

Finance & Administration Committee Agenda
February 23, 2016

Employee Code of Ethics (30 minutes)
Attachment A

Milling Machine (9:45 - 30 minutes)
No materials for this item

January Dashboard Report (10 minutes)
Attachment B

Informational Items:

- January Investment Report – Materials provided at the meeting
- January Sales Tax Memo – Attachment C

Upcoming Finance & Administration Items on Council Agenda:

Next Meeting

March 29, 2016

Solid Waste Contract Procurement Process

Potential Future Topics

- 2017-2018 Budget
- 2017-2022 CIP
- Recovery of ESP outreach fund from future connections (from 7/1/14 Council meeting)
- Email Archiving
- Open Labor Negotiations to the Public (added 7/7/15)



CITY OF KIRKLAND
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 www.kirklandwa.gov

MEMORANDUM

DRAFT – 2/11/16

To: Kurt Triplett, City Manager

From: Robin Jenkinson, City Attorney
 Tracey Dunlap, Deputy City Manager

Date: February 11, 2016

Subject: Employee Code of Ethics - Recommended Housekeeping Revisions

RECOMMENDATION:

It is recommended that City Council approve the attached ordinance amending the Employee Code of Ethics, Kirkland Municipal Code Chapter 3.82, to delete an unneeded definition that creates ambiguity in its application.

BACKGROUND DISCUSSION:

KMC 3.82.020 is the definitional section of Chapter 3.82, the Employee Code of Ethics. The first term defined in the section is "employee." This is useful as it makes clear that "employee," for the purpose of Chapter 3.82, "means any person holding a regularly compensated position of employment with the City, but does not include members of the City Council and persons who serve without compensation on City boards and commission." (The City Council and members of boards and commissions are covered by the Code of Ethics in Chapter 3.14.)

The second definition in KMC 3.82.020 is a lengthy and broad definition of "interest" which does not appear to have any utility. Elsewhere in the chapter, the term "interest" is used, but often with some qualifier such as "conflict of interest," "pecuniary interest," "financial interest" or "personal interest." Nor is there prohibitory language later in the chapter that relies on term "interest" as defined in KMC 3.82.020(2).

In KMC 3.82.040, "Conflict of interest," an employee is deemed to have a conflict of interest if the employee:

* * *

(3) Participates in his or her capacity as a city employee in the making of a contract in which he or she has a *private pecuniary interest, direct or indirect*, or performs in regard to such contract some function requiring the exercise of discretion on behalf of the city;

(4) Influences the city's selection of, or its conduct of business with, a corporation, person or firm having business with the city if the employee has a *financial interest* in or with the corporation, person or firm;

* * *

(8) Has a *financial or personal interest* in any legislation coming before the city council, participates in discussion with or gives an official opinion to the city council, unless the employee discloses on the record of the council, the nature and extent of such interest.

None of these actions by an employees deemed to be a conflict of interest relate back to the definition of "interest" in KMC 3.82.020(2). Because definitions are not supposed to be regulatory and because the definition of "interest" in KMC 3.82.020(2) does not apply throughout Chapter 3.82, staff recommends it be deleted.

In addition, KMC 3.82.020(2)(A) of this definition provides that an employee shall have an interest in the affairs of:

(A) Any person of the employee's family or any person with whom the employee has a close or ongoing business or social relationship.

If taken literally, this section appears to preclude doing business with anyone the that employee has worked or socialized with, which is not practical nor desirable given that the City often works with businesses familiar with the City's needs on a recurring basis.

Deleting KMC 3.82.020(2) results in clarifying the intent of the remaining language in the chapter, that an employee should not participate in a decision-making process where they can be deemed as having a conflict of interest.

ORDINANCE _____

AN ORDINANCE OF THE CITY OF KIRKLAND AMENDING THE DEFINITIONS IN THE EMPLOYEE CODE OF ETHICS, KIRKLAND MUNICIPAL CODE CHAPTER 3.82.

The City Council of the City of Kirkland do ordain as follows:

Section 1. Kirkland Municipal Code Section 3.82.020 is amended as follows:

3.82.020 Definitions.

~~Definitions, as used in this chapter, unless additional meaning clearly appears from the content, shall have the meaning subscribed:~~

~~(1) As used in this chapter, "Employee" means any person holding a regularly compensated position of employment with the city, but does not include members of the city council and persons who serve without compensation on city boards and commissions.~~

~~(2) "Interest" means any direct or indirect monetary or material benefit accruing to a city employee as a result of a contract or transaction which is or may be the subject of an official act or action by or with the city, except for such contracts or transactions which confer similar benefits to all other persons and/or to property similarly situated. For the purpose of this chapter an employee shall have an interest in the affairs of:~~

~~(A) Any person of the employee's family or any person with whom the employee has a close or ongoing business or social relationship;~~

~~(B) Any business entity in which the city employee is an officer, director or employee;~~

~~(C) Any business entity in which the stock, or legal or beneficial ownership, in excess of five percent of the total stock, legal or beneficial ownership, is controlled or owned directly or indirectly by the employee;~~

~~(D) Any person or business entity with whom a contractual relationship exists with the employee, provided that a contractual obligation of less than five hundred dollars, or a commercially reasonable loan made in the ordinary course of business or a contract for a commercial retail sale shall not create an interest in violation of this chapter.~~

Section 2. This ordinance shall be in force and effect five days from and after its passage by the Kirkland City Council and publication, as required by law.

Passed by majority vote of the Kirkland City Council in open meeting this ____ day of _____, 2016.

Signed in authentication thereof this _____ day of _____, 2016.

MAYOR

Attest:

City Clerk

Approved as to Form:

City Attorney

**Kirkland Municipal Code Chapter 3.82
with Potential Change to 3.82.020**

**Chapter 3.82
EMPLOYEE CODE OF ETHICS**

Sections:

- [3.82.010](#) Declaration of policy.
- [3.82.020](#) Definition
- [3.82.030](#) Use of public property.
- [3.82.040](#) Conflict of interest.

3.82.010 Declaration of policy.

This chapter is enacted to establish guidelines for ethical standards of conduct which shall govern the performance of city employees in the conduct of public project work and other city business, and to prevent potential conflicts of interest.

3.82.020 Definition.

As used in this chapter, "Employee" means any person holding a regularly compensated position of employment with the city, but does not include members of the city council and persons who serve without compensation on city boards and commissions.

3.82.030 Use of public property.

No city employee shall request or permit the use of city-owned vehicles, equipment, materials or property for personal convenience or profit. Use is to be restricted to such services as are available to the public generally or for the authorized conduct of official business, and for such purposes and under such conditions as directed by the city manager.

3.82.040 Conflict of interest.

No city employee shall engage in any act which is in conflict with, or creates an appearance of conflict with, the performance of official duties. An employee is deemed to have a conflict of interest if the employee:

- (1) Receives or has any financial interest in any sale to the city of any service or property when such financial interest was received with prior knowledge that the city intended to purchase such property or obtain such service;

**Kirkland Municipal Code Chapter 3.82
with Potential Change to 3.82.020**

(2) Solicits, accepts or seeks anything of economic value as a gift, gratuity, or favor from any person, firm or corporation involved in a contract or transaction which is or may be the subject of official action of the city; provided, that the prohibition against gifts or favors shall not apply to:

(A) Attendance of an employee at a hosted meal when it is provided in conjunction with a meeting directly related to the conduct of city business or where official attendance by the employee as a staff representative is appropriate.

(B) An award publicly presented in recognition of public service; or

(C) Any gift which would have been offered or given to the employee if he or she were not a city employee;

(3) Participates in his or her capacity as a city employee in the making of a contract in which he or she has a private pecuniary interest, direct or indirect, or performs in regard to such a contract some function requiring the exercise of discretion on behalf of the city;

(4) Influences the city's selection of, or its conduct of business with, a corporation, person or firm having business with the city if the employee has financial interest in or with the corporation, person or firm;

(5) Engages in, accepts private employment from or renders services for private interest when such employment or service is incompatible with the proper discharge of official duties or would tend to impair independence of judgment or action in the performance of official duties;

(6) Appears on behalf of a private person, other than his or herself or an immediate family member or except as a witness under subpoena, before any regulatory governmental agency or court of law in an action or proceeding to which the city or a city officer in an official capacity is a party, or accepts a retainer or compensation that is contingent upon a specific action by the city;

(7) Discloses or uses, without legal authorization, confidential information concerning the property or affairs of the city to advance a private interest with respect to any contract or transaction which is or may be the subject of official action of the city;

(8) Has a financial or personal interest in any legislation coming before the city council, participates in discussion with or gives an official opinion to the city council, unless the employee discloses on the record of the council, the nature and extent of such interest;

**Kirkland Municipal Code Chapter 3.82
with Potential Change to 3.82.020**

(9) Holds, directly or indirectly, for purposes of personal financial gain, investment or speculation, any interest in real property situated within the city, if such employee in the course of his or her official duties performs any function requiring the exercise of discretion on behalf of the city in regard to the regulation of land use or development; provided, that this prohibition shall not apply to:

(A) Real property devoted to the personal use or residence of the employee or member of the employee's immediate family; or

(B) Any other interest in real property held by the employee on the date of enactment of this chapter.

DRAFT MILLING MACHINE ANALYSIS



Overview

- Components of Preservation Program
- What is Structural Patching
- Discuss Benefits of Owning a Milling Machine

Components of Preservation Program

1. Slurry Seal Program
2. Crew Maintenance and Preservation
3. Overlay Program

Current Practice

1. Slurry Seal Program

- *On average the crew has completed \$200,000 in structural patching prior to the contractor beginning work*

2. Crew Maintenance and Preservation

- *This includes all work the crew does throughout the year to keep the roadway network in good condition ~ \$612,000*

3. Overlay Program

- *Currently the 'Overlay Program' is completed by an independent contractor, this includes all structural patching and paving*

What is Structural Patching?

Prior to overlaying a street, select deteriorated areas of pavement are repaired. The repairs consist of removal of deteriorated asphalt and replacement with new asphalt.

Removal of deteriorated asphalt is customarily done by:

1. Saw cutting and Excavation (or Dig Out), or,
2. Milling



Structural Patching

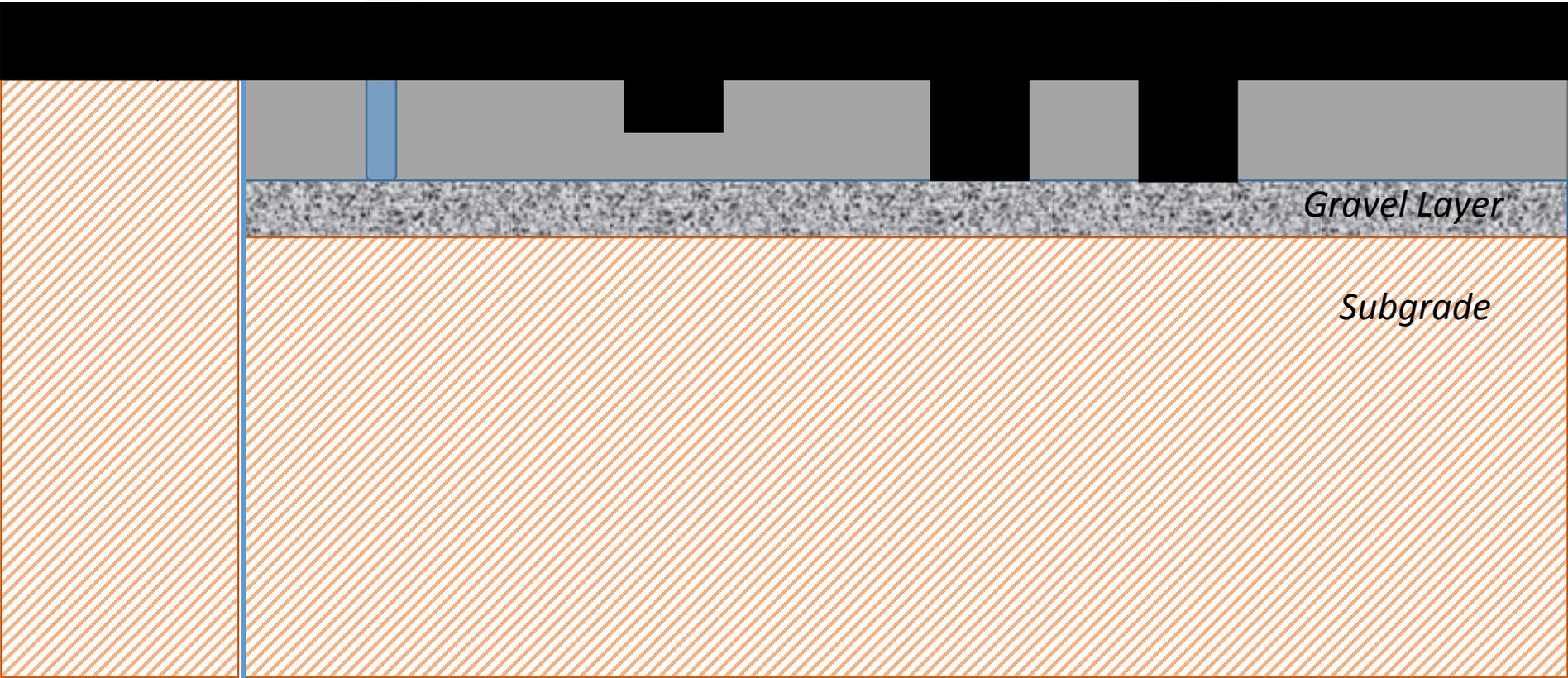
Provided at the meeting

Local & Collector Roads

Arterial Roads

~ 2" to 4"

~ 4" to 12"



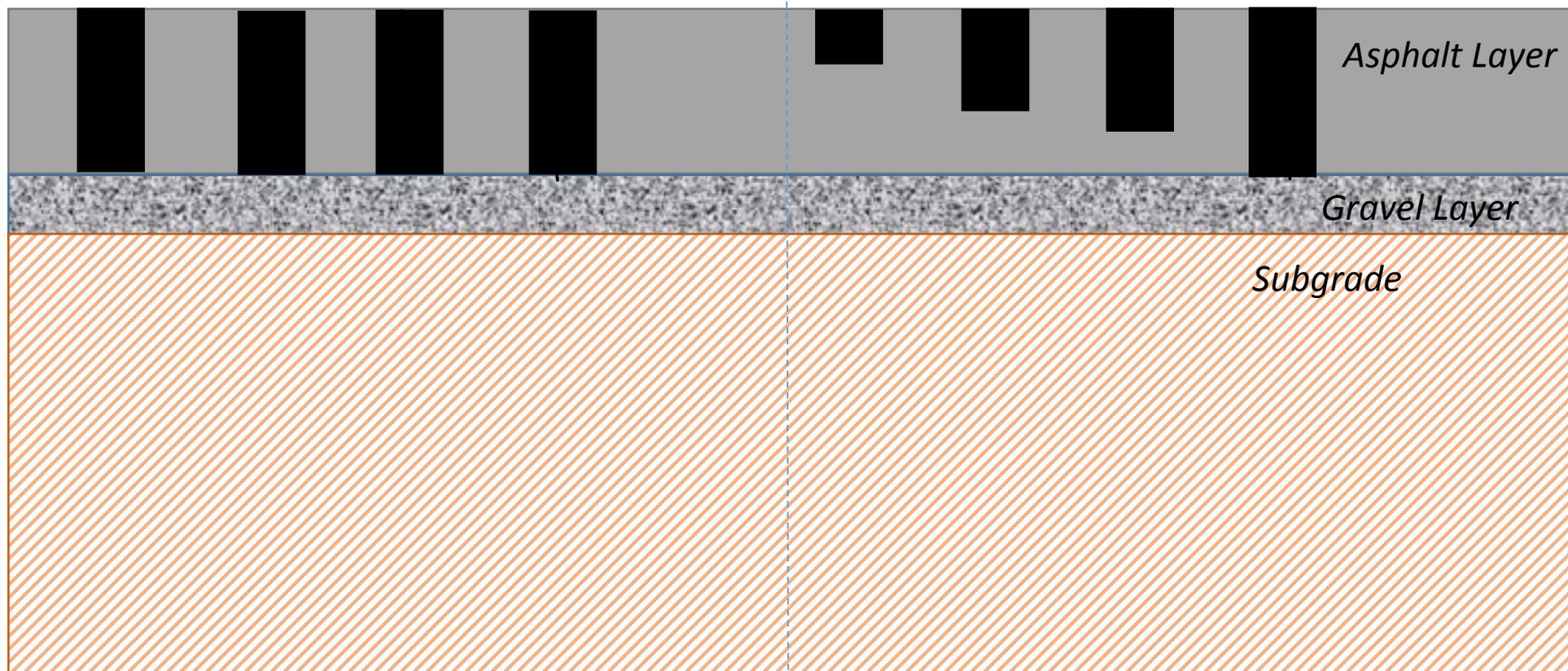
Gravel Layer

Subgrade

Structural Patching

Without Milling Machine
(Excavation or Dig Out)

With Milling Machine



Structural Patching – Milling vs. Saw-Cut/Dig-Out

Productivity:

- 40% Increase in production capability of street crew
- Structural patching in advance of the overlay program will provide for a longer construction season
- structural patching eats up a large portion of the overlay dollars and fewer streets are paved

Structural Patching – Milling vs. Saw-Cut/Dig-Out Continued

Environmental:

- Reuse/Recycle materials
- Preserves energy and raw materials
- Diverts waste from landfill
- May lower greenhouse gas emissions
- Reduce Noise pollution

Note: The House recently passed a bill (ESHB 1695) that will require use of recycled materials in all transportation projects

Preservation Program – Status Quo

Expenses				
		Capital	Operating	Preservation Program Total
1. SLURRY SEAL		550,000	200,000	
2. CREW MAINT & PRESERVATION			612,000	
3. OVERLAY				
	<i>CONSTRUCTION EXCLUDING STRUCTURAL REPAIR</i>	2,720,000		
	<i>STRUCTURAL REPAIR</i>	252,000		
Total Expenses:		\$ 3,522,000	\$ 812,000	\$ 4,334,000

Based on 2014 Actuals, does not include soft costs

Milling Machine

Purchase Price: \$600,000

12 Year Life



Preservation Program Overview

Expenses				Preservation Program Total
		Capital	Operating	
1. SLURRY SEAL		550,000	200,000	
2. CREW MAINT & PRESERVATION			612,000	
3. OVERLAY				
	<i>CONSTRUCTION EXCLUDING STRUCTURAL REPAIR</i>	2,720,000		
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Total Expenses:		\$ 3,522,000	\$ 812,000	\$ 4,334,000

- ‘Overlay Program’ Structural patching
 - Shift to in-house at a costs of \$5-9 per Square Yard (SY)
 - \$8/SY was used for analysis

Operating Costs association with Preservation Program ~ \$812,000

	2014 Actual \$	% of total
Salaries/Wages	242,000	30%
Supplies & Other Charges	250,000	30%
Rock/Aggregate/Hot Mix Asphalt	282,000	35%
Hauling/Dumping	38,000	5%
Total	\$812,000	

Milling Machine Reuse & Recycling of Materials

■ Reuse millings / grindings

- *Grindings can be reused as a base in street projects.*
- *An estimated 88% reduction in the purchase of crushed rock is anticipated.*
- *50% was used for analysis*

No New Staffing

- Staffing

- *Additional work load ~ 900 hours (Equivalent to a .50 FTE)*

However,

- *Past performance shows a 40% increase in production, from 1.0 tons to 1.4 tons of asphalt per man hour.*

	Current	40%	Request
Hours	8,000	3,200	900

Renting a Milling Machine

- Current Practice renting for up to 6 weeks
- Costs \$7,200 / week

- Optimal usage is 12 weeks (analysis assumption)
 - \$86,400 *per year to rent*
 - *purchase paid for in 7 years*

- **Increasingly difficult to find a rental**

Summary of Findings

- Pay back period 6-8 years
 - *Range based on structural repair of 15-20% of overall 'Overlay Program'*
 - *Use it or Lose it (Milling more decreases the payback period)*

- The analysis was conservative
 - *for every \$12,000 in cost savings it will take 1 year less to pay off the purchase*
 - *for every \$12,000 in additional expenses it will take one additional year to pay off the purchase*

- Using the Finance Project Life Benefit model, the benefit over 10 years ranges from \$110,000 – \$512,000 depending on SY of milling

*Reduction in maintenance costs due to increased PCI over time is not considered in the analysis

Cost over 12 years

% of Structural Repair	Status Quo (in Millions)	Milling Machine (in Millions)
15%	2.9	2.6
17.5%	3.4	2.8
20%	3.9	3.0

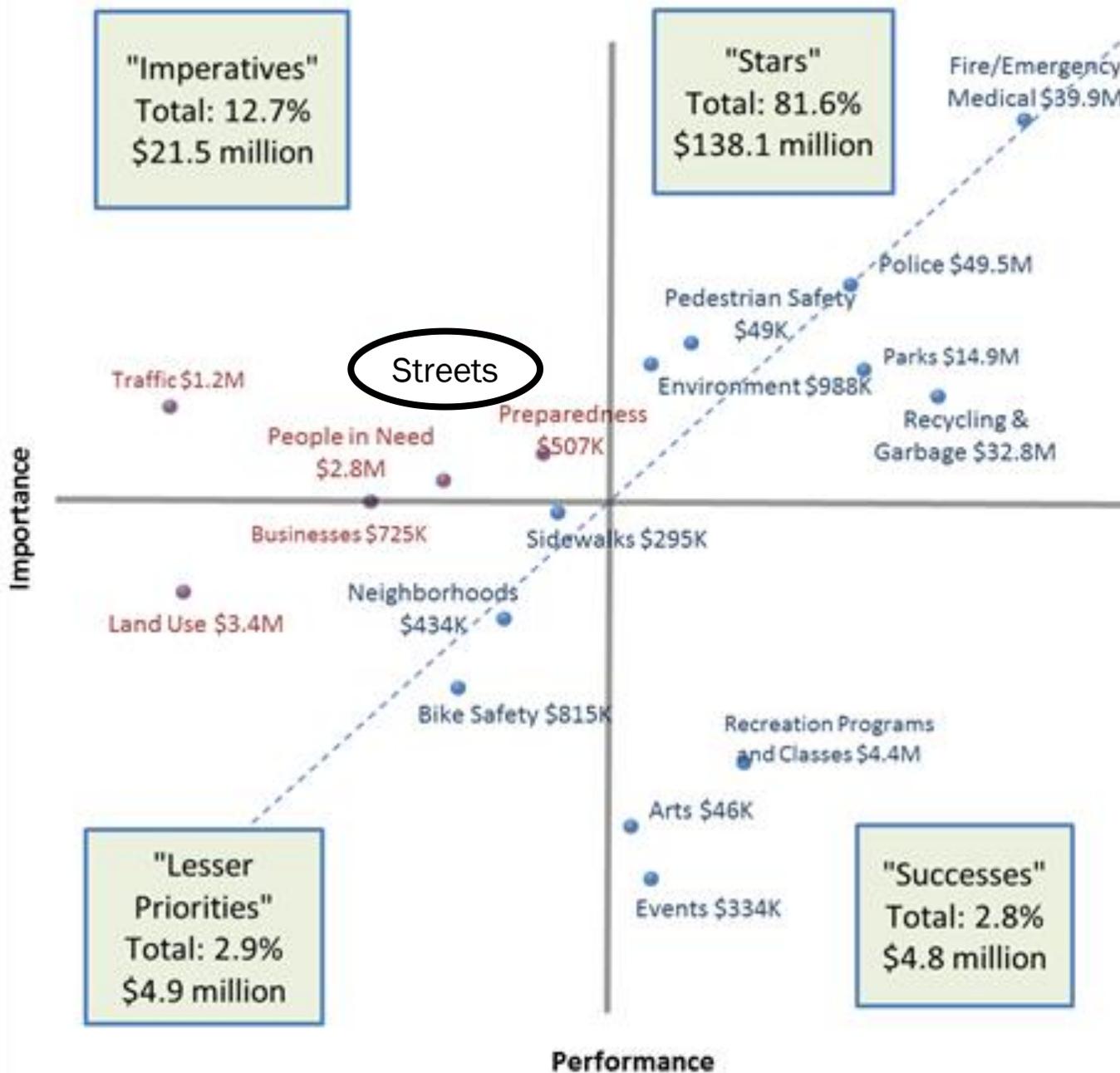
Long Term – 10 year horizon

- Increase in PCI
- Deferred Maintenance will decrease by 7%
- Overall helps to stabilize and/or increase the pavement quality

2014 Survey Results With 2015-16 Budget

Provided at the meeting

Streets - -
Currently a high
priority; but a low
performer



Benefits not captured in Financial Analysis

- Every 7 years the City could accomplish the equivalent of 1 full year additional overlay
- *Plan is for the future street work plan to incorporate Preservation of residential roads and collectors*
 - *Increase in Level of Service from current program*
- Grindings not used by streets could be utilized by other City departments this analysis does not take this into account.

Funding Options

- 2015 Street Preservation Balance
- Street Reserves (Projected balance at end of 2016 \$1.4M)
- 2016 Street Preservation

Timeline for purchase

- 6 month lead time
- Missed the 2016 Paving Season
- Budget process, miss the 2017 Paving Season

■ Recommend purchasing a milling machine



January 2016 Financial Dashboard Highlights

February 19, 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 January 31, 2016, 8.3 percent through the year.
- Total General Fund revenues received through January were at 6.6 percent of budget, which is normal for this time of year, largely due to the seasonal nature of property taxes, which are received primarily in April and October.
 - Sales tax revenues at the end of January were 12.4 percent higher than in January 2015 and were 8.8 percent of budget. The sales tax revenue reflects activity from November 2015 due to the two month lag in receipt of the funds from the Department of Revenue.
 - Utility tax receipts were \$1.2 million in January, which is 8.1 percent of budget. This is much closer to budget expectations than January 2015, when mild winter weather contributed to lower gas and electric utility usage.
 - January business license revenues are 7.2 percent of budget; this is lower than last January's revenues by about 25% due to the timing of payments from businesses. We expect this to normalize as the year continues.
 - Development fees through the end of January were at 8.4 percent of budget. This represents an average start to the year for development services when compared to the past five years.
 - Gas taxes finished January at \$137,108 which is 8.1 percent of the annual budget. This is slightly higher than January 2015. It will be worth watching to see if low fuel prices contribute to a change from the relatively flat trend in gas taxes that the City has experienced over the past few years.
- Total General Fund expenditures were 9.3 percent of budget at the end of January.
 - General fund salaries and benefits were \$4.99 million, which is 8.4 percent of the annual budget, with 8.3 percent of the year completed. Salaries and benefits are 3.7 percent higher than in 2015, due to one time and ongoing positions added as part of the 2015-16 mid-biennial budget adjustments to increase service levels and meet the needs of citizens.
 - Contract jail costs were 6.7 percent of budget at the end of January. This budget is for costs of housing inmates that cannot be kept at the KJC jail for medical reasons as needed. They are incurred only as necessary on an individual basis.
 - Fire suppression overtime expenditures were \$140,979 at the end of January, which is 19.2 percent of budget, and \$41,821 lower than in 2015. This is partly because overtime is needed to backfill vacancies in the department to maintain daily minimum staffing.
 - The 2015-16 one-time service package for \$465,944 of additional overtime funding to staff Fire Station #24 is shown separately on the Dashboard. Expenses are on track, with 8.3% spent on overtime staffing for the station in January.
 - Fuel costs ended January at \$18,992 or 2.6 percent of budget, \$12,752 lower than 2015, due to lower oil costs and the timing of fuel deliveries. The yearly comparison is expected to remain lower for the second year in a row as long as oil prices are down, and variances due to delivery schedules should normalize as more months of data are received.

Attachments: January Dashboard, Development Services Report

City of Kirkland Budget Dashboard

Date Completed

2/19/2016

Annual Budget Status as of 1/31/2016 (Note 1)

Percent of Year Complete 8.33%

	2016 Budget	Year-to-Date Actual	% Received/ % Expended	Status		Notes
				Current Month	Last Month	
General Fund						
Total Revenues	88,925,522	5,889,633	6.6%		n/a	
Total Expenditures	88,392,816	8,187,138	9.3%		n/a	

Key Indicators (All Funds)

Revenues						
Sales Tax	17,963,747	1,580,669	8.8%		n/a	
Utility Taxes	15,175,950	1,225,594	8.1%		n/a	
Business License Fees	2,988,028	213,767	7.2%		n/a	
Development Fees	7,824,031	656,633	8.4%		n/a	
Gas Tax	1,684,070	137,108	8.1%		n/a	
Expenditures						
GF Salaries/Benefits	59,211,510	4,985,682	8.4%		n/a	Excludes Fire Suppression Overtime
Fire Suppression Overtime	735,411	140,979	19.2%		n/a	Primary driver of suppression overtime is backfill to maintain daily minimum staffing levels
F.S. #24 Overtime Staffing	465,944	38,829	8.3%		n/a	Excluded from Fire Suppression Overtime above
Contract Jail Costs	416,867	27,882	6.7%		n/a	
Fuel Costs	738,927	18,992	2.6%		n/a	

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).

n/a - not applicable

Development Services Report – January 2016

Development Services is comprised of the Building, Planning, Public Works and Fire Departments. The Building Department reports on all building construction related permits including electrical, mechanical and plumbing trade permits, signs and grading permits. The Planning Department revenue is the result of land use permits and the Public Works Department revenue is generated from infrastructure improvement permits. The Fire Department permits are not reported on since they are tracked separately. A review of the January, 2016 permit data allows us to offer the following:

- The January, 2016 Building permit related statistics indicate an increase in development activity, compared to the same time last year. Historically, January has been one of our slower months; however, new single-family residential permit applications for January were up 71% with 24 applications received compared to 14 last year. This increase was largely due to the Meritage Ridge development in the Kingsgate neighborhood. In addition, there was a 28% increase in commercial tenant improvement permits and single-family remodel permits with 50 applications received compared to 39 last January.
- The overall total building related permits received so far this year (542) is ahead of the total amount received in January 2015 (440), by 23%.
- Building Department revenue for January, 2016 was \$424,031, of which, \$110,319 was generated by the submittal of Kirkland Urban Building 'E'. January's revenue was \$20,237 more than the average monthly projected revenue of \$403,794 (9% of the budgeted annual revenue of \$4,845,526 has been collected).
- Public Works Department development revenue for January, 2016 was \$161,091 which is \$15,662 more than the average monthly projected revenue of \$145,429 (9% of the budgeted annual revenue of \$1,745,146 has been collected).
- Planning Department revenue for January, 2016 was \$49,773 which is \$28,860 below the average monthly projected revenue of \$78,632 (5% of the budgeted annual revenue of \$943,589 has been collected).

Maximum Maturities	Policy Requirement	Percentage of Portfolio	Portfolio Allocation	Within Limits	Credit Rating	Within Limits
Under 30 days	10%	30%	\$ 49,327,740	Yes	Municipal	
Under 1 year	25%	53%	\$ 87,289,243	Yes	AA-	by S&P Yes
Under 5 years	100%	100%	\$ 164,958,671	Yes	Aa3	by Moodys Yes
					AA-	by Fitch Yes
Maximum Weighted Average Maturity	3 Years		1.24	Yes	Commercial Paper	
Maximum Callable Securities	50%	30%	\$ 26,213,788	Yes	A1+ /A-1+ / P1	Yes
Maximum Single Maturity	5 Years		4.31	Yes	A	Yes

Asset Allocation Diversification	Maximum Policy Allocation	Issuer Constraint	Percentage of Portfolio	Market Value	Within Limits
U.S. Treasury Obligations	100%		20%	\$ 32,180,547	Yes
Government Agencies	100%		39%	\$ 64,901,674	Yes
FHLB		30%	6%	\$ 10,100,000	Yes
FNMA		30%	3%	\$ 4,993,325	Yes
FHLMC		30%	15%	\$ 25,017,350	Yes
FFCB		30%	12%	\$ 20,011,955	Yes
Other GSE's		30%	3%	\$ 4,779,044	Yes
Municipal Bonds- GO States - Locals WA	20%	5%	8%	\$ 13,548,709	Yes
Certificates of Deposit	10%	5%	3%	\$ 5,000,000	Yes
Commercial Paper	5%	5%	0%	\$ -	Yes
Bank Deposits **	50%	10%	22%	\$ 35,652,071	Yes
Bankers Acceptances	5%	5%	0%	\$ -	Yes
Local Government Investment Pool	100%	N/A	8%	\$ 13,675,670	Yes
Total			100%	\$ 164,958,671	



** 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	\$ 110,296,000	\$ 110,273,307	\$ 110,630,931	\$ 357,624	0.96	1.62	2.20
City of Kirkland Liquidity	\$ 54,327,740	\$ 54,327,740	\$ 54,327,740		0.30	0.13	0.10
TOTAL PORTFOLIO	\$ 164,623,740	\$ 164,601,047	\$ 164,958,671	\$ 357,624	0.75	1.13	1.51



Total Funds City of Kirkland

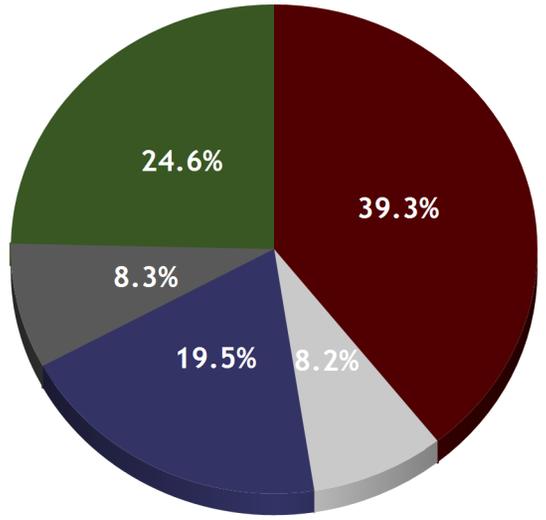
Account Summary

1/31/2016

Weighted Averages

Book Yield	0.75
Maturity	1.24
Coupon	0.73
Moody	Aa1
S&P	AA+

Fixed Income Allocation



Fixed Income Totals

Par Value	164,623,740
Market Value	164,958,670.98
Amortized Book Value	164,601,047.26
Unrealized Gain/Loss	357,623.72
Estimated Annual Cash Flow	1,200,004.73

Security Type	Market Value	% Fixed Income	% Assets
US Agency (USD)	64,901,674.32	39.3	39.3
Municipal (USD)	13,548,709.40	8.2	8.2
US Treasury (USD)	32,180,547.00	19.5	19.5
LGIP State Pool (USD)	13,675,669.70	8.3	8.3
Bank Deposit (USD)	40,652,070.56	24.6	24.6
Fixed Income Total	164,958,670.98	100.0	100.0



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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 02/22/2016

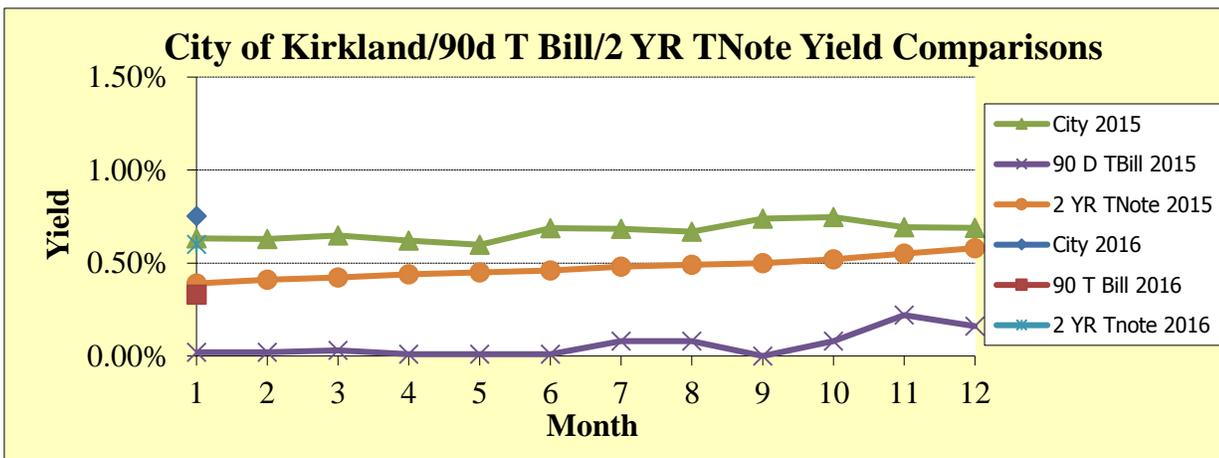
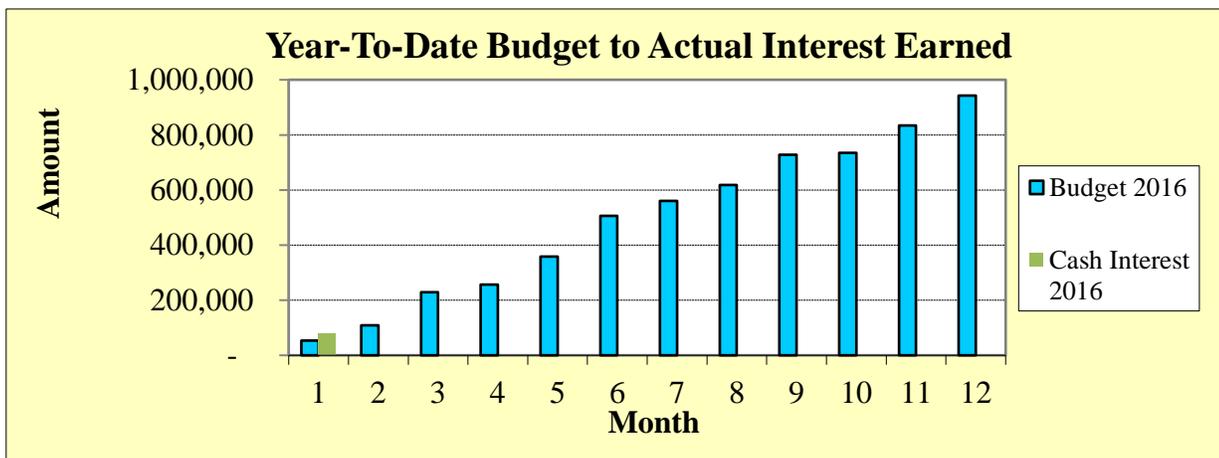
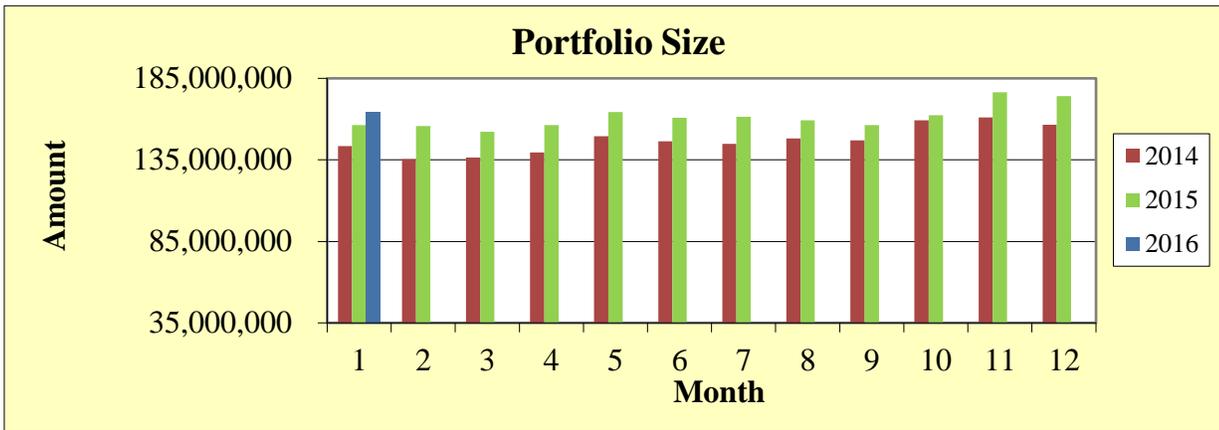
Period Covered **Month of January 2016: January 31, 2016**

Policy Section	Compliance	Current Portfolio	Policy Requirement	Frequency
7.0 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"> 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
8.0 Broker Allocation	Compliant	No securities were purchased in January. Broker security offerings are on file in H:\FINANCE\Z Investments	3 bids for security purchase or sale	Monthly
9.0 Authorized Investments	Compliant	Breakdown of Portfolio listed in Section 12.0	See Section 12.0 Diversification	Monthly
9.0 Authorized Investments Credit Ratings	Compliant	Detailed in GASB 40 Report	Requires AA- or better from Standard & Poors and Aa3 by Moodys	Semi-Annual
11.0 Safekeeping	Compliant	US Bank Safekeeping	All Securities will be held in Safekeeping	Monthly
12.0 Diversification			Maximums	Monthly
US Agency Obligations	Compliant	22%	100%	
Government Sponsored Enterprise (GSE's)	Compliant	37%, 14% largest issuer	100%, 30% per issuer	
Callable Securities	Compliant	16%	50%	
Local Government Investment Pool	Compliant	8%	100%	
State or Political Subdivision Securities	Compliant	8%, 4% 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	
13.0 Maximum Maturities	Compliant	1.13 Years	Average Maturity Exposure 3 Years	Monthly
	Compliant	4.5 yrs. 7/29/2020	Maximum Maturity of Individual Issue 5 Years	Monthly
14.0 Conformance to Policy	Compliant	April 2, 2015 and October 29, 2015 Investment Committee Review	Annual Review	Annual
15.0 External Review	Compliant	2013 review completed	External review of City Investment Policy and Investment Portfolio for compliance and best practices	Every 3 Years
16.0 Performance Standards	Compliant	90 Day T Bill 0.33% Avg. 2 Yr. T Note 0.60% <u>Portfolio</u> Liquidity Portion 0.30% <u>Investment Core 0.96%</u> Total Portfolio 0.75%	Band between 90 T Bill and 2 Yr Treasury Note	Monthly
17.0 Reporting Requirements	Compliant	2015 3 rd Quarter Report is available	Annual, Quarterly & Monthly	Monthly
18.0 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 January 31, 2016

Kirkland Portfolio																
Monthly Interest Earned (accrual basis)																
Month	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		62,157	55,081	68,033						167,721	109,710	142,492	
March	146,167,907	136,341,046	152,331,121		77,984	66,925	81,552						208,036	142,550	224,044	
April	155,152,206	139,552,582	156,349,024		69,791	59,152	67,068						257,241	204,059	290,728	
May	160,818,008	149,485,197	164,255,373		73,445	63,100	70,933						386,233	255,598	361,765	
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	
Average	149,898,822	147,297,581	161,322,220	164,511,618	65,537	62,378	77,943	89,513					n/a	n/a	n/a	n/a

2 Yr T-Bill 2 Yr. Rolling Average														% of Budget		
Month	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%		0.11%	0.05%	0.02%		0.32%	0.29%	0.41%			108,600	0%	12%
March	0.64%	0.59%	0.65%		0.07%	0.05%	0.03%		0.29%	0.30%	0.42%			229,200	0%	24%
April	0.61%	0.58%	0.62%		0.05%	0.03%	0.01%		0.28%	0.30%	0.44%			256,500	0%	27%
May	0.51%	0.55%	0.60%		0.04%	0.04%	0.01%		0.27%	0.37%	0.45%			358,000	0%	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%
Average	0.58%	0.57%	0.67%	0.75%	0.05%	0.03%	0.06%	0.33%	0.29%	0.33%	0.47%	0.60%	n/a	942,500	n/a	n/a





CITY OF KIRKLAND
Department of Finance & Administration
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 www.kirklandwa.gov

MEMORANDUM

To: Kurt Triplett, City Manager

From: Michael Olson, Director of Finance & Administration
 Kyle Butler, Budget Analyst

Date: February 23, 2016

Subject: January Sales Tax Revenue

January sales tax revenue is **up 12.4 percent** compared to January 2015. Results this month reflect sales activity in November, due to the two month lag in reporting sales tax data. While this growth is a good start for the year, it must be viewed in the proper context. First, last year got off to a slow start with minimal growth in the early months. So this month's results are being compared to last year's relatively weak performance. Also, the rapid growth is heavily influenced by building activity which is the most volatile category of sales taxes. As such, it is unlikely that this growth rate will be sustained in the months ahead.

Comparing January 2016 to January 2015

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

2015 Sales Tax Receipts by Business Sector-Monthly Actuals

Business Sector Group	January		Dollar Change	Percent Change	Percent of Total	
	2015	2016			2014	2015
Services	156,835	187,998	31,163	19.9%	11.1%	11.9%
Contracting	213,525	258,693	45,168	21.2%	15.2%	16.4%
Communications	48,305	42,091	(6,214)	-12.9%	3.4%	2.7%
Retail:						
Auto/Gas Retail	393,192	405,059	11,867	3.0%	28.0%	25.6%
Gen Merch/Misc Retail	163,378	168,639	5,261	3.2%	11.6%	10.7%
Retail Eating/Drinking	113,804	116,178	2,374	2.1%	8.1%	7.3%
Other Retail	192,210	235,482	43,272	22.5%	13.7%	14.9%
Wholesale	56,399	67,423	11,024	19.5%	4.0%	4.3%
Miscellaneous	69,014	99,102	30,088	43.6%	4.9%	6.3%
Total	1,406,662	1,580,669	174,003	12.4%	100%	100%

Comparing month to month, January sales tax collections this year are **\$174,000 (12.4 percent)** higher than January 2015. This change is being driven by strong growth in many categories, with high percentage growth in the Miscellaneous (largely driven by Real Estate), Other Retail (which includes online retail), Contracting, Services, and Wholesale. Some sectors that surged throughout 2015 had a modest start to 2016 with growth of less than five percent which may be more indicative of their success

last year than of a notable change in 2016, this group includes Auto/Gas Retail, General Merchandise, and Retail Eating/Drinking. The Communications sector is the only sector that declined compared to January 2015, which is consistent with the last six months of 2015. Next month's sales tax comparisons should provide a useful perspective on spending compared to past years, since it reflects holiday sales activity.

In dollar terms, Contracting saw the most growth compared to January 2015 increasing by **\$45,000, or 21.2 percent**, due to high levels of building activity. The top three improving sectors were rounded out by strong sales in online shopping that drove up Other Retail **\$43,000, or 22.5 percent** and spending on the Services sector grew **\$31,000, or 19.9 percent**, largely due to the impacts of refunds in 2014 and new businesses in 2016. The drop in revenues from the Communications sector is reflective of a statewide change in the calculation of gross taxable revenues in the telecommunications industry.

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.

2015 - 2016 Wider Economic Indicators					
Indicator	Most Recent Month of Data	Unit	Month		
			Current	Previous	Change
<i>Consumer Confidence</i>					
Consumer Confidence Index	January	Index	98.1	96.3	1.8
<i>Unemployment Rate</i>					
National	January	%	4.9	5.0	(0.1)
King County	December	%	4.5	4.5	0.0
<i>Housing</i>					
New House Permits	November	Thousands	41.0	35.9	5.1
Seattle Area Home Prices	November	Index	186.1	185.2	0.9
<i>Inflation (CPI-W)</i>					
National	December	% Change	0.4	0.1	0.3
Seattle	December	% Change	2.3	0.8	1.5
<i>Car Sales</i>					
New Vehicle Registrations	December	Thousands	26.5	25.8	0.7

The Consumer Conference Board reported an increase in the **Consumer Confidence Index** from 96.3 in December to **98.1 in January**. According to the Conference Board, consumer views on the job market improved modestly, and consumers did not foresee the volatility in financial markets as having a negative impact on the economy. Consumer's assessment of current economic conditions held steady from December and their outlook for the next six months improved moderately.

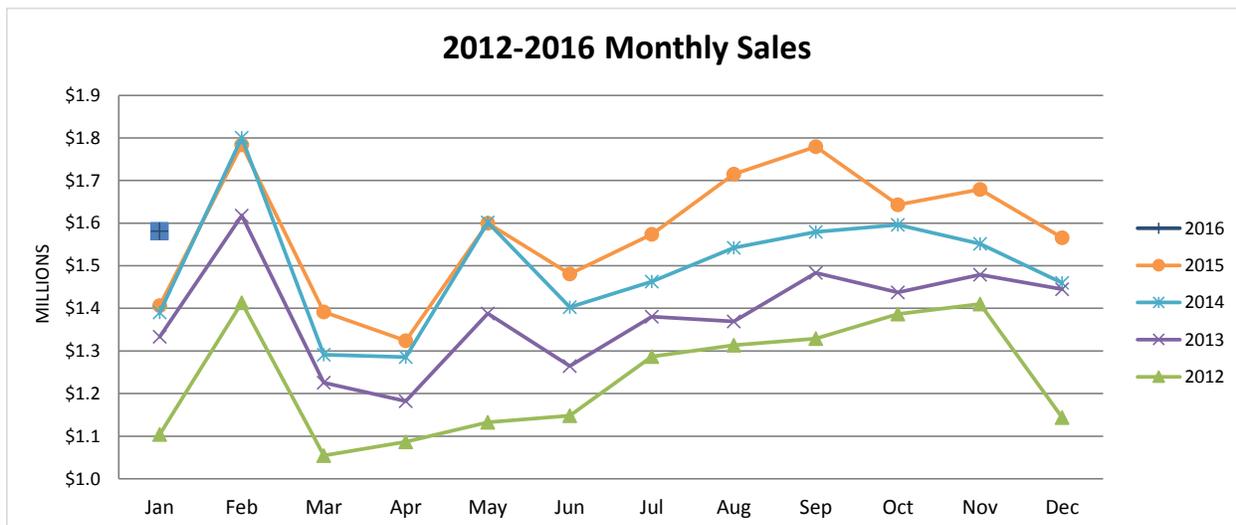
Unemployment Rates improved at the National level, moving from 5.0 percent December to 4.9 percent in January. The unemployment rate in King County held steady at 4.5 percent for December and November, which are the latest available data points.

Statewide housing market and vehicle sales data indicates continued strength in the sectors that represent the biggest components of our sales tax base. Statewide housing market values continue to rise as shown by the **Seattle Area Home Price Index**, which grew to 186.1 in November, which is just 3.2 percent lower than the pre-recession high point of 192.3 in August 2007. **New House Permits** in the state increased 14.2 percent from October to November with 41,000 new permits across the state.

New Vehicle Registrations in Washington experienced a 2.7 percent increase to their highest point of the year as new vehicle registrations increased from 25,800 in November to 26,500 in December.

Conclusion

The following chart shows Kirkland’s monthly sales tax revenues since January.



Sales tax revenue collections have been relatively flat over recent months, but there has been significant growth since January last year. The chart reveals that sales tax receipts have grown moderately over the last four years. February sales tax data will reflect the busy holiday shopping activity of December due to the two month delay in sales tax receipts from the state, so that data point will be important when evaluating the current environment. Staff is evaluating a seasonal adjustment approach that will help identify developing sales tax trends going forward.