

Finance & Administration Committee

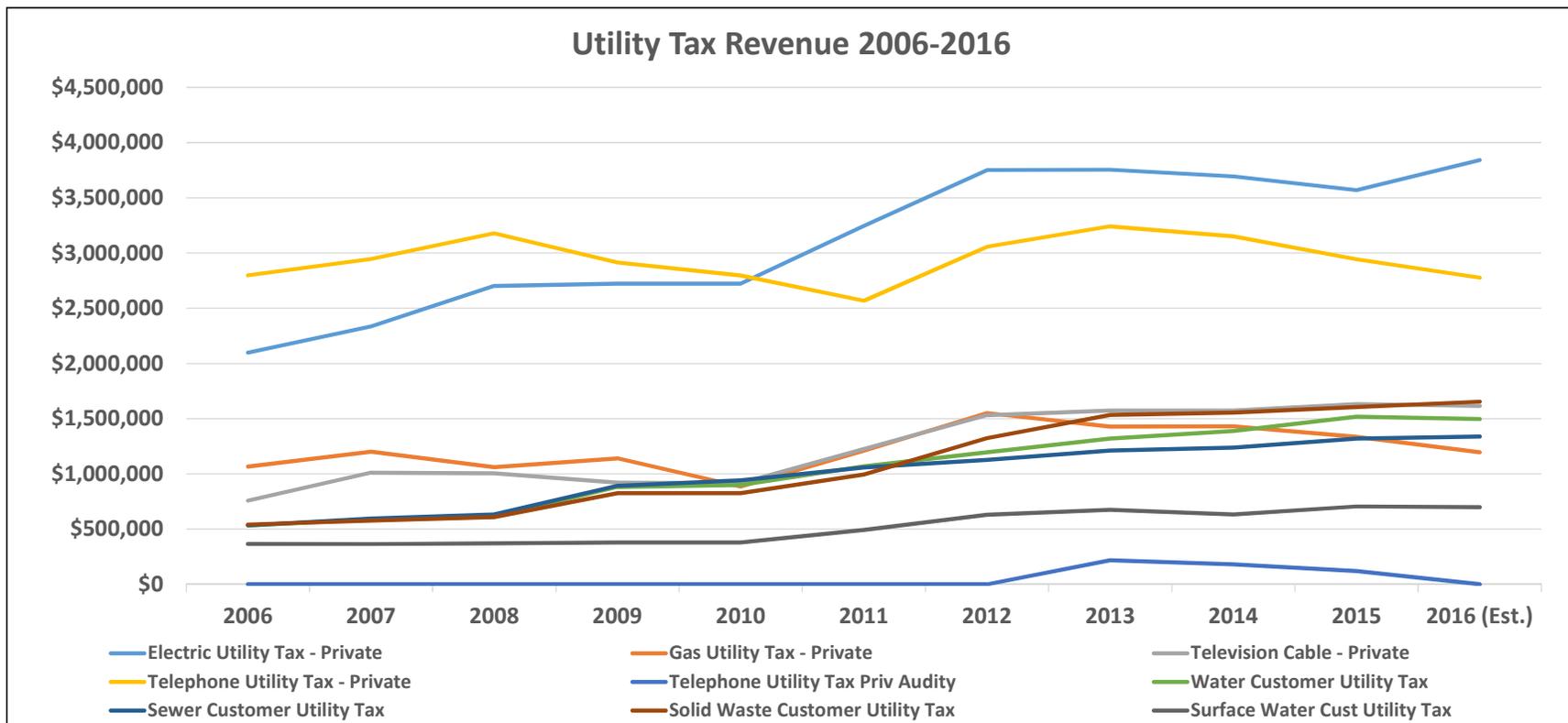
Date: October 25, 2016

Attendance: Jay Arnold, Doreen Marchione (by phone), Kurt Triplett, Tracey Dunlap, Marilynne Beard, Michael Olson, Tome Mikesell, Amy Bolen (for Jessica Clem)

Agenda Item:	Action Items:
<p>1. 2017-2018 Budget</p> <p>Notes: Michael Olson distributed and reviewed Utility Tax Revenue 2006-2016 (Attachment 1), the proposed Budget Meeting Agenda for October 27 (Attachment 2), and the Finance calendar through the end of the year (Attachment 3).</p> <p>Regarding the budget meeting agenda, Councilmember Arnold asked if the Financial Overview would include the fire station capital funding and sales tax lag. Tracey noted that fire station funding information is described in the CIP and the sales tax lag is included in the presentation.</p> <p>The decision on whether or not the November 7 meeting is necessary will be made at the Council Meeting on November 1, during the calendar discussion.</p> <p>The 1% property tax substantial need discussion held last year will need to happen again this year at the November 15 meeting.</p> <p>Kurt has not heard any push back on the head tax.</p>	No action
<p>2. Budget Communication Plan</p> <p>Notes: Kurt reviewed the budget communication plan prepared by Kathy Cummings (Attachment 4). The City is taking out an ad with the Reporter which includes an in-depth interview/story which includes discussion on price of government and the survey quad. The City has also created and posted short videos online that will be used on social media, along with a meme/graphic. Councilmember Arnold suggested budgeting ad money for Facebook to expand our reach.</p>	Consider ad money for Facebook.
<p>3. September Sales Tax and Dashboard Report</p> <p>Notes: Reviewed September Sales Tax Revenue memo (Attachment 5). Discussed 2016 Sales Tax Year-to-Date Growth Rate chart (page 4). Tom noted the City is still in good shape, but moving towards a more normal rate. The City estimated 5% increase in 2016 for the budget.</p> <p>Considering the sales tax revenue, Councilmember Arnold asked if we are being conservative enough for 2017-2018. Kurt noted we assume the growth rate carries through flat, we don't budget for increase.</p>	

<p>September Dashboard text was distributed; this was missing from the Agenda packet distributed prior to the meeting (Attachment 6).</p> <p>Regarding the budget dashboard table, the colors have not changed. Michael noted the business license fees are high due to collecting past 3 years from businesses that have been operating without a license.</p> <p>Councilmember Arnold asked when/where we will have the discussion regarding firefighter overtime. Kurt noted the City needs to settle the contract before that discussion.</p>	
<p>4. Good of the Order Notes:</p>	
<p>Upcoming Council Agenda Items:</p> <ul style="list-style-type: none"> • October 27 Council Budget Work Session • November 1 Study Session 2017-2018 Budget • November 1 Regular Meeting Public Hearing on 2017-18 Budget, CIP Update • November 15 Public Hearings on Budget and Preliminary Property Tax Levy, Preliminary Property Tax Levy ordinance <p>Next Meeting: November 29, 9:00 am</p> <p>Future Topics:</p> <ul style="list-style-type: none"> • Conference Room naming for former City Manager (added 5/3/2016) • Washington State Business License Portal Research (added 7/5/16) 	

Utility Taxes Revenues 2006-2016											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 (Est.)
Electric Utility Tax - Private	2,098,459	2,335,659	2,701,401	2,724,258	2,722,594	3,246,625	3,751,009	3,754,689	3,694,166	3,568,747	3,842,421
Gas Utility Tax - Private	1,064,544	1,201,902	1,060,422	1,140,006	884,164	1,208,115	1,550,787	1,426,785	1,430,971	1,335,818	1,195,671
Television Cable - Private	756,629	1,011,114	1,003,754	919,402	914,861	1,223,581	1,530,064	1,572,347	1,574,670	1,633,045	1,615,642
Telephone Utility Tax - Private	2,797,368	2,945,392	3,177,683	2,914,894	2,797,048	2,568,309	3,056,798	3,241,494	3,152,016	2,942,426	2,776,375
Telephone Utility Tax Priv Audity	-	-	-	-	-	-	-	217,296	181,318	119,475	-
Water Customer Utility Tax	531,430	590,959	610,727	879,993	899,711	1,068,168	1,194,418	1,319,235	1,389,189	1,517,414	1,495,956
Sewer Customer Utility Tax	533,247	595,845	631,799	891,780	941,309	1,058,993	1,126,176	1,211,609	1,237,656	1,319,076	1,337,277
Solid Waste Customer Utility Tax	540,478	578,089	609,509	825,082	825,377	994,948	1,321,567	1,534,258	1,555,704	1,604,711	1,653,766
Surface Water Cust Utility Tax	366,587	363,855	370,055	377,297	378,655	492,470	629,821	673,817	632,163	704,683	697,992
TOTAL	8,688,744	9,622,814	10,165,351	10,672,711	10,363,718	11,861,208	14,160,640	14,951,529	14,847,852	14,745,394	14,615,100



**CITY OF KIRKLAND
2017-2018 BUDGET
Proposed Budget Meeting Agendas**

Thursday, October 27, 3:00 p.m. to 9:00 p.m.

- I. Agenda Overview and Introductory Comments
- II. Stay Steady, Get Ready Approach
- III. Financial Overview
 - a. Budget Overview
 - b. Revenue Trends
 - c. Expenditure Trends
 - d. Budget Priorities
 - i. Citizen Survey
 - ii. Efficiencies and Productivity Enhancements
 - iii. Service Package Approach
- IV. Major Discussion Topics (*see related issue papers*)
 - a. Past Budget Balancing Measures
 - b. Human Services
 - c. Outside Agencies/Events Funding
 - d. Public Records Disclosure
 - e. Park Facilities Sinking Fund
 - f. Jail Services
 - g. Council questions on other issue papers

[Break for dinner at approximately 5:30]

- V. Review by Goal Area →
 - a. Major Recommendations
- VI. Follow-up for Next Meeting

Goal Order:

*Public Safety
Balanced Transportation
Dependable Infrastructure
Parks, Open Spaces and Rec. Services
Economic Development
Human Services
Housing
Environment
Neighborhoods
Financial Stability*

Tuesday, November 1, 6:00 p.m. Study Session

- I. Follow-up from Previous Meeting and Recap of Council Changes

Tuesday, November 1, 7:30 Regular Meeting

- I. Public Hearing at Regular Council Meeting
- II. Capital Improvement Program (CIP) Update
- III. Follow-up for Next Meeting, if any

Monday, November 7, 6:00 p.m. Special Meeting (if needed)

- I. Complete Council Deliberations and Prepare Council Budget Proposal for Public Hearing

Tuesday, November 15, 7:30 Regular Meeting

- I. Public Hearings
 - a. 2017-2018 Budget
 - b. Preliminary Property Tax Levy
- II. Complete Council Deliberations (Finalize Budget)
- III. Preliminary Property Tax Levy

Tuesday, December 13, 7:30 Regular Meeting

- I. 2016 Year-End Budget Adjustments
- II. 2017-2022 CIP Adoption
- III. Final Property Tax Levy Ordinance (pending King County data available)
- IV. Adoption of 2017-2018 Budget and related Ordinances and Resolutions

2017-18 Budget Communication Plan -- DRAFT
Kathy Cummings, Communication Program Manager
425 587-3021, kcummings@kirklandwa.gov

As the 2017-18 budget process unfolds we are currently developing key messages and plan to use a variety of methods to inform the public of hearings, meetings and budget details. The message vehicles include online communication, community outreach through meetings and open houses and the use of local press.

Online Communication

The City Website, www.kirklandwa.gov

Continue to update the [Budget and Finance website](#) posting all things budget.

City List Serves

Sending out notices and reminders using the list serves for City Update, Kirkland Alliance of Neighborhoods, Kirkland Biz News, Neighborhood E-Bulletin and News Releases

Weekly E-newsletter, News Bites

Reporting each week on activity: what is coming up, what has already happened and how people can get involved.

Video

Creating a series of seven interview videos to discuss the budget. Topics include:

Part 1: [Why the Budget Matters](#) (0:55)

Part 2: [Steady as She Goes](#) (1:15)

Part 3: [Priorities Matter](#) (1:08)

Part 4: [Holistic Approach to Public Safety](#) (1:25)

Part 5: [Alleviating Growing Pains](#) (2:08)

Part 6: Investing in Police and Fire

Part 7: Protecting our Parks

Social Media

Posting frequent updates to both FaceBook and Twitter accounts. Using boosted posts on both Facebook (\$30) and Twitter (\$30) to get the message out about ways the public can have input into the budget process.

Community Outreach

Kirkland Alliance of Neighborhoods – special meeting with the City Manager to be held first week of November to present budget information

Speaking Engagements – City Manager speaking to the Business Round Table

Local Press

- Inviting Kirkland Reporter Editor and Reporter to meeting during the week of October 17, hoping for story to be printed just prior to or just after the Council Special Work Session
- Taking two paid half page advertisements in the Kirkland Reporter (\$600/ea.) to advertise public hearings and ways the public can give input on the Budget.
- A paid online advertisement on Kirkland Views (\$300) that runs for a month (Oct. 27 – Nov 7) and includes 4 ads:
 - Week beginning Oct. 27 – Ways to have input with meeting dates including Oct. 27 Council Study Session and Nov. 1st public hearing
 - Week beginning Nov.3 – advertising the Nov. 7th Council Study Session (if needed) and the Nov. 15 public hearing.
 - Week beginning Nov. 10 – advertising Nov. 15 public hearing and December 13 Final Passage Council meeting.
 - Week beginning Nov. 16 – advertising Final Passage Council meeting.



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
 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.

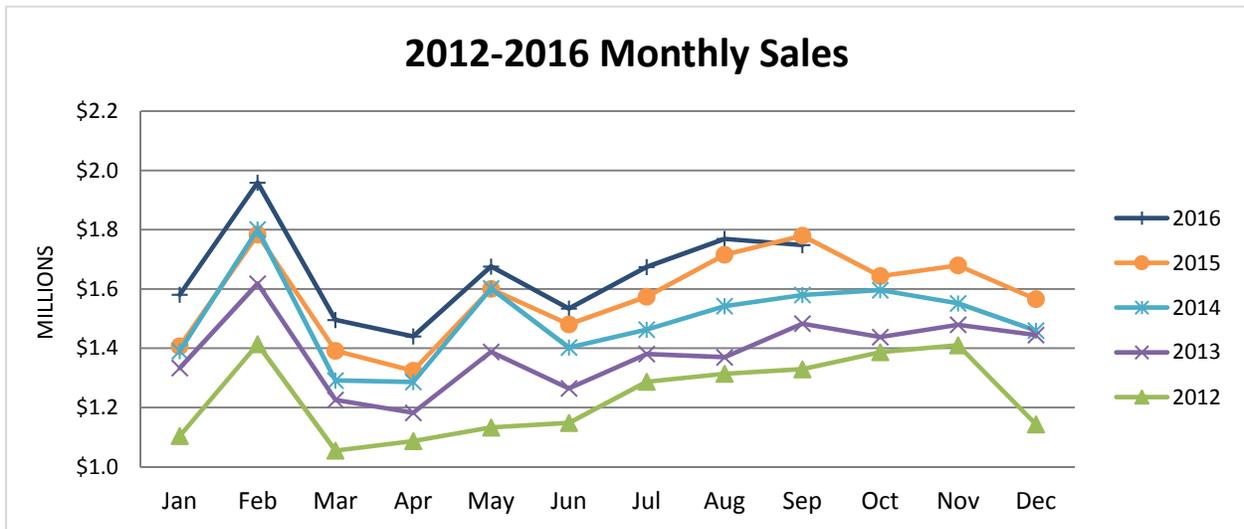
Unemployment Rates increased slightly at the National level, rising to 5.0 percent from August to September. The August unemployment rate in Washington State held steady, mirroring national trends. King County and Kirkland each set new yearly low points in August, falling 0.5 and 0.6 percent respectively.

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.

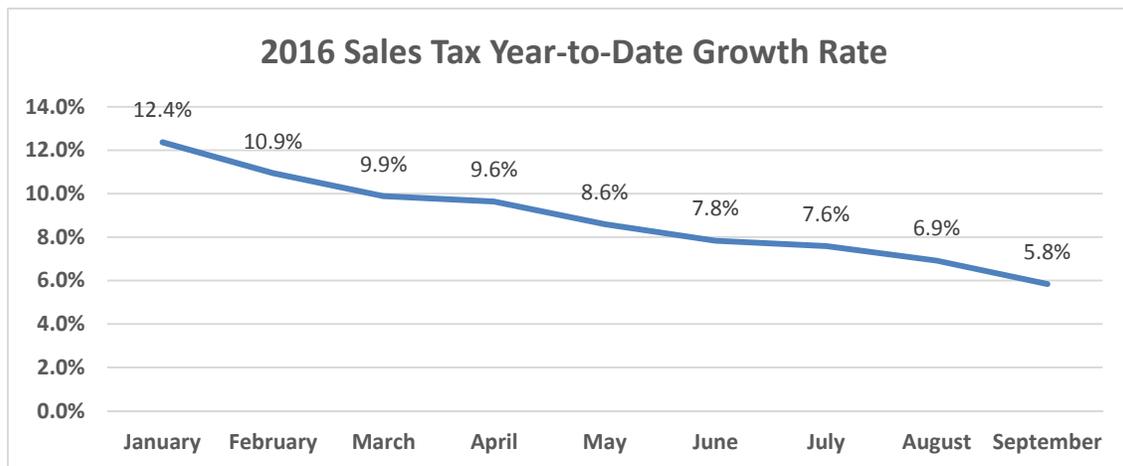
New Vehicle Registrations increased in September, up by 1,000 to 26,200, their highest level since February. Registration levels remain high relative to 2014 and 2015.

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.



September 2016 Financial Dashboard Highlights

October 18, 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 September 30, 2016, 75 percent through the year.
- Total General Fund revenues received through September were at 76.9 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 September were up 5.8 percent compared to September 2015 and are at 82.8 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 35 percent of the year to date growth. The sales tax revenue reflects activity through July 2016 due to the two month lag in receipt of the funds from the Department of Revenue.
 - Utility tax receipts were \$10,354,941 at the end of September, which is 71.1 percent of the budget. This amount is one percent under September 2015. Revenues in 2015 came in under budget, and are on pace to do so again in 2016.
 - Business license revenues through September are 88.9 percent of budget; this is higher than last September's revenue by \$466,112, an increase of 21.3 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 amounts represents one-time revenues.
 - Development fees through the end of September were at 107.7 percent of budget. This is 23.5 percent higher than 2015, which was also a strong year.
 - Building revenues through September are 105.8 percent of budget. This figure includes significant one-time fees, most notably for Kirkland Urban plan review. Building permit activity fell back to levels seen from January through May. Just over 60 percent of Plan Check revenues were generated from the Village at Totem Lake development.
 - Engineering revenues are at 110.3 percent of budget through September. Half of September engineering development revenues are related to work being done at a multifamily housing development in South Rose Hill. September was a relatively strong month compared to the rest of 2016.
 - Planning revenues through September are at their highest level in 5 years, with 116.3 percent of the budget collected. This is due to several moderately large subdivisions and numerous short plats.
 - Gas taxes finished September at \$1,321,296, which is 78.5 percent of the annual budget. This is higher than September 2015 by 3.6 percent and continues to outperform 2015.

- Total General Fund expenditures were 72.4 percent of budget through the end of August.
 - General fund salaries and benefits were \$43.5 million, which is 71.9 percent of the annual budget, with 75.0 percent of the year completed. Salaries and benefits are 2.4 percent higher than in 2015. Much of this increase is due to back-pay for settled collective bargaining contracts.
 - Fire suppression overtime expenditures were \$939,976 at the end of August, which is 127.8 percent of budget, and \$113,477 higher than this time in 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, reimbursements were recorded as a negative expenditure in Fire Suppression overtime, now it is recorded as a revenue. While this accounting results in expenditures that are higher, there is still offsetting revenue to compensate. This change will be reflected in the 2017-2018 Budget.
 - Contract jail costs were 51.9 percent of budget at the end of September, 1.3 percent below September 2015. This budget is for costs of housing inmates that cannot be kept at the local jail for medical reasons. Since the opening of the Kirkland Justice Center, the City sends significantly fewer prisoners to other jails for non-medical reasons, leading to an ongoing decline in contract jail usage.
 - Fuel costs ended September at \$251,690, 34.1 percent of budget. Expenditures are 21.6 percent under 2015. This decrease is despite greater fuel use relative to last year, as fuel prices continue to keep expenses low relative to budget.

Attachment: September Dashboard

10/19/2016

Date Completed

City of Kirkland Budget Dashboard

Annual Budget Status as of 9/30/2016 (Note 1)

Percent of Year Complete 75.00%

	2016		Year-to-Date Actual	% Received/ % Expended	Status		
	Budget	Actual			Current Report	Last Report	Notes

General Fund								
Total Revenues	88,992,410	68,412,816	76.9%					
Total Expenditures	89,699,325	64,983,333	72.4%					

Key Indicators (All Funds)

Revenues						
Sales Tax	17,963,747	14,876,520	82.8%			
Utility Taxes	15,175,950	10,788,535	71.1%			
Business License Fees	2,988,028	2,657,066	88.9%			
Development Fees	7,865,453	8,473,933	107.7%			
Gas Tax	1,684,070	1,321,296	78.5%			
Expenditures						
GF Salaries/Benefits	60,547,533	43,512,625	71.9%			Excludes Fire Suppression Overtime
Fire Suppression Overtime	735,411	939,676	127.8%			Excludes FS 24 Overtime
F.S. #24 Overtime Staffing	465,944	336,009	72.1%			
Contract Jail Costs	416,867	216,299	51.9%			
Fuel Costs	738,927	251,690	34.1%			

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).