

Finance & Administration Committee Agenda

October 25, 2016

2017-2018 Budget

Materials provided at the meeting

September Sales Tax and Dashboard Reports

Attachment A & B

Informational Items:

September Investment Report

Attachment C

Upcoming Finance & Administration Items on Council Agenda:

October 27, 2016

Council Budget Work Session (3:00-9:00pm)

November 1, 2016

Council Study Session – Budget

Public Hearing – Budget

November 7, 2016

Special Council Study Session – Budget (if needed)

November 15, 2016

Public Hearing – Budget

Preliminary Property Tax Levy

Public Hearing – Prelim Property Tax

Next Meeting

November 29, 2016



CITY OF KIRKLAND
Department of Finance & Administration
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MEMORANDUM

To: Kurt Triplett, City Manager

From: Michael Olson, Director of Finance & Administration
 Tom Mikesell, Financial Planning Manager
 Doug Honma-Crane, Budget Analyst

Date: October 20, 2016

Subject: September Sales Tax Revenue

September results reflect sales activity in July, due to the two month lag in reporting sales tax data. Sales tax revenue is **down 1.8 percent** compared to September 2015, ending a trend of month-over-month growth that began in June 2015. While it is encouraging that Auto/Gas Retail posted a positive month-over-month result after two successive monthly declines, this is more than offset by a drop in Contracting. Wholesale receipts continue to perform below last year's levels.

The year-to-date growth, which had been steadily trending downward over the past few months, fell more significantly in September, and is now down to **5.8 percent**.

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

Comparing September 2016 to September 2015

Comparing collections from the month of September 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	September		Dollar Change	Percent Change	Percent of Total	
	2015	2016			2015	2016
Services	256,044	257,465	1,421	0.6%	14.4%	14.7%
Contracting	264,630	250,487	(14,143)	-5.3%	14.9%	14.3%
Communications	40,857	44,347	3,490	8.5%	2.3%	2.5%
Retail:						
Auto/Gas Retail	426,004	430,866	4,862	1.1%	23.9%	24.6%
Gen Merch/Misc Retail	241,645	230,893	(10,752)	-4.4%	13.6%	13.2%
Retail Eating/Drinking	143,777	141,536	(2,241)	-1.6%	8.1%	8.1%
Other Retail	226,210	221,971	(4,239)	-1.9%	12.7%	12.7%
Wholesale	79,304	67,881	(11,423)	-14.4%	4.5%	3.9%
Miscellaneous	101,269	102,704	1,435	1.4%	5.7%	5.9%
Total	1,779,742	1,748,148	(31,590)	-1.8%	100%	100%

Comparing month-over-month, September sales tax collections this year are **\$31,590 (1.8 percent)** lower than September 2015.

In terms of dollar growth, **Auto/Gas Retail** performed best compared to September 2015, increasing by **\$4,900 (1.1 percent)**. The top three improving sectors were rounded out by **Communications**, which was up **\$3,500 (8.5 percent)** and **Miscellaneous**, which grew **\$1,400 (1.4 percent)**.

While this month's picture does not offer signs of strength, the month-over-month declining trend in Auto/Gas Retail has paused in September (up 1.6 percent). Despite Communications seeing strong month-over-month growth, the sector's small size prevents it from offsetting weaknesses in other sectors in a significant way.

Several groups fell this month, led by **Contracting**, which fell **\$14,000 (5.3 percent)**. Rounding out the top three were **Wholesale**, which was **down \$11,000 (14.4 percent)**, and **General Merchandise/Misc Retail**, which was also **down \$11,000 (4.4 percent)**.

Contracting, which led month-over-month growth in August, fell furthest in absolute dollar change in September. As this sector usually does not follow consumer economic trends, this shift is likely related to normal fluctuations in development activity.

As the largest source of sales tax revenue for the City and a leading indicator of economic conditions, the pause in the declining trend in Auto/Gas Retail is welcomed. However, further monitoring of this sector is necessary before overall inferences to economic direction can be made. However, declining activity in other sectors in the absence of offsetting strengths is not encouraging.

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	1,886,747	2,015,591	128,844	6.8%	13.4%	13.5%
Contracting	2,142,346	2,426,764	284,418	13.3%	15.2%	16.3%
Communications	316,190	401,231	85,041	26.9%	2.2%	2.7%
Retail:						
Auto/Gas Retail	3,519,220	3,543,484	24,264	0.7%	25.0%	23.8%
Gen Merch/Misc Retail	1,645,946	1,585,559	(60,387)	-3.7%	11.7%	10.7%
Retail Eating/Drinking	1,160,066	1,189,151	29,085	2.5%	8.3%	8.0%
Other Retail	1,878,522	2,061,338	182,816	9.7%	13.4%	13.9%
Wholesale	704,766	725,780	21,014	3.0%	5.0%	4.9%
Miscellaneous	801,539	927,622	126,083	15.7%	5.7%	6.2%
Total	14,055,342	14,876,521	821,179	5.8%	100%	100%

Through the end of September, year-to-date sales tax revenues are up **5.8 percent**. This is 1.1 percentage points lower than the year-to-date growth rate reported in August.

By dollar amount, the largest growth is in **Contracting**, which is up **\$284,000 (13.3 percent)** from last year. **Other Retail** and **Services** are the next two leading sectors, up **\$183,000 (9.7 percent)** and **\$129,000 (6.8 percent)** respectively. Contracting has consistently performed well on the year despite its volatility and reduced month-over-month activity in September, and accounts for 35 percent of

year-to-date growth. Other Retail has consistently been one of the top growth groups in 2016. Services remains in the top three led by growth in administrative/support services and health care.

Despite a slow month for many groups, **General Merchandise/Misc. Retail** is the only group down on the year, **\$60,000 (3.7 percent)** below 2015 revenues. Receipts are down marginally for most major retailers in the Misc. Retail category, which accounts for \$52,000 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. However, at least a portion of this decrease is due to lost economic activity from closed businesses at the Totem Lake and Kirkland Urban construction sites.

Also worth noting is the relative lack of growth of **Auto/Gas Retail**, which is now at 0.7 percent. The growth rate was up to 6.4 percent in April, before a four month slide in which the year-to-date growth rate fell to 0.6 percent in August before evening out in September.

Neighboring City Performance

Though neighboring cities are performing well this year, September was a down month for most of the surrounding cities. Year-to-date growth decreased in all neighboring cities by as little as 0.3 percent in Seattle to 6.3 percent in Redmond. Month-over-month growth rates were mixed, ranging from a 5.3 percent decrease in Bothell to a 5.5 percent increase in Seattle. However, each city's month-over-month growth rate was lower than the previous month, except for Seattle which held steady. The most dramatic shift was seen in Redmond where month-over-month growth fell from a 33.0 percent increase in August to a 2.2 percent decrease in September. Year-to-date growth there still remains high, at 40.3 percent, despite these downward shifts.

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	September	Index	104.1	101.1	3.0
Unemployment Rate					
National	September	%	5.0	4.9	0.1
Washington State	August	%	5.7	5.7	0.0
King County	August	%	3.9	4.4	(0.5)
Kirkland	August	%	3.3	3.9	(0.6)
Housing					
New House Permits	August	Thousands	29.1	39.8	(10.7)
Seattle Area Home Prices	July	Index	203.7	202.6	1.1
Inflation (CPI-W)					
National	September	% Change	1.2	0.7	0.5
Seattle	August	% Change	2.0	2.0	0.0
Car Sales					
New Vehicle Registrations	September	Thousands	26.2	25.2	1.0

The Conference Board reported an increase for the **Consumer Confidence Index** in September, as the Index jumped 3.0 points to 104.1. The Board reports that consumers feel more positive about current conditions and outlooks for jobs and short-term business conditions.

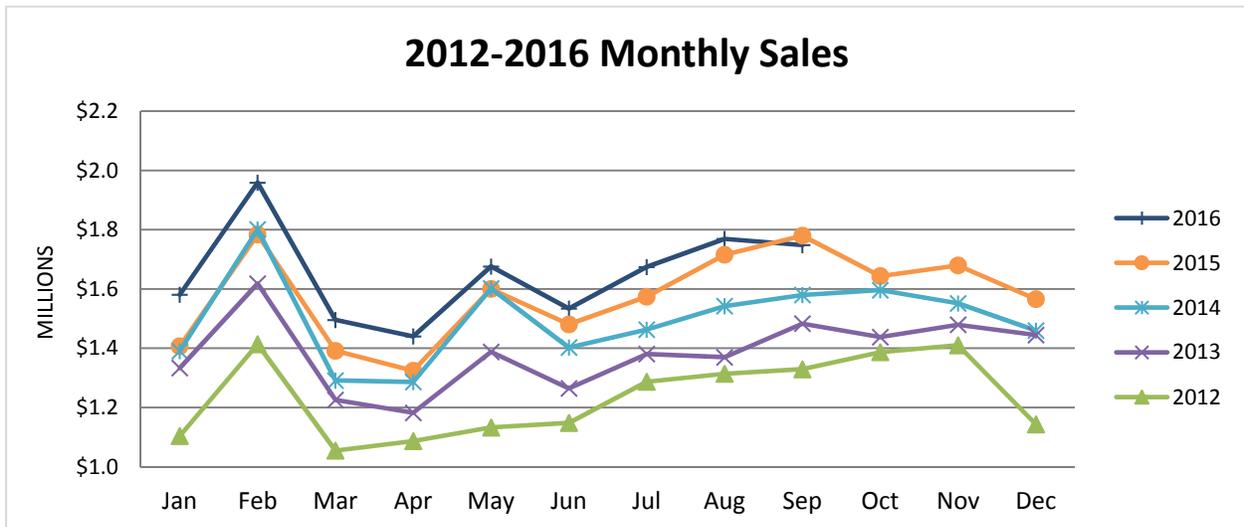
Unemployment Rates increased slightly at the National level, rising to 5.0 percent from August to September. The August unemployment rate in Washington State held steady, mirroring national trends. King County and Kirkland each set new yearly low points in August, falling 0.5 and 0.6 percent respectively.

The latest data on statewide **New House Permits** continues to show a significant decrease, down to 29,100 permits in August from 39,800 permits in July. The monthly average for new permits in 2016 is now 4.3 percent below 2015 after holding steady throughout the year despite month-to-month volatility. This represented the fewest number of permits issued in the month of August since January 2014.

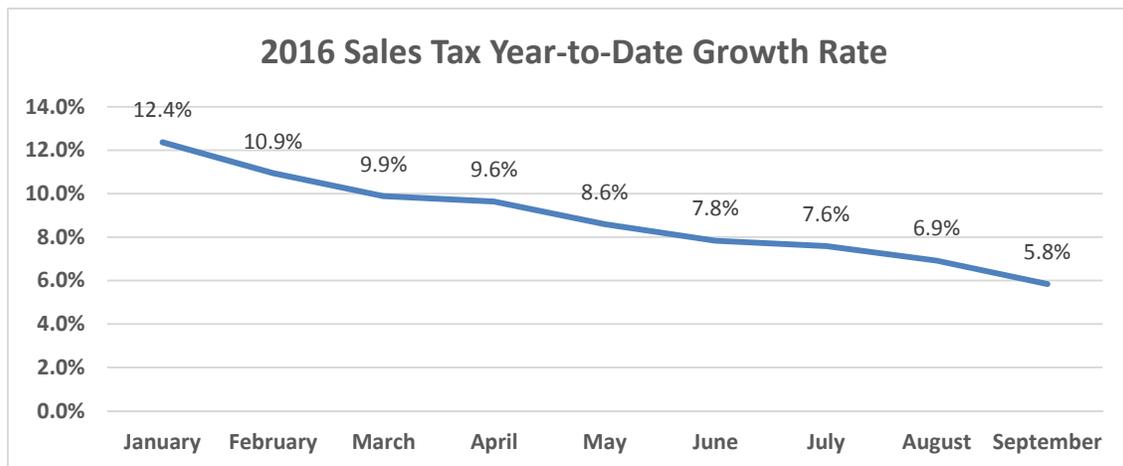
New Vehicle Registrations increased in September, up by 1,000 to 26,200, their highest level since February. Registration levels remain high relative to 2014 and 2015.

Conclusion

The following chart shows Kirkland's monthly sales tax revenues through September.



Month-over-month sales tax revenue in September 2016 underperformed the prior year for the first time since May 2015. The year-to-date growth rate has declined every month since January. Some economic indicators looking ahead suggest that this pattern may improve. However, the diminishing growth in sales tax revenue makes it clear that the strong start to 2016 has worn off. Based on these mixed signals, it is not yet clear what will be in store for the last few months of the year.



Maximum Maturities	Policy Requirement	Percentage of Portfolio	Portfolio Allocation	Within Limits	Credit Rating	Within Limits
Under 30 days	10%	28%	\$ 49,616,356	Yes	Municipal	
Under 1 year	25%	45%	\$ 79,385,671	Yes	AA-	by S&P Yes
Under 5 years	100%	100%	\$ 177,059,916	Yes	Aa3	by Moodys Yes
Maximum Weighted Average Maturity	3 Years		1.61	Yes	Commercial Paper/Bankers Acceptance	
Maximum Callable Securities	50%	30%	\$ 19,992,250	Yes	A1+ / P1	Yes
Maximum Single Maturity	5 Years		4.26	Yes	AA-/Aa3	Long-Term Rating

Asset Allocation Diversification	Maximum Policy Allocation	Issuer Constraint	Percentage of Portfolio	Market Value	Within Limits
U.S. Treasury Obligations	100%		17%	\$ 30,242,625	Yes
Government Agencies	100%		49%	\$ 86,031,317	Yes
FHLB		30%	4%	\$ 7,135,610	Yes
FNMA		30%	14%	\$ 25,125,960	Yes
FHLMC		30%	17%	\$ 30,145,485	Yes
FFCB		30%	11%	\$ 20,043,710	Yes
Other GSE's	20%	10%	2%	\$ 3,580,552	Yes
Municipal Bonds- GO States - Locals WA	20%	5%	3%	\$ 6,129,655	Yes
Certificates of Deposit	10%	5%	3%	\$ 5,039,963	Yes
Commercial Paper	5%	5%	0%	\$ -	Yes
Bank Deposits	50%	0%	15%	\$ 27,140,761	Yes
Bankers Acceptances	5%	5%	0%	\$ -	Yes
Local Government Investment Pool	100%	N/A	13%	\$ 22,475,595	Yes
Total			100%	\$ 177,059,916	



Name	Par Amount	Total Adjusted Cost	Market Value	Unrealized Gain/Loss	Yield At Cost	Eff Dur	Bench Dur
City of Kirkland - Core Investment Fund	\$ 121,706,000	\$ 121,815,606	\$ 122,403,597	\$ 587,991	1.15	2.04	2.25
City of Kirkland Liquidity	\$ 54,656,318	\$ 54,656,318	\$ 54,656,318		0.55	0.11	0.10
TOTAL PORTFOLIO	\$ 176,362,318	\$ 176,471,925	\$ 177,059,916	\$ 587,991	0.96	1.44	1.59

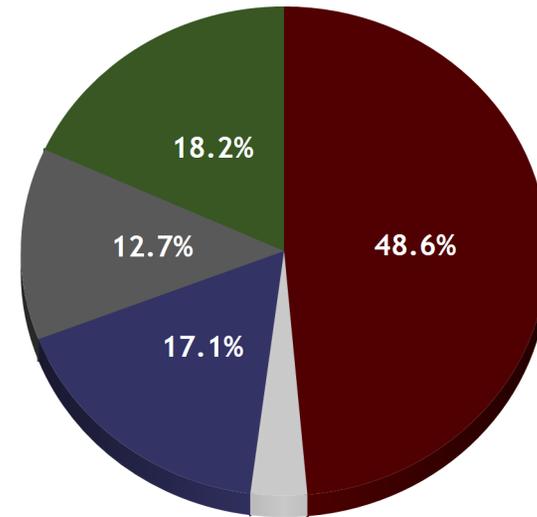


Total Funds City of Kirkland

Weighted Averages

Book Yield	0.96
Maturity	1.61
Coupon	0.97
Moody	Aa1
S&P	AA+

Fixed Income Allocation



Fixed Income Totals

Par Value	176,362,318
Market Value	177,059,915.71
Amortized Book Value	176,471,924.66
Unrealized Gain/Loss	587,991.04
Estimated Annual Cash Flow	1,704,302.80

Security Type	Market Value	% Assets
US Agency (USD)	86,031,317.38	48.6
Municipal (USD)	6,129,655.00	3.5
US Treasury (USD)	30,242,625.00	17.1
LGIP State Pool (USD)	22,475,594.94	12.7
Bank or Cash Deposit (USD)	32,180,723.39	18.2
Fixed Income Total	177,059,915.71	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.

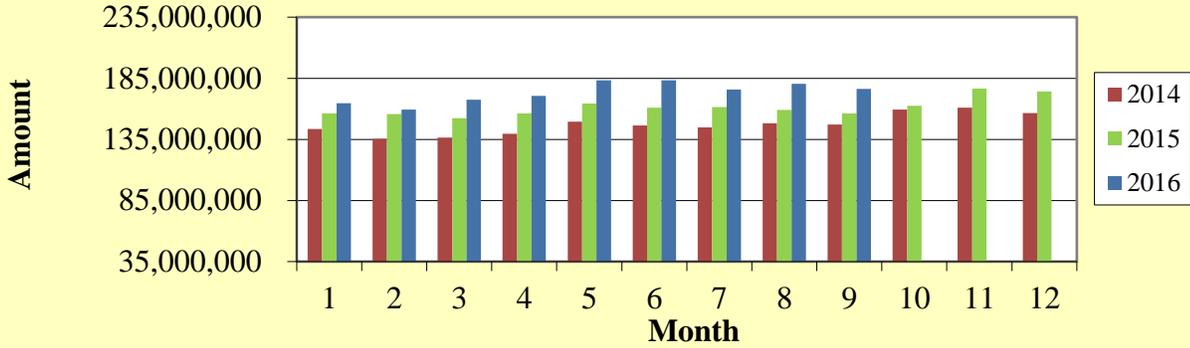
ATTACHMENT C

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	One security was purchased in September. 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	Compliant	17%	100%	
US Agency Primary	Compliant	49%	100%, 30% per issuer	
US Agency Secondary Issuance	Compliant	0%	20%, 10% per issuer	
Local Government Investment Pool	Compliant	13%	100%	
Bank Deposits	Compliant	15%	50%	
Certificates of Deposits	Compliant	3%	10%, 5% per issuer	
Commercial Paper	Compliant	0%	5%, 5% per issuer	
Municipal Bonds	Compliant	3%,	20%, 5% per issuer	
Bankers Acceptances	Compliant	0%	5%, 5% per issuer	
9.2 Investment Maturity	Compliant	1.44 Years 28% 45% 100%	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	2/26/2021	Maximum Maturity of Individual Issue 5 Years	Monthly
9.2 Investment Maturity Callable Securities in Core	Compliant	30%	50%	Monthly
10.0 Reporting Requirements	Compliant	2016 2 nd Quarter FMR Report is available	Annual, Quarterly & Monthly	Monthly

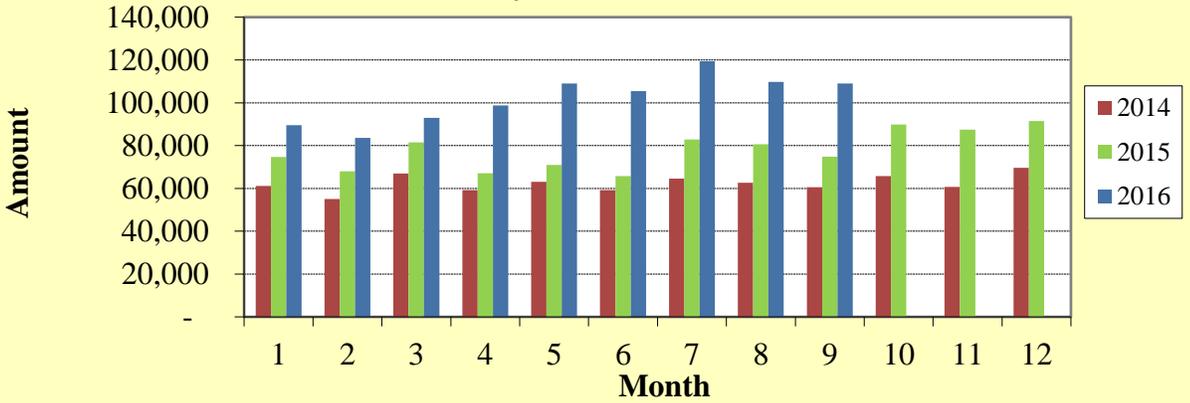
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10.2 Performance Standards	Compliant	<p>LGIP 0.52%</p> <p><u>Portfolio</u></p> <p>Liquidity Portion 0.55%</p> <p><u>Investment Core</u> 1.15%</p> <p>Total Portfolio 0.96%</p>	LGIP for earnings rate US Treasury index for total return	Monthly
10.3 Compliance 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

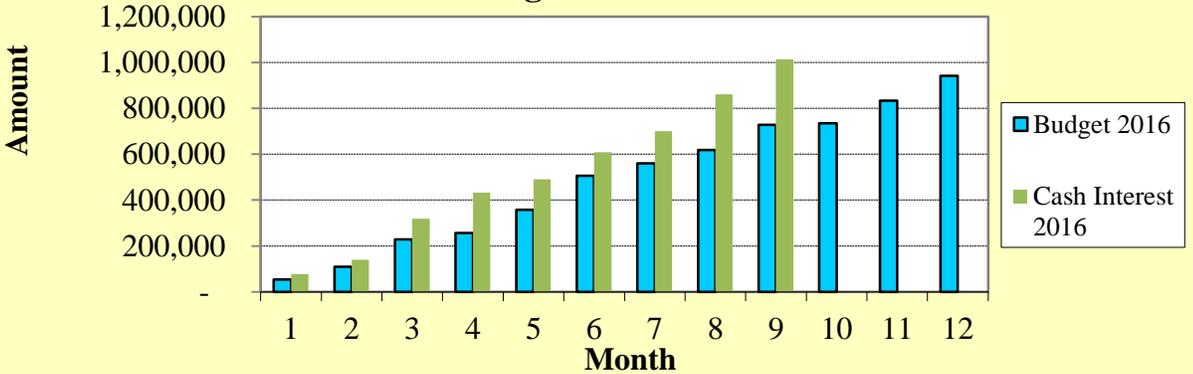
Portfolio Size



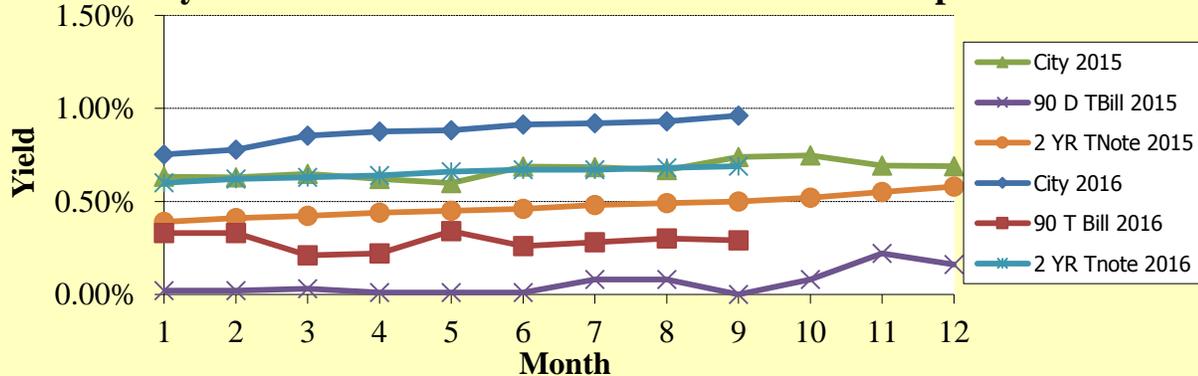
Monthly Interest Earned



Year-To-Date Budget to Actual Interest Earned



City of Kirkland/90d T Bill/2 YR TNote Yield Comparisons



ATTACHMENT C

City of Kirkland
Investment Portfolio Analysis
As of September 30, 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	180,483,218	63,600	62,646	80,577	109,797	589,927	470,342	598,682	828,411
September	144,140,492	147,019,653	156,319,946	176,349,757	61,484	60,561	74,863	109,001	610,367	486,803	680,022	943,850
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	173,464,602	65,537	62,378	77,943	101,953	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%	0.93%	0.03%	0.03%	0.08%	0.30%	0.27%	0.34%	0.49%	0.68%	860,949	618,000	91%	66%
September	0.56%	0.57%	0.74%	0.96%	0.02%	0.02%	0.00%	0.29%	0.28%	0.35%	0.50%	0.69%	1,013,735	728,000	108%	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%	0.87%	0.05%	0.03%	0.06%	0.28%	0.29%	0.33%	0.47%	0.65%	n/a	942,500	n/a	n/a