

The City of Kenmore's Financial Sustainability Plan  
**FINANCIAL SUSTAINABILITY TASK FORCE**

# **REPORT AND RECOMMENDATIONS**

4 September 2020

## **TASK FORCE MEMBERS:**

**FERNELL MILLER**

**JEFF POOLEY**

**ELISABETH SPRING**

**ANTHONY TARNOWSKI**

**MIKE VANDERLINDE**

**LYNN ZWAAGSTRA**

**Darlene Ademba and Lou Novak also served on the Task Force**

The City of Kenmore's Financial Sustainability Plan  
FINANCIAL SUSTAINABILITY TASK FORCE

## REPORT AND RECOMMENDATIONS

The six members of the City of Kenmore's Financial Sustainability Task Force present this report and recommendations to the City Council, City Manager Rob Karlinsey, and Finance Director Joanne Gregory.

At its eighth and final meeting on 25 August 2020, the Task Force reached agreement on eleven strategies to lay the foundation for the City's long-range financial sustainability. These strategies will eliminate the budget deficit by Fiscal Year (FY) 2023 and maintain the budget surplus through FY 2027. By recommending strategies to achieve and maintain the surplus, the Task Force has accomplished its mission. Task Force members also anticipate that the City will need to implement additional strategies at the end of this six-year period to resolve the structural financial imbalance.

### THE TASK FORCE'S KEY FINDING AND GUIDING PRINCIPLES

The Task Force's recommendations are based on this key finding: The City of Kenmore is acting prudently and responsibly in how it spends and invests the public's money. The City is a lean organization. There are opportunities to be even more efficient, but there are no more opportunities to reduce the budget without significantly reducing services that Kenmore residents and businesses need and want.

During the past six months, the global Coronavirus pandemic has devastated the national economy and severely affected the City's finances. Kenmore has reduced its budget, including making about \$1 million in operational discretionary cuts this year, \$300,000 of which are likely to be permanent. For the foreseeable future, City services will need to be maintained by a combination of controlling expenditures and/or shifting costs, and enhancing revenues.

These five principles guided the Task Force in reaching agreement on which strategies to recommend:

1. Implement a balanced approach that recognizes and reflects: a) changes in state regulations; b) that Kenmore has changed since it became a City twenty-two years ago; and c) community conditions, needs, and interests.
2. Minimize the impacts on low income residents.
3. Fund services of the highest value to Kenmore residents and businesses.
4. Where possible, shift the burden of paying for services to those who use them, including non-residents.
5. Maintain realistic levels of service, including when revenues increase.

## THE TASK FORCE'S RECOMMENDATIONS

The Task Force discussed more than twenty strategies that the consulting firm, Management Partners, identified and defined to ensure the City's long-term financial sustainability. The Task Force also reviewed potential new initiatives that are not currently funded but which the City has expressed interest in and/or were included in the Balancing Act public engagement tool. The members created four categories to determine which strategies to recommend: 1) pursue as a priority; 2) pursue as a secondary priority; 3) pursue as a last resort; and 4) do not pursue.

Task Force members also considered public preferences and comments that were expressed through the Balancing Act public engagement tool. This exercise, which the City made public from 11-24 August, allowed citizens to balance the General Fund budget by considering tradeoffs among programs and selecting those they prefer be funded.

The Task Force created a comprehensive matrix that lists: 1) the strategies from Management Partners; 2) the members' ratings, rankings, and assignments of each strategy to a category; 3) the financial impacts as estimated by Management Partners; 4) additional Task Force comments; and 5) the strategies' "high," "moderate" or "low" potential of success for helping achieve long-term financial sustainability (as assessed by Management Partners). **The matrix provides additional important information about the Task Force's analysis and accompanies this report.**

### Recommended Strategies to Maintain Service Levels:

**The Task Force recommends that the City should pursue the strategies that are listed on the following page (p.4) as its highest priorities between FY 2021 and FY 2027.**

The first eight strategies either enhance revenues or control or shift expenditures. It is estimated they would generate \$3,128,813 annually (once they all are implemented in phases over a number of years). The last three strategies are the Task Force's recommendations for new initiatives that should be funded. They would total \$1,153,000 annually, once all are implemented. Therefore, the net amount generated by the Task Force's recommended strategies would be \$1,975,813, which is sufficient to balance the budget by FY 2023 and put the City on the path toward long-term financial sustainability.

<u>REVENUE OR COST-SAVING STRATEGY</u>	<u>FISCAL IMPACT</u>	<u>CATEGORY</u>	<u>IMPLEMENT</u>
Exercise property tax levy banked capacity over three years starting in 2022	\$ 400,000	Enhance revenues	Phased in starting in FY22
Implement admissions tax on recreation and entertainment	\$ 120,000	Enhance revenues	Middle of FY 23
User fee study and adjust development services fee	\$ 50,000	Enhance revenues	FY22
Impose new utility tax on cable TV at the rate of 6%	\$ 470,697	Enhance revenues	FY22
Impose new utility tax on solid waste	\$ 183,116	Enhance revenues	FY24
Seek alternative jail providers	\$ 50,000	Expenditure controls or cost shifts	FY24
Implement photo traffic enforcement to fund public safety costs and roadway improvements (at three locations)	\$1,700,000	Enhance revenues	FY22
Eliminate funding for school resource officer	\$ 55,000	Expenditure controls or cost shifts	FY21
<u>OTHER STRATEGIES OF INTEREST *</u>	<u>FISCAL IMPACT</u>	<u>CATEGORY</u>	<u>IMPLEMENT</u>
Additional street funding	(\$1,000,000)	New initiative	FY22
Hire Human Resources/Diversity, Equity, and Inclusion FTE	(\$ 103,000)	New Initiative	FY21
Invest in mental health programs such as RADAR	(\$ 50,000)	New Initiative	FY21

\* These are strategies the City has expressed interest in and/or were included in the list of projects that the public could prioritize in the Balancing Act public engagement tool.

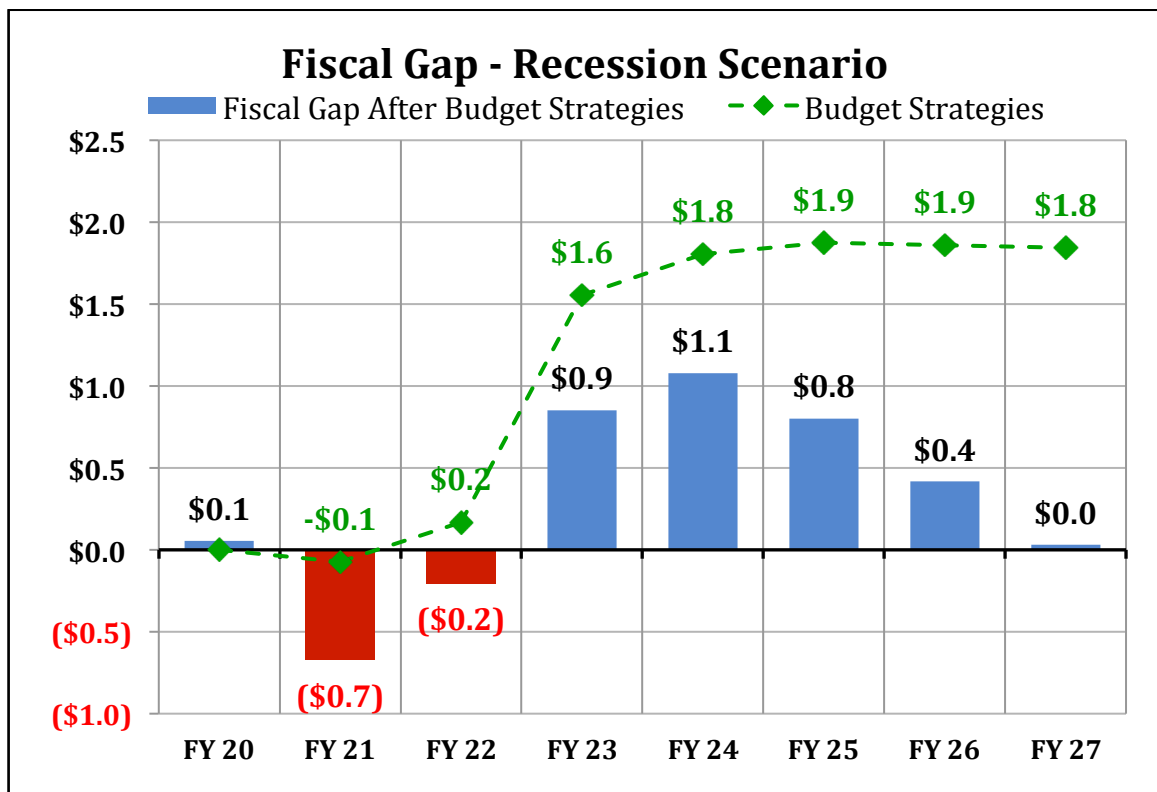
### Other Strategies the City Might Need to Consider in the Future:

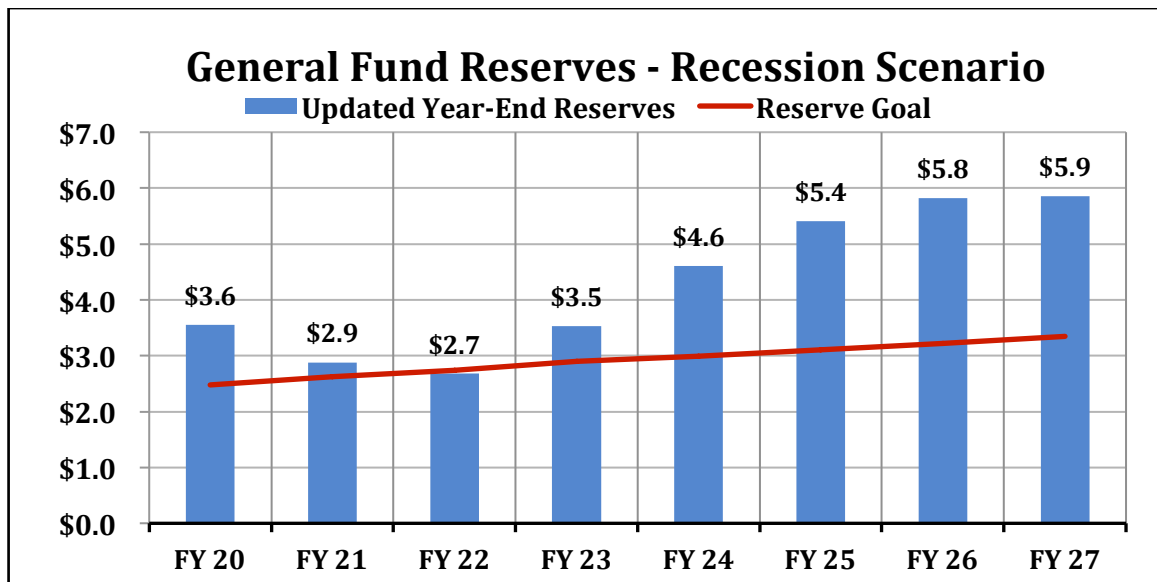
The Task Force acknowledges that the analysis by Management Partners indicates that between FY 2023 and FY 2027, the budget surplus will decline. The two graphs below illustrate the decline of the budget surplus between FY 2023 and FY 2027, and the continual increase in reserves between FY 2022 and FY 2027.

This forecasted trend resulted in the Task Force discussing the possibility of the City implementing a Business and Occupation (B&O) Tax on businesses by 2027 if new revenues from economic development initiatives do not materialize by then. The Task Force also discussed that the City could submit to the voters in 2026 a proposal for increasing taxes to address the structural deficit. Two voter-approved strategies that could be considered are a levy lid lift or a 0.2% sales tax.

The other strategies that the Task Force assigned to the remaining three categories, including the levy lid lift and sales tax increase, are included in the matrix that accompanies this report.

The following two graphs illustrate the results of the task force recommendations. The first graph shows the annual deficit/surplus, and the second graph shows the impact on the fund balance (reserves) of the General Fund.





#### Two Notes of Explanation:

1. The strategies that the Task Force recommends do not supplement the existing funding for affordable housing or add new resources for climate change initiatives. These policy initiatives are already City Council priorities and the City plans to fund new programs to advance them.
2. One of the principles that guided the Task Force in reaching agreement on its recommendations was “Minimize the impacts on low income residents.” This principle reflects the members’ interest in and commitment to Diversity, Equity, and Inclusion (DEI). The Task Force is also aware of the City’s commitment to DEI. This explains the Task Force’s recommendation that the City Council fund a new FTE with responsibilities for leading the City’s efforts on DEI.

### THE TASK FORCE’S PROCESS

The Task Force convened for the first time on the evening of 22 January 2020. Its eighth and final meeting was on 25 August. (Its work was suspended from mid-April until early August because of the public health and economic crises created by COVID-19.) Most members also attended a community open house and listening session on August 24<sup>th</sup>. They worked a total of nineteen hours in meetings, and devoted countless hours reading the reports, studies, and survey results that the City provided. Some also reviewed the City’s budget and official policy documents. Every Task Force meeting provided time for members of the community to comment, and the open house on August 24<sup>th</sup> attracted approximately a dozen attendees. The Task Force also reviewed findings from the Balancing Act, the budget balancing exercise that 192 residents completed and submitted.