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# 2006 Budget Message

Honorable Mayor and Members of Kent City Council,

I am pleased to submit the **Proposed Fiscal Year 2006 Kent City Budget** for Council consideration. This is my first budget as your City Manager but it marks the eighth year in a row that the administration has prepared a fiscally constrained budget that tries to squeeze the growing needs of the Kent community in a shrinking revenue base. Although we have not resolved our financial challenges in this budget, I believe that we have taken the first steps towards building a strategy that will break the cycle of deficit spending and will help us turn the corner on financial sustainability.

## Budget Goals

Early on in the preparation of this budget I sent a note to all city employees stating my goals for this year's budget that I described as follows:

1. To get a budget passed that provides for the critical needs of city operations that confront us today;
2. To lay the groundwork for building a solution that goes beyond patching the symptom to fixing the root problem;
3. To showcase the value of city services in the lives of Kent residents and make them as proud of us as we are about the work we do for them;
4. To rise to the challenge and work together to solve our financial problems.

I believe we have done what we set out to do. We have a budget that meets critical needs. We have committed to taking the next year to study our revenue and expense problem so that we can make sure future city budgets give direction, set priorities and are structurally balanced. And we've shown that we can work together to do more with less.

## Structural Budget Deficit

As you are well aware, Kent has struggled for the last 8 years to close the widening gap between the costs of doing business and our ability to pay for it. We have worked hard to bring recurring expenditures in line with recurring revenues but despite our efforts we continue to lose ground. What was a \$300,000 gap in governmental funds in 2003 has grown to a nearly \$2,000,000 gap in the proposed 2006 budget. We've been fortunate that we have had adequate one-time reserve savings to bail us out but those funds won't last beyond 2008 if we don't make some fundamental changes.

How big is a \$2 million gap? It's roughly 30% of our operations and maintenance (O&M) budget. It's 12% of our workforce costs or an equivalent of 23 full-time city employees. It's a 6.25 mils increase on property tax or a 2.3% income tax rate. It's an \$80 per vehicle license tax. It's a 21% growth in new business development in Kent or roughly 2,500 new jobs.

Obviously, a \$2 million gap is very significant and it has pushed us into one of the most challenging periods in Kent's financial history. What we do next will be pivotal in shaping Kent's future.

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## The Budget Overview

Tight budgets require compromises and hard decisions, and this one is no different. Each department was asked to develop a budget that was consistent with last year's total expenditures and they have all done so. With the exception of \$180,000 in higher fuel, energy, utility and related operational costs, the departments have once again held the line on O&M spending. The increase in O&M is 2.8% -- which remains below the rate of inflation.

Labor costs on the other hand continue to push upward as health insurance, pension and contract salaries escalate at higher rates. We have worked with the unions and the employees to contain health care costs and we have consolidated and/or frozen vacant positions. In the 2006 budget we propose to eliminate a wastewater operator position and while we have kept 3 firefighter and 2 police officer positions funded we do not plan to fill these positions until we can secure adequate funding. Each department is doing what it can short of cutting services.

### **Related Budget Facts**

- The City will satisfy the 25% threshold for capital expenditures as required by City Charter by allocating \$2.8 million towards capital (29.3%) in 2006.
- A 3% sewer rate increase will go into effect January 1, 2006. The impact on the typical household customer sewer bill will be less than \$1.00 per month. This increase was scheduled to go into effect in 2005 but the increase was able to be deferred until 2006.
- Social Services funding has been reduced from \$120,000 to \$110,000.
- This budget marks the 22<sup>nd</sup> year in a row without an income tax rate increase.
- \$132,000 has been allocated to cover relevant land banking expenses.
- \$100,000 remains budgeted for urban renewal of downtown Kent.
- If the West Side Fire replacement levy (at \$240,000) and the 2 Parks issues are unsuccessful, we will need to consider alternative funding mechanisms.
- The City's debt financing strategy will continue to leverage short term notes in order to take advantage of favorable interest rates.

This budget does not show any significant changes in the city organizational structure or in service delivery because 5 months has not provided adequate time for me to fully evaluate the strengths and weaknesses of the city organization. However, I fully expect to work with the staff, Council and the community to improve our performance, as well as our bottom line, for as long as I am City Manager. Innovation and entrepreneurship hold the keys to Kent's economic future and I will make sure that we exemplify those principles in everything we do in our city government.

The City employees have earned the right to be proud of what they have accomplished but after 8 years of hard work it is clear that a \$2 million gap is too large to cross through productivity improvements alone. As a city we need to re-examine what we want as a community and honestly ask ourselves what we can afford and what we're willing to pay. This budget strives to reduce costs while preserving core services but we cannot continue to honor that promise for much longer. Services are stretched thin and it is unrealistic to think that we can find \$2 million in cuts without significantly altering the level of city services. It is time to make choices.

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## New Initiatives

As a “hold the line” budget there are no provisions for new initiatives except for those that can pay for themselves – and this year only Parks and Recreation was able to meet that criteria. The Parks Board has approved hiring 11 new part-time positions and added \$18,000 in new operational expenses. The positions will enable the Parks Department to expand child care services (before and after school) for elementary education students. Kent city schools initiated this request and the Parks Department has found a way to meet the need entirely through fees for services.

In addition, the Parks Board has approved transitioning from a professional services KABC Coordinator to hiring a part time coordinator. The part time position will provide better management of the program and will be funded from the savings from cutting the contract.

## Looking Back

Our budget provides an opportunity to reflect upon where we’ve come as we prepare to set our course for where we’re going next year. Despite difficult economic times, I believe that there is much to be proud of this past year.

- ✓ We have continued to uphold our commitment to reinvest in Kent’s infrastructure through our capital plan.
- ✓ In 2004-05 we had near record levels of capital construction with \$15 million under contract.
- ✓ With an investment of \$120,000 we leveraged \$4.8 million in state and federal dollars to renovate the Kent Dam, resulting in cleaner water and a new downtown destination.
- ✓ We are positioned to take advantage of new economic opportunities in the next fiscal year.

## Looking Ahead

If the city is to move forward in meeting rising service demands in areas such as public safety, quality of life, and other core services, a long term approach to financial sustainability is needed. We must build a strategic framework with clear financial benchmarks that provides the community a concise picture of the city’s financial future and guides our resource decisions. The staff and I are ready to make that happen in 2006.

My goals for our work over the next 9 months include:

- Defining the aspirations of Council for the future of Kent.
  - Developing a multi-year schedule to achieve a balanced budget.
  - Cultivating a collaborative process where community input is used to provide Council with the greatest degree of information and flexibility in considering budget balancing options.
  - Affirming financial policies that support our desired strategic position.
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We face more than a financial challenge. We also face the leadership challenge of communicating a new and vital future for Kent during a time of fiscal distress. The city needs more than expert financial management, it needs leadership that is capable of having thoughtful, candid, and constructive conversations about Kent's future. It's up to us to make that happen.

I want to thank Barb Rissland, Director of Budget and Finance, the City Department Heads, and all of the staff that played a key role in developing the 2006 budget. We all look forward to discussing these critical issues with you as we continue to work through the budget process.

Respectfully,

A handwritten signature in black ink that reads "Dave Ruller". The signature is written in a cursive, flowing style.

Dave Ruller  
City Manager