

**CITY OF KENMORE
WASHINGTON
RESOLUTION NO. 20-357**

**A RESOLUTION OF THE CITY COUNCIL OF KENMORE,
WASHINGTON, APPROVING THE CITY OF KENMORE
FINANCIAL SUSTAINABILITY PLAN THROUGH 2027**

WHEREAS, Kenmore incorporated and became a City on August 31, 1998; and

WHEREAS, the City of Kenmore has historically adopted balanced budgets and accumulated healthy fund balances over the years; and

WHEREAS, Kenmore is a residential bedroom community with property tax as its largest source of operating revenue; and

WHEREAS, state law restricts property tax growth to one percent per year plus property tax from new construction; and

WHEREAS, the City is experiencing a structural revenue problem whereby the City's operating revenue growth is not keeping pace with the cost of providing City services; and

WHEREAS, the City's pre-pandemic financial forecast predicted that the City's operating expenses would exceed operating revenues as early as 2022; and

WHEREAS, an independent consultant reviewed the City's financial projections and confirmed that operating expenses would exceed operating revenues as early as 2022; and

WHEREAS, on October 7, 2019, the City Council approved a process to create a financial sustainability plan. This process authorized the creation of a City Financial Sustainability Plan Task Force to advise the City Manager on ways to resolve the City's upcoming structural deficit. On November 12, 2019, the Council approved the Task Force's charter, and the City Manager appointed Task Force members soon thereafter; and

WHEREAS, the Task Force held nine meetings between January 2020 and August 2020. These meetings included opportunity for public comment and other opportunities for public input, including the Balancing Act financial public engagement tool; and

WHEREAS, the Task Force considered the information provided by City staff, the independent consultant, and the public and created a recommended financial sustainability plan through 2027 that includes multiple actions phase over several years; and

WHEREAS, the Task Force members presented their findings and recommendations for a financial sustainability plan to the City Manager and City Council on September 10, 2020, and the City Council provided comments and feedback regarding the Task Force's recommended financial sustainability plan; and

WHEREAS, the Kenmore City Council desires to establish a balanced six-year financial sustainability plan and has directed the City Manager to bring forward a proposed plan for City Council approval;

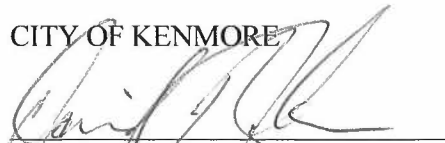
NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF KENMORE, WASHINGTON, DOES HEREBY RESOLVE AS FOLLOWS:

Section 1. The City Council approves the Financial Sustainability Plan, as set forth in Exhibit A, attached hereto and incorporated by reference.

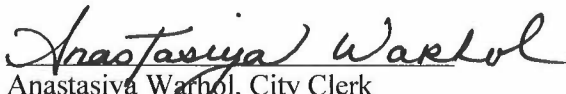
Section 2. The Financial Sustainability Plan shall become effective immediately upon approval of this resolution.

PASSED BY THE CITY COUNCIL OF THE CITY OF KENMORE, WASHINGTON, AT A REGULAR MEETING THEREOF THIS 26th DAY OF OCTOBER, 2020.

CITY OF KENMORE


David Baker, Mayor

ATTEST/AUTHENTICATED:


Anastasiya Warhol, City Clerk

APPROVED AS TO FORM:



Dawn Reitan, City Attorney

Exhibit A
City of Kenmore
Financial Sustainability Plan
2021 through 2028



Introduction and Background

Due to state-imposed limits on property tax growth, flat or slow growth in other revenues, unfunded state and federal mandates, and other factors, the City's operating revenues are not projected to keep pace with the cost of providing city services. As a result, the City of Kenmore faces an upcoming structural deficit in its operating budget (General Fund and Street Fund).

In 2019, the City Council directed staff to embark on the public process of creating a Financial Sustainability Plan (FSP) by examining the City's priorities, services, costs, and revenues. The City Council further directed that a Financial Sustainability Plan for Kenmore should produce balanced Street Fund and General Fund operating budgets for three biennia, or six years.

The process of creating a Financial Sustainability Plan began with the following activities in the 4th quarter of 2019 and early 2020:

- Formal establishment of the FSP process and timelines, as well as the creation of a charter for a Task Force of community members to recommend a financial sustainability plan to the City (October and November 2019)
- A community survey (December 2019)
- An independent assessment of the City's financial projections and long-range forecasts, provided by the firm Management Partners (November and December 2019)
- Updates to the City's Priority-Based Budgeting system (Fall 2019)
- Communications about the budget and City finances, including a financial forecast report to the City Council in January 2020 (ongoing through 2019 and into 2020)

Financial Sustainability Plan Task Force—January 2020 through August 2020

Starting in January 2020, the issue of financial sustainability and possible solutions were discussed through a public engagement process, including the use of a Task Force of community members to examine the issue and advise the City Manager on the City's options.

In addition to providing an independent review of the City's financial projections, Management Partners was retained to advise the City and the Task Force on evaluating budget balancing strategies. Management Partners also provided specific strategies for the Task Force to consider.

The Task Force held nine meetings between January 2020 and August 2020. During the first several meetings, Management Partners reported on its findings about the City's financial projections, and City staff provided the Task Force with information on city functions, funding sources, and how financial resources are allocated. The Task Force also learned about Priority Based Budgeting and how City programs were prioritized and scored against results established by the City Council.

The concept of "Price of Government" was also discussed, including Kenmore's tax revenue trends compared to household income in Kenmore. The Price of Government analysis showed that City revenues as a percentage of household income has been declining over the years.

The Task Force met several times up until April of 2020, then paused its work due to the pandemic. The Task Force resumed its meetings in an online virtual format in August 2020, including an online open house for additional public comment.

Public Outreach and Engagement

In August 2020, an online budget simulator tool, known as "Balancing Act," was provided as an interactive way for the public to consider Kenmore's budget challenges and offer input on how to balance the City budget. A post card was sent to all mailboxes in the city with the purpose of encouraging the public to engage the Balancing Act tool and provide comments on the City's finances. Preliminary results of public input from Balancing Act were provided to the Task Force at the August 24th, 2020 meeting.

Going back to 2019 up through the present, other methods of informing the public and seeking public participation included a statistically valid survey, public comment at all Task Force meetings, online public open house, FSP articles in several mailed newsletters, e-news articles, and social media posts.

Task Force Recommendations

At the ninth and Final Task force meeting on August 25, the Task Force deliberated and produced a set of recommendations for the City Manager and the City Council to consider. The recommendations included a combination of budget cuts, service level efficiencies, and new revenues.

At the September 10, 2020 City Council online budget retreat, the City Council heard additional public comment on the topic of financial sustainability, received an update on Priority Based Budgeting results and program rankings, reviewed a forecast update and potential strategies from the consultant, Management Partners, processed the results of the public feedback from the Balancing Act budget simulator, and listened to the Task Force recommendations for financial sustainability through 2027.

During deliberations, the Task Force established the following five principles in guiding their discussions and decisions:

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 recommendations included the following:

| Task Force's Proposed Expenditure Strategy | Year |
|---|-------------|
| Discontinue Contribution to School Resource Officer Program | 2021 |
| Continue most of the expenditure reductions made in 2020 | 2021 |
| Add HR/Diversity, Equity, Inclusion Position & Program | 2021 |
| Increase Mental Health RADAR Program | 2021 |
| Increase Pavement Preservation Funding | 2022 |
| Seek Alternative Jail Providers | 2024 |

| Task Force's Proposed Revenue Strategy | Year | Phased In? |
|---|-------------|------------------------|
| Property Tax Banked Capacity | 2022 | Yes; over three years |
| Cable TV Utility Tax (6%) | 2022 | Yes; begin in mid 2022 |
| Traffic Photo Enforcement | 2022 | Yes; begin in mid 2022 |
| User Fee Study | 2022 | No |
| Admissions Tax | 2023 | Yes; begin in mid 2023 |
| Utility Tax on Solid Waste | 2024 | No |

The Task Force's final report is attached as an addendum to this Financial Sustainability Plan.

After the Task Force report was presented to the City Council at the September 14, 2020 meeting, the City Council asked questions and provided feedback and direction. The City Council then directed the City Manager to finalize a Financial Sustainability Plan and bring it forward for City Council approval in October 2020.

Financial Sustainability Plan: 2021-2028

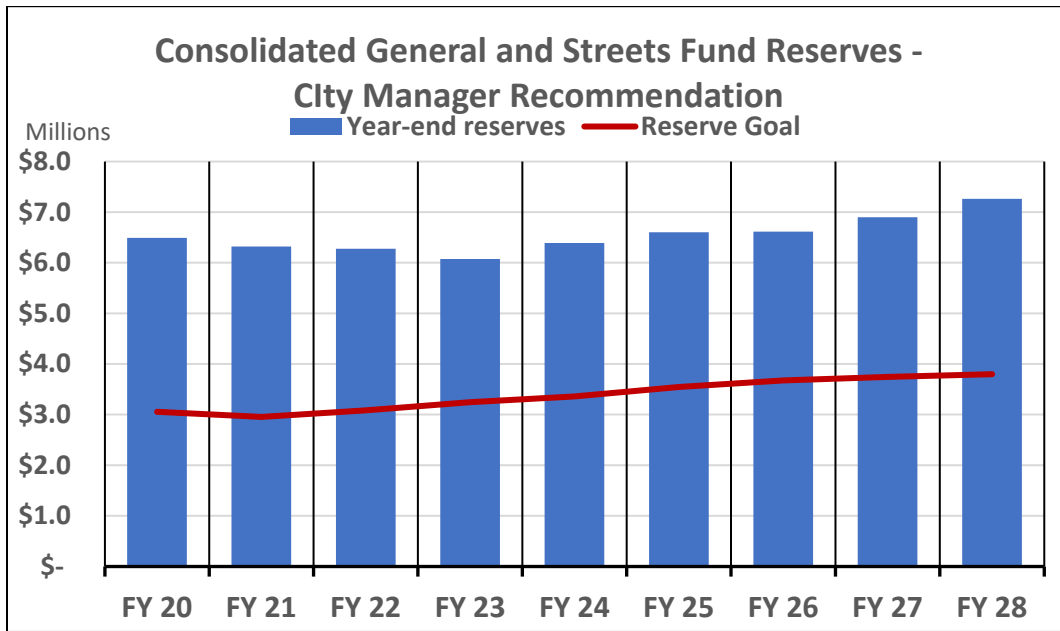
The following financial sustainability plan is based on the Task Force recommendations and subsequent direction from the City Council. Using conservative revenue and expenditure forecast assumptions, the following plan sustains funding of City services at current levels through 2028:

Expenditure Strategy

| | |
|---|------|
| Discontinue Contribution to School Resource Officer Program | 2021 |
| Continue most of the expenditure reductions made in 2020 | 2021 |
| Add HR/Diversity, Equity, Inclusion Position & Program | 2021 |
| Increase Mental Health RADAR Program | 2021 |
| Increase Pavement Preservation Funding | 2022 |
| Seek Alternative Jail Providers | 2024 |

| Revenue Strategy | Year | Phased In? |
|--|------|------------------------|
| Cable TV Utility Tax (6%) | 2022 | Yes; begin in mid 2022 |
| Traffic Photo Enforcement | 2022 | Yes; begin in mid 2022 |
| User Fee Study | 2022 | No |
| Property Tax Banked Capacity | 2023 | Yes; over four years |
| Surface Water Utility Tax (6%) | 2023 | No |
| Admissions Tax | 2024 | No |
| Voter-Approved Transportation Sales Tax Increase (0.1%-0.2%) | 2027 | No |

The above strategies for expenditures and revenues will strengthen the City's financial position and maintain fund balances above the City Council's target threshold (20% of annual budgeted operating expenditures) through 2028, assuming current service levels and the adjusted recessionary forecast assumptions used in Management Partners' report:



This financial sustainability plan accomplishes the goal set forth by the City Council in the fall of 2019, which was to create a sustainable financial plan for six years, or three biennia through 2026. This plan meets that goal with councilmanic authority. For continued financial sustainability beyond 2026, this plan recommends a voter-approved transportation sales tax increase to go into effect no later than 2027 and thereby extends the City’s financial sustainability at least two years beyond the original six-year goal.

This plan should be reviewed regularly and adjusted as needed. Economic conditions that turn out to be worse than the recession-based assumptions in the plan may drive the need to accelerate some of the strategies in the plan; reductions in state-shared revenues or new unfunded mandates may also give cause to move up some of the strategies. On the other hand, better-than-anticipated financial conditions may delay the need to move forward with certain strategies.

The City appreciates the Task Force members for their many hours of service and their most helpful ideas and recommendations. We would also like to thank Steve Toler of Management Partners and his team for providing much needed analysis and expertise throughout this process.