



MEMO TO: Members of the City Council

FROM: Mayor John Marchione

DATE: December 4, 2018

SUBJECT: Adoption of the 2019-2020 Biennial Budget Package

I. RECOMMENDED ACTION

Adopt the 2019-2020 Biennial Budget package with the attached ordinances and accompanying exhibits.

1. Adopt the 2019 property tax levy for general operations and voter approved levy lid lifts as outlined in Attachment A.
2. Amend the Redmond Municipal Code (RMC) to increase the business license fee by the consumer price index and revise the code based on changes to Title 48 RCW Chapter 17 and House Bill 2005 and the update of wellhead protection zones I and II as outlined in Attachment B.
3. Approve revenue increases for the Water, Wastewater and Novelty Hill Service Area utilities as reflected in Attachment C.
4. Approve increase in Cable Service Occupation Tax and administrative changes as outlined in Attachment D.
5. Approve amending the user fee schedule for development services as reflected in Attachment E.
 - a. Exhibits E-1 through E4 – User Fee Schedules
6. Establish the 2019-2020 Operating and Capital Investment Program (CIP) Budget as presented to Council on October 2, 2018 with Council changes as summarized in Attachment F, Exhibits F-1 and F-2 and policy direction outlined in Exhibit F-3.

II. DEPARTMENT CONTACTS

Malisa Files, Finance Director; 425-556-2166

Kelley Cochran, Financial Planning Manager; 425-556-2748

III. DESCRIPTION/BACKGROUND

Described below are the various ordinances and actions required by Council to approve the 2019-2020 Biennial Budget package.

2019 Property Tax

Pursuant to state law, the City of Redmond may levy property taxes annually for general operations and the payment of debt service on voted bond issues (if any). The Revised Code of Washington (RCW) 85.55.005 allows a jurisdiction over 10,000 in population to raise property taxes by the lesser of the implicit price deflator (IPD) or 1% plus new construction, annexations, and other miscellaneous adjustments (e.g. refunds) with a simple majority vote. In September, the Bureau of Economic Analysis calculated the implicit price deflator to be 1.0217%. The attached ordinance establishes the 2019 property taxes at \$27,126,049 with \$20,670,042 for general operations and \$6,456,006 supporting Redmond's levy lid lifts.

King County released Redmond's preliminary property tax figures for 2019 on November 8, 2018, which did not include assessed value numbers for new construction on state public utilities or annexations. As a result, these numbers are estimates and are subject to change when the final data is received from King County. The ordinance in Attachment A is based on the preliminary information as King County Council needed to receive Redmond's data by December 3, 2018. The City's assessed valuation has increased from \$20.7 billion in 2018 to \$23.6 billion in 2019 or by approximately 14% according to preliminary numbers supplied by King County.

Business License Fee

Currently, the City levies \$112.00 per full-time equivalent (FTE) employee on people doing business in Redmond. Of the total, \$48.00 per FTE goes into the General Fund to support City operations and \$64 per FTE is used to fund transportation and transportation demand management projects. The ordinance in Attachment B would index the 2019 and 2020 business tax to inflation currently estimated at 2.67%. In 2019, the increase in the business tax is \$3.00 to a total of \$115 per FTE of which \$49 per FTE would be apportioned to the General Fund and \$66 per FTE to the capital investment program. In 2020, the increase is calculated at \$2.00 raising the business tax to \$117 per FTE of which \$50 would be collected in the General Fund and \$67 in the capital investment or transportation demand management programs.

In addition to the changes in the business tax rate, the ordinance also addresses some administrative updates based on programmatic changes and to adhere to Title 48 RCW Chapter 17 and House Bill 2005. These changes include language regarding the definition of engaging in business and a minimum threshold exemption for out-of-town businesses; list of master event and exempted special events, the fee for expired applications; and replacing wellhead protection zone with critical aquifer recharge area I and II.

In-City Water and Novelty Hill Service Area Rates

During the Study Session held on July 24, 2018, the Council reviewed the Water, Wastewater and Stormwater utility rates in preparation for the 2019-2020 Biennial Budget. City policy calls for a rate study to be performed in conjunction with the adoption of each biennial budget. Water, Wastewater and Stormwater rates are separated into in-city rates and those that are associated with the Novelty Hill Service area in King County. The rates

are used to fund most of the costs associated with providing these services to the community.

The ordinance in Attachment C provides for water revenue increases of 2% and 2% for 2019 and 2020, respectively for in-city customers. In addition, wastewater revenue increases of 4% and 4% for 2019 and 2020, respectively are included for in-city customers. Rate increases for the Novelty Hill Service Area for water are proposed at 3% and 3% and wastewater at 5% and 5% for 2019 and 2020, respectively. The rate increases are primarily due to the increased cost of purchased water and inflationary increases for salaries, benefits and commodities. There are no rate increases proposed for the Stormwater utility.

Cable Service Occupation Tax

In 2015, the City imposed a new 3% utility tax on cable television services within the City and will increase the tax another 3% to a total of 6% for 2019 and 2020. This increase will bring the occupational tax on cable services into alignment with the occupational taxes for telephone, electric light and power, and natural or manufacture gas. Discussion on this topic was conducted during Council's review and deliberation of the Preliminary Budget. The ordinance also includes code revisions that are needed to update the code with current business practices.

Development User Fees

In 2011, the Council enacted a revised fee structure targeting full cost recovery for all development related fees. A routine update to the development user fees was conducted during the 2017-2018 biennium, and included stakeholder outreach and engagement. Council was briefed on the update during Study Sessions held on February 13, 2018, and August 14, 2018, and was asked to provide guidance to staff on recommended changes. Council provided confirmation of the full cost recovery policy and supported changes to some fee structures and classifications of Fire Operational permit fees. Attachment E outlines the updated fees per Council direction.

Budget Adoption

On October 2, 2018, the Mayor transmitted to the Redmond City Council the 2019-2020 Preliminary Budget and Capital Investment Program (CIP), reflecting his recommendations, as per his authority provided in the Revised Code of Washington (RCW) 35A.34. Consistent with the City's Budgeting by Priorities process, the budget was designed around six priorities, as articulated by the community and adopted by the Council. Public hearings were held in keeping with state law on June 19, October 16, and November 20, 2018.

The new biennial budget reflects the Mayor's overarching vision to work together with the Council to realize Redmond's vision of a city with two vibrant urban centers, connected neighborhoods and high-quality services.

The ordinance in Attachment F establishes the 2019-2020 Biennial Budget at \$797,672,206 and reflects a budget that is balanced through a combination of innovations, efficiencies

and right-sizing of operations for changing customer demands. During Council deliberations the following changes were made to the budget, including:

- Adding one-time funding for Human Services of \$100,000.
- Adding one-time funding for Human Services of \$10,000 to support the Cities for Citizen Initiative.
- Adding one-time funding of \$122,000 to plant an additional 2 acres of tree canopy.
- Adding one-time funding of \$50,000 to continue support of the Innovation Fund.
- Adding one-time funding of \$28,000 to support two additional weeks of lifeguard services at Idylwood beach.
- Adding a 1.0 Engineer full-time equivalent (FTE) to the Public Works Department to support the wastewater pump station capital investment projects.
- Adjusting the Capital Investment Program (CIP) project for the trail at NE 100th Street to Willows Road on Rosehill from 2024 to begin design in 2020 and complete construction in 2021.

Council changes and technical adjustments to the budget are highlighted in Exhibits F-1 and F-2 with Council's final Issues/Parking Lot and Public Comment Matrices contained in Exhibit F-3.

IV. PREVIOUS DISCUSSIONS HELD

Budget study sessions were held October 23, 25, and 30 as well as November 1, 8, 13, and 15, 2018. Public hearings on the budget were also held on June 19, October 16, and November 20, 2019.

V. IMPACT

A. Service/Delivery:

The biennial budget contains the lawful appropriations for the City to continue operations in the 2019-2020 biennium.

B. Fiscal Note:

The total City of Redmond 2019-2020 Biennial Budget equals \$797,672,206 including all changes noted above.

VI. ALTERNATIVES TO STAFF RECOMMENDATION

The Council can choose to:

- Adopt the budget package as presented.
- Adopt the budget package with changes.
- Do not adopt the budget package which would cause the City to cease operations on January 1, 2019.

VII. TIME CONSTRAINTS

Actions contained in the 2019-2020 Biennial Budget package must be approved by December 31, 2018, in order to take effect by January 1, 2019. In addition, immediate action is necessary to ensure that the City receives its 2019 property tax distribution per King County timelines.

VIII. LIST OF ATTACHMENTS

Attachment A: Ordinance: 2019 Property Tax Levy

Attachment B: Ordinance: Business License Fee Indexing

Attachment C: Ordinance: Water, Wastewater and Novelty Hill Utility Rates

Attachment D: Ordinance: Cable Service Occupation Tax Rate

Attachment E: Ordinance: Development User Fees

Exhibits E-1 through E-4 – Development User Fee Schedules

Attachment F: Ordinance: Adoption of the 2019-2020 Biennial Budget and CIP

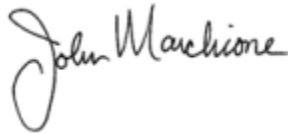
Exhibit F-1: Summary of Budget Changes

Exhibit F-2: Final Council Deliberation Matrix

Exhibit F-2: Final Council Issues/Parking Lot and Public Comment
Matrices



Malisa Files, Finance Director



Approved for Agenda _____
John Marchione, Mayor