

**Finance & Administration Committee Agenda**  
**November 29, 2016**

Preview of December 13 Council Meeting (45 minutes)

2015-2016 Budget Adjustments

2017-2018 Budget

2017-2022 CIP

Fiscal Policy Housekeeping updates

*Materials provided at the meeting*

October Dashboard Reports - *Attachment A* (5 minutes)

**Informational Items:**

October Sales Tax Report – Attachment B

October Investment Report - Attachment C

3<sup>rd</sup> Quarter Financial Management Report (FMR) - Attachment D

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

**December 13, 2016**

- 2015-2016 Budget Adjustments
- 2017-2018 Budget Adoption
- 2017-2022 CIP Adoption
- Fiscal Policy Resolution (Housekeeping)
- Final Property Tax Levy Adoption (if available)

***Next Meeting***

**December 27, 2016 – Cancel?**

**Potential Future Topics:**

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

City of Kirkland Budget Dashboard

Date Completed

11/18/2016

Annual Budget Status as of **10/31/2016** (Note 1)

Percent of Year Complete **83.33%**

	2016 Budget	Year-to-Date Actual	% Received/ % Expended	Status		Notes
				Current Report	Last Report	
<b>General Fund</b>						
Total Revenues	88,992,410	77,992,525	87.6%			
Total Expenditures	89,699,325	72,872,373	81.2%			

Key Indicators (All Funds)

<i>Revenues</i>						
Sales Tax	17,963,747	16,627,794	92.6%			
Utility Taxes	15,175,950	12,058,516	79.5%			
Business License Fees	2,988,028	2,888,714	96.7%			
Development Fees	7,865,453	9,525,919	121.1%			
Gas Tax	1,684,070	1,495,334	88.8%			
<i>Expenditures</i>						
GF Salaries/Benefits	60,547,533	48,263,533	79.7%			Excludes Fire Suppression Overtime
Fire Suppression Overtime	735,411	1,061,036	144.3%			Excludes FS 24 Overtime
F.S. #24 Overtime Staffing	465,944	374,229	80.3%			
Contract Jail Costs	416,867	288,210	69.1%			
Fuel Costs	738,927	290,183	39.3%			

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).



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

## MEMORANDUM

**To:** Kurt Triplett, City Manager

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

**Date:** November 4, 2016

**Subject:** October Sales Tax Revenue

October results reflect sales activity in August, due to the two month lag in reporting sales tax data. Sales tax revenue is **up 6.6 percent** compared to October 2015, which was a relatively slow month. Construction and Miscellaneous revenues drove growth, while a few sectors experienced a mild decline. The year-to-date growth, which had been steadily trending downward over the past few months, increased slightly this month, up 0.1 percent to **5.9 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 October 2016 to October 2015

Comparing collections from the month of October 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	October		Dollar Change	Percent Change	Percent of Total	
	2015	2016			2015	2016
Services	232,852	219,167	(13,685)	-5.9%	14.2%	12.5%
Contracting	269,252	324,886	55,634	20.7%	16.4%	18.6%
Communications	40,110	42,224	2,114	5.3%	2.4%	2.4%
Retail:						
Auto/Gas Retail	436,117	423,558	(12,559)	-2.9%	26.5%	24.2%
Gen Merch/Misc Retail	167,301	160,118	(7,183)	-4.3%	10.2%	9.1%
Retail Eating/Drinking	145,407	143,599	(1,808)	-1.2%	8.8%	8.2%
Other Retail	209,816	223,769	13,953	6.7%	12.8%	12.8%
Wholesale	52,124	74,426	22,302	42.8%	3.2%	4.2%
Miscellaneous	90,411	139,528	49,117	54.3%	5.5%	8.0%
<b>Total</b>	<b>1,643,390</b>	<b>1,751,274</b>	<b>107,885</b>	<b>6.6%</b>	<b>100%</b>	<b>100%</b>

Comparing month-over-month, October sales tax collections this year are **\$107,885 (6.6 percent)** higher than October 2015.

In terms of dollar growth, **Contracting** performed best compared to October 2015, increasing by **\$56,000 (20.7 percent)**. The top three improving sectors were rounded out by **Miscellaneous**, which was up **\$49,000 (54.3 percent)** and **Wholesale**, which grew **\$22,000 (42.8 percent)**.

While there was sizable month-over-month growth this October, much of it appears to be related to one-time events. Contracting again plays a large role in keeping the growth rate higher than it might otherwise be. Miscellaneous is up almost entirely due to an anomalously large distribution from the state (\$40,000), an amount that is generally below \$5,000. This distribution alone accounts for 37.6 percent of month-over-month growth. This figure represents revenues with incomplete coding, which the state distributes according to the best estimate of origin. Without that revenue, month-over-month growth would fall to 4.1 percent.

A few groups fell this month, led by **Services, which fell \$14,000 (5.9 percent)**. Rounding out the top three were **Auto/Gas Retail, which was down \$13,000 (2.9 percent)**, and **General Merchandise/Misc Retail, which was down \$7,000 (4.3 percent)**.

The decreases in Services and General Merchandise/Miscellaneous Retail were not encouraging, but not severe either. The decline in Auto/Gas Retail is a bit misleading, as October car sales were strong, but the comparison to October 2015 is not flattering, as that month was the highest grossing of the past two years. The month-over-month trends overall were not encouraging, but not particularly poor, given that Auto/Gas Retail sales were relatively strong.

### 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	2,119,813	2,235,144	115,331	5.4%	13.5%	13.4%
Contracting	2,411,802	2,751,745	339,943	14.1%	15.4%	16.5%
Communications	356,300	443,455	87,155	24.5%	2.3%	2.7%
Retail:						
Auto/Gas Retail	3,955,337	3,967,043	11,706	0.3%	25.2%	23.9%
Gen Merch/Misc Retail	1,810,238	1,745,553	(64,685)	-3.6%	11.5%	10.5%
Retail Eating/Drinking	1,305,496	1,332,750	27,254	2.1%	8.3%	8.0%
Other Retail	2,091,262	2,285,208	193,946	9.3%	13.3%	13.7%
Wholesale	756,957	799,511	42,554	5.6%	4.8%	4.8%
Miscellaneous	891,529	1,067,387	175,858	19.7%	5.7%	6.4%
<b>Total</b>	<b>15,698,732</b>	<b>16,627,794</b>	<b>929,062</b>	<b>5.9%</b>	<b>100%</b>	<b>100%</b>

Through the end of October, year-to-date sales tax revenues are up **5.9 percent**. This is 0.1 percentage points higher than the year-to-date growth rate reported in September.

By dollar amount, the largest growth is in **Contracting**, which is up **\$340,000 (14.1 percent)** from last year. **Other Retail** and **Miscellaneous** are the next two leading sectors, up **\$194,000 (9.3 percent)** and **\$176,000 (19.7 percent)** respectively. After a somewhat slow month in September, Contracting rebounded in October and now accounts for 36.6 percent of year-to-date growth. Other Retail, which includes Internet Sales, Food & Beverage, Electronics, Furniture, and others, has consistently been one of the top growth groups in 2016. Miscellaneous jumped into the top three due to outperforming Services significantly in October.

**General Merchandise/Misc Retail** is the only group down on the year, **\$65,000 (3.6 percent)** below 2015 revenues. Receipts are down marginally for most major retailers in the Misc Retail category, which accounts for \$57,000 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 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 0.3 percent. The growth rate was up to 6.4 percent in April, but has declined almost every month since then.

### Neighboring City Performance

Neighboring cities are performing well this year, though results in October were somewhat mixed. Year-to-date growth in Bellevue increased 0.6 percentage points to 7.4, while Seattle and Renton decreased 0.4 and 0.1 percentage points down to 11.0 and 7.7 percent respectively. Bothell fell 0.9 points, down to 7.9 percent on a year-to-date basis. Redmond's booming growth through August appears to be over, and saw a 3.9 point drop in year-to-date growth, which is still up an impressive 36.4 percent on the year. Overall, Kirkland has the lowest year-to-date growth of these cities, 1.8 percentage points below Seattle, the next closest growth rate.

### 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
<b>Consumer Confidence</b>					
Consumer Confidence Index	October	Index	98.6	104.1	(5.5)
<b>Unemployment Rate</b>					
National	September	%	5.0	4.9	0.1
Washington State	September	%	5.1	5.7	(0.6)
King County	September	%	4.0	3.9	0.1
Kirkland	September	%	3.5	3.3	0.2
<b>Housing</b>					
New House Permits	August	Thousands	29.1	39.8	(10.7)
Seattle Area Home Prices	August	Index	204.7	203.7	1.0
<b>Inflation (CPI-W)</b>					
National	September	% Change	1.2	0.7	0.5
Seattle	August	% Change	2.0	2.0	0.0
<b>Car Sales</b>					
New Vehicle Registrations	September	Thousands	26.2	25.2	1.0

The Conference Board reported a decrease for the **Consumer Confidence Index** in October, as the Index fell 5.5 points to 98.6. The Board indicated that both near-term and long-term indicators decreased, as consumers anticipate minimal growth.

**Unemployment Rates** increased slightly at the National level, rising to 5.0 percent from August to September. The September unemployment rate in Washington State fell significantly, down 0.6

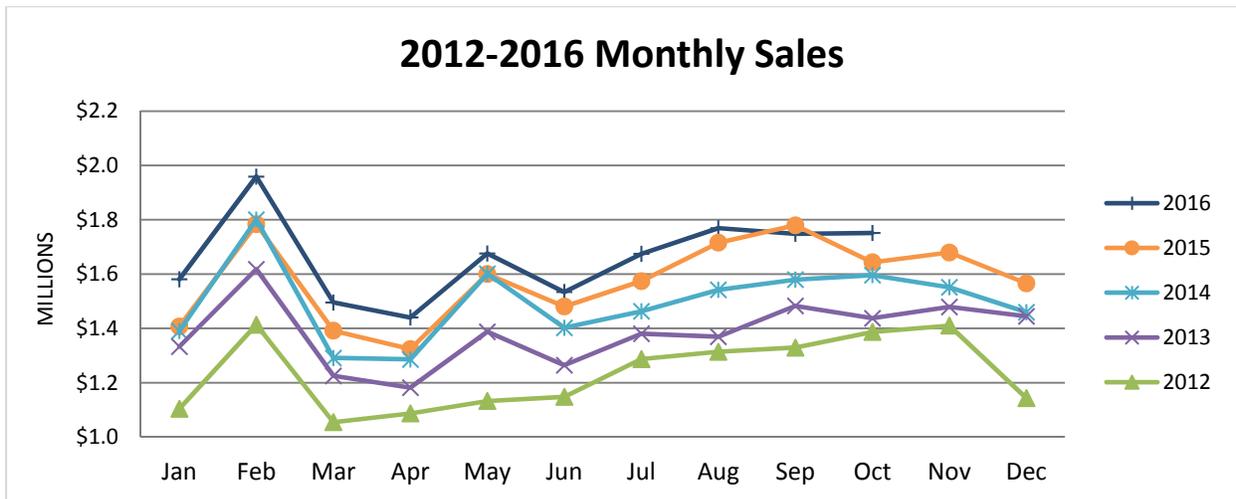
percentage points to 5.1 percent. King County and Kirkland each crept up marginally in September, but continue to remain at low levels, 4.0 and 3.5 percent respectively.

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.

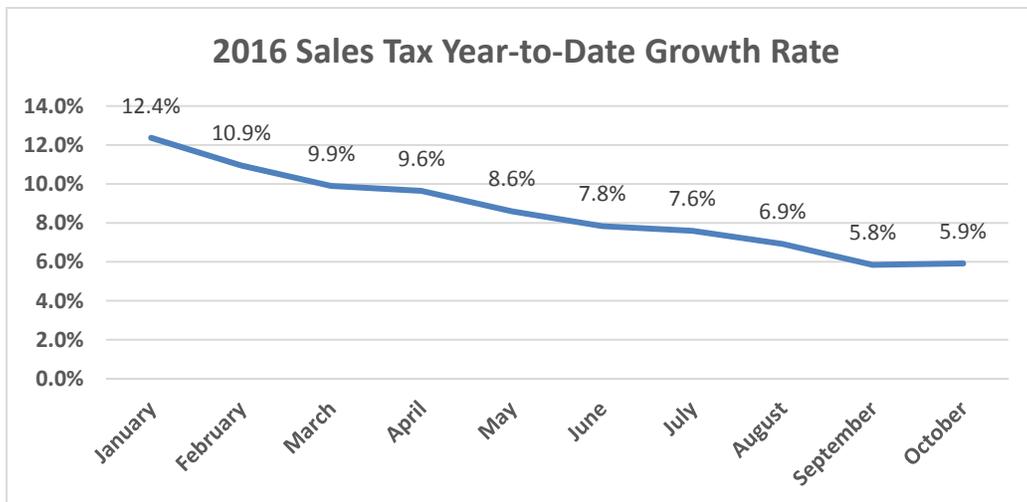
**New Vehicle Registrations** increased in September, up by 1,000 to 26,200, their highest level since February. Registration levels remain high relative to 2014 and 2015.

**Conclusion**

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



Month-over-month sales tax revenue in October 2016 is back above 2015, though the graph shows that October 2015 was a slow month. The year-to-date growth rate increased for the first time this year, albeit marginally. October's performance did not answer any questions, and mixed results over the past couple months don't suggest a big change either upwards or downwards in the near future. Economic context data is somewhat mixed. Despite consumers feeling more cautious about the state of the economy, other indicators do not point to a significant downturn. For now a "wait and see" approach may be most prudent.



Maximum Maturities	Policy Requirement	Percentage of Portfolio	Portfolio Allocation	Within Limits	Credit Rating	Within Limits
Under 30 days	10%	35%	\$ 65,932,868	Yes	Municipal	
Under 1 year	25%	49%	\$ 92,116,335	Yes	AA-	by S&P Yes
Under 5 years	100%	100%	\$ 189,564,121	Yes	Aa3	by Moodys Yes
Maximum Weighted Average Maturity	3 Years		1.45	Yes	Commercial Paper/Bankers Acceptance	
Maximum Callable Securities	50%	30%	\$ 19,963,730	Yes	A1+ / P1	Yes
Maximum Single Maturity	5 Years		4.17	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%		16%	\$ 30,179,095	Yes
Government Agencies	100%		45%	\$ 85,864,581	Yes
FHLB		30%	4%	\$ 7,112,681	Yes
FNMA		30%	13%	\$ 25,054,460	Yes
FHLMC		30%	16%	\$ 30,107,040	Yes
FFCB		30%	11%	\$ 20,009,400	Yes
Other GSE's	20%	10%	2%	\$ 3,581,000	Yes
Municipal Bonds- GO States - Locals WA	20%	5%	3%	\$ 6,128,614	Yes
Certificates of Deposit	10%	5%	3%	\$ 5,039,963	Yes
Commercial Paper	5%	5%	0%	\$ -	Yes
Bank Deposits	50%	0%	14%	\$ 27,153,303	Yes
Bankers Acceptances	5%	5%	0%	\$ -	Yes
Local Government Investment Pool	100%	N/A	19%	\$ 35,198,565	Yes
<b>Total</b>			<b>100%</b>	<b>\$ 189,564,121</b>	



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	\$ 121,814,911	\$ 122,172,290	\$ 357,378	1.15	1.95	2.25
City of Kirkland Liquidity	\$ 67,391,831	\$ 67,391,831	\$ 67,391,831		0.52	0.09	0.10
<b>TOTAL PORTFOLIO</b>	<b>\$ 189,097,831</b>	<b>\$ 189,206,742</b>	<b>\$ 189,564,121</b>	<b>\$ 357,378</b>	<b>0.92</b>	<b>1.29</b>	<b>1.49</b>

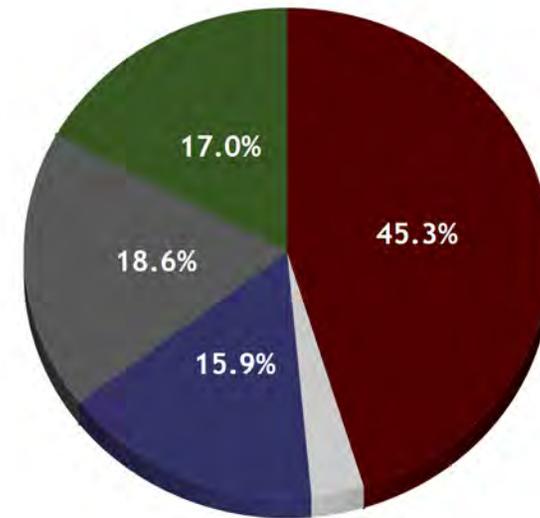


## Total Funds City of Kirkland

### Weighted Averages

Book Yield	0.92
Maturity	1.45
Coupon	0.93
Moody	Aa1
S&P	AA+

### Fixed Income Allocation



### Fixed Income Totals

Par Value	189,097,831
Market Value	189,564,120.88
Amortized Book Value	189,206,742.43
Unrealized Gain/Loss	357,378.45
Estimated Annual Cash Flow	1,754,355.62

Security Type	Market Value	% Assets
US Agency (USD)	85,864,581.00	45.3
Municipal (USD)	6,128,613.75	3.2
US Treasury (USD)	30,179,095.00	15.9
LGIP State Pool (USD)	35,198,565.04	18.6
Bank or Cash Deposit (USD)	32,193,266.09	17.0
<b>Fixed Income Total</b>	<b>189,564,120.88</b>	<b>100.0</b>

### **Disclaimer**

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### **Definition and Terms**

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

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

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

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

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

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

ATTACHMENT C  
**CITY OF KIRKLAND**  
**INVESTMENT POLICY COMPLIANCE REPORT**

Date of Report 11/22/2016

Period Covered Month of October 2016: October 31, 2016

Policy Section	Compliance	Current Portfolio	Policy Requirement	Frequency
5.1 Delegation of Authority	Compliant	Investment procedures are documented	Establish written procedures for operations of the investment program	Updated as needed
6.2 Safekeeping	Compliant	US Bank Safekeeping	All Securities will be held in Safekeeping	Monthly
6.3 Internal Controls	Compliance	Section 3. Internal Controls in Procedures Manual	Documented in Investment Procedures Manual	Updated as needed
6.4 External Review	Compliant	2013 review completed	External review of City Investment Policy and Investment Portfolio for compliance and best practices	Every 3 Years
7.1 Broker/Dealers	Compliant	Detailed Authorized Broker/Dealer list provided by the Investment Advisor is on file.	<ul style="list-style-type: none"> <li>• Review of Financial Industry Regulatory Authority report on firm and broker</li> <li>• Certification of having read the Policy and receipt of the City's Trading Authorization</li> <li>• or Broker/Dealer list provided by Investment Advisor</li> </ul>	Annual
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 October which settled in November. 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, GPA Compliance 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	16%	100%	
US Agency Primary	Compliant	45%	100%, 30% per issuer	
US Agency Secondary Issuance	Compliant	0%	20%, 10% per issuer	
Local Government Investment Pool	Compliant	19%	100%	
Bank Deposits	Compliant	14%	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	1.45 Years	Maximum Weighted Maturity 3 Years Minimum % of Portfolio Under 30 Days 10% Under 1 Year 25% Under 5 Years 100%	Monthly
9.2 Investment Maturity Maximum Maturity	Compliant	2/26/2021	Maximum Maturity of Individual Issue 5 Years	Monthly
9.2 Investment Maturity Callable Securities in Core	Compliant	30%	50%	Monthly

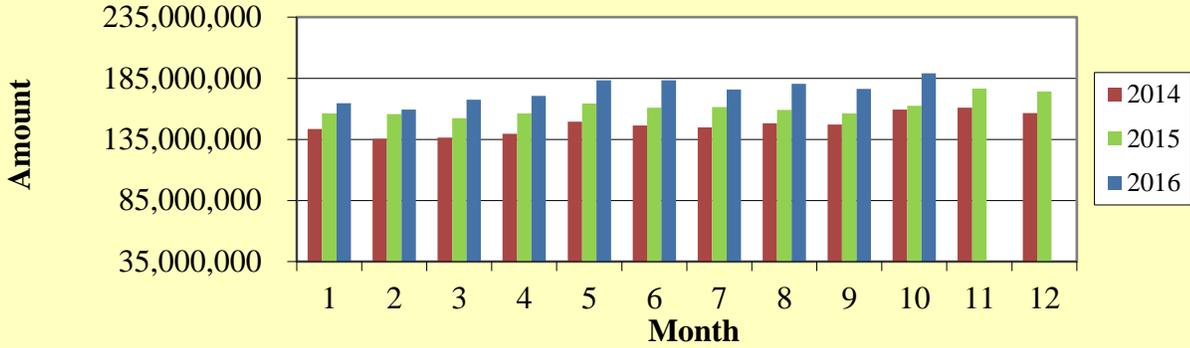
ATTACHMENT C  
**CITY OF KIRKLAND**  
**INVESTMENT POLICY COMPLIANCE REPORT**

Date of Report 11/22/2016

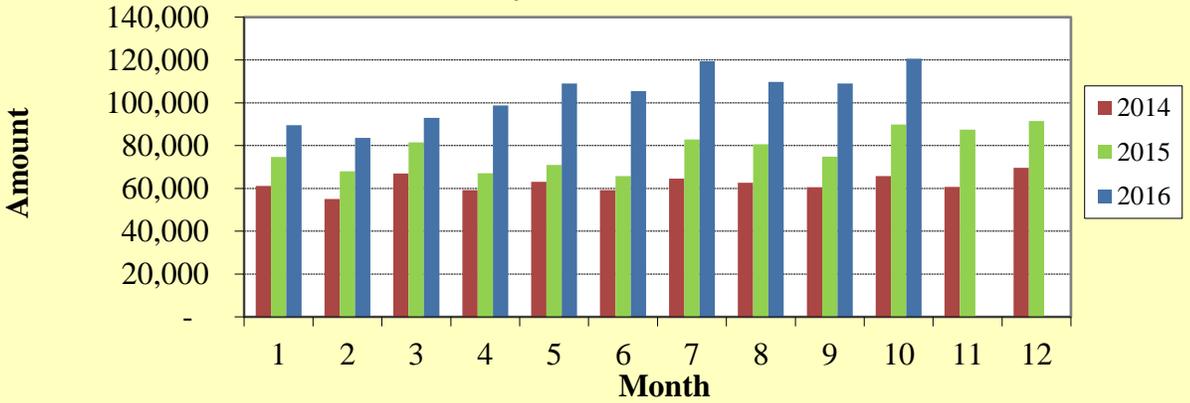
Period Covered Month of October 2016: October 31, 2016

<b>10.0</b> Reporting Requirements	Compliant	2016 2 <sup>nd</sup> Quarter FMR Report is available	Annual, Quarterly & Monthly	Monthly
<b>10.2</b> Performance Standards	Compliant	LGIP 0.47% <u>Portfolio</u> Liquidity Portion 0.52% Investment Core 1.15% Total Portfolio 0.92%	LGIP for earnings rate US Treasury index for total return	Monthly
<b>10.3</b> Compliance Report	Compliant	This report is provided monthly to the Finance and Administration Committee	Quarterly comparison to Investment Policy	Quarterly
<b>11.0</b> Investment Policy Adoption	Compliant	October 29, 2015 and April 4, 2016 Investment Committee Review	Annual Review	Annual
<b>11.0</b> Investment Policy Adoption	Compliant	Last adopted 7-19-2016	Policy shall be adopted by City Council	Changes Adopted As Needed

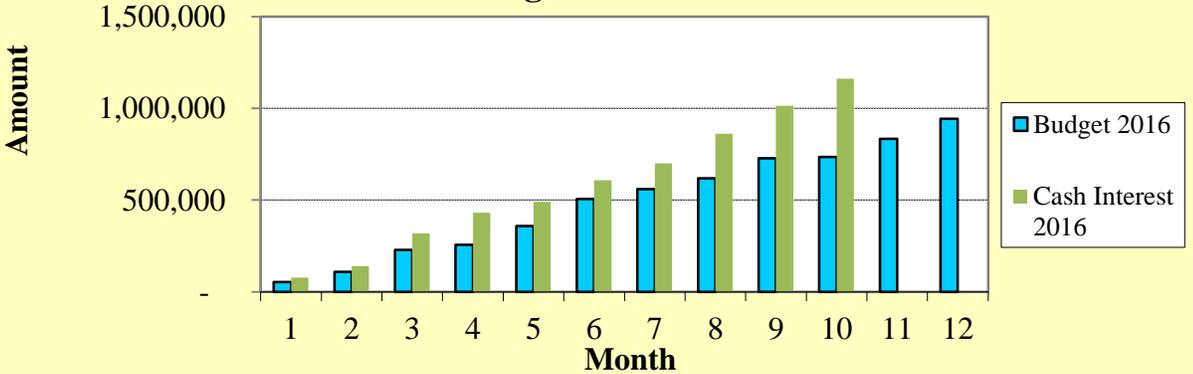
### Portfolio Size



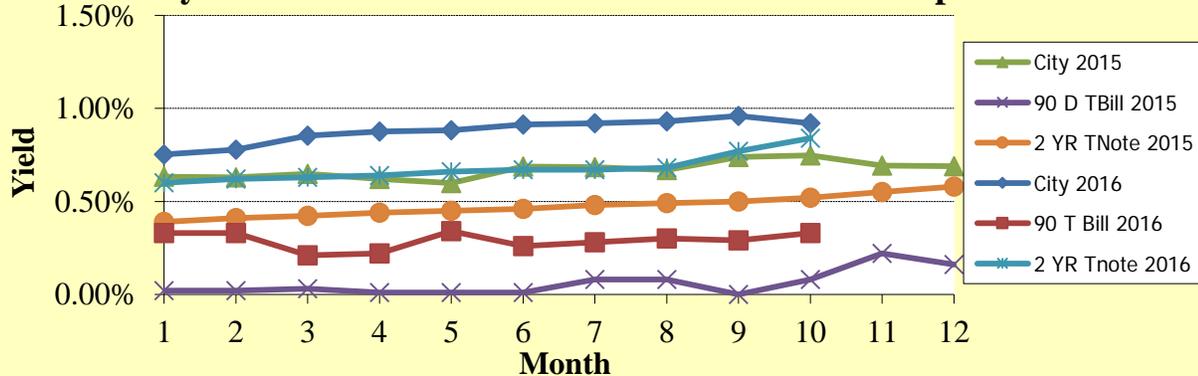
### Monthly Interest Earned



### 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 October 31, 2016

Month	Kirkland Portfolio				Monthly Interest Earned (accrual basis)				2013	2014	2015	2016
	2013	2014	2015	2016	2013	2014	2015	2016				
January	147,092,449	143,421,023	156,314,647	164,511,618	58,580	61,187	74,750	89,513	58,580	61,187	52,583	89,513
February	146,976,588	135,412,468	155,851,451	159,291,435	62,157	55,081	68,033	83,650	167,721	109,710	142,492	173,163
March	146,167,907	136,341,046	152,331,121	167,562,033	77,984	66,925	81,552	93,029	208,036	142,550	224,044	276,988
April	155,152,206	139,552,582	156,349,024	170,445,138	69,791	59,152	67,068	98,779	257,241	204,059	290,728	364,690
May	160,818,008	149,485,197	164,255,373	183,280,257	73,445	63,100	70,933	108,983	386,233	255,598	361,765	475,507
June	153,742,052	146,480,895	160,825,611	183,434,333	57,863	59,152	65,781	105,448	510,923	428,683	434,062	583,307
July	150,140,357	144,749,873	161,393,089	175,823,626	61,370	64,607	82,917	119,380	579,393	465,939	516,979	700,510
August	146,159,493	148,202,978	159,179,241	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	<b>189,085,270</b>	65,593	65,709	89,879	<b>120,649</b>	669,902	561,174	770,839	<b>1,067,489</b>
November	153,361,598	161,062,345	176,442,633		65,109	60,726	87,496		717,757	589,228	859,023	
December	144,891,904	156,573,354	174,176,972		69,468	69,693	91,472		896,405	744,154	950,496	
<b>Average</b>	149,898,822	147,297,581	161,322,220	<b>175,026,668</b>	65,537	62,378	77,943	<b>103,823</b>	n/a	n/a	n/a	n/a

Month	2 Yr T-Bill 2 Yr. Rolling Average												% of Budget			
	City 2013	City 2014	City 2015	City 2016	90 D TBill 2013	90 D TBill 2014	90 D TBill 2015	90 D TBill 2016	2 YR TNote 2013	2 YR TNote 2014	2 YR TNote 2015	2 YR TNote 2016	Cash Interest 2016	Budget 2016	Actual	Budget
January	0.62%	0.57%	0.63%	0.75%	0.07%	0.02%	0.02%	0.33%	0.33%	0.29%	0.39%	0.60%	77,650	53,100	8%	6%
February	0.64%	0.59%	0.63%	0.78%	0.11%	0.05%	0.02%	0.33%	0.32%	0.29%	0.41%	0.62%	139,345	108,600	15%	12%
March	0.64%	0.59%	0.65%	0.85%	0.07%	0.05%	0.03%	0.21%	0.29%	0.30%	0.42%	0.63%	319,419	229,200	34%	24%
April	0.61%	0.58%	0.62%	0.88%	0.05%	0.03%	0.01%	0.22%	0.28%	0.30%	0.44%	0.64%	432,250	256,500	46%	27%
May	0.51%	0.55%	0.60%	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%	0.77%	1,013,735	728,000	108%	77%
October	0.57%	0.53%	0.75%	<b>0.92%</b>	0.04%	0.01%	0.08%	<b>0.33%</b>	0.28%	0.36%	0.52%	<b>0.84%</b>	<b>1,161,257</b>	735,000	123%	78%
November	0.56%	0.55%	0.69%		0.06%	0.02%	0.22%		0.28%	0.37%	0.55%			834,000	0%	88%
December	0.59%	0.62%	0.69%		0.07%	0.04%	0.16%		0.29%	0.39%	0.58%			942,500	0%	100%
<b>Average</b>	0.58%	0.57%	0.67%	<b>0.88%</b>	0.05%	0.03%	0.06%	<b>0.29%</b>	0.29%	0.33%	0.47%	<b>0.68%</b>	n/a	<b>942,500</b>	n/a	n/a



# Financial Management Report as of September 30, 2016

## AT A GLANCE:

City proposes public safety improvements in 2017-18 budget under "Stay Steady, Get Ready" theme (page 2)

2016 third quarter General Fund revenues increased 9.5% over 2015 (page 3)

Sales tax revenue grew 5.8% through the third quarter (page 5)

Unemployment is falling, Seattle inflation grows, and the housing prices continues to rise (pages 7-8)

The City's portfolio outperformed both the 90 day T Bill and the 2 year rolling average of the 2 year Treasury note (page 8)

## Inside this issue:

Expenditure Summary	2
General Fund Revenue	3
General Fund Expenditures	4
Sales Tax Revenue	5-6
Economic Environment	7-8
Investment Report	8-9
Reserve Summary	10-11

## Summary of All Operating Funds: *Revenue*

- **General Fund** revenue ended September **9.5 percent ahead** of 2015, an increase of \$5,964,555. The increase is largely the result of higher planning fees, sales taxes, and construction permits. Actual revenues finished the quarter at 74.4 percent of budget, three-fourths of the way through the year. A more detailed analysis of General Fund revenue can be found on page 3, and details on sales tax revenue begin on page 5.
- **Other General Government Funds** revenue finished the quarter **4.9 percent higher** than 2015, up \$518,907. **The Street Operating Fund** and **Information Technology Fund** accounted for the majority of the growth, up **5.7 and 5.3 percent** respectively. Information Technology Fund revenue grew largely due to charges received for temporary GIS services provided in support of the Lucity Enterprise Asset Management project, while Street Operating Fund revenue grew largely due to two factors: higher gas tax revenue as a result of state legislative increases in the fall of 2015 and an insurance recovery for a traffic signal that was knocked down on Willows Road.
- Actual revenue for total Other Government revenues, excluding interfund transfers, was at **69.8 percent of budget**. All funds were near or exceeding expected levels. The bulk of revenues to several funds, including the **Street Operating Fund, Parks Levy Fund, and Parks Maintenance Fund** arrive in the second and fourth quarters of the year.
- **Surface Water Management Fund** revenues were **4.1 percent lower** than they were during the same period in 2015 and are at **56.5 percent of budget**. The decrease is due to lower grant revenue in 2016. In 2015, the City received grant revenue from the Department of Ecology for local source control and the Environmental Protection Agency for Totem Lake/Juanita Creek Basin storm water control design. Excluding the impacts of these grants, revenue would otherwise be 1.0 percent higher than in 2015, led by growth in Storm drainage fees. Like several other funds, revenues to the Surface Water Management Fund are primarily receipted in the second and fourth quarters.
- **Water/Sewer Operating Fund** third quarter revenue is **down 3.0 percent** from 2015. Actual revenue for the quarter was **72.7 percent of budget**. The decline in collections from 2015 is due cooler weather and lower consumption in 2016.
- The **Solid Waste Fund** finished the third quarter of the year with **74.2 percent of budgeted revenues**. Actual revenues were 0.3 percent higher than in 2015.

Resources by Fund	Year-to-Date Actual			Budget			% of Budget	
	9/30/2015	9/30/2016	% Change	2015	2016	% Change	2015	2016
<b>General Gov't Operating:</b>								
General Fund	62,661,034	68,625,589	9.5%	86,443,318	88,658,144	2.6%	72.5%	77.4%
Other General Gov't Operating Funds	17,993,584	18,873,935	4.9%	26,531,966	27,050,873	2.0%	67.8%	69.8%
<b>Total General Gov't Operating</b>	<b>80,654,617</b>	<b>87,499,525</b>	<b>8.5%</b>	<b>112,975,284</b>	<b>115,709,017</b>	<b>2.4%</b>	<b>71.4%</b>	<b>75.6%</b>
<b>Utilities:</b>								
Water/Sewer Operating Fund	20,153,120	19,554,097	-3.0%	26,451,995	26,905,563	1.7%	76.2%	72.7%
Surface Water Management Fund	5,920,152	5,678,886	-4.1%	9,939,650	10,047,501	1.1%	59.6%	56.5%
Solid Waste Fund	12,474,007	12,510,187	0.3%	16,445,443	16,853,760	2.5%	75.9%	74.2%
<b>Total Utilities</b>	<b>38,547,279</b>	<b>37,743,169</b>	<b>-2.1%</b>	<b>52,837,088</b>	<b>53,806,824</b>	<b>1.8%</b>	<b>73.0%</b>	<b>70.1%</b>
<b>Total All Operating Funds</b>	<b>119,201,896</b>	<b>125,242,694</b>	<b>5.1%</b>	<b>165,812,372</b>	<b>169,515,841</b>	<b>2.2%</b>	<b>71.9%</b>	<b>73.9%</b>

\*Budgeted and actual revenues exclude resources forward and interfund transfers.

## Summary of All Operating Funds: *Expenditures*

### City Proposes Public Safety Investments in 2017-2018 Kirkland City Budget

Under the theme of "Stay Steady, Get Ready," the preliminary 2017-2018 City budget continues to make significant investments in public safety.

These investments are especially important as the City prepares for redevelopment at Kirkland Urban and the Village at Totem Lake. These projects will create new venues to live, work, and enjoy our community. They are anticipated to bring new residents and business activity to Kirkland.

The City is proposing to invest \$13,920,000 for a new fire station in Juanita and renovations to the fire station in Finn Hill. The Fire Department will also add capacity to maintain the quality and speed of emergency services when vacancies occur and new personnel are in training. Together, these improvements will enhance overall response times, particularly in the northern portion of the City.

The budget also includes a proposal to invest \$389,678 into the establishment of a proactive policing unit. This team, working with Kirkland's neighboring cities, will use a blend of community-oriented practices and data analysis to prevent crime. The unit will be funded by reallocating resources and with new revenues.

Final adoption of the budget will be considered during the December 13th City Council meeting. Learn more about Kirkland's government, its services, and the budget process at [www.kirklandwa.gov](http://www.kirklandwa.gov).

- **General Fund** expenditures (excluding transfers) finished the third quarter of 2016 **up 3.7 percent** from the year before. Actual expenditures finished at **74.0 percent of budget**. Intergovernmental Professional Services led the growth with a \$934,458, or 37 percent, increase over last year. This is primarily due to one-time pass-through payments related to the "A Regional Coalition for Housing" affordable housing project. Personnel services grew 2.8 percent above last year, due to movement through salary steps and collective bargaining contract increases. An analysis of General Fund expenditures by department can be found on pages 4 and 5.
- **Other General Government Operating Funds** actual expenditures were **2.5 percent higher** than 2015, largely due to increases in the Street Operating Fund. Street Operating Fund expenditures **increased 20.6 percent** due to the hiring of temp employees, increased Utility Services charges for a full year of street light funding in the annexed area, and Capital Outlays. Capital Outlays expenditures in 2016 were for median landscaping improvements, originally budgeted in 2015. The **Equipment Rental Fund** spent less than in 2015, **falling 24.1 percent**, due to lower fuel prices and fewer vehicle replacements in 2016. In aggregate, other general government operating funds finished the third quarter of 2016 at **64.1 percent** of budgeted funds.
- **Water/Sewer Operating Fund** actual expenditures through September were **3.6 percent higher** than in 2015. This was largely because of an increase in the Metro Sewer Charge, as well as expenditures on Other Services. Increases in Other Services were mostly for Professional Services related to the update of the Sewer Master Plan, which was originally budgeted for 2015. In total, the Water/Sewer fund finished September at **76.0 percent of budget**.
- **Surface Water Management Fund** expenditures at the end of the third quarter were **3.0 percent higher** than 2015. This increase is from salaries and benefits. Expenditures for labor were up through the third quarter due to acceleration of the work load for the Cochran Springs project. Surface Water Management's non-personnel services spending was lower by comparison, due largely to higher one-time professional services spending in 2015 on grant funded work, including the Totem Lake/Juanita Creek basin design project and the Local Source Control program. Expenditures through the end of September were **lower than budgeted, at 66.9 percent** of budget.
- **Solid Waste Fund** expenditures through September were **1.0 percent higher** in 2016 than in 2015. Small, planned increases in expenditures for the waste disposal contract was the cause of the overall increase. Expenditures in the fund finished the third quarter at **74.7 percent of budget** which is in line with expected budget expenditures.

Expenditures by Fund	Year-to-Date Actual			Budget			% of Budget	
	9/30/2015	9/30/2016	% Change	2015	2016	% Change	2015	2016
<b>General Gov't Operating:</b>								
General Fund	60,130,961	62,329,729	3.7%	83,534,621	84,268,524	0.9%	72.0%	74.0%
Other General Gov't Operating Funds	15,038,388	15,412,925	2.5%	25,071,855	24,045,119	-4.1%	60.0%	64.1%
<b>Total General Gov't Operating</b>	<b>75,169,349</b>	<b>77,742,654</b>	<b>3.4%</b>	<b>108,606,476</b>	<b>108,313,643</b>	<b>-0.3%</b>	<b>69.2%</b>	<b>71.8%</b>
<b>Utilities:</b>								
Water/Sewer Operating Fund	16,720,477	17,331,721	3.7%	22,929,938	22,806,507	-0.5%	72.9%	76.0%
Surface Water Management Fund	4,791,383	4,934,733	3.0%	7,877,204	7,372,572	-6.4%	60.8%	66.9%
Solid Waste Fund	12,016,716	12,138,071	1.0%	15,988,325	16,252,408	1.7%	75.2%	74.7%
<b>Total Utilities</b>	<b>33,528,577</b>	<b>34,404,525</b>	<b>2.6%</b>	<b>46,795,467</b>	<b>46,431,487</b>	<b>-0.8%</b>	<b>71.6%</b>	<b>74.1%</b>
<b>Total All Operating Funds</b>	<b>108,697,926</b>	<b>112,147,179</b>	<b>3.2%</b>	<b>155,401,943</b>	<b>154,745,130</b>	<b>-0.4%</b>	<b>69.9%</b>	<b>72.5%</b>

\*Budgeted and actual expenditures exclude working capital, operating reserves, capital reserves, and interfund transfers.

## General Fund Revenue

- **Sales tax** revenue allocated to the General Fund through the third quarter of 2016 was **5.8 percent higher** than it was in 2015. The bulk of this increase is in the Contracting, Other Retail, and Miscellaneous sectors. A detailed analysis of total sales tax revenue can be found starting on page 5.
  - **Property taxes** through September were **3.6 percent higher** than 2015, **at 56.1 percent of budget**. This is in line with expectations for the year due to the timing of payments. The bulk of property tax revenue is received in April and October.
  - **Utility tax** collections finished September **2.0 percent lower** compared to results through September 2015. Growth in electric utility taxes were offset by declines in gas and telecommunications. Collections through September were at **71.1 percent** of budget.
  - **Other taxes** actual revenues were **6.4 percent higher** than in 2015, and finished the third quarter at **104.2 percent of budget**. This increase is the result of higher than expected gambling revenues from card games, punch boards, and pull tabs.
  - **Business license and franchise fees** were **2.0 percent** higher than in 2015 and finished September **at 77.1 percent** of budget.
  - Collections from the **revenue generating regulatory license fee** were **22.4 percent higher** than in 2015. Revenues were **at 89.0 percent of budget**. A portion of this growth is one-time revenue, as the City identified businesses operating with-
- out licenses, some of them owing up to three years of back payments.
  - **Plan check fees and planning fees** finished the quarter **up 78.5 percent** and **60.1 percent** respectively. **Building, Structural and Equipment permits** were **up 18.7 percent** and **Engineering Services charges** were **up 2.7 percent** compared to 2015. Much of the Planning Fee increases are due to activity at Totem Lake and Kirkland Urban, while the Building permit increase stems from a rush in activity in advance of a building code change in July.
  - **Fines and forfeitures** were **down 13.8 percent from 2015** as revenue from traffic and parking infraction penalties decreased due to longer-than-expected staff turnover in the Police Department's Traffic Unit. This revenue source finished September **at 54.1 percent of budget**. Traffic infraction penalties are not received in January, so the budget is collected in 11 months from February to December. Therefore, this category will be closer to budget by year end if past trends hold for the current year.
  - **Miscellaneous** revenue finished September **10.9 percent up** from 2015 due to higher interest earnings and increased revenue from rental properties, most notably from the Yuppie Pawn Shop property. This category was **above budget projections at 119.7 percent of budget**.
  - Revenue from the voter-approved King County **EMS Levy** was received late in the third quarter. In 2015, this revenue arrived early in the fourth quarter.

General Fund revenues ended the third quarter \$5,964,555 higher than in 2015 largely due to growth in taxes and charges for services.

The General Fund is the largest of the General Government Operating funds. It is primarily tax supported and accounts for basic services such as public safety, parks and recreation, and community development.

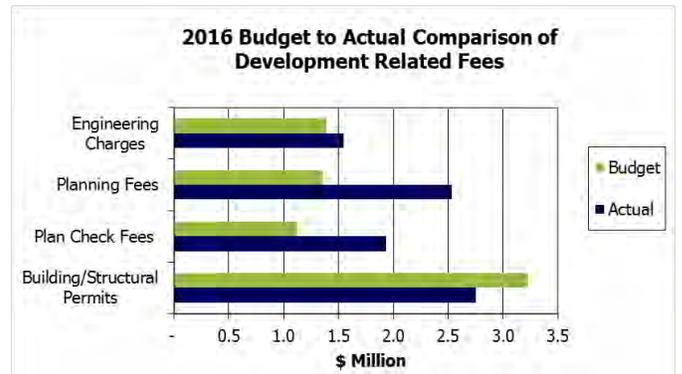
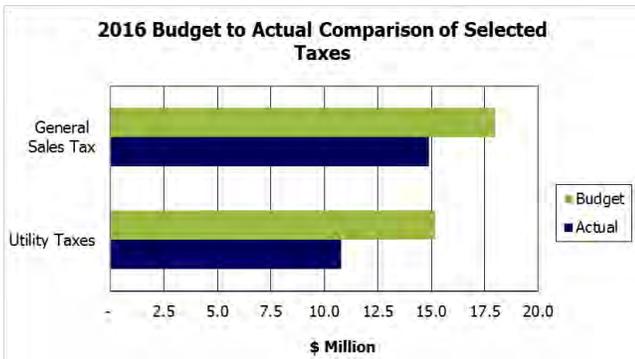
• Many significant General Fund revenue sources are economically sensitive, such as sales tax and development-related fees.

• About 454 of the City's 592 regular employees are budgeted within the general fund this year.

General Fund Resource Category	Year-to-Date Actual			Budget			% of Budget	
	9/30/2015	9/30/2016	% Change	2015	2016	% Change	2015	2016
<b>Taxes:</b>								
Retail Sales Tax: General	14,055,342	14,876,520	5.8%	17,963,747	17,963,747	0.0%	78.2%	82.8%
Retail Sales Tax Credit: Annexation	2,704,960	2,803,236	3.6%	3,792,500	3,935,000	3.8%	71.3%	71.2%
Retail Sales Tax: Criminal Justice	1,559,869	1,691,315	8.4%	2,036,370	2,097,461	3.0%	76.6%	80.6%
Property Tax	9,688,892	10,034,797	3.6%	17,456,855	17,886,952	2.5%	55.5%	56.1%
Utility Taxes	11,011,540	10,788,535	-2.0%	15,015,081	15,175,950	1.1%	73.3%	71.1%
Rev Generating Regulatory License	1,718,902	2,103,816	22.4%	2,338,315	2,364,399	1.1%	73.5%	89.0%
Other Taxes	1,050,668	1,118,119	6.4%	1,063,075	1,072,758	0.9%	98.8%	104.2%
<b>Total Taxes</b>	<b>41,790,173</b>	<b>43,416,338</b>	<b>3.9%</b>	<b>59,665,943</b>	<b>60,496,267</b>	<b>1.4%</b>	<b>70.0%</b>	<b>71.8%</b>
<b>Licenses &amp; Permits:</b>								
Building, Structural & Equipment Permits	2,319,890	2,752,567	18.7%	3,219,731	3,227,201	0.2%	72.1%	85.3%
Business Licenses/Franchise Fees	3,461,246	3,529,485	2.0%	4,532,649	4,580,520	1.1%	76.4%	77.1%
Other Licenses & Permits	426,977	447,198	4.7%	444,563	519,801	16.9%	96.0%	86.0%
<b>Total Licenses &amp; Permits</b>	<b>6,208,113</b>	<b>6,729,250</b>	<b>8.4%</b>	<b>8,196,943</b>	<b>8,327,522</b>	<b>1.6%</b>	<b>75.7%</b>	<b>80.8%</b>
<b>Intergovernmental:</b>								
Grants and Federal Entitlements	127,462	144,190	13.1%	162,125	132,000	-18.6%	78.6%	109.2%
State Shared Revenues & Entitlements	848,209	1,004,173	18.4%	1,098,514	1,339,360	21.9%	77.2%	75.0%
EMS	0	924,738	N/A	902,338	920,385	2.0%	N/A	100.5%
<b>Total Intergovernmental</b>	<b>975,671</b>	<b>2,073,101</b>	<b>112.5%</b>	<b>2,162,977</b>	<b>2,391,745</b>	<b>10.6%</b>	<b>45.1%</b>	<b>86.7%</b>
<b>Charges for Services:</b>								
Internal Charges	4,280,907	5,242,560	22.5%	6,159,409	7,116,620	15.5%	69.5%	73.7%
Engineering Services	1,508,918	1,549,845	2.7%	1,400,887	1,391,146	-0.7%	107.7%	111.4%
Plan Check Fee	1,082,374	1,931,771	78.5%	951,346	1,118,880	17.6%	113.8%	172.7%
Planning Fees	1,582,303	2,533,592	60.1%	1,457,383	1,359,493	-6.7%	108.6%	186.4%
Recreation	1,320,666	1,337,177	1.3%	1,215,100	1,215,200	0.0%	108.7%	110.0%
Other Charges for Services	1,503,184	1,481,252	-1.5%	1,980,204	2,093,739	5.7%	75.9%	70.7%
<b>Total Charges for Services</b>	<b>11,278,351</b>	<b>14,076,198</b>	<b>24.8%</b>	<b>13,164,329</b>	<b>14,295,078</b>	<b>8.6%</b>	<b>85.7%</b>	<b>98.5%</b>
<b>Fines &amp; Forfeits</b>	<b>1,376,552</b>	<b>1,185,909</b>	<b>-13.8%</b>	<b>2,189,359</b>	<b>2,191,067</b>	<b>0.1%</b>	<b>62.9%</b>	<b>54.1%</b>
<b>Miscellaneous</b>	<b>1,032,175</b>	<b>1,144,794</b>	<b>10.9%</b>	<b>1,063,767</b>	<b>956,465</b>	<b>-10.1%</b>	<b>97.0%</b>	<b>119.7%</b>
<b>Total Revenues</b>	<b>62,661,034</b>	<b>68,625,589</b>	<b>9.5%</b>	<b>86,443,318</b>	<b>88,658,144</b>	<b>2.6%</b>	<b>72.5%</b>	<b>77.4%</b>
<b>Other Financing Sources:</b>								
Interfund Transfers	0	82,400	N/A	437,228	334,266	-23.5%	N/A	24.7%
<b>Total Other Financing Sources</b>	<b>0</b>	<b>82,400</b>	<b>N/A</b>	<b>437,228</b>	<b>334,266</b>	<b>-23.5%</b>	<b>N/A</b>	<b>24.7%</b>
<b>Total Resources</b>	<b>62,661,034</b>	<b>68,707,989</b>	<b>9.7%</b>	<b>86,880,546</b>	<b>88,992,410</b>	<b>2.4%</b>	<b>72.1%</b>	<b>77.2%</b>

\*Budgeted and actual revenues exclude resources forward.

General Fund Revenue *continued*



General Fund Expenditures

General Fund Department Expenditures	Year-to-Date Actual			Budget			% of Budget	
	9/30/2015	9/30/2016	% Change	2015	2016	% Change	2015	2016
Non-Departmental	1,545,417	1,723,105	11.5%	2,943,258	2,372,324	-19.4%	52.5%	72.6%
City Council	361,513	388,786	7.5%	473,818	501,980	5.9%	76.3%	77.5%
City Manager's Office	1,439,168	1,801,360	25.2%	2,438,154	2,275,654	-6.7%	59.0%	79.2%
Municipal Court	1,785,241	1,872,341	4.9%	2,445,952	2,542,644	4.0%	73.0%	73.6%
Human Resources	1,041,098	1,074,988	3.3%	1,492,619	1,549,470	3.8%	69.7%	69.4%
City Attorney's Office	846,863	916,179	8.2%	1,246,620	1,201,014	-3.7%	67.9%	76.3%
Parks & Community Services	5,977,745	5,860,532	-2.0%	8,423,620	8,100,966	-3.8%	71.0%	72.3%
Public Works (General Fund)	3,650,900	4,229,663	15.9%	5,421,184	5,987,242	10.4%	67.3%	70.6%
Finance and Administration	3,433,272	3,535,548	3.0%	4,715,638	4,831,147	2.4%	72.8%	73.2%
Planning & Building	6,008,235	7,019,258	16.8%	8,492,888	8,774,771	3.3%	70.7%	80.0%
Police	18,294,581	17,935,499	-2.0%	25,154,856	25,169,837	0.1%	72.7%	71.3%
Fire	15,746,927	15,972,471	1.4%	20,286,014	20,961,475	3.3%	77.6%	76.2%
<b>Total Expenditures</b>	<b>60,130,961</b>	<b>62,329,729</b>	<b>3.7%</b>	<b>83,534,621</b>	<b>84,268,524</b>	<b>0.9%</b>	<b>72.0%</b>	<b>74.0%</b>
<b>Other Financing Uses:</b>								
Interfund Transfers	2,572,402	2,664,352	3.6%	8,480,717	5,430,801	-36.0%	30.3%	49.1%
<b>Total Other Financing Uses</b>	<b>2,572,402</b>	<b>2,664,352</b>	<b>3.6%</b>	<b>8,480,717</b>	<b>5,430,801</b>	<b>-36.0%</b>	<b>30.3%</b>	<b>49.1%</b>
<b>Total Expenditures &amp; Other Uses</b>	<b>62,703,363</b>	<b>64,994,081</b>	<b>3.7%</b>	<b>92,015,338</b>	<b>89,699,325</b>	<b>-2.5%</b>	<b>68.1%</b>	<b>72.5%</b>

\*Budgeted and actual expenditures exclude working capital, operating reserves, and capital reserves.

Comparing 2016 and 2015 expenditures:

In 2016, excluding interfund transfers, General Fund expenditures were **3.7 percent higher** than 2015, and finished the third quarter at **74.0 percent of budget**. Specific reasons for increased expenditures are highlighted below:

- Expenditures for **Non-departmental** were **up 11.5 percent** due to the earlier contribution made to "A Regional Coalition for Housing" in 2016 than in the prior year. This increase is offset by a reduction in contracted professional services for an impact fee study that was completed in 2015. Non-departmental finished the third quarter **at 72.6 percent of budget** spent.
- Actual 2016 expenditures for the **City Council increased 7.5 percent** from 2015. The increase is due to expenditures for the Community Survey, which is conducted in even-numbered years. City Council finished the quarter **at 77.5 percent of budget**, which is normal as annual membership dues are paid primarily at the beginning of the year.
- The **City Manager's Office** finished the third quarter **up 25.2 percent** from 2015 with **79.2 percent of budget** expended. The increase reflects the Deputy City Manager reorganization which occurred in mid-2015 and expenditures for the Police Strategic Plan earlier this year.
- Third quarter expenditures for the **Parks & Community Services Department** were **down 2.0 percent** from 2015 due to a late invoice for the 2013-14 Human Services Pooled Program which was paid early in the 2015-16 biennium, as well as one-time expenses related to the proposed Kirkland ARC Center project that did not continue into 2016. Parks and Community Services finished the third quarter **at 72.3 percent of budget**.

2016 General Fund actual expenditures (excluding "other financing uses") were 3.7 percent higher than they were in 2015.

Continued on page 5

## Financial Management Report as of September 30, 2016

- **Public Works - General Fund** expenditures were **15.9 percent above 2015**. Growth in expenditures in Wages and Benefits was due to the addition of four positions for Capital Project Engineering. Overall, Public Works - General Fund finished September at **70.6 percent of budget**.
- **Planning and Building** finished the quarter **16.8 percent above 2015**, with **80.0 percent of the budget** expended. This is largely due to the addition of one-time and ongoing resources to meet workload demands associated with the high levels of development activity in Kirkland.
- Due to a high level of turnover and vacancies in the department, **Police** expenditures ended the quarter **2.0 percent below 2015**, at **71.3 percent of budget**.
- Expenditures for the **Fire Department** finished the third quarter **1.4 percent above 2015**. Fire finished September at **76.2 percent of budget**. Expenses are within expected ranges, and similar to 2015 budget to actual performance. A greater proportion of fire overtime expenses come early in the year, as overtime expenditures to maintain minimum staffing over the winter holidays inflate these costs in January.
- Actual **Interfund Transfers** finished the third quarter **up 3.6 percent** from 2015 due to transfers for City Hall construction debt service, which began in 2016.

Summary of Fire District 41 Funds	
Revenues & Expenditures	
As of September 30, 2016	
Beginning Balance	5,230,000
Investment Interest	105,180
Expenditures:	114,893
<b>Current Balance</b>	<b>\$ 5,220,287</b>

### Sales Tax Revenue Analysis

Sales tax revenue through the third quarter was **5.8 percent** higher in 2016 than 2015. This represents a deceleration in the growth rate from the 7.8 mark set in the first half of the year. Increased activity in contracting, other retail, and services composed the bulk of the revenue gains. Sales tax revenue received through September reflects sales activity between November 2015 and July 2016.



### Review by business sectors:

- **Contracting** was **up 13.3 percent** through September compared to 2015. Construction collections continue to be strong this year, and lead overall sales tax growth. However, this is a very volatile revenue category and will fluctuate with changing economic conditions.
- Sales tax from the retail sectors was collectively **up 2.1 percent** compared to 2015.
  - ◇ The City's largest business sector—**Auto/gas retail**—was **up 0.7 percent** compared to 2015.
  - ◇ **General merchandise/miscellaneous retail** sector was **down 3.7 percent** in 2016 compared to 2015 due to reduced revenue from major retailers. This category is the most likely to contain impacts from ongoing construction at Kirkland Urban and the Village at Totem Lake.
  - ◇ **Retail eating/drinking** sector performance was **up 4.5 percent** compared to 2015.
- **Other retail** was **up 9.7 percent** compared to 2015. Non store retail, along with health & personal care and furniture, led the growth through September.
- The **services** sector was **up 6.8 percent** compared to 2015, largely due to growth in administrative support and health care services.
- **Wholesale** revenues were **up 3.0 percent** after September 2016.
- The **Miscellaneous** sector was **up 15.7 percent** through September, largely due to real estate and manufacturing growth.
- **Communications** grew **26.9 percent** on the year. This is due to a one time refund that was paid to selected taxpayers in May of 2015.

### Regional Sales Tax

Bellevue was up 6.8 percent, Redmond was up 40.3 percent through September 2016 compared to September 2015.

### King County

King County's sales tax receipts were up 6.2 percent through the end of the third quarter compared to 2015.

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%
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%
<b>Total</b>	<b>14,055,342</b>	<b>14,876,520</b>	<b>821,178</b>	<b>5.8%</b>	<b>100%</b>	<b>100%</b>

*Kirkland's sales tax base is comprised of a variety of businesses which are grouped and analyzed by business sector (according to "North American Industry Classification System" or NAICS). Nine business sector groupings are used to compare 2015 and 2016 sales tax receipts in the table to the left.*

Month	Sales Tax Receipts		Dollar Change	Percent Change
	2015	2016		
January	1,406,662	1,580,669	174,007	12.4%
February	1,783,689	1,958,878	175,189	9.8%
March	1,391,418	1,495,268	103,850	7.5%
April	1,323,936	1,440,078	116,142	8.8%
May	1,599,980	1,675,945	75,965	4.7%
June	1,480,647	1,533,895	53,248	3.6%
July	1,573,925	1,674,432	100,507	6.4%
August	1,715,342	1,769,207	53,865	3.1%
September	1,779,742	1,748,148	(31,594)	-1.8%
<b>Total</b>	<b>14,055,342</b>	<b>14,876,520</b>	<b>821,178</b>	<b>5.8%</b>

*When analyzing monthly sales tax receipts, there are two items of special note: First, most businesses remit their sales tax collections to the Washington State Department of Revenue on a monthly basis. Small businesses only have to remit their sales tax collections either quarterly or annually, which can create anomalies when comparing the same month between two years. Second, for those businesses which remit sales tax monthly, there is a two month lag from the time that sales tax is collected to the time it is distributed to the City.*

- Sales tax revenues through the third quarter of 2016 were 5.8 percent higher than the third quarter of 2015. Growth has slowed as the year has progressed. Cumulative revenues through the first and second quarters were up 9.9 and 7.8 percent over 2015, respectively.
- Sales tax revenue in September 2016 was down 1.8 percent compared to the same month in 2015. This ended a trend of month-over-month growth that began in September 2015.
- Increases have been led by growth sectors that tend to be volatile and will fluctuate with changing economic conditions, particularly Contracting.
- The City's largest business sector—Auto/Gas Retail—continues to see very slow growth and has trailed behind citywide growth throughout the year.

*Kirkland's sales tax base is further broken down by business district (according to geographic area), as well as "unassigned or no district" for small businesses and businesses with no physical presence in Kirkland.*

Comparing to the same period last year:

**Totem Lake**, which accounted for 27.7 percent of the total sales tax receipts through the third quarter, was **down 0.5 percent** from 2015 due to declining results in the automotive/gas retail and hotel/motel sectors. This was mitigated by positive growth in health care. Some of this decline can also be attributed to the closure of businesses during redevelopment at Totem Lake. About 60% of this business district's revenue comes from the auto/gas retail sector.

**NE 85<sup>th</sup> Street**, which made up 13.4 percent of the total sales tax receipts in 2016, was **up 1.6 percent** compared to 2015. This area's receipts grew due to improving auto retail and retail eating/drinking sales. General retail, which is the second largest sector, fell 0.2 percent on the year. Auto and general retail contribute 82.3 percent of this business district's revenue.

**Downtown**, which accounted for 5.3 percent sales tax receipts through the third quarter, was **down 11.5 percent**. This is primarily due to the closure of businesses during the

Kirkland Urban redevelopment. Sectors seeing the sharpest declines include information and retail eating/drinking.

**Carillon Point & Yarrow Bay**, which accounted for 1.9 percent of the total sales tax receipts, were **down 0.7 percent** compared to 2015. About 66.0 percent of this business district's revenue came from retail eating/drinking and accommodations.

**Houghton & Bridle Trails**, which has produced 2.2 percent of the total sales tax receipts in 2016, were **up 1.8 percent** due to an increase in arts, entertainment and recreation, which offset a decrease in several other categories.

**Juanita**, which generated 1.3 percent of the total 2016 sales tax receipts, was **up 1.4 percent** compared to 2015. Increases in retail eating/drinking offset declines in several other sectors.

**North Juanita, Kingsgate, & Finn Hill** accounted for 2.6 percent of the total sales tax receipts in 2016 and were **up 0.6 percent** from 2015, with growth in Kingsgate and North Juanita offsetting a decline in Finn Hill. The former two districts grew by 4.1 and 0.4 percent, respectively, while the latter declined by 4.4 percent. The overall revenue increase can be attributed to increasing activity in financial services and real estate in these business districts.

*Year-to-date tax receipts by business district for 2015 and 2016 are compared in the table on the next page.*

## Financial Management Report as of September 30, 2016

When reviewing sales tax receipts by business district, it is important to be aware that 45.6 percent of the revenues received through the third quarter of 2016 were in the "unassigned or no district" category largely due to contracting and other revenue, which includes revenue from internet, catalog sales and other businesses located outside of the City. This percentage has grown in recent years as internet sales have grown in volume.

**OFFICE VACANCIES:**

According to the latest report from CB Richard Ellis Real Estate Services, Kirkland's office vacancy rate in the third quarter of 2016 held at 3.6 percent, significantly lower than the Puget Sound total vacancy rate of 10.8 percent. Overall, the Eastside is one of the stronger office markets in the Puget Sound region, with an office vacancy rate of 10.1 percent, just above downtown Seattle's vacancy rate of 9.5 percent.

The region currently has 6.9 million square feet of office space under construction. This includes projects on the Eastside, with over 1.6 million square feet currently being built, including 390,000 square feet in Kirkland Urban.

When complete, this development will increase office space supply by 24 percent. Two tech companies—Wave Broadband and Tableau Software—have pre-leased over 40% of this new space.

**LODGING TAX REVENUE:**

Lodging tax revenue grew compared to 2015, finishing the quarter up 2.1 percent, an increase of \$4,447. Revenues through the third quarter finished near expectations at 73.6 percent of budget.

Business District	YTD		Dollar Change	Percent Change	Percent of Total	
	2015	2016			2015	2016
Totem Lake	4,150,168	4,128,045	(22,123)	-0.5%	29.5%	27.7%
NE 85th St	1,963,360	1,995,699	32,339	1.6%	14.0%	13.4%
Downtown	885,659	783,863	(101,796)	-11.5%	6.3%	5.3%
Carillon Pt/Yarrow Bay	283,940	281,848	(2,092)	-0.7%	2.0%	1.9%
Houghton & Bridle Trails	320,930	326,557	5,627	1.8%	2.3%	2.2%
Juanita	193,983	196,608	2,626	1.4%	1.4%	1.3%
Kingsgate	119,020	124,314	5,294	4.4%	0.8%	0.8%
North Juanita	188,810	189,220	410	0.2%	1.3%	1.3%
Finn Hill	71,007	67,918	(3,089)	-4.4%	0.5%	0.5%
Unassigned or No District:						
Contracting	2,123,400	2,403,494	280,094	13.2%	15.1%	16.2%
Other	3,755,064	4,378,955	623,890	16.6%	26.7%	29.4%
<b>Total</b>	<b>14,055,342</b>	<b>14,876,520</b>	<b>821,178</b>	<b>5.8%</b>	<b>100.0%</b>	<b>100.0%</b>

**Sales Tax Revenue Outlook**

After a fast start to 2016, revenue growth has steadily slowed through the third quarter. Year to date growth over the three quarters of the year has downshifted from a 7.8 percent pace through July to a 5.8 percent rate in September. The reduced pace was driven by continued slow growth in automotive sales in July and August and a dip in contracting during the month of September. Staff will continue to monitor and report on emerging trends in the monthly Sales Tax Report.

**Economic Environment Update**

The **Washington State Economic & Revenue Council** monthly update reports continued job growth, adding 2,900 nonfarm jobs in August 2016. The preliminary November forecast for Washington projects that the annual job growth rate in 2016 will be 2.9 percent. However, it also anticipates that growth will slow to 1.7 percent in 2017 and continue to decelerate in the years ahead, falling to 1.0 percent in 2021.

The Conference Board's **Consumer Confidence Index** decreased from 104.1 in September to 98.6 in October 2016, the latest available data at the time of this publication. A rating of 100 equals the 1985 consumer confidence level. This change was due to reports that consumers feel less positive about current business conditions, the short-term outlook, and the labor market.

**Unemployment Rates** increased at the National level, up to 5.0 percent in September from 4.9 percent in August. Unemployment also rose from 3.9 to 4.0 percent in King County and from 3.3 to 3.5 percent in Kirkland. However, Washington State did not follow this trend as a whole, dropping from 5.7 percent in August to 5.1 percent in September to reach its low point for the year to date.

The **Western Washington Purchasing Manager Index** was at 53.9 in October indicating growing activity in September 2016. An index reading greater than 50 signals an economic expansion. This is an improvement of 1.7 points over September's reading of 52.2. The October 2016 report presents the latest available data at the time of publication.

Local **building permitting activity** has increased 32.8 percent compared to September 2015. The increase is primarily due to commercial development, which is up 159.3 percent from this time last year. Totem Lake and Kirkland Urban development are driving this increase. Multi-family/mixed use development has also increased 56.0 percent. The valuation of single family home construction is down 7.3 percent when compared to 2015, but activity has recovered since the second quarter report when year-to-date activity was instead down 15.7 percent.

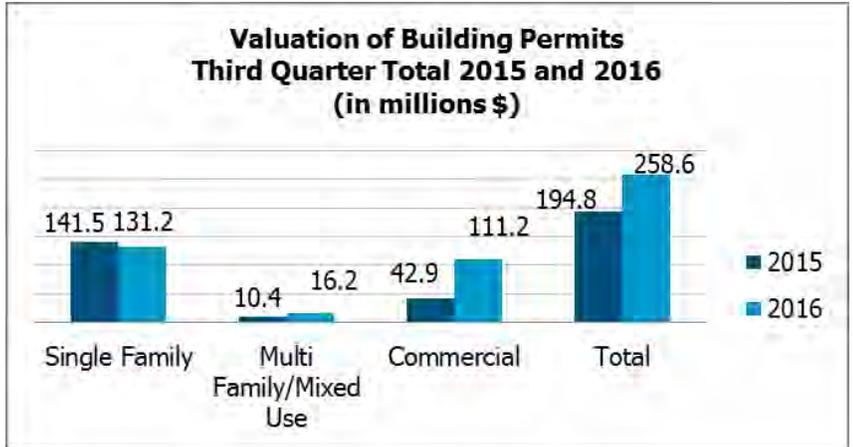
(Continued on page 8)

## Economic Environment Update *continued*

The net effect is a year-to-date growth of \$63.8 million in development valuation.

Prices in the **housing market** continued to increase in the third quarter of 2016 with the Case-Shiller housing index for the Seattle metro area up to 204.74, increasing the gap above the pre-recession peak index score of 192.3 set in July 2007. There were 29,100 new housing permits issued in August 2016 according to the Washington State Economic and Revenue Council, the fewest of any month to date in 2016.

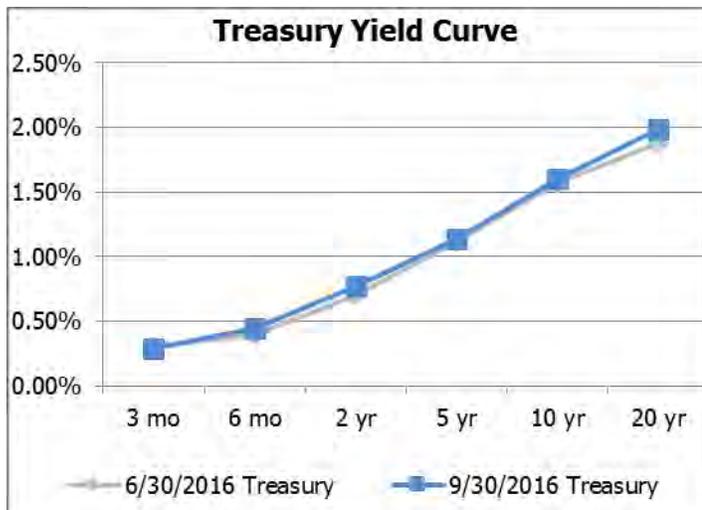
**Inflation** in the Seattle area is high relative to the national rate. In August 2016, the Seattle core CPI increased 2.1 percent compared to the previous year, while the national CPI was at 0.7 percent year-to-year growth.



## Investment Report

### MARKET OVERVIEW

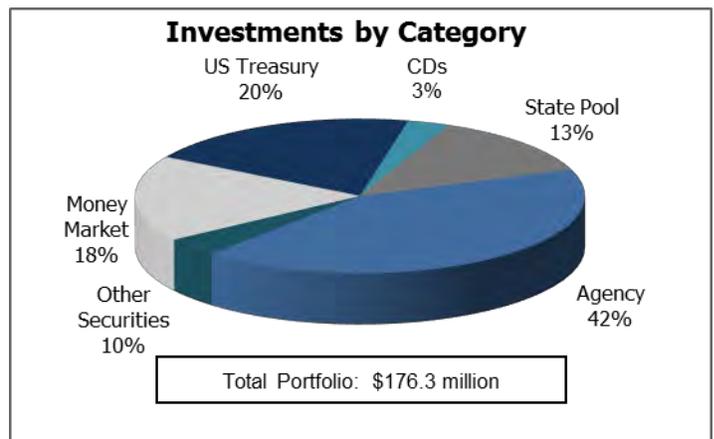
Economic growth picked up some speed in the third quarter of 2016. However, it continues to be characterized as slow and steady. The Fed Funds rate has remained at 0.25 to 0.50 percent since December 2015 and is now expected to be raised 0.25 percent in December of this year. The yield curve remained relatively unchanged this quarter, rising only slightly on short and long ends of the curve.



### CITY PORTFOLIO

The primary objectives for the City of Kirkland’s investment activities are: legality, safety, liquidity and yield. Additionally, the City diversifies its investments according to established maximum allowable exposure limits so that reliance on any one issuer will not place an undue financial burden on the City.

The City’s portfolio decreased \$7.1 million in the third quarter of 2016, moving from \$183.4 million on June 30, 2016 to \$176.3 million on September 30, 2016. The decrease in the portfolio is related in part to City Hall remodel expenditures and to the normal cash flows of the third quarter, as the as the second half of property taxes is not received until the end of October and early November.



### Diversification

The City’s current investment portfolio is composed of Government Sponsored Enterprises (GSEs) bonds, US Government Obligations, State and Local Government bonds, Bank CDs, Money Market Account and the State Investment Pool. City investment procedures allow for 100% of the portfolio to be invested in U.S. Treasury or Federal Government obligations.

### Liquidity

The target duration for the City’s portfolio is based on the 0-5 year U.S. Treasury. The average maturity of the City’s investment portfolio increased from 1.38 years on June 30, 2016 to 1.44 years on September 30, 2016 as maturing securities were replaced by securities with longer duration.

Financial Management Report as of September 30, 2016

Investment Report *continued*

2016 ECONOMIC OUTLOOK and INVESTMENT STRATEGY

The economic outlook and investment strategy remains unchanged from the previous quarter. While the outlook for growth in the U.S. economy looks weaker now than it did three months ago, it is projected to continue growing at a slower pace. The U.S. economy is expected to grow at an annual rate of 1.5 percent in 2016 and 2.3 percent in 2017. CPI inflation is expected to average 1.6 percent in 2016 and 2.3 percent in 2017. The unemployment rate is expected to average 4.8 percent in 2016 and fall to 4.6 percent in 2017. The Fed Funds rate, currently at 0.50%, is expected to rise one time in December 2016 to 0.75%.

The City's investment advisor, Government Portfolio Advisors (GPA) is currently recommending that the duration of the portfolio be increased slightly in relation to the benchmark. They believe that the Fed may be slow to raise Fed Funds and will recommend security purchases when opportunities to capture higher returns are available.

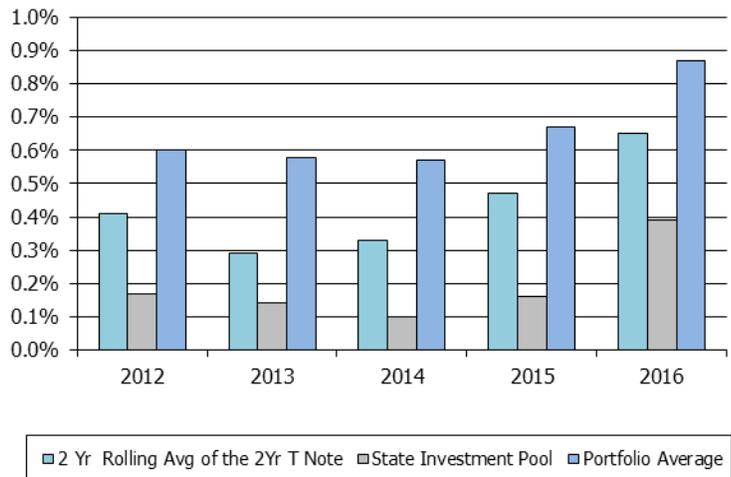
The State Pool is currently at 0.47%, remaining steady as short term rates are relatively unchanging. Rates will continue to remain low as the Fed Funds rate remains at 0.25 to 0.50 percent. Total estimated investment income for 2016 is \$1,200,000.

Yield

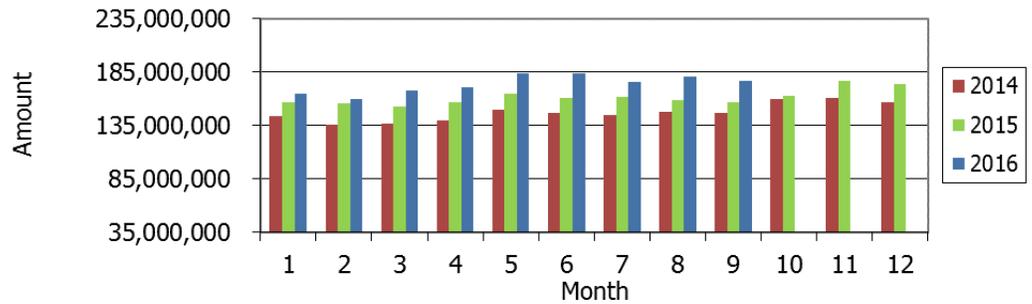
The City Portfolio yield to maturity increased from 0.91 percent on June 30, 2016 to 0.96 percent on September 30, 2016. Through September 30, 2016, the City's annual average yield to maturity also increased to 0.87 percent. The City's portfolio benchmark is the range between the 90 day Treasury Bill and the 2 year rolling average of the 2 year Treasury Note. This benchmark is used as it is reflective of the maturity guidelines required in the Investment Policy adopted by City Council. The City's portfolio outperformed both the 90 day T Bill and the 2 year rolling average of the 2 year Treasury note, which was 0.69 percent on September 30, 2016.

The City's implementation of a more active investment strategy due to contracting with an investment advisor has resulted in increasing portfolio yields. The City's portfolio's rate of return is rising with the rise in interest rates and is keeping ahead of the benchmark rates as seen in the adjacent graph.

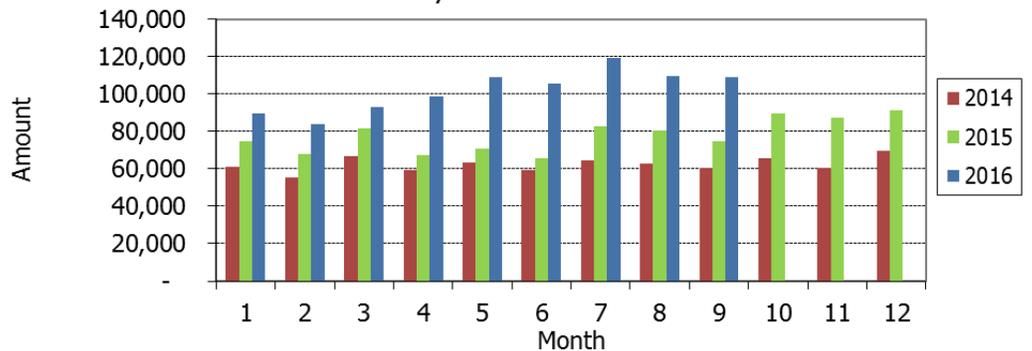
Investment Interest Rate Comparisons



Portfolio Size



Monthly Interest Earned



**RESERVES** are an important indicator of the City's fiscal health and effectively represent "savings accounts" (ACCOUNTS) established to meet unforeseen budgetary needs (general purpose reserves) or are dedicated to a specific purpose. Ending balances in the table below are based on budget. Actual balances in some reserves may vary based on revenue performance (e.g., Excise Tax and Impact Fees).

## Reserve Analysis

- Planned contributions to reserves in 2013-2014 and 2015-2016 allowed the City to replenish many of the general purpose reserves to target levels by the end of 2016, as indicated in the table below. The City's fiscal policy is to set at least 1 percent of the General Fund adopted budget toward reserve replenishment toward 80 percent of the target level (100 percent for the Revenue Stabilization Reserve). Unplanned amounts available at the end of a biennium should help replenish to target faster, which is what happened at the end of 2014 and is expected again in 2016. Adequate fund balance and reserve levels are a necessary component of financial management strategy and a key factor in the external agencies' measurement of the City's financial strength (Standard and Poor's: AAA and Moody's Aa2).

### GENERAL CAPITAL RESERVES

- Real estate activity has been growing significantly over the last few years and 2015 reached an all-time high in **Real Estate Excise Tax (REET)** collections. However, **2016 is 24.7 percent ahead of third quarter 2015**. The current ending balances do not reflect this revenue performance. They instead incorporate 2015-2016 uses in the 2015-2020 Capital Improvement Plan as adopted in December 2015 and budgeted rather than actual revenues.
- Impact fees (Parks and Transportation)** are a reflection of development activity, which remains strong. However, 2016 Park revenue is 35.5% behind 2015 due to revenue received from a single large development in the first quarter of 2015. Normalizing for this event, revenue is up 17.4% from last year. Transportation is 4.9 percent ahead.
- The City adopted a new Capital Improvement Program (CIP) for 2015-2020 in December 2015, which made significant uses of REET and Impact Fees in the current budget period, as well as future years in response to projects identified in several long-range master plans that were adopted in 2015. The balances below were adjusted during the CIP adoption process to fund capital projects that are budgeted during this biennium.

General Government & Utility Reserves Targets Summary

Reserves	Actual 2015 Beginning Balance	Adopted 2016 Ending Balance	Revised 2016 Ending Balance	2015-16 Target	Revised Over (Under) Target
<b>GENERAL PURPOSE RESERVES WITH TARGETS</b>					
General Fund Reserves:					
General Fund Contingency	50,000	50,000	50,000	50,000	-
General Oper. Reserve (Rainy Day)	2,806,513	4,803,388	4,803,388	4,803,388	-
Revenue Stabilization Reserve	2,570,090	2,848,220	2,848,220	2,848,220	-
Building & Property Reserve	571,579	600,000	533,000	600,000	(67,000)
Council Special Projects Reserve	250,000	250,000	119,000	250,000	(131,000)
Contingency	2,426,425	4,036,425	4,036,425	5,512,218	(1,475,793)
General Capital Contingency	3,768,012	4,961,855	4,961,855	5,701,001	(739,146)
<b>General Purpose Reserves with Targets</b>	<b>12,442,619</b>	<b>17,549,888</b>	<b>17,351,888</b>	<b>19,764,827</b>	<b>(2,412,939)</b>
<b>ALL OTHER RESERVES WITH TARGETS</b>					
General Fund Reserves:					
Litigation Reserve	150,000	150,000	150,000	150,000	-
Firefighter's Pension Reserve	1,493,687	1,225,835	1,225,835	933,405	292,430
Health Benefits Fund:					
Claims Reserve	2,058,311	2,058,311	2,058,311	2,058,311	-
Rate Stabilization Reserve	1,000,000	1,000,000	1,000,000	1,000,000	-
Excise Tax Capital Improvement:					
REET 1	5,843,876	8,697,813	5,213,854	1,732,329	3,481,525
REET 2	4,888,788	7,146,044	6,000,344	2,436,255	3,564,089
Water/Sewer Operating Reserve:	2,414,471	2,659,932	2,659,932	2,659,932	-
Water/Sewer Capital Contingency:	1,107,600	613,300	613,300	613,300	-
Surface Water Operating Reserve:	706,364	893,306	893,306	893,306	-
Surface Water Capital Contingency:	845,163	391,380	391,380	391,380	-
<b>Other Reserves with Targets</b>	<b>20,508,260</b>	<b>24,835,921</b>	<b>20,206,262</b>	<b>12,868,218</b>	<b>7,338,044</b>
<b>Reserves without Targets</b>	<b>44,926,198</b>	<b>58,197,292</b>	<b>48,308,247</b>	<b>n/a</b>	<b>n/a</b>
<b>Total Reserves</b>	<b>77,877,077</b>	<b>100,583,101</b>	<b>85,866,397</b>	<b>n/a</b>	<b>n/a</b>

The target comparison reflects revised ending balances to the targets established in the budget process for those reserves with targets.

General Purpose reserves are funded from general revenue and may be used for any general government function.

All Other Reserves with Targets have restrictions for use either from the funding source or by Council-directed policy (such as the Litigation Reserve).

The summary to the right details all Council authorized uses and additions in the 2015-16 biennium.

#### USES AND ADDITIONS HIGHLIGHTS

RESERVE	AMOUNT	DESCRIPTION
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##### 2015-16 Council Authorized Uses

Prior 2015-2016 Uses	\$14,797,781	
Council Special Projects	\$15,000	Public Communications Study

##### 2015-16 Council Authorized Additions

Prior 2015 Additions	\$96,077	
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Financial Management Report as of September 30, 2016 ATTACHMENT D

General Fund and Contingency reserves are funded from general purpose revenue and are governed by Council-adopted policies.

Special Purpose reserves reflect both restricted and dedicated revenue for specific purpose, as well as general revenue set aside for specific purposes.

General Capital Reserves provide the City the ability to respond to unexpected changes in costs and accumulate funds for future projects. It is funded from both general revenue and restricted revenue.

Utility reserves are funded from utility rates and provide the utilities with the ability to respond to unexpected costs and accumulate funds for future replacement projects.

Internal service funds are funded by charges to operating departments. They provide for the accumulation of funds for replacement of equipment, as well as the ability to respond to unexpected costs.

Reserves	Description	Est. 2015	Adopted	Additional	Revised
		Beginning Balance	2016 Ending Balance*	Authorized Uses/Additions	2016 Ending Balance
<b>GENERAL FUND/CONTINGENCY</b>					
General Fund Reserves:					
General Fund Contingency	Unexpected General Fund expenditures	50,000	50,000		50,000
General Oper. (Rainy Day)	Unforeseen revenues/temporary events	2,806,513	4,803,388		4,803,388
Revenue Stabilization	Temporary revenue shortfalls	2,570,090	2,848,220		2,848,220
Building & Property	Property-related transactions	571,579	600,000	(67,000)	533,000
Council Special Projects	One-time special projects	250,000	250,000	(131,000)	119,000
Contingency	Unforeseen expenditures	2,426,425	4,036,425		4,036,425
<b>Total General Fund/Contingency</b>		<b>8,674,607</b>	<b>12,588,033</b>	<b>(198,000)</b>	<b>12,390,033</b>
<b>SPECIAL PURPOSE RESERVES</b>					
General Fund Reserves:					
Litigation	Outside counsel costs contingency	150,000	150,000		150,000
Labor Relations	Labor negotiation costs contingency	74,928	55,312		55,312
Police Equipment	Equipment funded from seized property	50,284	75,969		75,969
Fire OT & Equipment	Contingency for overtime and equipment	200,000	200,000		200,000
LEOFF 1 Police	Police long-term care benefits	618,079	618,079		618,079
Facilities Expansion	Special facilities expansions	150,982	50,663		50,663
Development Services	Revenue and staffing stabilization	2,572,520	2,612,670		2,612,670
Development Svcs. Technology	Permit system replacement	1,040,324	1,356,175		1,356,175
Tour Dock	Dock repairs	206,271	273,095	(21,500)	251,595
Tree Ordinance	Replacement trees program	56,267	65,488		65,488
Revolving/Donation Accounts	Fees/Donations for specific purposes	940,331	943,300	(25,000)	918,300
Lodging Tax Fund	Tourism program and facilities	310,420	190,548	(119,549)	70,999
Cemetery Improvement	Cemetery improvements/debt service	736,215	767,040	2,568	769,608
Off-Street Parking	Downtown parking improvements	259,161	391,613	(285,500)	106,113
Fire Equipment Life Cycle	20-year fire equipment costs	418,326	896,704		896,704
Police Equipment Life Cycle	20-year police equipment costs	343,114	806,243		806,243
Technology Equipment Life Cycle	20-year technology equipment costs	663,600	1,265,117		1,265,117
Firefighter's Pension	Long-term care/pension benefits	1,493,687	1,225,835		1,225,835
<b>Total Special Purpose Reserves</b>		<b>10,284,509</b>	<b>11,943,851</b>	<b>(448,981)</b>	<b>11,494,870</b>
<b>GENERAL CAPITAL RESERVES</b>					
Excise Tax Capital Improvement:					
REET 1	Parks/transportation/facilities projects, parks debt service	5,843,876	8,697,813	(3,483,959)	5,213,854
REET 2	Transportation and other capital projects	4,888,788	7,146,044	(1,145,700)	6,000,344
Impact Fees					
Transportation	Transportation capacity projects	3,663,839	4,227,671	(2,300,900)	1,926,771
Parks	Parks capacity projects	1,727,746	2,007,936	(484,599)	1,523,337
Street Improvement	Street improvements	995,958	995,958	(995,958)	0
General Capital Contingency	Changes to General capital projects	3,768,012	4,961,855		4,961,855
<b>Total General Capital Reserves</b>		<b>20,888,219</b>	<b>28,037,277</b>	<b>(8,411,116)</b>	<b>19,626,161</b>
<b>UTILITY RESERVES</b>					
Water/Sewer Utility:					
Water/Sewer Operating	Operating contingency	2,414,471	2,659,932		2,659,932
Water/Sewer Debt Service	Debt service	498,591	495,390	(460,000)	35,390
Water/Sewer Capital Contingency	Changes to Water/Sewer capital projects	1,107,600	613,300		613,300
Water/Sewer Construction	Replacement/re-prioritized/new projects	10,051,937	17,664,869	(4,127,036)	13,537,833
Surface Water Utility:					
Surface Water Operating	Operating contingency	706,364	893,306		893,306
Surface Water Capital Contingency	Changes to Surface Water capital projects	845,163	391,380		391,380
Surface Water Construction	Trans. related surface water projects	5,656,579	7,597,175	(759,300)	6,837,875
<b>Total Utility Reserves</b>		<b>21,280,705</b>	<b>30,315,352</b>	<b>(5,346,336)</b>	<b>24,969,016</b>
<b>INTERNAL SERVICE FUND RESERVES</b>					
Health Benefits:					
Claims	Health benefits self insurance claims	2,058,311	2,058,311		2,058,311
Rate Stabilization	Rate stabilization	1,000,000	1,000,000		1,000,000
Equipment Rental:					
Vehicle	Vehicle replacements	10,068,738	8,583,511	22,829	8,606,340
Radio	Radio replacements	59,463	74,764		74,764
Information Technology:					
PC Replacement	PC equipment replacements	459,063	518,292		518,292
Major Systems Replacement	Major technology systems replacement	656,200	1,165,089	135,200	1,300,289
Facilities Maintenance:					
Operating	Unforeseen operating costs	550,000	550,000		550,000
Facilities Sinking Fund	20-year facility life cycle costs	1,897,262	3,748,621	(470,300)	3,278,321
<b>Total Internal Service Fund Reserves</b>		<b>16,749,037</b>	<b>17,698,588</b>	<b>(312,271)</b>	<b>17,386,317</b>
<b>Grand Total</b>		<b>77,877,077</b>	<b>100,583,101</b>	<b>(14,716,704)</b>	<b>85,866,397</b>

\*Adjusted for actual cash balances in April 2016



The Financial Management Report (FMR) is a high-level status report on the City's financial condition that is produced quarterly.

- It provides a **summary budget to actual and year over year comparisons** for year-to-date revenues and expenditures for all operating funds.
  - The **Sales Tax Revenue Analysis** report takes a closer look at one of the City's larger and most economically sensitive revenue sources.
  - **Economic environment** information provides a brief outlook at the key economic indicators for the Eastside and Kirkland such as office vacancies, residential housing prices/sales, development activity, inflation and unemployment.
  - The **Investment Summary** report includes a brief market overview, a snapshot of the City's investment portfolio, and the City's year-to-date investment performance.
  - The **Reserve Summary** report highlights the uses of and additions to the City's reserves in the current year as well as the projected ending reserve balance relative to each reserve's target amount.
- Tracey Dunlap, Deputy City Manager
  - Michael Olson, Director of Finance & Administration
  - Tom Mikesell, Financial Planning Manager
  - Neil Kruse, Senior Financial Analyst
  - George Dugdale, Senior Financial Analyst
  - Elijah Panci, Budget Analyst
  - Doug Honma-Crane, Budget Analyst



City of Kirkland  
 123 5th Avenue  
 Kirkland, WA 98033  
 Ph. 425-587-3146  
[www.kirklandwa.gov](http://www.kirklandwa.gov)

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- CB Richard Ellis Real Estate Services, Market View Puget Sound, Second and Third Quarter 2016
- S&P/Case-Shiller Seattle Home Price Index
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- Washington State Department of Revenue
- King County Office of Economic & Financial Analysis, *EconPulse*, Third Quarter 2016
- City of Kirkland Planning & Building Department
- City of Kirkland Finance & Administration Department