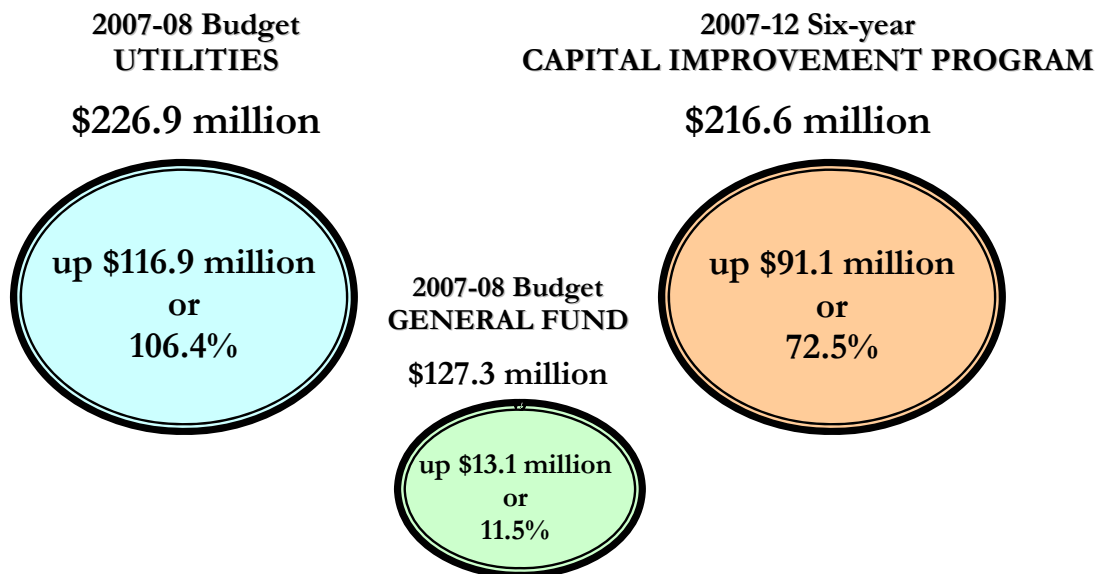


## 2007-08 EXECUTIVE SUMMARY

### BUDGET AT A GLANCE

This budget at a glance explains how the City spends its money. Over 75% of this revenue is allocated to the City's Utilities and Capital Improvement Program (CIP). The General Fund receives approximately 21% for city services, operations and maintenance. The remaining 4% is attributable to special revenue and debt service funds.

- The Utilities budget more than doubled rising from \$109.9 million in 2005-06 to \$226.9 million in 2007-08. Utility rates were increased to maintain operations and pay for debt approved by Council to facilitate the redevelopment of Downtown.
- The six-year CIP grew by \$91.1 million or 72.5% from \$125.5 million in 2005-10 to \$216.6 million for 2007-12. Growth is due to higher impact fees and real estate excise tax collections, increases in the 5% General Fund transfer and contributions for City Hall, reinstatement of the business tax surcharge, developer contributions for specific projects, and debt being approved for Bear Creek Parkway. The largest projects included in the CIP are Bear Creek Parkway (\$28 million), City Hall lease payments (\$24 million) and the Northeast 36<sup>th</sup> Street overpass (\$21 million). Please note at the end of the 2012, the CIP has \$32.4 million of funds unallocated which are not restricted by state law for capital and could be used for general city services.
- Although the General Fund increased by 5.75% per year or 11.5% over the biennium, funding for existing citywide operations and maintenance grew by 7.3% for two years or 3.65% annually. The remaining 4.2% increase was allocated to the 5% transfer to the CIP, City Hall, reserves and new programs. The 5% transfer to the CIP increased 13.7%, the allocation to City Hall rose 21.9% and reserve contributions grew from zero dollars in 2005-06 to \$1.4 million. The Council dedicated \$3.4 million to new programs. It is important to note that the 3.65% annual increase approved for operations is less than the anticipated rise in salary and benefit costs, which represent nearly 70% of the General Fund's budget. As a result, there will not be enough money to maintain services at the same level as in the previous biennium and services to the public will continue to deteriorate.



## GENERAL FUND OVERVIEW

This section highlights the actions Council took to balance the budget for 2007-08. It focuses on the changes Council made from the Preliminary Budget. Specifically it: 1) discusses the spending limits imposed, 2) identifies those programs which were proposed by the Mayor in the Preliminary Budget and subsequently not funded by Council, 3) summarizes the funding shortfalls in the base budget, and 4) describes how money was allocated within the 2007-08 Budget and the associated implications. A brief synopsis of the Council's final budget decisions can be found in Exhibits 1 and 2 which follow this narrative.

This budget differs from prior years as the Council imposed spending limits which capped expenses by each City department. Although the Administration has discretion to manage within these limits, most of the departments will not have enough money to provide services at the same level as in the previous biennium. This is because many of the programs proposed in the Preliminary Budget to prevent further deterioration of basic citywide operations, mitigate risk, comply with mandates and ensure effective delivery of all municipal services were eliminated or significantly reduced. These proposed programs totaled \$3.2 million as summarized in Exhibit 3. In addition, funding for basic operations was reduced by \$2.7 million from the Preliminary Budget. While all departments were underfunded, the base reductions were disproportionately spread among them. Decreases ranged from a low of \$11,900 or 3.7% in the Council's budget to a high of \$441,000 or 18% in the Mayor's Office and \$1 million or 9.2% in Finance/Information Services. Financial support for Police's and Fire's basic operations was also reduced by \$201,000 and \$115,000, respectively. It is important to note that the Council eliminated the ongoing funding for community events and used one-time dollars to support these activities during the biennium. In addition, Council reduced the level of funding for this program from \$215,000 to \$197,359.

To better understand the challenges the City will face in 2007-08, it is important to consider not only the funding reductions in the base budget, but also the proposed programs eliminated which were intended to address critical deficiencies. Not providing resources for these efforts will adversely affect the delivery of city services. For example in Police, in addition to basic operations being underfunded by \$201,000, the additional resources proposed to address the shortage in overtime were cut by the Council. Overtime is a cost which exceeded budget by approximately \$700,000 in the previous biennium. Also, the budget for the 5 new Police positions was cut by \$25,000 as part of the budget balancing process. As a result, the Police Department does not have enough money to pay for existing operations, overtime and the new positions as the budget is underfunded by \$926,000. This is one specific example of the implications of Council's budget decisions, but similar situations exist in other City departments such as the Mayor's Office, Human Resources and Finance/Information Services. These departments cannot maintain services and respond to the demands of a growing community given the shortage of funding. Specific information regarding departmental budgets can be found under the tab labeled "General Fund Expenses" later in this document.

Because the City has been cutting services and containing costs for the last six years despite the significant growth in Redmond's residential and business population, further reductions

will be visible. To stay within limited resources, the City has employed a number of measures including eliminating positions, filling vacancies only when critical, instituting dependent medical premium cost sharing for most city employees, scrutinizing and cutting back on overtime, supplies and other daily operating expenses and foregoing investments in capital equipment. Since 2003, resources for General Fund programs/services have decreased by \$7.8 million and 17 positions have been eliminated. Please refer to Exhibit 4 for a summary of these reductions by department.

The 2007-08 Budget includes money for the following Council objectives:

- Reinstates the 5% transfer to the Capital Improvement Program (CIP), raising the general contribution level to this fund to \$17.9 million or 13.9% of general revenues.
- Adds 8 firefighters (\$1.5 million) and 5 Police personnel (\$775,000). (Note: The Police positions were funded with one-time money after Council reduced the proposed budget for these positions by \$25,000.)
- Creates a \$250,000 contingency for an outcome based budgeting project.
- Establishes a \$200,000 placeholder for an economic development initiative.
- Supports an additional Utility Billing Technician to respond to growth in the City, Redmond Ridge and Trilogy (\$112,040). (Note: The Council cut the proposed budget for this position by \$2,300.)
- Provides funding for lifeguards at Idylwood Beach Park (\$40,000).
- Increases the allocation to the capital equipment replacement fund on a one-time basis by \$525,000. (Note: This is \$675,000 less than the Preliminary Budget proposal of \$1.2 million.)

To fulfill the objectives identified above, the Council not only had to reject the proposed programs in the Preliminary Budget intended to address critical deficiencies in city operations, but it also had to reduce base funding for existing city services and use one-time money to pay for the 5 new Police positions. As a result, city services cannot be provided at the same level in 2007-08 as in the previous biennium and a \$775,000 deficit has been created which needs to be remedied in the next biennium with new revenues or further cuts.

The Council did not approve any of the General Fund supplemental packages recommended in the Preliminary Budget. However, it did indicate its support for and subsequently approved the Microsoft proposal in early 2007 which authorized the hiring of additional staff to process the new Microsoft development. Not approved were the two packages calling for a \$30 increase in the business tax and a property tax levy lid lift proposal of 26 cents per \$1,000 of assessed valuation requiring voter approval. These requests included monies to fully staff the Overlake Fire station, provide an aid car at NE Education Hill Fire Station, bring staffing up in Police to meet minimum levels to serve the City's residential population including full restoration of the school safety programs and pay for maintenance and operations for new and existing parks facilities. At the time of this writing, the Council was working on placing two alternative propositions on the August 2007 ballot for public safety and parks. These proposals, if approved, will cover some, but not all of the Police Department's critical needs. However, the cost of these services are expected to quickly outpace the revenue generated by the levy lid lifts creating deficits in future years which must be fixed. Because the levy

outcomes are unknown, no adjustments have been made to the 2007-08 Budget to reflect these initiatives.

Overall, the 2007-08 General Fund budget rose 5.75% per year or 11.5% for the biennium (Exhibit 5). Funding for basic operations increased 7.3% for two years or 3.65% annually. The remaining 4.2% increase in the budget was allocated to the 5% transfer to the Capital Improvement Program (CIP), City Hall, reserves and new programs. The 5% transfer to the CIP increased 13.7%, the allocation to City Hall rose 21.9% and reserve contributions grew from zero dollars in 2005-06 to \$1.4 million. The Council dedicated \$3.4 million to new programs. It is important to note that the 3.65% annual increase approved for operations is less than the anticipated rise in salary and benefit costs, which represent nearly 70% of the General Fund's budget. As a result, there will not be enough money to maintain services at the same level as in the previous biennium and services to the public will continue to deteriorate.

Following are Exhibits 1 through 5, which provide more detailed information about the General Fund's budget.

**Exhibit 1** is a synopsis of the changes Council made between the Preliminary Budget and the Final Budget to establish the spending caps by department for 2007-08.

<b>Exhibit 1</b>						
<b>Net Effect of Council's Decisions on the 2007-08 Budget</b>						
	<b>2007-08 Preliminary Budget</b>	<b>Elimination of Proposed New Programs</b>	<b>2007-08 Base Budget Reductions</b>	<b>Subtotal of Council's Reductions</b>	<b>2007-08 Council Additions</b>	<b>2007-08 Council Adopted Budget</b>
<b>Base Budget by Department</b>						
City Council	\$320,872	\$0	(\$11,908)	(\$11,908)		\$308,964
Executive	\$2,750,717	(\$87,924)	(\$440,947)	(\$528,871)		\$2,221,846
Finance/I.S.	\$13,445,405	(\$970,475)	(\$1,023,704)	(\$1,994,179)	\$250,000	\$11,701,226
Fire	\$28,932,944	\$0	(\$114,864)	(\$114,864)	\$0	\$28,818,080
Human Resources	\$2,279,179	(\$181,000)	(\$58,449)	(\$239,449)		\$2,039,730
Legal	\$1,646,377	\$0	(\$47,658)	(\$47,658)		\$1,598,719
Non-Departmental	\$13,352,580	(\$935,284)	(\$306,642)	(\$1,241,926)	\$5,654,514	\$17,765,168
Parks	\$9,902,283	(\$342,716)	(\$75,011)	(\$417,727)	\$20,000	\$9,504,556
Planning	\$10,300,741	\$0	(\$55,145)	(\$55,145)		\$10,245,596
Police	\$27,603,974	(\$725,000)	(\$201,103)	(\$926,103)	\$0	\$26,677,871
Public Works	\$16,390,408	\$0	(\$132,375)	(\$132,375)		\$16,258,033
Firemen's Pension Adj.				\$0	\$180,143	\$180,143
Fundwide Reductions			(\$200,000)	(\$200,000)		(\$200,000)
Economic Development					\$200,000	\$200,000
<b>Total</b>	<b>\$126,925,480</b>	<b>(\$3,242,399)</b>	<b>(\$2,667,806)</b>	<b>(\$5,910,205)</b>	<b>\$6,304,657</b>	<b>\$127,319,932</b>

**Exhibit 2** identifies Council approved programs. Some of these programs were included in the Preliminary Budget while others were added by Council as part of its final budget decisions.

<b>Exhibit 2</b>	
<b>Council Approved Programs</b>	
<b>Included in the Preliminary Budget:</b>	
Finance/I.S.:	\$112,040 Utility Billing position (Council cut funding by \$2,300 from the Preliminary Budget.)
Fire:	\$1,500,000 8 Firefighters
Non-Departmental:	\$525,000 Capital Equipment Reserve transfer (One-time money; Council cut funding by \$675,000 from the Preliminary Budget.)
Parks:	\$20,000 Additional funding for lifeguards at Idylwood
Police:	\$775,000 5 Police positions (Council changed the funding from ongoing dollars to one-time money and reduced the allocation by \$25,000 from the Preliminary Budget.)
<b>Subtotal</b>	<b>\$2,932,040</b>
<b>Council Additions:</b>	
Finance/I.S.:	\$250,000 Outcome base budgeting (One-time money)
Non-Departmental:	\$5,654,514 Reinstatement of 5% transfer to CIP
Non-Departmental:	\$200,000 New economic development initiative (One-time money)
Parks:	\$20,000 Additional funding for lifeguards at Idylwood
Technical Correction:	\$180,143 Firemen's Pension Adjustment
<b>Subtotal</b>	<b>\$6,304,657</b>
<b>Total Council Approved Programs</b>	<b>\$9,236,697</b>

**Exhibit 3** is a listing of the new programs, which were proposed in the Preliminary Budget to address critical deficiencies in operations, mitigate risk, comply with mandates and ensure effective delivery of city services, but were subsequently eliminated and/or reduced as part of the Council’s final budget decisions. For more information regarding these programs, please refer to departmental budgets in the “General Fund Expenses” section later in this document.

<b>Exhibit 3</b>	
<b>New Programs Eliminated and/or Reduced from the Preliminary Budget</b>	
<b>Program Initiatives by Department</b>	<b>2007-08 Budget</b>
<b>Executive</b>	
● Webmaster (0.50 FTE) to continue to provide the current level of web services.	(\$87,924)
<b>Finance and Information Services</b>	
● Payroll analyst (1.0 FTE) to meet payroll and comply with mandates.	(\$116,906)
● Sr. Financial Analyst (1.0 FTE) to address deficiencies in providing forecasting and fiscal analysis support citywide.	(\$230,000)
● Records Management to comply with mandates and better manage the City's records.	(\$150,000)
● Computer for new Utility Billing position which is 100% paid by Utilities.	(\$2,300)
● Help Desk Analyst (1.0 FTE) to ensure business continuity and critical technology support.	(\$119,626)
● Data security to combat identity theft by mitigating risks with appropriate safeguards.	(\$135,291)
● City disaster recovery plan to ensure power/communication channels are available so the City can respond to the needs of the community after a major disaster.	(\$216,352)
<b>Human Resources</b>	
● Generalist (1.0 FTE) to enable the department to pursue cost-containment initiatives in healthcare and develop effective recruitment strategies.	(\$181,000)
<b>Non-Departmental</b>	
● Reduced funds to replace critical city equipment from \$1.2 million to \$525,000.	(\$675,000)
● Salary and benefit contingency which is used to fund costs of labor settlements.	(\$260,284)
<b>Parks</b>	
● Ongoing maintenance/operations of Parks and right of way capital projects completed prior to 2007.	(\$229,000)
● Teen Center Program Assistant to meet the critical needs of business/programming operations.	(\$113,716)
<b>Police</b>	
● Additional money to address the systemic funding problem in Police Overtime.	(\$700,000)
● Reduced funding for 5 Police positions from \$800,000 to \$775,000	(\$25,000)
<b>Total</b>	<b>(\$3,242,399)</b>

**Exhibit 4** provides a recap of the funding reductions by department since 2003. To date, General Fund resources have been reduced by \$7.8 million and 17 positions have been eliminated despite the growth in Redmond's residential population and vast commercial base.

<b>Exhibit 4</b>				
<b>Departmental Reductions Since 2003</b>				
<b>Department</b>	<b>2003-04 Reductions</b>	<b>2005-06 Reductions</b>	<b>2007-08 Reductions</b>	<b>Total 2003-2008</b>
City Council	(\$3,000)	\$0	(\$11,908)	(\$14,908)
Executive (Mayor's Office)	(\$7,000)	(\$5,040)	(\$440,947)	(\$452,987)
Finance/I.S.	(\$403,104)	(\$302,346)	(\$1,023,704)	(\$1,729,154)
Fire	(\$302,530)	\$0	(\$114,864)	(\$417,394)
Human Resources	(\$63,855)	\$0	(\$58,449)	(\$122,304)
Legal	\$0	(\$34,000)	(\$47,658)	(\$81,658)
Non-Departmental	(\$692,931)	\$0	(\$306,641)	(\$999,572)
Parks	(\$245,460)	(\$110,002)	(\$75,011)	(\$430,473)
Planning	(\$564,879)	(\$375,478)	(\$55,145)	(\$995,502)
Police	(\$329,721)	\$0	(\$201,103)	(\$530,824)
Public Works	(\$727,000)	(\$983,565)	(\$132,376)	(\$1,842,941)
Fund Wide Reductions			(\$200,000)	(\$200,000)
<b>Total</b>	<b>(\$3,339,480)</b>	<b>(\$1,810,431)</b>	<b>(\$2,667,806)</b>	<b>(\$7,817,717)</b>

**Exhibit 5** is an analysis of the General Fund budget. It breaks the budget down into three major categories: 1) Base Budget, which includes existing services only, 2) Special Items, which reflect the 5% transfer to the Capital Improvement Program and allocations to City Hall and reserves, and 3) new program initiatives, which are being funded for the first time in 2007-08. Although the 2007-08 Budget rose overall by 5.75% per year or 11.5% for the biennium, funding for basic operations increased by only 3.65% annually or 7.3% over two years. It is important to note that this increase is less than the anticipated rise in salary and benefit costs as the base budget was underfunded by \$2.7 million for 2007-08. As a result, there is not enough money in the budget to pay for the same level of service previously provided in 2005-06.

<b>Exhibit 5</b>				
<b>Breakdown of General Fund Budget</b>				
<b>2005-06 vs. 2007-08</b>				
	<b>2005-06 Budget</b>	<b>2007-08 Budget</b>	<b>2-year % change</b>	<b>1-year % change</b>
<b>Base Budget by Department</b>				
City Council	\$324,972	\$308,964	-4.9%	-2.5%
Executive (Mayor's Office)	\$2,443,877	\$2,221,846	-9.1%	-4.5%
Finance/I.S.	\$11,076,712	\$11,339,186	2.4%	1.2%
Fire	\$25,813,891	\$27,318,080	5.8%	2.9%
Human Resources	\$1,883,764	\$2,039,730	8.3%	4.1%
Legal	\$1,412,359	\$1,598,719	13.2%	6.6%
Non-Departmental (excl. CIP/City Hall/Reserves)	\$7,559,895	\$8,445,293	11.7%	5.9%
Parks	\$8,701,384	\$9,464,556	8.8%	4.4%
Planning	\$9,671,971	\$10,245,596	5.9%	3.0%
Police	\$23,261,722	\$25,902,871	11.4%	5.7%
Public Works	\$14,979,401	\$16,258,032	8.5%	4.3%
Fundwide Reductions*		(\$200,000)	n/a	n/a
<b>Total Base Budget</b>	<b>\$107,129,948</b>	<b>\$114,942,873</b>	<b>7.3%</b>	<b>3.6%</b>
<b>Special Items:</b>				
5% CIP Transfer	\$4,971,516	\$5,654,514	13.7%	6.9%
City Hall incl existing leases/maint of old City Hall	\$1,595,860	\$1,945,860	21.9%	11.0%
Reserves		\$1,374,645	n/a	n/a
<b>Total City Hall/Reserves</b>	<b>\$6,567,376</b>	<b>\$8,975,019</b>	<b>36.7%</b>	<b>18.3%</b>
<b>New Programs/Targeted Allocations</b>				
Records Management	\$500,000			
Utility Billing		\$112,040		
Economic Development		\$200,000		
Outcome based Budgeting (one-time money)		\$250,000		
8 Firefighters		\$1,500,000		
Capital Equipment Reserve transfer (one-time money)		\$525,000		
Lifeguards at Idylwood		\$40,000		
5 Police positions (one-time money)		\$775,000		
<b>Total New Programs/Increased Allocations</b>	<b>\$500,000</b>	<b>\$3,402,040</b>	<b>580.4%</b>	<b>290.2%</b>
<b>Total General Fund Budget</b>	<b>\$114,197,324</b>	<b>\$127,319,932</b>	<b>11.5%</b>	<b>5.7%</b>

\*This is a Council approved reduction which was not attached to a specific department.



## **FUTURE CHALLENGES**

This section summarizes the challenges the City will face in maintaining services in 2007 and beyond. In addition to the \$775,000 deficit created by using one-time money to pay for the 5 new Police positions, revenues will not be sufficient in 2009 and beyond to pay for the rising cost of General Fund services and known deficiencies in public safety, parks and citywide operations. Without new revenue, service to the public will continue to be cut and the City's ability to respond to the demands of a growing community will be limited.

At the time of this writing, the Council was working on placing two propositions on the August 2007 ballot for public safety and parks. These proposals, if approved, will cover some, but not all of the critical deficiencies identified below. It is important to note, while the levy lid lift proposals would provide enough revenue to establish some of these public safety and parks programs, costs will quickly outpace the revenues creating further budget deficits in future years which must be fixed. Because the levy outcomes are unknown, no adjustments have been made to the 2007-08 Budget to reflect these initiatives.

Major service and funding deficiencies include the following:

- The cost of services approved in the 2007-08 Budget is anticipated to rise faster than revenues by approximately \$1 million in the next biennium. Because the City is required under state law to have a balanced budget, either revenues will need to be increased or further cuts must be made.
- The Council used \$775,000 of one-time money to pay for 5 Police positions in 2007-08 which must be remedied in 2009-10. If the \$0.35 public safety levy lid lift proposal is approved it would provide enough money in 2009-10 to cover the costs of these positions, but thereafter expenses will grow faster than this revenue source.
- The Police Department needs \$2.3 million annually or \$4.6 million for two years to hire an additional 19 positions over and above the 5 approved in 2007-08 to bring staffing up to meet minimum levels to serve the City's residential population and fully restore the school safety program. These numbers ignore the additional demands from Redmond's vast commercial base. According to Police, without minimum staffing, emergency response will be impacted and deployment of staffing to school safety programs will be reduced. A \$0.35 levy lid lift proposal will be placed before voters on August 2007. If approved, it will address some, but not all of these needs. These costs will also grow significantly faster than the property tax revenue generated by this proposal.
- There are no dollars available to cover systemic shortages in Police overtime. Presently, the department must leave positions vacant to stay within approved budget levels. The Police Department needs an additional \$350,000 annually or \$700,000 over the biennium to cover this expense. No solution has been proposed to correct this situation.

- The General Fund does not have the resources to pay for 18 additional firefighters to fully staff the Overlake Fire Station #12 and provide an aid car at Northeast Education Hill Fire Station #17. The estimated cost of these positions is about \$2.2 million per year or \$4.4 million for two years. This is included in the August 2007 levy lid lift proposal which is pending voter approval. As mentioned before, this levy lid lift proposal would provide funds to establish this program, but costs will rise faster than this revenue source.
- Funding to maintain existing and new parks facilities and recreation programming is inadequate. The Parks Board recommended a \$0.10 levy lid lift to address deficiencies in parks maintenance and programs. Subsequent to the adoption of the budget the City Council decided to divert capital dollars in the amount of \$307,000 per year to cover deficiencies in existing parks maintenance. As a result, the Council opted to put forth to voters a \$0.05 levy proposal instead of the Parks Board's \$0.10 recommendation to maintain new parks facilities and support Teen Center, after school, and urban forestry programs. A \$0.05 increase in Redmond's portion of the property tax levy will equate to approximately \$600,000 annually or \$1.2 million over two years. This initiative is pending a decision by voters in August 2007. If approved the levy will generate sufficient resources in the short-term, but not in the long run to cover the cost of these programs.
- The replacement of critical city assets is not being properly funded. These include such things as computer hardware and software systems, telephones, radios, printers, copiers and safety and maintenance equipment. Although the Council indicated support in May 2007 to transfer the General Fund's 2006 year-end surplus to this fund, the City needs to raise replacement funding on a permanent basis by approximately \$250,000 per year or \$500,000 over a two-year period.
- No funds to prevent further deterioration of basic citywide operations, mitigate risk, comply with mandates and ensure effective delivery of all municipal services. As a result, services to the public will continue to deteriorate. A very conservative estimate of these needs is approximately \$1 million annually or \$2 million over two years.

All together these deficiencies total \$7.6 million per year or \$15.2 million for the biennium.

## AVAILABLE FUNDING OPTIONS

This section recaps the options presented to the Council in the Preliminary Budget which remain available for future consideration. Funding alternatives are organized in two categories: 1) those that can be approved by a majority vote of the Council and 2) those requiring voter approval.

### Options which can be approved by a majority vote of the Council

#### *Redirect Existing Revenues*

- Reduce the level of funding to the Capital Improvement Program (CIP). In 2007-08, the City will transfer \$17.9 million or 13.9% of general funding to the CIP. This money is not restricted to capital under state law and therefore, could be used for General Fund purposes with a majority vote of the Council. A recent survey shows that Redmond makes the highest contribution of general funding to its CIP than surrounding cities.
- Reduce Human services per capita transfer which totals \$1.2 million/biennium.
- Reduce Arts per capita transfer which is budgeted at \$200,000/biennium.

#### *Raise Taxes*

- Increase business license fees. There is no statutory limit on how much this fee may be increased. Each \$10 increase raises approximately \$700,000 per year or \$1.4 million over two years. Redmond's business license fee lags significantly behind other corporate hubs such as Bellevue, Seattle, and Tacoma.
- Increase property tax by 1%; generates \$250,000 for the biennium.
- Tap banked property tax capacity; worth \$3.8 million for two years. Note: This capacity will be eliminated if Redmond voters approve a property tax levy lid lift exceeding this amount.
- Tax City-owned utilities (\$5.5 million/biennium assuming a 6% utility tax rate); Redmond is one of the few cities which do not tax its own utility.
- Implement a business and occupation (B&O) tax on gross receipts which could generate up to \$35 million over a biennium. 39 Washington cities have implemented this tax.

#### *Use One-Time Money Remaining in the Economic Contingency*

- Economy contingency: \$1.0 million after commitment to fund \$200,000 economic development initiative.
  - To use one-time money to fund ongoing expenses is contrary to City policy, but not without precedent (e.g., Council used \$1.6 million of contingency in 2005-06 budget and \$775,000 in 2007-08 to balance the budgets).

***Continue to reduce services to the public.***

- The City has been reducing services and containing costs for years. Through 2008, General Fund resources have been reduced by \$7.8 million and 17 positions have been eliminated.

**Options which require voters' approval**

- Ask the voters to approve bonds to pay for capital projects. This grants the City the authority to levy an excess property tax to meet debt service payments.

The excess property tax levy is a good source of revenue from which to pay debt service costs because it can be set at the level necessary to cover principal and interest on the debt. In addition, the City currently has very little debt outstanding.

- Current general obligation debt: \$42.5 million; remaining bond capacity \$793.6 million.
- No revenue bonds outstanding.

Ask the voters to approve a property tax levy lid lift for operations. This could yield ongoing revenue up to \$19 million annually or \$38 million biennially. The voters could be asked to approve a permanent levy or a multiple year levy lid lift.

There is no limit on the time horizon for a permanent levy lid lift, except if it is used to pay for debt service on bonds then the maximum time period is nine years. The Council may increase this levy up to 1% per year.

The multiple year levy has a maximum time horizon of six years. The levy can be increased for each of those six years by some stated amount which can be either a dollar amount, a percentage increase tied to an index such as the Consumer Price Index (CPI), or the percentage may be set arbitrarily.

*Note: A citizen survey conducted in 2006 indicated some support for redirecting existing revenues, tax increases and using bonds to finance major capital projects.*

## 2007-08 EXECUTIVE SUMMARY

# CAPITAL INVESTMENT PROGRAM OVERVIEW

The six-year Capital Improvement Program (CIP) increased by \$91.1 million or 72.5% from \$125.5 million in 2005-10 to \$216.6 million for 2007-12.

### CIP REVENUES

Major revenue increases include:

- Real estate excise tax. This revenue is projected to increase by \$16.2 million or 80% from \$20.1 million in 2005-10 to \$36.3 million in 2007-12. This is due to rising real estate prices, higher transaction volumes and adjustments to more closely reflect actual collections.
- General revenues. The level of general funding is expected to increase by \$19.6 million or 56% from \$34.9 million in 2005-10 to \$54.5 million in 2007-12 primarily due to growth in the 5% General Fund transfer, the reinstatement of the business tax surcharge, and increases in the General Fund contribution for City Hall. Also, included in this category are transfers from the General Fund for sales tax on construction and the pavement management program which are projected to remain flat at \$1.1 million and \$300,000, respectively over the next six years.
- Impact fees. This revenue is estimated to grow by \$15.0 million or 132% due to projected growth in the City and the Council increasing these fees significantly in August 2006 with cost escalators for future years.
- Debt proceeds. The City is expected to issue \$28 million of debt to fund the Bear Creek Parkway extension.
- Developer contributions for specific projects. These resources are projected to rise 471% from \$4.2 million in 2005-10 to \$24 million in 2007-10. This higher revenue is primarily related to contributions from Microsoft for the NE 36<sup>th</sup> Street overpass.

## CIP EXPENDITURES

The following chart provides an overview of how capital dollars are allocated by functional area for 2007-12 vs. 2005-10. The three largest projects included in the CIP are Bear Creek Parkway (\$28 million) and the Northeast 36<sup>th</sup> Street overpass (\$21 million) in the Transportation functional area and City Hall lease payments (\$24 million) in General Government.

Capital Improvement Program Summary by Functional Area 2005-10 vs. 2007-12				
	2005-2010	2007-2012	Over/ (Under)	% Change
Council	\$4,870,899	\$20,459,679	\$15,588,780	320.0%
Parks	\$19,097,544	\$22,443,859	\$3,346,315	17.5%
Transportation	\$66,317,105	\$132,529,683	\$66,212,578	99.8%
Fire	\$9,087,513	\$9,269,959	\$182,446	2.0%
Police	\$7,049,078	\$5,516,283	(\$1,532,795)	-21.7%
General Government	\$19,089,746	\$26,350,708	\$7,260,962	38.0%
<b>Total</b>	<b>\$125,511,885</b>	<b>\$216,570,171</b>	<b>\$91,058,286</b>	<b>72.5%</b>

As you can see, funding for all of the functional areas is forecasted to rise with the exception of Police. The Police department completed some major capital projects in 2005-06 which reduced its cash balance. In addition, it did not receive its share of the 5% General Fund transfer in 2007-12 as the Council decided to retain this money (\$17.9 million) in its contingency pending a further review of the CIP. This decision affected all of the functional areas. The table below details how the 5% transfer has been historically allocated.

Allocation of 5% General Fund Transfer by Functional Area		
	%	2007-2012
Council	5%	\$893,605
Parks	20%	\$3,574,418
Transportation	45%	\$8,042,441
Fire	15%	\$2,680,814
Police	10%	\$1,787,209
General Government	5%	\$893,605
<b>Total</b>	<b>100%</b>	<b>\$17,872,091</b>

At the end of 2012, the CIP has \$32.4 million of funds unallocated which are not restricted by state law for capital and could be used for general city services.

*Note: Subsequent to the adoption of this budget, the Council decided to divert a portion of the 5% General Fund transfer in the amount of \$307,000 per year plus inflation to cover deficiencies in existing parks maintenance. Given this action did not occur until 2007, it has not been included in any of the numbers presented herein.*

## 2007-08 EXECUTIVE SUMMARY

### UTILITIES OVERVIEW

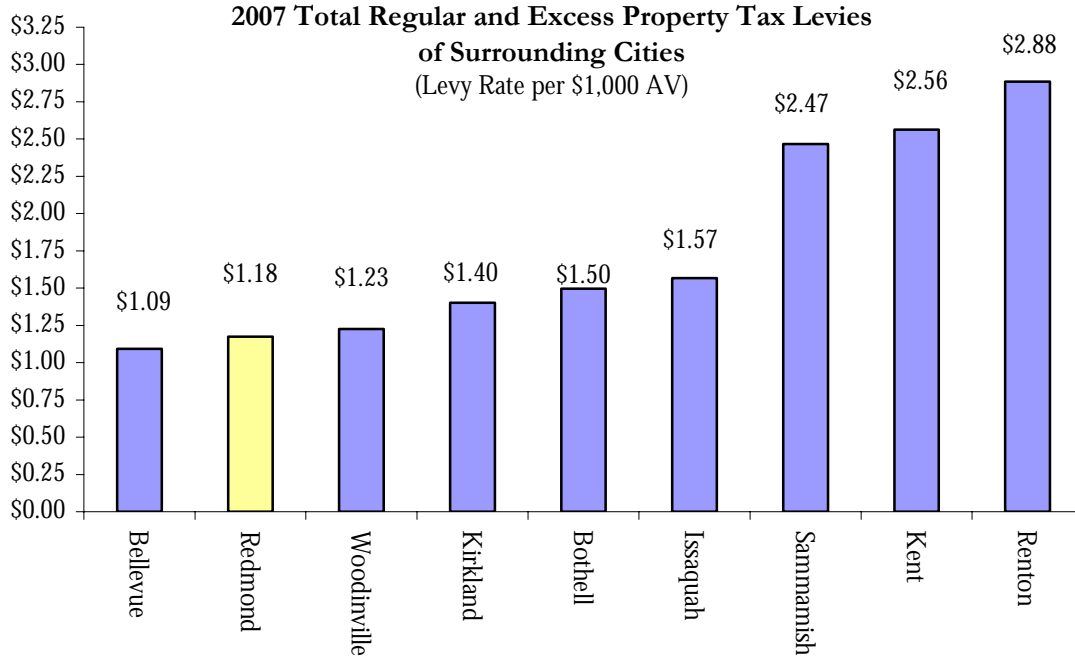
Funding for the City's utilities more than doubled between the 2005-06 and 2007-08 increasing from \$109.9 million to \$226.9 million. This is primarily due to rate increases to maintain operations and approval of debt to move Downtown forward and cover the capital needs of the Utilities as identified below.

- Approved rate increases effective January 1, 2007.
  - In-City Water/Wastewater
    - Water: 12% increase in 2007 and 6% increase in 2008
    - Sewer: 19% increase in 2007 and 6% increase in 2008
    - Metro: 9.2% increase in 2007 (this is a pass-through and represents a \$2.35 increase in the monthly bill.)
    - Impact on average customer's monthly bill: \$6.45 in 2007 and an additional \$1.98 in 2008 for a total increase of \$8.43. The average monthly bill will increase from \$54.44 in 2006 to \$62.87 in 2008.
  - UPD Water/Wastewater
    - Water: 11% increase in 2007 only
    - Sewer: no increase
    - Metro: 9.2% increase in 2007 (this is a pass-through)
    - Impact on average customer's monthly bill: \$6.56 in 2007 of which \$4.21 is the City's portion and \$2.35 is the Metro pass-through. Monthly bill increases from \$70.85 in 2006 to \$77.41 in 2007.
  - Stormwater Management
    - 44% increase from \$11.50 to \$16.56 in 2007; No increase for 2008.
- Council approved the issuance of \$48.5 million of debt to move Downtown forward and cover the capital needs of the Utilities: \$8.5 million for Water/Wastewater and \$40 million for Stormwater.

## HOW REDMOND COMPARES TO OTHER CITIES

### Property Tax

- Redmond has one of the lowest tax rates of surrounding jurisdictions.



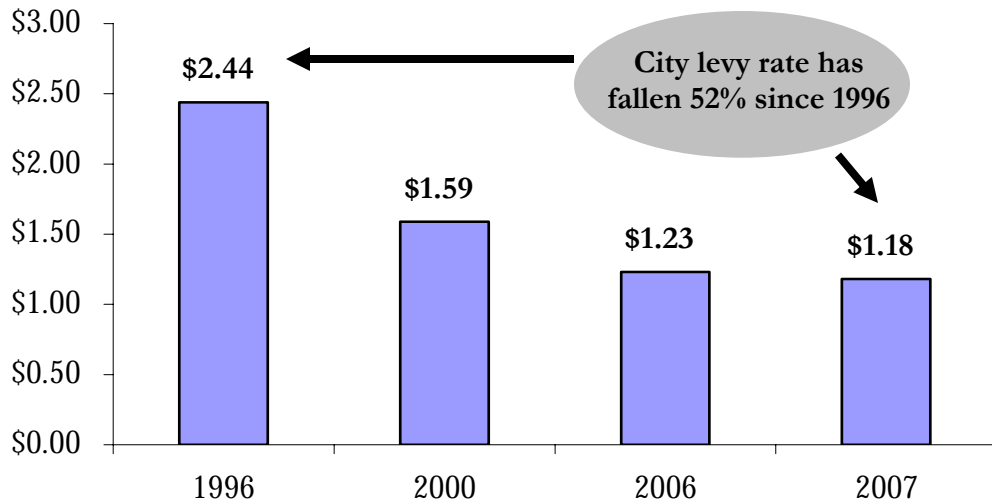
Source: King County Assessor's Office



## Property Tax (cont.)

*Facts about Redmond's Property Taxes*

**Snapshot of Redmond's Property Tax Rates 1996-2007**



- For the average homeowner in Redmond, the amount paid in property taxes to the City is about the same today as it was 11 years ago, even though the value of an average home has more than doubled.

**Comparison of Assessed Value and Taxes Paid to the City  
by an Average Redmond Homeowner**

	1996	2007
Assessed value of your home	\$189,600	\$413,300
Levy rate per \$1,000 of assessed valuation	\$2.44	\$1.18
Redmond's share of property tax bill	\$463	\$488

Source: King County Assessor's Office

Home value more than doubled

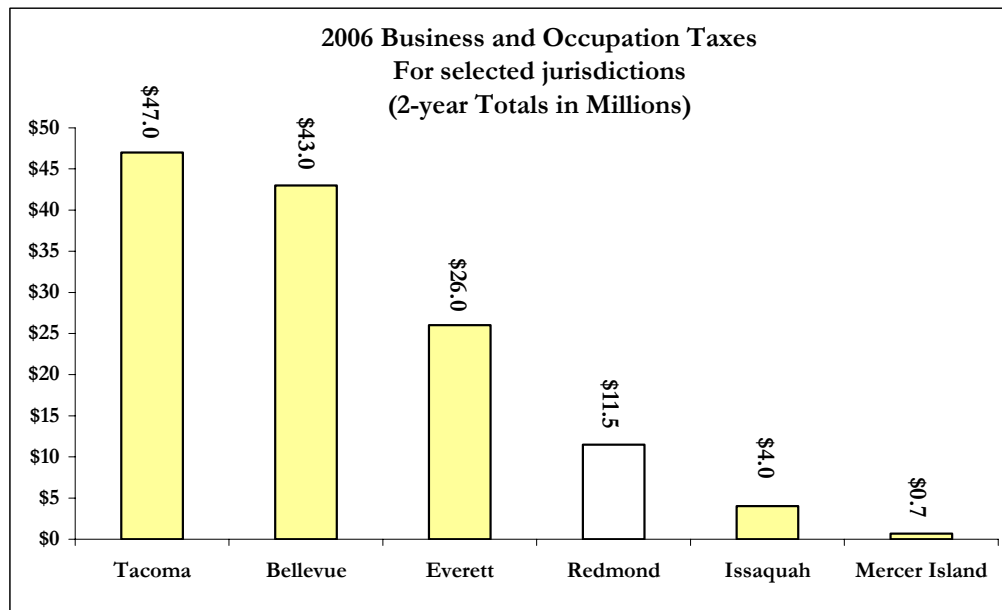
Tax rate declined 50%

Amount you pay

## Business And Occupation Tax on Gross Receipts

### *Comparison of Business and Occupation Tax Revenues and Employment*

- While Redmond is the fourth largest employment center (following Seattle\*, Bellevue and Tacoma), its business tax collections lag significantly behind other major corporate hubs.
- It should be noted that Everett has the 5<sup>th</sup> largest job base, but its B&O tax collections exceed Redmond's by \$15 million, or 126% on a biennial basis.
- Simply put, other cities which have major employment centers, tax their commercial base more aggressively than Redmond.
- B&O Tax is in effect for 39 cities in the State of Washington.



*\*Seattle, which generates \$290 million/biennium from B&O tax, is not included above because it would distort the picture.*

### **Top Five Employment Centers in Puget Sound Region**

	2005 jobs	Equivalent B&O Tax Per Employee
Seattle	465,689	\$311.37
Bellevue	113,306	\$189.75
Tacoma	101,192	\$232.23
<b>Redmond**</b>	<b>82,073</b>	<b>\$83.25</b>
Everett	69,169	\$187.95

\*\* Redmond's tax rate for 2007-08 is \$90. Only 68,000 to 70,000 of these jobs are taxable under Redmond's current head tax.

## Utility Tax

- Most cities are taxing their own utilities, but Redmond and Issaquah are not.
- Taxing the water/sewer and stormwater utilities in Redmond would generate \$5.5 million biennially, assuming a 6% utility tax rate.

	<b>Electricity</b>	<b>Telephone</b>	<b>Natural Gas</b>	<b>City Utilities</b>
<b>Bothell</b>	6.0%	6.0%	6.0%	6.0%
<b>Issaquah</b>	6.0%	6.0%	6.0%	<b>None</b>
<b>Renton</b>	6.0%	6.0%	6.0%	6.0%
<b>Seattle</b>	6.0%	6.0%	6.0%	12% - 15.5%
<b>Tacoma</b>	6.0%	6.0%	6.0%	8.0%
<b>Federal Way</b>	6.0%	6.0%	6.0%	6% (SWM only)
<b>Kirkland</b>	6.0%	6.0%	6.0%	7.5%
<b>Kent</b>	6.0%	6.0%	6.0%	6.0%
<b>Bellevue</b>	5.0%	6.0%	5.0%	5.0%
<b>Redmond</b>	<b>6.0%</b>	<b>6.0%</b>	<b>6.0%</b>	<b>None</b>

Source: 2006 Association of Washington Cities Survey; City of Redmond records

## How Surveyed Cities Fund Their CIP

### *Level of General Fund Support*

- At a funding level of 13.9%, Redmond has the highest percentage of general revenues dedicated to its CIP among neighboring cities surveyed.

Cities	2006 Levy Rate	Level of Dedicated General Fund Support	Dedicated GF Description
Kirkland	1.49	1.6%	Sales tax
Renton	3.12	3.3%	Part of business tax
Bellevue	1.16	5.6%	5.6% of General Fund after adjusting for 50% of sales tax which is returned to the General Fund for maintenance & operations costs (sources: Sales and B&O taxes)
Kent	2.80	10.5%	Sales tax and utility tax
Redmond	1.23	13.9%	Sales tax on construction, business tax, pavement mgmt., City Hall contribution, 5% GF transfer

### *Debt*

- All cities use debt to finance some of their general capital projects.
- Redmond has the second lowest amount of general obligation debt as a percent of assessed value.
- Kent not only has a high level of general obligation bonds outstanding but uses local improvement district financing more extensively than Redmond. Kent has \$20.2 million of LID bonds outstanding.

Cities	General Obligation Outstanding Debt (Non-Utility) as % of Assessed Valuation
Renton	0.86%
Kent	0.70%
Bellevue	0.59%
Redmond	0.41%
Kirkland	0.30%

**2007-08 EXECUTIVE SUMMARY**

**CITYWIDE BUDGET SUMMARY**

<b>Fund #</b>	<b>Fund</b>	<b>2005-2006 Budget</b>	<b>2007-2008 Budget</b>	<b>Budget to Budget Difference</b>	<b>2-year % change</b>	<b>1-year % change</b>
<b>001</b>	<b>GENERAL FUND</b>	<b>114,197,324</b>	<b>127,319,932</b>	<b>13,122,608</b>	<b>11.5%</b>	<b>5.7%</b>
<b>SPECIAL REVENUE FUNDS</b>						
110	Recreation Activity	3,250,276	4,344,726	1,094,450	33.7%	16.8%
111	Arts Activity	421,675	598,827	177,152	42.0%	21.0%
112	Parks Maintenance & Operations	1,744,902	1,899,473	154,571	8.9%	4.4%
113	Special Events	637,147	673,902	36,755	5.8%	2.9%
117	Cable Access	1,229,118	1,438,619	209,501	17.0%	8.5%
118	Operating Grants	4,423,817	3,964,464	(459,353)	-10.4%	-5.2%
119	Human Services	1,392,856	1,239,532	(153,324)	-11.0%	-5.5%
120	Fire Equipment Reserves	2,638,172	3,952,358	1,314,186	49.8%	24.9%
121	Operating Reserves	5,118,991	6,583,636	1,464,645	28.6%	14.3%
122	Advanced Life Support (ALS)	9,293,416	10,071,432	778,016	8.4%	4.2%
124	Aid Car Donation	177,546	153,826	(23,720)	-13.4%	-6.7%
125	Real Estate Excise Tax (REET)	9,864,924	15,313,407	5,448,483	55.2%	27.6%
126	Drug Enforcement	79,650	79,571	(79)	-0.1%	0.0%
127	Capital Equipment Reserve	3,500,162	4,720,605	1,220,443	34.9%	17.4%
128	Emergency Dispatch	19,082	-	(19,082)	-100.0%	-50.0%
130	Business Tax	12,078,988	12,325,464	246,476	2.0%	1.0%
131	Hotel/Motel Tax	619,193	779,427	160,234	25.9%	12.9%
140	Solid Waste/Recycling	1,441,708	1,460,024	18,316	1.3%	0.6%
	<b>Subtotal - Special Revenue Funds</b>	<b>57,931,623</b>	<b>69,599,293</b>	<b>11,667,670</b>	<b>20.1%</b>	<b>10.1%</b>
<b>DEBT SERVICE FUNDS</b>						
230	Excess Levy	4,221,319	1,552,198	(2,669,121)	-63.2%	-31.6%
233	Perrigo Park/Grass Lawn	1,645,610	1,592,945	(52,665)	-3.2%	-1.6%
	<b>Subtotal - Debt Service Funds</b>	<b>5,866,929</b>	<b>3,145,143</b>	<b>(2,721,786)</b>	<b>-46.4%</b>	<b>-23.2%</b>
<b>CAPITAL IMPROVEMENT PROGRAM FUNDS</b>						
314	Council CIP Contingency	3,728,563	7,025,001	3,296,438	88.4%	44.2%
315	Parks CIP	12,448,202	10,328,570	(2,119,632)	-17.0%	-8.5%
316	Transportation CIP	45,609,284	85,245,957	39,636,673	86.9%	43.5%
317	Fire CIP	5,100,507	5,155,448	54,941	1.1%	0.5%
318	Police CIP	4,684,407	2,975,712	(1,708,695)	-36.5%	-18.2%
319	General Government CIP	13,317,410	13,139,347	(178,063)	-1.3%	-0.7%
352	Parks Acquisition and Renovation	947,545	194,396	(753,149)	-79.5%	-39.7%
353	1993 G.O. Bond Fund - Fire	81,308	82,203	895	1.1%	0.6%
	<b>Subtotal - CIP Funds</b>	<b>85,917,226</b>	<b>124,146,634</b>	<b>38,229,408</b>	<b>44.5%</b>	<b>22.2%</b>
<b>ENTERPRISE FUNDS (UTILITIES)</b>						
401	Water/Wastewater Oper & Maint	46,566,696	63,004,996	16,438,300	35.3%	17.7%
402	UPD Operations & Maintenance	10,603,103	18,231,119	7,628,016	71.9%	36.0%
403	Water/Wastewater CIP	20,101,071	19,845,215	(255,856)	-1.3%	-0.6%
405	Stormwater Operations & Maint	15,356,520	67,574,045	52,217,525	340.0%	170.0%
406	Stormwater CIP	12,551,281	51,458,659	38,907,378	310.0%	155.0%
407	UPD CIP	4,751,166	6,758,904	2,007,738	42.3%	21.1%
	<b>Subtotal - Enterprise Funds</b>	<b>109,929,837</b>	<b>226,872,938</b>	<b>116,943,101</b>	<b>106.4%</b>	<b>53.2%</b>
<b>INTERNAL SERVICE FUNDS</b>						
501	Fleet Maintenance	9,091,569	10,488,526	1,396,957	15.4%	7.7%
510	Insurance Claims and Reserves	2,457,802	2,808,222	350,420	14.3%	7.1%
511	Medical Self Insurance	15,529,182	17,376,203	1,847,021	11.9%	5.9%
512	Workers; Compensation	1,636,726	1,913,911	277,185	16.9%	8.5%
520	Information Technology	5,600,799	7,061,971	1,461,172	26.1%	13.0%
	<b>Subtotal - Internal Service Funds</b>	<b>34,316,078</b>	<b>39,648,833</b>	<b>5,332,755</b>	<b>15.5%</b>	<b>7.8%</b>
	<b>Capitalization of City Hall Lease</b>	<b>36,089,000</b>	<b>-</b>	<b>(36,089,000)</b>	<b>-100.0%</b>	<b>-50.0%</b>
<b>FINAL BUDGET - ALL FUNDS</b>		<b>444,248,017</b>	<b>590,732,773</b>	<b>146,484,756</b>	<b>33.0%</b>	<b>16.5%</b>