

Finance & Administration Committee Agenda
August 30, 2016 at 3:30pm

Animal Services (45 minutes)
Attachment 1

Business License Fees (15 minutes)
Materials provided at the meeting

Council Policies & Procedures – Remote Meeting Attendance (15 minutes)
Materials provided at the meeting

GASB 68 Changes (10 minutes)
No materials for this item

July Dashboard Report (10 minutes)
Attachment 2

Informational Items:

- July Investment Report – Attachment 3
- July Sales Tax Memo – Attachment 4

Upcoming Finance & Administration Items on Council Agenda:

September 20, 2016
Proposed Revenue Sources – Public Hearing

Next Meeting

September 27, 2016

Potential Future Topics

- 2017-2018 Budget
- Conference Room naming for former City Manager (added 5/3/2016)
- NEW - State Business License Portal (added 6/7/16)



CITY OF KIRKLAND
Police Department
11750 NE 118th Street, Kirkland, WA 98034-7114 425.587.3400
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MEMORANDUM

To: Finance & Administration Committee

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

Date: August 26, 2016

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

This memo is to update the Finance & Administration Committee on the status of the Regional Animal Services successor contract and negotiations timeline. The Finance & Administration Committee was last briefed at its June 28, 2016.

City of Kirkland Draft Term Sheet

At the request of the Public Safety Committee at its May 19th meeting, staff prepared a draft Term Sheet to outline the City's continued participation in the regional animal services system. Following review at its June 28 meeting, the Finance & Administration Committee encouraged staff to share the draft with RASKC for feedback. City and RASKC staff met on July 27.

After not receiving written feedback from RASKC, on August 9 City staff informed RASKC that current indications are that Kirkland is not likely to remain in the system under the current terms. City staff encouraged the County to develop a model that does not include Kirkland in it, to allow all parties to plan appropriately if that occurs. Staff were clear that any final decision will be made by the City Council.

King County's Draft Counter Proposal

RASKC representatives provided feedback in the form of a draft counter proposal on August 9.

August Negotiating Meeting

At the August 17 meeting, RASKC reps informed the other cities of Kirkland's draft term sheet.

Summarized Timeline - Key ILA Milestones for 2018 Contract Negotiations

Sept. 1, 2016	- Draft Agreement in Principle (AIP) to be completed
Dec. 31, 2016	- County provides draft contract for cities to review - Cities confirm Non-Binding Mutual Interest (statement of intent), based on AIP
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

Attachment A: City's Draft Term Sheet (**in black**) and RASKC Draft Counter Proposal (**in red**).

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.

RASKC's – Discussion of Alternative Terms

Goal: Address the key interests from the Kirkland proposal within the framework of the agreement that is being developed with all of the RASKC cities. KC is providing the concepts below to respond to Kirkland's proposal. These concepts would need to be discussed with the other cities.

- Term of the contract is 5 years, with mutually agreeable termination provisions.
 - *RASKC recognizes this term to be consistent with and included in the draft AIP terms.*
- 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.
 - *RASKC recognizes this term to be consistent with and included in the draft AIP terms.*
- 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 Concept 1 (avoid pay-outs by the city):

- *Allow a city that is generating more license revenue than is needed to cover costs to bank the revenue. The banked revenue would be available to cover costs in future years if revenue is less than the cost of service. Would need to further discuss if the revenue is banked for all of the years or if there are ways the city could use it for additional services and what happens to the funds at the end of the contract period.*

- RASKC will consider sheltering Kirkland's animals with PAWS, in an effort to reduce system costs.

RASKC Concept 2 (consider sheltering at PAWS)

- *RASKC will evaluate options for sheltering additional animals at PAWS, including Kirkland's animals.*

- There shall be no animal intake locations at the Petco in Kirkland or any other location in Kirkland.

- *RASKC recognizes this term to be consistent with and included in the draft AIP terms.*

- 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.

- *RASKC recognizes this term to be consistent with and included in the draft AIP terms.*

- If Kirkland determines that RASKC is providing 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 Concept 3 (term)

- *KC, and other cities participating in the discussions, have expressed a preference for a 5 year term. If the term is a deal breaker for Kirkland, propose to all cities to modify the term to 3+2 with similar provisions as the AIP has (allowing an out at 3 years and rolling into the second 2 year term if the cost impact is no greater than 10% to any party).*

Active Licenses

Category	Business Count	FTEs	Employees
Exempt In-City	113	6,412	6,433
Exempt Out-of City	38	650	666
Subtotal Exempt	151	7,062	7,099
In-City Licenses	3,012	19,530	21,562
Out-of City Licenses	2,539	3,818	5,602
Subtotal Not Exempt	5,551	23,348	27,164
Grand Total Active	5,702	30,410	34,263

Renewal/Pending

Category	Business Count	FTEs	Employees
In-City Licenses	715	3,656	4,066
Out-of City Licenses	663	1,180	1,654
Subtotal Renewal/Pending	1,378	4,836	5,720

Grand Total Subject to FTE Charge	6,929	28,184	32,884
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\$5 per FTE increase \$ 140,920

CITY OF KIRKLAND CITY COUNCIL POLICIES AND PROCEDURES

3.24 Remote Attendance at Council Meetings. From time to time, a Council Member may not be able to be physically present at a Council meeting, but will want to be involved in the discussion and/or decision of all items on the agenda or only on a particular agenda items. The procedure and guidelines for permitting a Council Member to attend a Council meeting by speakerphone or other audio/video equipment are as follows. Remote attendance should be the rare exception, not the rule, and requires the approval of the majority of the Council. ~~and remote attendance is limited to two times per year per Council Member.~~

1. Examples of situations where remote attendance would be appropriate include, but are not limited to:
 - a. An emergency exists which prevents Council Members from attending in person and immediate action is needed.
 - b. An agenda item is time sensitive, and remote attendance is needed for a quorum.
 - c. An agenda item is of very high importance to the Council Member who cannot be physically present.
 - d. It is important for all Council Members to be involved in a decision, but one Council Member is unable to be physically present.

2. Procedure and Guidelines. If a Council Member wishes to participate in Council meeting agenda items remotely, the Council Member should notify Council of his or her intent at the Council meeting prior to the meeting which they wish to attend remotely. If that is not possible, the Council Member should notify the City Manager not later than the business day prior to the Council meeting which the Council Member wishes to attend remotely. With less notice, it may not be possible to make the necessary arrangements to allow remote attendance. If the Mayor attends remotely, he or she may participate in discussions, but the Deputy Mayor, if physically present at the Council meeting shall be the presiding officer.

A Councilmember may participate in some or all of the Council meeting remotely. When ~~the particular agenda item involving remote attendance is ready to be discussed~~ the portion of the Council meeting involving remote attendance is before the Council, the presiding officer shall inform all present of the intent to initiate a remote communication.

- a. The presiding officer shall confirm and announce that all present at the meeting and in the remote location can clearly hear all other parties and (as appropriate) access visual content that may be presented.
- b. With such confirmation, Council Members – whether they are physically at the meeting or at a remote location - constituting a majority may approve the use of remote communication for all or any specified portion of the meeting.

- c. Unless the Council Member is participating remotely for the entire meeting, ~~w~~When the portion of the Council meeting for which remote attendance has been approved has concluded, the presiding officer shall announce the same and the attendance of the Council Member communicating remotely shall end. The City Clerk shall record the beginning and ending times of the remote attendance.
 - d. In the event that a remote communication link is broken or significantly degraded such that it no longer meets the full requirements of this section, the presiding officer shall confirm the loss of service and announce the close of the remote attendance. The attendance of the Council Member communicating remotely shall end. The City Clerk shall record the time of the closure.
3. Requirements of the System. The Council Member attending remotely must be able to hear the discussion on the agenda item taking place in the Council chambers, and must be able to be heard by all present in Council Chambers.
 4. For purposes of voting, remote attendance at a Council meeting shall be considered equal to being physically present at the meeting. All votes conducted with a Council Member attending remotely shall be conducted by roll call.

July 2016 Financial Dashboard Highlights

August 26, 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 and June 21, 2016. The actual revenues and expenditures summarized reflect results through July 31, 2016, 58.3 percent through the year.
- Total General Fund revenues received through July were at 60.1 percent of budget. Collections are slightly higher than expected due largely to sales tax, plan check fees, and business license revenue.
 - Sales tax revenues through the end of July were up 7.6 percent compared to July 2015 and are at 63.2 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 through May 2016 due to the two month lag in receipt of the funds from the Department of Revenue.
 - Utility tax receipts were \$8,627,066 at the end of July, which is 56.8 percent of the budget. This is a slight improvement over July 2015, as utility tax revenue is now 0.9 percent above last year's revenue to date. Revenues in 2015 came in under budget, and are on pace to do so again in 2016.
 - Business license revenues through July are 72.3 percent of budget; this is higher than last July's revenue by \$357,949, an increase of 19.9 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 July were at 82.0 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 16.7 percent higher than 2015, which was also a strong year.
 - Building revenues through July are 78.6 percent of budget. This figure includes significant one-time fees, most notably for Kirkland Urban plan review. Revenues in July were quite high due to the volume of projects. There was no one large project inflating revenues.
 - Engineering revenues are at 78.8 percent of budget through July. As predicted by development staff, activity increased after May with construction work at Totem Lake and Kirkland Urban.
 - Planning revenues through July are at their highest level in 5 years, with 84.7 percent of the budget collected. This is due to several moderately large subdivisions and numerous short plats. July revenues were high in large part due to one sizable Land Surface Modification permit for a 20-lot subdivision.
 - There was a significant drop off in revenues after June, in part due to a rush to get plans reviewed before a change in building codes on July 1st. However, July was still the third highest grossing month of 2016, 21.7 percent above the next closest month.
 - Gas taxes finished July at \$1,003,878, which is 59.6 percent of the annual budget. This is higher than July 2015 by 4.8 percent and continues to outperform 2015.
- Total General Fund expenditures were 57.5 percent of budget through the end of July.
 - General fund salaries and benefits were \$33.8 million, which is 56.9 percent of the annual budget, with 58.3 percent of the year completed. Salaries and benefits are 3.8 percent higher than in 2015. Much of this increase is due to back-pay after the City settled new contracts with both the Police Union and AFSCME.
 - Fire suppression overtime expenditures were \$664,147 at the end of July, which is 90.3 percent of budget, and \$100,072 higher than 2015. This is due to three reasons: 1) There have been more sick days used to this point in 2016 compared to 2015; 2) the City has been sending more firefighters to state trainings, necessitating more overtime backfill; 3) the state reimburses the City for the wages firefighters

receive while at these trainings, but the City now accounts for that money differently. In the past it was recorded as a negative expenditure in Fire Suppression overtime, now it is recorded as a revenue, which makes it appear as though expenditures are higher, but there is still the offsetting revenue to compensate.

- Contract jail costs were 39.6 percent of budget at the end of July, 3.4 percent below July 2015. 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. As the Kirkland Justice Center has significantly increased capacity in comparison to the old jail, the decrease in expenditures will be ongoing.
- Fuel costs ended July at \$194,816, 26.4 percent of budget. Expenditures are 21.4 percent under 2015. This is despite greater fuel use relative to last year, as fuel prices continue to keep expenses extremely low relative to budget

Attachments: July Dashboard

City of Kirkland Budget Dashboard

Date Completed

8/26/2015

Annual Budget Status as of **7/31/2016** (Note 1)
Percent of Year Complete **58.33%**

	2016 Budget	Year-to-Date Actual	% Received/ % Expended	Status		Notes
				Current Report	Last Report	
General Fund						
Total Revenues	88,992,410	53,494,634	60.1%			
Total Expenditures	88,640,349	50,995,190	57.5%			

Key Indicators (All Funds)

<i>Revenues</i>						
Sales Tax	17,963,747	11,359,165	63.2%			
Utility Taxes	15,175,950	8,627,066	56.8%			
Business License Fees	2,988,028	2,160,510	72.3%			
Development Fees	7,586,037	6,218,110	82.0%			
Gas Tax	1,684,070	1,003,878	59.6%			
<i>Expenditures</i>						
GF Salaries/Benefits	59,491,930	33,842,849	56.9%			Excludes Fire Suppression Overtime
Fire Suppression Overtime	735,411	664,147	90.3%			Excludes FS 24 Overtime
Contract Jail Costs	416,867	165,092	39.6%			
Fuel Costs	738,927	194,816	26.4%			

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%	31%	\$ 54,184,138	Yes	Municipal	
Under 1 year	25%	47%	\$ 83,958,605	Yes	AA-	by S&P Yes
Under 5 years	100%	100%	\$ 176,761,129	Yes	Aa3	by Moodys Yes
Maximum Weighted Average Maturity	3 Years		1.56	Yes	Commercial Paper/Bankers Acceptance	
Maximum Callable Securities	50%	30%	\$ 20,003,065	Yes	A1+ / P1	Yes
Maximum Single Maturity	5 Years		4.40	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%		20%	\$ 35,328,885	Yes
Government Agencies	100%		43%	\$ 76,081,364	Yes
FHLB		30%	4%	\$ 7,171,949	Yes
FNMA		30%	11%	\$ 20,067,265	Yes
FHLMC		30%	14%	\$ 25,179,980	Yes
FFCB		30%	11%	\$ 20,083,630	Yes
Other GSE's		30%	2%	\$ 3,578,540	Yes
Municipal Bonds- GO States - Locals WA	20%	5%	3%	\$ 6,136,821	Yes
Certificates of Deposit	10%	5%	3%	\$ 5,029,920	Yes
Commercial Paper	5%	5%	0%	\$ -	Yes
Bank Deposits **	50%	10%	18%	\$ 32,113,096	Yes
Bankers Acceptances	5%	5%	0%	\$ -	Yes
Local Government Investment Pool	100%	N/A	12%	\$ 22,071,042	Yes
Total			100%	\$ 176,761,129	



** 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	\$ 116,706,000	\$ 116,704,208	\$ 117,547,070	\$ 842,862	1.14	2.02	2.15
City of Kirkland Liquidity	\$ 59,214,059	\$ 59,214,059	\$ 59,214,059		0.52	0.13	0.10
TOTAL PORTFOLIO	\$ 175,920,059	\$ 175,918,267	\$ 176,761,129	\$ 842,862	0.93	1.38	1.46



Total Funds City of Kirkland

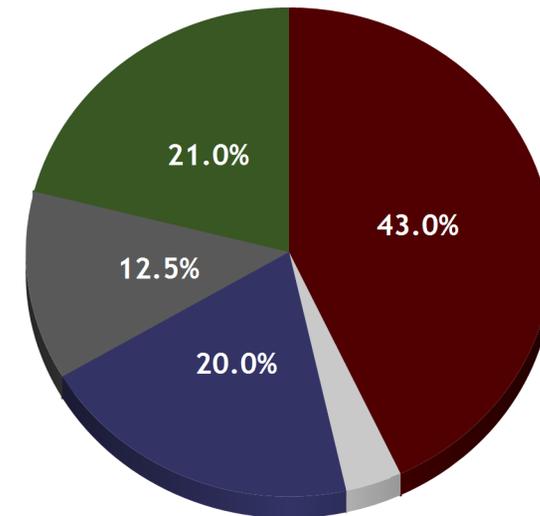
Account Summary

7/31/2016

Weighted Averages

Book Yield	0.93
Maturity	1.56
Coupon	0.92
Moody	Aa1
S&P	AA+

Fixed Income Allocation



Fixed Income Totals

Par Value	175,920,059
Market Value	176,761,128.98
Amortized Book Value	175,918,266.70
Unrealized Gain/Loss	842,862.28
Estimated Annual Cash Flow	1,621,326.47

Security Type	Market Value	% Assets
US Agency (USD)	76,081,363.85	43.0
Municipal (USD)	6,136,821.25	3.5
US Treasury (USD)	35,328,885.00	20.0
LGIP State Pool (USD)	22,071,042.43	12.5
Bank or Cash Deposit (USD)	37,143,016.45	21.0
Fixed Income Total	176,761,128.98	100.0



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

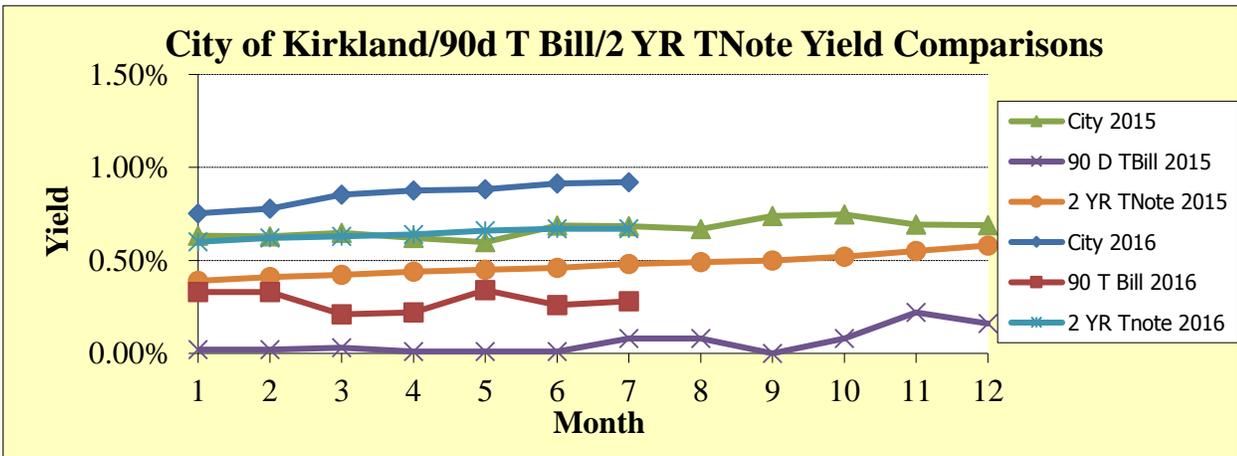
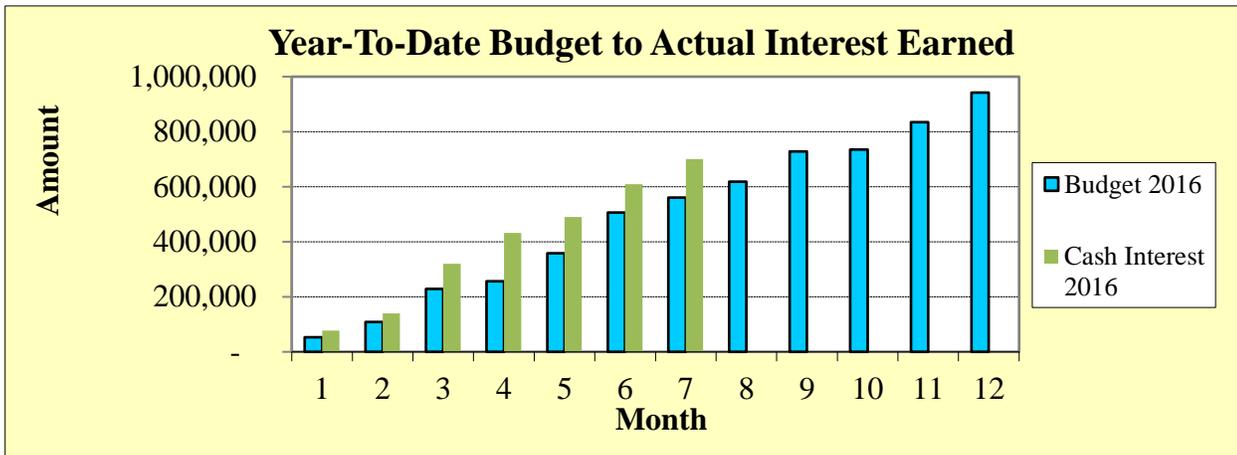
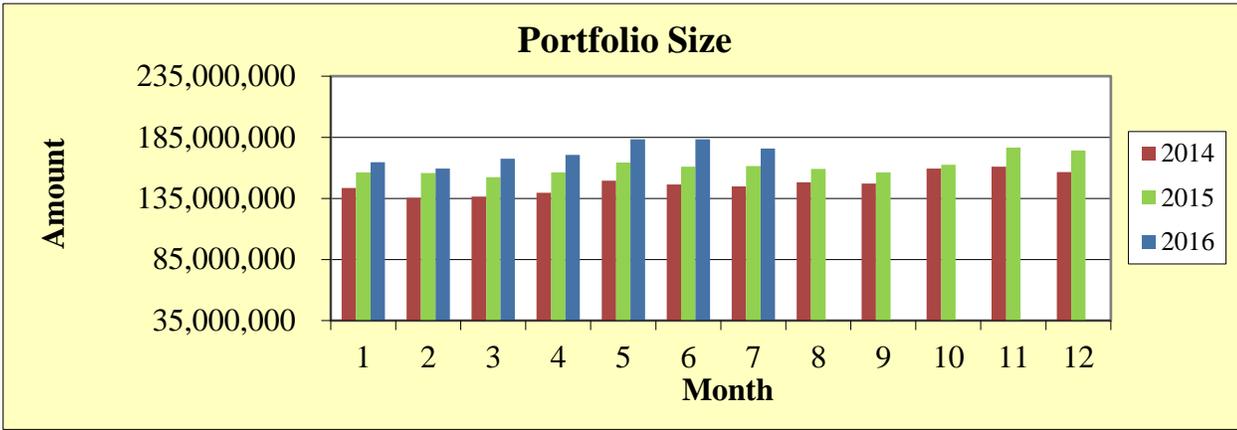
Date of Report 08/26/2016Period Covered Month of July 2016: July 31, 2016

Policy Section	Compliance	Current Portfolio	Policy Requirement	Frequency
5.1 Delegation of Authority	Compliant	Investment procedures are documented	Establish written procedures for operations of the investment program	Updated as needed
6.2 Safekeeping	Compliant	US Bank Safekeeping	All Securities will be held in Safekeeping	Monthly
6.3 Internal Controls	Compliance	Section 3. Internal Controls in Procedures Manual	Documented in Investment Procedures Manual	Updated as needed
6.4 External Review	Compliant	2013 review completed	External review of City Investment Policy and Investment Portfolio for compliance and best practices	Every 3 Years
7.1 Broker/Dealers	Compliant	Detailed Authorized Broker/Dealer list provided by the Investment Advisor is on file.	<ul style="list-style-type: none"> • Review of Financial Industry Regulatory Authority report on firm and broker • Certification of having read the Policy and receipt of the City's Trading Authorization • or Broker/Dealer list provided by Investment Advisor 	Annual
7.3 Bank Institutions	Compliant	U.S. Bank, Opus, Umpqua	Only PDPC participating banks	At Inception
7.4 Competitive Transactions	Compliant	No securities were purchased in July. Broker security offerings are on file in H:\FINANCE\Z Investments	3 bids for security purchase or sale	Monthly
8.0 Authorized Investments	Compliant		Authorized by WA State Statute RCW 39.58, 39.59, 43.250, 43.84.080	Monthly
9.0 Investment Parameters Authorized Investments Credit Ratings	Compliant	Detailed in GASB 40 Report	Requires AA- or better from Standard & Poor's and Aa3 by Moody's	Semi-Annual
9.1 Diversification			Maximums	Monthly
US Treasury Obligations		20%	100%	
US Agency Primary	Compliant	42%	100%, 30% per issuer	
US Agency Secondary Issuance	Compliant	0%	20%, 10% per issuer	
Local Government Investment Pool	Compliant	13%	100%	
Bank Deposits		18%	50%	
Certificates of Deposits	Compliant	3%	10%, 5% per issuer	
Commercial Paper	Compliant	0%	5%, 5% per issuer	
Municipal Bonds	Compliant	4%, 4% largest issuer	20%, 5% per issuer	
Bankers Acceptances	Compliant	0%	5%, 5% per issuer	
9.2 Investment Maturity	Compliant	1.56 Years	Maximum Weighted Maturity 3 Years Minimum % of Portfolio Under 30 Days 10% Under 1 Year 25% Under 5 Years 100%	Monthly
9.2 Investment Maturity Maximum Maturity	Compliant	4.4 yrs. 2/26/2021	Maximum Maturity of Individual Issue 5 Years	Monthly
9.2 Investment Maturity Callable Securities	Compliant	11%	50%	Monthly

**CITY OF KIRKLAND
INVESTMENT POLICY COMPLIANCE REPORT**

Date of Report 08/26/2016Period Covered Month of July 2016: July 31, 2016

10.0 Reporting Requirements	Compliant	2016 1 st Quarter FMR Report is available	Annual, Quarterly & Monthly	Monthly
10.2 Performance Standards	Compliant	LGIP 0.49% <u>Portfolio</u> Liquidity Portion 0.52% <u>Investment Core</u> 1.14% Total Portfolio 0.93%	LGIP for earnings rate US Treasury index for total return	Monthly
10.3 Compliance Report	Compliant	This report is provided monthly to the Finance and Administration Committee	Quarterly comparison to Investment Policy	Quarterly
11.0 Investment Policy Adoption	Compliant	October 29, 2015 and April 4, 2016 Investment Committee Review	Annual Review	Annual
11.0 Investment Policy Adoption	Compliant	Last adopted 7-19-2016	Policy shall be adopted by City Council	Changes Adopted As Needed



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

Month	Kirkland Portfolio				Monthly Interest Earned (accrual basis)				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	183,280,257	73,445	63,100	70,933	108,983	386,233	255,598	361,765	475,507
June	153,742,052	146,480,895	160,825,611	183,434,333	57,863	59,152	65,781	105,448	510,923	428,683	434,062	583,307
July	150,140,357	144,749,873	161,393,089	175,823,626	61,370	64,607	82,917	119,380	579,393	465,939	516,979	700,510
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	
Average	149,898,822	147,297,581	161,322,220	172,049,777	65,537	62,378	77,943	99,826	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%	0.88%	0.04%	0.04%	0.01%	0.34%	0.27%	0.37%	0.45%	0.66%	490,221	358,000	52%	38%
June	0.52%	0.56%	0.69%	0.91%	0.04%	0.04%	0.01%	0.26%	0.27%	0.31%	0.46%	0.67%	608,625	506,000	65%	54%
July	0.55%	0.57%	0.68%	0.92%	0.04%	0.03%	0.08%	0.28%	0.27%	0.33%	0.48%	0.67%	700,739	560,000	74%	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%
Average	0.58%	0.57%	0.67%	0.85%	0.05%	0.03%	0.06%	0.28%	0.29%	0.33%	0.47%	0.64%	n/a	942,500	n/a	n/a



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MEMORANDUM

To: Kurt Triplett, City Manager

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

Date: August 15, 2016

Subject: July Sales Tax Revenue

July results reflect sales activity in May, due to the two month lag in reporting sales tax data. Sales tax revenue in July is **up 6.4 percent** compared to July 2015. Month-over-month growth continued for a seventh consecutive month this year. A larger growth rate in July is positive to see after a small increase in June, particularly given that month-to-month growth in July 2015 was strong. However, there are still reasons to be concerned over revenue in the coming months, which will be explained below.

The year-to-date growth, which had been steadily slowing over the past few months, just about held steady in July, falling 0.2 percentage points to **7.6 percent**.

The following sections discuss the highlights by business sector details of both the month-to-month and year-to-date results. Also included are observation of sales tax collections in our neighboring cities, and a discussion of key economic variables that impact sales taxes.

Comparing July 2016 to July 2015

Comparing collections from the month of July 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	July		Dollar Change	Percent Change	Percent of Total	
	2015	2016			2015	2016
Services	170,956	216,737	45,781	26.8%	10.9%	12.9%
Contracting	252,240	292,953	40,713	16.1%	16.0%	17.5%
Communications	40,487	42,535	2,048	5.1%	2.6%	2.5%
Retail:						
Auto/Gas Retail	434,094	393,491	(40,603)	-9.4%	27.6%	23.5%
Gen Merch/Misc Retail	171,998	162,738	(9,260)	-5.4%	10.9%	9.7%
Retail Eating/Drinking	135,298	138,232	2,934	2.2%	8.6%	8.3%
Other Retail	211,344	222,626	11,282	5.3%	13.4%	13.3%
Wholesale	74,112	73,644	(468)	-0.6%	4.7%	4.4%
Miscellaneous	83,396	131,477	48,081	57.7%	5.3%	7.9%
Total	1,573,925	1,674,432	100,508	6.4%	100%	100%

Comparing month-to-month, July sales tax collections this year are **\$101,000 (6.4 percent)** higher than July 2015.

In terms of dollar growth, **Miscellaneous** performed best compared to July 2015, increasing by **\$48,000 (57.7 percent)**. The top three sectors in dollar terms were rounded out by **Services**, which was up **\$46,000 (26.8 percent)** and **Contracting**, which grew **\$41,000 (16.1 percent)**.

Though month-to-month growth is positive, much of the growth appears temporary. Miscellaneous was driven by Real Estate and Manufacturing. The former grew \$29,000 (107.6 percent), while the latter grew \$11,000 (53.0 percent). Real Estate started the year very strong, but had dropped off until July. Manufacturing revenue spikes on occasion, but it is unlikely to see similar levels of revenue in future months. Growth in Services was driven by unlikely candidates, as Publishing was up \$17,000 (236.7 percent) and Professional/Scientific Services was up \$11,000 (52.4 percent). Like Manufacturing, neither of these categories will continue to post revenues at this level. Significant increases in these sectors are often the results of large one-time purchases.

Three sectors fell this month, led by **Auto/Gas Retail**, which fell **\$41,000 (9.4 percent)**. The other two to fall included **General Merchandise/Misc Retail**, down **\$9,000 (5.4 percent)**, and **Wholesale** was down **\$500 (0.6 percent)**.

The Misc Retail category drove the decrease in its respective group, as receipts were down marginally at a couple dozen of the larger retailers in that category. The Motor Vehicle category drove the decline in Auto/Gas Retail, which has now been down significantly in two of the last three months. This is of concern, as decreased spending on durable goods is often a leading indicator of economic downturn.

Though it is positive to see growth of 6.4 percent this month, there should be some concern over the outlook going forward as a decrease of activity around durable goods tends to be a sign of a slowing economy.

Year-to-Date 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	1,395,905	1,525,238	129,333	9.3%	13.2%	13.4%
Contracting	1,585,414	1,824,299	238,885	15.1%	15.0%	16.1%
Communications	235,146	306,620	71,474	30.4%	2.2%	2.7%
Retail:						
Auto/Gas Retail	2,692,094	2,738,599	46,505	1.7%	25.5%	24.1%
Gen Merch/Misc Retail	1,233,226	1,189,903	(43,323)	-3.5%	11.7%	10.5%
Retail Eating/Drinking	867,050	902,793	35,743	4.1%	8.2%	7.9%
Other Retail	1,414,411	1,585,605	171,194	12.1%	13.4%	14.0%
Wholesale	531,910	578,284	46,374	8.7%	5.0%	5.1%
Miscellaneous	605,104	710,124	105,020	17.4%	5.7%	6.3%
Total	10,560,259	11,361,465	801,206	7.6%	100%	100%

Through the end of July, year-to-date sales taxes were up **7.6 percent**. It is encouraging to see the comparison continue to remain stable as the year-to-date comparison now includes two of the stronger months in 2015.

By dollar amount, the largest growth is in **Contracting**, which is up **\$239,000 (15.1 percent)** from last year. **Other Retail** and **Services** are the next two leading sectors, up **\$171,000 (12.1 percent)** and **\$129,000 (9.3 percent)** respectively. Contracting has consistently performed well despite being a volatile group. Other Retail has consistently been one of the top growth groups in 2016, while Services jumped into the top three due to strong performance in July.

General Merchandise/Misc Retail is the only group down for the year, **\$43,000 (3.5 percent)** below 2015 revenues. Receipts are down marginally for most major retailers in the Misc Retail category, which accounts for \$41,000 of the decrease. 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.

Also worth noting is **Auto/Gas Retail**, which has grown just 1.7 percent on a year-to-date basis, but in recent months has been posting negative results. This is of concern as it is the largest component of the City's sales tax base, but also because the group is often a leading indicator of economic conditions by revealing consumers' willingness to make significant purchases.

Neighboring City Performance

Neighboring cities are performing well this year with Bothell, Bellevue, Renton, and Seattle up 12.3, 8.6, 12.5, and 8.6 percent respectively. Most cities continued to perform about on par with the year-to-date performance, except for Seattle, which exceeded their year-to-date growth rate by about 4 percent. Redmond continues to have an incredible year, up 49.4 percent, partially due to large one-time audit recoveries. Though Redmond's year-to-date growth slowed after the audit recoveries, the city has yet to post a month-to-month growth rate below 24.0 percent, and grew 37.8 percent in July.

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. The following table includes the most recently available data and prior month's readings, for some of the most relevant indicators.

2016 Wider Economic Indicators					
Indicator	Most Recent Month of Data	Unit	Month		
			Current	Previous	Change
Consumer Confidence					
Consumer Confidence Index	July	Index	97.3	98.0	(0.7)
Unemployment Rate					
National	June	%	4.9	4.7	0.2
King County	June	%	4.3	4.4	(0.1)
Housing					
New House Permits	June	Thousands	47.7	38.8	8.9
Seattle Area Home Prices	May	Index	199.9	197.0	2.9
Inflation (CPI-W)					
National	June	% Change	0.6	0.7	(0.1)
Seattle	June	% Change	2.0	2.6	(0.6)
Car Sales					
New Vehicle Registrations	July	Thousands	25.3	25.5	(0.2)

The Conference Board reported a small decrease in the **Consumer Confidence Index**, from 98.0 in June to 97.3 in July. A downward shift in feelings about present conditions and future outlook drove this decision, but the change was marginal.

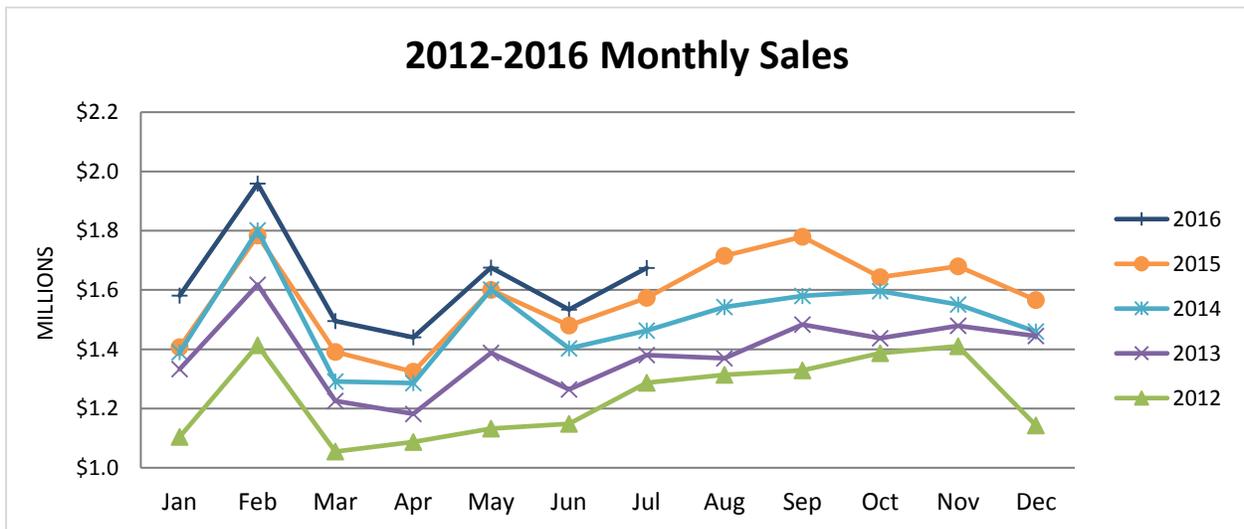
Unemployment Rates increased at the National level, up to 4.9 percent in June, from 4.7 percent in May. The unemployment rate in King County decreased from 4.4 percent in May to 4.3 percent in June, which is the latest available data point. King County unemployment rates fell from 5.1 percent in January and have remained between 4.1 and 4.6 percent since March.

Statewide **New House Permits** increased significantly, up to 47,700 permits in June from 38,800 permits in May. Though the number of new permits has been volatile from month to month in 2016, but the average remains similar to 2015, which was a strong year for housing permits. The latest data for the **Seattle Area Home Price Index** shows an increase, up to 199.9 in May from 197.0 in April, which is the latest available data point.

New Vehicle Registrations decreased slightly in July, down by 200 to 25,300. While registration levels remain relatively high, they are not rebounding to the two year high water mark of 28,400 in January. New registration numbers have been flat for three consecutive months.

Conclusion

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



Sales tax revenue in 2016 continues to outperform revenue in 2015, and it is positive to see revenues continue to outperform 2015 as comparisons are now against the stronger months of last year. In the near-term, strong revenue from a few different groups is compensating for a decrease in Auto/Gas Retail revenue. However, as slipping Auto/Gas Retail revenue may be indicative of worsening economic conditions, it is possible that revenues in 2016 may not continue to outperform those of 2015 for the remainder of the year.