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I am proud to present to you my proposed 2019-2020 budget. This is my first budget process as Mayor, and I am encouraged with the communication and collaboration among community, City Council and me during the budget process. I thank the City Council for their willingness to engage on many important budget issues prior to the submittal of my proposed budget. As a result of our collaboration, I am presenting a budget that I feel reflects both Council's and my shared commitment to providing valuable government services to our residents in a cost-effective and efficient manner. It makes progress towards our City's strategic vision and respects the opinions of our residents and businesses.

Within the \$676.8 million total budget, \$214.0 million is allocated to the General Fund. The proposed budget is balanced and includes necessary expenditure reductions as well as revenue increases to address the challenge of expenses increasing at a faster rate than revenues.

As with previous budgets, the 2019-2020 process included significant challenges and required difficult choices on how to reduce City spending in the General Fund. City leaders also had to make decisions about how to best spend our valuable yet limited resources. Unlike previous budgets, the upcoming biennium includes the first two years of significant revenue reductions in the General Fund. The loss of state-shared Streamlined Sales Tax mitigation revenues beginning in 2019, coupled with the expiration of the Panther Lake Annexation Sales Tax credit in June 2020, will result in a negative impact of over \$10.0 million, or roughly 10 percent, to the City's General Fund revenues. The City has termed this impact the "fiscal cliff" to describe the magnitude of the loss.

I am very proud of the steps taken previously to mitigate these impacts. While this loss is certainly significant, the fiscal cliff would have been a much larger challenge had the City not taken proactive steps. These steps include talking to our residents about the fiscal cliff as early as 2014, making strategic transfers, eliminating negative fund balances, refunding existing debt to reduce interest costs, and updating our fiscal policies to address fund balance levels. Furthermore, the City continues to utilize a conservative budgeting approach where realistic, albeit conservative, revenue forecasting is used to inform expenditure levels. Additionally, the City made the extremely difficult decision to begin levying the full property tax rate allowable under state law beginning in 2018. Finally, the City has taken a lead

role in working with the State as well as other cities negatively affected by the state's decision to eliminate Streamlined Sales Tax mitigation monies beginning in 2019. Since we won't know the outcome of our efforts until after the City's budget must be adopted, we are planning for the worst-case scenario but are hopeful for a successful outcome from this endeavor.

The magnitude of the fiscal cliff cannot be addressed with a single solution. The budget includes a three-pronged approach to solving the loss of revenue: ongoing expenditure reductions, new revenues and a reallocation of ongoing revenues.

The budget includes over \$2 million in ongoing expenditure reductions by non-public safety General Fund departments. These reductions range from cuts to line items to reductions of positions and will unfavorably affect City services and programs not related to public safety. The reduction exercise, while difficult, was another necessary step to solve the coming fiscal cliff. While departments will do what they can to mitigate the effects of these cuts, the fact of the matter is that the City workforce is still very lean on the heels of the Great Recession, and we cannot continue to simply add more workload on already overworked staff. The instruction I gave to departments as they began to work on their reductions was, as the funding goes away, the non-legally mandated work goes away too. While the initial strategy was not to make any reductions until 2020, my proposed budget makes non-personnel reductions as quickly as possible.

The second prong is an increase in revenues. The 2019–2020 budget includes a \$1.2 million annual increase in permit and plans review revenue. This is a result of increased volume, not increased rates. Other revenue adjustments include an increase in interest revenue as a result of the new investment strategy. There is also new revenue from water and sewer franchise fees. Beginning in 2020, the budget includes an increase in City B&O tax rates which will increase revenue by roughly \$3.4 million. The B&O increase in 2020 is the first of four planned increases between now and 2028. The decision to increase taxes is never easy and the decision to do so was not taken lightly. The proposed changes to the B&O rate structure are based on the City's long-term economic development plan and include different rates depending on the business type. The proposal maintains a threshold of \$250,000 and institutes a cap of \$20 million on gross receipts from retail sales. The increased revenue will be used to fund ongoing operations in the General Fund.

The final prong in the strategy for dealing with the fiscal cliff is the reallocation of existing revenues. The 2019–2020 budget includes an annual shift of \$470,000 in sales tax collections from capital to fund ongoing operations. Out of necessity, this continues the City's shift of monies that have been historically used for capital purposes. With the reality that government expenses continue to increase at a faster rate than revenues, the City's long-term financial forecasts include further redirections of resources away from capital. While this isn't ideal, under the current environment, it is what is necessary to continue to fund status quo operations, even at our reduced level.

Public safety for our residents, businesses and visitors continues to be the City's first priority. Excluding transfers, nearly 60 percent of General Fund resources are dedicated to public safety. The 2019–2020 General Fund budget includes funding for an increase of six police officer positions and a three-quarter-time parking enforcement officer. The budget maintains funding with adjustments for inflation for other public safety programs and departments: Municipal Court, Corrections and Prosecution. Using revenue from the Council's proposed red-light camera program, my budget provides for body worn cameras and in-car video equipment for police officers. It also provides resources to fully fund the car-per-officer program.

While reducing expenses in the General Fund, my budget includes a deliberate strategy for greater efficiencies of City programs. The proposed budget includes an increase of two new positions for our sign shop. These positions, which will be funded from B&O revenues, will cost less and will provide a higher work output than the current contract. My budget funds over \$500,000 annually for contracted support to extend the life of our current accounting and human resources information management system. In addition, I have asked the City's information technology director to begin working with stakeholders on a replacement strategy for the system.

The proposal maintains remaining City services and programs at their current level with adjustments for inflation and labor costs. Funding for new initiatives discussed above is based on need, value to the public and Council policy. The strategic operational expenditure increases which are included in the budget are backed by sustainable revenues.

The Capital budget allocates the new \$3.0 million revenue stream for long overdue parks capital and major maintenance projects. The budget also includes allocations of \$3.0 million of fund balance each year from the Capital Resource Fund for necessary work on Kent Commons, additional police department office space, the senior center and IT projects. These are initial steps toward major renovations of these aging assets. The capital budget also appropriates \$200,000 of fund balance from the Capital Resource Fund in 2019 for work to resolve the leaking roof in City Hall and \$1.75 million in 2019 for long overdue improvements to the City's fuel island. Resources for the fuel island also include \$500,000 of Capital Resources Fund balance.

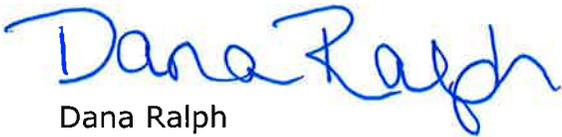
Careful planning of our current general capital resources must take place to ensure that we are using these monies as effectively as possible. Success in our ability to restore our Streamlined Sales Tax mitigation monies from the State will certainly have a positive impact on our capital resources. Any mitigation revenue the City receives will be treated as one-time revenue for capital projects. This is a shift from the way the City previously budgeted this revenue.

The proposed budget takes into consideration the feedback that I have heard from residents and businesses. Earlier this year, I held three community budget meetings where I was able to discuss the budget issues faced by the City, help educate the community on the upcoming fiscal cliff and hear direct feedback on

which City services they value most. Not surprisingly, residents' first priority was public safety which my proposed budget advances. Additionally, I heard that they wanted to at least maintain our current level of service in our adaptive recreation programs, which my budget maintains, and finally, we heard that residents want a continuation of the current services provided. While my budget does include expense reductions, I tried to limit the impact as much as possible, given the magnitude of lost revenues.

The 2019-2020 proposed budget is the culmination of a nine-month long collaborative effort among the Mayor, City Council, City staff and the Kent community. Tonight, I respectfully transmit this budget to the City Council for consideration. I would like to thank the Council and community for their willingness to work together over the past nine months and thank City departments and Finance staff for their creativity and hard work. I believe this work will result in a budget that is supportive of the needs of our community while recognizing the challenges ahead.

Respectfully,



Dana Ralph
Mayor