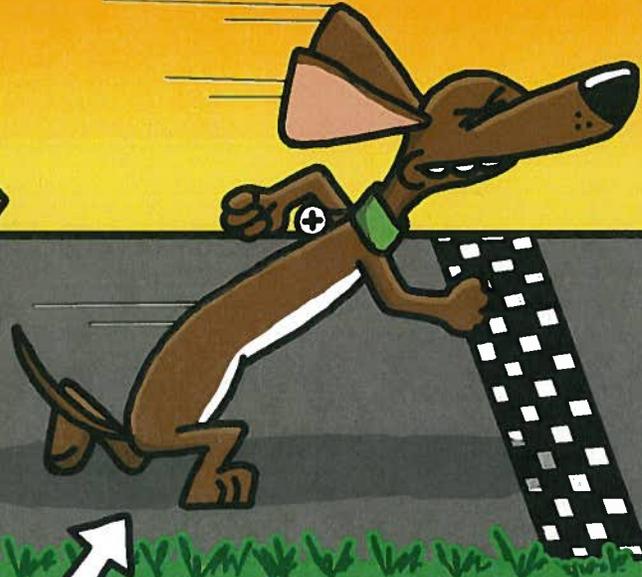


CITY OF KENMORE, WASHINGTON

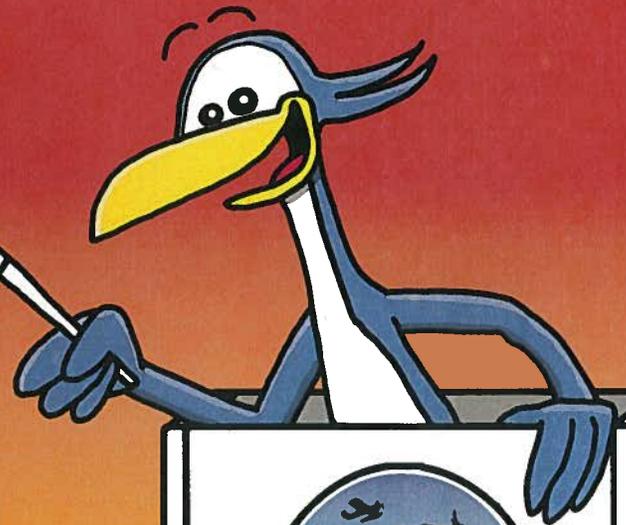
# 2017-18 BIENNIAL BUDGET

**PRELIMINARY**

**EXPENSES**



**REVENUES**





# **City of Kenmore, Washington**

## **2017-2018 Proposed Preliminary Budget**

David Baker, Mayor  
Allan Van Ness, Deputy Mayor  
Milton Curtis, Councilmember  
Stacey Denuski, Councilmember  
Nigel Herbig, Councilmember  
Brent Smith, Councilmember  
Laurie Sperry, Councilmember

Rob Karlinsey, City Manager  
Joanne M. Gregory, CPA, Finance Director

***For the Period January 1, 2017 – December 31, 2018***

*Copies of the 2015-2016 Adopted Budget are available for viewing on the City's website [www.kenmorewa.gov](http://www.kenmorewa.gov), at City Hall, and the Kenmore Library*

*The cover image used in the preliminary budget document was designed by Mr. Kent Vaughan, Senior Engineer in the City of Kenmore Public Works Department.*

**City of Kenmore, Washington**  
**2017-2018 Preliminary Budget**  
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City of Kenmore, Washington  
Budget Guide

City of Kenmore, Washington  
2017-2018 Budget Calendar

<b>Major Task</b>	<b>2016 Target Date and/or Deadline</b>
<b>City Council Review and Validation of Priority Based Budget (PBB) Results</b>	<b>January 10</b>
<b>Departments Update PBB Program Inventories</b>	<b>April - May</b>
<b>Departments Update PBB Personnel Allocations</b>	<b>May - June</b>
<b>City Council Budget Retreat and Update on Priority Based Budgeting</b>	<b>June 20</b>
<b>Departments Update PBB Program Costs</b>	<b>June - July</b>
<b>Departments Participate in PBB Program Scoring Process</b>	<b>August</b>
<b>Staff Teams Participate in PBB Peer Reviews of Program Scores</b>	<b>September</b>
<b>Call to Budget to all Departments</b>	<b>September 10</b>
<b>City Finalizes PBB Peer Review and Program Costs</b>	<b>September 16</b>
<b>Develop PBB Final Program Scores and Quartile Rankings</b>	<b>September 20</b>
<b>Departments Review "PBB Peer Review Exception Report"</b>	<b>September 21</b>
<b>Create PBB Model: Resource Alignment Diagnostic Tool</b>	<b>September 22</b>
<b>Present PBB Model to City Council</b>	<b>September 26</b>
<b>Department Estimates of Revenues and Expenditures For 2017-2018</b>	<b>September 28</b>
<b>City Manager Reviews Estimates of Revenues and Expenditures</b>	<b>September 26-October 7</b>
<b>2015-2016 Estimates of Revenue and Overview of 2017-2018 Proposed Preliminary Budget to City Council</b>	<b>October 10</b>

City of Kenmore, Washington  
2017-2018 Budget Calendar

<b>City Clerk Publishes Notice of Filing of Proposed Preliminary Budget and Notice of Public Hearing on Revenues and Proposed Preliminary Budget (scheduled for Oct 24, Nov 14 and 28)</b>	<b>October 14 Publish once a week for two consecutive weeks for Hearings in October &amp; November</b>
<b>Review of 2017-2022 Capital Improvement Program</b>	<b>October 17</b>
<b>Adopt 2017-2022 Capital Improvement Program Review of 2017-2018 Proposed Biennial Budget</b>	<b>October 24</b>
<b>Preliminary Budget and City Manager's Budget Message are filed with the City Clerk and distributed to the City Council</b>	<b>October 24</b>
<b>Copies of Preliminary Budget Document are made Available to the Public</b>	<b>October 31</b>
<b>Public Hearing on Property Tax Levy for 2017</b>	<b>November 7</b>
<b>Review of 2017-2018 Proposed Biennial Budget Revenue, finance, clerk, dev services city manager, police</b>	<b>November 7</b>
<b>Review of 2017-2018 Proposed Biennial Budget Public Hearing on 2017-2018 Proposed Biennial Budget Engineering, Comm Dev, PW maint, Street</b>	<b>November 14</b>
<b>Review 2015-2016 Budget Amendments Review of 2017-2018 Proposed Biennial Budget Swm, KV, SO, impact fees, tbd, other</b>	<b>November 21</b>
<b>Public Hearing On 2017-2018 Final Biennial Budget and 2017 Property Tax Levy Adopt 2017 Property Tax Levy by Ordinance</b>	<b>November 28 (Nov 30 filing deadline)</b>
<b>Review of 2017-2018 Proposed Biennial Budget</b>	<b>December 5 (as needed)</b>
<b>Adopt 2015-2016 Budget Amendment Ordinance Adopt 2017-2018 Biennial Budget by Ordinance</b>	<b>December 12</b>

# City of Kenmore, Washington

## The Budget and the Budget Process

The budget includes the financial planning and legal authority to obligate public funds. The budget is the policy direction by the City Council to the administrative organization. The City Council, the Administration, and the public are all involved in establishing the budget for the City of Kenmore.

The budget provides four functions:

### **1. A Policy Document**

The budget functions as a policy document. The decisions made as a result of the budget will reflect the principles or plans that guide future actions. As a policy document, the budget links goals and policy to the actual day-to-day activities of the organization.

### **2. An Operational Guide**

The budget of the City finances day-to-day operations and capital projects. Activities and costs of each City function are described in the following sections. The budget also addresses debt management, current and budgeted personnel levels, long-range planning, capital spending plans, and the tax base and its relationship to the provision of services.

### **3. A Communications Device**

The budget is an opportunity to encourage public review of City operations. The budget describes the activities of the City, the reason or cause for those activities, future implications, and the direct relationship to the citizenry.

### **4. A Legally Required Financial Planning Tool**

The budget is a financial planning tool, its most traditional use. Preparing and adopting a budget is a State law requirement of all cities, Title 35A of the Revised Code of Washington (RCW). A balanced budget must be adopted prior to the expenditure of any City funds. The budget is the legal authority to expend public moneys and controls those expenditures by setting the amount of the appropriation at the fund level. The revenues of the City are estimated, along with available cash carry-forward, to indicate funds available. The budget also takes into account unforeseen contingencies, and provides for the need for periodic adjustments. As stated in RCW 35A.33.075 "Appropriations shall be limited to the total estimated revenues contained therein, including the amount to be raised by ad valorem taxes and the unencumbered fund balances estimated to be available at the close of the current fiscal year."

The budget process for the City of Kenmore is a year-round activity. The formal budget planning for 2017-2018 began in January 2016 during the Council retreat. The Council held a budget retreat again in June, 2016. The City Manager and the Department Directors prepared the preliminary proposed biennial budget June into October. The City Council reviews the budget during October and November.

The City of Kenmore budget procedures are mandated by RCW 35A.33.135. The first requirement is for the City Manager to submit estimated revenues and expenditures to the

## City of Kenmore, Washington The Budget and the Budget Process

City Council on or before the first Monday in October. Although State law requires that the City Manager present the balanced preliminary budget to the City Council in November, the City Manager presents the balanced proposed preliminary budget along with estimated revenues and expenditures in October. Public hearings are held to obtain public comments. Revisions, as applicable, are made during Council discussion. The Council makes its adjustments to the budget and adopts by ordinance a balanced budget no later than December 31. The operating budget as adopted is published, distributed, and made available to the public during the first three months of the following year.

The City established a two-year biennial budget by Ordinance in 2008, in accordance with RCW 35A.34.040 and its first biennial budget period was 2009-2010. About 37 Washington cities currently use biennial budgets.

As provided for in the RCW, the City must conduct a mid-biennium review and modification of the biennial budget no sooner than eight months after the start, nor later than the conclusion of the first year, of the fiscal biennium. The budget modification shall be approved by ordinance in the same manner as are other ordinances of the City. At other times, when the City Council determines it is in the best interest of the City to increase or decrease the appropriation for a particular fund, the Council may only do so by ordinance approved by a majority of the Council after holding a public hearing. This is usually performed after the mid-biennium review, prior to close of the two-year budget period.

The City Manager is authorized to transfer budgeted amounts within a fund; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, or monetary benefits must be approved by the City Council.

# City of Kenmore, Washington

## Financial Policies

### 1) OPERATING BUDGET - OVERALL

- a) The budget should be a performance, financing and spending plan, agreed to by a majority of the City Council. It should contain information and data regarding expected revenues, expected expenditures and expected performance.
- b) The City Manager will prepare and refine written policies and goals to guide the preparation of performance, financing and spending plans for the City budget. Adopted budgets will comply with the adopted budget policies and City Council priorities.
- c) As a comprehensive business plan, the budget should provide the following critical elements recommended by the Government Finance Officers Association: public policies, financial plan, operations guide and communications device.
- d) The City's budget presentation should display the City's service/delivery performance plan in a Council constituent-friendly format. Therefore, the City will use a program budgeting format to convey the policies for and purposes of City operations. In 2014 the City began a priority-based budgeting (PBB) process that informed the development of the 2015-2016 biennial budget.
- e) Decision making for capital improvements will be coordinated with the operating budget to make effective use of the City's limited resources for operating and maintaining facilities.
- f) The City Manager has primary responsibility for: a) formulating budget proposals in line with City Council priority directions; and b) implementing those proposals once they are approved.

### 2) FISCAL INTEGRITY

- a) Ongoing operating costs will not exceed the amount of ongoing revenue to finance these costs. New program costs will have identified ongoing revenues.
- b) Any available carryover balance will only be used to offset one-time or nonrecurring costs. Cash balances in excess of the amount required to maintain strategic reserves will be used to fund one-time or nonrecurring costs.
- c) The City will maintain the fiscal integrity of its operating, debt service and capital improvement budgets, which provide services and maintain certain public facilities, streets and utilities. It is the City's intent to maximize the level of public goods and services while minimizing the level of debt.
- d) Mitigation fees shall be used only for the project or purpose for which they are intended.
- e) The City will maintain a balanced budget, which is defined as planned funds available equal planned expenditures and ending fund balance.

### 3) CONTINGENT ACCOUNTS

- a) It will be the policy of the City to maintain General Fund balance reserves at a level at least equal to twenty-percent (20%) of the total General Fund budgeted revenue, excluding fund balance, building permits, land use & mitigation fees, and any significant one-time revenue (i.e. State or Federal grants). These operating reserves shall be maintained to offset revenue shortfalls; provide payment of approved expenditures due to cash flow shortages; and provide funding for unanticipated emergencies.

## City of Kenmore, Washington Financial Policies

- b) For purposes of calculating adequate reserve levels, the General Fund cash balance will be used, net of any designated amounts.
- c) The City will maintain a building permit reserve in the General Fund to provide for completion of building permit obligations in the event of a decline in development activity. This reserve shall be equal to twenty-five percent (25%) of the annual building inspection and review costs.

The 2017 and 2018 calculations are shown below:

<b>2017</b>		
2015 Budgeted Revenues		\$11,803,470
Less Development Fees:		
Building Permits	(368,533)	
Land Use and Plan Review	<u>(307,439)</u>	(675,972)
Less One-Time Items:		
Interfund Transfers	(0)	
State Grants	<u>(86,500)</u>	<u>(86,500)</u>
Net Revenues		11,040,998
Multiplied by 20%		2,208,199
Permit Reserve Calculation:		
Development Fees (above)		675,972
Multiplied by 25%		<u>168,993</u>
Minimum General Fund Balance Reserve Required for 2017		\$2,377,192

<b>2018</b>		
2016 Budgeted Revenues		\$11,729,704
Less Development Fees:		
Building and Other Permits	(325,383)	
Land Use and Plan Review	<u>(279,223)</u>	(604,606)
Less One-Time Items:		
Interfund Transfers	(0)	
State Grants	<u>(65,000)</u>	<u>(65,000)</u>
Net Revenues		(11,060,098)
Multiplied by 20%		2,212,019
Permit Reserve Calculation:		
Development Fees (above)		(874,826)
Multiplied by 25%		<u>151,151</u>
Minimum General Fund Balance Reserve Required for 2018		\$2,363,171

## City of Kenmore, Washington Financial Policies

- d) The City will maintain a twenty-percent (20%) operating expense reserve for the Surface Water Management Fund. This operating reserve shall be created and maintained to provide sufficient cash flow to meet daily financial needs and will be based on total operating expenses. For budget purposes, operating expenses will be calculated on the fund's total budgeted expenses, excluding capital purchases. This calculation will exclude any amounts received from the King County Memorandum of Agreement (MOA):

<u>Surface Water Management Fund</u>	
2017 Operating Expenses	\$1,634,371
Multiplied by 20% = Policy Reserve	\$326,874

<u>Surface Water Management Fund</u>	
2018 Operating Expenses	\$1,647,031
Multiplied by 20% = Policy Reserve	\$329,406

- e) The City shall maintain the Equipment Replacement Fund for the replacement of equipment, furniture, computers and vehicles. The equipment reserve funds will be maintained at a level sufficient to meet scheduled equipment replacement so as to sustain an acceptable level of municipal services and prevent physical deterioration of City assets.

#### 4) REVENUES

- a) Revenue estimates shall not assume any growth rates in excess of inflation. Real growth that occurs will be recognized through budgetary adjustments only after it takes place. This minimizes the likelihood of either a reduction in force or service level in the event revenues would be less than anticipated.
- b) Investment income earned through the City's investment pool shall be budgeted on the allocation methodology, i.e., the projected average monthly balance of each participating fund.

#### 5) INTERNAL GOVERNMENTAL SERVICE (INTERFUND) CHARGES

Depreciation of equipment, furnishings and computer software will be included in the service charges paid by City departments to the Equipment Replacement Funds. This will permit the accumulation of cash to cost effectively replace these assets and smooth out budgetary impacts.

# City of Kenmore, Washington

## Financial Policies

### 6) CONTRACTUAL SERVICES

The City will thoroughly investigate the feasibility of contracting certain public services, recognizing that the City Council's policy is to contract services versus conducting those services in-house.

### 7) MINIMIZATION OF ADMINISTRATIVE COSTS

An appropriate balance will be maintained between resources allocated for direct services to the public and resources allocated to ensure sound management, internal controls and legal compliance.

### 8) RETIREMENT

The budget shall provide for funding of the City's share of the employee Social Security Substitute Plan and Public Employees Retirement System (PERS).

### 9) MONTHLY REPORT

- a) A revenue/expenditure report will be produced monthly so that it can be directly compared to the actual results of the fiscal year to date.
- b) All budget amendments, both revenues and expenditures, will be noted in the monthly report.

### 10) MULTI-YEAR FORECAST

- a) Each year, the City will update revenue and expenditure projections for the next six years. Projections will include estimated operating costs for future capital improvements that are included in the capital budget.
- b) This budget data will be presented to the City Council in a form that will facilitate annual budget decisions, based on a multi-year strategic planning perspective.

### 11) QUARTERLY REPORT

- a) The budget will be produced so that it can be directly compared to the actual results of the fiscal year and presented in a timely quarterly report.
- b) All budget amendments will be noted in the report.

### 12) CITIZEN INVOLVEMENT

- a) Citizen involvement during the budget process shall be encouraged through public hearings and public workshops.
- b) Involvement shall also be facilitated through any Council appointed boards, task forces and commissions which shall serve in advisory capacity to the Council and staff. Citizens can also be involved by attending community meetings and public forums.

### 13) FEES

- a) Fees shall be phased toward covering 100% of the cost of service delivery, unless such amount prevents an individual from obtaining essential services. Fees or service charges should not be established to generate money in excess of the cost of providing service.
- b) Fees may be less than 100% if other factors, e.g., market forces, competitive position, etc., need to be recognized.

# City of Kenmore, Washington

## Financial Policies

### 14) CAPITAL BUDGET - FISCAL POLICIES

- a) Capital project proposals should include as complete, reliable and attainable cost estimates as possible. Project cost estimates for the Capital Budget should be based upon a thorough analysis of the project and are expected to be as reliable as the level of detail known about the project. Project cost estimates for a six-year plan should be as reliable as possible, recognizing that earlier project cost estimates will be more reliable than cost estimates in the later years.
- b) Capital projects should include a comprehensive resource plan. This plan should include the amount and type of resources required, and the funding and financing strategies to be employed. The specific fund and timing should be outlined. The plan should indicate resources necessary to complete any given phase of the project, e.g., design, rights-of-way acquisition, construction, project management, etc.
- c) All proposals for capital projects will be presented to Council within the framework of a Capital Budget. No consideration will be given to the commitment of capital funds outside the presentation of the entire Capital Budget, except that emergency capital projects may be committed outside the normal review procedure.
- d) Major changes in project cost estimates should be presented to Council for review and approval. Major changes are defined as fifteen percent (15%) for capital projects up to \$999,999, two percent (2%) for projects over \$1,000,000.
- e) Capital project proposals shall include operating and maintenance costs necessary for the project over the estimated project life.
- f) At the time of project award, each project shall have reasonable contingencies also budgeted:
  - i) The amount set aside for contingencies shall correspond with industry standards and shall not exceed ten percent (10%), or a percentage of the contract as otherwise determined by Council.
  - ii) Project contingencies may, unless otherwise determined by Council, be used only to compensate for unforeseen circumstances requiring additional funds to complete the project within the original project scope and identified needs.
  - iii) For budgeting purposes, project contingencies are a reasonable estimating tool. At the time of contract award, the project cost will be replaced with an appropriation that includes the contingency as developed above.
- g) Staff shall seek ways of ensuring administrative costs of implementing the Capital Budget are kept at appropriate levels.
- h) The Capital Budget shall contain only those projects that can be reasonably expected to be accomplished during the budget period. The detail sheet for each project shall contain a project schedule with milestones indicated.
- i) Capital projects that are neither expensed nor encumbered during budget period will be rebudgeted or carried over to the next fiscal period except as reported to Council for its approval. Multi-year projects with unencumbered or unexpended funds will be carried over to the next fiscal period.

# City of Kenmore, Washington

## Financial Policies

- j) If a proposed capital project will have a direct negative effect on other publicly-owned facilities and/or property, mitigation of the negative impact will become part of the proposed capital projects cost.
- k) A capital project will not be budgeted unless there is a reasonable expectation that a funding source(s) is available to finance the project.

### 15) DEBT POLICIES

- a) Debt will not be used to finance operating costs.
- b) Whenever possible, the City shall identify alternative sources of funding and shall examine the availability of these sources in order to minimize the use of debt financing.
- c) Whenever possible, the City shall use special assessment, revenue or other self-supporting debt instead of general obligation debt.
- d) Tax Anticipation Notes (TANS) will be issued only when the City's ability to implement approved programs and projects is seriously hampered by temporary cash flow shortages.
- e) Long-term general obligation debt will be issued when necessary to acquire land and/or fixed assets, based upon the City's ability to pay. Long-term general obligation debt will be limited to those capital projects that cannot be financed from existing revenues and only when there is an existing or near-term need for the acquisition or project. The acquisition or project should also be integrated with the City's long-term financial plan and the Capital Project Plan.
- f) The maturity date for any debt issued for acquisition or project will not exceed the estimated useful life of the financed acquisition or project.
- g) Fifty percent (50%) of the principal of any long-term debt should be retired within the first ten (10) years of maturity.
- h) Current revenues shall be set aside to pay for the subsequent year's debt service payments. This is intended to immunize the City's bondholders from any short-term volatility in revenues.
- i) The City shall establish affordability guidelines in order to preserve credit quality. One such guideline, which may be suspended for emergency purposes or unusual circumstances, is as follows: debt service as a percent of the City's operating budget should not exceed eight percent (8%).

### 16) CAPITAL FACILITIES PLAN (CFP) POLICIES

- a) Citizen participation in the CFP is a priority for Council and staff. Among the activities which shall be conducted to address this priority are:
  - i) The CFP shall be provided to Council in a timely manner to provide Council-members the opportunity to review the proposed CFP with their constituents before it is considered for adoption. The City Council will play an active role in the process of developing the CFP.
  - ii) The CFP will be scheduled for Council review, and the Council meeting(s) shall be advertised and public input at the meeting(s) encouraged.

## City of Kenmore, Washington Financial Policies

- iii) Prior to adoption of the CFP, the Council shall conduct a public hearing(s) to provide the public with the opportunity to offer their opinions on the proposed plan.
- b) All projects included in the CFP shall be consistent with the City's Comprehensive Plan. The goals and policies for levels of service, facilities and transportation should be followed in the development of the CFP.
- c) Capital projects shall be financed to the greatest extent possible by user fees and/or benefit districts when direct benefit to users results from construction of the project.
- d) Projects that involve intergovernmental cooperation in planning and funding should be established by an agreement that sets forth the basic responsibilities of the parties involved.
- e) The Council will annually review and establish criteria against which capital proposals should be measured. Included among, but not limited to, those factors which should be considered for priority ranking of CFP are:
  - i) Projects which have a positive impact on the operating budget through reduced expenditures, or increased revenues;
  - ii) Projects which are programmed in the six-year Operating Budget estimate; and,
  - iii) Projects which can be completed or significantly advanced during the year they are scheduled.

# City of Kenmore, Washington

## Basis of Accounting and Budgeting

### ACCOUNTING

Accounting records for the City are maintained in accordance with methods prescribed by the State Auditor using the revenue and expenditure classifications contained in the *Cash Basis Budgeting, Accounting and Reporting System (BARS)* manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

### BASIS OF PRESENTATION – FUND ACCOUNTING

The accounts of the City of Kenmore are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of double-entry accounts that comprise its cash, investments, revenues and expenditures, as appropriate. The City's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the City of Kenmore:

### GOVERNMENTAL FUND TYPES

Governmental funds are used to account for activities typically associated with state and local government operations. All governmental fund types are accounted for on a spending or "financial flows" measurement focus, which means that typically only current assets and current liabilities are included on related balance sheets. The operating statements of governmental funds measure changes in financial position, rather than net income. They present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. There are three governmental fund types used by the City of Kenmore:

#### General Fund

This fund is the primary fund of the City of Kenmore. It accounts for all financial resources except those required or elected to be accounted for in another fund (General Fund).

#### Special Revenue Funds

These funds account for revenues that are legally restricted or designated to finance particular activities of the City of Kenmore (Street Fund, Public Art Fund, Park Impact Fee Fund, Transportation Impact Fee Fund, Strategic Reserve Fund, Strategic Opportunities Fund).

#### Transportation Benefit District Fund

This fund was created under the authority of the Transportation Benefit District (TBD) which is a separate entity. The City Council serves as the District Board and the purpose of this fund is to collect and distribute the \$20 vehicle license fees that were approved by the Board in November, 2012. The TBD budget was adopted by Resolution 2012-009 which is included in the Appendix.

For managerial oversight and accounting purposes, it is included here as a Special Revenue Fund and is also included in the budget document, charts, and tables.

# City of Kenmore, Washington

## Basis of Accounting and Budgeting

### Capital Project Funds

These funds account for financial resources, which are designated for the acquisition or construction of general government capital projects (Real Estate Excise Tax Fund, Kenmore Village Fund, Parks Capital Fund, the Sammamish River Bridge Fund and the Transportation Capital Fund).

### PROPRIETARY FUND TYPES

Proprietary funds are used to account for activities similar to those found in the private sector where the intent of the governing body is to finance the full cost of providing services primarily through user charges.

#### Enterprise Funds

These funds account for operations that provide goods or services to the general public and are supported primarily by user charges (Surface Water Management Fund, the Surface Water Capital Fund, and the Swamp Creek Basin Fund).

#### Internal Service Fund

This fund accounts for operations that provide goods or services to other departments or funds of the City (Equipment Replacement Fund).

### FIDUCIARY FUND TYPES

Fiduciary funds account for assets held by the City of Kenmore in a trustee capacity or as an agent on behalf of others.

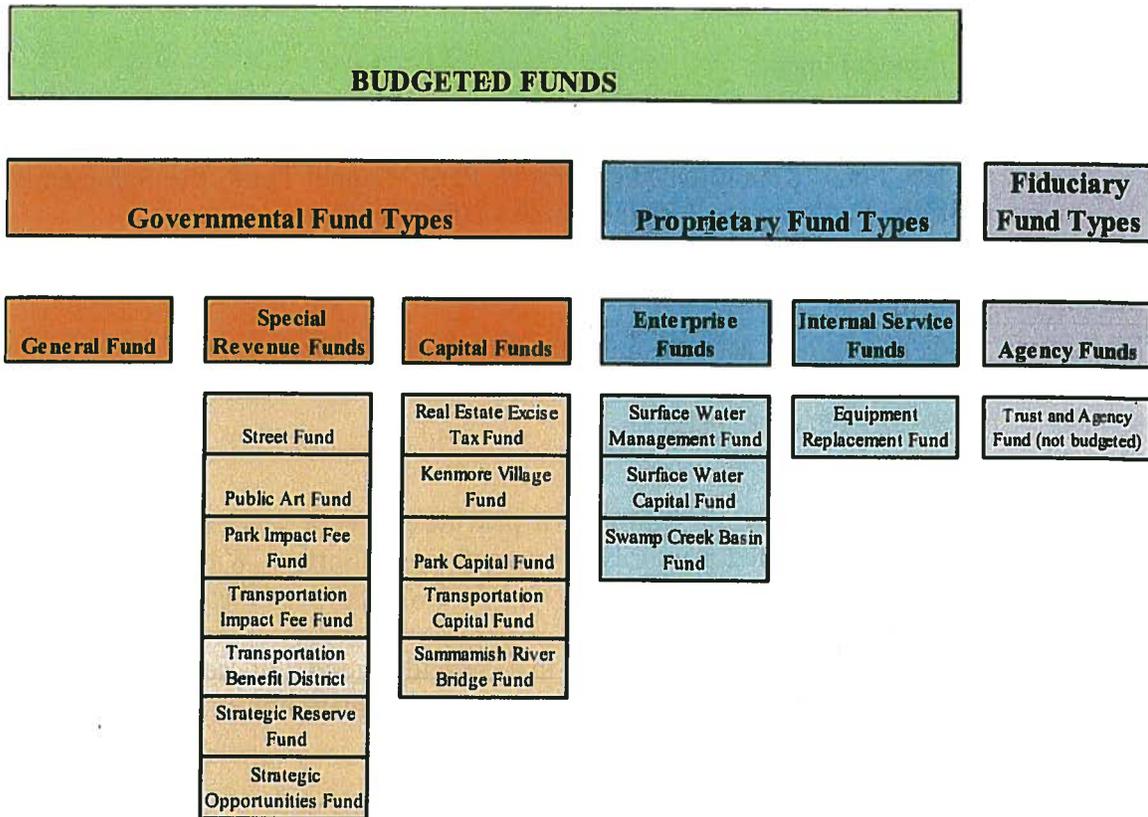
#### Agency Fund

These funds are used to account for assets that the City holds for others in an agency capacity. The City has one trust/agency fund which accounts for refundable deposits, animal license fees that will be remitted to the County, and rental security deposits. This fund is not budgeted.

The chart below illustrates how the City funds are categorized:

# City of Kenmore, Washington

## Basis of Accounting and Budgeting



### Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. The City of Kenmore uses double-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP). Under this accounting basis, revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year(s) budget appropriations as required by state law (See Budget Glossary section for definition).

Purchases of fixed assets are expensed during the year of acquisition. There is no capitalization of fixed assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

### Budgets and Budgetary Accounting

Annual appropriated budgets are adopted for all funds except the Agency Fund. These funds are budgeted on the cash basis of accounting which matches the City's accounting basis. The financial statements include budgetary comparisons for applicable funds:

Budgets are adopted at the fund level that constitutes the legal authority for expenditures. Annual appropriations for all funds lapse at the fiscal period end.

## City of Kenmore, Washington Debt Obligations and Debt Calculations

In March 2002, the City of Kenmore received approval for a Public Works Trust Fund Loan from Washington State's Department of Community Development. The last payment on this loan was made in 2007. The \$1,000,000 loan was a general obligation of the City and funded pre-construction costs associated with the SR-522 Phase I Transportation Improvement Project.

In August 2003 the City purchased property (Kenmore Village) through the issuance of \$5,000,000 in taxable Bond Anticipation Notes (BAN). This was a three-year BAN which matured August 15, 2006. In November 2005, in order to save approximately \$37,000 of interest expense versus interest income, the City Council approved staff's recommendation to pay off the BAN using cash reserves from the Capital Projects Fund.

The City had a short-term debt obligation that was inherited from King County upon incorporation in 1998. These debt payments are for the City's portion of debt service on County surface water bonds that were approved countywide in 1993 and 1996. Interest and principal payments on these bonds were approximately \$47,740 annually. This debt service obligation was paid off in 2016.

In 2009 the City Council authorized a 5 year, 3.89% interest, \$4,000,000 note for construction of the new city hall. The \$4,000,000 was drawn in 2010 as construction progressed which made other cash reserves available for any unanticipated needs. By the end of 2010 it was apparent that the cash was not needed and the note was repaid in December 2010.

Walkways & Waterways, Proposition 1, to authorize the issuance of general obligation bonds in the amount of \$19,750,000, will be on the ballot in November, 2016. If the voters approve this ballot measure, a series of bonds in the expected amount of \$9,750,000 will be issued in December 2016; and a second series, in the amount of \$10,000,000 is expected to be issued in 2019. Debt service over the term of the bonds will be approximately \$1,200,000 annually.

According to the Revised Code of Washington (RCW) 39.36.020, there are four categories of general obligation (debt which is secured by the full faith and credit of the city) debt available to the City to finance large projects. One category (#1) requires a City Council super majority vote (majority plus one) and three categories require a 60% vote of the City electorate. The City's 2017 preliminary assessed valuation of \$3,903,423,117 was used for the calculations below. The four categories of debt are described below.

1. General Purpose Non Voted Debt: This requires only a vote of the City Council and debt must be paid from operational revenue sources. The Council can levy up to 1.5% of the City's assessed value or \$58,551,346 for 2017.
2. General Purpose Voted Debt: This requires a 60% vote of the City electorate. Debt would be paid from an increase to the City's property tax levy. An amount up to 2.5% of the City's assessed value can be levied or \$97,585,578 for 2017. The total

## City of Kenmore, Washington Debt Obligations and Debt Calculations

General Purpose Councilmanic Debt and General Purpose Voted Debt cannot exceed 2.5% of the City's assessed value.

3. Parks and Open Space Debt: This requires a 60% vote of the City electorate. Debt would be paid from an increase to the City's property tax levy for acquiring or developing open space and park facilities. An amount up to 2.5% of the City's assessed value can be levied or \$97,585,578 for 2017.
4. Utility Purpose Debt: This requires a 60% vote of the City electorate. Debt would be paid from an increase to the City's property tax levy for utility purposed of a utility is owned and controlled by the City. An amount up to 2.5% of the City's assessed value can be levied or \$97,585,578 for 2017.

A total of 7.5% of the City's assessed valuation may be issued in bonds. The calculation for the City's Debt Capacity as of January 1, 2017 is as follows:

2017 Preliminary Assessed Value for 2017 taxes	\$3,903,423,117
Debt limit – 7.5% of total assessed value	\$292,756,734
Less: Total Outstanding Debt	0
Total Remaining Debt Capacity	\$292,756,734

If voters approve Proposition 1, Walkways & Waterways, in November, 2016 the table below would reflect that outstanding debt as follows:

2017 Preliminary Assessed Value for 2017 taxes	\$3,903,423,117
Debt limit – 7.5% of total assessed value	\$292,756,734
Less: Total Outstanding Debt	\$9,750,000
Total Remaining Debt Capacity	\$283,006,734

These limits do not apply to revenue bonds that are not general obligations (RCW 39.46.150) and are secured on the basis of dedicated revenues rather than taxes, or to special assessment (RCW 35.45.070) bonds created by the formation of local improvement districts and are secured by assessments against property benefited by the proceeds of such bonds.

City of Kenmore, Washington  
Net Direct and Overlapping Debt

**The calculations below are based on the assumption that the voters will approve Proposition 1, Walkways & Waterways, in the amount of \$9,750,000 in November, 2016.**

Direct Debt of the City of Kenmore:

Outstanding General Obligation Debt:	
Outstanding Unlimited Tax General Obligation Debt	\$9,750,000
Outstanding Limited Tax General Obligation Debt	0
Total Net Direct Debt	<u>\$9,750,000</u>

Overlapping Debt (1):

	<u>Overlapping Debt</u>
King County	\$6,009,423
King County Library	1,788,245
Evergreen Hospital District #2	9,937,168
Lake Washington School District #414	10,815
Northshore Park & Recreation	433,754
Port of Seattle	2,321,039
Northshore School District	65,334,553
 Total Overlapping Debt	 <u>\$85,834,999</u>
 Total Net Direct and Overlapping Debt	 <u>\$95,584,999</u>

**BONDED DEBT RATIOS**

2017 Preliminary Assessed Valuation (A.V.)	\$ 3,903,423,117
2016 Population	22,320
Ratio of:	
Net Direct Debt to Assessed Value	0.25%
Net Direct Debt and Overlapping Debt to A.V.	2.44%
Per Capita:	
Net Direct Debt	\$437
Net Direct Debt and Overlapping Debt	\$4,282
Assessed Value	\$174,884

(1) Source: King County Treasury Division Office

This is the amount of debt owed by jurisdictions with boundaries that overlap the City of Kenmore. The information for other taxing agencies was obtained from King County as of December 31, 2014.

