

## **Finance & Administration Committee Agenda**

**June 28, 2016**

Animal Services (45 minutes)

*Attachment 1*

Investment Policy Update (20 minutes)

*Attachment 2 – Draft Format*

Council E-mail Acknowledgment Option (5 minutes)

*Attachment 3 – Draft Format*

Open Labor Negotiations to the Public (5 minutes)

*No materials for this item*

May Dashboard Report (5 minutes)

*Attachment 4*

### **Informational Items:**

- May Investment Report – Attachment 5
- May Sales Tax Memo – Attachment 6

### **Upcoming Finance & Administration Items on Council Agenda:**

**July 19, 2016**

Public Disclosure Semi-Annual Report

Cemetery Update

### **Upcoming Meetings**

July 26, 2016

August 30, 2016 – Rescheduled to 3:30pm

### **Potential Future Topics**

- 2017-2018 Budget
- Conference Room naming for former City Manager (added 5/3/2016)


**CITY OF KIRKLAND**
**Police Department**
**11750 NE 118<sup>th</sup> Street, Kirkland, WA 98034-7114 425.587.3400**
**www.kirklandwa.gov**
**MEMORANDUM**

**To:** Finance & Administration Committee

**From:** Cherie Harris, Chief of Police  
Michael Ursino, Administrative Captain  
Lorrie McKay, Intergovernmental Relations Manager

**Date:** June 23, 2016

**Subject:** Regional Animal Services of King County (RASKC) Successor Contract Negotiations

This memo is to update the Finance & Administrative Committee on the status of the Regional Animal Services successor contract and negotiations timeline.

**Monthly Negotiating Meetings**

Beginning in February of this year, the Joint City-County Collaboration Committee (JC4) began meeting monthly in order to negotiate a successor contract, as the current contract terminates on December 31, 2017. To date, five meetings have been held (February 9; March 16; April 20; May 18; and June 15). Kirkland PD and CMO staff have participated at each. Meetings will continue monthly, leading to key ILA milestones noted below.

**February & March Meetings:**

The meetings in February and March were primarily focused on developing and agreeing to an approach/principles to the negotiations. These meetings also served to develop an outline of key milestones for developing the 2018 ILA and to identify common goals for the successor contract.

**April, May & June Meetings:**

In the last three meetings, the group finalized the negotiation approach and key milestones (summarized below). With a goal of simplifying the successor contract, RASKC staff have focused these meetings on discussing four sections of the contract that are considered core to achieving an Agreement in Principle (AIP), and four other sections of the contract that support a core AIP.

Notable proposed changes to the contract, on which the group is working to reach agreement are in: Section 4, Term; Section 7, Regional Revenue and License Revenue Support; Section 11, Joint City County Committee and Collaborative Initiatives; and in Section 15, Terms to Implement the Agreement.

The group continues discussions regarding the current billing and cost allocation model, the reconciliation process, as well as potential "credits," etc. likely necessary to keep some south-end cities participating in the system.

## Summarized Timeline - Key ILA Milestones for 2018 Contract Negotiations

Sept. 1, 2016	– Draft Agreement in Principle (AIP) completed
Dec. 31, 2016	– County provides draft contract for cities to review – <b>Cities confirm Non-Binding Mutual Interest (statement of intent), based on AIP</b>
January 2017	– Finalize cost allocation and terms, based on the Dec. 31 non-binding response from cities
March 1, 2017	– Cities provide notice to County of final intent to contract
June 1, 2017	– City Council approval of contract

## Highlights from most Recent Joint City-County Collaboration Committee Meeting

### 1. Prioritization of Contract Sections for establishing an Agreement in Principle:

The following four sections of the contract are considered the core focus of an Agreement in Principle (AIP) - **to be agreed upon no later than September 1, 2016.**

- Section 4. Term
- Section 5. Compensation
- Section 6. Reconciliation
- Section 7. Regional Revenue and Licensing Revenue Support

The following four sections of the contract support the core AIP. – **to be agreed up upon by the September 1, 2016.**

- Section 2. Service Description
- Section 3. City Obligations; code adoption Authorization, Cooperation/Licensing Support
- Section 11. Joint City County Committee and Collaborative Initiatives
- Section 15. Terms to Implement Agreement

Finally, the County recommends completing the remaining sections of the contract (section 1, 8-14 and 16) after completion of the AIP's core sections, which could be **after September 1, 2016.**

### 2. Section 4. Term (duration) of 2018 Successor ILA:

Proposed term

- **5-year term**, with an additional five year automatic extension (opt-out).  
January 1, 2018-December 31, 2022  
Automatic 5-year extension, from January 1, 2023-December 31, 2027
- Termination and Notice of Termination: "... party provides written notice to the other party no later than 18 months prior to the expiration of the term then running (no later than June 30, 2021)"
- Proposal to change of the percentage increase to allocable costs, caused by a City 'opting out,' triggering the "Limited Re-Opener Upon Notice of Termination" provision in section 4. The percentage was set at 5% in the payment test section of the current ILA and the group is considering 10%.

### 3. Field/Control District Boundaries: (see Attachment A)

The City of Kirkland is in Control District #200, which includes the cities of Shoreline, Lake Forest Park, Kenmore, Woodinville, Redmond, Sammamish, Duvall and Carnation.

- No changes are being recommended to the boundaries of the Districts. However, if a large city does not remain in, or opts-out of the regional system, then the group will likely reconsider district configuration.

### 4. Cost Allocation and Billing:

Cost Allocation proposals: (see Attachment B)

- Proposal to maintain the current 80% / 20% cost allocation basis (80% on the City's relative use of the three animal services. 20% on the City's relative population)
- Proposal to replace the "Program Load Factor" within the current cost allocation model with a "3-Year Rolling Average."

Billing proposal: (see Attachment C)

Proposal to reduce the current 6-step billing process to a 4-step process.

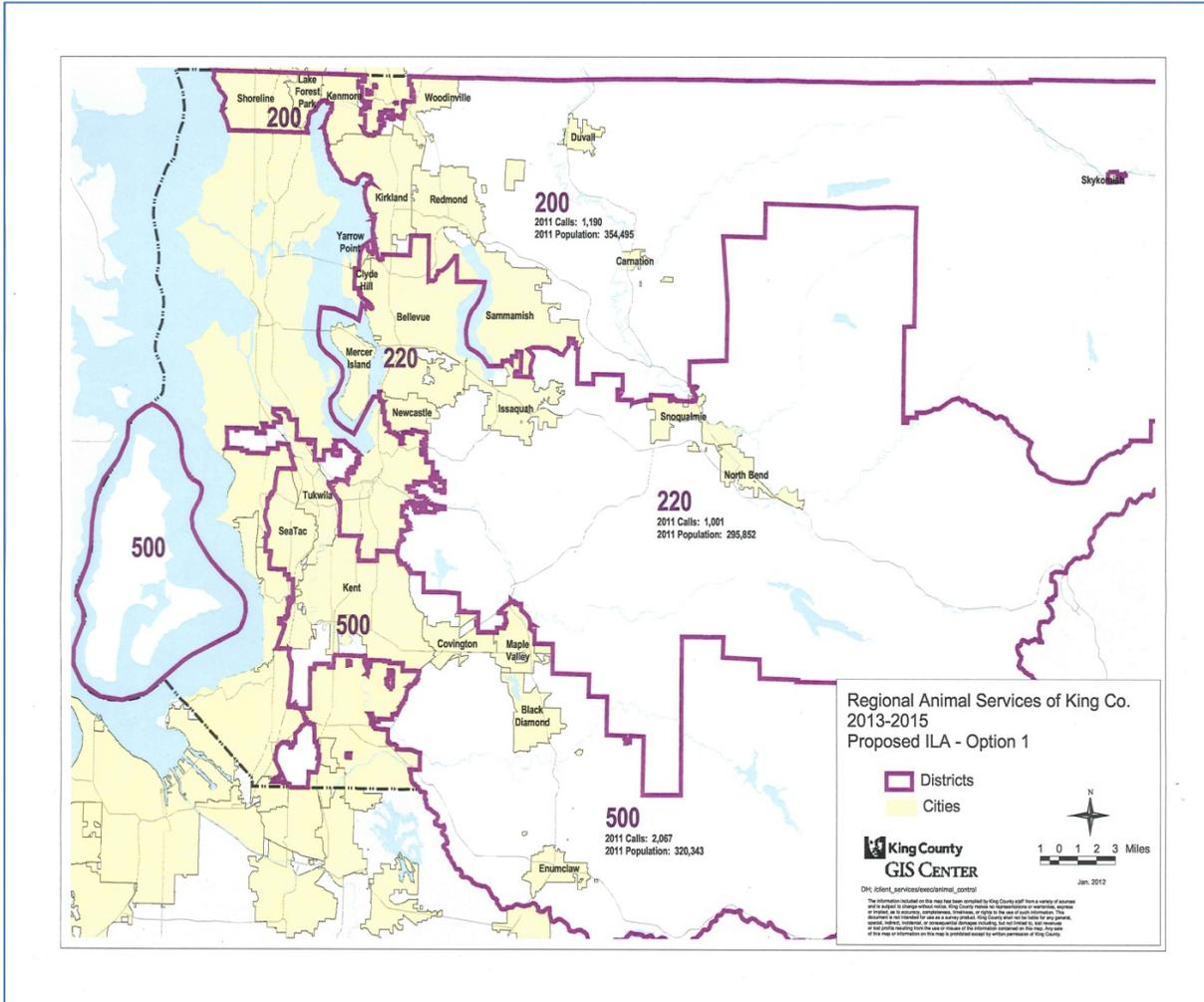
- Step 1: County provides cost **estimate** for coming service year (preceding December)
- Step 2: City makes estimated **payment** (August year of service)
- Step 3: County provides City with actual use/cost **reconciliation** statement (June following year)
- Step 4: City makes **final payment** or City receives **refund** (August following year)



Records and Licensing Services  
Department of Executive Services

# Regional Animal Services of King County

## RASKC Jurisdiction Map & Partner City List



### RASKC Partner City List

#### District 200 (North)

- Carnation
- Duvall
- Kenmore
- Kirkland
- Lake Forest Park
- Redmond
- Sammamish
- Shoreline
- Woodinville

#### District 220 (East)

- Town of Beaux Arts
- Bellevue
- Clyde Hill
- Issaquah
- Mercer Island
- Newcastle
- North Bend
- Snoqualmie
- Yarrow Point

#### District 500 (South)

- Black Diamond
- Covington
- Enumclaw
- Kent
- Maple Valley
- SeaTac
- Tukwila

## Regional Animal Services of King County

### 3-year Rolling Average for Usage (by Count) (2011 - 2015)

Jurisdiction	District	Calls			Intakes			Licenses		
		2011-2013	2012-2014	2013-2015	2011-2013	2012-2014	2013-2015	2011-2013	2012-2014	2013-2015
Carnation	200	11	11	12	6	6	6	166	191	219
Duvall	200	34	36	33	18	18	14	776	812	841
Kenmore	200	104	112	114	-	-	-	2,091	2,105	2,288
UNKC200	200	302	309	318						
Kirkland	200	218	254	257	79	87	96	7,692	8,658	9,316
Lake Forest Park	200	51	55	58	-	-	-	1,641	1,600	1,576
Redmond	200	120	135	146	54	50	58	4,099	4,157	4,199
Sammamish	200	86	97	106	38	36	33	4,036	4,028	4,074
Shoreline	200	266	304	299	-	-	-	5,076	5,055	5,058
Woodinville	200	41	41	39	-	-	-	1,032	1,033	1,043
Beaux Arts	220	-	1	1	-	-	-	34	36	38
Bellevue	220	314	312	338	155	153	160	10,142	10,951	11,763
Clyde Hill	220	4	5	5	2	1	1	261	266	261
Issaquah	220	165	183	182	47	39	39	2,069	2,162	2,292
UNKC220	220	441	472	490						
Mercer Island	220	31	37	36	19	18	17	1,793	1,831	1,881
Newcastle	220	41	43	55	17	17	16	616	725	867
North Bend	220	49	48	47	24	21	22	582	729	828
Snoqualmie	220	31	33	38	14	17	19	937	1,005	1,043
Yarrow Pt	220	3	3	3	0	0	-	102	102	100
Kent	500	661	733	805	1,354	1,314	1,266	8,930	8,959	8,907
SeaTac	500	240	262	271	314	304	339	1,604	1,604	1,604
Tukwila	500	156	175	186	193	200	245	1,139	1,160	1,138
Black Diamond	500	19	21	22	20	18	22	415	494	574
Covington	500	153	162	173	182	196	180	1,750	1,792	2,121
Enumclaw	500	95	92	99	88	76	79	927	1,049	1,222
UNKC500	500	912	958	964						
Maple Valley	500	129	154	162	118	121	114	2,045	2,279	2,596
Uninc. King County	920				1,315	1,240	1,272	30,065	30,796	31,511
Grand Total		4,680	5,049	5,260	4,057	3,932	3,998	90,020	93,577	97,358

Attachment B

Attachment 1

## Regional Animal Services of King County

### 3-year Rolling Average for Usage (by Prorata %) (2011 - 2015)

Jurisdiction	District	Calls*			Intakes			Licenses		
		2011-2013	2012-2014	2013-2015	2011-2013	2012-2014	2013-2015	2011-2013	2012-2014	2013-2015
Carnation	200	0.9%	0.8%	0.8%	0.16%	0.16%	0.15%	0.18%	0.20%	0.22%
Duvall	200	2.7%	2.7%	2.4%	0.44%	0.47%	0.34%	0.86%	0.87%	0.86%
Kenmore	200	8.5%	8.3%	8.2%	0.00%	0.00%	0.00%	2.32%	2.25%	2.35%
UNKC200	200	24.5%	22.8%	23.0%						
<b>Kirkland</b>	<b>200</b>	<b>17.7%</b>	<b>18.8%</b>	<b>18.6%</b>	<b>1.95%</b>	<b>2.20%</b>	<b>2.39%</b>	<b>8.54%</b>	<b>9.25%</b>	<b>9.57%</b>
Lake Forest Park	200	4.1%	4.1%	4.2%	0.00%	0.00%	0.00%	1.82%	1.71%	1.62%
Redmond	200	9.7%	10.0%	10.6%	1.32%	1.27%	1.45%	4.55%	4.44%	4.31%
Sammamish	200	7.0%	7.2%	7.7%	0.94%	0.92%	0.83%	4.48%	4.30%	4.18%
Shoreline	200	21.6%	22.4%	21.6%	0.00%	0.00%	0.00%	5.64%	5.40%	5.20%
Woodinville	200	3.3%	3.0%	2.8%	0.00%	0.00%	0.00%	1.15%	1.10%	1.07%
Beaux Arts	220	0.0%	0.1%	0.1%	0.00%	0.00%	0.00%	0.04%	0.04%	0.04%
Bellevue	220	29.1%	27.4%	28.3%	3.82%	3.89%	3.99%	11.27%	11.70%	12.08%
Clyde Hill	220	0.4%	0.5%	0.4%	0.06%	0.03%	0.02%	0.29%	0.28%	0.27%
Issaquah	220	15.3%	16.1%	15.2%	1.15%	0.98%	0.98%	2.30%	2.31%	2.35%
UNKC220	220	40.8%	41.5%	41.0%						
Mercer Island	220	2.9%	3.3%	3.0%	0.46%	0.47%	0.42%	1.99%	1.96%	1.93%
Newcastle	220	3.8%	3.8%	4.6%	0.42%	0.42%	0.41%	0.68%	0.77%	0.89%
North Bend	220	4.6%	4.2%	3.9%	0.58%	0.53%	0.55%	0.65%	0.78%	0.85%
Snoqualmie	220	2.9%	2.9%	3.2%	0.35%	0.42%	0.48%	1.04%	1.07%	1.07%
Yarrow Pt	220	0.3%	0.3%	0.3%	0.01%	0.01%	0.00%	0.11%	0.11%	0.10%
Kent	260	27.9%	28.7%	30.0%	33.39%	33.42%	31.67%	9.92%	9.57%	9.15%
SeaTac	260	10.2%	10.2%	10.1%	7.74%	7.74%	8.48%	1.78%	1.71%	1.65%
Tukwila	260	6.6%	6.8%	6.9%	4.75%	5.08%	6.13%	1.27%	1.24%	1.17%
Black Diamond	500	0.8%	0.8%	0.8%	0.50%	0.45%	0.54%	0.46%	0.53%	0.59%
Covington	500	6.5%	6.3%	6.4%	4.49%	4.99%	4.51%	1.94%	1.92%	2.18%
Enumclaw	500	4.0%	3.6%	3.7%	2.16%	1.93%	1.98%	1.03%	1.12%	1.26%
UNKC500	500	38.5%	37.5%	35.9%						
Maple Valley	500	5.4%	6.0%	6.0%	2.90%	3.08%	2.85%	2.27%	2.44%	2.67%
Uninc. King County	920				32.42%	31.53%	31.81%	33.40%	32.91%	32.37%
Grand Total					100%	100%	100%	100%	100%	100%

\* Percentage of calls by control district

Attachment B

Attachment 1

## Regional Animal Services of King County

### Cost Allocation Based on 3-Year Rolling Average (2016 Net Allocable Cost)

	Status Quo 2016 (2014 Usage)			Based on Usage 2011-2013			Based on Usage 2012-2014			Based on Usage 2013-2015		
	Alloc Cost	Load Factor	Net Final	Alloc Cost	% of Total Cost	Net Final	Alloc Cost	% of Total Cost	Net Final	Alloc Cost	% of Total Cost	Net Final
Carnation	\$9,051	0.1693%	-\$1,567	\$9,277	0.1736%	-\$1,793	\$9,206	0.1722%	-\$1,722	\$9,457	0.1769%	-\$1,973
Duvall	\$36,450	0.6820%	-\$11,953	\$31,618	0.5916%	-\$7,121	\$31,624	0.5917%	-\$7,127	\$28,141	0.5265%	-\$3,644
Kenmore	\$58,920	1.1024%	\$13,359	\$62,643	1.1720%	\$9,636	\$61,674	1.1539%	\$10,605	\$62,126	1.1624%	\$10,153
<b>Kirkland</b>	<b>\$265,895</b>	<b>4.9748%</b>	<b>\$20,212</b>	<b>\$232,191</b>	<b>4.3442%</b>	<b>\$53,916</b>	<b>\$245,941</b>	<b>4.6015%</b>	<b>\$40,166</b>	<b>\$251,413</b>	<b>4.7039%</b>	<b>\$34,694</b>
Lake Forest Park	\$37,171	0.6955%	\$6,789	\$36,480	0.6825%	\$7,480	\$35,616	0.6664%	\$8,344	\$35,614	0.6663%	\$8,346
Redmond	\$133,900	2.5052%	-\$12,414	\$145,521	2.7227%	-\$24,035	\$144,402	2.7017%	-\$22,916	\$149,990	2.8063%	-\$28,504
Sammamish12	\$141,718	2.6515%	\$10,672	\$144,297	2.6998%	\$8,093	\$142,960	2.6747%	\$9,430	\$141,611	2.6495%	\$10,779
Shoreline	\$157,533	2.9474%	-\$19,763	\$158,159	2.9591%	-\$20,389	\$160,036	2.9942%	-\$22,266	\$156,031	2.9193%	-\$18,261
Woodinville	\$24,617	0.4606%	\$5,811	\$28,525	0.5337%	\$1,903	\$27,241	0.5097%	\$3,187	\$26,334	0.4927%	\$4,094
Beaux Arts	\$1,115	0.0209%	-\$110	\$512	0.0096%	\$493	\$817	0.0153%	\$188	\$805	0.0151%	\$200
Bellevue	\$397,807	7.4429%	-\$45,314	\$387,108	7.2427%	-\$34,615	\$385,140	7.2059%	-\$32,647	\$392,730	7.3479%	-\$40,237
Clyde Hill	\$6,616	0.1238%	\$1,070	\$7,022	0.1314%	\$664	\$6,684	0.1251%	\$1,002	\$6,513	0.1219%	\$1,173
Issaquah	\$120,794	2.2600%	-\$52,677	\$126,899	2.3743%	-\$58,782	\$125,958	2.3566%	-\$57,841	\$122,728	2.2962%	-\$54,611
Mercer Island	\$50,848	0.9514%	\$3,625	\$55,148	1.0318%	-\$675	\$56,075	1.0492%	-\$1,602	\$54,328	1.0165%	\$145
Newcastle	\$36,732	0.6873%	-\$4,355	\$37,835	0.7079%	-\$5,458	\$38,560	0.7214%	-\$6,183	\$41,351	0.7737%	-\$8,974
North Bend	\$33,589	0.6284%	-\$3,230	\$39,799	0.7446%	-\$9,440	\$38,028	0.7115%	-\$7,669	\$37,754	0.7064%	-\$7,395
Snoqualmie	\$39,438	0.7379%	-\$8,129	\$36,616	0.6851%	-\$5,307	\$38,921	0.7282%	-\$7,612	\$40,891	0.7651%	-\$9,582
Yarrow Point	\$1,857	0.0347%	\$1,046	\$2,611	0.0489%	\$292	\$2,538	0.0475%	\$365	\$2,459	0.0460%	\$444
Kent	\$1,216,613	22.7626%	-\$211,152	\$1,178,732	22.0538%	-\$173,271	\$1,183,024	22.1341%	-\$177,563	\$1,149,637	21.5094%	-\$144,176
SeaTac	\$296,074	5.5395%	-\$127,035	\$295,682	5.5321%	-\$126,643	\$295,833	5.5350%	-\$126,794	\$312,062	5.8386%	-\$143,023
Tukwila	\$210,524	3.9389%	-\$110,403	\$188,058	3.5185%	-\$87,937	\$197,329	3.6920%	-\$97,208	\$221,759	4.1491%	-\$121,638
Black Diamond	\$24,430	0.4571%	-\$2,961	\$24,818	0.4643%	-\$3,349	\$24,483	0.4581%	-\$3,014	\$26,947	0.5042%	-\$5,478
Covington	\$185,607	3.4727%	-\$54,414	\$183,488	3.4330%	-\$52,295	\$193,954	3.6288%	-\$62,761	\$184,954	3.4604%	-\$53,761
Enumclaw	\$84,742	1.5855%	-\$5,216	\$98,241	1.8381%	-\$18,715	\$90,256	1.6887%	-\$10,730	\$92,622	1.7329%	-\$13,096
Maple Valley	\$161,838	3.0280%	-\$56,462	\$149,045	2.7886%	-\$43,669	\$157,878	2.9539%	-\$52,502	\$153,968	2.8807%	-\$48,592
KC Unincorporated	\$1,610,923	30.1400%	-\$742,556	\$1,684,475	31.5161%	-\$816,108	\$1,650,623	30.8828%	-\$782,256	\$1,642,577	30.7322%	-\$774,210
<b>Total</b>	<b>\$5,344,802</b>	<b>100.00%</b>	<b>-\$1,407,127</b>	<b>\$5,344,802</b>	<b>100.00%</b>	<b>-\$1,407,127</b>	<b>\$5,344,802</b>	<b>100.00%</b>	<b>-\$1,407,127</b>	<b>\$5,344,802</b>	<b>100.00%</b>	<b>-\$1,407,127</b>

**Assumptions:**

- 1) For purposes of modeling the impact of using a 3-year rolling average usage for cost allocation, other variables have been fixed, including: population (2015-April), Net Allocable Cost (2016), shelter and transition credits, and current RASKC Jurisdictions.
- 2) Impact of Annexations. Population would be reflected by the most current population data adjusted for annexations. Usage would be averaged over the same periods, but would include an adjustment for estimated usage based on the most recent complete year (3-year city average + previous year actual for annexation area).
- 3) Latecomer City. Year 1 to be adjusted for start date using best available usage data normalized to County metric protocol. Year 2 to be based on YTD actual through November, plus one actual average month (Usage Jan-November/11). Year 3 based on Year 1 actual usage, year two actual usage through November plus one actual average month). Year 5 would be based on the actual average of years 1 - 3.
- 4) The average for 2013-2015 would not have been available for 2016, it would be available for the 2017 cost allocation.

# RASKC Calendar Payments for Services Rendered (current and proposed process)

Attachment C

	Step 1: Preliminary estimate	Step 2: Final Estimate	<del>Step 1: Final Estimate</del> Step 1: Final Estimate	Step 3: Payment #1	<del>Step 2: Payment #1</del> Step 2: Payment #1	Step 4: Payment #2	<del>Step 5: Reconciliation — if applicable</del> Step 3: Reconciliation — if applicable	<del>Step 6: Payment #3 or refund</del> Step 4: Payment #3 or refund
<b>2018</b>	Sept. '17	Dec '17	Dec '17	Jun '18	<del>Aug '17</del> 18	Dec '18	Jun '19	Aug '19
<b>2019</b>	Sept. '18	Dec '18	Dec '18	Jun '19	<del>Aug '18</del> 19	Dec '19	Jun '20	Aug '20
<b>2020</b>	Sept. '19	Dec '19	Dec '19	Jun '20	<del>Aug '19</del> 20	Dec '20	Jun '21	Aug '21
<b>2021</b>	Sept. '20	Dec '20	Dec '20	Jun '21	<del>Aug '20</del> 21	Dec '21	Jun '22	Aug '22

Grey = current process  
Blue = proposed process


**CITY OF KIRKLAND**
**Police Department**
**11750 NE 118<sup>th</sup> Street, Kirkland, WA 98034-7114 425.587.3400**
**www.kirklandwa.gov**
**MEMORANDUM**

**To:** Finance & Administration Committee

**From:** Cherie Harris, Chief of Police  
Michael Ursino, Administrative Captain  
Lorrie McKay, Intergovernmental Relations Manager

**Date:** June 23, 2016

**Subject:** Considerations for Providing Animal Services Locally - Effective January 2018

This memo is to brief the Finance & Administrative Committee on considerations for the City to provide animal services locally.

The current extended contract with Regional Animal Services of King County (RASKC) expires December 31, 2017. RASKC must have a successor ILA in place "no later than" June 1, 2017 and working with the Joint City County Collaboration Committee, will have a draft successor contract prepared for review by December 31, 2016. At the same time, cities must provide RASKC a non-binding statement of intent to stay or leave the regional system.

Should Council choose to exit that RASKC system at the end of 2017, and not to enter into a successor contract, staff is confident that operating and providing animal services locally can be achieved effectively and efficiently.

**Regional Animal Services System**

The current regional system, operated and managed by King County, provides four (4) animal control officers (ACO's) for 25 contracting cities and unincorporated areas of King County which are divided into three (3) "control districts." The two (2) north and east control districts are each staffed with one (1) dedicated ACO during regular services hours, while the third large control district in the south is staffed by two (2) ACOs. To maintain service delivery, the regional system allows for two (2) additional ACOs to cover staffing needs around vacation, sick-leave and other absences. The system's primary animal shelter is located in Kent. King County's ACO's respond to animal control calls for most "domestic type" animals. The regional system is funded by the sale of pet licenses within each of the 25 contracting cities and within unincorporated King County. Currently, every aspect of RASKC's pet licensing program is managed by King County.

Currently, the system's costs are allocated based on 80% of a jurisdiction's relative use of the services (control, shelter and licensing), and 20% of its relative population. King County estimates a contract amount for each city annually, based on its use and population data from the previous service year. To bring a degree of stability and predictability to the cost estimates, a "Program Load Factor" is also included in the cost allocation model, and is attributable to each jurisdiction. If, at the end of a given service year, a city's pet license sales don't cover the annual estimated service costs, the city is invoiced for the difference. For Kirkland, pet license sales have exceeded the contract amount, so net costs have always been \$0. Revenue generated above and beyond the City's contract cost is reinvested system-wide.

Under the design of the above described regional cost allocation model, per-unit costs are not always broken down. Instead, the County provides a total program cost to the City. For purposes of comparison here, the city's total program cost is broken into the various service area, based on the City's use of regional animal services in 2015\* (Control at 34%; Shelter at 41%; and Licensing at 25%).

Service Category	Unit	Number of Units	Total Cost	Cost Per Unit
Control	Calls for Service	310	93,913	302.95
Shelter	Animals Sheltered	102	110,558	1,084
Licensing	Fee per License	10,035	61,424	6.12
<b>Total Costs</b>			<b>265,895</b>	
Projected Revenues			288,004	
<b>Total Estimated Net (Cost)/Revenue</b>			<b>22,109</b>	

\* 2015 RASKC use/cost reconciliation pending.

### Providing Animal Services Locally

During the contract negotiations in 2012, staff were asked to analyze the possibility of the City running its own animal services program. The cities of Renton, Bothell, Federal Way, Des Moines, Auburn and Burien\* currently manage animal services programs from their Police Departments.

Providing animal services locally to the City's residents, the Kirkland Police Department would be required to enter into a new line of business, hire one (1) FTE, and purchase a vehicle and the associated equipment. However, having direct management of the program, Kirkland would have a measure of control over costs.

While Animal Control Officer (ACO) staffing to include relief for vacation, sick-leave and other absences needs further analysis, this challenge is not insurmountable. Further, initial discussions with the City of Bothell on training, overlapping coverage and other mutual aid issues holds opportunity. For animal sheltering and licensing services, the Police Department would contract out for these services, allowing the City and its ACO to focus primarily on field response issues.

In providing animal services locally, there is an assumption that the City would see a rise in resident calls for animal control (field) services, as well as a rise in shelter intakes. In the table below, staff applied an increase of 25% to data for these services, based on the City's 2015\* actual use in the regional system. The table below shows the various service area costs for a Kirkland only program.

Service Category	Unit	Number of Units	Total Cost	Cost Per Unit
Control	Calls for Service	386	111,302	288.35
Shelter	Animals Sheltered	128	23,680	185
Licensing	Fee per License	10,035	41,144	4.10
Marketing		N/A	10,900	
Dispatch	911 / Norcom	10	351	35.05
<b>Total Costs</b>			<b>187,376</b>	
Projected Revenues			288,004	
<b>Total Estimated Net (Cost)/Revenue</b>			<b>100,628</b>	

\* 2015 RASKC use/cost reconciliation pending.

Control/field services costs are estimated to increase, in part because the City would hire a full FTE, and because of ongoing costs associated with the vehicle and equipment. Further, staff research suggests that there could be a 25% increase in the number calls from local residents, if the City left the regional system. However, despite the overall cost increases, per unit costs would actually be lower, largely because there would be significant costs savings in sheltering.

As mentioned, shelter services would be contracted out. Shelter costs shown here are based on staff conversations with the Everett Animal Shelter and Progressive Animal Welfare Society (PAWS), both of which are willing to contract with the City for significantly less than what the regional system charges. Staff conversations with other jurisdictions have confirmed that both of the shelters mentioned have served their needs, and the welfare of the animals very well.

Licensing services would also be contracted out to PetData, a reputable company that charges a flat fee for licenses and assumes responsibility for distribution, renewals and follow up notices. The per license cost for PetData (\$4.10) is shown in the table above. In addition to the above costs, Kirkland would take on approximately \$125,000 in one-time costs to make the program operational. These are shown below.

Category	Cost
Uniforms	2,900
Background testing	2,200
Start Up Supplies	3,000
Equipment	17,350
Temporary Holding Pen	5,000
New World Software/Pet Data Software	18,000
Training + Firearms Qualifications	520
Fleet Vehicle Purchase	70,000
Laptop for Vehicle	5,021
<b>Total One Time Costs</b>	<b>123,991</b>

Based on staff estimates, \$100,628 of the one-time costs would be covered by pet license revenue in excess of ongoing costs in the first year.

### Cost Comparison – Regional versus Local

The table below compares the cost of an estimated first year of a new ILA (2018) with first year costs of providing animal services locally.

Service Category	King County	Kirkland	Difference
Control	93,913	111,302	(17,389)
Shelter	110,558	23,680	86,878
Licensing	61,424	41,144	20,281
Marketing	-	10,900	(10,900)
Dispatch	-	351	(351)
<b>Subtotal Ongoing Costs</b>	<b>265,895</b>	<b>187,376</b>	<b>78,519</b>
One Time Costs	-	123,991	(123,991)
<b>Total Costs in First Year</b>	<b>265,895</b>	<b>311,367</b>	<b>(45,472)</b>
Projected Revenues	288,004	288,004	
<b>Total Estimated Net (Cost)/Revenue</b>	<b>22,109</b>	<b>(23,363)</b>	

*In practice a number of the one-time costs in creating a Kirkland-run program would fall in 2017, but are presented as 2018 costs for ease of comparison.*

Based on these estimates, the first year of operating a Kirkland program would cost the City \$23,363 more than the regional system. After year one however, annual program costs could be an estimated \$78,519 lower than the RASKC program, or a total of \$310,000 lower across a 5-year contract term.

### Summary

Prior to operating a full-time Animal Services Program locally, there are some challenges that need to be addressed. Staff is confident that these hurdles are not insurmountable and can be navigated with the proper partnerships in place. (Draft Local Cost Model and Draft Timeline attached)

**Finance Committee**  
**June 28, 2016**

DRAFT Updated 5/19/16

**2018 Assumptions**

	King County	Kirkland
# Control Calls	310	386
Animals to Shelter	102	128
# of Licenses Sold	10,035	10,035
FTE's <sup>1</sup>	1	1
Vehicles	1	1
Administrative Costs		\$ -
Marketing Costs		\$ 10,900
Dispatch Costs		\$ 525
One Time Costs (2015)	\$ -	\$ 123,991

**2018 Estimated Ongoing Animal Services Costs**

	King County	Kirkland
Control	93,913	111,302
Shelter	110,558	23,680
Licensing	61,424	41,144
Licensing Support	-	-
Administration	-	-
Marketing	-	10,900
Dispatch	-	351
Apportioned One-time Costs <sup>2</sup>	-	41,330
<b>Total Costs <sup>2/</sup></b>	<b>265,895</b>	<b>228,706</b>
Projected Revenues	288,004	288,004
<b>Total Estimated Net (Cost)/Revenue <sup>3</sup></b>	<b>22,109</b>	<b>59,298</b>

**2018 Estimated per Unit Animal Services Costs**

	King County (Based on Estimated Use)	Kirkland (Based on 3 Year Average)
Cost Per Control Call	\$ 302.95	\$ 289.25
Cost Per Shelter	\$ 1,083.90	\$ 185.00
Cost Per License	\$ 6.12	\$ 4.10
<b>Unit Cost</b>	<b>\$ 1,392.97</b>	<b>\$ 478.35</b>

Notes:

1/Position start date of October 1, 2015 at step 4.

2/Represents 1/3 of one time start up equipment and vehicle costs paid in 2015.

3/Per Section 7b. of the 2013 ILA, excess revenues are reinvested into the RASKC Program to reduce costs of the other Contracting Parties and to improve service delivery.

**The following is a draft timeline that highlights what needs to be in place to assume local delivery of animal services on January 1, 2018.**

Timeline Draft

4<sup>th</sup> Qtr. 2016

- Council review of draft 2018 ILA Contract (by December 31, 2016)
- Council decision to provide animal services locally (Could reach decision sooner)
- City notice to RASKC of intent to leave regional system (by December 31, 2016)
- Service package submitted for FTE and Equipment
- Approval of service package

1<sup>st</sup> Qtr. 2017

- Specs for vehicle completed and vehicle ordered for delivery in May, 2017
- Hiring process approved and ready to go
- City requests current data sets on its resident pet license holders
- City initiates contract discussions for pet licensing with PetData
- City initiates contract discussions with Shelter providers

2<sup>nd</sup> Qtr. 2017

- ACO work space completed
- ACO Vehicle received
- Submit and approve job description for ACO
- Determine testing process for ACO
- Submit requisition for ACO and equipment
- Begin discussions with Bothell PD for mutual aid / ILA
- Continued discussion for sheltering contracts
- Continued discussion for licensing contracts
- Test for ACO
- Pet license data sets from RASKC are provided to contractor

3<sup>rd</sup> Qtr. 2017

- I.T. equipment installed in ACO office

4<sup>th</sup> Qtr. 2017

- Trained ACO(s) to assume duties as assigned
- ACO to train with Bothell (Assuming ILA in place)
- All contracts in place
- All procedures in place

January 1, 2018

- City of Kirkland assumes local provision of Animal Services

February, 2018

- City requests final 2017 data sets on its resident pet license holders
- City provides final 2017 data sets to pet license contractor

June 2018

- City requests reconciled data sets on its resident pet license holders
- City provides reconciled data sets to pet license contractor

**Term Sheet for City of Kirkland to Continue Participating in Regional Animal Services of King County**

The City of Kirkland ("Kirkland") presents this Term Sheet to Regional Animal Services of King County ("RASKC") for the City of Kirkland's continued participation in the King County Regional Animal Services System beyond 2017. This Term Sheet is intended to provide a starting point for negotiation between the City and RASKC. All terms and documents are subject to final approval by the Kirkland City Council and King County Council.

- Term of the contract is 5 years, with mutually agreeable termination provisions.
- Kirkland agrees that RASKC will license its resident's pets, canvass its neighborhoods and keep all animal control and animal licensing revenue generated within the city.
- Except for animal control and animal licensing revenue identified above, Kirkland will not be charged any program costs over the term of the contract.
- RASKC will consider sheltering Kirkland's animals with PAWS, in an effort to reduce system costs.
- There shall be no animal intake locations at the Petco in Kirkland or any other location in Kirkland.
- If RASKC provides an unacceptable level of service (below the minimum stated in Exhibit A), then the City of Kirkland has the right to terminate the contract with 180 days written notice.
- RASKC will provide level of animal services in Kirkland that is equivalent to services provided to the other cities in its Control District (200), consistent with Exhibit A of the 2018 successor contract and ILA.

DATED THIS \_\_\_\_ day of \_\_\_\_\_, 2016.

KING COUNTY REGIONAL ANIMAL SERVICES

CITY OF KIRKLAND

By:\_\_\_\_\_

By:\_\_\_\_\_

Its:\_\_\_\_\_

Its:\_\_\_\_\_

# Animal Services Update

- Regional System's Successor Contract
- Local Program

Finance & Administrative Committee

June 28, 2016

# Status - Regional System Contract Negotiations

## ► **Section 4. Term (duration) of 2018 Successor ILA**

- Proposed 5-year term (2018-22), automatic 5-year extension (2023-27)
- Termination and Notice of Termination: "... no later than 18 months prior to the expiration of the term then running (no later than June 30, 2021)"
- Proposal to change of the percentage increase to allocable costs, caused by a City 'opting out,' triggering "Limited Re-Opener Upon Notice of Termination" provision

## ► **Field/Control District Boundaries** (Attachment A)

- No change proposed.

## ► **Cost Allocation and Billing**

- Proposal to maintain the current 80% / 20% cost allocation basis (*80% on the City's relative use of the three animal services. 20% on the City's relative population*)
- Proposal to replace the current model's "Program Load Factor" with a "3-Year Rolling Average." (Attachment B)
- Proposal to reduce the current 6-step billing process to a 4-step process (Attachment C)

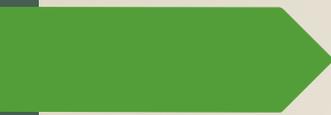
# Key Milestones for Achieving a 2018 Contract

- Sept. 1, 2016 – Draft Agreement in Principle (AIP) completed
- Dec. 31, 2016 – County provides draft contract for cities to review  
– Cities confirm Non-Binding Mutual Interest (statement of intent)
- January 2017 – Finalize cost allocation and terms, based on the Dec. 31 non-binding response from cities
- March 1, 2017 – Cities provide notice to County of final intent to contract
- June 1, 2017 – City Council approval of contract

# Status - Regional System Contract Negotiations

## **King County allocated \$5.26 million from its General Fund to support animal services in its 2015-2016 budget:**

- ▶ \$1.6 million in KC expenses as a user of services (approx. 1/3 of all intakes, calls and licenses sold are in Unincorporated King County)
  
- ▶ \$3.6 million in KC expenses to support the program in two areas:
  - \$1.8 million KC sponsored support of primarily high shelter intake cities from south King County; and
  - \$1.8 million KC funded items not included in RASKC model for A) enhancing shelter outcomes of animals and supporting the low euthanasia goal of RASKC; and B) County's central service rates/expenses increased outside of model



# Status - Regional System Contract Negotiations

- 
- Questions / Comments / Direction on the Regional Contract Negotiations?

# “Should I stay or should I go?” –The Clash

## *Regional Animal Services Program or Local Program?*

- The current contract with RASKC expires December 31, 2017
- RASKC must have a successor ILA in place “no later than” June 1, 2017
- By December 31, 2016 a draft successor contract will be ready for cities to review AND cities must provide RASKC a non-binding statement of intent to stay in or leave the regional system
- ❖ City staff is confident that, should Council choose to exit the regional system at the end of 2017, operating and providing animal services locally in 2018 can be achieved effectively and efficiently

# Animal Services – As Currently Provided

- ▶ **Control:** One (1) Animal Control Officer currently serves the nine cities of District 200 - Carnation, Duvall, Kenmore, Kirkland, Lake Forest Park, Redmond, Sammamish, Shoreline and Woodinville, as well as northern portions of unincorporated King County
- ▶ **Shelter:** RASKC's animal shelter is located in Kent. Several cities shelter with PAWS and they do not pay RASKC for shelter usage, but they do pay a population-based shelter charge to RASKC
- ▶ **Licensing:** Every aspect of RASKC's pet licensing program is managed by King County

Kirkland's total program cost with RASKC in 2015\* broken into the various service areas

Service Category	Unit	Number of Units	Total Cost	Cost Per Unit
Control	Calls for Service	310	93,913	302.95
Shelter	Animals Sheltered	102	110,558	1,084
Licensing	Fee per License	10,035	61,424	6.12
<b>Total Costs</b>			<b>265,895</b>	
Projected Revenues			288,004	
<b>Total Estimated Net (Cost)/Revenue</b>			<b>22,109</b>	

\* 2015 RASKC use/cost reconciliation pending



# Assumptions - Local Animal Services Program

- **Control:** One (1) Animal Control Officer would serve the City of Kirkland (new FTE in KPD)
- **Shelter:** Shelter services would be contracted out (Everett Animal Shelter or PAWS)
- **Licensing:** Licensing services would be contracted out (PetData), and marketing and neighborhood education efforts would be managed by City

2015 service data - 25% increase assumes rise in resident calls for local control (field) services

Service Category	Unit	Number of Units	Total Cost	Cost Per Unit
Control	Calls for Service	386	111,302	288.35
Shelter	Animals Sheltered	128	23,680	185
Licensing	Fee per License	10,035	41,144	4.10
Marketing		N/A	10,900	
Dispatch	911 / Norcom	10	351	35.05
<b>Total Costs</b>			<b>187,376</b>	
Projected Revenues			288,004	
<b>Total Estimated Net (Cost)/Revenue</b>			<b>100,628</b>	

\* 2015 RASKC use/cost reconciliation pending

# One-Time Costs for Local Program

Category	Cost
Uniforms	2,900
Background testing	2,200
Start Up Supplies	3,000
Equipment	17,350
Temporary Holding Pen	5,000
New World Software/Pet Data Software	18,000
Training + Firearms Qualifications	520
Fleet Vehicle Purchase	70,000
Laptop for Vehicle	5,021
<b>Total One Time Costs</b>	<b>123,991</b>

- Staff estimate \$100,628 of the one-time costs would be covered by pet license revenue in excess of ongoing costs in the first year

# Estimated First Year (2018) Cost Comparison

## *Regional vs Local Program*

- In 2018, local program would cost \$23,363 more than the regional system
- After the first year, costs are estimated at \$78,519 lower than the regional program (or \$310,000 lower across 5-year contract)

Service Category	King County	Kirkland	Difference
Control	93,913	111,302	(17,389)
Shelter	110,558	23,680	86,878
Licensing	61,424	41,144	20,281
Marketing	-	10,900	(10,900)
Dispatch	-	351	(351)
<b>Subtotal Ongoing Costs</b>	<b>265,895</b>	<b>187,376</b>	<b>78,519</b>
One Time Costs	-	123,991	(123,991)
<b>Total Costs in First Year</b>	<b>265,895</b>	<b>311,367</b>	<b>(45,472)</b>
Projected Revenues	288,004	288,004	
<b>Total Estimated Net (Cost)/Revenue</b>	<b>22,109</b>	<b>(23,363)</b>	

*\* In practice, many of the City's one-time costs would fall in 2017, but are presented as 2018 costs for ease of comparison.*



Questions / Comments / Direction



**CITY OF KIRKLAND  
INVESTMENT POLICY  
(ADOPTED XXX,XX, 2016)**

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**Policy Statement**

This Policy establishes standards and guidelines for the direction, management and oversight for all of the City of Kirkland’s (“City”) investable funds. These funds include cash for liquidity purposes, intermediate investments for ongoing operations and long term investments for dedicated accounts. Funds must be invested prudently to assure preservation of principal, provide needed liquidity for daily cash requirements, and provide a market rate of return. For purposes of the City’s Investment Policy, safety and liquidity are higher priorities than return on investment. All investments must conform to federal, state, and local statutes governing the City of Kirkland public funds investments.

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## 1.0 INTRODUCTION

This Investment Policy defines the parameters within which funds are to be invested by the City of Kirkland (City). This Policy also formalizes the framework to provide the investment authority and constraints for the City to maintain an effective and judicious management of funds within the scope of this Policy.

This Policy is intended to be broad enough to allow the Director of Finance and Administration, or authorized designee, to function properly within the parameters of responsibility and authority, yet specific enough to adequately safeguard the investment assets.

- Sets out guidelines for the prudent management of the City's funds;
- Describes realistic parameters and goals for safely investing those funds;
- Establishes expectations for generally acceptable returns at a suitable level of risk that matches the purpose of the City's funds;
- Provides the framework within which the Director of Finance and Administration will operate by setting out objectives, guidelines, and structure that include details on the universe of permitted investments and any restrictions of their use.

The City Council reserves the right to amend this policy as deemed necessary.

## 2.0 GOVERNING AUTHORITY

The City of Kirkland investment authority is derived from RCW Chapters 35, 39 and 43. The investment program shall be operated in conformance with the Revised Code of Washington and applicable Federal Law. All funds within the scope of this policy are subject to regulations established by the State of Washington.

The City Council has the direct authority to provide for the Director of Finance and Administration or his/her designee, the responsibility for the daily operations of the City's investment program and activities. (Kirkland Municipal Code (KMC) Chapter 5.24)

## 3.0 SCOPE OR IDENTIFICATION OF FUNDS

This policy applies to activities of the City of Kirkland with regard to investing the financial assets of all funds. The amount of funds expected to fall within the scope of this policy is \$90 million to \$120 million, which include, but not limited to, operating, capital improvement, and restricted funds.

This investment policy applies to all investment transactions involving the financial assets and related activity of all City funds.

## 4.0 OBJECTIVES

All funds will be invested in a manner that is in conformance with federal, state and other legal requirements. The objectives, in order of priority, of the investment activities will be as follows:

- 4.1 Safety:** Safety of principal is the primary objective of the City. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To obtain this

objective, funds will be diversified, utilizing highly rated securities, by investing in a variety of securities and financial institutions. The investment portfolio will be invested in a manner that meets RCW statutes and all legal requirements of the City.

**4.2 Liquidity:** The investment portfolio will provide liquidity sufficient to enable the City to meet all cash requirements that might reasonably be anticipated. Therefore, the investments shall be managed to maintain a minimum balance to meet daily obligations.

**4.3 Return on Investment:** The investment portfolio will be structured with the objective of attaining a market rate of return throughout economic cycles, commensurate with the investment risk parameters and the cash flow characteristics of the portfolio. Nevertheless, return on investment is a lesser objective than safety or liquidity.

## 5.0 STANDARDS OF CARE

### 5.1 Delegation of Authority:

*Governing Body:* The ultimate responsibility and authority for the investment of City funds resides with the City Council who has the authority to direct the management of the City investment program.

*Authority:* Pursuant to the KMC 5.24 and Resolution 5087, the overall management responsibility for the investment program is hereby delegated to the Director of Finance and Administration, or designee, who shall establish written procedures for the operation of the investment program, consistent with this investment policy. The Director of Finance and Administration shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

*Investment Advisor:* The City may contract with an external non-discretionary investment advisor (Advisor) to assist with the management of the City's investment portfolio in a manner that is consistent with the City's objectives and this policy. Such Advisors shall provide recommendations and advice regarding the City investment program including but not limited to advice related to the purchase and sale of investments by this Investment Policy.

### 5.2 Prudence:

The standard of prudence to be used by the Director of Finance and Administration or any designees in the context of managing the overall portfolio is the prudent person rule which states: *Investments will be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs not in regard to speculation but in regard to the permanent disposition of the funds considering the probable income as well as the probable safety of the capital.*

### 5.3 Ethics:

#### 5.3.1 *Employees Involved in the City Investment Program Must Avoid Conflicts of Interest.*

Association with the investment program in any capacity is considered employee involvement.

Employees must avoid personal business activity that may:

- Conflict with the proper execution of the investment program.
- Impair their ability to make impartial investment decisions.

*5.3.2 Employees Associated with the City Investment Program Must Disclose Certain Personal Information to the Director of Finance and Administration or His/Her Designee.*

The disclosure should list:

- Any material interests in financial institutions that conduct business with the City.
- Any personal financial or investment positions that could influence the performance of the City's investment portfolio, particularly with regard to the timing of purchases and sales.

## **6.0 SAFEKEEPING, CUSTODY, AND CONTROLS**

### **6.1 Delivery vs. Payment:**

All trades of marketable securities will be executed (cleared and settled) on a delivery vs. payment (DVP) basis to ensure that securities are deposited in the City's safekeeping institution prior to the release of funds.

### **6.2 Third Party Safekeeping:**

Prudent treasury management requires that all purchased securities be bought on a delivery versus payment (DVP) basis and be held in safekeeping by an independent third-party financial institution or the City's designated depository.

The Director of Finance and Administration shall designate all safekeeping arrangements and an agreement of the terms shall be executed in writing. The third-party custodian shall be required to provide a statement to the City listing at a minimum each specific security, book yield, description, maturity date, market value, par value, purchase date, and CUSIP number.

All collateral securities pledged to the City for certificates of deposit or demand deposits shall be held in accordance with the State of Washington's Public Deposit Protection Commission (PDPC).

### **6.3 Internal Controls:**

The Director of Finance and Administration is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse. Specifics for the internal controls shall be documented in an investment procedures manual.

The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived, and the valuation of costs and benefits requires estimates and judgments by management. The internal controls shall address the following points at a minimum:

- Control of collusion;
- Separation of transaction authority from accounting and recordkeeping;
- Custodial safekeeping;
- Avoidance of physical delivery of marketable securities;
- Clear delegation of authority to subordinate staff members;
- Written confirmation of transactions for investments and wire transfers;
- Dual authorizations of wire transfers;
- Staff training; and

- Review, maintenance and monitoring of security procedures both manual and automated.

#### **6.4 External Controls**

The City will have an external review of the Investment Policy and procedures every three (3) years. The City may enter contracts with third-party investment advisory firms when their services are required.

## **7.0 AUTHORIZED FINANCIAL DEALERS**

### **7.1 Broker/Dealers:**

The Director of Finance and Administration shall maintain and review annually a list of all authorized financial institutions and broker/dealers that are approved to transact with the City for investment purposes. The City shall follow GFOA best practices for evaluating and selecting financial institutions and broker/dealers.

The Director of Finance and Administration or designee may utilize the investment advisor's approved broker/dealer list in lieu of the City's own approved list. The Advisor must submit the approved list to the City annually and provide updates throughout the year as they occur. The Advisor must maintain documentation of appropriate license and professional credentials of broker/dealers on the list. The annual investment advisor broker/dealer review procedures include:

- a. FINRA Certification check:
  - i. Firm profile
  - ii. Firm history
  - iii. Firm operations
  - iv. Disclosures of arbitration awards, disciplinary and regulatory events
  - v. State Registration Verification
- b. Financial review of acceptable FINRA capital or letter of credit for clearing settlements.

The Advisor may be authorized through the contracted agreement to open accounts on behalf of the City with the broker/dealers on the approved broker dealer list.

### **7.2 Investment Advisers:**

Advisers must be registered under the Investment Advisers Act of 1940 and must act in a non-discretionary capacity, requiring approval from the City prior to all transactions.

### **7.3 Bank Institutions:**

The City will only place funds, exceeding the current FDIC insurance limits, with banks who are currently participating in the Washington State PDPC program. Compliance/listing with the PDPC will be verified by the Adviser or designated investment officer utilizing the Washington State Treasurer's website.

### **7.4 Competitive Transactions:**

Transactions must be executed on a competitive basis and documented. Competitive prices should be provided from at least three separate brokers, financial institutions or through a national electronic trading platform. If the purchased security is only offered by one broker then other securities with similar structure may be used for documentation purposes. When an Adviser handles trade executions, they must provide the competitive documentation as requested.

## 8.0 AUTHORIZED AND SUITABLE INVESTMENTS

### 8.1 Authorized Investments:

Eligible investments are only those securities and deposits authorized by statute (RCW 39.58, 39.59, 43.250, and 43.84.080):

Among the authorized investments are U.S. Treasury and Agency securities (i.e., obligations of any government sponsored enterprise eligible for collateral purposes at the Federal Reserve), municipal debt, certificates of deposit with qualified public depositories within statutory limits as promulgated by the Washington State PDPC at the time of investment, foreign and domestic Bankers Acceptances, Commercial Paper and the Washington State Local Government Investment Pool.

The State of Washington Local Government Investment Pool is the only government-sponsored Pool approved for investment of funds.

### 8.2 Suitable Investments:

The City is empowered to invest in the following types of securities:

**US Treasury Obligations:** Direct obligations of the United States Treasury.

**US Agency Obligations Primary Issuers:** Government Sponsored Enterprises (*GSEs*) – Federal Instrumentality Securities include, but are not limited to Federal National Mortgage Association (*FNMA*), the Federal Home Loan Mortgage Corporation (*FHLMC*), Federal Home Loan Banks (*FHLB*), and the Federal Farm Credit Banks (*FFCB*).

**US Agency Obligations Secondary Issuers:** Other US government sponsored enterprises that are less marketable are considered secondary *GSEs*. They include, but are not limited to: Private Export Funding Corporation (*PEFCO*), Tennessee Valley Authority (*TVA*), Financing Corporation (*FICO*) and Federal Agricultural Mortgage Corporation, (*Farmer Mac*).

**Commercial Paper:** Unsecured debt obligations of corporate issuers that are rated at least A1+ by Moody's and P1 by Standard and Poor's. Commercial paper holdings may not have maturities exceeding 180 days. Any commercial paper purchased with a maturity longer than 100 days must also have an underlying long-term credit rating at the time of purchase of a minimum rating of AA- by S&P or Aa3 by Moody's RCW 39.59.020.

**Banker's Acceptance:** Banker's Acceptances generally are created based on a letter of credit issued to finance transactions. They are used to finance the shipment of some specific goods within the United States. They are issued by qualified financial institutions eligible for discount by the Federal Reserve System and by a qualified institution whose long-term letter of credit rating is rated in the highest category: AAA.

**Local Government Investment Pool:** Investment Pool managed by the Washington State Treasurer's Office.

**Time Deposits and Savings Accounts Issued by Banks:** Deposits in PDPC approved banks.

**Certificates of Deposit:** Non-negotiable Certificates of Deposit of financial institutions that are qualified public depositories as defined in RCW 39.58.010(2) and by the restrictions within.

**Municipal Debt Obligations:** Bonds of the State of Washington, any local government in the State of Washington, General Obligation bonds outside the State of Washington; at the time of investment the bonds must have a AA- from S&P or a Aa3 from Moody's. In the case of a split rating, the lower rating of these two rating agencies will be used.

### 8.3 Bank Collateralization:

The PDPC makes and enforces regulations and administers a program to ensure public funds deposited in banks and thrifts are protected if a financial institution becomes insolvent. The PDPC approves which banks and thrifts can hold state and local government deposits and monitors collateral pledged to secure uninsured public deposits. Under RCW 39.58.240, all public treasurers and other custodians of public funds are relieved of the responsibility of executing tri-party agreements, reviewing pledged securities, and authorizing additions, withdrawals, and exchanges of collateral.

## 9.0 INVESTMENT PARAMETERS

### 9.1 Diversification:

The City will diversify the investment of all funds by adhering to the constraints by issuer type in accordance with the following table:

**Table of Constraints on the Portfolio**

Issue Type	Maximum % Holdings	Issuer % per Issue Type	Ratings S&P	Ratings Moody's
USTreasury Obligations	100%	None	N/A	N/A
USAgency Primary Securities FHLB, FNMA, FHLMC, FFCB	100%	30%	Security must be rated	Security must be rated
US Agency Secondary Issuance FICO, FARMERMAC etc	20%	10%	Security must be rated	Security must be rated
Washington LGIP	100%	None	N/A	N/A
Bank Time Deposits/Savings Accounts	50%	None	Deposits in PDPC approved banks	Deposits in PDPC approved banks
Certificates of Deposit	10%	5%	Deposits in PDPC approved banks	Deposits in PDPC approved banks
Commercial Paper	5%	5%	A1+ Long Term: AA-	P1 Long Term: Aa3
Municipal Bonds	20%	5%	AA-	Aa3
Banker's Acceptance	5%	5%	AAA	Aaa

### 9.2 Investment Maturity:

The City will not directly invest in securities maturing more than five (5) years from the date of purchase.

- The maximum weighted maturity of the total portfolio shall not exceed 3 years. This maximum is established to limit the portfolio to excessive price change exposure.
- Liquidity funds will be held in the State Pool, PDPC bank deposits, or cash matched securities.
- Investment funds will be defined as the funds in excess of liquidity requirements. The investments in this portion of the portfolio will have maturities between 1 day and 5 years and will be only invested in high quality and liquid securities.
- Total Portfolio Maturity Constraints:

<b>Maturity Constraints</b>	<b>Minimum % of Total Portfolio</b>
Under 30 days	10%
Under 1 year	25%
Under 5 years	100%
Weighted Average Maturity	3.0 Years
<b>Maturity Constraints</b>	<b>Maximum % of Total Portfolio</b>
Callable Securities	50%

- Exception to 5 year maturity maximum: Reserve or Capital Improvement Project monies may be invested in securities exceeding 5 years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.

**9.3 Strategic Allocations:**

9.3.1 Funds and their Allocation

- Liquidity funds for the operating account will be allocated to LGIP, CD’s, PDPC Bank Deposits, Bankers Acceptances, and Commercial Paper.
- The structure of the Investment Core Fund will be targeted to a selected market benchmark based on the risk and return objectives of the portfolio.
- Longer term restricted funds will have an identified market benchmark to manage risk and return.

9.3.2 Monitoring and Portfolio Adjustment: As a general practice, securities will be purchased with the intent to hold to maturity. However, it is acceptable for securities to be sold under the following circumstances:

- A security with a declining credit may be sold early to protect the principal value of the portfolio.
- The portfolio duration or maturity buckets should be adjusted to reflect better the structure of the underlying benchmark portfolio.
- A security exchange that would improve the quality, yield and target maturity of the portfolio based on market conditions.
- A sale of a security to provide for unforeseen liquidity needs.

#### **9.4 Prohibited Investments:**

9.4.1 The City shall not lend securities nor directly participate in a securities lending or reverse repurchase program.

9.4.2 The City shall not invest in:

- a. Mortgage-backed securities
- b. Derivative Products
- c. Securities that leverage the portfolio or are used for speculation of interest rates
- d. Any securities on negative credit watch
- e. Mutual Funds
- f. Repurchase Agreements
- g. Reverse Agreements

### **10.0 REPORTING REQUIREMENTS**

#### **10.1 Reporting:**

The Director of Finance and Administration shall be responsible for investment reporting. At a minimum, quarterly reporting shall be made to the City Council including but not limited to securities holdings, cash balances, and market values in the investment portfolio.

Specific Requirements:

- Book Yield
- Holdings Report including mark-to-market and security description
- Transactions Report
- Weighted Average Maturity

#### **10.2 Performance Standards:**

The portfolio shall be managed to obtain a fair rate of return and earnings rate that incorporates the primary objectives of protecting the City's capital and assuring adequate liquidity to meet cash flow needs.

For purposes of this policy, "earnings rate" will be compared to the LGIP rate. The goal is for the portfolio to generally perform better than the LGIP due to the longer weighted average maturity and the earnings rate is expected to trend in a similar manner as interest rates change.

The investment portfolio performance may be tracked against a market index such as the US treasury 0-3 year index or US treasury 0-5 year index on a total return basis. This will provide for accountability of price changes in the portfolio and help inform the strategy related to the duration of the portfolio.

#### **10.3 Compliance Report**

A compliance report will be generated quarterly comparing the portfolio positions to this investment policy.

#### **10.4 Accounting Method**

The City shall comply with all required legal provisions and Generally Accepted Accounting Principles (GAAP). The accounting principles are those contained in the pronouncements of authoritative bodies including but not necessarily limited to the Governmental Accounting Standards Board (GASB).

Pooling of Funds: Except for cash in certain restricted and special funds, the City will consolidate balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation in the investment program and in accordance with generally accepted accounting principles.

#### **11.0 INVESTMENT POLICY ADOPTION**

The City's Investment Policy shall be adopted by the City Council.

The Policy shall be reviewed annually by the Investment Committee. Any modifications shall be submitted and approved by City Council.

## 12.0 GLOSSARY OF TERMS

**Agency Securities:** Government sponsored enterprises of the US Government.

**Bankers Acceptances:** A time draft accepted (endorsed) by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer. BAs are short-term non-interest-bearing notes sold at a discount and redeemed by the accepting bank at maturity for full face value.

**Bond:** An interest-bearing security issued by a corporation, government, governmental agency, or other body. It is a form of debt with an interest rate, maturity, and face value, and specific assets sometimes secure it. Most bonds have a maturity of greater than one year and generally pay interest semiannually.

**Broker:** An intermediary who brings buyers and sellers together and handles their orders, generally charging a commission for this service. In contrast to a principal or a dealer, the broker does not own or take a position in securities.

**Certificates of Deposit:** Instruments issued by a bank specifying that a sum of money has been deposited, payable with interest to the bearer of the certificate on a certain date.

**Collateral:** Securities or other property that a borrower pledges as security for the repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

**Commercial Paper:** Short-term, unsecured, negotiable promissory notes issued by corporations.

**Current Maturity:** The amount of time left until an obligation matures. For example, a one-year bill issued nine months ago has a current maturity of three months.

**CUSIP:** A CUSIP number identifies securities. CUSIP stands for Committee on Uniform Security Identification Procedures, which was established under the auspices of the American Bankers Association to develop a uniform method of identifying municipal, U.S. government, and corporate securities.

**Dealer:** An individual or firm that ordinarily acts as a principal in security transactions. Typically, dealers buy for their account and sell to a customer from their inventory. The dealer's profit is determined by the difference between the price paid and the price received.

**Delivery:** Either of two methods of delivering securities: delivery vs. payment and delivery vs. receipt (also called "free"). Delivery vs. payment is the delivery of securities with an exchange of money for the securities.

**Diversification:** Dividing available funds among a variety of securities and institutions so as to minimize market risk.

**Duration:** A measure used to calculate the price sensitivity of a bond or portfolio of bonds to changes in interest rates. This equals the sum of the present value of future cash flows.

**Full Faith and Credit:** Indicator that the unconditional guarantee of the United States government backs the repayment of debt.

**General Obligation Bonds (GOs):** Bonds secured by the pledge of the municipal issuer's full faith and credit, which usually includes unlimited taxing power.

**Government Bonds:** Securities issued by the federal government; they are obligations of the U.S. Treasury; also known as "governments."

**Interest:** Compensation paid or to be paid for the use of money. The rate of interest is generally expressed as an annual percentage.

**Investment Core Funds:** Core funds are defined as operating fund balance and other fund balances that exceeds the City's daily liquidity needs. Core funds are invested out the yield curve to diversify maturity structure in the overall portfolio. Having longer term investments in a portfolio will stabilize the overall portfolio interest earnings over interest rate cycles.

**Investment Securities:** Securities purchased for an investment portfolio, as opposed to those purchased for resale to customers.

**Liquidity:** The ease at which a security can be bought or sold (converted to cash) in the market. A large number of buyers and sellers and a high volume of trading activity are important components of liquidity.

**Liquidity Component:** A percentage of the total portfolio that is dedicated to providing liquidity needs for the City.

**LGIP:** Local Government Investment Pool run by the State of Washington Treasurer's office established to help cities with short-term investments.

**Mark to Market:** Adjustment of an account or portfolio to reflect actual market value rather than book price, purchase price or some other valuation.

**Market Value:** The market value of a security is the price at which can be sold on that date.

**Maturity:** The date upon which the principal or stated value of an investment becomes due.

**Municipals:** Securities, usually bonds, issued by a state, its agencies, by cities or other municipal entities. The interest on "munis" is usually exempt from federal income taxes and state and local income taxes in the state of issuance. Municipal securities may or may not be backed by the issuing agency's taxation powers.

**Non-Discretionary Investment Advisor:** Non-discretionary investment advisor services may include investment management oversight, investment research, portfolio analysis, portfolio reporting and portfolio recommendations based upon the specific investment policy and investment objectives of each client. Clients must approve any such recommendations before the securities are purchased or sold in their accounts.

**Par Value:** The value of a security expressed as a specific dollar amount marked on the face of the security or the amount of money due at maturity. Par value should not be confused with market value.

**Portfolio:** A collection of securities held by an individual or institution.

**Principal:** The cost of an instrument on which interest is earned.

**Prudent Person Rule:** A long-standing common-law rule that requires a trustee who is investing for another to behave in the same way as a prudent individual of reasonable discretion and intelligence who is seeking a reasonable income and preservation of capital.

**Quotation or Quote:** A bid to buy or the lowest offer to sell a security in any market at a particular time.

**Repurchase Agreement:** Range in maturity from overnight to fixed time to open end. Repos involve a simultaneous sale of securities by a bank or government securities dealer to an investor with an agreement for the bank or government securities dealer to repurchase the securities at a fixed date at a specified rate of interest.

**Safekeeping:** An arrangement under which an organization's securities are kept in a bank vault or in the case of book entry securities, are held and recorded in the customer's name. Evidence of this arrangement is a safekeeping receipt.

**Secondary Market:** A market where certain securities may be bought and sold at prevailing market prices after their initial distribution but before their stated maturity date.

**Treasury Bill (T-Bill):** An obligation of the U.S. government with a maturity of one year or less. T-bills bear no interest but are sold at a discount.

**Treasury Bonds and Notes:** Obligations of the U.S. government that bear interest. Notes have maturities of one to ten years; bonds have longer maturities.

**Yield:** The annual rate of return on an investment expressed as a percentage of the investment. Income yield is obtained by dividing the current dollar income by the current market price for the security. Net yield, or yield to maturity, is the current income yield minus any premium above par or plus any discount from par in the purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

**Yield to Maturity:** The average annual yield on a security, assuming it is held to maturity; equals to the rate at which all principal and interest payments would be discounted to produce a present value equal to the purchase price of the bond.

## City of Kirkland Investment Policy, 2016 Update

### Revised Policy Comparison to Current Adopted Policy

June 28, 2016

Revised Policy is more descriptive, concise, direct and representative of best practices.

Revised Policy	Current Policy	Noted Changes
POLICY STATEMENT	1.0 Policy Statement	Expanded, more descriptive, inclusive
1.0 INTRODUCTION		New section, summary of policy
2.0 GOVERNING AUTHORITY		New section, stating RCW as authority
3.0 SCOPE	2.0 Scope	Covers all funds and dollar amount of portfolio covered by policy
4.0 OBJECTIVES	3.0 Objective 3.1 Legality	Legal compliance is the overriding objective
4.1 SAFETY	3.3 Safety	Places safety as first objective
4.2 LIQUIDITY	3.2 Liquidity	
4.3 RETURN	3.4 Yield	
5.0 STANDARDS OF CARE		Groups similar policy items
5.1 DELEGATION OF AUTHORITY	4.0 Delegation of Authority	
5.2 PRUDENCE	5.0 Prudence	Applies standard of Prudence to Director of Finance and Administration or designee
5.3 ETHICS	6.0 Ethics and Conflicts of Interest	More descriptive and inclusive

Revised Policy	Current Policy	Noted Changes
6.0 SAFEKEEPING, CUSTODY AND CONTROLS		
6.1 DELIVERY VS. PAYMENT	12.0 Safekeeping and Custody	Separate subsection added for emphasis and clarity
6.2 THIRD PARTY SAFEKEEPING	12.0 Safekeeping and Custody	Assigns responsibility for safekeeping to Director of Finance and Administration Includes collateralization requirements for bank deposits
6.3 INTERNAL CONTROLS	15.0 Internal Controls	Assigns responsibility of internal controls to Director of Finance and Administration Details minimum internal controls
6.4 EXTERNAL CONTROLS	16.0 External Controls	
7.0 AUTHORIZED FINANCIAL DEALERS	7.0 Authorized Financial Dealers and Institutions	
7.1 BROKER/DEALERS	8.0 Broker Allocation	
7.2 INVESTMENT ADVISERS		New section on Investment Advisors
7.3 BANK INSTITUTIONS	7.0 Authorized Financial Dealers and Institutions	New separate section to highlight and clarify acceptable banks
7.4 COMPETITIVE TRANSACTIONS	8.0 Broker Allocation	New separate section to highlight competitive selection requirements, previously stated in Broker Dealers section
8.0 AUTHORIZED AND SUITABLE INVESTMENTS	9.0 Authorized and Suitable Investments	Provides clarity and definition
8.1 AUTHORIZED INVESTMENTS	9.0 Authorized and Suitable Investments	
8.2 SUITABLE INVESTMENTS	9.0 Authorized and Suitable Investments 11.0 Investment Pools	
8.3 BANK COLLATERALIZATION		New section on PDPC requirements on bank deposits

Revised Policy	Current Policy	Noted Changes
9.0 INVESTMENT PARAMETERS		
9.1 DIVERSIFICATION	13.0 Diversification	Included rating requirements in table of constraints on the portfolio
9.2 INVESTMENT MATURITY	14.0 Maximum Maturities	Added table of Total Portfolio and Maturity Constraints
9.3 STRATEGIC ALLOCATIONS		New section with specifics on liquidity funds and core funds
9.4 PROHIBITED INVESTMENTS	10.0 Prohibited Securities	
10.0 REPORTING REQUIREMENTS		
10.1 REPORTING	18.0 Reporting Requirements section 18.1 and 18.2	Quarterly reports required In practice, monthly reports are provided to City Council through the Finance and Administration Committee
10.2 PERFORMANCE STANDARDS	17.0 Performance Standards	Rate comparison to LGIP rather than band between 90 day T-bill and 2 Year Treasury note
10.3 COMPLIANCE REPORT	18.0 Reporting Requirements section 18.3	
	18.0 Reporting Requirements section 18.4	Reference to additional reporting requirements in Investment Procedures removed
10.4 ACCOUNTING METHOD		New section stating accounting requirements
11.0 INVESTMENT POLICY ADOPTION	19.0 Investment Policy Adoption	No changes
12.0 GLOSSARY OF TERMS		Added as a numbered section in the Policy, previously was an attachment

Thank you for your message to the City Council. The Council appreciates your communication and this notification is to assure you that your message has been received and forwarded to the Councilmembers addressed. Messages that require research or response are forwarded to the appropriate City department for a response that is sent on behalf of the whole City Council. Individual Councilmembers may also respond to you directly. Staff will endeavor to respond to your request within 5 business days.

Thank you again for your correspondence.

*On behalf of Kirkland City Council*

**AMY BOLEN**

EXECUTIVE ASSISTANT, CITY MANAGER'S OFFICE

CITY OF KIRKLAND

123 5TH AVENUE, KIRKLAND, WA 98033

P: 425.587.3007

[ABOLEN@KIRKLANDWA.GOV](mailto:ABOLEN@KIRKLANDWA.GOV)

## May 2016 Financial Dashboard Highlights

June 20, 2016

- The dashboard report reflects the 2016 share of the biennial budget adopted by the City Council on December 9, 2014 and adjusted on December 8, 2015. The actual revenues and expenditures summarized reflect results through May 31, 2016, 41.7 percent through the year.
- Total General Fund revenues received through May were at 46.0 percent of budget. Collections are slightly higher than expected due largely to strong sales tax, plan check fee, and business license revenue.
  - Sales tax revenues through the end of May were up 8.6 percent compared to May 2015 and were 45.4 percent of budget. All sectors, with the exception of General Merchandise/Misc. Retail, are up compared to 2015; high levels of contracting sales tax revenues account for nearly 30 percent of the year to date growth. The sales tax revenue reflects activity from March 2015 due to the two month lag in receipt of the funds from the Department of Revenue.
  - Utility tax receipts were \$6,503,588 in May, which is 42.9 percent of the budget. This is 2.8 percent higher than May 2015, however, revenues finished below budget last year. While results through May are an improvement from last year, at the current pace revenues will be slightly below budget in 2016.
  - Business license revenues through May are 55.5 percent of budget; this is higher than last May's revenue by \$326,725, an increase of 24.5 percent. The above-budget performance this year is partly the result of city efforts to identify businesses operating without licenses. Many of these businesses owe the City up to three years of business license fees. The improvement in compliance with licensing means revenues should be higher on average going forward from this year, but the collection of past due fees represents one-time revenues.
  - Development fees through the end of May were at 48.8 percent of budget. This is due to a high level of development activity to start the year, as Kirkland Urban and Totem Lake development began to generate planning fee revenue. This is 3.5 percent higher than 2015, which was also a strong year.
    - Building revenues through May are 46 percent of budget and 10 percent ahead of last year. These figures include significant one-time fees, most notably for Kirkland Urban plan review.
    - Engineering revenues are at 47 percent of budget through May, and 25 percent below last year. Development staff expects a pick-up in activity in coming months associated with upcoming construction work at Totem Lake and Kirkland Urban.
    - Planning revenues through May are at their highest level in 5 years, with 66 percent of the budget collected and growth that is 28 percent above last year. This is due to several moderately large subdivisions and numerous short plats.
  - Gas taxes finished May at \$709,196, which is 42.1 percent of the annual budget. This is higher than May 2015 by 5.9 percent and continues this year's strong performance over the past few years.
- Total General Fund expenditures were 39.9 percent of budget through the end of May.
  - General fund salaries and benefits were \$23.2 million, which is 41.0 percent of the annual budget, with 41.7 percent of the year completed. Salaries and benefits are 0.7 percent higher than in 2015, due to scheduled salary growth, though it is low at this point, as one union contract was not renewed until June 2016.
  - Fire suppression overtime expenditures were \$449,430 at the end of May, which is 59.1 percent of budget, and \$40,226 higher than in 2015.
  - Contract jail costs were 26.2 percent of budget at the end of May. This budget is for costs of housing inmates that cannot be kept at the Kirkland Justice Center jail for medical reasons. They are incurred only as necessary on an individual basis. Spending for these services was under budget last year, and is on pace to be so again this year.

- Fuel costs ended May at \$115,012 or 15.6 percent of budget. Low fuel prices are driving decreased expenditures, though timing of fuel orders can also skew this number downwards. Delivery schedules are beginning to normalize, but low prices continue to keep expenditures under budget.

Attachments: May Dashboard

**City of Kirkland Budget Dashboard**  
**Annual Budget Status as of**  
**Percent of Year Complete**

**5/31/2016** (Note 1)  
**41.7%**

**Date Completed**

6/20/2016

	2016 Budget	Year-to-Date Actual	% Received/ % Expended	Status		Notes
				Current Report	Last Report	
<b>General Fund</b>						
Total Revenues	88,925,522	40,885,621	46.0%			
Total Expenditures	88,392,816	35,254,569	39.9%			

**Key Indicators (All Funds)**

<i>Revenues</i>						
Sales Tax	17,963,747	8,150,838	45.4%			Prior YTD = \$7,505,686
Utility Taxes	15,175,950	6,503,588	42.9%			
Business License Fees	2,988,028	1,659,169	55.5%			
Development Fees	7,824,031	3,814,865	48.8%			
Gas Tax	1,684,070	709,196	42.1%			
<i>Expenditures</i>						
GF Salaries/Benefits	57,067,952	23,421,478	41.0%			Excludes Fire Suppression Overtime
Fire Suppression Overtime	760,303	449,430	59.1%			
F.S. #24 Overtime Staffing	465,944	190,064	40.8%			
Contract Jail Costs	440,688	115,242	26.2%			
Fuel Costs	738,927	115,012	15.6%			

**Status Key**

Revenue is higher than expected or expenditure is lower than expected  
 Revenue/expenditure is within expected range  
 WATCH - Revenue/expenditure outside expected range



Note 1 - Report shows annual values during the second year of the biennium (2016).



Maximum Maturities	Policy Requirement	Percentage of Portfolio	Portfolio Allocation	Within Limits	Credit Rating	Within Limits
Under 30 days	10%	38%	\$ 70,461,273	Yes	<b>Municipal</b>	
Under 1 year	25%	48%	\$ 89,060,050	Yes	AA-	by S&P Yes
Under 5 years	100%	100%	\$ 183,649,185	Yes	Aa3	by Moodys Yes
Maximum Weighted Average Maturity	3 Years		1.47	Yes	<b>Commercial Paper/Bankers Acceptance</b>	
Maximum Callable Securities	50%	30%	\$ 16,185,098	Yes	A1+ / P1	Yes
Maximum Single Maturity	5 Years		4.55	Yes	AA	Long-Term Rating

Asset Allocation Diversification	Maximum Policy Allocation	Issuer Constraint	Percentage of Portfolio	Market Value	Within Limits
U.S. Treasury Obligations	100%		19%	\$ 35,170,690	Yes
Government Agencies	100%		39%	\$ 71,857,309	Yes
FHLB		30%	7%	\$ 12,062,174	Yes
FNMA		30%	5%	\$ 9,975,970	Yes
FHLMC		30%	14%	\$ 25,047,245	Yes
FFCB		30%	11%	\$ 19,987,645	Yes
Other GSE's		30%	3%	\$ 4,784,275	Yes
Municipal Bonds- GO States - Locals WA	20%	5%	7%	\$ 13,540,496	Yes
Certificates of Deposit	10%	5%	3%	\$ 5,000,000	Yes
Commercial Paper	5%	5%	0%	\$ -	Yes
Bank Deposits **	50%	10%	21%	\$ 37,690,186	Yes
Bankers Acceptances	5%	5%	0%	\$ -	Yes
Local Government Investment Pool	100%	N/A	11%	\$ 20,390,504	Yes
<b>Total</b>			<b>100%</b>	<b>\$ 183,649,185</b>	



\*\* Bank Deposits to be added to new Policy

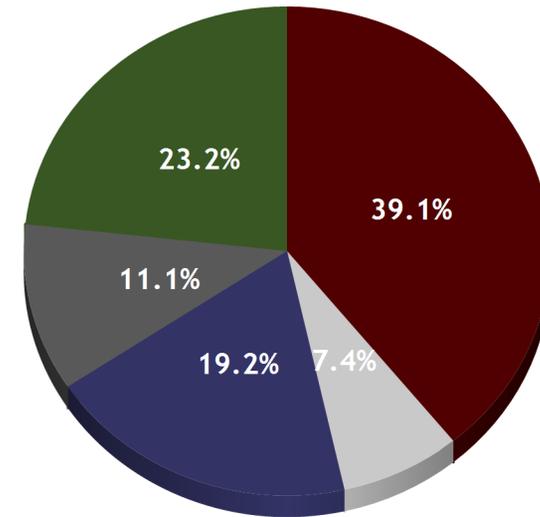
Name	Par Amount	Total Adjusted Cost	Market Value	Unrealized Gain/Loss	Yield At Cost	Eff Dur	Bench Dur
City of Kirkland - Core Investment Fund	\$ 120,296,000	\$ 120,292,048	\$ 120,568,495	\$ 276,447	1.10	2.06	2.15
City of Kirkland Liquidity	\$ 63,080,690	\$ 63,080,690	\$ 63,080,690		0.46	0.05	0.10
<b>TOTAL PORTFOLIO</b>	<b>\$ 183,376,690</b>	<b>\$ 183,372,738</b>	<b>\$ 183,649,185</b>	<b>\$ 276,447</b>	<b>0.88</b>	<b>1.37</b>	<b>1.45</b>



### Weighted Averages

Book Yield	0.88
Maturity	1.47
Coupon	0.87
Moody	Aa1
S&P	AA+

### Fixed Income Allocation



### Fixed Income Totals

Par Value	183,376,690
Market Value	183,649,184.64
Amortized Book Value	183,372,738.04
Unrealized Gain/Loss	276,446.60
Estimated Annual Cash Flow	1,599,298.22

Security Type	Market Value	% Assets
US Agency (USD)	71,857,309.30	39.1
Municipal (USD)	13,540,495.70	7.4
US Treasury (USD)	35,170,690.00	19.2
LGIP State Pool (USD)	20,390,503.66	11.1
Bank or Cash Deposit (USD)	42,690,185.98	23.2
<b>Fixed Income Total</b>	<b>183,649,184.64</b>	<b>100.0</b>



### Disclaimer

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### Definition and Terms

**Maturity Distribution:** The policy limits maturity risk in the portfolio by establishing a maximum weighted average maturity of the overall portfolio at 3 years, the maximum single issue maturity at 5 years and a limit on callable securities of 50% in the portfolio.

**Investment Component:** This is the amount of the overall portfolio balances that are in excess of liquidity requirements and invested in open market securities to add returns to the portfolio above LGIP rates.

**Liquidity Component:** This is the amount of the overall portfolio balances that are held in short term liquid investments to meet ongoing operational budgets and cash flows. An annual assessment of this amount is evaluated through a questionnaire process determining liquidity needs and City preferences, (Guiding Portfolio Strategy "GPS") completed by Government Portfolio Advisors.

**Portfolio Summary:** Provides of summary of **Par Amount** (face value of the security), **Original Purchase Adjusted cost** (adjusted by amortization to date) and **Market Value** by portfolio component of liquidity and core fund. **Yield at cost** is the earnings rate, **Modified Duration** is the risk measure used to determine the price volatility of the portfolio and is based on the cash flows to maturity. The comparison of the portfolio duration to the benchmark duration is used to articulate the positioning of the portfolio relative to the benchmark based on market risk. If the portfolio is longer in duration than the benchmark it will do better when rates fall versus the benchmark. If the portfolio duration is shorter than the benchmark it will perform better when rates rise. The benchmark is established through the GPS process and creates a discipline to managing the portfolio.

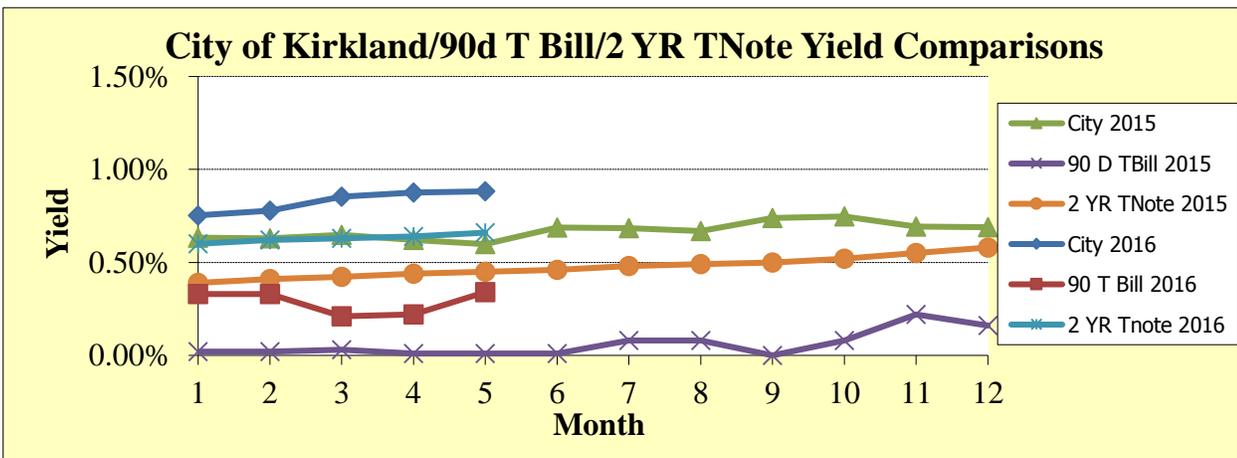
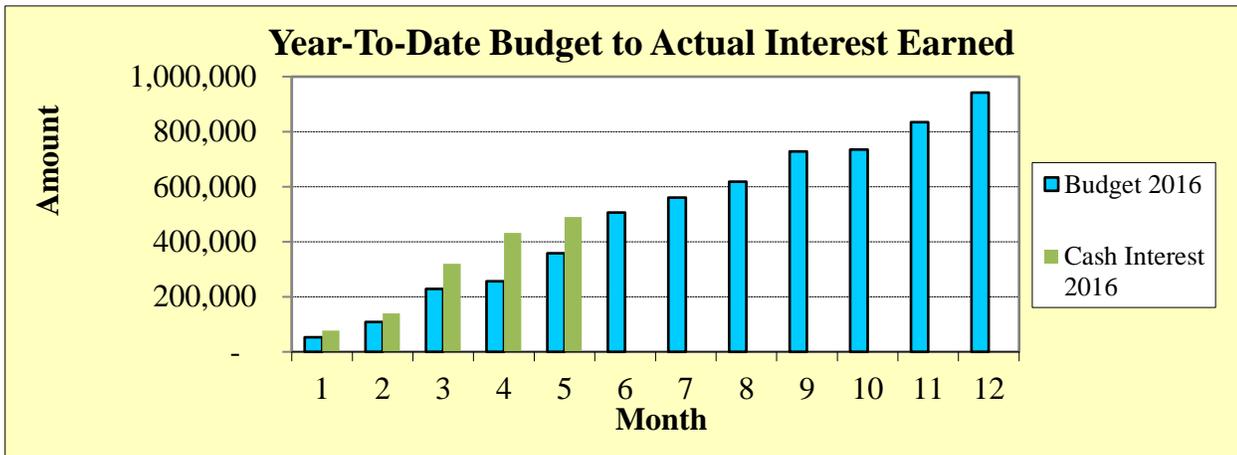
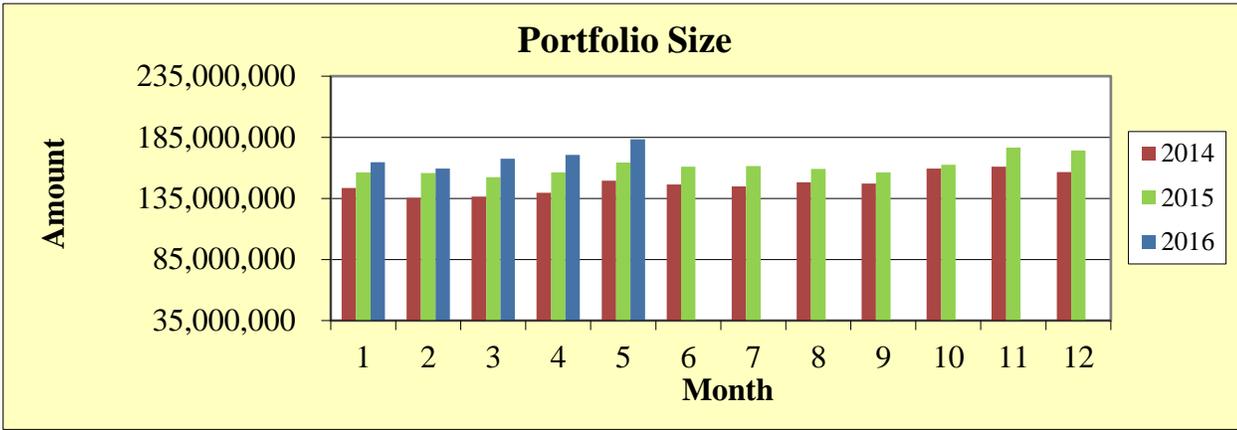
**Weighted Averages:** Calculates the allocation per bond on a weighted basis to the total portfolio for the book yield, maturity and coupon. **Book Yield** is the overall interest rate earned by an investor who buys the bond today at the market price, assuming that the bond will be held until **maturity** (the final date for payment of principal and interest), **Coupon** is the interest paid on a bond, usually semi-annual, expressed as a percentage of the face value (par) of a bond.

**Fixed Income Totals:** Summary of key elements of the portfolio. Realized Gain/Loss is calculated as the difference between the amortized cost and the market value. The estimated annual cash flow is the weighted average coupon cash flow generated from the portfolio and does not include amortization or accretion.

**CITY OF KIRKLAND  
INVESTMENT POLICY COMPLIANCE REPORT**

Date of Report 06/12/2016Period Covered **Month of May 2016: May 31, 2016**

<b>Policy Section</b>	<b>Compliance</b>	<b>Current Portfolio</b>	<b>Policy Requirement</b>	<b>Frequency</b>
<b>7.0</b> Authorized Financial Dealers and Institutions	Compliant	Detailed Authorized Broker/Dealer list provided by the Investment Advisor is on file.	<ul style="list-style-type: none"> <li>• Review of Financial Industry Regulatory Authority report on firm and broker</li> <li>• Certification of having read the Policy and receipt of the City's Trading Authorization</li> <li>• or Broker/Dealer list provided by Investment Advisor</li> </ul>	Annual
<b>8.0</b> Broker Allocation	Compliant	One security was purchased in May. Broker security offerings are on file in H:\FINANCE\Z Investments	3 bids for security purchase or sale	Monthly
<b>9.0</b> Authorized Investments	Compliant	Breakdown of Portfolio listed in Section 12.0	See Section 12.0 Diversification	Monthly
<b>9.0</b> Authorized Investments Credit Ratings	Compliant	Detailed in GASB 40 Report	Requires AA- or better from Standard & Poors and Aa3 by Moodys	Semi-Annual
<b>11.0</b> Safekeeping	Compliant	US Bank Safekeeping	All Securities will be held in Safekeeping	Monthly
<b>12.0</b> Diversification			Maximums	Monthly
US Agency Obligations	Compliant	21%	100%	
Government Sponsored Enterprise (GSE's)	Compliant	38%, 14% largest issuer	100%, 30% per issuer	
Callable Securities	Compliant	9%	50%	
Local Government Investment Pool	Compliant	11%	100%	
State or Political Subdivision Securities	Compliant	7%, 3% largest issuer	20%, 5% per issuer	
Certificates of Deposits	Compliant	3%	10%, 5% per issuer	
Bankers Acceptances	Compliant	0%	5%, 5% per issuer	
A-1/P-1 Commercial Paper	Compliant	0%	5%, 5% per issuer	
<b>13.0</b> Maximum Maturities	Compliant	1.47 Years	Average Maturity Exposure 3 Years	Monthly
	Compliant	4.7 yrs. 2/26/2021	Maximum Maturity of Individual Issue 5 Years	Monthly
<b>14.0</b> Conformance to Policy	Compliant	October 29, 2015 and April 4, 2016 Investment Committee Review	Annual Review	Annual
<b>15.0</b> External Review	Compliant	2013 review completed	External review of City Investment Policy and Investment Portfolio for compliance and best practices	Every 3 Years
<b>16.0</b> Performance Standards	Compliant	90 Day T Bill 0.34% Avg. 2 Yr. T Note 0.66% <u>Portfolio</u> Liquidity Portion 0.46% <u>Investment Core 1.10%</u> Total Portfolio 0.88%	Band between 90 T Bill and 2 Yr Treasury Note	Monthly
<b>17.0</b> Reporting Requirements	Compliant	2016 1 <sup>st</sup> Quarter FMR Report is available	Annual, Quarterly & Monthly	Monthly
<b>18.0</b> Policy Adoption	Compliant	Last adopted 12-9-2014	Policy shall be adopted by City Council	Changes Adopted As Needed



City of Kirkland  
Investment Portfolio Analysis  
As of May 31, 2016

Month	Kirkland Portfolio				Monthly Interest Earned (accrual basis)								2013	2014	2015	2016
	2013	2014	2015	2016	2013	2014	2015	2016	2013	2014	2015	2016				
January	147,092,449	143,421,023	156,314,647	164,511,618	58,580	61,187	74,750	89,513					58,580	61,187	52,583	89,513
February	146,976,588	135,412,468	155,851,451	159,291,435	62,157	55,081	68,033	83,650					167,721	109,710	142,492	173,163
March	146,167,907	136,341,046	152,331,121	167,562,033	77,984	66,925	81,552	93,029					208,036	142,550	224,044	276,988
April	155,152,206	139,552,582	156,349,024	170,445,138	69,791	59,152	67,068	98,779					257,241	204,059	290,728	364,690
May	160,818,008	149,485,197	164,255,373	<b>183,280,257</b>	73,445	63,100	70,933	<b>108,983</b>					386,233	255,598	361,765	<b>475,507</b>
June	153,742,052	146,480,895	160,825,611		57,863	59,152	65,781						510,923	428,683	434,062	
July	150,140,357	144,749,873	161,393,089		61,370	64,607	82,917						579,393	465,939	516,979	
August	146,159,493	148,202,978	159,179,241		63,600	62,646	80,577						589,927	470,342	598,682	
September	144,140,492	147,019,653	156,319,946		61,484	60,561	74,863						610,367	486,803	680,022	
October	150,142,806	159,269,554	162,427,526		65,593	65,709	89,879						669,902	561,174	770,839	
November	153,361,598	161,062,345	176,442,633		65,109	60,726	87,496						717,757	589,228	859,023	
December	144,891,904	156,573,354	174,176,972		69,468	69,693	91,472						896,405	744,154	950,496	
<b>Average</b>	149,898,822	147,297,581	161,322,220	<b>169,018,096</b>	65,537	62,378	77,943	<b>94,791</b>					n/a	n/a	n/a	n/a

Month	2 Yr T-Bill 2 Yr. Rolling Average												% of Budget			
	City 2013	City 2014	City 2015	City 2016	90 D TBill 2013	90 D TBill 2014	90 D TBill 2015	90 D TBill 2016	2 YR TNote 2013	2 YR TNote 2014	2 YR TNote 2015	2 YR TNote 2016	Cash Interest 2016	Budget 2016	Actual	Budget
January	0.62%	0.57%	0.63%	0.75%	0.07%	0.02%	0.02%	0.33%	0.33%	0.29%	0.39%	0.60%	77,650	53,100	8%	6%
February	0.64%	0.59%	0.63%	0.78%	0.11%	0.05%	0.02%	0.33%	0.32%	0.29%	0.41%	0.62%	139,345	108,600	15%	12%
March	0.64%	0.59%	0.65%	0.85%	0.07%	0.05%	0.03%	0.21%	0.29%	0.30%	0.42%	0.63%	319,419	229,200	34%	24%
April	0.61%	0.58%	0.62%	0.88%	0.05%	0.03%	0.01%	0.22%	0.28%	0.30%	0.44%	0.64%	432,250	256,500	46%	27%
May	0.51%	0.55%	0.60%	<b>0.88%</b>	0.04%	0.04%	0.01%	<b>0.34%</b>	0.27%	0.37%	0.45%	<b>0.66%</b>	<b>490,221</b>	358,000	52%	38%
June	0.52%	0.56%	0.69%		0.04%	0.04%	0.01%		0.27%	0.31%	0.46%		506,000	0%	54%	
July	0.55%	0.57%	0.68%		0.04%	0.03%	0.08%		0.27%	0.33%	0.48%		560,000	0%	59%	
August	0.56%	0.56%	0.67%		0.03%	0.03%	0.08%		0.27%	0.34%	0.49%		618,000	0%	66%	
September	0.56%	0.57%	0.74%		0.02%	0.02%	0.00%		0.28%	0.35%	0.50%		728,000	0%	77%	
October	0.57%	0.53%	0.75%		0.04%	0.01%	0.08%		0.28%	0.36%	0.52%		735,000	0%	78%	
November	0.56%	0.55%	0.69%		0.06%	0.02%	0.22%		0.28%	0.37%	0.55%		834,000	0%	88%	
December	0.59%	0.62%	0.69%		0.07%	0.04%	0.16%		0.29%	0.39%	0.58%		942,500	0%	100%	
<b>Average</b>	0.58%	0.57%	0.67%	<b>0.83%</b>	0.05%	0.03%	0.06%	<b>0.29%</b>	0.29%	0.33%	0.47%	<b>0.63%</b>	<b>n/a</b>	<b>942,500</b>	n/a	n/a



**CITY OF KIRKLAND**  
**Department of Finance & Administration**  
 123 Fifth Avenue, Kirkland, WA 98033 425.587.3100  
 www.kirklandwa.gov

## MEMORANDUM

**To:** Kurt Triplett, City Manager

**From:** Michael Olson, Director of Finance & Administration  
 Tom Mikesell, Financial Planning Manager  
 Elijah Panci, Budget Analyst

**Date:** June 17, 2016

**Subject:** May Sales Tax Revenue

Results this month reflect sales activity in March, due to the two month lag in reporting sales tax data. May sales tax revenue is **up 4.7 percent** compared to May 2015. Growth continues for a fifth consecutive month in 2016, which is partly due to a relatively slow start to sales tax revenues in 2015. Significant growth in Contracting (21.5 percent, up \$53,000) and Other Retail (12.8 percent, up \$26,000) contributed to growth in May. However, a refund of Communications revenue in May 2015 artificially inflates this year's growth by \$55,000, and is the largest source of increased revenue month-to-month.

Growth in the volatile Contracting sector, and the one time impacts of the Communications refund last year, obscure otherwise negative month over month performance. Auto/Gas Retail (down 6.2 percent, or \$25,000), Services (down 7.5 percent, or \$21,000), and Miscellaneous (down 21.6 percent, \$19,000) all fell this month, despite each having a strong year up until now. While 2016 continues to register growth over last year, declines in two of the City's three largest business sectors raises some concern. While one month of poor performance does not indicate a trend, staff will monitor performance in these categories in coming months to identify potential implications for 2017-2018 Biennial Budget development.

### Comparing May 2016 to May 2015

Comparing collections from the month of May this year and last provides insight into business sector performance controlling for seasonal cycles in sales.

#### 2016 Sales Tax Receipts by Business Sector-Monthly Actuals

Business Sector Group	May		Dollar Change	Percent Change	Percent of Total	
	2015	2016			2015	2016
Services	271,987	251,456	(20,531)	-7.5%	17.0%	15.0%
Contracting	245,259	298,067	52,808	21.5%	15.3%	17.8%
Communications	(14,308)	47,173	61,481	429.7%	-0.9%	2.8%
Retail:						
Auto/Gas Retail	399,586	374,832	(24,754)	-6.2%	25.0%	22.4%
Gen Merch/Misc Retail	163,546	157,170	(6,376)	-3.9%	10.2%	9.4%
Retail Eating/Drinking	131,727	138,787	7,060	5.4%	8.2%	8.3%
Other Retail	204,241	230,425	26,184	12.8%	12.8%	13.7%
Wholesale	111,391	110,153	(1,238)	-1.1%	7.0%	6.6%
Miscellaneous	86,550	67,878	(18,672)	-21.6%	5.4%	4.1%
<b>Total</b>	<b>1,599,980</b>	<b>1,675,944</b>	<b>75,962</b>	<b>4.7%</b>	<b>100%</b>	<b>100%</b>

Comparing month-to-month, May sales tax collections this year are **\$76,000 (4.7 percent)** higher than May 2015. Sectors with high percentage growth include Communications, Contracting, and Other Retail.

In terms of dollar growth, Communications performed best compared to May 2015, increasing by **\$61,000**, largely due to a \$55,000 refund of Communications revenue last May. Were it not for this refund, communications would have grown \$5,000. The top three improving sectors were rounded out by **Contracting** which was up **\$53,000 (21.5 percent)** and **Other Retail**, which grew **\$26,000 (12.8 percent)**. Contracting continues to show consistently high revenues in 2016 though this is the City's most volatile sector. The sub sectors of Electronics, Food & Beverage, Health & Personal Care, and Online Retail drove growth in Other Retail, up \$31,000 collectively over May 2015.

In contrast with previous months, several sectors decreased in May. **Auto/Gas Retail fell \$25,000 (6.2 percent)**, despite performing well up until May. Though there is no indication of a trend at this point, this decline is one to monitor going forward, as Auto/Gas Retail is a large portion of the City's sales tax revenue. Other sectors with notable decreases include **Services, which is down \$21,000 (7.5 percent)** and **Miscellaneous, which fell \$19,000 (21.6 percent)**. Professional and Scientific Services drove the decrease in the Services sector, and was down \$30,000 month-to-month. However, revenues in May 2015 were abnormally large, distorting what was actually an average month. A refund of Real Estate sector revenues by the state drove the decrease in Miscellaneous. General Merchandise/Misc Retail and Wholesale also fell month-to-month, though neither were significant drops.

Normalizing for anomalies, May 2016 growth slowed compared to previous months. Growth over last May is only positive due to Contracting, which is the most volatile category, and a refund in Communications last year, which artificially inflates this year's performance. As noted, there are other categories where the inverse is the case, with last year's performance being abnormally inflated.

### Year-to-Date Business Sector Review

Year-to-date sales tax totals are useful for comparing revenues received so far this year with last year's totals through the same period. This information gives context on each sector's longer term performance and allows developing trends to be identified.

#### City of Kirkland Actual Sales Tax Receipts

Business Sector Group	YTD		Dollar Change	Percent Change	Percent of Total	
	2015	2016			2015	2016
Services	1,043,910	1,114,608	70,698	6.8%	13.9%	13.7%
Contracting	1,093,251	1,281,164	187,913	17.2%	14.6%	15.7%
Communications	152,776	221,017	68,241	44.7%	2.0%	2.7%
Retail:						
Auto/Gas Retail	1,887,947	1,958,186	70,239	3.7%	25.2%	24.0%
Gen Merch/Misc Retail	909,238	875,559	(33,679)	-3.7%	12.1%	10.7%
Retail Eating/Drinking	608,913	628,681	19,768	3.2%	8.1%	7.7%
Other Retail	1,005,091	1,145,965	140,874	14.0%	13.4%	14.1%
Wholesale	379,342	438,299	58,957	15.5%	5.1%	5.4%
Miscellaneous	425,218	485,062	59,844	14.1%	5.7%	6.0%
<b>Total</b>	<b>7,505,686</b>	<b>8,148,538</b>	<b>642,852</b>	<b>8.6%</b>	<b>100%</b>	<b>100%</b>

Through the end of May, year to date sales taxes were up **8.6 percent**. This is in comparison to the slow start in 2015, which lasted through May. Starting in June 2015, sales tax revenue began to grow, and comparisons over the next few months will be important for determining growth by the end of the year.

By dollar amount, the largest growth is in **Contracting**, which is up **\$188,000 (17.2 percent)** from last year. **Other Retail** and **Services** are the next two leading sectors, up **\$141,000 (14.0 percent)** and **\$71,000 (6.8 percent)** respectively. Contracting has continued a strong start to 2016 and all sectors, with the exception of General Merchandise/Misc Retail, have grown relative to 2015.

**General Merchandise/Misc Retail** is down **\$34,000 (3.7 percent)** on the year. Receipts are down for most major retailers, some of which is due to construction at Totem Lake and Kirkland Urban. Though it is the only sector to decline, it is one of the largest sectors and an important contributor to the City's sales tax revenue.

### Neighboring City Performance

Neighboring cities are performing well this year with Bothell, Bellevue, and Renton up 13.9, 6.6, and 9.9 percent respectively. Trends here are mixed, as all cities started the year well, but Bellevue has dropped off a bit since then, whereas Bothell continued to grow considerably, and Renton's results are inconsistent, ranging from 2.7 percent to 17.0 percent growth. Seattle's revenue is up 7.7 percent, as growth in the past two months is up considerably from the first quarter. Redmond continues an incredible start to the year and is up 53.4 percent, due largely to one-time audit recoveries. Though Redmond's YTD growth slowed after the audit recoveries, the city has yet to post a month-to-month growth rate below 24.0 percent.

### National and Regional Economic Context:

Information about wider trends in the economy provides a mechanism to help understand current results in Kirkland, as well as predict future performance. The combination of consumer confidence, unemployment levels, housing data and auto sales provide the broader economic context for key factors in sales tax revenues.

2016 Wider Economic Indicators					
Indicator	Most Recent Month of Data	Unit	Month		
			Current	Previous	Change
<b>Consumer Confidence</b>					
Consumer Confidence Index	May	Index	92.6	94.7	(2.1)
<b>Unemployment Rate</b>					
National	May	%	4.7	5.0	(0.3)
King County	April	%	4.1	4.6	(0.5)
<b>Housing</b>					
New House Permits	April	Thousands	49.3	40.8	8.5
Seattle Area Home Prices	March	Index	193.0	188.5	4.5
<b>Inflation (CPI-W)</b>					
National	April	% Change	0.8	0.5	0.3
Seattle	April	% Change	2.6	0.5	2.1
<b>Car Sales</b>					
New Vehicle Registrations	May	Thousands	25.3	24.6	0.7

The Consumer Conference Board reported another decrease in the **Consumer Confidence Index**, from 94.7 in April to 92.6 in May. According to the Conference Board, perceptions of current conditions, particularly those in the labor market, drove this decrease. An increased proportion of respondents felt jobs were "hard to get." There was also a slight decline in the short-term economic outlook.

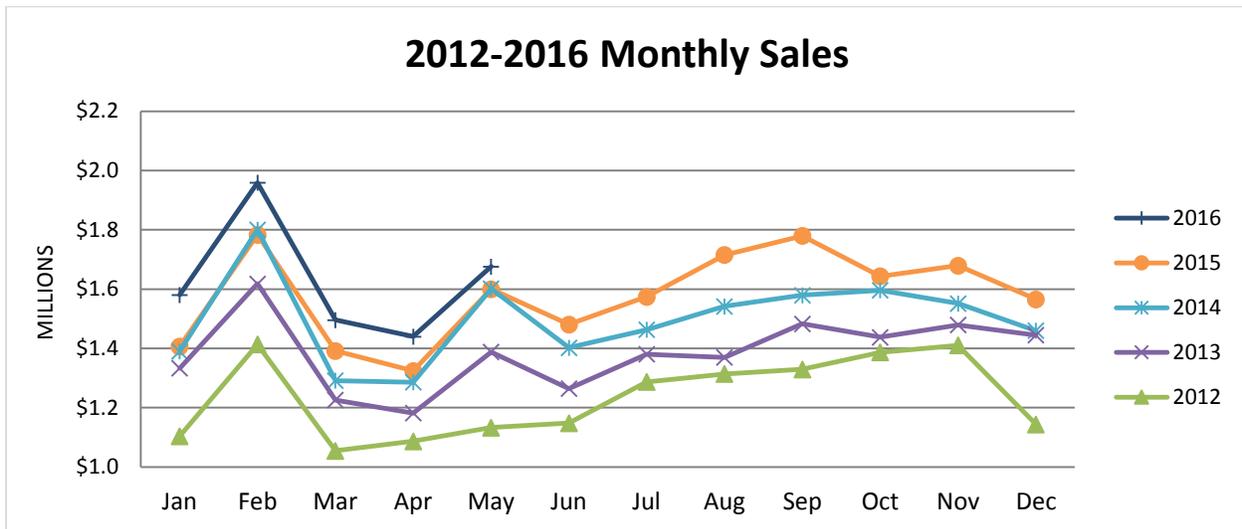
**Unemployment Rates** decreased at the National level, falling to 4.7 percent in May, down from 5.0 percent in April. The unemployment rate in King County decreased from 4.6 percent in March to 4.1 percent in April, which is the latest available data point.

Statewide housing market and car sales data indicate continued strength. Statewide housing market values continue to rise as shown by the **Seattle Area Home Price Index**, which grew considerably from 188.5 in February to 193.0 in March. This jump now means that current prices surpassed the pre-recession high of 192.3 set in August 2007. **New House Permits** in the state increased by 8,500 (20.8 percent) from March to April, with 49,300 new permits across the state.

**New Vehicle Registrations** in Washington increased after a two month slide, up 700 to 25,300. New vehicle registrations have been strong this year despite falling from the two year high water mark of 28,400 in January. This is an important observation in light of the Auto/Gas retail sales result discussed earlier, and may suggest that the retail sales growth rate will rebound in coming months.

**Conclusion**

The following chart shows Kirkland’s monthly sales tax revenues through May.



Sales tax revenue in 2016 continues to outperform revenue in 2015, though the gap decreased from April to May. This decreased gap is not ideal, as May 2015 performed poorly, and the City is headed into a run of months in which 2015’s revenues started to pick up. Sales tax revenue may struggle to keep up with 2015’s results if this decreased gap is the start of a trend, though as of yet there is no indication that this is the case. The year to date performance of sales tax revenues in Kirkland has been strong thus far in 2016, though the coming months will test how strong the economy continues to be as month-to-month comparisons will be measured against the higher growth months of 2015.