



# CITY OF KENMORE

## Fiscal Sustainability Plan Project Report

Fiscal Sustainability Task Force Meeting  
August 11, 2020

Steve Toler, Partner



# 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.

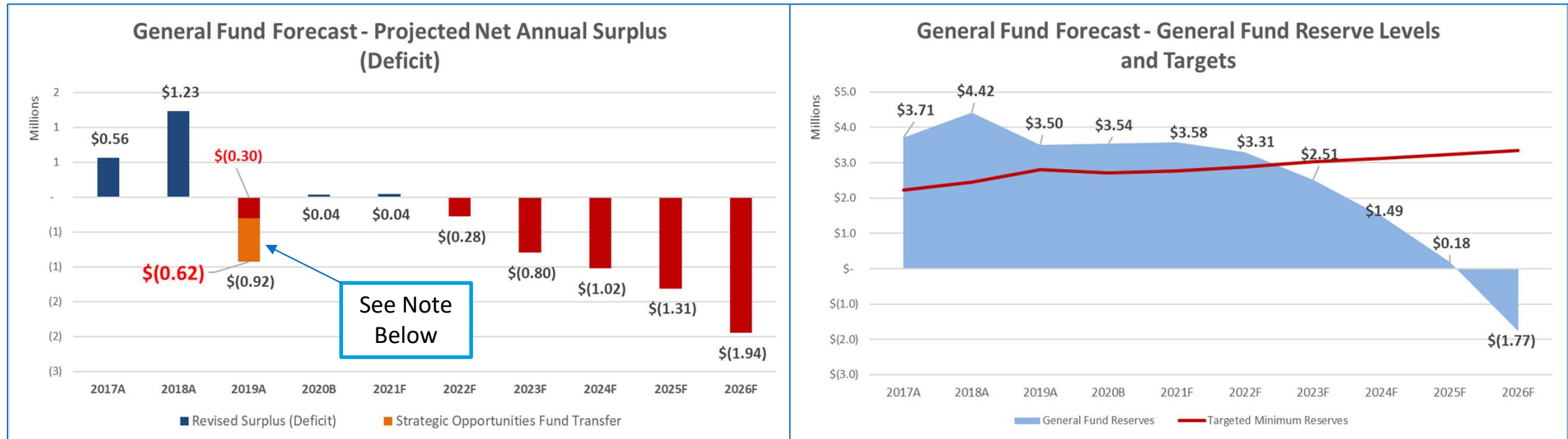


# Summary of City's Expected Fiscal Situation



# General Fund Forecast Pre-COVID-19

## Updated Baseline Forecast with 2019 Actuals

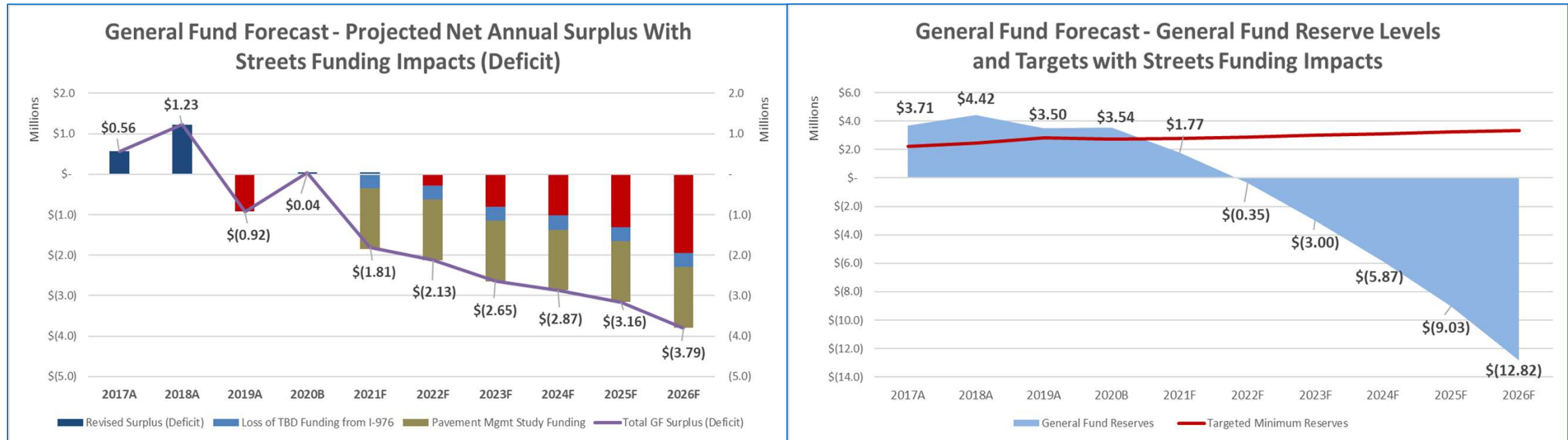


- **Annual Structural Deficit** – grows to \$2 million by FY 2026, and would continue to grow by \$350,000 per year thereafter if no corrective action was taken
- **Reserves** - would fall below minimum reserve target of 20% of annual expenditures by FY 2023, and becomes depleted by FY 2026, if no corrective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

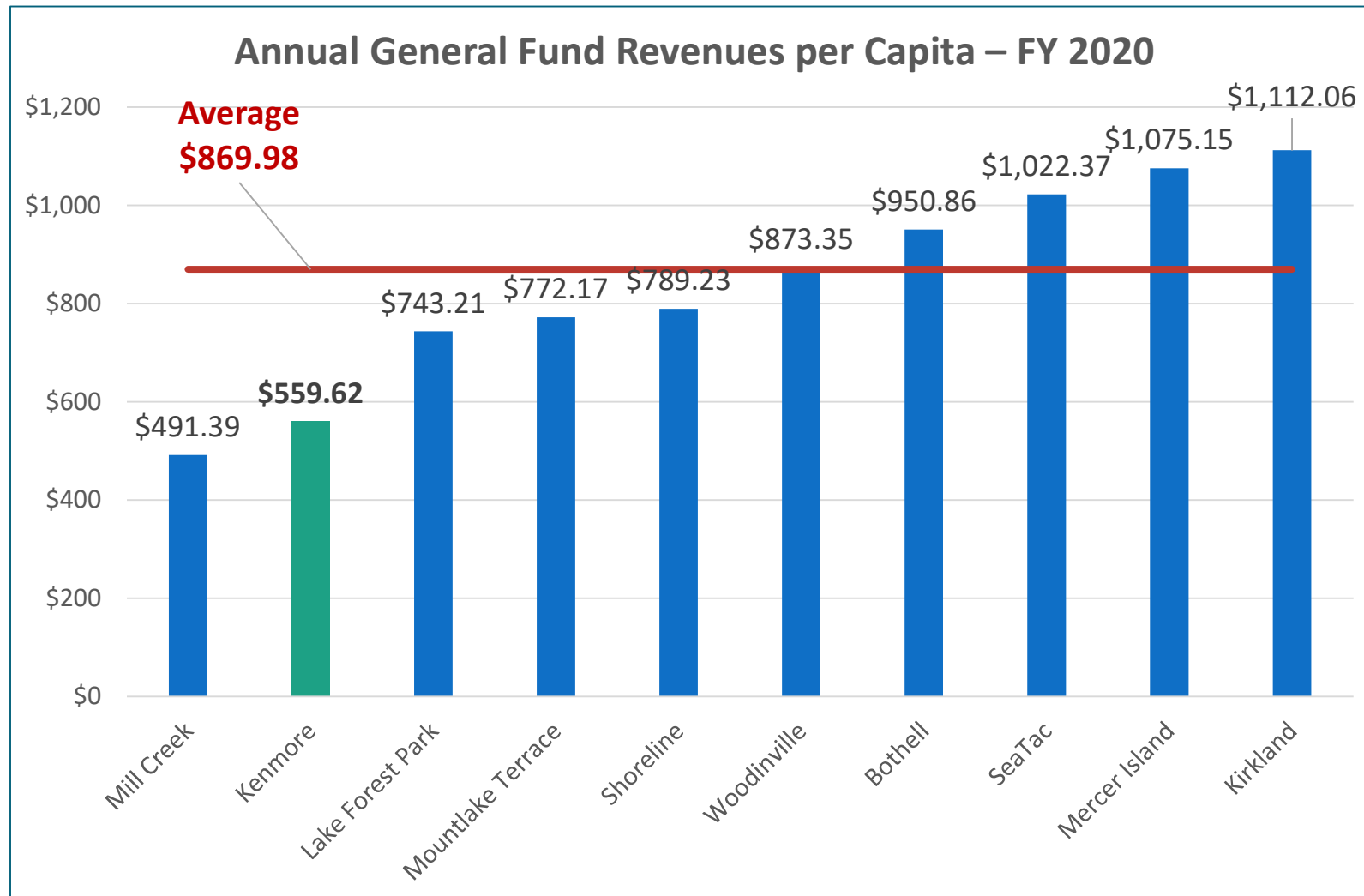
# General Fund Forecast Pre-COVID-19

## 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

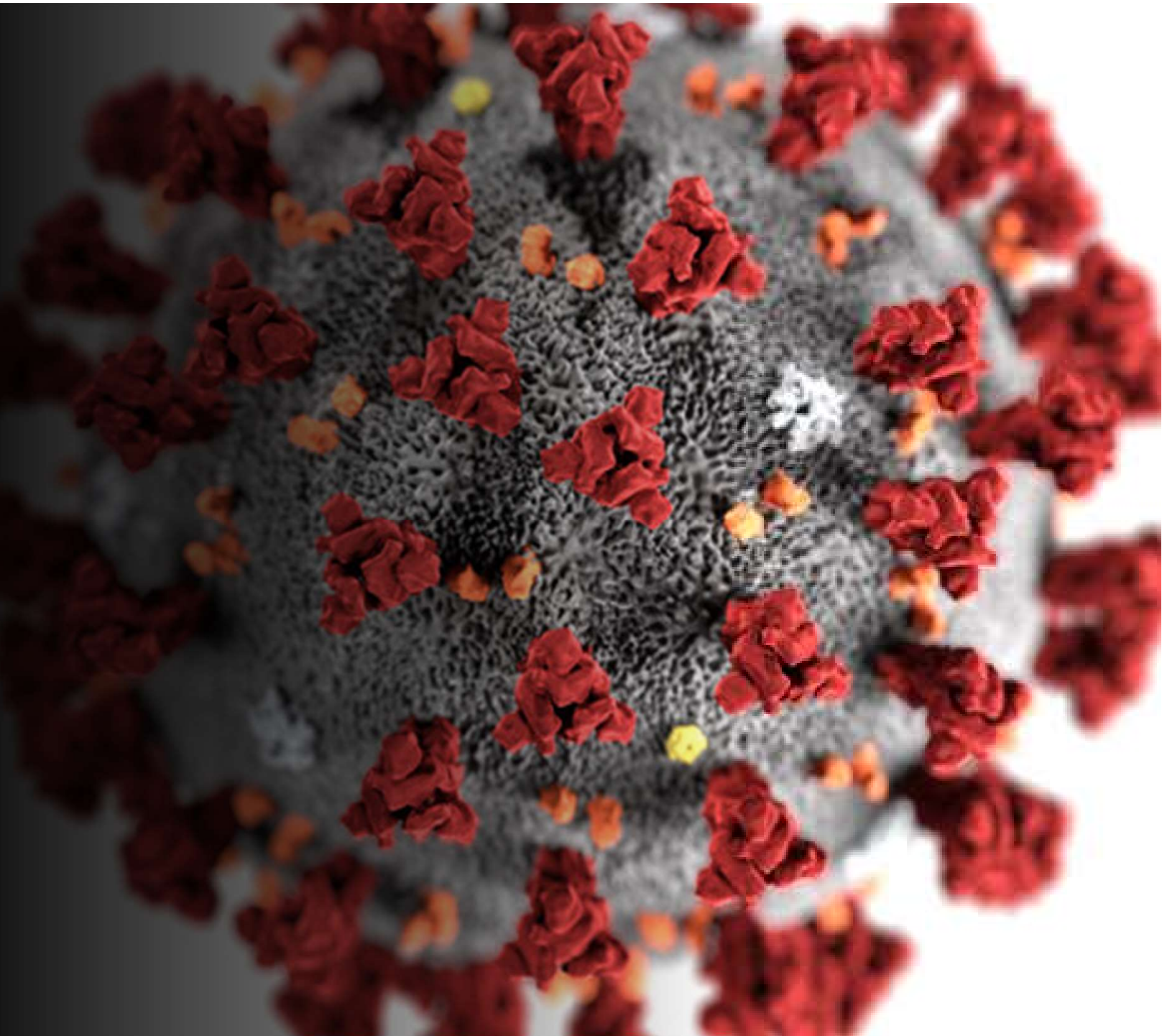
# Kenmore's General Fund Revenues Per Capita Compared to Peer Cities



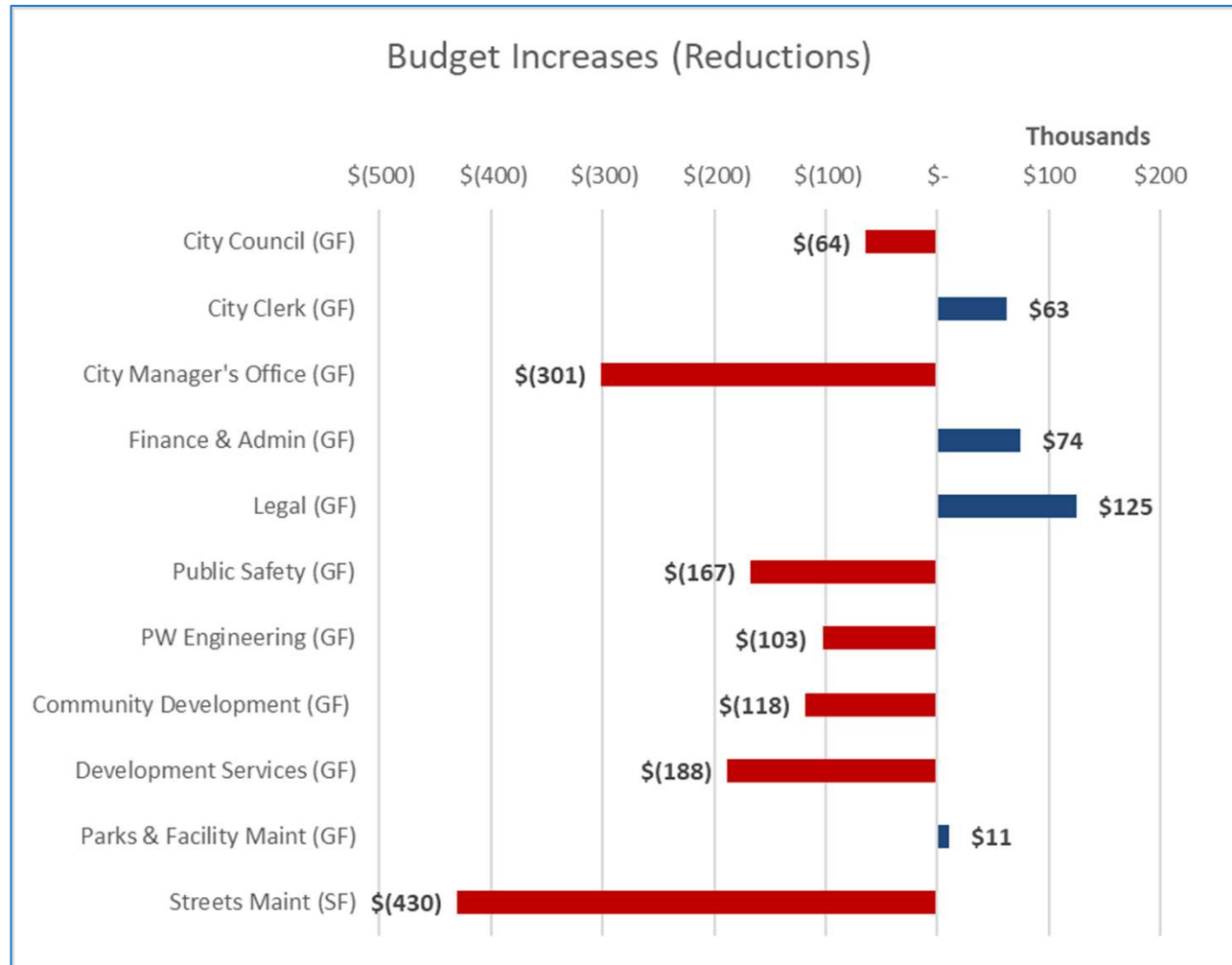
- Kenmore's revenues per capita is lower than all other peer agencies except for Mill Creek
  - Revenues were normalized for agencies that provide fire services
- Average for peer agencies is 55% higher than Kenmore's per capita revenues

**Revised  
Forecast  
Resulting from  
the COVID-19  
Pandemic**

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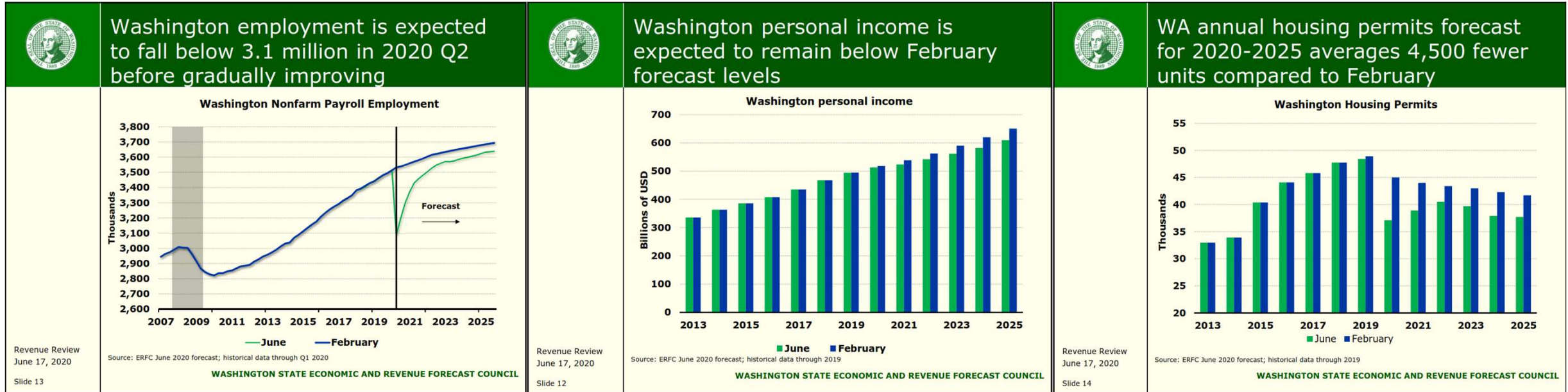
# Actions Taken Since Onset of Recession



- 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

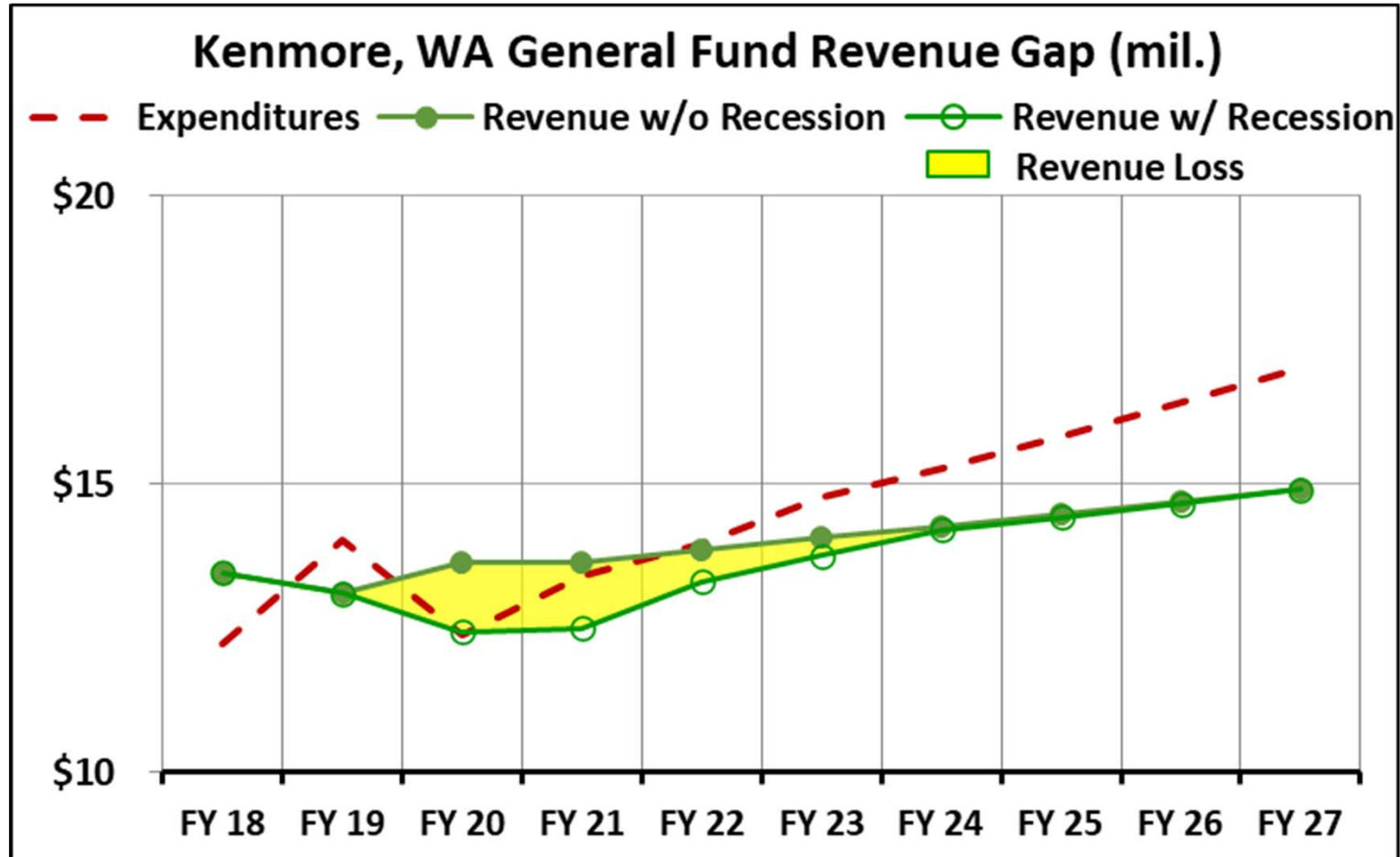


# Headed Towards a Prolonged Recession



- 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

# 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

# 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

# Budget Strategies and Scenarios



# 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



# Budget Strategy Categories

## Expenditure Controls/Cost Shifts

- Control expenditure growth
- Shift costs to other viable sources

## Service Delivery Alternatives

- Shared services
- Contract out
- Insource

## Revenue Enhancements

- Increase base (e.g., economic development)
- Increase rate (e.g., tax rate, fees)
- Add new source (e.g., new tax, new fee)

## Service Level Reductions

- Workforce reductions
- Reduce program availability
- Eliminate program

Maintain Service Levels

Reduce Services

# 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

# Budget Strategies Quadrant Analysis

		<i>Potential Annual Fiscal Impact (est)</i>		
		Less than \$50,000	\$500,000-\$100,000	Over \$100,000
<b>Difficulty of Implementation</b>	Minimal difficulty	<b>Low-Moderate</b>	<b>Moderate-High</b>	<b>High</b>
	Moderate difficulty	<b>Low-Moderate</b>	<b>Moderate</b>	<b>Moderate-High</b>
	Significant difficulty	<b>Low/No</b>	<b>Low-Moderate</b>	<b>Moderate</b>

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



# 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
<b>Councilmanic</b>		
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
<b>Voter Approval</b>		
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
<b>Total</b>	<b>\$7.0 million to \$8.6 million</b>
<b>Goal</b>	<b>\$1.8 million</b>

# 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

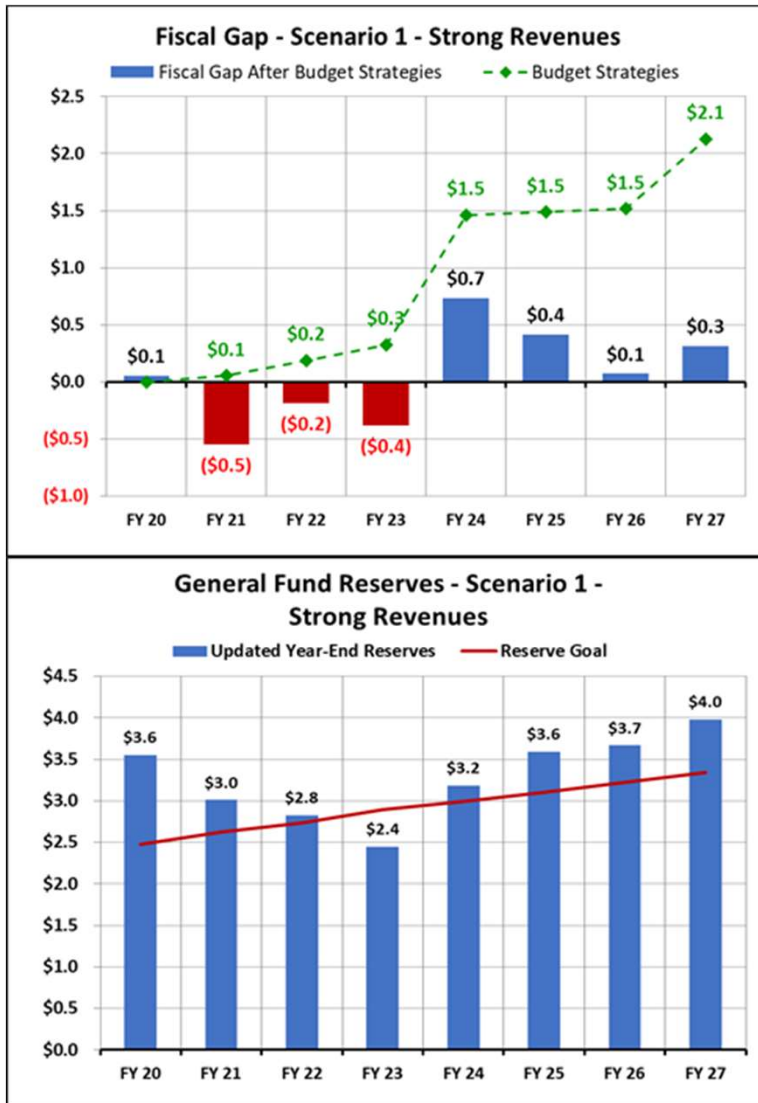
- School resource officer elimination in FY 2021
- Travel, training and consulting services in FY 2021
- Recreation coordination activities in FY 2021
- Property tax levy banked capacity over 3 years starting in FY 2022
- Development services user fees in FY 2022
- City organizational structure change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



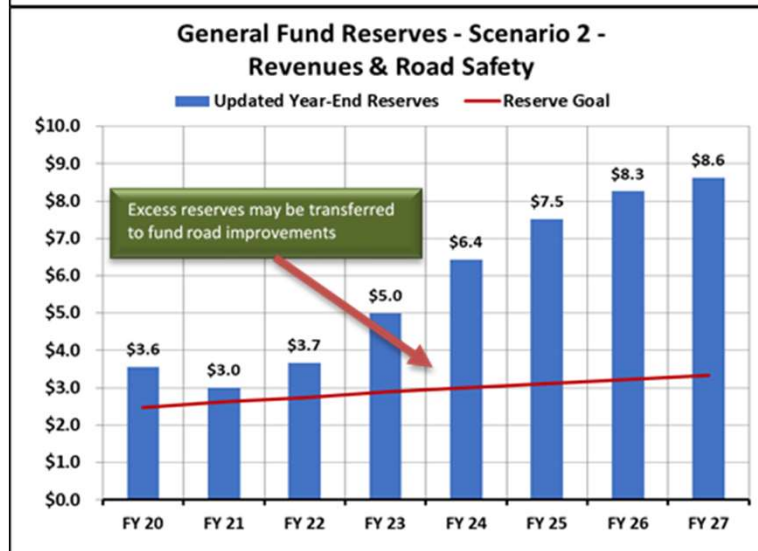
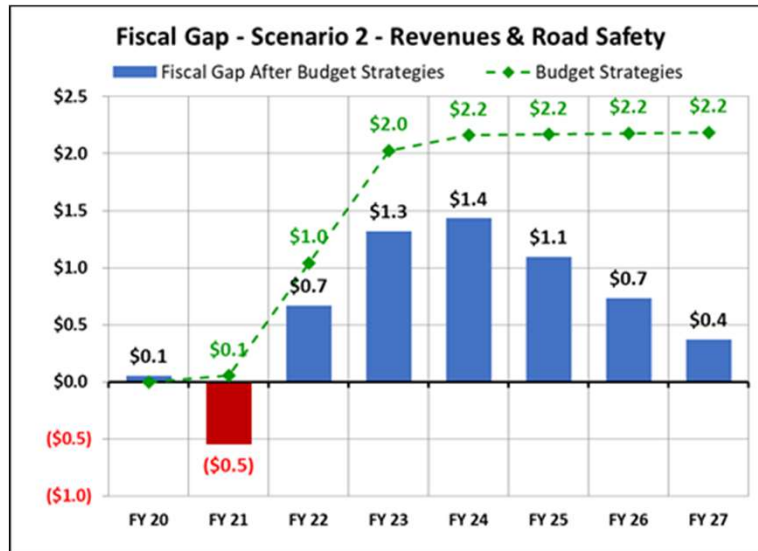
## Strategies

- 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

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



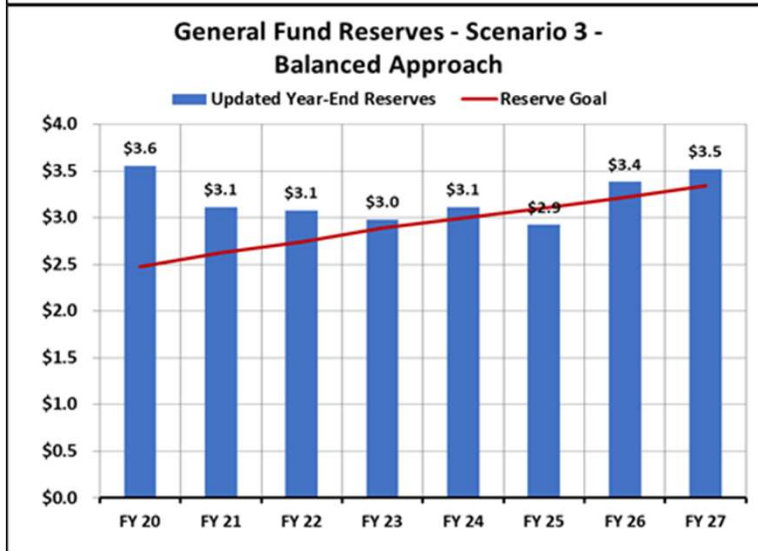
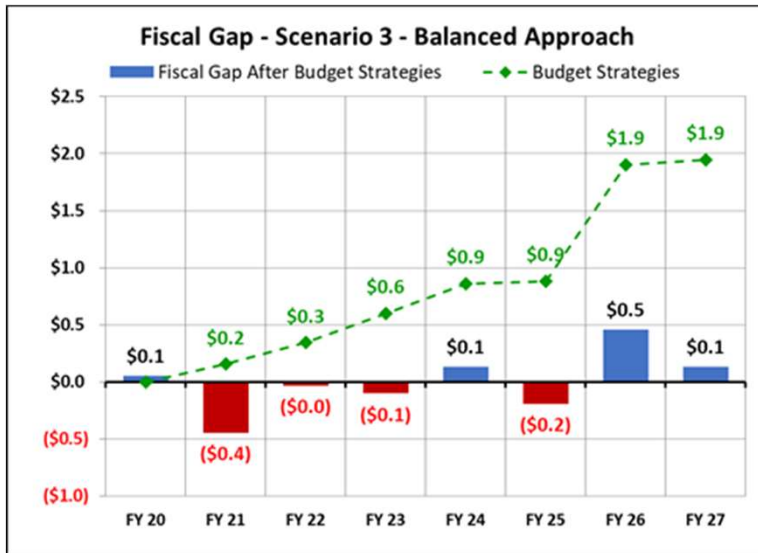
## Strategies

- 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

# Scenario 3 – Balanced Approach



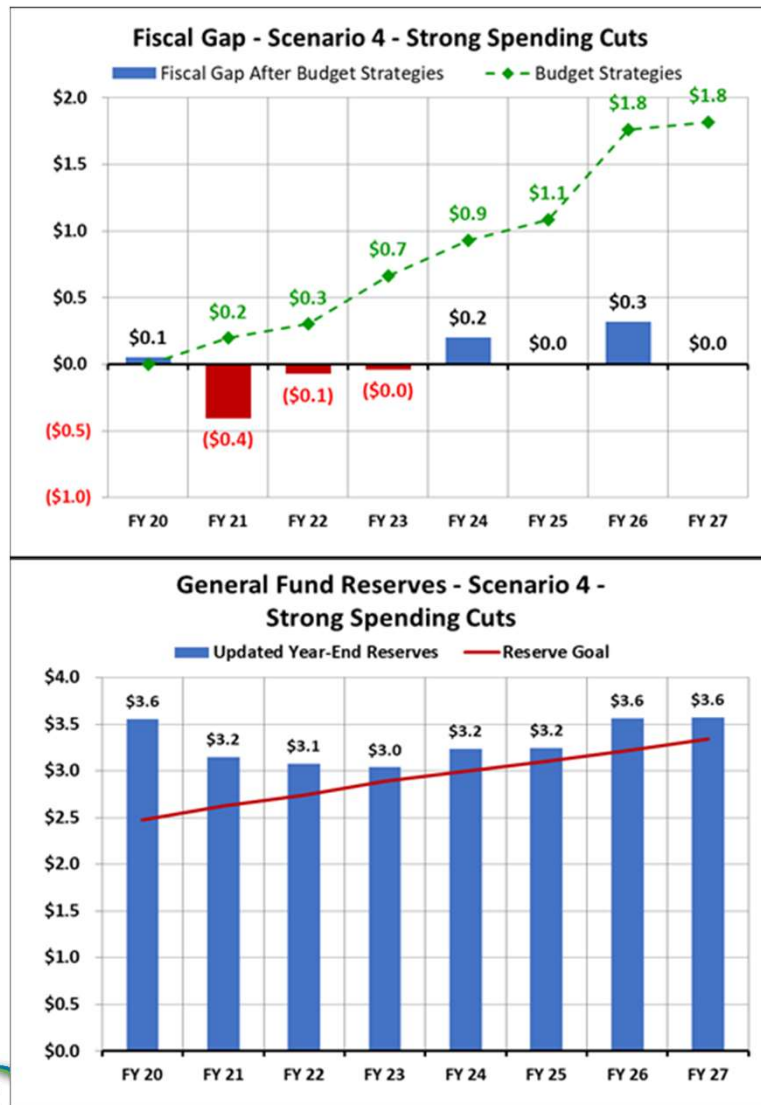
## Strategies

- 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

# 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 which 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



# 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



# DISCUSSION/QUESTIONS