



CITY OF KIRKLAND
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MEMORANDUM

To: Kurt Triplett, City Manager

From: Tracey Dunlap, Director of Finance and Administration
Sri Krishnan, Financial Planning Manager

Date: March 8, 2012

Subject: City Council Retreat – Financial Update

The purpose of this memo is to provide a brief recap of the year-end 2011 financial results, a discussion of the 2012 outlook, present the 2013-2018 financial forecast, and provide financial context looking ahead to the City's next budget process.

2011 Year-End Results

The year-end results for 2011 are discussed in detail in the Financial Management Report (FMR), which is included as **Attachment A**. This section provides a brief overview of the General Fund results versus the budget:

- Actual 2011 **General Fund revenues** ended the year \$2.1 million under the budgeted level (\$66.5 million versus budget of \$68.6 million) excluding the \$3.6 million in annexation-related asset transfers from Fire District 41 and Woodinville Fire & Rescue; and budgeted interfund charges. General Fund sales tax was up 4.5 percent, but that gain was offset by utility tax, plan check fees and fines and forfeitures revenues that fell short of budgeted levels. The 2011-2012 budget included an estimate of revenues in the annexation area, which fell short of expectations last year. Staff is currently analyzing annexation revenues to date and undertaking various efforts to determine the reasons for the differences between 2011 actuals and the amounts identified by King County. Efforts are also underway to gather additional data in order to generate more refined estimates as part of the 2013-2014 budget process.
- Actual 2011 **General Fund expenditures** ended the year about \$4.3 million under budget, including 2011 obligations to be paid in 2012. About half of the under-expenditures are a result of salary and benefit savings partially due to delayed hiring for annexation, this savings is not expected to continue at the same level in 2012. The remaining under expenditures are primarily due to savings in intergovernmental and professional services. All departments under-expended their budgets in 2011. These under-expenditures offset revenue shortfalls in 2011 and will help meet budgeted obligations in 2012.

2012 Outlook

As we proceed into 2012, there continue to be signs that many key revenues may be stabilizing, although several at much reduced levels than prior to the recession. The impact of annexation

continues to complicate trend analysis since it occurred 5 months into 2011, which in turn makes year-to-date trends with 2012 challenging to interpret. Although annexation was effective as of June 1st, 2011, the commencement of revenue receipts varied. Utility taxes were expected to start in July, while the normal lag for sales tax meant these revenues were not received until September. Staff is still analyzing and researching some key issues related to annexation revenues as noted below. At their January meeting, the Finance Committee determined that it would be less redundant and more meaningful if the "dashboard" report was done every other month. Accordingly, the February dashboard report shows January and February results and is provided as **Attachment B**.

- **Sales tax receipts** through February are up 2.8 percent over the same period last year. However, 2012 revenue from the new neighborhoods and one-time field recoveries in both years skew the comparison. Normalizing for these two factors, revenue would be up about 1.8 percent. Sales tax revenue from the new neighborhoods continues at dramatically lower levels than were originally budgeted (projection of about \$0.77 million under budget in 2012). The budget was based on estimates provided by King County and staff is currently working with the County to identify reasons for the significant variance, and the Department of Revenue to ensure that Kirkland is receiving all of the revenue due from the new neighborhoods. A more detailed analysis can be found in the February sales tax memo, which is included as **Attachment C**.
- **Utility tax revenue** trends in 2011 create a concern for 2012 and beyond. Telecommunications revenue was almost \$1 million under budget in 2011, which was partially offset by other utility tax revenue. Staff continue efforts to verify that the City is receiving all of the revenue due from the new neighborhoods. The forecast that follows assumes the lower level of telecommunications utility tax revenue to continue.
- **Business license fees** through February are trending about the same last year, which would be on track with budget expectations.
- **Development-related revenues** were up substantially in 2011 compared to 2010, but ended the year at 93 percent of budget, with Plan Review and Building Permit revenues falling 23% below budget. Engineering services revenue ended the year at 163.6 percent of budget due to the receipt of school permit revenues, a portion of which will be set aside for work that will occur in future years. The 2012 budget assumes \$0.7 million in permit fee revenue from redevelopment at Park Place. There are three vacant positions (2.5 FTEs) in the Building Department that will remain unfilled until there is more clarity on the timing for that project.
- The transition to self-insured **medical benefits** began in January 2011 and we are tracking program expenditures closely. It appears the program ended the year on track at the end of 2011 and a more detailed status report is being prepared by the Human Resources Department.

The State Legislature's struggle to finalize a balanced state budget creates some uncertainties for 2012 and beyond. The State's challenge is to close its own budget deficit and some options presented could negatively impact cities, such as changes in the liquor profits and related excise tax apportionments or cost shifting for programs such as the basic law enforcement academy. The good news is the annexation sales tax credit appears to be safe. The net impact of the various current proposals range from about \$0.2 million in 2012 to about \$0.5 million in 2013. A comparison of the impact of the budget proposals as of March 9, 2012 is included as **Attachment D**. Additionally, there are some **fiscal flexibility bills** under consideration in the State Legislature to provide cities with tools to help cope with impacts from State budget

decisions, as well as current economic conditions. The City will continue to actively participate in the legislative session and any opportunities or impacts from the final outcome will be brought forward as part of the mid-year budget adjustments.

The 2012 General Fund beginning balance is \$16.8 million and includes \$2.2 million in net savings, which is the result of the \$2.1 million revenue shortfall and the \$4.3 million in 2011 under-expenditures. The 2011 under-expenditures are \$1.2 million more than estimated during the mid-biennial process. Of the beginning balance of \$16.8 million, \$11.1 million is budgeted reserves and revolving fund balances; \$1.74 million is from the Woodinville Fire & Rescue asset transfer received in 2011 that was budgeted in 2012; \$1.72 million is from the Fire District asset transfer and is set aside for close-out costs and construction of the consolidated fire station; and \$1.2 million is required for 2011 commitments being paid in 2012. The remaining \$1.0 million is potentially available to address any additional shortfalls in 2012 revenues.

If the City ends 2012 with unobligated General Fund cash, staff will bring forward proposed uses based on the principles adopted by Council through Resolution R-4900 which states that unplanned reserve replenishments should occur when ending fund balances are higher than budgeted, either due to higher than budgeted revenues or under-expenditures. Such unplanned replenishments would help the City achieve its financial stability goals of maintaining a minimum balance in general purpose reserves of 80% of target.

Forecast

The 6-year financial forecast has been updated to reflect the actual revenues and expenditures in 2011 and the budgeted 2012 expenditures. The 2012 revenues have been reduced to account for the anticipated shortfalls in sales tax revenue (about \$0.77 million from the annexation area) and telecommunications utility revenues (approximately \$1.0 million less than budget) based on the variance from budget in 2011. No growth in utility taxes is assumed over the forecast period.

The forecast includes the full annexation state sales tax credit. It is important to keep in mind that the state sales tax credit is only available to fund any actual shortfalls between annexation revenues and expenses.

The baseline forecast continues to assume a slow economic recovery and reflects recent revenue trends by making the following changes to revenue projections over the forecast period:

- Reducing 2012 sales tax and utility tax revenues as highlighted above.
- Reducing the growth in sales tax revenue from 4% to 3% per year in 2013 and 2014. A growth rate of 4% is assumed for 2015-2018.
- Reducing the growth in utility tax revenues from 3% per year as assumed in the budget to no growth (0%) for the forecast period.

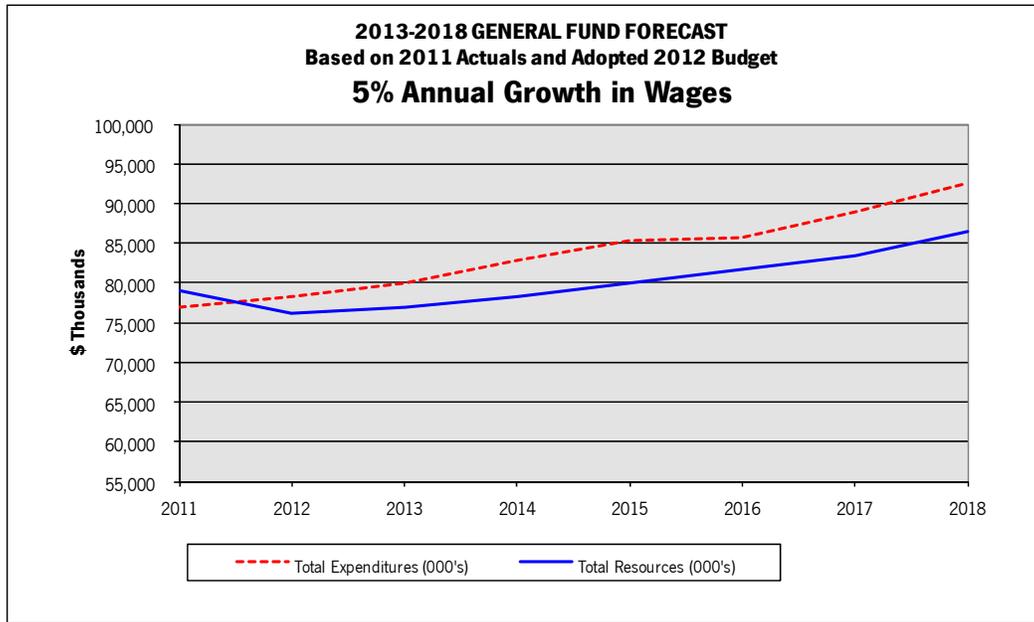
In addition, the forecast reflects Council's direction by assuming planned reserve replenishment set at 1% of General Fund expenditures starting in 2013.

As of this writing, the State Legislature is still in session and the impacts on Kirkland's budget as a result of their actions to balance the State's budget have not been finalized. The forecasts included in this packet do not include any potential impacts of the pending legislation.

The key assumptions in the Baseline Forecast include:

- Revenues
 - Actual revenues in 2011,
 - 1% optional property tax and 1% annual growth in new construction property tax in 2013-2018 (versus 2% growth in new construction in prior forecasts),
 - 2012 sales tax budget reduced by \$0.77 million based on the shortfall in annexation area sales tax revenue in 2011. Sales tax revenue growth of 3% in 2013-2014, and 4% annual growth reflected in 2015-2018 projections,
 - \$1.0 million reduction in utility tax revenue in 2012 and no annual growth in utility taxes in 2013-2018,
 - 2% growth in other taxes (revenue generating regulatory license and gambling taxes) in 2013-2018,
 - 2% growth in other revenue in 2013-2018,
 - No diversion of current revenue sources to/from CIP and no additional use of reserves.
- Expenditures
 - 2011 actuals and 2012 adopted budget, excluding one-time annexation-related service packages,
 - An increase of 2.5% was assumed for 2012, in addition to planned step increases. For 2013-2018, a total annual growth rate of 5% in wages is assumed (comprised of assumed raises of 2.5%, steps and longevity of 1.5%, and market/other adjustments of 1.0%),
 - 7% annual increase in all benefit costs for 2013-2018, which includes medical and pension contributions,
 - No annual growth in supplies, services & capital in 2013-2018,
 - 1% planned reserve replenishment.

The graph of the baseline results follows.



	2011	2012	2013	2014	2015	2016	2017	2018
Total Resources (000's)	78,965	76,093	76,882	78,302	79,964	81,677	83,441	86,453
Total Expenditures (000's)	76,889	78,169	80,026	82,814	85,376	85,742	88,900	92,481
Net Resources (000's)	2,076	(2,076)	(3,144)	(4,512)	(5,412)	(4,065)	(5,459)	(6,027)
Biennium Total (000's)	0		(7,656)		(9,477)		(11,486)	

Given that any economic recovery is fragile and that a variety of forecast assumptions could be made, the table below provides the impacts of changing each of the key assumptions by 1%. The figures reflect the annual impact of each 1% change on the net resources.

Summary Impact of 1% Change in Key Variables

Variable	Impact of 1% Change in 2012
Resources	
Sales Tax	155,272
Property Tax	160,290
Utility Taxes	100,371
Other Taxes	23,870
Expenditures	
Wages	294,178
Benefits	123,915
Supplies, Services & Capital	179,568

Financial Context Looking Ahead

While there are some reductions to the projected 2012 revenues, no expenditure reductions are currently envisioned to balance the 2011-2012 budget since the anticipated shortfalls can be offset by the under-expenditures in 2011. However, looking ahead, there are a number of major issues and uncertainties facing the City as it moves toward the next budget process:

- The final outcome of pending **legislation** is potentially one of the largest uncertainties in the City's near-term financial outlook. As mentioned earlier, any budget adjustments will be brought forward for Council action as part of the mid-year budget adjustments.
- The City's **revenues** appear to be stabilizing with a few significant exceptions described earlier, especially sales tax from the new neighborhoods and telecommunication utility taxes. Overall, the City's revenues may remain at a much lower level than in the past. The forecast assumes that the sales tax and utility taxes collected from the new neighborhoods will continue at the level experienced to date. If staff is able to identify and correct tax revenues that should be coming to the City, the resulting revenues will improve the forecast.
- There are currently **23 vacant positions** (28 FTEs) in the General Fund, 22 of which are positions approved in anticipation of annexation that have either been held open in 2011 or were planned to start in 2012. The City Manager will be reviewing the open positions to determine whether there is a need to fill them given the City's current experience providing service to those areas. If any of the positions are eliminated, there will be a positive impact on the forecast.
- While becoming self-insured is helping to control the City's **cost growth**, inflationary pressures on wages could potentially undo much of this gain. Each 1% increase in wage growth adds almost \$300,000 to the City's wage costs. Establishing better controls over labor costs will continue to be important as the City strives to build a more sustainable budget.
- As the City develops the 2013-18 Capital Improvement Program (**CIP**), the ability to fund capital projects in light of reduced funding projections and increased demands reflecting near-term needs in the new neighborhoods is going to be a challenge.
- Other **unfunded needs** include:
 - Purchase of the Eastside Rail Corridor – While the Council has identified an interim funding mechanism (an interfund loan) to purchase the rail corridor, a long-term funding option has yet to be decided upon.
 - Sinking Funds – As staff evaluates the establishment of new sinking funds for the replacement of public safety equipment and information technology infrastructure and systems, the preliminary estimates for annual contributions is approximately \$0.75 million, excluding major systems such as the City's financial system. The Council will be updated on the results of this analysis as part of the 2013-2014 budget development process.
 - Reserve Replenishment – The City's use of general purpose reserves during the recent economic downturn requires that these reserves be replenished as funds are available.
 - Availability of funds for needs that have been funded historically with one-time cash (ARCH, apportion of Human Services, etc.).
- The outcome of Council deliberations regarding the Transportation Benefit District and the recommendations of the Parks Funding Exploratory Committee could also impact the priorities that the City emphasizes in the next biennium and beyond.

The tentative calendar for the 2013-2014 Budget and 2013-2018 CIP is included as **Attachment E**.



Financial Management Report as of December 31, 2011

AT A GLANCE:

City of Kirkland to Purchase "Kirkland Segment" of Rail Corridor (page 2 sidebar)

2011 revenues ended the year below expectations (page 3)

2011 Sales tax revenue ended the year ahead of 2010 (page 5)

Economy remains uncertain (pages 7-8)

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The Financial Management Report was a challenge to interpret in 2011 due to annexation, which impacted expenditures and revenues at different times throughout the year. In particular, the City incurred increasing expenses month-by-month to gear up for annexation, but no revenue from the annexation area was collected until July and the bulk of the revenue was not received until the fourth quarter. Additionally, certain one-time revenues received in 2011 as a result of annexation are budgeted for use in 2012 to balance the budget. As a result, instead of discussing the comparison of 2011 actual revenues and expenditures to the prior year, this quarter's FMR will compare the 2011 actual results to the 2011 budget and highlight revenues received in 2011 that will be used to offset expenditures budgeted in 2012.

Summary of All Operating Funds: *Revenue*

- General Fund** actual 2011 revenue ended the year at **96.9 percent** of budget (excluding asset transfers from Fire District 41 and Woodinville Fire & Rescue and inter-fund transfers totaling \$3.6 million, of which \$2.4 million is budgeted for use in 2012 and the remaining is set aside for the construction of the consolidated fire station). The 2011 budget included revenues projected for the annexation area, which came in lower than projected. A more detailed analysis of General Fund revenue can be found on page 3, and sales tax revenue performance can be found beginning on page 5.
- Other General Government Funds** actual 2011 revenue ended the year at **109.2 percent** of budget. This included all of the one-time County Road Levy revenue received as a result of annexation. \$1.1 million of the Road levy is budgeted in 2012 to offset authorized expenditures. Excluding the additional road tax, Other General Government Funds actual 2011 revenue to budget would be at 101.4 percent.
- Water/Sewer Operating Fund** actual 2011 revenue ended the year at **97.8 percent** of budget. Water service revenues ended under budget by 2.2 percent due to lower consumption as a result of the unusually cool and damp summer months in 2011.
- Surface Water Management Fund** actual 2011 revenue ended the year at **98.4 percent** of budget. Surface Water charges are paid at the same time as property taxes, which are primarily received in April and October.
- Solid Waste Fund** actual 2011 revenue ended the year at **93.7 percent** of budget, \$650,000 below budget. This is primarily due to the larger than anticipated number of customers migrating to smaller container sizes. The finance committee will be evaluating the current rate policies during the first quarter of 2012.

Resources by Fund	Year-to-Date Actual			Budget			% of Budget	
	12/31/2010	12/31/2011	% Change	2010	2011	% Change	2010	2011
General Gov't Operating:								
General Fund ¹	54,300,280	66,520,145	22.5%	54,706,544	68,664,728	25.5%	99.3%	96.9%
Other General Gov't Operating Funds	16,181,806	18,208,455	12.5%	15,798,095	16,672,780	5.5%	102.4%	109.2%
Total General Gov't Operating	70,482,086	84,728,600	20.2%	70,504,639	85,337,508	21.0%	100.0%	99.3%
Utilities:								
Water/Sewer Operating Fund	18,462,427	19,363,705	4.9%	20,660,066	19,807,418	-4.1%	89.4%	97.8%
Surface Water Management Fund	5,207,766	6,739,100	29.4%	5,270,500	6,847,891	29.9%	98.8%	98.4%
Solid Waste Fund	8,312,328	9,408,767	13.2%	8,627,630	10,040,676	16.4%	96.3%	93.7%
Total Utilities	31,982,521	35,511,572	11.0%	34,558,196	36,695,985	6.2%	92.5%	96.8%
Total All Operating Funds	102,464,607	120,240,172	17.3%	105,062,835	122,033,493	16.2%	97.5%	98.5%

¹ Budgeted and actual revenues exclude resources forward and interfund transfers.

¹ Excludes asset transfers from Fire District 41 and Woodinville Fire & Rescue and interfund transfers totaling \$3.6 million, of which \$2.4 million is budgeted for use in 2012 and the remainder is set aside for the construction of the consolidated fire station.



City Council Unanimously Votes to Purchase "Kirkland Segment" of Rail Corridor from Port of Seattle for \$5 Million

Kirkland's vision for multi-modal transportation, pedestrian connectivity to parks and schools, and bicycle pathways has come closer to reality thanks to the Kirkland City Council unanimously voting to enter into a purchase and sale agreement with the Port of Seattle for 5.75 miles of the Eastside Rail Corridor that lie within Kirkland city limits. On December 12, 2011, after receiving a comprehensive overview presented at the study session, public comment at the regular meeting, and discussing the proposed purchase and sale agreement, the City Council authorized the City Manager to enter into an acquisition agreement with the Port of Seattle, initiating a 60-day due diligence period.

The City Council was presented with possible funding sources to purchase and to develop the segment. Interim acquisition funding, in the form of an Interfund Loan, was approved by the adoption of Ordinance No. 4341 in the amount of \$4 million from the Water/Sewer and Surface Water Utilities. Plus, \$1 million in Surface Water Capital funds in exchange for an easement. The loan will be repaid by reprioritizing other capital projects or issuing long-term debt supported by general purpose revenues. Funds to eventually develop the Kirkland Segment could include voted debt, corporate sponsorship, and/or state and federal grants.

For background information on the City's interest in the Eastside Rail Corridor and to subscribe to receive updates via email, visit www.kirklandwa.gov/eastsiderailcorridor.

Summary of All Operating Funds: *Expenditures*

- **General Fund** actual expenditures ended the year at **93.3 percent** of budget. Savings are largely due to delays in annexation hiring, position vacancies and jail contract savings. A more detailed analysis of General Fund expenditures by department is found on page 4.
- **Other Operating Funds** actual expenditures ended the year at **81.6 percent** of budget largely due to delays in vehicle purchases from extending the planned replacement cycle by another year for many vehicles, savings in computer hardware and lower facility utility costs. Vehicle and computer hardware costs vary year-to-year depending on the planned replacement cycle. Facility utility costs are down, partially due to milder winter weather, but also from staff conservation efforts and the pay-off from past investments in updated controls and equipment at various locations. Other Operating funds have also seen some savings in personnel costs due to position vacancies, primarily for annexation.
- **Water/Sewer Operating Fund** actual expenditures ended the year at **95.5 percent** of budget despite higher water costs. The City pays Cascade Water Alliance (CWA) a set rate for water each month based on average demands over three years (currently 2007-2009). The City will begin to see the impact of reduced usage in 2010 and 2011 in 2012's calculation. Regional water connection charges (RCFCs) are coming in more than triple the budget of \$150,000, due to more new connections than expected (which is offset by RCFC revenues).
- **Surface Water Management Fund** actual expenditures ended the year at **85.0 percent** of budget due to delays in hiring annexation positions resulting in significant savings in the personnel and supplies categories.
- **Solid Waste Fund** actual expenditures ended the year at **96.2 percent** of budget due to savings in personnel costs as a result of delays in hiring annexation positions. In addition, excise taxes are under budget about 20.0 percent or \$167,000 due to reduced revenues, and a state excise tax assessment of \$160,000 currently under appeal. The King County Hazardous Waste Fees in 2011 came in at about 68.0 percent of the budget or about \$120,000 less than budget due to the timing of adding new customer accounts from the new neighborhoods.

Expenditures by Fund	Year-to-Date Actual			Budget			% of Budget	
	12/31/2010	12/31/2011	% Change	2010	2011	% Change	2010	2011
General Gov't Operating:								
General Fund	57,120,660	63,324,125	10.9%	58,149,798	67,878,459	16.7%	98.2%	93.3%
Other General Gov't Operating Funds	12,989,485	13,959,291	7.5%	13,326,213	17,106,576	28.4%	97.5%	81.6%
Total General Gov't Operating	70,110,145	77,283,416	10.2%	71,476,011	84,985,035	18.9%	98.1%	90.9%
Utilities:								
Water/Sewer Operating Fund	14,531,796	16,010,448	10.2%	15,903,927	16,765,372	5.4%	91.4%	95.5%
Surface Water Management Fund	3,262,338	3,689,202	13.1%	3,387,458	4,338,938	28.1%	96.3%	85.0%
Solid Waste Fund	8,225,753	9,687,603	17.8%	8,596,408	10,070,151	17.1%	95.7%	96.2%
Total Utilities	26,019,887	29,387,253	12.9%	27,887,793	31,174,461	11.8%	93.3%	94.3%
Total All Operating Funds	96,130,032	106,670,669	11.0%	99,363,804	116,159,496	16.9%	96.7%	91.8%

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

General Fund Revenue

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

- **Sales tax** revenue allocated to the General Fund for 2011 was slightly ahead of budget expectations at **100.3 percent**. A detailed analysis of total **sales tax** revenue compared to 2010 can be found starting on page 5.
- **Utility tax** receipts, including projected annexation area revenues, ended the year below budget expectations at **95.4 percent** (\$575,488). The largest shortfall was in telecommunication utility tax revenues, which were short more than 25 percent or \$900,000. The shortfall is partially offset by higher gas and cable utility taxes.
- **Other taxes** actual revenue exceeded budget by **41.0 percent** due to receipt of the initial gambling revenue from the newly annexed area and a substantial increase in Leasehold Excise tax payments from one payee, which is currently being reviewed.
- The **business licenses (base fee) and franchise fees** actual revenue ended the year at **90.2 percent** of budget primarily due to timing of franchise payments. Business license base fee revenue ended ahead of budget.
- The **revenue generating regulatory license** fee met budget expectations and ended the year at **100.1 percent** of budget.
- The **development-related fee** revenues, collectively ended the year below budget expectations at **92.9 percent** of budget. **Building permits** and **plan check revenue** collectively ended

the year at **76.9 percent** of budget and **engineering services** revenue ended the year at **163.6 percent** of budget due to receipt of large school permit revenues. A portion of these revenues will be set aside for work that will occur in future years. **Planning fees** revenue ended the year at **102.3 percent** of budget primarily due to major Process IIB permit revenues.

- **Fines and Forfeitures** ended the year below budget expectations at **75.7 percent** primarily because of lower than expected parking infraction penalty revenues. This is due to and offset in part by salary savings from a parking enforcement officer vacancy. Also, revenues from the new neighborhoods are only beginning to be reflected in the actuals.
- **Other financing sources** include the transfer of Fire District 41 balances due to the assumption of the District as a result of annexation, most of which is set aside for the station consolidation project. It also includes the asset transfer from Woodinville Fire & Rescue that was budgeted in 2012. The Interfund Transfers budget is significantly lower than 2010 due to fund restructuring, including combining of the recreation fund with the General Fund. \$175,000 in Interfund Transfers budgeted for the purchase of public safety radios in 2011 will not occur until 2012.

General Fund 2011 revenues ended the year at 96.9 percent of budget, (excluding asset transfers from Fire District 41 and Woodinville Fire & Rescue and interfund transfers).

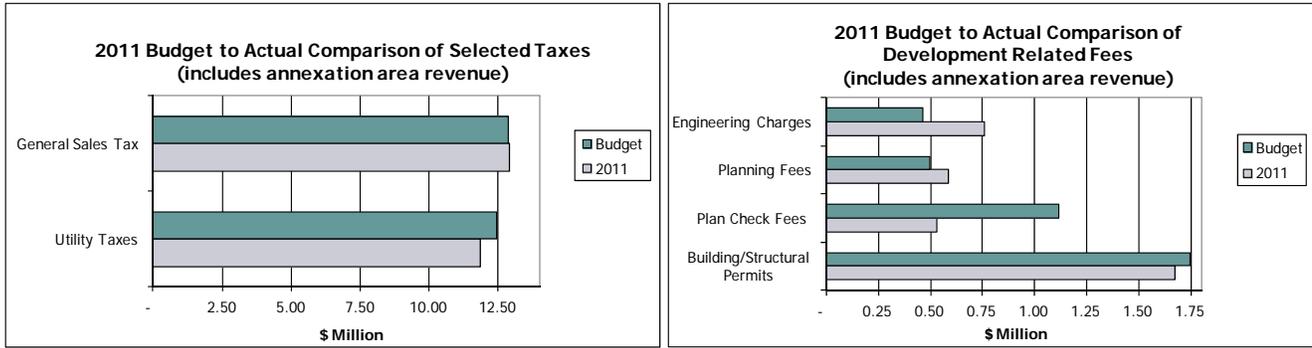
The General Fund is the largest of the General Government Operating funds. It is primarily tax supported and accounts for basic services such as public safety, parks and recreation, and community development.

In 2011, about 412 of the City's 521 regular employees are budgeted within this fund.

General Fund Resource Category	Year-to-Date Actual			Budget			% of Budget	
	12/31/2010	12/31/2011	% Change	2010	2011	% Change	2010	2011
Taxes:								
Retail Sales Tax: General	12,336,886	12,918,182	4.7%	11,464,179	12,885,899	12.4%	107.6%	100.3%
Retail Sales Tax Credit: Annexation	-	1,088,061	N/A	-	1,129,866	N/A	N/A	96.3%
Retail Sales Tax: Criminal Justice	941,944	1,141,768	21.2%	1,129,140	1,149,997	1.8%	83.4%	99.3%
Property Tax	10,009,911	13,074,048	30.6%	9,904,815	13,261,709	33.9%	101.1%	98.6%
Utility Taxes	10,363,718	11,861,208	14.4%	10,965,526	12,436,696	13.4%	94.5%	95.4%
Rev Generating Regulatory License	2,024,640	2,345,779	15.9%	2,567,468	2,344,069	-8.7%	78.9%	100.1%
Other Taxes	328,968	440,259	33.8%	466,129	312,250	-33.0%	70.6%	141.0%
Total Taxes	36,006,067	42,869,305	19.1%	36,497,257	43,520,486	19.2%	98.7%	98.5%
Licenses & Permits:								
Building, Structural & Equipment Permits	1,081,952	1,675,118	54.8%	1,436,990	1,748,605	21.7%	75.3%	95.8%
Business Licenses/Franchise Fees	1,828,607	2,720,228	48.8%	1,720,921	3,014,279	75.2%	106.3%	90.2%
Other Licenses & Permits	181,666	207,444	14.2%	175,460	217,579	24.0%	103.5%	95.3%
Total Licenses & Permits	3,092,225	4,602,790	48.9%	3,333,371	4,980,463	49.4%	92.8%	92.4%
Intergovernmental:								
Grants and Federal Entitlements	426,125	487,838	14.5%	503,699	548,052	8.8%	84.6%	89.0%
State Shared Revenues & Entitlements	842,585	871,865	3.5%	809,010	947,385	17.1%	104.2%	92.0%
Property Tax - Fire District	-	2,313,161		-	-			
Fire District #41	3,580,280	1,586,765	N/A	3,598,238	3,684,071	N/A	99.5%	43.1%
EMS	831,434	840,146	N/A	866,231	868,678	N/A	96.0%	96.7%
Other Intergovernmental Services	546,222	266,132	-51.3%	547,394	533,087	-2.6%	99.8%	49.9%
Total Intergovernmental	6,226,646	6,365,907	2.2%	6,324,572	6,581,273	4.1%	98.5%	96.7%
Charges for Services:								
Internal Charges	5,070,809	5,393,203	6.4%	4,707,822	5,558,328	18.1%	107.7%	97.0%
Engineering Services	269,722	759,300	181.5%	225,000	464,146	106.3%	119.9%	163.6%
Plan Check Fee	547,562	528,411	-3.5%	408,252	1,115,779	173.3%	134.1%	47.4%
Planning Fees	436,740	588,546	34.8%	245,420	495,044	101.7%	178.0%	118.9%
Recreation	-	1,082,755	N/A	-	1,162,406	N/A	N/A	93.1%
Other Charges for Services	849,612	1,534,336	80.6%	770,890	1,709,373	121.7%	110.2%	89.8%
Total Charges for Services	7,174,445	9,886,551	37.8%	6,357,384	10,505,076	65.2%	112.9%	94.1%
Fines & Forfeits	1,651,358	1,843,298	11.6%	1,539,268	2,435,490	58.2%	107.3%	75.7%
Miscellaneous	149,539	952,294	536.8%	654,692	641,940	-1.9%	22.8%	148.3%
Total Revenues	54,300,280	66,520,145	22.5%	54,706,544	68,664,728	25.5%	99.3%	96.9%
Other Financing Sources:								
Transfer of FD 41 & WFR Balances	-	3,467,255	N/A	-	1,722,725	N/A	N/A	201.3%
Interfund Transfers	2,275,530	100,726	N/A	2,275,530	275,028	N/A	100.0%	36.6%
Total Other Financing Sources	2,275,530	3,567,981	N/A	2,275,530	1,997,753	N/A	100.0%	178.6%
Total Resources	56,575,810	70,088,126	23.9%	56,982,074	70,662,481	24.0%	99.3%	99.2%

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	
	12/31/2010	12/31/2011	% Change	2010	2011	% Change	2010	2011
Non-Departmental	1,447,339	1,480,722	2.3%	1,525,820	1,480,669	-3.0%	94.9%	100.0%
City Council	345,605	310,496	-10.2%	353,130	321,477	-9.0%	97.9%	96.6%
City Manager's Office	2,947,807	3,380,736	14.7%	3,115,861	3,556,701	14.1%	94.6%	95.1%
Human Resources	1,006,757	1,223,115	21.5%	1,124,972	1,267,998	12.7%	89.5%	96.5%
City Attorney's Office	983,611	1,120,377	13.9%	984,121	1,162,037	18.1%	99.9%	96.4%
Parks & Community Services	6,605,981	6,702,191	1.5%	6,722,519	7,108,434	5.7%	98.3%	94.3%
Public Works (Engineering)	3,123,823	3,365,232	7.7%	3,340,832	3,771,045	12.9%	93.5%	89.2%
Finance and Administration	3,529,461	3,822,892	8.3%	3,743,652	4,097,765	9.5%	94.3%	93.3%
Planning & Community Development	2,610,736	2,880,397	10.3%	2,730,557	2,932,820	7.4%	95.6%	98.2%
Police	16,988,616	19,880,596	17.0%	17,188,807	22,201,553	29.2%	98.8%	89.5%
Fire & Building	17,530,924	19,157,371	9.3%	17,319,527	19,977,960	15.3%	101.2%	95.9%
Total Expenditures	57,120,660	63,324,125	10.9%	58,149,798	67,878,459	16.7%	98.2%	93.3%
Other Financing Uses:								
Interfund Transfers	1,103,912	2,827,754	156.2%	1,024,920	3,286,374	220.6%	107.7%	86.0%
Total Other Financing Uses	1,103,912	2,827,754	156.2%	1,024,920	3,286,374	220.6%	107.7%	86.0%
Total Expenditures & Other Uses	58,224,572	66,151,879	13.6%	59,174,718	71,164,833	20.3%	98.4%	93.0%

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

The 2011 Budget incorporates budget reductions in response to the economic downturn, additions as a result of annexation, the move to medical self-insurance, the restoration of 3.4 percent salary and benefit reductions taken in 2010, and fund restructuring to comply with accounting rule changes. These changes make comparisons to the 2010 budget challenging, therefore, expenditures will only be compared to the 2011 budget. The actual expenditures summarized below reflect a full year of data.

Comparing 2011 actual expenditures to the 2011 budget:

Overall, General Fund expenditures trailed the budget ending the year at 93.3 percent of budget, excluding interfund transfers. About half of the under expenditures are a result of salary and benefit savings partially due to delayed hiring for annexation, this savings is not expected to continue at this level in 2012. The remaining under expenditures are primarily due to savings in intergovernmental and professional services.

- Actual 2011 expenditures for the **City Council** ended the year on target at **96.6 percent** of budget.
- The **City Manager's Office** actuals ended the year at **95.1 percent** of budget due to savings in personnel costs and professional services.
- Actual 2011 expenditures for **Human Resources** ended the year at **96.5 percent** of budget due to savings in professional services, advertising and training. Over the past few years advertising costs in Human Resources have significantly decreased due to changes in position advertising and the increased use of online postings.
- The **City Attorney's Office** expenditures ended at **96.4 percent** of budget due to savings in legal fees.
- Actual 2011 expenditures for the **Parks & Community Services Department** ended the year at **94.3 percent** of budget due to unfilled positions, operating supplies and human services contract payments, the

2011 General Fund actual expenditures (excluding "other financing sources") ended the year at 93.3 percent of budget, primarily due to delayed annexation hiring and position vacancies in multiple departments and savings in jail costs.

(Continued on page 5)

Financial Management Report as of December 31, 2011

majority of which will occur in 2012.

- Actual expenditures for the **Public Works Department** ended at **89.2 percent** of budget due to position vacancies and savings from professional services.
- The **Finance and Administration Department** expenditures ended the year at **93.3 percent** of budget due to personnel savings mainly from the reclassification of positions that resulted in lower salary costs and some savings in professional services.
- Actual 2011 expenditures for the **Planning and Community Development Department** ended at **98.2 percent** of budget due to savings in professional services.
- Actual 2011 expenditures for the **Police Department** ended the year at **89.5 percent** of budget due to savings from delayed annexation staffing and increased hiring of laterals (and related expenses) along with position vacancies. In addition, jail costs came in under budget about \$830,000 due to contracts with other agencies for lower rates than those charged by King County and an increase in the use of electronic home detention and other sentencing measures besides jail time.
- Actual 2011 expenditures for the **Fire & Building Department** ended the year at **95.9 percent** of budget due to savings in fire suppression overtime and delayed hiring of annexation positions in the Building Division. A summary of the funds received from the assumption of Fire District 41 appears to the right.

Summary of Fire District 41 Funds: Revenues & Expenditures

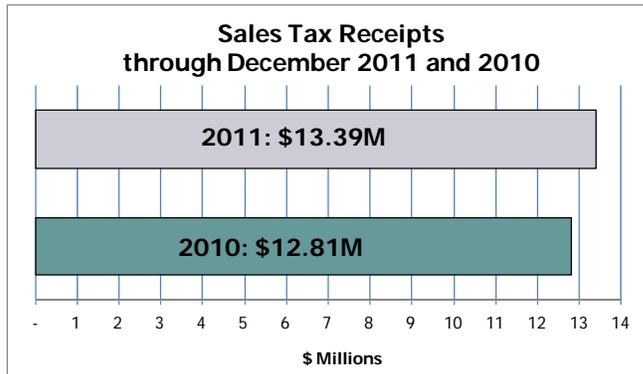
	Capital	General Government
Revenues:		
Beginning Balance	4,000,000	1,724,497
Fire District Revenues	-	1,872,041
Interest and Other Revenues	22,507	2,697
Total Revenues	4,022,507	3,599,235
Expenditures:		
Operating Costs (per ILA)*	-	163,840
Fire District 2011 Contract	-	2,209,496
Station Consolidation Project	27,939	-
Total Expenditures	27,939	2,373,336
Ending Balance	3,994,568	1,225,899

*Includes 2012 obligations

Sales Tax Revenue Analysis 2011 sales tax revenue through December was **up 4.5 percent** compared to the same period in 2010. All business sectors except for Wholesale saw increases for 2011. Factoring out one-time revenues and revenues from the new neighborhoods, the sales tax figures would be up 2.8 percent for the year compared to 2010.

Review by business sectors:

- The **general merchandise/miscellaneous retail** sector was **up 3.3 percent** compared to 2010 largely due to a large one-time receipt received in early 2011.
- The **auto/gas retail** sector was **up 4.1 percent** compared to 2010. This category had the second largest dollar increase in 2011.
- The **retail eating/drinking** sector performance was **up 7.6 percent** compared to 2010. The opening of a few new restaurants in early 2011 and revenue from the new neighborhoods impacted the comparison.
- Other retail** in 2011 was **up 5.0 percent** compared to 2010, primarily due to positive performance in the food and beverage and building and garden categories.
- The **miscellaneous** sector was **up 15.1 percent** compared to 2010, due to one-time amnesty program revenue and a distribution of pooled sales tax revenue related to some large audits. Factoring out one-time revenues, this category would be up 0.5 percent.
- The **communications** sector was **up 8.3 percent** compared to 2010, due to the significant development related activity from telecommunications companies in early 2011.
- The **services** sector was **up 5.1 percent** compared to 2010, largely due to one-time corrections to the repairs and maintenance category. The accommodations category was up 4.2 percent or about \$11,200.
- The **contracting** sector was **up 0.5 percent** compared to 2010. The construction of buildings category continued to be down due to the completion of several large projects that generated significant tax revenues in 2010. Significant increases in 2011 in the specialty trade category helped this sector recover.
- Wholesale** was **down 2.1 percent** compared to 2010, this is the only category that ended with negative a performance for the year.



Streamlined Sales Tax

Washington State implemented new local coding sales tax rules as of July 1, 2008 as a result of joining the national Streamlined Sales Tax Agreement. Negative impacts from this change are mitigated by the State of Washington. In 2011, a little more than \$105,000 was received, almost \$10,000 less than budget.

Neighboring Cities

Bellevue and Redmond 2011 sales tax revenue through December was up 5.5 percent and 36.4 percent respectively compared to the same period in 2010. Redmond was much higher due to \$4.6 million in field recoveries received in February and March. Excluding field recoveries Redmond was up 9.9 percent.

City of Kirkland Actual Sales Tax Receipts

Business Sector Group	January-December		Dollar Change	Percent Change	Percent of Total	
	2010	2011			2010	2011
Services	1,609,846	1,692,708	82,862	5.1%	12.6%	12.6%
Contracting	1,739,823	1,748,813	8,990	0.5%	13.6%	13.1%
Communications	439,692	476,189	36,497	8.3%	3.4%	3.6%
Auto/Gas Retail	3,038,615	3,161,851	123,236	4.1%	23.7%	23.6%
Gen Merch/Misc Retail	1,745,038	1,802,876	57,838	3.3%	13.6%	13.5%
Retail Eating/Drinking	1,063,913	1,145,123	81,210	7.6%	8.3%	8.6%
Other Retail	1,614,016	1,694,262	80,246	5.0%	12.6%	12.7%
Wholesale	725,093	709,686	(15,407)	-2.1%	5.7%	5.3%
Miscellaneous	830,820	956,682	125,862	15.1%	6.5%	7.1%
Total	12,806,856	13,388,190	581,334	4.5%	100.0%	100.0%

Kirkland's sales tax base is comprised of a variety of businesses which are grouped and analyzed by business sector (according to NAICS, or "North American Industry Classification System"). Nine business sector groupings are used to compare 2010 and 2011 year-to-date sales tax receipts in the table to the left.

City of Kirkland Actual Monthly Sales Tax Receipts

Month	Sales Tax Receipts		Dollar Change	Percent Change
	2010	2011		
January	945,992	1,082,225	136,233	14.4%
February	1,364,023	1,366,850	2,827	0.2%
March	937,460	942,887	5,427	0.6%
April	953,914	899,425	(54,489)	-5.7%
May	1,094,845	1,154,252	59,407	5.4%
June	1,009,111	1,046,570	37,459	3.7%
July	1,035,279	1,047,452	12,173	1.2%
August	1,136,223	1,181,633	45,410	4.0%
September	1,142,588	1,144,307	1,719	0.2%
October	1,053,781	1,148,556	94,775	9.0%
November	1,089,394	1,236,264	146,870	13.5%
December	1,044,246	1,137,769	93,523	9.0%
Total	12,806,856	13,388,190	581,334	4.5%

- Monthly revenue performance in 2011 maintained the improvements seen in 2010 after the mostly double digit declines experienced throughout 2009.
- January 2011 was substantially ahead of January 2010. However, a significant portion of the gain was one-time. Field recoveries and large one-time receipts accounted for almost half of the gain. The increase was 7.8 percent after factoring out these one-time events.
- Receipts for April were skewed by a large field recovery received in April 2010. Excluding the field recovery would result in April 2011 being down 2.3 percent.
- May, June and July were skewed due to one-time amnesty revenues. Excluding these revenues would result in May being down 1.0 and June and July being up 0.4 and 7.6 percent respectively.
- August was skewed by a one-time distribution resulting from certain audits being completed. Excluding this distribution would result in August being up 0.8 percent.
- October, November and December revenues include revenues from the new neighborhoods.
- 2011 sales tax revenue (excluding the new neighborhoods) was higher than budgeted and offset the shortfall in sales tax revenues in the new neighborhoods. Staff is undertaking further analysis to determine whether there are revenues that King County identified that the City has yet to receive.

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. For example, sales tax received by the City in December is for sales activity in October. Monthly sales tax receipts through December 2010 and 2011 are compared in the table above.

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 accounts for about 29 percent of the total sales tax receipts, is **down 2.4 percent** in 2011 primarily due to negative performance in several of the retail sales categories. About 68

percent of this business district's revenue comes from the auto/gas retail sector.

NE 85th Street, which accounts for over 15 percent of the total sales tax receipts, is **down 2.1 percent** primarily due to declines in the retail eating and drinking category and slow performance in the automotive/gas retail sales. The automotive/gas retail sector contributes almost 39 percent of this business district's revenue.

Downtown, which accounts for over 7 percent of the total sales tax receipts, is **up 11.1 percent** due to positive performance in the retail apparel/general merchandise category and retail eating/drinking category. The retail eating/drinking sector, accommodations and other retail provide almost 73 percent of this business district's revenue.

Carillon Point & Yarrow Bay, which account for more than 3

percent of the total sales tax receipts, are **up 26.8 percent** compared to last year primarily due to other retail and the accommodations sectors. About 60 percent of this business district's revenue comes from business services, retail eating/drinking and accommodations.

Houghton & Bridle Trails, which account for more than 2 percent of the total sales tax receipts, are **up 11.8 percent** collectively due to strong performance in the retail food stores and misc retail categories. The retail sectors provide about 74 percent of these business districts' revenue.

Juanita, which accounts for about 2 percent of the total sales tax receipts, is flat with no change from 2010. Increases in the sporting goods/misc. retail and retail eating/drinking are offset by poor performance in the business services category. These sectors provide almost 76 percent of this business district's revenue.

North Juanita, Kingsgate, & Finn Hill account for less than 1 percent of the total sales tax receipts. Sales tax receipts for these business districts finished the year at 29 percent of the 2011 annexation sales tax budget. Retail eating/drinking and food retail sectors provide about 70 percent of these business districts sales tax revenues.

Year-to-date sales tax receipts by business district for 2010 and 2011 are compared in the table on the next page.

When reviewing sales tax receipts by business district, it's important to point out that more than 42 percent of the revenue received in 2011 is 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.

City of Kirkland Sales Tax by Business District

Business District	Jan-Dec Receipts		Dollar Change	Percent Change	Percent of Total	
	2010	2011			2010	2011
Totem Lake	3,957,271	3,863,496	(93,775)	-2.4%	30.9%	28.9%
NE 85th St	2,061,166	2,016,877	(44,289)	-2.1%	16.1%	15.1%
Downtown	886,127	984,079	97,952	11.1%	6.9%	7.4%
Carillon Pt/Yarrow Bay	356,531	452,195	95,664	26.8%	2.8%	3.4%
Houghton & Bridle Trails	312,417	349,375	36,958	11.8%	2.4%	2.6%
Juanita	257,714	257,754	40	0.0%	2.0%	1.9%
Kingsgate	-	40,016	40,016	N/A	0.0%	0.3%
North Juanita	-	43,892	43,892	N/A	0.0%	0.3%
Finn Hill	-	20,814	20,814	N/A	0.0%	0.2%
Unassigned or No District:						
Contracting	1,739,819	1,749,111	9,292	0.5%	13.6%	13.1%
Other	3,235,811	3,610,582	374,771	11.6%	27.3%	29.5%
Total	12,806,856	13,388,190	581,334	4.5%	100.0%	100.0%

Sales Tax Revenue Outlook Sales tax receipts were mostly positive for 2011 compared to 2010, as illustrated in the monthly chart on the previous page and exceeded budget expectations. The services, general merchandise/miscellaneous retail, automotive/gas retail and miscellaneous sectors contributed the largest amount of gain, but these sectors are very sensitive to economic conditions. Communications and contracting sectors have shown small signs of recovery. The impact from streamlined sales tax sourcing rule changes has negatively impacted some sectors, but is offset by gains in others. The shaky economic recovery poses significant risk to the City's ability to maintain services, since sales tax is one of the primary sources of general fund revenue. As noted earlier, staff is working with the Department of Revenue and King county to determine whether the City is receiving all of the revenues generated from the newly annexed areas.

OFFICE VACANCIES:

According to CB Richard Ellis Real Estate Services, the Eastside office vacancy rate was 15.5 percent for the fourth quarter of 2011 compared to 18.0 percent for the fourth quarter of 2010. Kirkland's 2011 vacancy rate is 7.9 percent, significantly lower than the 2010 rate of 24.2 percent.

The Puget Sound regional market recovery has been one of the strongest in the country with 1,876,754 square feet of positive absorption in 2011, 44 percent occurring on the Eastside. This is the seventh straight quarter of positive absorption. Positive absorption occurs when the total amount of available office space decreases during a set period.

Looking ahead to 2012 it is expected that vacancy rates will continue decreasing, but at varying rates around the Puget Sound.

LODGING TAX REVENUE:

Lodging tax 2011 revenue ended the year at 111.1 percent of the budget and 8.9 percent more than 2010.

Economic Environment Update Washington State's economy performed close to expectations in 2011 and is expected to continue marginally outperforming the United States in recovery. Washington is not immune to uncertainty in the global economy. The greatest risks to continued growth are the lack of progress in the European debt crisis, continued uncertainty with U.S. fiscal policies, the slowdown of growth in Asia and slow job growth. All of these factors are contributors to the projected prolonged period of slow growth according to the latest update from the Washington State Economic and Revenue Forecast Council. Employment rose slightly from August to November 2011 with 7,900 net new jobs in Washington, mostly in the private sector. Even with some gains in employment the state remained down more than 130,000 jobs from the start of the recession. The State Legislature continues to struggle to finalize a balanced state budget creating some uncertainties for 2012 and beyond. The projected state budget shortfall is \$1.05 billion for the 2012 supplemental operating budget. The State's challenge to close its own budget deficit and some options presented could negatively impact cities, such as changes in the liquor profits/tax apportionments or cost shifting for programs such as the basic law enforcement academy. *The side bar on page 9 presents information on the national forecast based on a survey done by the Federal Reserve Bank of Philadelphia.*

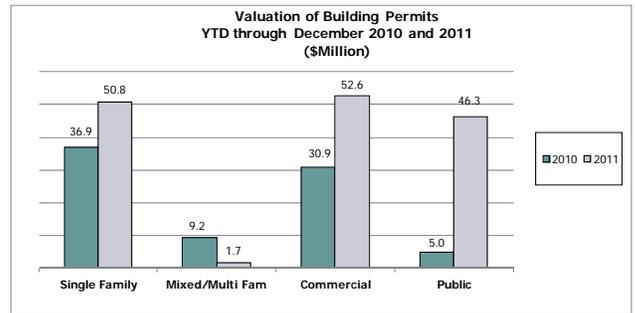
The U.S. **consumer confidence index** improved considerably (nearly 25 points) the last three months of 2011, bringing levels in December back up to those not seen since April 2011. The Index now stands at **64.5** up from 55.2 in November. Lynn Franco, Director of The Conference Board Consumer Research Center, said "Looking ahead, consumers are more optimistic that business conditions, employment prospects, and their financial situations will continue to get better. While consumers are ending the year in a somewhat more upbeat mood, it is too soon to tell if this is a rebound from earlier declines or a sustainable shift in attitudes." Even with recent improvements, the index has been volatile and has not reached, or maintained, levels which indicate a stable economy since 2007. An index of 90 indicates a stable economy and one at or above 100 indicates growth.

(Continued on page 8)

King County's **unemployment rate** was **7.2 percent** in December 2011 compared to 8.4 percent in December 2010, the lowest since January 2009. King County's unemployment rate is lower than the Washington State and national rates, which were 8.6 and 8.5 percent.

The Institute for Supply Management-**Western Washington Index** saw a decline in December to 70.3, from 71.4 in November. While the national survey index increased to 53.9 in December from 52.7 in November. An index reading greater than 50 indicates a growing economy, while scores below 50 suggest a shrinking economy.

Local **development activity** through December comparing 2010 to 2011 as measured by the valuation of City of Kirkland building permits is illustrated in the chart to the right. Activity has improved in the single family, commercial and public sectors. However, activity in the mixed use/multifamily sectors has been slow in 2011. Through December 2011, building permit valuation was up 84.7 percent compared to December 2010. This increase is largely due to Lake Washington School District permits for school renovations.



Closed sales of **new and existing single-family homes** on the Eastside were down 0.4 percent in December 2011 compared to December 2010. The median price of a single family home decreased 13.2 percent (\$460,000 from \$530,000). Closed sales for condominiums were down 4.2 percent and the median price dropped 3.6 percent (to \$239,500 from \$248,500). Countywide, closed sales for single-family homes increased 0.5 percent compared to December 2010. The countywide median home price fell 13.5 percent year-over-year.

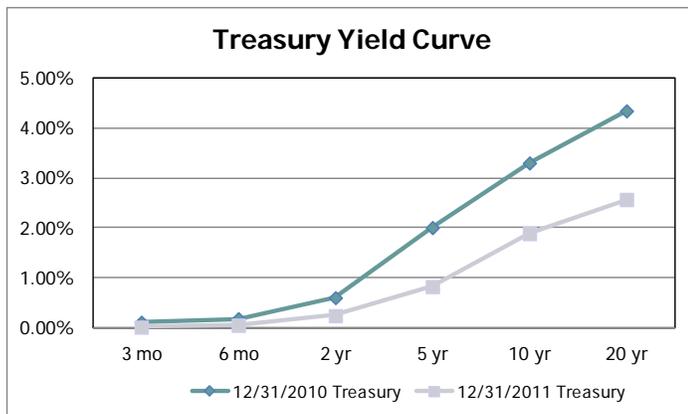
Seattle metro consumer price index (CPI) in December was at 3.8 percent, the Seattle metro CPI fluctuated throughout the year averaging 3.2 percent. The Seattle index is calculated on a bi-monthly basis. The national index ended the year at 3.9 percent in December and averaged 3.6 percent in 2011. Both indexes increased more than 1.5 percent from 2010 to 2011. This increase was impacted largely by higher prices for energy, including gasoline and food. The CPI in Seattle and nationally remain the highest since October 2008.

Investment Report

MARKET OVERVIEW

Throughout 2011 investment earning opportunities declined even further from historical lows in 2010. The Fed Funds rate remained in the range of 0.00 percent to 0.25 percent for all of 2011. As can be seen in the accompanying graph, the Treasury yield curve dropped along all points of the curve to nearly zero on the short end of the curve and dropped nearly two percent at the long end of the curve.

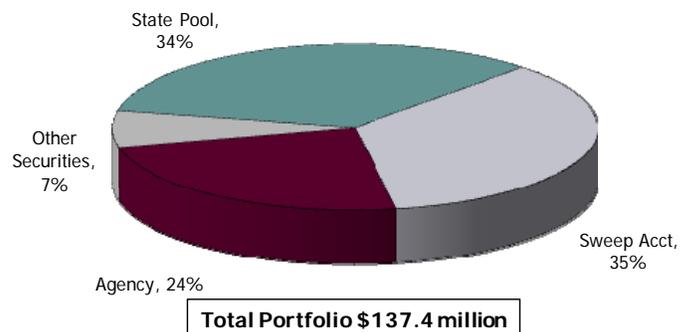
CITY PORTFOLIO



It is the policy of the City of Kirkland to invest public funds in a manner which provides the highest investment return with maximum security while meeting the City's daily cash flow requirements and conforming to all Washington state statutes governing the investment of public funds.

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.

Investments by Category



The City's portfolio totaled \$137.4 million at the end of 2011. The following are some of the factors contributing to the portfolio increasing about \$19 million since the beginning of the year: annexation resulted in a transfer of \$5.7 million from Fire District 41, including \$4 million in debt proceeds for the construction of the consolidated fire station; \$1.9 million increase in the Street fund balance reflecting the receipt in 2011 of \$1.3 million in County Road levy revenues budgeted in 2012; annexation-related asset transfer of \$1.7 million from Woodinville Fire & Life, also budgeted in 2012; a \$3.6 million increase in utility fund balances; \$1.5 million increase in the Health Benefits Reserve fund balance; \$2 million increase in the internal services funds balance; and \$2.2 million in General Fund balance, net of 2011 revenue shortfall and under expenditures, \$1.2 million of which will be used for 2011 costs that will occur in 2012. Note that the balance includes \$20.9 million in bond proceeds for the Public Safety Building and \$25 million in funded capital project balances.

2012 ECONOMIC OUTLOOK and INVESTMENT STRATEGY

The professional forecasters of the Federal Reserve Bank of Philadelphia expect economic growth of 2.3 percent in 2012 and that CPI inflation for 2012 will be 2.0 percent. The unemployment rate in 2012 is expected to average 8.3 percent. The Fed Funds rate, currently 0.00 to 0.25 percent is expected to stay at this level through the end of 2014.

Investment opportunities which provide greater yield are limited during this period of very low interest rates. The goal for 2012 will be to watch the movement of the interest rates and determine the best time to begin increasing the duration of the portfolio by purchasing longer term, higher yielding securities. Total investment income for 2012 is estimated to be \$653,000, about half of the interest income for 2011 which was \$1,262,918.

Investment Report *continued*

Diversification

The City's current investment portfolio is composed of Government Sponsored Enterprises (GSEs) bonds, State and Local Government bonds, the State Investment Pool and an overnight bank sweep account. Kirkland's investment policy allows up to 100 percent of the portfolio to be invested in U.S. Treasury or U.S. Government Sponsored Enterprises (GSEs) securities with a limit of 30 percent of the portfolio invested in any one agency.

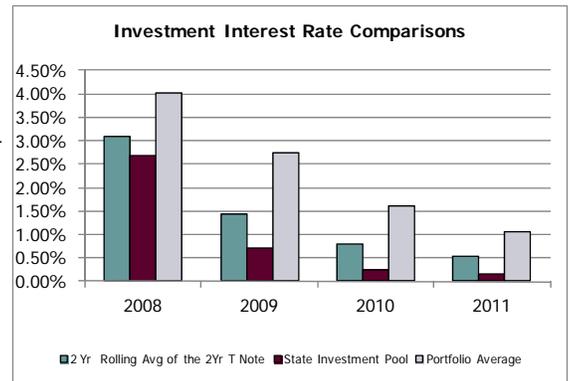
Liquidity

During 2011, the average maturity of the City's investment portfolio decreased from 1.07 years to 0.79 years. This was a result of securities with higher interest rates maturing or being called. A shorter duration in times of low interest is preferable so that the portfolio is positioned to invest as rates increase.

Benchmark Comparison	December 31, 2010	December 31, 2011
City Yield to Maturity (YTM)	1.00%	0.79%
City Average YTM	1.61%	1.05%
City Year to Date Cash Yield	1.75%	1.02%
State Pool Average Yield	0.26%	0.17%
2 yr T Note 2 Yr Avg YTM	0.80%	0.54%

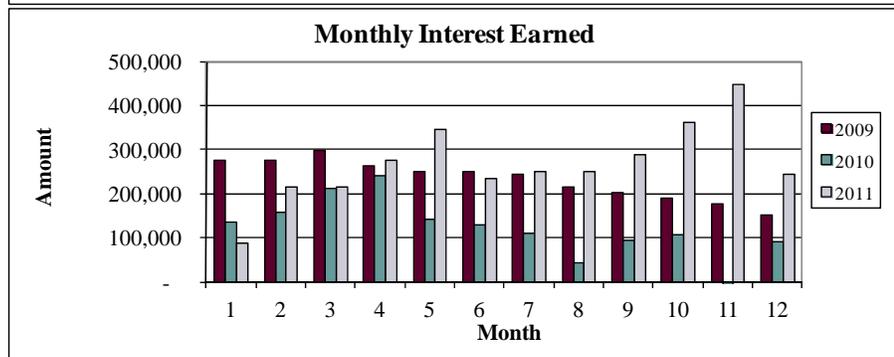
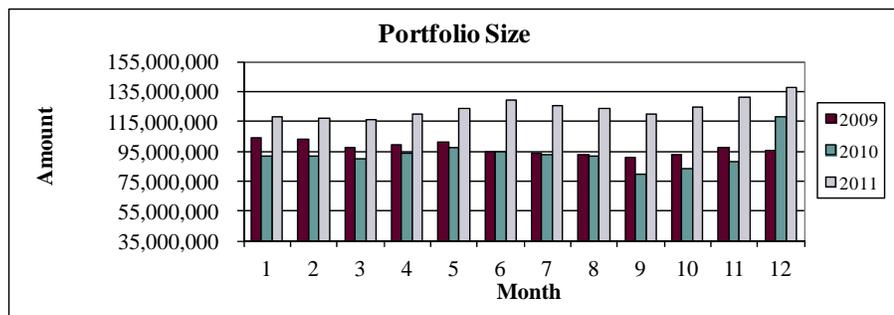
Yield

The City Portfolio yield to maturity decreased from 1.00 percent on December 31, 2010 to 0.79 percent on December 31, 2011. Through December 31, 2011, the City's annual average yield to maturity was 1.05 percent, which significantly outperformed the State Investment Pool annual average yield at 0.17 percent as well as the 2 Year Treasury Note 2 year rolling average at December 31 which was 0.54 percent.



The City's practice of investing further out on the yield curve than the State Investment Pool results in earnings higher than the State Pool during declining interest rates and lower earnings than the State Pool during periods of rising interest rates. This can be seen in the above graph.

The charts below compare the monthly portfolio size and interest earnings for 2009 through December 2011.



Reserves are an important indicator of the City's fiscal health and effectively represent "savings accounts" that are established to meet unforeseen budgetary needs (general purpose reserves) or are dedicated to a specific purpose. The reserves are listed with their revised estimated balances at the end of the biennium as of December 31, 2011.

Reserve Analysis

General Purpose Reserves

- The **Revenue Stabilization Reserve** was used almost in its entirety during the 2009-10 biennium as part of the budget balancing strategy to address the severe economic downturn, which allowed the City to mitigate some negative impacts to services. General Fund 2010 year-end cash was used to replenish this reserve in the amount of \$600,000 in 2011 and an additional \$500,000 replenishment was made as part of the Mid-Biennial budget process. Further replenishment will remain a high priority.
- The **Building and Property Reserve** has been identified as an available funding source for facility expansion and renovation projects, which include the new Public Safety Building, and possibly the Eastside Rail Corridor purchase.

General Capital Reserves

- The downturn in real estate transactions over the last few years has significantly impacted **Real Estate Excise Tax (REET)** collections resulting in adjustments to capital project planning to reflect available funding. REET ended the year 18.4 percent ahead of 2010 and exceeded budget 71.3 percent or about \$1.4 million in 2011. However, it is less than half of the revenue received in 2007.
- **Impact fees** have also been significantly reduced as a result of the severe downturn in development activity, resulting in adjustments to capital projects plans. 2011 revenue ended the year 59 percent ahead of the same period in 2010 with increases in both transportation and park impact fees. However, transportation fees ended the year at 38.5 percent of the 2011 budget, or about \$520,000 under budget. Whereas, park fees came in over budget 126 percent or about \$126,000. There is no planned use for capital projects in the current budget cycle, since these revenue sources are expected to remain extremely low compared to historical trends until development activity improves.

General Government & Utility Reserves Targets Summary

Reserves	2011 Beginning Balance	Adopted 2012 Ending Balance	Revised 2012 Ending Balance	2011-12 Target	Revised Over (Under) Target
GENERAL PURPOSE RESERVES WITH TARGETS					
General Fund Reserves:					
General Fund Contingency	50,000	50,000	50,000	50,000	0
General Oper. Reserve (Rainy Day)	2,806,513	2,806,513	2,806,513	4,127,496	(1,320,983)
Revenue Stabilization Reserve	131,431	731,431	1,231,431	2,279,251	(1,047,820)
Council Special Projects Reserve	201,534	251,534	196,534	250,000	(53,466)
Contingency	2,051,870	2,201,870	2,201,870	4,016,232	(1,814,362)
General Capital Contingency:	4,844,957	4,669,463	3,919,463	6,766,320	(2,846,857)
General Purpose Reserves with Targets	10,086,305	10,710,811	10,405,811	17,489,299	(7,083,488)
ALL OTHER RESERVES WITH TARGETS					
General Fund Reserves:					
Litigation Reserve	70,000	70,000	55,000	50,000	5,000
Firefighter's Pension Reserve	1,595,017	1,734,215	1,734,215	1,568,207	166,008
Health Benefits Fund:					
Claims Reserve	0	1,424,472	1,424,472	1,424,472	0
Rate Stabilization Reserve	0	500,000	500,000	500,000	0
Excise Tax Capital Improvement:					
REET 1	1,530,280	1,019,907	870,520	1,035,000	(164,480)
REET 2	7,121,695	4,975,718	4,692,465	11,484,000	(6,791,535)
Water/Sewer Operating Reserve:	1,979,380	1,979,380	1,939,380	1,979,380	(40,000)
Water/Sewer Debt Service Reserve:	822,274	508,717	508,717	508,717	0
Water/Sewer Capital Contingency:	1,793,630	1,793,630	1,793,630	250,000	1,543,630
Surface Water Operating Reserve:	412,875	412,875	412,875	412,875	0
Surface Water Capital Contingency:	858,400	858,400	858,400	758,400	100,000
Other Reserves with Targets	16,183,551	15,277,314	14,789,674	19,971,051	(5,181,377)
Reserves without Targets	30,815,305	36,462,059	36,241,927	n/a	n/a
Total Reserves	57,085,161	62,450,184	61,437,412	n/a	n/a

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 through the end of 2011.

USES AND ADDITIONS HIGHLIGHTS

RESERVE	AMOUNT	DESCRIPTION
2011 Council Authorized Uses		
2011 First Quarter Total Uses	\$248,253	
2011 Second Quarter Total Uses	\$13,000	
2011 Third Quarter Total Uses	\$342,352	
Litigation Reserve	\$15,000	Outside Counsel
REET 1	\$54,853	Parks Operating and Maintenance
REET 2	\$100,000	Street Operating and Maintenance
General Capital Contingency	\$750,000	Juanita Beach Park
2011 Council Authorized Additions		
Council Special Projects Reserve	\$3,000	CDBG Funding Request Withdrawn
Revenue Stabilization Reserve	\$500,000	Replenishing Revenue Stabilization Reserve
Radio Reserve	\$7,686	Reimbursement from NORCOM

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

Note: Fund structure changes required by new accounting standards moved many of the General Purpose reserves out of the Parks & Municipal Reserve Fund (which was closed) and to the General Fund.

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	2011 Beginning Balance	Adopted 2012 Ending Balance	Additional Authorized Uses/Additions	Revised 2012 Ending Balance
GENERAL FUND/CONTINGENCY					
General Fund Reserves:					
General Fund Contingency	Unexpected General Fund expenditures	50,000	50,000	0	50,000
General Oper. Reserve (Rainy Day)	Unforeseen revenues/temporary events	2,806,513	2,806,513	0	2,806,513
Revenue Stabilization Reserve	Temporary revenue shortfalls	131,431	731,431	500,000	1,231,431
Building & Property Reserve	Property-related transactions	2,137,598	2,137,598	0	2,137,598
Council Special Projects Reserve	One-time special projects	201,534	251,534	(55,000)	196,534
Contingency	Unforeseen expenditures	2,051,870	2,201,870	0	2,201,870
Total General Fund/Contingency		7,378,946	8,178,946	445,000	8,623,946
SPECIAL PURPOSE RESERVES					
General Fund Reserves:					
Litigation Reserve	Outside counsel costs contingency	70,000	70,000	(15,000)	55,000
Labor Relations Reserve	Labor negotiation costs contingency	70,606	70,606	0	70,606
Police Equipment Reserve	Equipment funded from seized property	50,086	50,086	0	50,086
LEOFF 1 Police Reserve	Police long-term care benefits	618,079	618,079	0	618,079
Facilities Expansion Reserve	Special facilities expansions reserve	800,000	800,000	0	800,000
Development Services Reserve	Revenue and staffing stabilization	486,564	636,564	(57,000)	579,564
Tour Dock	Dock repairs	81,745	81,745	0	81,745
Tree Ordinance	Replacement trees program	29,117	29,117	(10,000)	19,117
Donation Accounts	Donations for specific purposes	185,026	185,026	0	185,026
Revolving Accounts	Fee/reimbursement for specific purposes	436,386	436,386	(2,318)	434,068
Lodging Tax Fund	Tourism program and facilities	146,384	123,566	(15,000)	108,566
Cemetery Improvement	Cemetery improvements/debt service	439,415	439,415	0	439,415
Off-Street Parking	Downtown parking improvements	10,776	10,776	(1,500)	9,276
Firefighter's Pension	Long-term care/pension benefits	1,595,017	1,734,215	0	1,734,215
Total Special Purpose Reserves		5,019,201	5,285,581	(100,818)	5,184,763
GENERAL CAPITAL RESERVES					
Excise Tax Capital Improvement:					
REET 1	Parks/transportation/facilities projects, parks debt service	1,530,280	1,019,907	(149,387)	870,520
REET 2	Transportation capital projects	7,121,695	4,975,718	(283,253)	4,692,465
Impact Fees					
Roads	Transportation capacity projects	525,095	1,112,245	0	1,112,245
Parks	Parks capacity projects	2,033	3,038	0	3,038
Street Improvement	Street improvements	1,092,258	1,092,258	(42,000)	1,050,258
General Capital Contingency	Changes to General capital projects	4,844,957	4,669,463	(750,000)	3,919,463
Total General Capital Reserves		15,116,318	12,872,629	(1,224,640)	11,647,989
UTILITY RESERVES					
Water/Sewer Utility:					
Water/Sewer Operating Reserve	Operating contingency	1,979,380	1,979,380	(40,000)	1,939,380
Water/Sewer Debt Service Reserve	Debt service reserve	822,274	508,717	0	508,717
Water/Sewer Capital Contingency	Changes to Water/Sewer capital projects	1,793,630	1,793,630	0	1,793,630
Water/Sewer Construction Reserve	Replacement/re-prioritized/new projects	7,870,665	9,871,542	(100,000)	9,771,542
Surface Water Utility:					
Surface Water Operating Reserve	Operating contingency	412,875	412,875	0	412,875
Surface Water Capital Contingency	Changes to Surface Water capital projects	858,400	858,400	0	858,400
Surface Water-Transp. Related Rsv	Replacement/re-prioritized/new projects	2,483,250	3,666,250	0	3,666,250
Surface Water Construction Reserve	Trans. related surface water projects	2,848,125	3,376,431	0	3,376,431
Total Utility Reserves		19,068,599	22,467,225	(140,000)	22,327,225
INTERNAL SERVICE FUND RESERVES					
Health Benefits:					
Claims Reserve	Health benefits self insurance claims	0	1,424,472	0	1,424,472
Rate Stabilization Reserve	Rate stabilization	0	500,000	0	500,000
Equipment Rental:					
Vehicle Reserve	Vehicle replacements	7,718,221	8,047,063	0	8,047,063
Radio Reserve	Radio replacements	0	0	7,686	7,686
Information Technology:					
PC Replacement Reserve	PC equipment replacements	258,311	318,646	0	318,646
Technology Initiative Reserve	Technology projects	690,207	690,207	0	690,207
Major Systems Replacement Reserve	Major technology systems replacement	245,500	84,900	0	84,900
Facilities Maintenance:					
Operating Reserve	Unforeseen operating costs	550,000	550,000	0	550,000
Facilities Sinking Fund	20-year facility life cycle costs	1,039,858	2,030,515	0	2,030,515
Total Internal Service Fund Reserves		10,502,097	11,721,331	7,686	11,729,017
Grand Total		57,085,161	62,450,184	(1,012,772)	61,437,412



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- ◆ Tracey Dunlap, Director of Finance & Administration
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- ◆ Neil Kruse, Senior Financial Analyst
- ◆ Tammy McCorkle, Budget Analyst
- ◆ Karen Terrell, Budget Analyst

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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 comparison** 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.

Economic Environment Update References:

- Carol A. Kujawa, MA, A.P.P., *ISM-Western Washington, Inc. Report On Business*, Institute for Supply Management-Western Washington, December, 2011
- Eric Pryne, *King County median home price falls by double digits again*, The Seattle Times, January 4, 2012
- Jeffrey Bartash, *Consumer confidence hits 8-month high*, Market Watch, December 27, 2011
- CB Richard Ellis Real Estate Services, Market View Puget Sound, Fourth Quarter 2011
- Economic & Revenue Update—Washington State Economic & Revenue Forecast Council
- Consumer Board Confidence Index
- U.S. Bureau of Labor Statistics
- Washington State Employment Security Department
- Washington State Department of Revenue
- Washington State Department of Labor & Industries
- City of Kirkland Building Division
- City of Kirkland Finance & Administration Department

February 2012 Financial Dashboard Highlights

March 12, 2012

- The dashboard report reflects the 2012 annual budget adopted by the City Council on December 7, 2010 and budget adjustments adopted in March, July and December 2011. The actual revenues and expenditures summarized in the dashboard reflect two months of data, which represents 16.67 percent of the calendar year.
- Total General Fund revenues are slightly below expectations due to the following:
 - Revenues received through February are at 12.6 percent of budget. Note that \$1.7 million of revenue received in December 2011 is revenue from Woodinville Fire and Rescue budgeted for receipt in 2012. Including this amount, the total revenue received through February would be at 14.76 percent of budget.
 - Revenues through February do not reflect all planned transfers into the General Fund, many of which are done on a quarterly basis. In addition, selected large General Fund revenues are received in periodic increments including property tax (mostly received in April/May and October/November) and King County EMS payments (quarterly or semi-annually).
 - Sales tax receipts through February are up 2.8 percent over the same period last year. However, 2012 revenue from the new neighborhoods and one-time field recoveries in both years skew the comparison. Normalizing for these two factors, year-to-date revenue would be up about 1.8 percent. Sales tax revenue from the new neighborhoods continues at dramatically lower levels than were originally budgeted (projection of about \$0.77 million under budget in 2012). The budget was based on estimates provided by King County and staff is working with the County to identify reasons for the significant variance, and the Department of Revenue to ensure that Kirkland is receiving all of the revenue due from the new neighborhoods.
 - Utility tax receipts for 2012 are on target with budget expectations at 16.8 percent. The shortfall in telecommunication and cable utility tax revenues experienced in 2011 continues through February 2012 with revenues under expectations approximately 4 percent or \$200,000. These shortfalls are offset by gas and electric utility taxes exceeding budget expectations. Efforts continue to ensure telecommunications providers are properly remitting utility tax from the newly annexed areas.
 - Business license revenues are on target with budget expectations at 17.6 percent of budget.
 - In aggregate, development revenues through February are short of the 2012 budget 3.4 percent or \$150,000. More information about development activity through February is available at the end of the dashboard report.
 - Gas tax revenues continue falling short of expectations (15.3 percent) in 2012 due to reduced usage resulting from increased prices (gas tax is collected on a per gallon basis).
- Total General Fund expenditures are also below expectations.
 - Overall, General Fund expenditures are slightly trailing the budget at 15.6 percent.
 - Fire Suppression overtime and jail contract costs through February 2012 are below budget expectations.
 - Fuel costs continue exceeding budget expectations by almost 7 percent or \$30,000. The average price per gallon through February is \$3.58 and the 2012 budget is based on an average of \$3.10 per gallon.

Attachments: February Dashboard
Development Services Highlights for January and February

3/12/2012

City of Kirkland Budget Dashboard

Annual Budget Status as of **2/29/2012** (Note 1)
Percent of Year Complete **16.67%**

	2012 Budget	Year-to-Date Actual	% Received/ % Expended	Status		Notes
				Current Report	Last Report	
General Fund						
Total Revenues (2)	78,327,155	9,838,524	12.6%			Property tax/FD41/EMS spike in 2Q
Total Expenditures	75,912,300	11,832,749	15.6%			

Key Indicators (All Funds)

<i>Revenues</i>						
Sales Tax	14,442,010	2,517,609	17.4%			Prior YTD = \$2,449,070
Utility Taxes	14,460,833	2,428,701	16.8%			
Business License Fees	2,880,710	507,407	17.6%			
Development Fees	4,444,828	589,244	13.3%			
Gas Tax	1,704,588	261,168	15.3%			
<i>Expenditures</i>						
GF Salaries/Benefits	51,142,503	7,845,432	15.3%			Excludes Fire Suppression Overtime
Fire Suppression Overtime	611,588	55,677	9.1%			
Contract Jail Costs	1,850,729	87,833	4.7%			
Fuel Costs	453,192	106,442	23.5%			

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 (2012).

Note 2 - Total budgeted revenues exceed expenditures in 2012 and are offset by expenditures exceeding revenues in 2011, due to the biennial budget.

n/a - not applicable

Development Services Report – January, 2012

Development Services is comprised of the Fire and Building, Public Works and Planning Departments. The Building Department reports on all building construction related permits including electrical, mechanical and plumbing trade permits, signs and grading permits. Fire permits are not reported on since they are tracked separately from the Building Department budget. Public Works Department revenue is generated from infrastructure improvement permits and Planning Department revenue is the result of land use permits. A review of the January, 2012 permit data allows us to offer the following:

- New single-family residential permit applications for January were up significantly with 16 applications received compared to 10 in January of last year. There was also a 55% increase in commercial tenant improvement permits and single-family remodel permits with 32 applications this January compared to 20 last year.
- The monthly average of total permits received so far this year continues to exceed the monthly average for 2011 (292), with the total number of permits received in January 2012 (306) exceeding January 2011 (301). This month the New Neighborhoods generated 86 permits applications and the remaining 220 were from pre-annexation Kirkland. Since last June, permit applications in the New Neighborhoods have constituted about 38% increase of the permit volume.
- Building Department revenue for January was \$129,302 or 4% of the budget of \$3,231,698 and 48% the average monthly projected revenue of \$269,308. The 2012 budget includes \$734,290 in revenue for the redevelopment of Parkplace which is still on hold. By excluding this potential revenue, the budget would be \$2,497,408 for the year with an average monthly projected revenue of \$208,117. January revenue would be 62% of this adjusted average.
- Public Works Department development revenue for January 2012 was \$59,559 which is 9% of the budgeted revenue of \$673,152 for 2012 and \$3,463 more than the average monthly projected revenue of \$56,096. 2012 is off to a good start considering that most of the major projects that have helped generate the large revenue totals in 2011 will continue to be under construction through 2012 and will require Public Works engineering and inspection services until the projects are complete.
- Planning Department revenue for January 2012 was \$78,956 which is \$38,939 above the monthly projected revenue average of \$40,017 for 2012. Process IIA permit and Design Board Review are the highest fee line items for the month.

Development Services Report – February, 2012

A review of the February, 2012 permit data allows us to offer the following:

- New single-family residential permit applications for February were up with 13 applications received compared to 8 in February of last year. There was also a 71% increase in commercial tenant improvement permits and single-family remodel permits with 41 applications this February compared to 24 last year.
- The monthly average of total building related permits received so far this year (310) continues to exceed the monthly average for 2011 (292), with the total number of permits received in February 2012 (315) exceeding February 2011 (188). This month the New Neighborhoods generated 99 permits applications and the remaining 216 were from pre-annexation Kirkland. Since last June, permit applications in the New Neighborhoods have constituted about 39% of the permit volume.
- Building Department revenue for February was \$173,059 or 5% of the budget of \$3,231,698 and 64% of the average monthly projected revenue of \$269,308. The 2012 budget includes \$734,290 in revenue for the redevelopment of Parkplace which is still on hold.
- Public Works Department development revenue for February 2012 was \$75,769 which is \$19,673 more than the average monthly projected revenue of \$56,096. 2012 is off to a good start considering that most of the major projects that have helped generate the large revenue totals in 2011 will continue to be under construction through 2012. Funds have been set aside for Public Works engineering and inspection services on projects that paid fees in 2011 until the projects are complete.
- Planning Department revenue for February 2012 was \$61,988 which is \$21,971 above the monthly projected revenue average of \$40,017 for 2012. Planning Official Decisions (mostly for wireless permit applications) is the highest fee line item for the month.



CITY OF KIRKLAND

Department of Finance & Administration

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MEMORANDUM

To: Kurt Triplett, City Manager

From: Tracey Dunlap, Director of Finance & Administration
Karen Terrell, Budget Analyst

Date: March 12, 2012

Subject: February Sales Tax Revenue Analysis

February sales tax revenue is **up 3.4 percent** compared to February 2011. **Year-to-date** revenue performance is **up 2.8 percent** compared to the same period last year. Two factors complicate this comparison: (1) February 2012 data includes revenues from the new neighborhoods (contributing about sixty percent of the monthly gain), and (2) February 2011 receipts included a large one-time adjustment in the communications category. For the month of February, factoring out these two events results in an increase of 6.2 percent. Factoring out revenue from the new neighborhoods and one-time field recoveries, year-to-date sales tax revenue results in an increase of 1.8 percent. Sales tax revenue received this month is for activity in December.

Comparing February 2012 performance to February 2011, the following business sector trends are noteworthy:

- **Other retail is up 28.9 percent** (about \$48,600), primarily due to positive performance in the electronics, food and beverage, health and personal care, clothing, and the non-store retailers categories. Revenue from establishments in the new neighborhoods make up about thirty percent of the increase.
- **Retail eating/drinking** sector is **up 16.6 percent** (about \$16,700) primarily due to a one-time field recovery from one establishment and revenues from the new neighborhoods.
- The **miscellaneous** sector performance is **up 12.0 percent** (about \$8,200), due to positive performance in the public administration, transportation, finance and administration and real estate categories.
- **Contracting** sector performance is **up 8.5 percent** (about \$14,200), some of the gain in this category can be attributed to the construction of two new elementary schools in the new neighborhoods.
- The **general merchandise/miscellaneous retail** sector is **up 5.0 percent** (about \$11,000), due to strong performance by a key retailer.
- **Auto/gas retail** sector is **up 2.3 percent** this month (about \$7,000), most of the gains in this category can be attributed to the addition of a new dealership in March of last year.
- The **services** sector is **down 0.4 percent** (about \$700), primarily due to negative performance in the professional scientific category.
- **Wholesale** is **down 4.4 percent** (about \$2,800), due to decreases in sales of non-durable goods.
- **Communications** is **down 59.1 percent** (almost \$55,500), due to one-time revenues in the telecommunications category in February of 2011. Factoring out the one-time revenues, this category would be up 21.3 percent.

2011-2012 Sales Tax Receipts by Business Sector-Monthly Actual

Business Sector Group	February		Dollar Change	Percent Change	Percent of Total	
	2011	2012			2011	2012
Services	185,543	184,854	(689)	-0.4%	13.6%	13.1%
Contracting	166,731	180,951	14,220	8.5%	12.2%	12.8%
Communications	93,905	38,449	(55,456)	-59.1%	6.9%	2.7%
Auto/Gas Retail	299,099	306,114	7,015	2.3%	21.9%	21.7%
Gen Merch/Misc Retail	219,941	230,877	10,936	5.0%	16.1%	16.3%
Retail Eating/Drinking	100,870	117,612	16,742	16.6%	7.4%	8.3%
Other Retail	167,925	216,502	48,577	28.9%	12.3%	15.3%
Wholesale	64,258	61,423	(2,835)	-4.4%	4.7%	4.3%
Miscellaneous	68,578	76,805	8,227	12.0%	4.9%	5.5%
Total	1,366,850	1,413,587	46,737	3.4%	100.0%	100.0%

Year To Date Business Sector Review:

- Retail sectors sales tax revenue collectively are up 6.7 percent compared to 2011.
 - The **general merchandise/miscellaneous retail** sector is **down 9.0 percent** compared to last year due to the one-time large receipt received last year from development-related activity from one key business. Factoring out last year's large one-time receipt, the gain would be 7.6 percent.
 - The **auto/gas retail** sector is **up 4.0 percent** compared to last year, largely due to the addition of a new dealership early last year and positive performance by a few key retailers.
 - The **retail eating/drinking** sector performance is **up 16.4 percent** compared to last year. Primarily due to a one-time field recovery and the addition of eating and drinking establishments in the new neighborhoods.
- **Other retail** is **up 27.9 percent** compared to last year. About 35 percent or \$28,623 of the increase is revenue from retail establishments in the new neighborhoods.
- The **services** sector is **up 2.5 percent** compared to last year, largely due to positive performance in the repairs and maintenance, administrative support, health care, arts and entertainment, and accommodations categories. The accommodations sector is up 12.4 percent or about \$12,000.
- **Wholesale** is **up 0.05 percent** compared to last year.
- The **communications** sector is **down 43.0 percent** compared to last year due to one-time revenues in February 2011 in the telecommunications category.
- The **contracting** sector is **up 4.1 percent** compared to last year. Some of the gain in this category can be attributed to the construction of two new elementary schools in the new neighborhoods. The completion of several large projects last year and a one-time field recovery last year skew the comparison in this category. Factoring out the one-time field recovery, this sector would be up 7.5 percent.
- The **miscellaneous** sector is **up 3.4 percent** compared to last year due to increases in the manufacturing category.

City of Kirkland Actual Sales Tax Receipts

Business Sector Group	January-February		Dollar Change	Percent Change	Percent of Total	
	2011	2012			2011	2012
Services	306,128	313,718	7,590	2.5%	12.5%	12.5%
Contracting	318,813	332,035	13,222	4.1%	13.0%	13.2%
Communications	125,754	71,622	(54,132)	-43.0%	5.1%	2.8%
Auto/Gas Retail	567,772	590,465	22,693	4.0%	23.2%	23.5%
Gen Merch/Misc Retail	417,242	379,592	(37,650)	-9.0%	17.0%	15.1%
Retail Eating/Drinking	178,994	208,332	29,338	16.4%	7.3%	8.3%
Other Retail	296,939	379,920	82,981	27.9%	12.1%	15.1%
Wholesale	108,181	108,232	51	0.05%	4.4%	4.3%
Miscellaneous	129,252	133,694	4,442	3.4%	5.3%	5.3%
Total	2,449,075	2,517,610	68,535	2.8%	100.0%	100.0%

Conclusion

Sales tax receipts in 2012 continue to indicate a slow recovery and the normal revenue volatility associated with sales tax revenues. In addition to one-time activity that can skew year-to-year comparisons, the annexation of Juanita, Finn Hill, and Kingsgate neighborhoods on June 1, 2011 results in sales tax revenue from these areas that was not part of the City's receipts for the first eight months of 2011. The budget adopted in 2010 included a 3 percent growth in 2012 in the existing city's sales tax revenue over 2011, which is consistent with the 2011 actual results.

Sales tax revenue from the new neighborhoods continues to be considerably lower than budgeted (projection of \$0.77 million under budget in 2012). The budget was based on information provided by King County. Staff is currently working with King County and the Department of Revenue to ensure Kirkland is receiving all sales tax revenue from the new neighborhoods.

The February economic forecast for the United States did not substantially change from the November forecast and indicates a continued expectation of a slow-growth. Although there are some signs of an improving economy, the high level of uncertainty identified in the November forecast remains. This uncertainty is due to risks associated with the on-going European debt crisis, concerns about slow growth in Asia, and the potential for Iran to block oil supplies in response to international sanctions. There is also uncertainty as to the upcoming elections in the U.S., Russia, France and anticipated leadership changes in China. In addition, the weak housing market continues to slow the economy. The January employment data, showing an increase of 243,000 jobs and a reduction in the unemployment rate from 8.5 percent to 8.3 percent were much better than expected. Despite this positive data, the labor market remains weak.

Washington's economy is continuing to benefit from solid performances by aerospace and software companies. The aerospace sector added 11,500 jobs since May 2010, while the software sector has added 1,800 jobs since December 2009. The private sector added 7,800 jobs but the public sector lost 1,300 jobs. Government employment continues to decline, especially at the state and local level. Export growth is slowing but total exports in the fourth quarter were up by 15 percent over last year. Exports of transportation equipment (mostly Boeing planes) account for nearly 50 percent of the state's exports and were up 27 percent from the previous year. The outlook for single-family construction for 2012 is flat even though there was stronger performance in the fourth quarter of 2011. Washington's economy is slightly outperforming the national economy thanks to aerospace, software, and exports, but the recovery remains unusually slow and the risks remain high.

State Budget Estimated Impacts Comparison of Proposals as of March 8, 2012 -- DRAFT

UD = Under development

n/a = not applicable

Revenue (Negative Impacts)/Positive Impacts	Governor's Budget Proposal			House Bill 2127			Senate Bill Original 5967			Senate Bill Revised 5967		
	Effective	Estimated 2012 Impact	Estimated 2013 Impact	Effective	Estimated 2012 Impact	Estimated 2013 Impact	Effective	Estimated 2012 Impact	Estimated 2013 Impact	Effective	Estimated 2012 Impact	Estimated 2013 Impact
Sales Tax Credit (maximum impact)	1/1/2012	(663,000)	(1,055,700)	n/a	-	-	n/a	-	-	n/a	-	-
Streamlined Sales Tax Mitigation	7/1/2012	(5,699)	(11,800)	n/a	-	-	n/a	-	-	n/a	-	-
Criminal Justice Assistance	n/a	-	-	41275	-	(20,209)	n/a	-	-	n/a	-	-
Liquor Excise Tax	7/1/2012	(202,674)	(404,988)	1/1/2013	-	(404,988)	7/1/2012	(202,674)	(404,988)	7/1/2012	(202,674)	(404,988)
Judicial Contributions	n/a	-	-	41275	-	(45,440)	n/a	-	-	n/a	-	-
Liquor Distribution Center sale ¹	n/a	-	-	n/a	-	-	2012	UD ¹	UD ¹	n/a	-	-
Subtotal Reductions		(871,373)	(1,472,488)		-	(470,637)		(202,674)	(404,988)		(202,674)	(404,988)
Expenditures (Negative Impacts)/Positive Impacts	Effective	Estimated 2012 Impact	Estimated 2013 Impact	Effective	Estimated 2012 Impact	Estimated 2013 Impact	Effective	Estimated 2012 Impact	Estimated 2013 Impact	Effective	Estimated 2012 Impact	Estimated 2013 Impact
Basic Law Enforcement Academy ²	1/1/2012	(50,000)	(25,000)	7/1/2012	(50,000)	(50,000)	n/a	-	-	n/a	-	-
Basic Corrections Academy	n/a	-	-	7/1/2012	(9,419)	(18,837)	n/a	-	-	n/a	-	-
Other Police Training	n/a	-	-	7/1/2012	(3,300)	(6,600)	n/a	-	-	n/a	-	-
State Crime Lab	1/1/2012	(10,000)	(10,000)	7/1/2012	(5,000)	(10,000)	n/a	-	-	n/a	-	-
Audit every 3 years ³	n/a	-	-	1/1/2013	-	39,190	n/a	-	-	n/a	-	-
LEOFF Plan 2 Contribution 20% Reduction	n/a	-	-	n/a	-	-	n/a	-	-	7/1/2012	104,681	209,361
Storm Water Permitting ⁴	n/a	-	-	1/1/2013	UD ⁴	UD ⁴	1/1/2013	UD ⁴	UD ⁴	n/a	-	-
Total Expenditure Impact		(60,000)	(35,000)		(67,719)	(46,247)		-	-		104,681	209,361
Net Impact		(931,373)	(1,507,488)		(67,719)	(516,884)		(202,674)	(404,988)		(97,993)	(195,627)
Local Revenue Options HB 2801	Effective	Estimated 2012 Impact	Estimated 2013 Impact	Effective	Estimated 2012 Impact	Estimated 2013 Impact	Effective	Estimated 2012 Impact	Estimated 2013 Impact	Effective	Estimated 2012 Impact	Estimated 2013 Impact
Sales Tax 0.1% (50/50 split)	n/a	-	-	*	-	803,809	n/a	-	-	n/a	-	-
Restaurants Max 0.5%	n/a	-	-	*	-	699,204	n/a	-	-	n/a	-	-
Property Tax Additional 1.0%	n/a	-	-	*	-	146,721	n/a	-	-	n/a	-	-
Motor Vehicle Excise Tax (low end est.) ⁵	n/a	-	-	*	-	994,543	n/a	-	-	n/a	-	-
Transportation Benefit District ⁵	n/a	-	-	*	-	750,000	n/a	-	-	n/a	-	-
Subtotal Local Revenue Options		-	-		-	3,394,277		-	-		-	-

*Council discretion, assumes implementation as of 1/1/2013

¹ Half of the proceeds from sale of the liquor distribution center would be shared with local governments (\$6 million allocation to local government)

² Impact to City of Governor's Proposal on BLEA subsequently revised downward / Revised SB 5967 reduces BLEA appropriation through reduced expenses (no impact to cities)

³ Assumes annual costs in off-years reduced by half since annual CAFR and federal audit are required

⁴ Impact of storm water program changes on utility budget are under evaluation

⁵ Senate Bill 6582-MVET: \$60 million option-62.5%/37.5% split / Raise Councilmanic TBD from \$20 to \$40 (estimates range between \$750,000 to \$1.1 million depending on implementation timing, etc.)

Notes:

2013 estimated impact based on 2012 budget or estimates

Negative numbers indicate negative impact (decrease in revenue and increase in expenditures)

House proposal makes reductions to state-shared revenues permanent. Senate proposal targets only liquor excise tax and only for the current biennium.

Liquor Revolving Fund (Profits): Current shared revenue preserved due to I-1183, so City should receive approximately the same revenue. The State will keep "excess"

revenue under House, original and revised Senate proposals; so local government will not receive any benefit from potential additional liquor profits following privatization.

House and revised Senate proposals are permanent while the original Senate proposal is for current biennium only.

2012 CALENDAR

2013-14 Budget & 2013-18 CIP

FEBRUARY

CIP Timeline to Finance Committee February 28
 Council Retreat – Packet due to CMO February 28

MARCH

CIP Kickoff March 1
 Council Retreat Packet Distributed March 8
 CIP Materials Due March 23
 City Council Retreat March 23-24

APRIL

CIP Meetings with CMO April 9-13
 Final CIP Materials Due April 20
 CIP Document Production April 23-May 9
 Internal Service Fund Kickoff April 25

MAY

CIP Document Distribution May 10
 Study Session - CIP Presentation to Council May 15
 Draft Internal Service Fund Rates Due May 24
 Internal Service Rates Meetings May 31

JUNE

Internal Service Rates Meetings June 1 & 4
 Final Internal Service Rates Due June 15
 Budget Adjustments to Council June 19
 Budget Kickoff June 27

JULY

Revenue Estimates Due July 20

AUGUST

Basic Budget Due: August 8
 Department Org Charts Due August 8
 Preliminary Service Package List Due August 8
 Department Overviews Due August 15

Basic Budget Meetings August 20-24

- Review Basic budget Analysis
- Identification of Policy Issues
- Review Service Packages/Reductions

Service Packages Due August 24

Outside Agency Requests Due August 31

SEPTEMBER

Estimated Carryover Requests Due September 7
 (Fund 010 Only)

Basic Budget/Service Packages/
 Expenditure Reductions Meetings
 with City Manager September 10-14

- Discussion of Policy Issues
- Review Service Packages/Reductions

Department Issue Papers Due September 14

Public Hearing – Proposed
 Revenue Sources September 18

Public Hearing – Preliminary
 2013-18 CIP September 18

Final City Manager Decisions September 21

Budget Document Production September 24-28

OCTOBER

Budget Document Production October 1-12

Finance Committee Review of Budget
 Issues & Process (Special Meeting) October 9

City Manager's Proposed Budget to
 City Council & Public October 16

Council Budget Work Session (3-9pm) October 25

NOVEMBER

Council Study Session – Budget November 7
 Public Hearing – Budget Input November 7

Special Study Session – Budget
 (if needed) November 13

Presentation to Council – Changes to
 2013-2018 CIP November 20

Public Hearing – Budget November 20

Preliminary Property Tax Levy November 20

Public Hearing – Prelim Property Tax November 20

DECEMBER (date subject to change)

Budget Adoption December 4

Final CIP Adoption December 4

Final Property Tax Levy Adoption December 4