



City Council
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MEMORANDUM

TO: Mary Lou Pauly, Mayor
FROM: Tola Marts, Council President
RE: City Council's 2020 Budget Adjustments
DATE: November 18, 2019

The City Council has completed its review of the 2020 proposed budget, which was first presented on September 24, 2019. The City Council held six budget work sessions in October and November. Final City Council deliberations occurred on November 6, 2019. With the support of your staff, we reviewed the proposed budget allocations for both the operating and capital sides of the budget.

The main challenge in preparing and deliberating the 2020 budget was the \$5.2 million revenue shortfall in the City's General Fund. This required the Administration and the City Council to carefully consider ways to reduce General Fund spending as well as leverage increased revenues. The 2020 budget strikes a reasonable balance between these strategies and reflects our mutual goal of preserving services for Issaquah residents.

The proposed budget that you delivered to us on September 24, 2019 was balanced with a combination of revenue increases and expenditure reductions, including:

Revenue Strategies:

- Increasing the utility tax rate on City-operated utilities and cable to 6%
- Leveraging property tax banked capacity
- Increasing certain Parks fees

Expenditure Strategies:

- Belt-tightening strategies, including capturing salary and benefit savings by holding 7 positions vacant; capturing savings in professional services costs; and reductions to community fund grants and contracts for service
- Slowing the rate of growth of salary and benefit costs through implementation of the classification and compensation study and recommending a lower-than-typical cost of living adjustment (COLA) for city employees
- Limited service-level reductions for the community center and swimming pool

As the City Council embarked on its deliberations, you asked the Council to consider a series of policy questions. Did the City Council:

- Support the proposed revenue strategies, including capturing the 1% increase in property tax and banked capacity; raising the utility tax rate to 6% on City-operated utilities and cable; increasing select Parks fees; and other revenue strategies included in the proposed budget?
- Support implementation of the classification and compensation study?
- Want to include funding in the 2020 budget for the City Service Assessment work plan item?
- Support how the proposed budget prioritized Strategic Plan investments within the 2020 funding constraints?
- Support the overall approach to balancing the 2020 budget?
- Want to make use of fund balance to help balance the 2020 budget?

City Council Changes to the Proposed Budget: The City Council carefully considered these policy questions and ultimately decided on the following changes to the 2020 proposed budget, including:

- Lower the utility tax rate increase on City-operated utilities and cable from 6% to 3%
- Lower the increase on Senior Gold Pass from \$120 per year to \$60 per year for residents and \$144 per year to \$72 per year for non-residents
- Restore funding to allow the community center and swimming pool to maintain 2019 hours of operation
- Restore funding for community grants and contracts for service, adding back \$69,775 and \$26,854 respectively
- Add funds to support the integration of Strategic Plan environmental objectives into work on Title 18
- Make a modest draw on fund balance -- \$196,211 -- to partially support work on the City Service Assessment

Please see Exhibit A attached to this letter for a complete list of changes the City Council made to the 2020 budget.

Collectively, these changes result in a \$143,099,680 budget for 2020, including \$49,849,234 in the General Fund. The City anticipates ending 2020 with \$13,514,303 in General Fund fund balance, or 27.1% of General Fund expenditures.

Additional Policy Direction: In addition to these monetary changes to the budget, the City Council directed the Administration to follow-up on a number of policy priorities in 2020, including:

- Develop a financial assistance program to help mitigate the impacts of increases tax rates for low income residents, including utility rates and cemetery fees
- Report back to the City Council as work unfolds on the Munis reimplementation project
- Present to the City Council the Administration's proposed scope for the City Services Assessment
- Explore ways to expand shifting credit card merchant fees to the customers using credit cards
- Build on work completed in 2019 to implement the salary recommendations made in the recently completed classification and compensation study and identify strategies for implementing the total compensation elements of the study
- Explore selling Tibbets Creek Manor and developing an overarching strategy for other City surplus property

Looking Ahead to 2020: In closing, I would like to thank you and your staff for preparing this full-service budget for 2020. The adopted budget is our roadmap for spending on initiatives, projects, services and personnel. The General Fund budget shortfall presented the Administration and the City Council with additional challenges and I believe we have collectively developed a plan that will serve our residents well.

The City Council looks forward to working with you and staff as we implement this budget.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Tola Marts', with a long, sweeping underline that extends to the right and then curves back down.

Tola Marts
Council President

Exhibit A:

General Fund	Revenues	Expenditures	On-Going	One-Time
Mayor's Proposed Budget	50,248,868	50,248,868		
Revenue Changes				
Increase in Property Tax Based on Revised King County Assessor's Office Data	111,226		x	
Less Utility Tax Based on 3.5% Water Utility Rate	(34,041)		x	
Reduce Utility Tax Increase from 6% to 3%	(1,073,324)		x	
Reduce Gold Pass Fee from \$120 to \$60 (residents) and from \$144 to \$72 (non-residents)	(25,000)		x	
Transfer Additional Funds from the Cable Fund to the General Fund	22,000			x
Allocate Court Costs to the School Safety Zone Fund	46,294		x	
Transfer Additional Funds from E-911 Escrow Account	100,000			x
Increase Revenue by Offering Additional Swimming Lessons to Meet Increased Demand	57,000	5,000	x	
TOTAL	(795,845)	5,000		
Expenditure Changes				
Eliminate Funding for Consolidated City Hall Planning		(50,000)		x
Restore Funding for Community Fund		69,775	x	
Restore Funding for Contracts for Service		26,854	x	
Restore Community Center and Pool Hours		25,000	x	
Shift Financing for Central Park Pad 3 from Debt Services to REET		(6,480)	x	
Additional Resources for Title 18 Work		50,000		x
Reduce Human Resources Training Budget		(20,000)	x	
Eliminate Court Credit Card Merchant Fees by Shifting to Customer		(5,000)	x	
Capture Additional One-Time EFR Savings		(77,000)		x
1% Underspend on Personnel Costs		(261,987)	x	
TOTAL	-	(248,838)		
Technical Corrections				
Correction: Reduce DSD Transfer to IT Fund (2019)	200,000			x
Correction: Reduce DSD Transfer to IT Fund (2020)		(150,000)	x	
Correction: Reduce Support Services Salary		(5,796)	x	
TOTAL	200,000	(155,796)		
TOTAL	49,653,023	49,849,234		
General Fund Fund Balance Impact				
Proposed Budget Ending Fund Balance	13,710,514			
Net Impact of Changes to Proposed Budget	(196,211)			
Revised Ending Fund Balance	13,514,303			
% of Expenditures	27.1%			

Changes to Other Fund

	Revenues	Expenditures	On-Going One-Time
Real Estate Excise Tax (REET)			
Restore Funding for Street Repairs and Maintenance (Transfer to Street Operating Fund)		185,000	x
Central Park Pad 3 - Shift Funding from Debt Service to REET		200,000	x
Total Changes	-	385,000	

Street Operating Fund			
Restore Funding for Street Repairs and Maintenance (Transfer From REET)	185,000	185,000	x
Correction: Reduce Support Services Salary	-	(2,898)	x
Total Changes	185,000	182,102	

Sustainability Fund			
Correction: Reduce Support Services Salary		(1,930)	x
Total Changes		(1,930)	

	Revenues	Expenditures	On-Going One-Time
School Zone Safety Fund			
Allocate Court Costs to the School Safety Zone Fund (Transfer to General Fund)		46,294	x
Correction: Add Expenditure Authority for Annual Traffic Enforcement Camera Contract		58,400	x
Total Changes		104,694	

Water Fund			
Reduced Water Rates/No Water Treatment Plant	(4,879,422)	(5,209,836)	x
Reduced Utility Tax Increase from 6% to 3%	(330,336)	(330,336)	x
Correction: Reduce Support Services Salary	-	(2,898)	x
Total Changes	(5,209,758)	(5,543,070)	

Sewer Fund			
Reduced Utility Tax Increase from 6% to 3%	(317,959)	(317,959)	x
Correction: King County Wastewater Treatment Revenue and Expenditure Adjustment	171,543	430,296	x
Correction: Reduce Support Services Salary	-	(2,898)	x
Correction: Offsetting Fund Balance "Revenue" for Capital Projects	(265,000)	-	x
Total Changes	(411,416)	109,439	

Stormwater Fund			
Reduced Utility Tax Increase from 6% to 3%	(167,675)	(167,675)	x
Correction: Reduce Support Services Salary	-	(2,898)	x
Correction: Offsetting Fund Balance "Revenue" for Capital Projects	(180,000)	-	x
Total Changes	(347,675)	(170,573)	