



City of Covington  
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October 5, 2021

Dear Mayor Wagner, Mayor Pro Tem Smith and Honorable Councilmembers,

I am pleased to present the proposed 2022 Budget to the City Council for review and consideration. As our city continues to emerge from the pandemic and economic unease of the past year, the 2022 Budget will propel the city forward by making investments in IT and cybersecurity, personnel, increasing reserves, and continued capital development. The Council's sound fiscal management over the years has allowed the city to have a positive overall outlook, with all funds increasing fund balance in 2021, which will help lay the foundation for the 2022 Budget.

The budget estimates presented here for your review continue to reflect a conservative approach and recognition of continued response to the effects of the pandemic. In response to the effects, and as part of the upcoming budget workshop, the city will begin discussion on allocation of \$2.9 million in American Rescue Plan Act (ARPA) funds that have been received to help address the negative impacts of COVID-19. This is the first distribution received from the U.S. Department of the Treasury and we expect to receive an additional \$2.9 million in 2022. These funds are intended to support the city in responding to the economic and public health impact of COVID-19, and help mitigate the impacts to our community, residents, and businesses.

### Long-term outlook

COVID-19 is still impacting the city and how we operate, However, we anticipate a return to more normal operations moving forward into 2022.

The Council have been good stewards of city funds and have built up healthy general fund reserves. The city maintains a general fund reserve to allow for unforeseen expenses that may occur but have also continued to contribute to reserves that reflect the long-term goals of the Council. For 2022 we created a new Police Contract Reserve fund to help offset anticipated changes due to contract negotiations. The current reserve balances are as follows:

Aquatic Center Reserve	\$ 1,746,712
Debt Service Reserve	1,179,120
HB 1590 Sales Tax Reserve	1,125,445
Park Reserve	925,000
Police Contract Reserve	115,000
Town Center Reserve	2,792,712
Unassigned General Fund Balance	<u>4,767,650</u>
Total General Fund Ending Fund Balance	<u>\$ 12,651,639</u>

The city's long-range forecast continues to project strong retail sales but reduced food and services collections in the short-term. Residential development is forecasted to remain stable over 2021 projections which will help with real estate excise tax (REET), property tax, and state shared revenue as population increases.

Reviewing the forecast, the general fund looks healthy through 2026 but begins to dip into reserves starting in 2025. The street fund continues to struggle and will be a topic of discussion at the budget workshop regarding the level of continued subsidy from the general fund. The development review fund and surface water management fund both remain strong.

## **Budget Process**

The 2022 budget process began with the annual budget call in June. At that time, the calendar and decision card criteria were reviewed with the directors and budget team. For 2022, the instructions to directors were, no more than a 2.5% increase in base budgets and decision cards needed to demonstrate a link to the strategic plan, be health and safety related, or legally mandated.

## **2022 Budget Strategies**

- Bring staffing up to appropriate service levels after our hiring freeze and holding vacancies open.
- Be IT ready and prioritize cybersecurity
- Build up reserve funds
- Prioritize and allocate ARPA funds

## **Funds Overview**

### **General Fund**

The general fund is the largest city fund and provides for the day-to-day operations of city government. Revenues are unrestricted and are available to use for any governmental purpose.

For 2022, we are forecasting a 0.1% total increase in revenues.

- Property taxes for 2022 are estimated to be \$3.1 million. This includes an 1.0% increase plus new construction.
- Unrestricted sales tax revenue for 2022 is estimated to be \$5.4 million, which is a decrease of 4.4% or \$250,000 under 2021 estimated collections due to continued volatility in several categories because of the pandemic.
- Utility tax collections for 2022 are estimated at \$2.2 million, slightly lower than 2021 estimated actuals.
- Park user fees are expected to increase 25.7% or \$162,750 above 2021 collections as restrictions ease.
- Other sources of revenue total \$2.3 million plus \$761,940 being reimbursed to the general fund through interfund payments from other funds totaling \$3.0 million.

On the operating base budget expenditure side (excluding transfers), the budget is 10.3%, or \$1,275,440 higher than estimated actuals for 2021. This is due in part to an increase in the police contract, COLA, health care costs, and programs beginning to operate at higher levels.

I am recommending 16 decision cards totaling \$963,390 – \$550,415 in one-time costs and \$412,975 in ongoing costs. The Springbrook upgrade, rapid 7 insight IDR security system, and air conditioning for the Covington police department decision cards are ARPA eligible, the Welcome Park decision card is being funded out of the town center reserve, and all remaining decision cards are funded from unassigned fund balance.

**Amount Funded**

<b>Title/Description</b>	<b>Fund</b>	<b>Initiating Dept</b>	<b>One-Time</b>	<b>Ongoing</b>
Springbrook Upgrade	GF	Finance	15,565	12,635
Human Resources Technician (1.0 FTE)	GF	Personnel	3,000	111,490
Office Painting	GF	Central	47,000	-
Increase Carpet Replacement funds	GF	Central	-	1,250
Unitrends Backup Cloud Replication Subscription	GF	Central	1,150	16,085
GIS Coordinator (1.0 FTE)	GF	Central	1,500	70,485
Rapid 7 Insight IDR Security System	GF	Central	3,050	3,810
Technology Professional Services Support Contract	GF	Central	-	18,350
Community Care Navigator (1.0 FTE)	GF	Police	32,650	151,075
Air Conditioning for Covington Police Department	GF	Police	50,000	-
Brush Chipper	GF	Parks Maint	18,000	1,280
Maintenance Vehicle Replacement	GF	Parks Maint	14,000	4,060
Vehicle for Aquatics Division	GF	Aquatics	10,000	850
Restore Public Art funding	GF	Recreation	-	10,445
Covington Days Parade	GF	Recreation	-	11,160
Welcome Park (transfer-out)	GF	Council	354,500	-
Net Total General Fund			550,415	412,975

### Street Fund

Franchise fees and vehicle license fees are forecasted to remain flat. There will be a minor increase of 5.1% over 2021 estimated actuals for fuel taxes. Base budget expenditures before decision cards are \$1.4 million which is an increase of \$13,590 from 2021 estimated actuals.

I am recommending four decision cards totaling \$60,255 – \$56,500 in one-time costs and \$3,755 in ongoing costs.

**Amount Funded**

<b>Title/Description</b>	<b>Fund</b>	<b>Initiating Dept</b>	<b>One-Time</b>	<b>Ongoing</b>
Brush Chipper	ST	ST	13,500	710
Maintenance Vehicle Replacement	ST	ST	10,500	3,045
Flashing Yellow Arrow Pedestrian Project Kent School District's Share	ST	ST	50,000 (25,000)	- -
Wingfield Bridge Load Rating	ST	ST	7,500	-
Net Total Street Fund			56,500	3,755

### Development Services Fund

For 2022, staff is forecasting a 43.2% reduction in revenues over 2021 estimates. These estimates are based on plats with lots that are ready to build, commercial projects that are in process, and conservative averages on other permit types. Base budget expenditures are \$3.7 million, which is a decrease from 2021 estimated actuals of 13.2%.

No decision cards were submitted.

### Surface Water Management Fund (SWM)

Revenues for SWM are increasing 7% over 2021 estimates due to the adopted rate increase. Base budget expenditures are \$3.0 million, which is an increase of 18.8% due to SWM maintenance projects.

I am recommending three decision cards totaling \$112,175 – \$25,500 in one-time costs and \$86,675 in ongoing costs.

Title/Description	Fund	Initiating Dept	Amount Funded	
			One-Time	Ongoing
GIS Coordinator (1.0 FTE)	SWM	SWM	1,500	82,920
Brush Chipper	SWM	SWM	13,500	710
Maintenance Vehicle Replacement	SWM	SWM	10,500	3,045
Net Total Surface Water Management Fund			25,500	86,675

### Capital Investment Program (CIP) Fund

For 2022, I am recommending two decision cards with an expected city contribution of \$364,945. Both decision cards will be funded from the General Fund. The Welcome Park decision card is recommended to be funded using the town center reserve.

Title/Description	Fund	Initiating Dept	One-Time	Ongoing
Restore Public Art funding	CIP	CIP	-	(10,445)
Welcome Park	CIP	CIP	354,500	-
Transfer-in from General Fund			(354,500)	-
Net Capital Investment Program Fund			-	(10,445)

### Equipment Replacement Fund

For 2022, I am recommending five decision cards that have been approved in the above funds, that will be contributing user fee charges to the equipment replacement fund to accumulate sufficient funds to replace the equipment when needed.

Title/Description	Fund	Initiating Dept	Amount Funded	
			One-Time	Ongoing
Increase Carpet Replacement funds	ER	ER	-	(1,250)
Community Care Navigator (1.0 FTE)	ER	ER	-	(3,850)
Brush Chipper	ER	ER	-	(5,700)
Maintenance Vehicle Replacement	ER	ER	-	(10,150)
Vehicle for Aquatics Division	ER	ER	-	(850)
Net Equipment Replacement Fund			-	(21,800)

**Summary**

The adoption of the annual budget is one of the most important actions that the Council can take. Once adopted, the budget serves as a financial roadmap, which provides the citizens with a roadmap of its priorities and delivery of its services. Overall, the proposed 2022 Budget provides the resources to serve our community, improve our infrastructure, and improve overall quality of life. This budget demonstrates our ongoing commitment to providing responsible fiscal management and continuing to position ourselves to meet ongoing challenges. I thank you for your active involvement in the budgeting process and look forward to your thoughtful deliberations.

Sincerely,



Regan Bolli  
City Manager