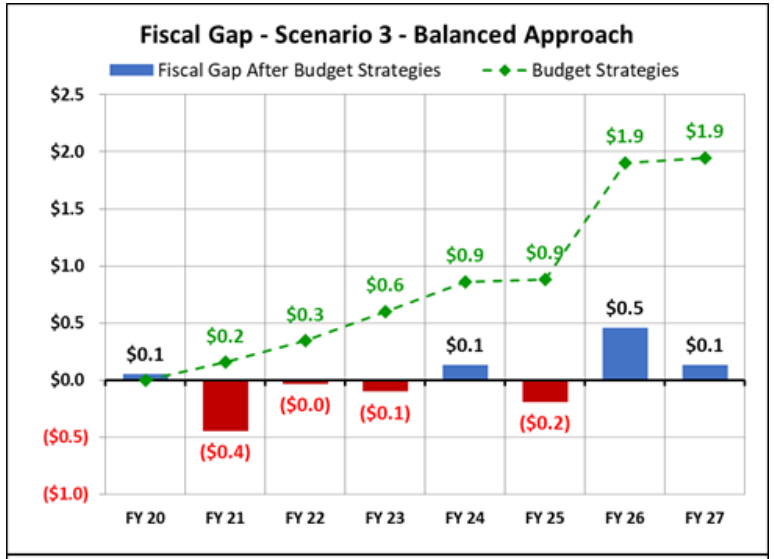
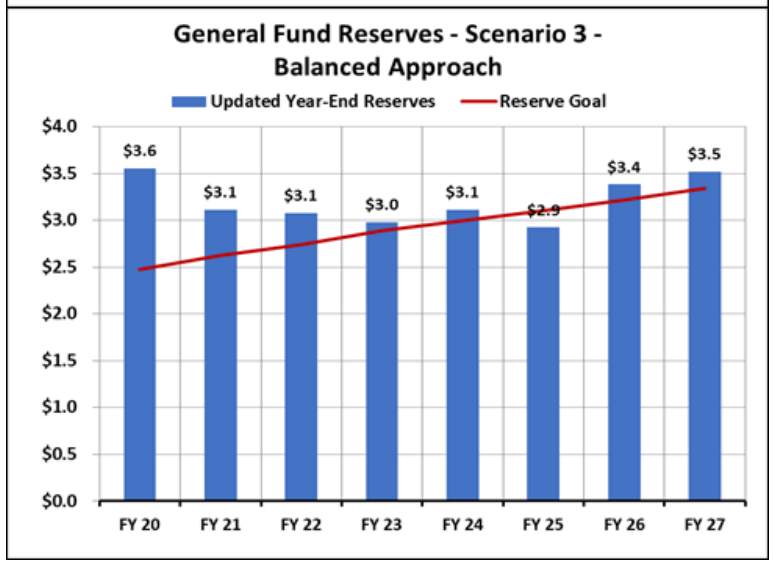
# Scenario 3 – Balanced Approach




- **Strategies**
  - **School resource officer** elimination in FY 2021
  - **Travel, training and consulting services** in FY 2021
  - **Recreation coordination activities** in FY 2021
  - **Property tax levy banked capacity** over 3 years starting in FY 2022
  - **Development services user fees** in FY 2022
  - **City organizational structure change** in FY 2023
  - **Utility tax** of 6% in FY 2026
- **Outcome**
  - Reserves temporarily dip below reserve goal in FY 2025, but are restored above reserve goal in FY 2026

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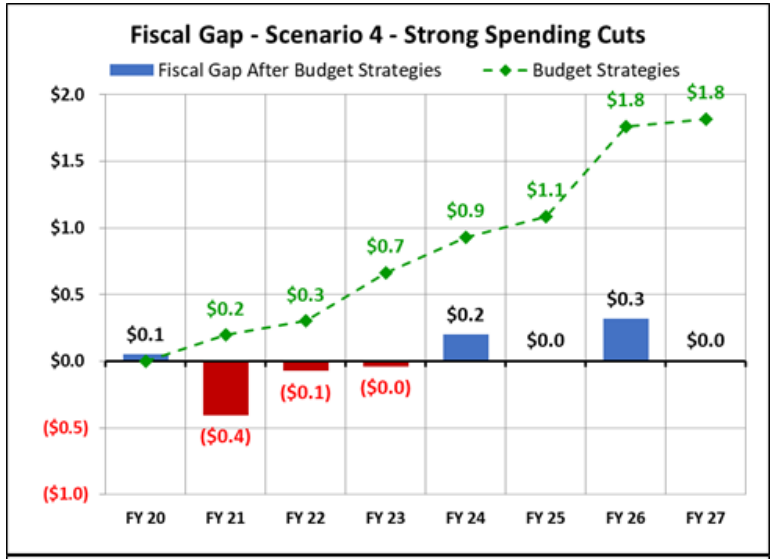
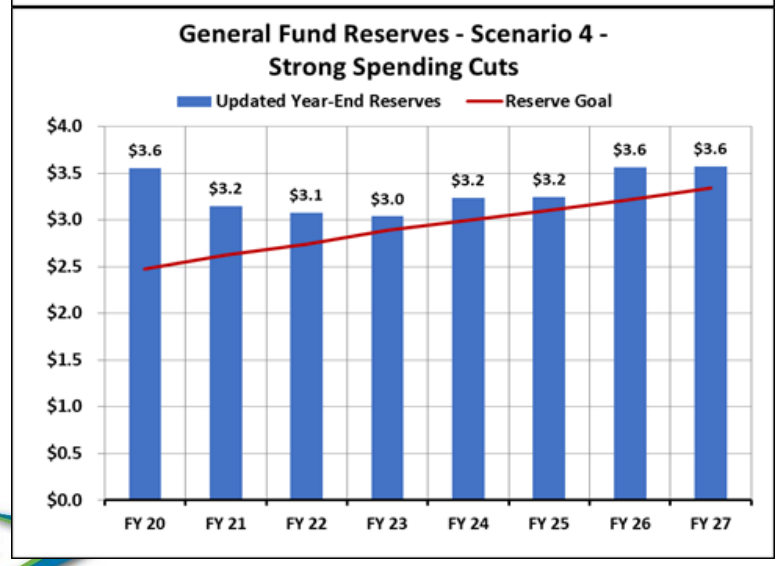
# Scenario 4 – Strong Expenditure Reductions




- **Strategies**
  - **School resource officer** elimination in FY 2021
  - **Travel, training and consulting services** in FY 2021
  - **Recreation and volunteer coordination activities** in FY 2021
  - **Development services user fees** in FY 2022
  - **Cost allocation plan** in FY 2022
  - **Ballfields/parks lease costs** in FY 2022
  - **Log Boom and Squire's Landing parks cost** in FY 2023
  - **City organizational structure change** in FY 2023
  - **Property tax levy banked capacity** over 3 years starting in FY 2023
  - **Street pavement standards reduction** in FY 2026
- **Outcome**
  - Reserves remain at or above reserve goal in all years

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# Management Partners Recommendations

## Recommended Scenarios:

- Scenario 1 – Strong revenue enhancements
- Scenario 2 – Strong revenue enhancements focused on road and safety improvements

- Why Scenarios 1 and 2?
  - Revenue diversification is necessary for long-term sustainability
  - Reliance on property taxes that only grow by 1% per year will not keep pace with cost of providing services
  - Increases Kenmore's per capita revenues on par with other comparable cities
  - Road funding is already insufficient based on existing standards

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# Discussion/Questions

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