

Finance & Administration Committee Agenda
January 26, 2016

Review Items on Future Topics List (15 minutes)
No attachments for this item

2016 Budget/CIP Calendar (10 minutes)
Attachment A

Annexation Sales Tax Credit (15 minutes)
Materials provided at the meeting

December Dashboard Report (10 minutes)
Attachment B

Informational Items:

- December Investment Report – Attachment C
- December Sales Tax Memo – Attachment D

Upcoming Finance & Administration Items on Council Agenda:

Next Meeting

February 23, 2016
Milling Machine

Potential Future Topics

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

DRAFT

2016 CALENDAR

2017-2018 Budget & 2017-2022 CIP

JANUARY

2016 Calendar to Fin & Admin Comm January 26

FEBRUARY

City Council Retreat February 24

MARCH

CIP Update Kickoff March 2

CIP Update – Materials Due March 22

CIP Meetings with CMO March 29-31

APRIL

CIP Meetings with CMO April 1-8

CIP to Finance & Admin Committee April 26

Internal Service Rates Kickoff April 27

MAY

Draft Internal Service Fund Rates Due May 20

City Council Retreat May 24

JUNE

Internal Service Rates Meetings June 1-3

CIP Update – Materials for Council packet June 9

Final Internal Service Rates Due June 13

CIP Update – Council meeting June 21

Budget Adjustments to Council June 21

CFP Amendment to Council June 21

Budget Kickoff June 23

JULY

Budget Workshops July 5-7

Department Org Charts Due July 11

Personnel Recaps Due July 11

Revenue Estimates Due July 15

Budget Workshops July 18-21

AUGUST

Budget Workshops August 1-3

Basic Budget Due August 3

Department Overviews Due August 10

Basic Budget Analysis August 10

Service Packages Due August 19

Basic Budget Mtgs w/ City Manager August 22-26

- Review Basic Budget Analysis

- Identification of Policy Issues

- Review Service Packages

Outside Agency Requests Due August 26

SEPTEMBEREstimated Carryover Requests Due September 2
(Fund 010 Only)Basic Budget/Service Packages/
Expenditure Mtgs w/ City Manager September 6-9

- Discussion of Policy Issues

- Review Service Packages

Department Issue Papers Due September 9

Final City Manager Decisions September 16

Budget Document Production September 19-30

Public Hearing –

Proposed Revenue Sources September 20

OCTOBER

Budget Document Production October 1-17

City Manager's Proposed Budget to
City Council & Public October 20

Fin & Admin Committee -

Review of Budget Issues & Process October 25

Council Budget Work Session (3-9pm) October 27

NOVEMBER

Council Study Session – Budget November 1

Public Hearing – Budget Input November 1

Special Study Session – Budget November 7
(if needed)

Public Hearing – Budget November 15

Preliminary Property Tax Levy November 15

Public Hearing – Prelim Property Tax November 15

DECEMBER

Budget Adoption December 13

CIP Update Adoption December 13

Final Property Tax Levy Adoption December 13

Final 2015 -2016 Budget Adjustments December 13

Threshold Calculations

Fiscal Year #4 (2014-2015)

Annexation Revenue (excluding Gambling/ASTC)	18,834,085
Annexation Expenditures:	
General Fund	21,462,044
Street Operating	2,164,658
Parks Maintenance/Parks Levy	838,360
Public Safety Building Debt Share	685,722
Total Annexation Expenditures	25,150,784
Difference (Revenue Less Expenditures)	(6,316,699)
Plus Gambling Tax	723,461
Difference with Gambling Revenue	(5,593,238)
Plus Annexation Sales Tax Credit (ASTC)	3,650,000
Difference with Gambling/ASTC Revenue	(1,943,238)

Fiscal Year #6 (2016-2017) Assumed 2017 Budget

Annexation Revenue (excluding Gambling/ASTC)	22,423,287
Annexation Expenditures:	
General Fund	23,498,816
Street Operating	2,436,765
Parks Maintenance/Parks Levy	822,122
Public Safety Building Debt Share	1,058,582
Total Annexation Expenditures	27,816,285
Difference (Revenue Less Expenditures)	(5,392,998)
Plus Gambling Tax	750,046
Difference with Gambling Revenue	(4,642,952)
Plus Annexation Sales Tax Credit (ASTC)	3,935,000
Difference with Gambling/ASTC Revenue	(707,952)

Actuals Calculation

Fiscal Year #4 (2014-2015) ACTUALS Updated 1.21.16

Annexation Revenue (excluding Gambling/ASTC)	20,518,602
Annexation Expenditures:	
General Fund	21,813,920
Street Operating	2,274,727
Parks Maintenance/Parks Levy	777,113
Public Safety Building Debt Share	975,892
Total Annexation Expenditures	25,841,651
Difference (Revenue Less Expenditures)	(5,323,050)
Plus Gambling Tax	1,085,720
Difference with Gambling Revenue	(4,237,330)
Plus Annexation Sales Tax Credit (ASTC)	3,650,000
Difference with Gambling/ASTC Revenue	(587,330)

December 2015 Financial Dashboard Highlights

January 22, 2016

- The dashboard report reflects the 2015 share of the biennial budget adopted by the City Council on December 9, 2014, as amended by the City Council on April 7, 2015, June 6, 2015 and December 8, 2015. The actual revenues and expenditures summarized reflect results for the entire year of 2015.
- Total General Fund revenues received through December were at 102.8 percent of budget.
 - Sales tax revenues at the end of December were up 5.5 percent compared to 2014. The 2015 sales tax budget was set at the actual revenue from 2014, so sales tax also finished the year at 105.5 percent of budget. The sales tax revenue reflects activity through October 2015 due to the two month lag in receipt of the funds from the Department of Revenue.
 - Utility tax receipts finished the year at \$14.6 million, which is 98.2 percent of the budget. Receipts in 2015 were 2.8 percent higher than in 2014. The mild winter in 2014-15 contributed to lower than budgeted revenues, while telephone service sales also continue to be low, possibly due to customers shifting their telephone service from taxable to non-taxable services, such as those using voice over internet protocol (VOIP).
 - General Fund business license revenues were \$2.95 million in 2015, which was 99.9 percent of budget, but 4.4 lower than in 2014. The decrease is due to the transfer of a portion of business license fees to fund street improvements capital projects in the CIP beginning in 2015. If this transfer was included business license fees would be 4.3 percent higher than in 2014.
 - Development fees for the year were 115.7 percent of budget due to a high level of single family related development activity and several commercial projects this year. Collections of building and engineering fees are 22.6 percent higher than last year.
 - Gas taxes in 2015 were \$1.74 million, 94.1 percent of the annual budget. This is 3.2 percent higher than in 2014.
- Total General Fund expenditures in 2015 were 96.8 percent of budget.
 - General fund salaries and benefits were \$56.6 million, or 97.8 percent of the annual budget. The difference between the budget and the actual spending is due to staff turnover and vacancies in most departments. Salaries and benefits were 4.9 percent higher than in 2014, due to the addition of new positions, particularly in Development Services, where demand for services continues to be very high.
 - Fire suppression overtime expenditures finished the year at \$1,074,942, excluding costs for the fourth firefighter providing additional coverage following the closure of Station 24. This was 146.25 percent of budget and \$106,624 higher than in 2014. High overtime is partly due to vacancies on the line, which are backfilled with overtime. These vacancies created salary savings, which partially offset the additional costs. In addition, an above average number of firefighters missed time due to disability and FMLA leave in 2015, causing additional overtime without offsetting salary savings. These leaves were also concentrated in January and August, which meant staffing levels were lowest during some of the busiest vacation times.
 - The 2015-16 one-time service package for \$465,944 of additional overtime funding to staff Fire Station #24 is shown separately on the Dashboard. Expenses finished the year at 100 percent of budget.
 - Contract jail costs finished the year at 77.8 percent of budget, a decrease of 67 percent from 2014. The large decrease is due to the jail at the Kirkland Justice Center now being fully operational. At the end of 2015 only those prisoners with medical or other needs are boarded outside of Kirkland. This is a significant change from prior years when limited space in Kirkland meant most prisoners were housed elsewhere.
 - Low fuel prices throughout 2015 meant fuel costs finished the year at \$418,121, 57.1 percent of budget. This is 30.3 percent lower than in 2014, as fuel costs were significantly higher through much of 2014.

Attachments: December Dashboard, Development Services Report

City of Kirkland Budget Dashboard

Date Completed

1/22/2015

Annual Budget Status as of **12/31/2015** (Note 1)

Percent of Year Complete **100.00%**

	2015 Budget	Year-to-Date Actual	% Received/ % Expended	Status		Notes
				Current Report	Last Report	
General Fund						
Total Revenues (2)	86,880,546	89,299,965	102.8%			
Total Expenditures	91,980,838	89,026,179	96.8%			

Key Indicators

	2015 Budget	Year-to-Date Actual	% Received/ % Expended	Current Report	Last Report	Notes
<i>Revenues</i>						
Sales Tax	17,963,747	18,943,810	105.5%			Prior YTD = \$17,963,747
Utility Taxes	14,895,606	14,625,919	98.2%			Excludes \$119,475 recovered in a telephone utility audit
Business License Fees	2,955,769	2,951,404	99.9%			Excludes \$270,000 transferred to the Street Fund
Development Fees	7,682,133	8,886,227	115.7%			
Gas Tax	1,675,751	1,740,335	103.9%			
<i>Expenditures</i>						
GF Salaries/Benefits	57,856,168	56,569,267	97.8%			Excludes Fire Suppression Overtime
Fire Suppression Overtime	735,411	1,082,598	147.2%			Excludes FS 24 Overtime
F.S. #24 Overtime Staffing	465,944	465,944	100.0%			
Contract Jail Costs	440,688	342,981	77.8%			
Fuel Costs	731,927	418,121	57.1%			

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 first year of the biennium (2015).

Note 2 - Total budgeted expenditures in 2015 exceed budgeted revenues due to planned use of reserves

n/a - not applicable

Development Services Report – December 2015

Development Services is comprised of the Building, Planning, Public Works and Fire Departments. The Building Department reports on all building construction related permits including electrical, mechanical and plumbing trade permits, signs and grading permits. The Planning Department revenue is the result of land use permits and the Public Works Department revenue is generated from infrastructure improvement permits. The Fire Department permits are not reported on since they are tracked separately. A review of the December 2015 permit data allows us to offer the following:

- The 2015 Building permit related statistics indicates an overall upward trend, although month to month there are variances. In December, there was an increase in new single-family residential permit applications with 23 applications received compared to 21 last December. We received 346 total applications in 2015, compared to 329 last year which is a 5% increase in new single-family permit activity. There was a 30% increase in remodel permits, including both commercial and residential with 43 applications received compared to 33 last December. In total, these permit applications ended the year ahead (up 6%) with 538 applications received in 2015 compared to 508 last year.
- The monthly average of total building construction related permits received in 2015 (518) exceeded the monthly average for 2014 (467). The overall number of building permits received in 2015 (6,219), exceeded 2014 (5,959) by 4%.
- Building Department revenue for December was \$525,288, of which, \$166,000 was generated by the submittal of the Kirkland Urban (Parkplace) parking structure. December's revenue was \$157,751 above the average monthly projected revenue of \$367,538. Year end revenue was ahead by \$480,938 (\$4,891,390 was collected which is 111% of the budgeted annual revenue).
- Public Works Department development revenue for December 2015 was \$119,989 which is \$21,918 below the average monthly projected revenue of \$141,907. Year end revenue was ahead by \$553,286 (\$2,256,173 was collected which is 132% of the budgeted annual revenue).
- Planning Department revenue for December 2015 was \$58,840, which is \$26,657 below the average monthly projected revenue of \$85,497. Year end revenue was ahead by \$196,070 (119% of the budgeted annual revenue of \$1,025,959 was collected).
- Cumulatively, Development Services finished 2015 strong, collecting a total of \$8,369,592 in revenue which is 117% of their annual budget.

Maximum Maturities	Policy Requirement	Percentage of Portfolio	Portfolio Allocation	Within Limits	Credit Rating	Within Limits
Under 30 days	10%	34%	\$ 58,993,094	Yes	Municipal	
Under 1 year	25%	56%	\$ 96,928,414	Yes	AA-	by S&P Yes
Under 5 years	100%	100%	\$ 173,989,018	Yes	Aa3	by Moodys Yes
					AA-	by Fitch Yes
Maximum Weighted Average Maturity	3 Years		1.23	Yes	Commercial Paper	
Maximum Callable Securities	50%	30%	\$ 26,142,989	Yes	A1+ /A-1+ / P1	Yes
Maximum Single Maturity	5 Years		4.34	Yes	A	Yes

Asset Allocation Diversification	Maximum Policy Allocation	Issuer Constraint	Percentage of Portfolio	Market Value	Within Limits
U.S. Treasury Obligations	100%		18%	\$ 32,003,008	Yes
Government Agencies	100%		37%	\$ 64,467,571	Yes
FHLB		30%	6%	\$ 9,960,130	Yes
FNMA		30%	3%	\$ 4,953,130	Yes
FHLMC		30%	14%	\$ 24,889,505	Yes
FFCB		30%	11%	\$ 19,897,800	Yes
Other GSE's		30%	3%	\$ 4,767,006	Yes
Municipal Bonds- GO States - Locals WA	20%	5%	8%	\$ 13,525,345	Yes
Certificates of Deposit	10%	5%	3%	\$ 5,000,000	Yes
Commercial Paper	5%	5%	0%	\$ -	Yes
Bank Deposits **	50%	10%	27%	\$ 47,724,741	Yes
Bankers Acceptances	5%	5%	0%	\$ -	Yes
Local Government Investment Pool	100%	N/A	6%	\$ 11,268,353	Yes
Total			100%	\$ 173,989,018	



** Bank Deposits to be added to new Policy

Name	Par Amount	Total Adjusted Cost	Market Value	Unrealized Gain/Loss	Yield At Cost	Eff Dur	Bench Dur
City of Kirkland - Core Investment Fund	\$ 110,296,000	\$ 110,271,312	\$ 109,995,923	\$ (275,389)	0.96	1.74	2.20
City of Kirkland Liquidity	\$ 63,993,094	\$ 63,993,104	\$ 63,993,094	\$ (10)	0.27	0.12	0.10
TOTAL PORTFOLIO	\$ 174,289,094	\$ 174,264,416	\$ 173,989,018	\$ (275,399)	0.71	1.15	1.43



Total Funds City of Kirkland

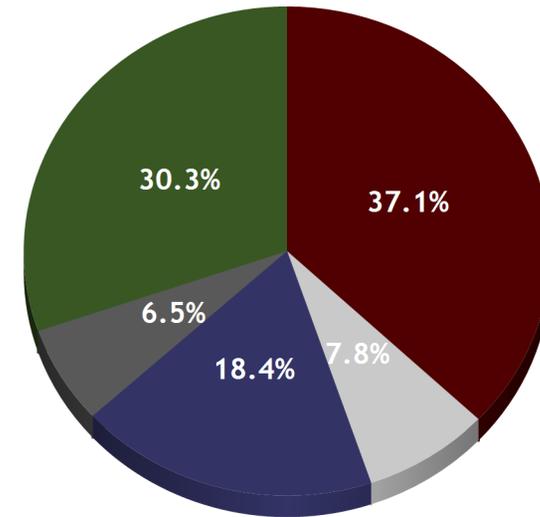
Account Summary

12/31/2015

Weighted Averages

Book Yield	0.71
Maturity	1.23
Coupon	0.69
Moody	Aa1
S&P	AA+

Fixed Income Allocation



Fixed Income Totals

Par Value	174,289,094
Market Value	173,989,017.51
Amortized Book Value	174,264,416.26
Unrealized Gain/Loss	-275,398.75
Estimated Annual Cash Flow	1,209,499.55

Security Type	Market Value	% Fixed Income	% Assets
US Agency (USD)	64,467,570.53	37.1	37.1
Municipal (USD)	13,525,344.60	7.8	7.8
US Treasury (USD)	32,003,008.00	18.4	18.4
LGIP State Pool (USD)	11,268,353.22	6.5	6.5
Bank Deposit (USD)	52,724,741.16	30.3	30.3
Fixed Income Total	173,989,017.51	100.0	100.0



Disclaimer

This material is based on information obtained from sources generally believed to be reliable and available to the public; however, GPA cannot guarantee its accuracy, completeness, or suitability. This material is for purposes of observations and oversight and is the opinion of the author and not necessarily of GPA, LLC. Past performance does not necessarily reflect and is not a guaranty of future results. The information contained in this document is not an offer to purchase or sell any securities.

Definition and Terms

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

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

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

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

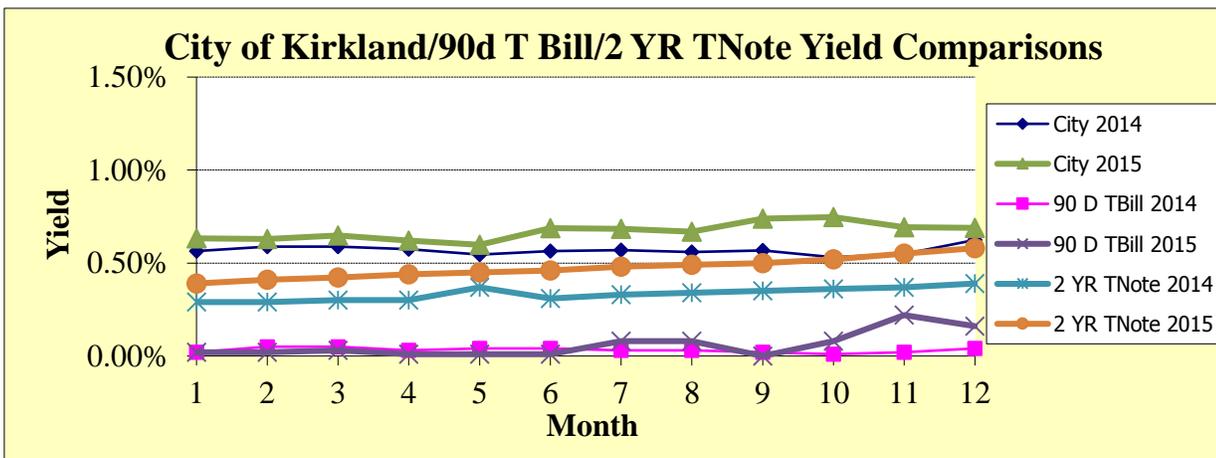
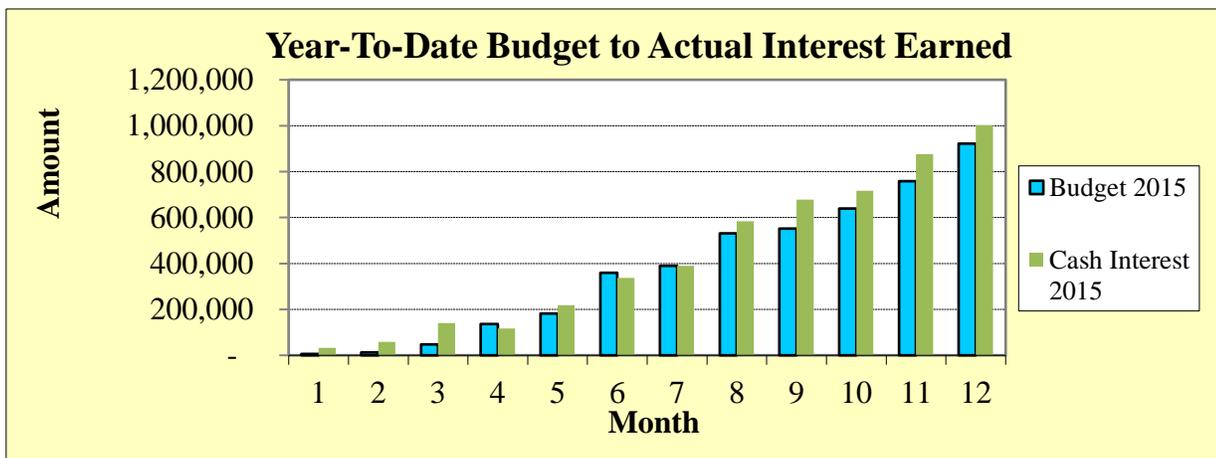
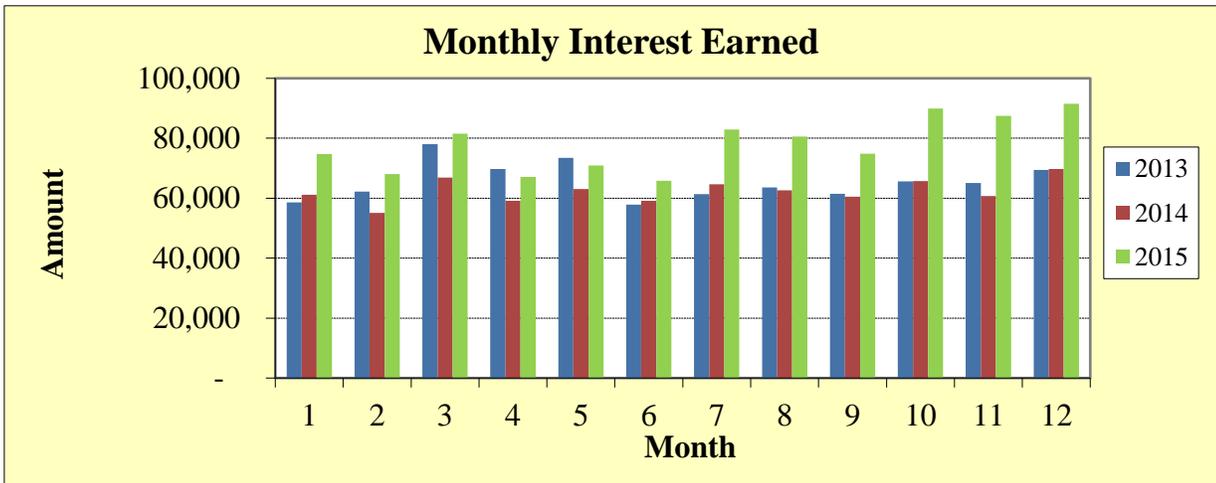
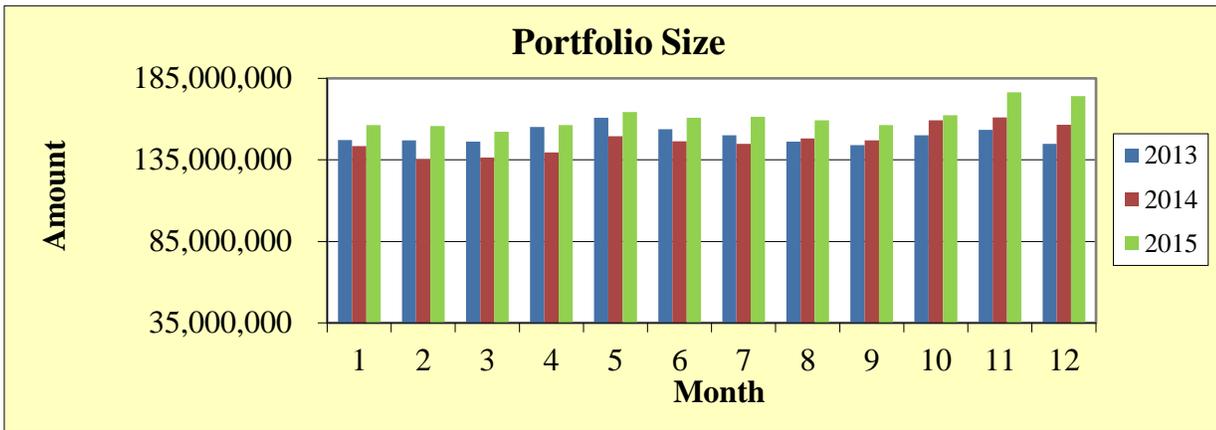
Weighted Averages: Calculates the allocation per bond on a weighted basis to the total portfolio for the book yield, maturity and coupon. **Book Yield** is the overall interest rate earned by an investor who buys the bond today at the market price, assuming that the bond will be held until **maturity**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

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

**CITY OF KIRKLAND
INVESTMENT POLICY COMPLIANCE REPORT**

Date of Report 01/22/2016Period Covered **Month of December 2015: December 31, 2015**

Policy Section	Compliance	Current Portfolio	Policy Requirement	Frequency
7.0 Authorized Financial Dealers and Institutions	Compliant	Detailed Authorized Broker/Dealer list provided by the Investment Advisor is on file.	<ul style="list-style-type: none"> • Review of Financial Industry Regulatory Authority report on firm and broker • Certification of having read the Policy and receipt of the City's Trading Authorization • or Broker/Dealer list provided by Investment Advisor 	Annual
8.0 Broker Allocation	Compliant	No securities were purchased in December. Broker security offerings are on file in H:\FINANCE\Z Investments	3 bids for security purchase or sale	Monthly
9.0 Authorized Investments	Compliant	Breakdown of Portfolio listed in Section 12.0	See Section 12.0 Diversification	Monthly
9.0 Authorized Investments Credit Ratings	Compliant	Detailed in GASB 40 Report	Requires AA- or better from Standard & Poors and Aa3 by Moodys	Semi-Annual
11.0 Safekeeping	Compliant	US Bank Safekeeping	All Securities will be held in Safekeeping	Monthly
12.0 Diversification			Maximums	Monthly
US Agency Obligations	Compliant	20%	100%	
Government Sponsored Enterprise (GSE's)	Compliant	36%, 14% largest issuer	100%, 30% per issuer	
Callable Securities	Compliant	15%	50%	
Local Government Investment Pool	Compliant	6%	100%	
State or Political Subdivision Securities	Compliant	8%, 4% largest issuer	20%, 5% per issuer	
Certificates of Deposits	Compliant	3%	10%, 5% per issuer	
Bankers Acceptances	Compliant	0%	5%, 5% per issuer	
A-1/P-1 Commercial Paper	Compliant	0%	5%, 5% per issuer	
13.0 Maximum Maturities	Compliant	1.23 Years	Average Maturity Exposure 3 Years	Monthly
	Compliant	4.7 yrs. 7/29/2020	Maximum Maturity of Individual Issue 5 Years	Monthly
14.0 Conformance to Policy	Compliant	April 2, 2015 and October 29, 2015 Investment Committee Review	Annual Review	Annual
15.0 External Review	Compliant	2013 review completed	External review of City Investment Policy and Investment Portfolio for compliance and best practices	Every 3 Years
16.0 Performance Standards	Compliant	90 Day T Bill 0.16% Avg. 2 Yr. T Note 0.58% <u>Portfolio</u> Liquidity Portion 0.27% <u>Investment Core 0.96%</u> Total Portfolio 0.71%	Band between 90 T Bill and 2 Yr Treasury Note	Monthly
17.0 Reporting Requirements	Compliant	2015 3 rd Quarter Report is available	Annual, Quarterly & Monthly	Monthly
18.0 Policy Adoption	Compliant	Last adopted 12-9-2014	Policy shall be adopted by City Council	Changes Adopted As Needed



City of Kirkland
Investment Portfolio Analysis
As of December 31, 2015

Month	Kirkland Portfolio Monthly Interest Earned (accrual basis)															
	2012	2013	2014	2015	2012	2013	2014	2015					2012	2013	2014	2015
January	135,811,813	147,092,449	143,421,023	156,314,647	76,597	58,580	61,187	74,750					61,284	58,580	61,187	52,583
February	136,930,681	146,976,588	135,412,468	155,851,451	63,851	62,157	55,081	68,033					147,638	167,721	109,710	142,492
March	135,562,508	146,167,907	136,341,046	152,331,121	67,259	77,984	66,925	81,552					233,307	208,036	142,550	224,044
April	141,161,845	155,152,206	139,552,582	156,349,024	64,981	69,791	59,152	67,068					317,833	257,241	204,059	290,728
May	145,501,986	160,818,008	149,485,197	164,255,373	81,888	73,445	63,100	70,933					411,048	386,233	255,598	361,765
June	140,023,887	153,742,052	146,480,895	160,825,611	57,701	57,863	59,152	65,781					319,481	510,923	428,683	434,062
July	139,860,963	150,140,357	144,749,873	161,393,089	45,194	61,370	64,607	82,917					360,097	579,393	465,939	516,979
August	139,207,431	146,159,493	148,202,978	159,179,241	38,742	63,600	62,646	80,577					417,993	589,927	470,342	598,682
September	139,724,531	144,140,492	147,019,653	156,319,946	37,191	61,484	60,561	74,863					461,855	610,367	486,803	680,022
October	144,438,965	150,142,806	159,269,554	162,427,526	37,557	65,593	65,709	89,879					517,142	669,902	561,174	770,839
November	153,912,911	153,361,598	161,062,345	176,442,633	40,413	65,109	60,726	87,496					589,264	717,757	589,228	859,023
December	148,565,547	144,891,904	156,573,354	174,176,972	55,592	69,468	69,693	91,472					667,972	896,405	744,154	950,496
Average	141,725,256	149,898,822	147,297,581	161,322,220	55,580	65,537	62,378	77,943						n/a	n/a	n/a

Month	2 Yr T-Bill 2 Yr. Rolling Average												YTD Interest (cash basis)		% of Budget	
	City 2012	City 2013	City 2014	City 2015	90 D TBill 2012	90 D TBill 2013	90 D TBill 2014	90 D TBill 2015	2 YR TNote 2012	2 YR TNote 2013	2 YR TNote 2014	2 YR TNote 2015	Cash Interest 2015	Budget 2015	Actual	Budget
January	0.74%	0.62%	0.57%	0.63%	0.06%	0.07%	0.02%	0.02%	0.52%	0.33%	0.29%	0.39%	32,438	6,200	4%	1%
February	0.66%	0.64%	0.59%	0.63%	0.08%	0.11%	0.05%	0.02%	0.49%	0.32%	0.29%	0.41%	58,300	12,400	6%	1%
March	0.69%	0.64%	0.59%	0.65%	0.07%	0.07%	0.05%	0.03%	0.47%	0.29%	0.30%	0.42%	140,230	47,794	15%	5%
April	0.77%	0.61%	0.58%	0.62%	0.10%	0.05%	0.03%	0.01%	0.44%	0.28%	0.30%	0.44%	117,361	135,619	13%	15%
May	0.70%	0.51%	0.55%	0.60%	0.07%	0.04%	0.04%	0.01%	0.42%	0.27%	0.37%	0.45%	218,582	182,319	24%	20%
June	0.52%	0.52%	0.56%	0.69%	0.09%	0.04%	0.04%	0.01%	0.40%	0.27%	0.31%	0.46%	337,760	358,687	37%	39%
July	0.48%	0.55%	0.57%	0.68%	0.11%	0.04%	0.03%	0.08%	0.39%	0.27%	0.33%	0.48%	389,863	389,887	42%	42%
August	0.48%	0.56%	0.56%	0.67%	0.09%	0.03%	0.03%	0.08%	0.38%	0.27%	0.34%	0.49%	584,098	530,487	63%	58%
September	0.47%	0.56%	0.57%	0.74%	0.10%	0.02%	0.02%	0.00%	0.37%	0.28%	0.35%	0.50%	677,612	551,687	73%	60%
October	0.48%	0.57%	0.53%	0.75%	0.11%	0.04%	0.01%	0.08%	0.37%	0.28%	0.36%	0.52%	717,504	639,512	78%	69%
November	0.57%	0.56%	0.55%	0.69%	0.08%	0.06%	0.02%	0.22%	0.36%	0.28%	0.37%	0.55%	876,291	758,212	95%	82%
December	0.64%	0.59%	0.62%	0.69%	0.05%	0.07%	0.04%	0.16%	0.35%	0.29%	0.39%	0.58%	1,002,860	922,055	109%	100%
Average	0.60%	0.58%	0.57%	0.67%	0.08%	0.05%	0.03%	0.06%	0.41%	0.29%	0.33%	0.47%	n/a	922,055	n/a	n/a



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MEMORANDUM

To: Kurt Triplett, City Manager

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

Date: January 22, 2016

Subject: December Sales Tax Revenue

Year-to-date sales tax revenue through December was **up 5.5 percent** compared to the same period last year. This year's increase was led by Auto/Gas Retail, with a dollar increase of \$350,000 and a percentage increase of 8.0 percent over 2014. The Services and Other Retail Sectors were also growth engines in 2015 with dollar increases of \$200,000 and \$146,000, respectively. Most other sectors finished the year in positive territory, with the exceptions of Communications, which was down due to a state sales tax refund, and Miscellaneous which was down 1.1 percent compared to 2014. Results this month reflect sales activity in October, due to the two month lag in reporting sales tax data.

Comparing December 2015 to December 2014

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

2015 Sales Tax Receipts by Business Sector-Monthly Actuals

Business Sector Group	December		Dollar Change	Percent Change	Percent of Total	
	2014	2015			2014	2015
Services	182,871	211,978	29,107	15.9%	12.5%	13.5%
Contracting	235,112	271,431	36,319	15.4%	16.1%	17.3%
Communications	44,204	40,887	(3,317)	-7.5%	3.0%	2.6%
Retail:						
Auto/Gas Retail	353,399	384,894	31,495	8.9%	24.2%	24.6%
Gen Merch/Misc Retail	158,352	154,054	(4,298)	-2.7%	10.8%	9.8%
Retail Eating/Drinking	125,610	129,843	4,233	3.4%	8.6%	8.3%
Other Retail	200,298	215,069	14,771	7.4%	13.7%	13.7%
Wholesale	73,005	72,003	(1,002)	-1.4%	5.0%	4.6%
Miscellaneous	86,835	85,528	(1,307)	-1.5%	5.9%	5.5%
Total	1,459,686	1,565,685	106,001	7.3%	100%	100%

December sales tax collections were **7.3 percent higher** than December 2014. For the second month in a row the Contracting sector contributed the most growth in dollar terms while Auto/Gas Retail and Services also showed strong growth.

The Communications category dropped 7.5 percent compared to December 2014, which is due to payment timing in 2014 where some November payments came in December. Sales tax collections also saw minor drops in General Merchandise/Miscellaneous Retail, Wholesale and the Miscellaneous sector. These categories will be monitored in 2016 to identify if these are one-off situations or emerging trends.

Year-to-Date Business Sector 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 a 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	
	2014	2015			2014	2015
Services	2,357,782	2,557,728	199,946	8.5%	13.1%	13.5%
Contracting	2,866,557	2,977,540	110,983	3.9%	16.0%	15.7%
Communications	505,170	437,530	(67,640)	-13.4%	2.8%	2.3%
Retail:						
Auto/Gas Retail	4,383,760	4,733,686	349,926	8.0%	24.4%	25.0%
Gen Merch/Misc Retail	2,000,157	2,080,109	79,952	4.0%	11.1%	11.0%
Retail Eating/Drinking	1,480,720	1,574,405	93,685	6.3%	8.2%	8.3%
Other Retail	2,452,917	2,598,546	145,629	5.9%	13.7%	13.7%
Wholesale	829,962	909,002	79,040	9.5%	4.6%	4.8%
Miscellaneous	1,086,724	1,075,262	(11,462)	-1.1%	6.0%	5.7%
Total	17,963,747	18,943,810	980,063	5.5%	100%	100%

Year-to-date collections remain positive as collections through November were **5.5 percent higher** than last year.

The auto/gas retail was the strongest contributing sector to year-over-year growth of \$350,000, which accounts for 35.7 percent of the overall sales tax growth of \$980,000 this year. Weakness in the miscellaneous sector for 2015 is due to one-time factors and likely does not indicate a trend. The Communications sector weakness continues to be a product of several months of low performance earlier in the year and a one-time refund in May 2015 that affected several municipalities in the region; excluding this adjustment the sector would be down 2.5 percent.

December was the sixth month of positive collections for the Contracting sector as sales tax receipts are now **3.9 percent higher** than last year after a slow start in 2015. Performance this year is due to a rise in single family home construction compared to 2014. Contracting revenues were driven by large commercial projects in 2014, but with some of those major projects completed, most of the new revenue has come from residential construction.

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 table below provides a summary of the most current information available.

2014 - 2015 Wider Economic Indicators

Indicator	Most Recent Month of Data	Unit	Month			Yearly Average	
			Current	Previous	Change	2015	2014
Consumer Confidence							
Consumer Confidence Index	December	Index	96.5	90.4	6.1	97.93	86.88
Unemployment Rate							
National	December	%	5.0	5.0	0.0	5.28	6.17
Washington State	November	%	<i>5.3</i>	5.2	0.1	5.55	6.03
King County	November	%	<i>4.6</i>	4.1	0.5	4.05	4.73
Kirkland	November	%	<i>3.8</i>	3.4	0.4	3.40	4.69
Housing							
New House Permits	November	Thousands	41.0	35.9	5.1	41.85	34.41
Seattle Area Home Prices	October	Index	185.2	184.3	0.9	179.11	167.11
Inflation (CPI-W)							
National	December	% Change	0.4	0.1	0.3	(0.40)	1.48
Seattle	December	% Change	2.3	0.8	1.5	0.95	1.90
Car Sales							
New Vehicle Registrations	December	Thousands	26.5	25.8	0.7	25.07	23.38

Bold numbers indicate data point is highest or lowest in that year.

Numbers in *italics* indicate a negative movement from the previous month's data.

The Consumer Conference Board reported an increase in the **Consumer Confidence Index** from 90.4 in November to **96.5 in December**. According to the Conference Board, consumer views on the job market improved, while their views on their personal financial outlooks were mixed. Consumer's outlook on the labor market increased slightly with those expecting more jobs in the months ahead increasing from 12.0 to 12.9 percent. Consumers anticipating higher wages decreased 1.0 percent.

Unemployment Rates were steady at the National level and only worsened by 0.1 percent in the State of Washington. The unemployment rates in King County and Kirkland each worsened with an increase in the unemployment rate of 0.5 percent for King County and 0.4 percent for the City of Kirkland. The National unemployment rate remained flat at 5.0 percent for December, the third month in a row. The latest available data for state and local unemployment is from November.

Statewide housing market and vehicle sales data indicates continued strength in the sectors that represent the biggest components of our sales tax base. Statewide housing market values continue to rise as shown by the **Seattle Area Home Price Index**, which grew to 185.17 in October, which is just 3.7 percent lower than the pre-recession high point of 192.3 in August 2007. **New House Permits** in the state increased 14.2 percent from October to November with 41,000 new permits across the state. According to the Northwest Multiple Listing Service, housing prices in King County have recovered to pre-recession levels with the median home price now above the pre-recession record of \$481,000. However, inventories remain low, contributing to less choice for buyers and competition for homes that are listed, this market constraint is believed to be keeping some potential sellers on the sidelines since they may find it challenging to find the next house to buy.

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

Conclusion

The following chart shows that sales tax revenue finished the year with positive growth over 2014. Auto/Gas Retail represents 35.7 percent of the year over year growth, and about a quarter of total collections for the year. While other categories continue to contribute with modest growth, and the state and local economies continue to be strong, it is important to be aware of the economically volatile nature of automotive sales and the category’s magnitude in the composition of Kirkland’s sales taxes when interpreting sales tax revenue results in the face of future economic uncertainty as 2016 begins.

