



**CITY OF KIRKLAND**  
**Department of Finance & Administration**  
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**MEMORANDUM**

**To:** Kurt Triplett, City Manager

**From:** Michael Olson, Director of Finance and Administration  
Tom Mikesell, Financial Planning Manager

**Date:** May 13, 2016

**Subject:** CITY COUNCIL RETREAT – FINANCIAL PLANNING

The purpose of this memo is to provide information in preparation for the 2017-2018 budget process, including: a brief recap of the year-to-date 2016 financial results; a brief overview of the upcoming mid-year budget adjustments on the June 21 regular meeting agenda; an update to the "Price of Government"; the 2017-2022 financial forecast; and an update to the "Kirkland Quad".

**FINANCIAL STATUS**

The Financial Management Report (FMR) provides a review of revenue and expenditure performance for the quarter ending March 31, 2016 (**Attachment A**) and provides more detailed information on economic conditions and financial performance. Overall, financial conditions in the first quarter of 2016 continued to show improvement, with strong revenue growth particularly in areas related to development, and expenditures are on pace with budget expectations. The second quarter report should be available in mid-August.

The April dashboard report provides high level monitoring of the General Fund revenues and expenditures status and a few key revenue and expenditure indicators that are especially important to watch. The following are a few highlights from the April dashboard report (**Attachment B**):

- Total **General Fund revenues** were at 34.0 percent of the budget through the end of April, one third of the way through the year. Key revenues, including sales tax, utility taxes and development fees are all ahead of last year and sales tax and development fees are ahead of budget projections. It is worth noting that a property tax payment in excess of \$1 million, which was received in April of last year, did not post until early May of this year. This makes the comparison with prior year results look poor, however, this is only a timing issue and not indicative of poor revenue performance. While overall revenue trends are positive, the continuing volatile global economic conditions remain a concern.
- Overall, **General Fund expenditures** are consistent with budget projections with 32.8 percent of budget spent in the first quarter. This is largely because salaries and benefits make up a large portion of general fund expenditures and these costs were below budget through the first third of 2016.

The April sales tax memo (**Attachment C**) includes an analysis of sales tax revenue trends by business sectors and compares monthly and year-to-date data to last year. Year-to-date revenue is up 9.6 percent compared to the same period in 2015, with positive growth in most major sectors, led by the Contracting, Other Retail, Auto Retail and Services sectors. Year-to-date results show that the multi-year strength in contracting and auto sales continues, while services and retail revenues are beginning to show growth as well.

Development fee collections year-to-date continue to be strong, with revenues through April at 42.7 percent of budget. With this level of activity comes increased service demands, which result in the continuing evaluation of resource needs as discussed further in the next section.

## **MID-YEAR BUDGET ADJUSTMENTS**

At the June 21 City Council meeting, the Council will be considering mid-year budget adjustments to adjust appropriations to reflect unanticipated revenues that have been identified that may be expended, recognize positions, projects, or programs authorized since the mid-biennial budget amendment, and incorporate housekeeping adjustments.

Significant mid-year adjustments are summarized as follows (further detail on each adjustment will be included in the June 21 Council meeting packet; final dollar amounts for the adjustments are still under review):

*Council Directed/Other Requests and Previously Approved Adjustments* – This category includes any additional changes identified by Council and formalizing previously approved actions (fiscal notes, etc.), such as:

- 3rd Street Watermain final reimbursement to King County as approved by Council at the February 16th meeting;
- Funding for Kirkland Performance Center technical equipment funding from the Lodging Tax Fund;
- Add temporary staffing, funded with passport application revenue, to address the increase in passport application activity;
- Add funding for the Rose Hill Pedestrian Path from NE 85th Street Sidewalk project;
- Add 0.3 FTE to an existing 0.7 FTE Senior Human Resources Analyst position in Human Resources to meet increased benefit-related activities (funded from the Health Benefits Fund) ;
- Change the one-time Public Disclosure Analyst position to an ongoing 1.0 FTE;
- Additional one-time resources in Human Resources to reduce and consolidate the number of job classifications in the City's position structure.
- Add ongoing position authority for 5 FTE Firefighter positions, to enable the recruitment of personnel in advance of the anticipated transition from one-time to ongoing funding for the fourth Firefighter position at Station 25. This request will allow the positions to be filled, trained and in service by January of 2017. The request will also include additional resources for academy costs totaling \$50,000.

*Development Services Needs* – With the continued strong level of development activity, there is a need to adjust staffing to maintain service levels. Adjustments identified to date include:

- Additional 1.0 Permit Tech in Building and Planning, funded with increased development fee revenues;

- Additional 1.0 Development Engineer in Public Works, funded with increased development fee revenues; and,
- Change a 1.0 Construction Inspector position from temporary to an ongoing 1.0 FTE.

There may be additional requests that are not identified at this time. The next opportunity for budget adjustments will occur as part of the biennial budget process at the end of 2016.

## **PRICE OF GOVERNMENT UPDATE**

One of the strategic anchors used in the 2015-2016 budget process was affordability, as indicated by the "Price of Government". The "Price of Government" concept is defined in the book of the same name by David Osborne & Peter Hutchinson. It is measured as revenues from taxes and fees to the government compared to the aggregate personal income level of the City's constituents, with the 'price' expressed in percentage terms. In general terms, the calculation is used to help define a band in which residents are willing to pay for government services and to provide a comparison over time. The typical range for local governments is between 5 percent and 6 percent.

Kirkland's Price of Government graph in the 2015-16 Budget Message reflected actual revenue data for 2007-2013, 2014 estimates, and the 2015-2016 preliminary budget. The personal income data reflected actuals published by the U.S. Census Bureau (American Community Survey) for 2007-2013 and projections based on the Washington State Economic and Revenue Forecast Council personal income growth forecast.

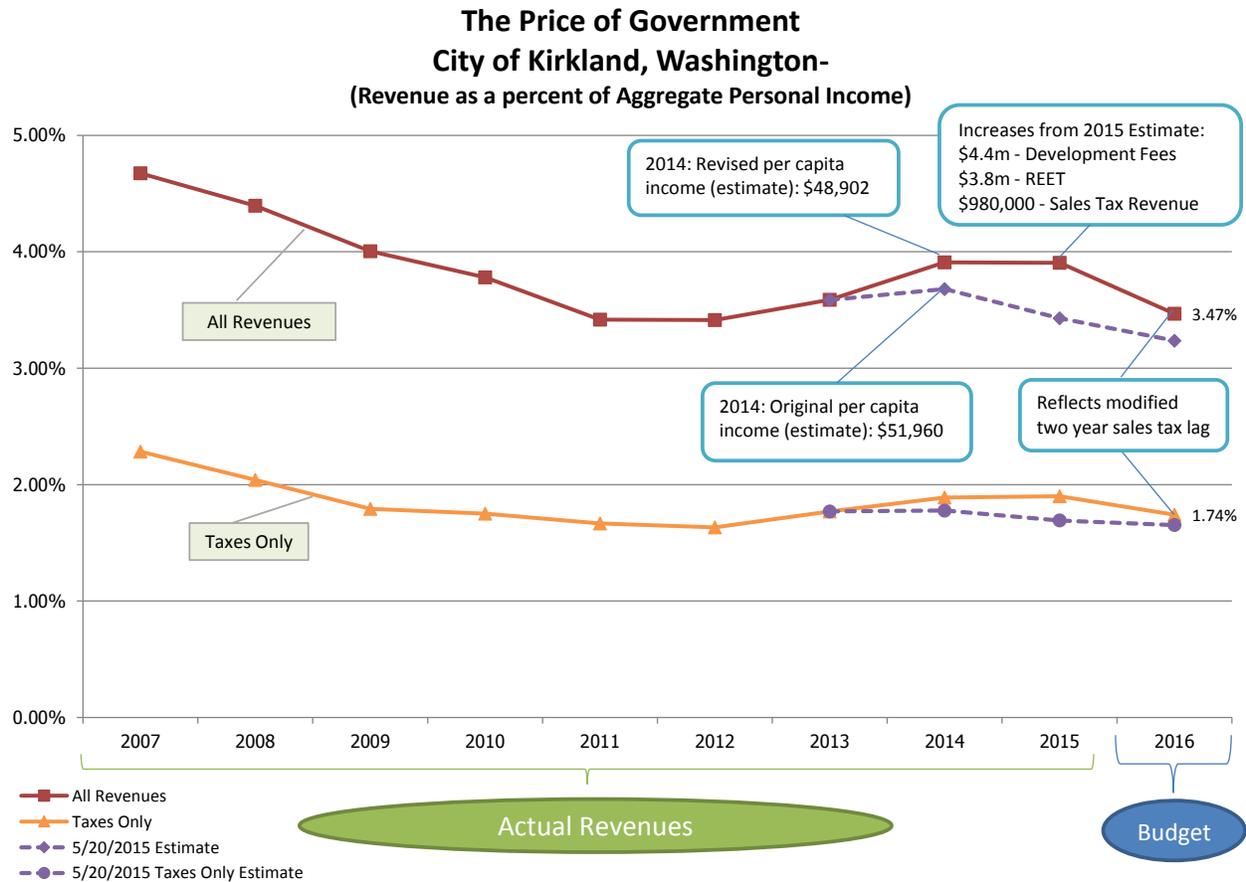
Staff has updated the Price of Government graph to now include 2014 and 2015 actual revenues and amended 2016 budgeted revenues. The update also includes revised Census estimated 2014 personal income figures and a new personal income growth forecast for 2015 and 2016. The revised graph is provided on the following page.

Since the last update (shown in purple on the graph), the Price of Government in Kirkland has risen in 2014 through 2016 based on new revenues from improved economic performance, although the total revenues are still below 4 percent and "taxes-only" are below 2 percent of Aggregate Personal Income. This outcome is similar to the two previous budget cycles where the price of government increased modestly as actual revenue data was added to the model and as personal income estimates were revised.

The majority of the rise in 2014 between the previous and current update is due to actual revenues exceeding the budgeted levels, particularly development fees, Real Estate Excise Tax (REET), and sales taxes. These increases are directly related to the high level of development activity that Kirkland experienced over the past several years, however this can fluctuate significantly with economic cycles.

The change in the 2014 estimate is due to revising the population and per capita income numbers to reflect the US Census Bureau's latest data set for the City of Kirkland, which was updated by the Census in late 2015 to account for the City's post-annexation boundaries. Previous price of government calculations used a blend of Census data from the 98033 and 98034 ZIP codes to estimate the annexation area's population and per capita income. This improvement in data from the Census Bureau has allowed for some updates to the Price of Government model's assumptions for per capita income.

Personal income estimates for 2015 and 2016 grew due to this change, but the growth is slightly countered by a higher projection of income growth from the Washington State Economic Revenue Forecast Council of 3.0 percent (previously 2.5 percent).



The change in the Price of Government over the past twelve months has happened without action on the part of the City, due to Census revisions and robust development revenue activity, which highlights that this broad metric should be viewed as a trend indicator taken in context with other measures, such as the quadrant chart and the forecast, both of which are updated below, rather than a single measure of financial stability in Kirkland.

## FINANCIAL FORECAST

The baseline financial forecast has been updated to reflect estimated expenditures in 2015 and to account for all budgeted on-going expenditures in 2016. The forecast ends in 2022, allowing for analysis of the impact of the expiration of the annexation sales tax credit in 2021. The forecast includes the annexation state sales tax credit at \$3.9 million in 2016 through 2020. 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, so actual revenue and expenditure variance in the annexation area may ultimately reduce the amount of the credit in future years.

The key assumptions in the Baseline Forecast include:

- Revenues

- Based on 2015 actuals and 2016 revenue estimates, including all adjustments made as of May 2016;
  - Utility taxes growth of 1% per year 2017-2022;
  - Sales tax growth of 5% in 2016; 0% growth in 2017 and 2018 consistent with modified two-year lag, and 3% per year 2019-2022;
  - Annexation sales tax credit (ASTC) assumptions:
    - \$3,935,000 in 2017-2020;
    - \$1,967,00 in 2021 reflecting the end of the 10<sup>th</sup> year on June 30, 2021; and,
    - Expired in 2022.
  - No use of reserves in 2016-2022;
  - 1% optional property tax and 1% annual growth in new construction property tax in 2016-2022;
  - 2% growth in other taxes (revenue generating regulatory license and gambling taxes);
  - Annual transfer of \$114,000 per year to fund CIT 0200 Geographic Information Systems in the CIP through 2022;
  - 1% annual growth in fines and forfeitures in 2017-2022;
  - 2% annual growth in other revenue in 2017-2022; and,
  - 1% growth in state shared revenue other than the ASTC. A discussion of the ten year history of state shared revenue distributions to Kirkland is included as **Attachment D**.
- Expenditures
    - Based on 2015 estimates (including potential carryovers) and 2016 amended on-going budget, including all adjustments made as of May 2016;
    - 3% annual growth in wages in 2015-2022 (assumes long term trend based on 2% raises, 0.5% steps & longevity, 0.5% market and other adjustments);
    - 5.1% annual increase in total benefits in 2017-2022, derived as follows:

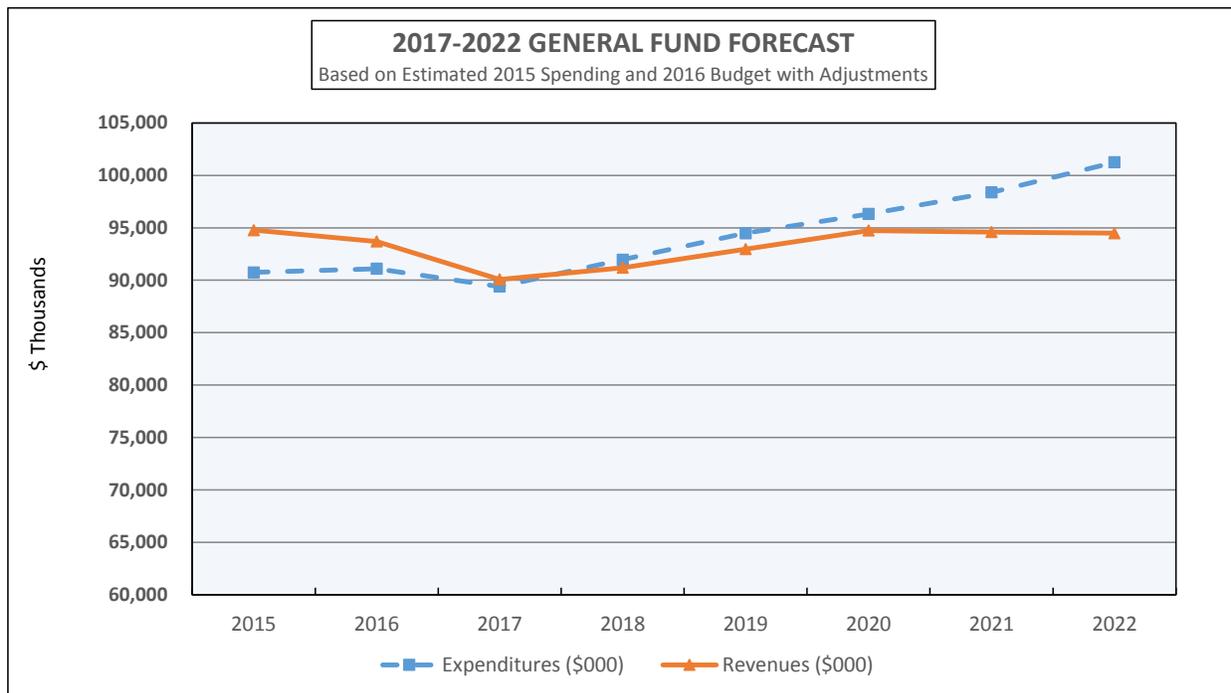
Category	Average Share of Benefits (2012-2015)	Projected Growth	Share of Composite
Health, Dental, Life	62%	3.5%	2.2%
Pension Contributions	18%	12%	2.1%
MEBT	13%	3%	0.4%
Industrial Insurance	5%	7%	0.3%
All Other Benefits	2%	3%	0.1%
Composite Growth Rate			5.1%

- 1% growth in supplies, services & capital in 2017-2022;
- Estimated City Hall and Kirkland Justice Center debt and sinking fund transfers for years 2017-2022; and,

- 1% planned reserve replenishment until 2019, when reserves will be at target.

It is worth noting that the biennial estimate of revenues in excess of budget in 2015-2016 is net of development fee revenue in excess of budgeted amounts, as these resources would be assumed to be set aside to meet workload on permits in future years. These one-time revenues are subtracted from the 'Total Revenue' line in years 2017 through 2022.

Applying the above growth assumptions indicates an essentially balanced budget in 2017-2018, with a biennial deficit of \$79,000 or 0.04% of the biennial budget as shown in the graph below.

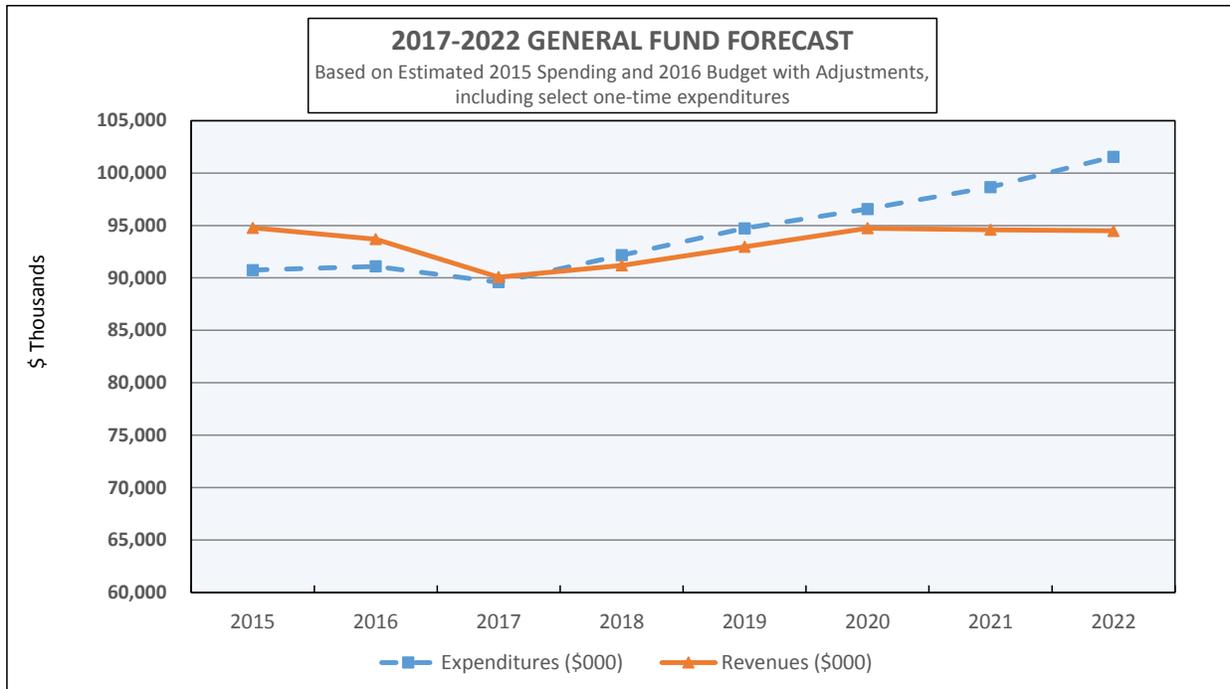


	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Expenditures</b>	90,747	91,093	89,394	91,954	94,487	96,315	98,386	101,247
<b>Total Revenues</b>	94,781	93,692	90,075	91,195	92,964	94,742	94,592	94,483
<b>Net Resources</b>	4,033	2,599	681	(760)	(1,524)	(1,573)	(3,794)	(6,764)
<b>Less Developmnt Rev&gt;Budget</b>	(1,400)	(2,274)	-	-	-	-	-	-
<b>Biennial</b>		<b>2,959</b>		<b>(79)</b>		<b>(3,097)</b>		<b>(10,558)</b>

This forecast *excludes* expenditures that are funded on a one-time basis in the 2015-2016 budget. As part of the mid-year budget adjustments that will be brought to Council at its June 21 meeting, the City Manager plans to recommend ongoing funding of select expenditures that are currently funded on a one-time basis, including:

- Enhanced Human Services Grant: \$45,262 per year;
- Public Disclosure Analyst: \$107,114 per year; and,
- Station 25 Fourth Firefighter (5 FTEs total): \$636,800 in 2017, of which \$80,000 is for one-time equipment costs, approximately \$556,806 per year ongoing thereafter. This is predominantly funded by making the transfer of \$500k to the Public Safety Sinking one-time each year versus ongoing in nature. In future budgets the Public Safety Sinking Fund would be the first item funded each year with one time money.

Funding these one-time expenditures on an ongoing basis beginning in 2017-2018 increases the estimated biennial deficit to \$0.5 million, or 0.27 percent of the biennial budget, as shown on the graph on the following page.



	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Expenditures</b>	90,747	91,093	89,591	92,171	94,724	96,573	98,666	101,549
<b>Total Revenues</b>	94,781	93,692	90,075	91,195	92,964	94,742	94,592	94,483
<b>Net Resources</b>	4,033	2,599	484	(976)	(1,761)	(1,832)	(4,074)	(7,066)
<b>Less Developmnt Rev&gt;Budget</b>	(1,400)	(2,274)	-	-	-	-	-	-
<b>Biennial</b>		<b>2,959</b>		<b>(492)</b>		<b>(3,592)</b>		<b>(11,140)</b>

Staff will continue to revise revenue estimates in preparing the Biennial Budget recommendation for City Council consideration in the fall, based on current financial data and future growth potential.

During the biennial budget process and through successive budget adjustments, Council approved an additional \$0.82 million in 2015 and \$0.86 million in 2016 supported by one-time balances, which might be considered for funding in the upcoming biennium (note: this list excludes those one-time funded service packages recommended for on-going funding noted earlier, as well as truly one-time 2015-2016 service packages and one-time items funded with a specific funding source). When added to the one-time funding for the Public Safety Sinking Fund transfer previously discussed, the biennial total rises to approximately \$1.4 million. These items are shown on the table on the following page.

One Time Items Likely to Continue	2015			2016		
	Wages & Benefits	Other Costs	Annual Costs	Wages & Benefits	Other Costs	Annual Costs
Public Safety Sinking Fund Transfer		500,000	500,000		500,000	500,000
<b>Subtotal</b>	<b>-</b>	<b>500,000</b>	<b>500,000</b>	<b>-</b>	<b>500,000</b>	<b>500,000</b>
<b>Previously Funded with Resources Forward (or) Surplus</b>						
2016 Community Survey	-	-	-	-	30,000	30,000
ARCH Housing Trust Fund	-	315,000	315,000	-	315,000	315,000
City Match Events Funding	-	32,000	32,000	-	32,000	32,000
Cultural Organizations Grant Matching one-time	-	5,000	5,000	-	5,000	5,000
Human Services Option #3	-	58,113	58,113	-	58,113	58,113
Inmate Medical	-	108,332	108,332	-	113,862	113,862
KAN additional grants	-	5,101	5,101	-	5,101	5,101
Kirkland Heritage Society preservation efforts	-	2,000	2,000	-	2,000	2,000
Leadership Eastside Scholarships	-	12,000	12,000	-	12,000	12,000
Municipal Court Security	67,176	-	67,176	67,176	-	67,176
Neighborhood Traffic Control Coordinator	57,002	281	57,283	59,790	281	60,071
Office Tech - Training Division	34,325	(12,401)	21,924	35,776	(13,127)	22,649
Public Records Request Assistance	13,173	-	13,173	13,296	-	13,296
KPC Operating Support	-	50,000	50,000	-	50,000	50,000
Social Worker at John Muir Elementary one-time	-	11,752	11,752	-	11,752	11,752
State Legislative Advocacy Services Mid Biennial	-	3,000	3,000	-	12,000	12,000
State Legislative Advocacy Services Service Package	-	48,000	48,000	-	48,000	48,000
Time Bank	-	3,000	3,000	-	3,000	3,000
<b>Subtotal</b>	<b>171,676</b>	<b>648,178</b>	<b>819,854</b>	<b>176,038</b>	<b>684,982</b>	<b>861,020</b>
<b>Total</b>	<b>171,676</b>	<b>1,148,178</b>	<b>1,319,854</b>	<b>176,038</b>	<b>1,184,982</b>	<b>1,361,020</b>

These costs are not included in the baseline forecast, and if included would increase the deficit to approximately \$3.2 million in 2017-2018, and increase the 2021-2022 biennial deficit to approximately \$13.9 million. However these one-time costs are often funded with under expenditures from previous years as prioritized by the Council. Other potential issues that may result in budget requests are described in the "Emerging Issues" item on the Retreat Agenda.

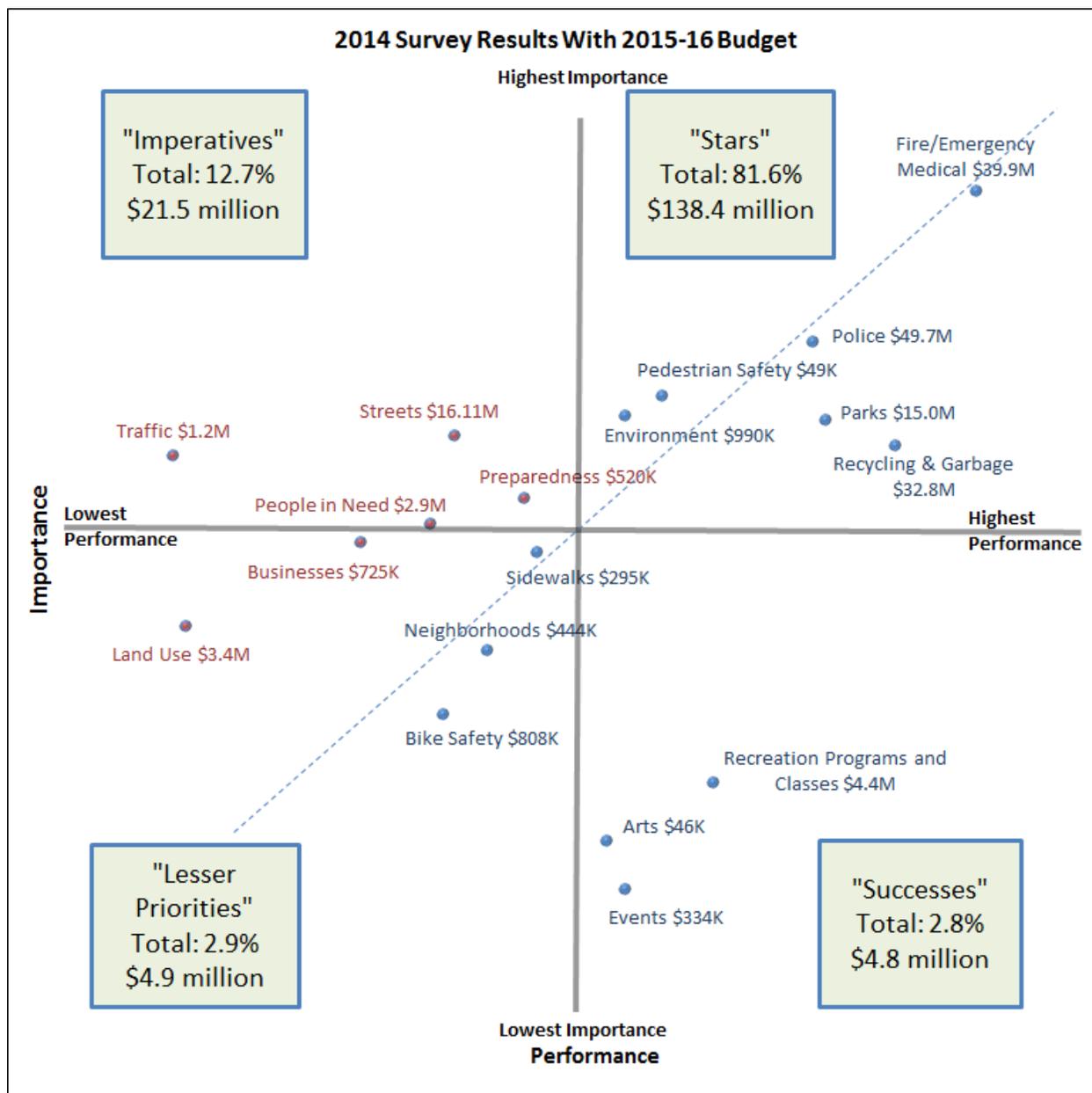
The impact of the expiration of the Annexation Sales Tax Credit (ASTC) in 2021 can be seen at the end of the projection period. Measures that have been taken to help the City adjust to the revenue reduction include:

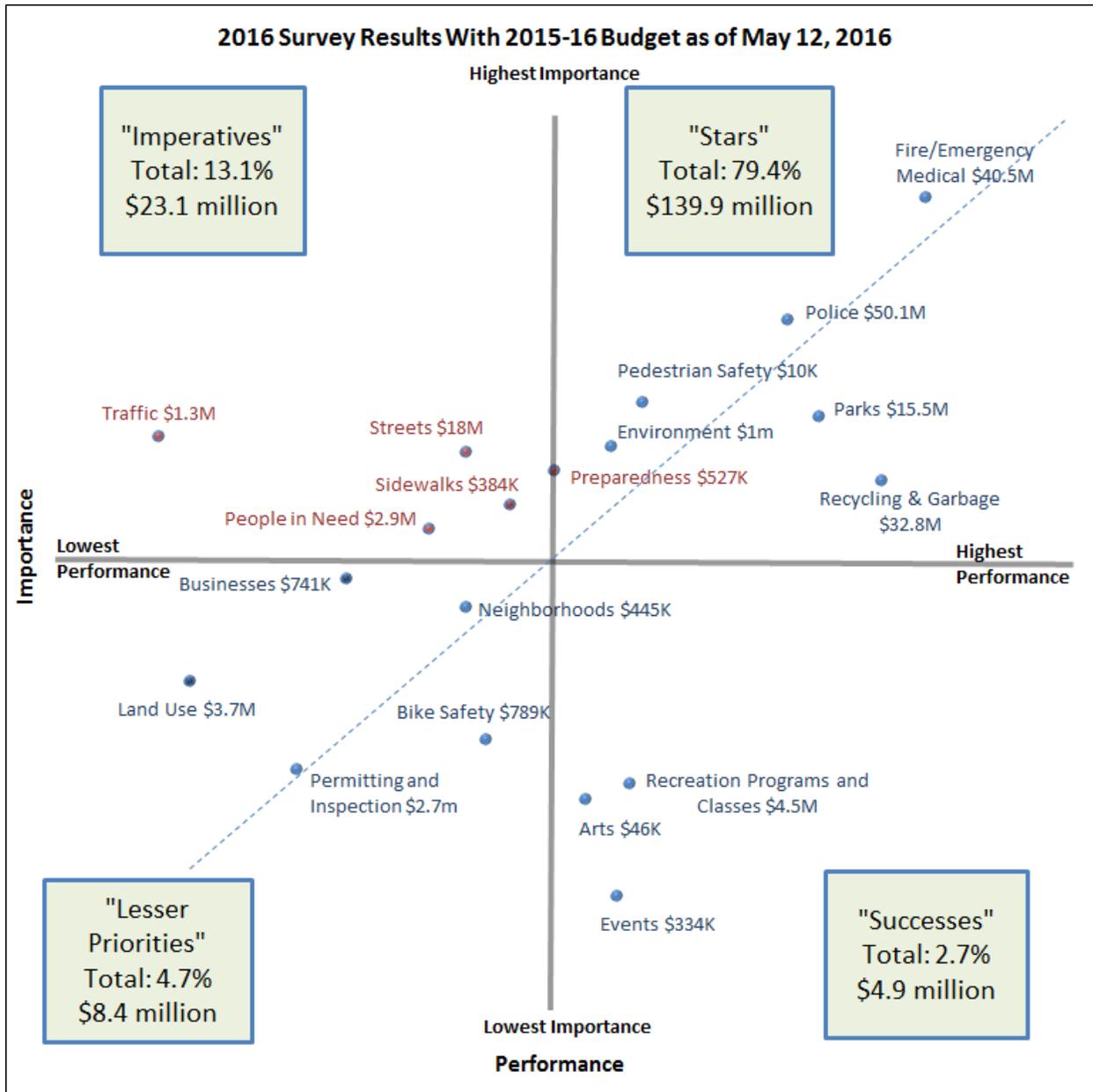
- The overall non-voted general fund debt service, including the bonds used to finance the Public Safety Building, decreased by \$450,000 in 2014 and by another \$450,000 in 2021. Funds freed up from these decreases are intended to offset the loss of the ASTC upon expiration and should not be re-appropriated to other on-going needs. However, funds from these sources been set aside through 2019 toward the Walkable Kirkland project in the Capital Improvements Program.
- The adopted budget assumes that 1% of revenues would go toward reserve replenishment until reserves reach their targets, which is projected in 2019. The removal of this requirement would reduce the operating budget by approximately \$850,000 a year, continuing through the expiration of the ATSC.

It bears mention that the forecast discussed above includes the impact of both of these measures. However, the forecast does not include an estimate of the potential revenue and expenditure impacts from the Totem Lake and Kirkland Urban developments which are both currently underway and scheduled for opening prior to the expiration of the ATSC. As more information about the scope and timing of the economic impact from each project becomes available, staff will be able to incorporate estimates into future forecasts.

## THE KIRKLAND QUADRANT

Following the citizen survey every two years, staff compile the Kirkland Quadrant, by adding budget data to the high level look at how city services are perceived by the public, both in terms of importance and performance. The 2016 citizen survey took place between April 6<sup>th</sup> and April 11<sup>th</sup>, 2016. Citizens were asked to grade a number of services on a scale of 'A' to 'F', for performance, with 'A' being 'Excellent' and 'F' representing a failing grade. Citizens were also asked to rank services by their importance to them, with 5 being the highest and 1 being the lowest. Preliminary results are now available and are shown in the diagram on the following page. The 2014 survey is also shown for the purposes of comparison. Budgeted dollar amounts are shown next to the relevant data points to demonstrate resource allocations in each category.





Between the 2015 adopted budget and the revised budget as of May 12, 2016, the percentage of resources spent on "stars" and "imperatives", those areas that citizens rate as highly important, remained essentially constant at 94.2 percent of resources allocated to areas in the quadrant.

Overall, the average performance ratings of City services decreased from 3.81 to 3.77, while the average importance of services also decreased from 3.97 to 3.93. The largest increases in performance were in 'Bike Safety' and 'Emergency Preparedness', while the largest increases in importance were in 'Availability of Sidewalks and Walking Paths' and 'Support for Arts in the Community'. For the first time the survey sought feedback on Permitting and Inspection; citizen responses placed this service in the "lesser priorities" quadrant. This addition to the survey more than accounts for the increase in spending on "lesser priorities" noticed when

comparing the two charts. More in-depth discussion of the survey results will be provided separately at the retreat.

## **CONCLUSION**

The City of Kirkland's near-term financial strength continues, as gauged by an analysis of recent data captured by the City's financial reporting tools, including the Financial Management Report, Financial Dashboard, and Monthly Sales Tax report. Growth in General Fund revenues continues, anchored by strength in sales tax collections, and expenditures continue to come in below budget. A review of the City's Strategic Anchors, including the Price of Government and the Kirkland Quad, demonstrates the City continues to provide the affordable, quality services that resident desire. The Financial Forecast provides a balanced baseline for evaluating expenditure options in the 2017-2018 Biennium. Future financial challenges posed by the expiration of the Annexation Sales Tax credit are being met through conservative financial planning and an economic development strategy that includes redevelopment of the City's economic cores.



# Financial Management Report as of March 31, 2016

## AT A GLANCE:

Kirkland receives Google eCity Award for Washington (page 2 sidebar)

2016 first quarter general fund revenues increased 9.7% over 2015 (page 3)

Sales tax revenue grew 9.9% in the first quarter (page 5)

Unemployment is static, Seattle inflation grows, and the housing market continues to improve (pages 7-8)

## Inside this issue:

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## Summary of All Operating Funds: *Revenue*

- General Fund** revenue ended March **9.7 percent ahead** of 2015, an increase of \$1,848,478. Much of this increase came from Taxes and Charges for Services. Sales Tax and Revenue Generating Regulatory Licenses played a significant role, collectively accounting for nearly half of the increase. Actual revenues finished the quarter at 23.5 percent of revenues, 25 percent of the way through the year. This is expected because of the seasonal nature of property tax payments which are received largely in April and October. A more detailed analysis of General Fund revenue can be found on page 3, and details on sales tax revenue begin on page 5.
  - Water/Sewer Operating Fund** first quarter revenue is **down 2.8 percent** from 2015. Actual revenue for the quarter was **22.5 percent of budget**, 1.0 percent less than 2015. The majority of this decrease is due to a reduction in Water and Sewer use by the Commercial sector. Additionally, the Regional Water Connection Charges are down 13.4 percent on the year because of one-time development revenue in the first quarter of 2015.
  - Surface Water Management Fund** revenues finished March at **6.7 percent of budget**. Revenues in the first quarter of 2016 were **11.5 percent lower** than they were in 2015. The decrease is due to a late payment in 2015 that artificially inflated first quarter revenues as well as reduced grant revenue in 2016. Both residential and commercial surface water fees are collected with property tax payments, and will therefore be primarily received in the second and fourth quarters.
  - Solid Waste Fund** finished the quarter with **24.4 percent of budgeted revenues**. This is **1.6 percent lower** than 2015. Billing is higher than in 2015, but there is increase of \$113,000 in accounts receivable so far in 2016.
- Overall, first quarter utility fund revenues were **down 2.9 percent** compared to 2015, and finished March at **20.1 percent of budget**.

Resources by Fund	Year-to-Date Actual			Budget			% of Budget	
	3/31/2015	3/31/2016	% Change	2015	2016	% Change	2015	2016
<b>General Gov't Operating:</b>								
General Fund	18,970,620	20,819,097	9.7%	86,443,318	88,591,256	2.5%	21.9%	23.5%
Other General Gov't Operating Funds	4,554,742	4,836,387	6.2%	26,485,966	27,122,539	2.4%	17.2%	17.8%
<b>Total General Gov't Operating</b>	<b>23,525,361</b>	<b>25,655,484</b>	<b>9.1%</b>	<b>112,929,284</b>	<b>115,713,795</b>	<b>2.5%</b>	<b>20.8%</b>	<b>22.2%</b>
<b>Utilities:</b>								
Water/Sewer Operating Fund	6,222,260	6,048,253	-2.8%	26,451,995	26,905,563	1.7%	23.5%	22.5%
Surface Water Management Fund	756,565	669,239	-11.5%	9,939,650	10,047,501	1.1%	7.6%	6.7%
Solid Waste Fund	4,187,387	4,119,569	-1.6%	16,445,443	16,853,760	2.5%	25.5%	24.4%
<b>Total Utilities</b>	<b>11,166,211</b>	<b>10,837,061</b>	<b>-2.9%</b>	<b>52,837,088</b>	<b>53,806,824</b>	<b>1.8%</b>	<b>21.1%</b>	<b>20.1%</b>
<b>Total All Operating Funds</b>	<b>34,691,573</b>	<b>36,492,545</b>	<b>5.2%</b>	<b>165,766,372</b>	<b>169,520,619</b>	<b>2.3%</b>	<b>20.9%</b>	<b>21.5%</b>

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

## Kirkland Paves the Way for Online Commerce

Google's eCity Award recognizes the strongest online business community in each state. The cities that receive this award have businesses that are innovative in their use of the internet to identify new customers, improve relations and services to existing clients, and fuel their local economies.

"Kirkland is fortunate to be the community of choice for tech savvy businesses who are making good use of online marketing to grow," notes Kirkland Mayor Amy Walen. "Just as significant is the presence of Google Kirkland, which continues to provide the tools that help our businesses to prosper."

Google's analysis showed that the online strength of local small businesses in Kirkland is among the leading cities nationwide in the digital economy.

"We're proud to recognize this growing entrepreneurial spirit and the role that it plays in both creating jobs and sustaining local economies," said Darcy Nothnagle, Google's Head of External Affairs in the Northwest. Google recognizes that many internet-users are consumers in one way or another, and rewards cities that develop an online business presence. In 2015, Kirkland was one of these leaders.



Kirkland Mayor Amy Walen Accepts Google's eCity award on behalf of Kirkland from Darcy Nothnagle, Google's Head of External Affairs in the Northwest.

## Summary of All Operating Funds: *Expenditures*

- General Fund** expenditures (excluding transfers) finished the first quarter of 2016 **up 3.3 percent** from the year before. Actual expenditures finished at **25.2 percent of budget**. Highlights include Services spending falling 7.1 percent from 2015, largely due to the AT&T Mobility settlement in 2015. Intergovernmental Professional Services offset the decrease in Services expenditures by growing 75.2 percent from 2015, largely because of a one-time pass through payment made to Bellevue related to A Regional Coalition for Housing project. A more detailed analysis of General Fund expenditures by department can be found on page 4 and 5.
- Other General Government Operating Funds** actual expenditures were **15.8 percent higher** than 2015, largely due to increases in the Street Operating Fund. Street Operating Fund expenditures increased **47.1 percent** due to the hiring of temp employees, increased Utility Services charges, and Capital Outlays. Capital Outlays expenditures in 2016 were for median landscaping improvements, originally budgeted in 2015. The Parks Levy Fund and the Parks Maintenance Fund were the only funds to spend less than in 2015, falling 16.4 and 8.0 percent respectively. The Parks Levy Fund spent more in 2015 due to the Green Kirkland program, while the Parks Maintenance Fund received a \$13,000 credit this quarter for supplies purchased in 2015.
 

In aggregate, other general government operating funds finished March at **25.0 percent** of budgeted funds.
- Water/Sewer Operating Fund** actual expenditures were **5.1 percent higher** than in 2015. This was largely because of an increase in the Metro Sewer Charge, as well as expenditures on Other Services. Increases in Other Services were mostly for Professional Services related to the update of the Sewer Master Plan, which was originally budgeted for 2015. In total, the Water/Sewer fund finished March at **24.7 percent of budget**.
- Surface Water Management Fund** expenditures at the end of the first quarter were **6.4 percent higher** than 2015. The majority of this increase is from salaries and benefits. Expenditures for labor were up in the first quarter due to acceleration of the work load for the Cochran Springs project. Overall Surface Water Management's budget decreased due to carry overs and one-time projects scheduled in 2015, though expenditures for these projects did not happen in the first quarter of 2015. Thus, project timing drives incongruence of higher expenditures in 2016 despite a lower budget. Expenditures at the end of March were **lower than budgeted, at 20.7 percent of budget**.
- Solid Waste Fund** expenditures were **1.1 percent higher** in 2016 than in 2015. Small increases in expenditures for the waste disposal contract (which was planned), personnel, and external taxes were the cause of the overall increase. Expenditures in the fund finished the first quarter at **24.8 percent of budget** which is in line with expected budget expenditures.

Expenditures by Fund	Year-to-Date Actual			Budget			% of Budget	
	3/31/2015	3/31/2016	% Change	2015	2016	% Change	2015	2016
<b>General Gov't Operating:</b>								
General Fund	20,230,105	20,902,619	3.3%	83,500,121	82,962,015	-0.6%	24.2%	25.2%
Other General Gov't Operating Funds	4,789,883	5,548,665	15.8%	25,063,321	22,853,038	-8.8%	19.1%	24.3%
<b>Total General Gov't Operating</b>	<b>25,019,988</b>	<b>26,451,284</b>	<b>5.7%</b>	<b>108,563,442</b>	<b>105,815,053</b>	<b>-2.5%</b>	<b>23.0%</b>	<b>25.0%</b>
<b>Utilities:</b>								
Water/Sewer Operating Fund	5,382,950	5,655,677	5.1%	22,929,938	22,922,214	0.0%	23.5%	24.7%
Surface Water Management Fund	1,436,537	1,528,945	6.4%	7,877,204	7,374,048	-6.4%	18.2%	20.7%
Solid Waste Fund	3,978,400	4,023,226	1.1%	16,065,707	16,210,048	0.9%	24.8%	24.8%
<b>Total Utilities</b>	<b>10,797,887</b>	<b>11,207,848</b>	<b>3.8%</b>	<b>46,872,849</b>	<b>46,506,310</b>	<b>-0.8%</b>	<b>23.0%</b>	<b>24.1%</b>
<b>Total All Operating Funds</b>	<b>35,817,876</b>	<b>37,659,132</b>	<b>5.1%</b>	<b>155,436,291</b>	<b>152,321,363</b>	<b>-2.0%</b>	<b>23.0%</b>	<b>24.7%</b>

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

## Financial Management Report as of March 31, 2016

## General Fund Revenue

- **Sales tax** revenue allocated to the General Fund in the first quarter of 2016 was **9.9 percent higher** than it was in 2015. The increase is due to improved sales across the board, but particularly in the Contracting, Other Retail, and Miscellaneous sectors. A detailed analysis of total sales tax revenue can be found starting on page 5.
- **Property tax** finished March **8.9 percent higher** than 2015, **at 5.9 percent of budget**. Most property tax payments are received to the City in April and October, therefore this number will likely normalize during the second quarter of 2015.
- **Utility tax** collections finished March **0.5 percent higher** than March 2015 at **25.7 percent** of budget.
- **Other taxes** actual revenues were **2.1 percent higher** than in 2015, and finished at **33.8 percent of budget**. This increase is the result of higher revenues from Punch Board, Pull Tabs, and Card Games.
- The **business licenses (base fee) and franchise fees** were **4.9 percent** higher than in 2015 and finished March **at 25.9 percent** of budget. A portion of this growth is one-time revenue, as the City identified businesses operating without licenses, some of them owing up to three years of back-payments.
- Collections from the **revenue generating regulatory license fee** were **32.5 percent higher** than in 2015. Revenues were **at 39.3 percent of budget**. The difference is mostly due to a timing of payment issue, as a large payment received last year in April, arrived in March this year. This fee is charged to employers on a per-employee basis, and it can fluctuate based on the timing of when businesses submit their payments.
- **Plan check fees and planning fees** finished the quarter **up 95.3 percent** and **89.4 percent** respectively. **Building, Structural and Equipment permits** and **Engineering Services** were **down 13.6 percent** and **29.0 percent** compared to 2015. Much of the Planning Fee increases are due to activity at Totem Lake and Kirkland Urban, while decreases in Building and Structural Equipment as well as engineering services are related to abnormally high revenues in 2015 from Google Campus Phase 2 Expansion.
- **Fines and Forfeitures** were **down 4.2 percent from 2015** due to a decrease in both Traffic and Parking Infraction Penalties. However, an increase in Business License Penalties offset much of the lost revenue elsewhere. This revenue source finished March **at 15.0 percent of budget**. Traffic infraction penalties are not received in January, so the budget is collected in 11 months from February to December. Therefore, this category will be close to budget by year end if past trends hold for the current year.
- **Miscellaneous** revenue finished March **25.7 percent up** from 2015 due to increased Rental and Lease revenue from both dock rentals as well as rent now received from purchasing the pawn shop property in 2015. This category was **above budget projections at 31.0 percent of budget**.

General Fund revenues ended the first quarter \$1,848,477 higher than in 2015 largely due to growth in taxes and charges for services.

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

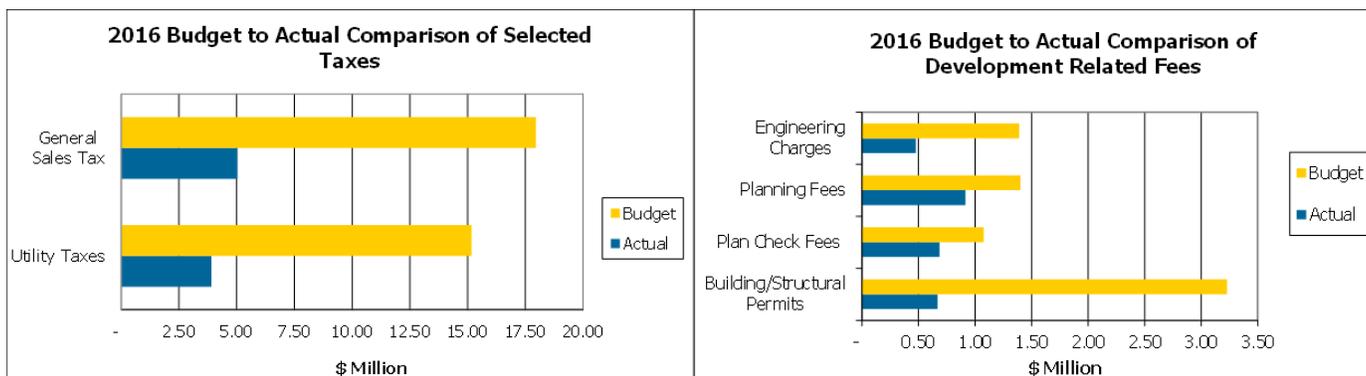
Many significant General Fund revenue sources are economically sensitive, such as sales tax and development-related fees.

About 441 of the City's 580 regular employees are budgeted within the general fund this year.

General Fund Resource Category	Year-to-Date Actual			Budget			% of Budget	
	3/31/2015	3/31/2016	% Change	2015	2016	% Change	2015	2016
<b>Taxes:</b>								
Retail Sales Tax: General	4,581,769	5,034,815	9.9%	17,963,747	17,963,747	0.0%	25.5%	28.0%
Retail Sales Tax Credit: Annexation	1,081,700	1,189,982	10.0%	3,792,500	3,935,000	3.8%	28.5%	30.2%
Retail Sales Tax: Criminal Justice	517,827	563,957	8.9%	2,036,370	2,097,461	3.0%	25.4%	26.9%
Property Tax	969,224	1,055,561	8.9%	17,456,855	17,886,952	2.5%	5.6%	5.9%
Utility Taxes	3,877,205	3,897,886	0.5%	15,015,081	15,175,950	1.1%	25.8%	25.7%
Rev Generating Regulatory License	701,424	929,288	32.5%	2,338,315	2,364,399	1.1%	30.0%	39.3%
Other Taxes	355,358	362,667	2.1%	1,063,075	1,072,758	0.9%	33.4%	33.8%
<b>Total Taxes</b>	<b>12,084,506</b>	<b>13,034,155</b>	<b>7.9%</b>	<b>59,665,943</b>	<b>60,496,267</b>	<b>1.4%</b>	<b>20.3%</b>	<b>21.5%</b>
<b>Licenses &amp; Permits:</b>								
Building, Structural & Equipment Permits	774,041	668,658	-13.6%	3,219,731	3,227,201	0.2%	24.0%	20.7%
Business Licenses/Franchise Fees	1,129,482	1,184,622	4.9%	4,532,649	4,580,520	1.1%	24.9%	25.9%
Other Licenses & Permits	176,043	188,392	7.0%	444,563	519,801	16.9%	39.6%	36.2%
<b>Total Licenses &amp; Permits</b>	<b>2,079,567</b>	<b>2,041,671</b>	<b>-1.8%</b>	<b>8,196,943</b>	<b>8,327,522</b>	<b>1.6%</b>	<b>25.4%</b>	<b>24.5%</b>
<b>Intergovernmental:</b>								
Grants and Federal Entitlements	75,074	73,328	-2.3%	162,125	132,000	-18.6%	46.3%	55.6%
State Shared Revenues & Entitlements	279,502	328,413	17.5%	1,098,514	1,339,360	21.9%	25.4%	24.5%
BMS	-	-	N/A	902,338	920,385	2.0%	N/A	N/A
<b>Total Intergovernmental</b>	<b>354,576</b>	<b>401,741</b>	<b>13.3%</b>	<b>2,162,977</b>	<b>2,391,745</b>	<b>10.6%</b>	<b>16.4%</b>	<b>16.8%</b>
<b>Charges for Services:</b>								
Internal Charges	1,441,417	1,611,202	11.8%	6,159,409	7,100,764	15.3%	23.4%	22.7%
Engineering Services	671,540	476,966	-29.0%	1,400,887	1,391,146	-0.7%	47.9%	34.3%
Plan Check Fee	350,410	684,274	95.3%	951,346	1,077,458	13.3%	36.8%	63.5%
Planning Fees	482,682	914,275	89.4%	1,457,383	1,400,915	-3.9%	33.1%	65.3%
Recreation	475,681	563,840	18.5%	1,215,100	1,215,200	0.0%	39.1%	46.4%
Other Charges for Services	450,614	464,962	3.2%	1,980,204	2,042,707	3.2%	22.8%	22.8%
<b>Total Charges for Services</b>	<b>3,872,342</b>	<b>4,715,520</b>	<b>21.8%</b>	<b>13,164,329</b>	<b>14,228,190</b>	<b>8.1%</b>	<b>29.4%</b>	<b>33.1%</b>
<b>Fines &amp; Forfeits</b>	<b>343,446</b>	<b>329,029</b>	<b>-4.2%</b>	<b>2,189,359</b>	<b>2,191,067</b>	<b>0.1%</b>	<b>15.7%</b>	<b>15.0%</b>
<b>Miscellaneous</b>	<b>236,184</b>	<b>296,982</b>	<b>25.7%</b>	<b>1,063,767</b>	<b>956,465</b>	<b>-10.1%</b>	<b>22.2%</b>	<b>31.0%</b>
<b>Total Revenues</b>	<b>18,970,620</b>	<b>20,819,097</b>	<b>9.7%</b>	<b>86,443,318</b>	<b>88,591,256</b>	<b>2.5%</b>	<b>21.9%</b>	<b>23.5%</b>
<b>Other Financing Sources:</b>								
Interfund Transfers	-	-	N/A	437,228	334,266	-23.5%	N/A	N/A
<b>Total Other Financing Sources</b>	<b>-</b>	<b>-</b>	<b>N/A</b>	<b>437,228</b>	<b>334,266</b>	<b>-23.5%</b>	<b>N/A</b>	<b>N/A</b>
<b>Total Resources</b>	<b>18,970,620</b>	<b>20,819,097</b>	<b>9.7%</b>	<b>86,880,546</b>	<b>88,925,522</b>	<b>2.4%</b>	<b>21.8%</b>	<b>23.4%</b>

\*Budgeted and actual revenues exclude resources forward.

**General Fund Revenue *continued***



**General Fund Expenditures**

General Fund Department Expenditures	Year-to-Date Actual			Budget			% of Budget	
	3/31/2015	3/31/2016	% Change	2015	2016	% Change	2015	2016
Non-Departmental	558,983	502,927	-10.0%	2,911,258	2,606,504	-10.5%	19.2%	19.3%
City Council	198,670	217,969	9.7%	471,318	493,971	4.8%	42.2%	44.1%
City Manager's Office	430,510	583,123	35.4%	2,438,154	2,169,570	-11.0%	17.7%	26.9%
Municipal Court	603,751	620,524	2.8%	2,445,952	2,451,500	0.2%	24.7%	25.3%
Human Resources	364,995	379,909	4.1%	1,492,619	1,538,791	3.1%	24.5%	24.7%
City Attorney's Office	337,596	298,613	-11.5%	1,246,620	1,171,071	-6.1%	27.1%	25.5%
Parks & Community Services	1,832,467	1,724,225	-5.9%	8,423,620	7,928,882	-5.9%	21.8%	21.7%
Public Works (Engineering)	1,270,884	1,290,749	1.6%	5,421,184	5,866,373	8.2%	23.4%	22.0%
Finance and Administration	1,127,345	1,128,084	0.1%	4,715,638	4,692,308	-0.5%	23.9%	24.0%
Planning & Building	1,117,946	2,573,684	130.2%	8,492,888	8,325,580	-2.0%	13.2%	30.9%
Police	6,086,378	6,137,741	0.8%	25,154,856	25,065,894	-0.4%	24.2%	24.5%
Fire	6,300,580	5,445,071	-13.6%	20,286,014	20,651,571	1.8%	31.1%	26.4%
<b>Total Expenditures</b>	<b>20,230,105</b>	<b>20,902,619</b>	<b>3.3%</b>	<b>83,500,121</b>	<b>82,962,015</b>	<b>-0.6%</b>	<b>24.2%</b>	<b>25.2%</b>
<b>Other Financing Uses:</b>								
Interfund Transfers	533,011	639,784	20.0%	8,480,717	5,430,801	-36.0%	6.3%	11.8%
<b>Total Other Financing Uses</b>	<b>533,011</b>	<b>639,784</b>	<b>20.0%</b>	<b>8,480,717</b>	<b>5,430,801</b>	<b>-36.0%</b>	<b>6.3%</b>	<b>11.8%</b>
<b>Total Expenditures &amp; Other Uses</b>	<b>20,763,116</b>	<b>21,542,403</b>	<b>3.8%</b>	<b>91,980,838</b>	<b>88,392,816</b>	<b>-3.9%</b>	<b>22.6%</b>	<b>24.4%</b>

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

**Comparing 2016 and 2015 expenditures:**

In 2016, excluding interfund transfers, General Fund expenditures were **3.3 percent higher** than 2015, and finished the first quarter at **25.2 percent of budget**. Specific reasons for increased expenditures are highlighted below:

- Expenditures for **Non-departmental** were **down 10.0 percent** due to the AT&T Mobility legal settlement payment early in 2015. Public Defender expenditures, which are newly charged to Non-departmental, partially offset these decreases. Non-departmental finished the first quarter **at 19.3 percent** of budget spent, similar to 2015.
- Actual 2016 expenditures for the **City Council increased 9.7 percent** from 2015. The increase is due to the Interfund IT Rental charge that mistakenly was not paid for the first 3 months of 2015, but was later corrected. City Council finished the quarter at **44.1 percent of budget**, which is normal as Membership Dues paid at the beginning of the year comprise a large portion of the overall budget.
- The **City Manager's Office** finished the first quarter **up 35.4 percent** from 2015 with **26.9 percent of budget** expended. The increase reflects the Deputy City Manager Reorganization, which occurred after the 1st quarter of 2015.
- Actual **Interfund Transfers** finished the first quarter **up 20.0 percent** from 2015 as the City is now making transfers for city hall construction debt service.
- First quarter expenditures for the **Parks & Community Services Department** were **down 5.9 percent** from 2015 due to an invoice for the Human Service Pooled Program, usually paid to Bellevue in the first quarter, which was paid early at the very end of 2015. Parks and Community Services finished the first quarter below

2016 General Fund actual expenditures (excluding "other financing uses") were 3.3 percent higher than they were in 2015.

Continued on page 5

## Financial Management Report as of March 31, 2016

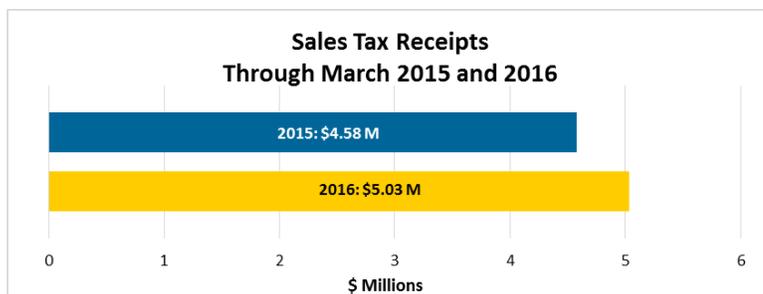
expected expenditures at **21.7 percent of budget**.

- **Public Works - General Fund** expenditures were **1.6 percent above 2015**. There was moderate growth in expenditures in Wages and Benefits that were mostly offset by decreased spending on Professional Services. Overall, Public Works - General Fund finished the quarter at **22.0 percent of budget**.
- **Planning and Building** finished the quarter **130.2 percent above 2015**, with **30.9 percent of the budget** expended. The difference stems from the merger of the Planning Department with the Building Division, which took place in June of 2015. The percent of budget expended is much higher in 2016 as changes in budgeted expenditures took place before changes to the actual expenditures, which artificially deflates expenditures as a percentage of budget in 2015. Future tables will account for this reorganization.
- **Police** expenditures ended the quarter **0.8 percent above 2015**, at **24.5 percent of budget**. This is consistent with performance in 2015.
- Expenditures for the **Fire Department** finished the first quarter **13.6 percent below 2015**. The Building division is no longer merged with Fire, which accounts for the drop in expenditures. Fire finished the quarter at **26.4 percent of budget**. Expenses are slightly above budget, but within expected ranges. A greater proportion of fire overtime expenses come early in the year, as overtime expenditures to maintain minimum staffing over the winter holidays inflates these costs in January.

Summary of Fire District 41 Funds	
Revenues & Expenditures	
Beginning Balance	5,230,000
Investment Interest	90,970
Expenditures:	114,893
<b>Current Balance</b>	<b>\$ 5,206,077</b>

### Sales Tax Revenue Analysis

First quarter sales tax revenue was **9.9 percent** higher in 2016 than 2015. Increased activity in contracting, other retail, and miscellaneous composed the bulk of the revenue gains. Sales tax revenue received through March is from sales activity between November 2015 and January 2016.



### Review by business sectors:

- **Contracting ended up 18.7 percent** through March compared to 2015. Construction is strong to start the year, though this is a volatile sector, and revenues may not remain this high through the year.
- Sales tax from the retail sectors was collectively **up 6.1 percent** compared to 2015.
- **Auto/gas retail** sector was **up 5.8 percent** compared to 2015.
- **General merchandise/miscellaneous retail** sector was **down 2.9 percent** in 2016 compared to 2015 due to reduced revenue from major retailers.
- **Retail eating/drinking** sector performance was **up 1.3 percent** compared to 2015.
- **Other retail** was **up 17.7 percent** compared to 2015 due to significant growth in Electronics and Non-store retailers. All categories with the exception of Sporting Goods grew from 2015.
- The **services** sector was **up 7.1 percent** compared to 2015. This growth came in spite of significant losses from the Other Info category, which fell 80 percent on the year due to abnormally high revenues in 2015. Other Services and Administrative Support each grew more than 20 percent, which more than made up for the decrease in other services.
- **Wholesale** revenues were **up 25.3 percent** in 2016. This sector is broken into durable and non-durable goods, both of which grew substantially.
- The **Miscellaneous** sector was **up 32.6 percent** in 2016, largely due to real estate revenue, which is up 70 percent on the year.
- **Communications** fell 8.9 percent on the year. Although the year over year comparison indicates falling revenues, in dollar terms, Communications revenue has been stagnant for several months, hovering around \$40,000 monthly.

**Regional Sales Tax**  
Bellevue was up 8.3 percent, Redmond was up 61.3 percent through March 2016 compared to March 2015.

**King County**  
King County's sales tax receipts were up 10.0 percent through the end of the quarter compared to 2015.

Business Sector Group	YTD		Dollar Change	Percent Change	Percent of Total		Percent of \$ Change
	2015	2016			2015	2016	
Services	603,927	646,574	42,647	7.1%	13.2%	12.8%	9.4%
Contracting	645,482	766,332	120,850	18.7%	14.1%	15.2%	26.7%
Communications	126,960	115,714	(11,246)	-8.9%	2.8%	2.3%	-2.5%
Auto/Gas Retail	1,156,481	1,223,691	67,210	5.8%	25.2%	24.3%	14.8%
Gen Merch/Misc Retail	593,799	576,485	(17,314)	-2.9%	13.0%	11.4%	-3.8%
Retail Eating/Drinking	366,141	371,382	5,241	1.4%	8.0%	7.4%	1.2%
Other Retail	631,666	743,496	111,830	17.7%	13.8%	14.8%	24.7%
Wholesale	205,518	257,507	51,989	25.3%	4.5%	5.1%	11.5%
Miscellaneous	251,795	333,993	82,198	32.6%	5.5%	6.6%	18.1%
<b>Total</b>	<b>4,581,769</b>	<b>5,035,174</b>	<b>453,405</b>	<b>9.9%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

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

Month	Sales Tax Receipts		Dollar Change	Percent Change
	2015	2016		
January	1,406,662	1,580,669	174,007	12.4%
February	1,783,689	1,958,877	175,188	9.8%
March	1,391,418	1,495,628	104,210	7.5%
<b>Total</b>	<b>4,581,769</b>	<b>5,035,174</b>	<b>453,405</b>	<b>9.9%</b>

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

- Sales tax revenues for the first quarter of 2016 were 9.9 percent higher than the first quarter of 2015.
- Growth has been strong to start 2016. January and February were up 12.4 and 9.8 percent, while March came in at 7.5 percent. Though growth slowed as the first quarter progressed, the outlook is still positive going forward.
- Aside from Communications and General Merchandise/Miscellaneous Retail, every sector grew in the first quarter. Contracting performed particularly well, followed by Other Retail and Miscellaneous. These growth sectors, particularly Contracting, tend to be volatile and will fluctuate with changing economic conditions.
- Communications and General Merchandise are down 8.9 and 2.9 percent respectively after the first quarter. Communications revenue has remained flat for the past several months. General Merchandise decreased slightly from last year, though it is generally less volatile than other categories.

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

Comparing to the same period last year:

**Totem Lake**, which accounted for 28.7 percent of the total sales tax receipts in the first quarter, was **up 4.8 percent** from 2015 due to the continued sales growth in the automotive/gas retail sector and repairs & maintenance with mostly positive results in other sectors. Sixty percent of this business district's revenue comes from the auto/gas retail sector.

**NE 85<sup>th</sup> Street**, which made up 13.4 percent of the total sales tax receipts in 2016, was **up 5.0 percent** compared to 2015. This area's sales grew due to improving auto retail and retail eating/drinking sales. General retail, which is the second largest sector, fell 0.9 percent on the year. Auto and general retail contribute 82.5 percent of this business district's revenue.

**Downtown**, which accounted for 5.0 percent of first quarter sales tax receipts, was **down 18.5 percent**. This is due to abnormally high revenues from the information category in 2015. If it wasn't for that anomaly, downtown revenues would

have fallen just 2.5 percent.

**Carillon Point & Yarrow Bay**, which account for 1.6 percent of the total sales tax receipts, were **up 4.4 percent** compared to 2015. About 61.8 percent of this business district's revenue came from retail eating/drinking and accommodations.

**Houghton & Bridle Trails**, which has produced 2.2 percent of the total sales tax receipts in 2016, were **up 2.4 percent** due to an increase in retail food stores and other retail, which offset a decrease in several other categories.

**Juanita**, which generated 1.4 percent of the total 2016 sales tax receipts, was **down 0.2 percent** compared to 2015. Revenues were up for retail eating/drinking, but down for several other sectors.

**North Juanita, Kingsgate, & Finn Hill** accounted for 2.6 percent of the total sales tax receipts in 2016 and were **down 0.5 percent** from 2015, with growth in North Juanita being offset by a decline in Finn Hill and Kingsgate. The former grew 1.9 percent, while the latter two fell a combined 2.6 percent. Finn Hill revenues were particularly poor, falling 5.7 percent spread across a few sectors.

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

## Financial Management Report as of March 31, 2016

When reviewing sales tax receipts by business district, it's important to be aware that 49.1 percent of the revenues received in the first quarter of 2016 were in the "unassigned or no district" category largely due to contracting and other revenue, which includes revenue from internet, catalog sales and other businesses located outside of the City. This percentage has grown in recent years as internet sales have grown in volume.

Business District	YTD		Dollar Change	Percent Change	Percent of Total	
	2015	2016			2013	2014
Totem Lake	1,381,098	1,447,433	66,335	4.8%	30.1%	28.7%
NE 85th St	642,615	674,654	32,039	5.0%	14.0%	13.4%
Downtown	306,096	249,535	(56,561)	-18.5%	6.7%	5.0%
Carillon Pt/Yarrow Bay	76,785	80,154	3,369	4.4%	1.7%	1.6%
Houghton & Bridle Trails	108,546	111,146	2,600	2.4%	2.4%	2.2%
Juanita	68,248	68,099	(149)	-0.2%	1.5%	1.4%
Kingsgate	40,977	41,088	111	0.3%	0.9%	0.8%
North Juanita	62,523	63,695	1,172	1.9%	1.4%	1.3%
Finn Hill	27,220	25,671	(1,549)	-5.7%	0.6%	0.5%
Unassigned or No District:						
Contracting	639,240	759,559	120,319	18.8%	14.0%	15.1%
Other	1,228,421	1,514,140	285,719	23.3%	26.8%	30.1%
<b>Total</b>	<b>4,581,769</b>	<b>5,035,174</b>	<b>453,405</b>	<b>9.9%</b>	<b>100.0%</b>	<b>100.0%</b>

**Sales Tax Revenue Outlook** After a slow start to 2015, revenues picked up in the third quarter and that growth has continued into the first quarter of 2016. Growth slowed in March, but remains above average for the quarter as a whole. It is expected that growth patterns are due to weaker receipts in the first quarter of 2015, and that the slowing in the month over month comparisons represents a reversion to a moderate growth trend. Staff will continue to monitor trends.

**OFFICE VACANCIES:**

According to the latest report from CB Richard Ellis Real Estate Services, Kirkland's office vacancy rate in the first quarter of 2016 was 1.5 percent, significantly lower than the Puget Sound total vacancy rate of 12.0 percent, and an improvement from 2015's vacancy rate of 2.2 percent. Overall the Eastside is one of the stronger office markets in the Puget Sound region, with an office vacancy rate of 11.0 percent, just above downtown Seattle's vacancy rate of 10.3 percent.

The region currently has 6.4 million square feet of office space under construction, over 3.5 times more than this time last year. This includes projects on the Eastside, with over 1 million square feet planned in Bellevue.

**LODGING TAX REVENUE:**

Lodging tax revenue grew compared to 2015, finishing the quarter up 3.0 percent, an increase of \$1,601. This meant revenues finished the first quarter at 20.7 percent of budget.

**Economic Environment Update** The Washington State economy continued to expand, adding 23,900 nonfarm jobs in the first quarter of 2016, according to the February 2016 update from the Washington State Economic and Revenue Forecast Council. Migration into Washington remains strong, and is projected to outperform 2015's high level of migration.

The Conference Board's **Consumer Confidence Index** decreased from 98.1 in January to 92.2 in February but rebounded slightly to 96.4 in March. A rating of 100 equals the 1985 consumer confidence level. Consumer confidence is expected to remain flat in upcoming months as consumers observe the soft labor market with caution. The Confidence Board found that there were mixed perceptions of the labor market, but consumers viewed the short-term more favorably as turmoil in the financial market calmed.

The Bureau of Labor Statistics **unemployment data** from March show the seasonally adjusted national rate remained steady at 4.9 percent. Washington State unemployment ended the quarter at 6.3 percent, decreasing from 6.5 percent in February 2016. Local unemployment rates declined for King County, moving from 4.9 percent in February 2016 to 4.1 percent in March 2016. Kirkland's unemployment rate increased slightly from 4.1 percent in January 2016 to 4.2 percent in February 2016. March numbers are not yet available as unemployment data is reported on a one month lag at the national and state levels and on a two month lag at the county and city levels.

The Western Washington Purchasing Manager Index indicated continued growth in economic activity in March 2016. The index was at 54.5 in March, which is positive; an index reading greater than 50 signals an expanding economy. While the index shows growth, it is worth noting that the March index was 3.5 points lower than forecasted.

(Continued on page 8)

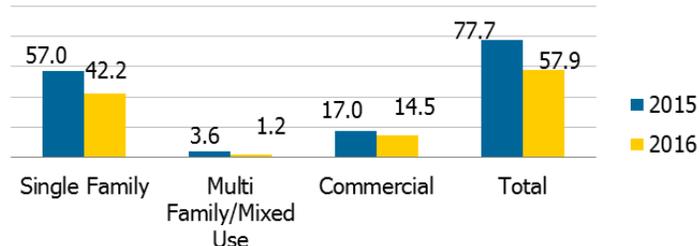
### Economic Environment Update *continued*

Local **building permitting activity** has dropped 25.5 percent compared to March 2015. The impact was across the board, with single family, mixed use, and commercial all falling substantially. There was a particularly large drop in Single Family valuations, which goes against the recent trend of strong growth in single family valuations over 2015. A drop in Commercial valuations is unsurprising, as Google Phase II took place in the first quarter of 2015, and permitting activity for Kirkland Urban and Totem Lake will not start up for several months yet. However, once those two projects begin, permit activity will increase substantially.

The **housing market** continued to increase in the first quarter of 2016 with the Case-Shiller housing index for the Seattle metro area up to 188.94. The pre-recession peak index score was 192.3 in July 2007. There were 113,000 new housing permits issued in the first quarter of 2016 according to the Washington State Economic and Revenue Council.

**Inflation** in the Seattle area is high relative to the national rate. In February 2016, the Seattle core CPI increased 2.4 percent compared to the previous February, while the national CPI was at 0.7 percent year-to-year growth.

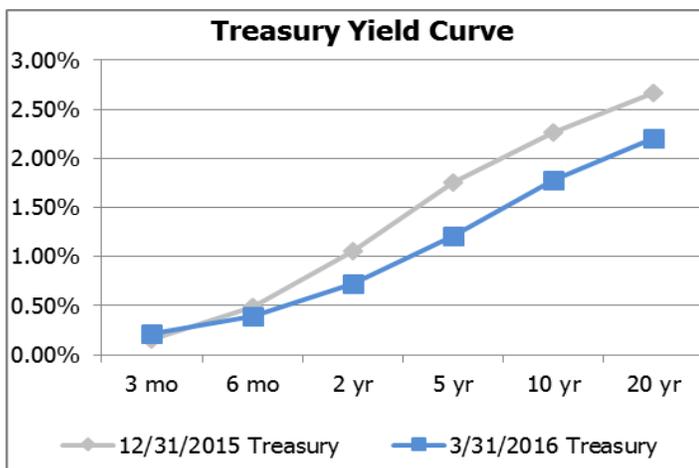
**Valuation of Building Permits  
First Quarter Total 2015 and 2016  
(in millions \$)**



### Investment Report

#### MARKET OVERVIEW

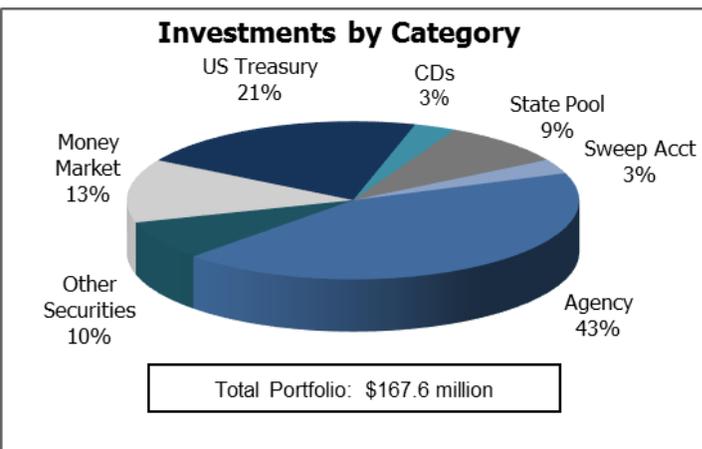
The mild economic growth continued into the 1<sup>st</sup> quarter of 2016. The Fed Funds rate increased in December 2015 to the range 0.25 to 0.50 percent and was initially thought to increase up to three more times in 2016. It is now expected that there will be only one increase in late 2016. The yield curve rose at the end of 2015 due to the increase in the Fed Funds rate and then fell in the longer end of the curve by the end of the first quarter 2016 as seen in the graph below.



#### CITY PORTFOLIO

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

The City’s portfolio decreased \$6.6 million in the 1<sup>st</sup> quarter of 2016, moving from \$174.2 million on December 31, 2015 to \$167.6 million on March 31, 2016. The decrease in the portfolio is related, in part, to the normal cash flows of the 1<sup>st</sup> quarter, as the first half of property taxes is not received until the end of April and early May. The change in financial institutions is another factor for the reduction of the portfolio as more cash is being held in the banks during the transition between the old and new banks.



#### Diversification

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

# Financial Management Report as of March 31, 2016

## 2016 ECONOMIC

### OUTLOOK and

### INVESTMENT STRATEGY

The outlook for growth in the U.S. economy looks weaker now than it did three months ago, according to 40 forecasters surveyed by the Federal Reserve Bank of Philadelphia. The U.S. economy is expected to grow at an annual rate of 2.1 percent in 2016 and 2.4 percent in 2017. CPI inflation is expected to average 1.5 percent in 2016 and 2.2 percent in 2017. The unemployment rate is expected to average 4.8 percent in 2016 and fall to 4.6 percent in 2017. The Fed Funds rate, currently at 0.50%, is expected to rise one time in late 2016 to 0.75%.

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

The State Pool is currently at 0.43% and will continue to remain low as the Fed Funds rate remains at 0.25 to 0.50 percent. Total estimated investment income for 2016 is \$942,000.

## Investment Report *continued*

### Liquidity

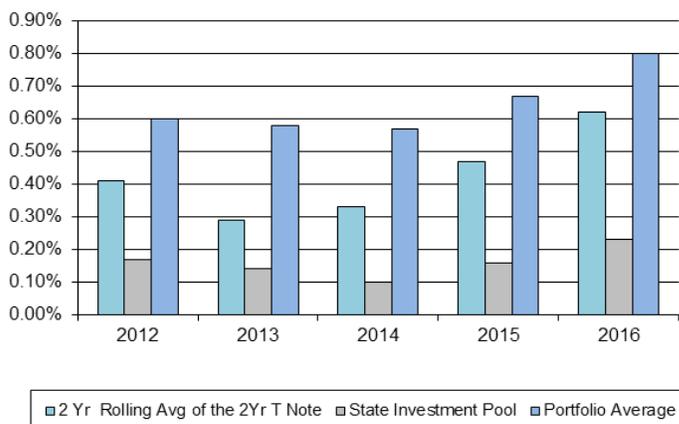
The target duration for the City's portfolio is based on the 0-5 year U.S. Treasury. The average maturity of the City's investment portfolio increased from 1.15 years on December 31, 2015 to 1.42 years on March 31, 2016 as securities with longer duration were purchased to realize greater yields.

### Yield

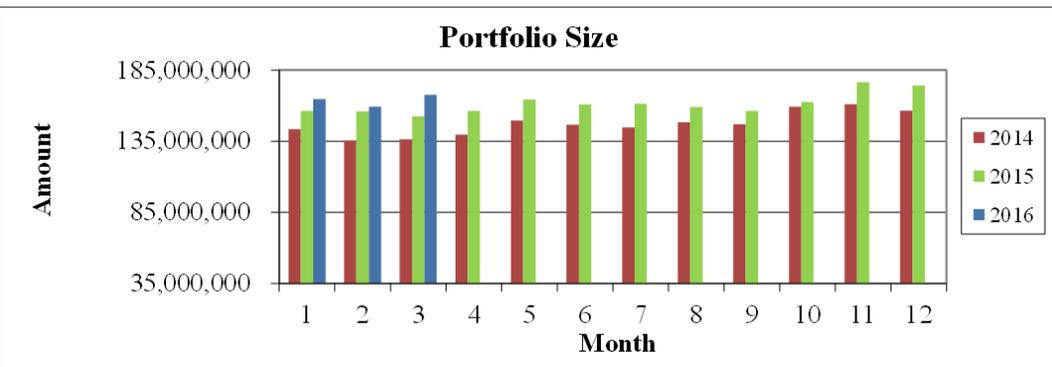
The City Portfolio yield to maturity increased from 0.69 percent on December 31, 2015 to 0.85 percent on March 31, 2016. Through March 31, 2016, the City's annual average yield to maturity also increased to 0.80 percent. The City's portfolio benchmark is the range between the 90 day Treasury Bill and the 2 year rolling average of the 2 year Treasury Note. This benchmark is used as it is reflective of the maturity guidelines required in the Investment Policy adopted by City Council. The City's portfolio outperformed both the 90 day T Bill and the 2 year rolling average of the 2 year Treasury Note, which was 0.63 percent on March 31, 2016.

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

Investment Interest Rate Comparisons



Portfolio Size



Monthly Interest Earned



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

### Reserve Analysis

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

### General Capital Reserves

- Real estate activity has been growing significantly over the last few years and 2015 reached an all time high in **Real Estate Excise Tax (REET)** collections. However, **2016 is already 72.7 percent ahead of first quarter 2015**. The current ending balances do not reflect this revenue performance, however they do incorporate 2015-2016 uses in the 2015-2020 Capital Improvement Plan as adopted in December 2015.
- Impact fees (Parks and Transportation)** are a reflection of development activity, which remains strong. However, 2016 revenues are significantly behind 2015 (Parks **down 74 percent** and Transportation **down 71 percent**) due to revenue received from a single large development in the first quarter of 2015. Normalizing for this event, revenue is only slightly down from last year. There are large developments underway which are expected to generate significant fees in 2016 that likely will bring these revenues in line with last year. The balances below were adjusted during the 2015-2020 CIP adoption in December to fund capital projects that are budgeted during this biennium.
- The City adopted a new Capital Improvement Program (CIP) for 2015-2020, which made significant uses of REET and Impact Fees in the current budget period, as well as future years in response to projects identified in several long-range master plans that were adopted in 2015.

### General Government & Utility Reserves Targets Summary

Reserves	Actual 2015 Beginning Balance	Adopted 2016 Ending Balance	Revised 2016 Ending Balance	2015-16 Target	Revised Over (Under) Target
<b>GENERAL PURPOSE RESERVES WITH TARGETS</b>					
General Fund Reserves:					
General Fund Contingency	50,000	50,000	50,000	50,000	-
General Oper. Reserve (Rainy Day)	2,806,513	4,803,388	4,803,388	4,803,388	-
Revenue Stabilization Reserve	2,570,090	2,848,220	2,848,220	2,848,220	-
Building & Property Reserve	571,579	600,000	600,000	600,000	-
Council Special Projects Reserve	250,000	250,000	164,000	250,000	(86,000)
Contingency	2,426,425	4,036,425	4,036,425	5,512,218	(1,475,793)
General Capital Contingency	3,768,012	4,961,855	4,961,855	5,701,001	(739,146)
<b>General Purpose Reserves with Targets</b>	<b>12,442,619</b>	<b>17,549,888</b>	<b>17,463,888</b>	<b>19,764,827</b>	<b>(2,300,939)</b>
<b>ALL OTHER RESERVES WITH TARGETS</b>					
General Fund Reserves:					
Litigation Reserve	150,000	150,000	150,000	150,000	-
Firefighter's Pension Reserve	1,493,687	1,225,835	1,225,835	933,405	292,430
Health Benefits Fund:					
Claims Reserve	2,058,311	2,058,311	2,058,311	2,058,311	-
Rate Stabilization Reserve	1,000,000	1,000,000	1,000,000	1,000,000	-
Excise Tax Capital Improvement:					
REET 1	5,843,876	8,697,813	5,213,854	1,732,329	3,481,525
REET 2	4,888,788	7,146,044	6,000,344	2,436,255	3,924,089
Water/Sewer Operating Reserve:	2,414,471	2,659,932	2,659,932	2,659,932	-
Water/Sewer Capital Contingency:	1,107,600	613,300	613,300	613,300	-
Surface Water Operating Reserve:	706,364	893,306	893,306	893,306	-
Surface Water Capital Contingency:	845,163	391,380	391,380	391,380	-
<b>Other Reserves with Targets</b>	<b>20,508,260</b>	<b>24,835,921</b>	<b>20,206,262</b>	<b>12,868,218</b>	<b>7,698,044</b>
<b>Reserves without Targets</b>	<b>44,926,198</b>	<b>58,197,292</b>	<b>48,329,747</b>	<b>n/a</b>	<b>n/a</b>
<b>Total Reserves</b>	<b>77,877,077</b>	<b>100,583,101</b>	<b>85,999,897</b>	<b>n/a</b>	<b>n/a</b>

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

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

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

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

### USES AND ADDITIONS HIGHLIGHTS

RESERVE	AMOUNT	DESCRIPTION
<b>2015-16 Council Authorized Uses</b>		
Prior 2015 Uses	\$14,019,287	
Lodging Tax Reserve	\$100,000	Kirkland Performance Center Technical Equipment
Real Estate Excise Tax 2 (REET 2)	\$360,000	Kirkland Intelligent Transportation System Phase 2
Street Improvement Reserve	\$95,958	Street Pavement Milling Machine
Water/Sewer Construction Reserve	\$104,036	3rd Street Watermain Upgrade
<b>2015-16 Council Authorized Additions</b>		
Prior 2015 Additions	\$96,077	

## Financial Management Report as of March 31, 2016

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

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

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

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

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

Reserves	Description	Est. 2015 Beginning Balance	Adopted 2016 Ending Balance*	Additional Authorized Uses/Additions	Revised 2016 Ending Balance
<b>GENERAL FUND/CONTINGENCY</b>					
General Fund Reserves:					
General Fund Contingency	Unexpected General Fund expenditures	50,000	50,000		50,000
General Oper. (Rainy Day)	Unforeseen revenues/temporary events	2,806,513	4,803,388		4,803,388
Revenue Stabilization	Temporary revenue shortfalls	2,570,090	2,848,220		2,848,220
Building & Property	Property-related transactions	571,579	600,000		600,000
Council Special Projects	One-time special projects	250,000	250,000	(86,000)	164,000
Contingency	Unforeseen expenditures	2,426,425	4,036,425		4,036,425
<b>Total General Fund/Contingency</b>		<b>8,674,607</b>	<b>12,588,033</b>	<b>(86,000)</b>	<b>12,502,033</b>
<b>SPECIAL PURPOSE RESERVES</b>					
General Fund Reserves:					
Litigation	Outside counsel costs contingency	150,000	150,000		150,000
Labor Relations	Labor negotiation costs contingency	74,928	55,312		55,312
Police Equipment	Equipment funded from seized property	50,284	75,969		75,969
Fire OT & Equipment	Contingency for overtime and equipment	200,000	200,000		200,000
LEOFF 1 Police	Police long-term care benefits	618,079	618,079		618,079
Facilities Expansion	Special facilities expansions	150,982	50,663		50,663
Development Services	Revenue and staffing stabilization	2,572,520	2,612,670		2,612,670
Development Svcs. Technology	Permit system replacement	1,040,324	1,356,175		1,356,175
Tour Dock	Dock repairs	206,271	273,095		273,095
Tree Ordinance	Replacement trees program	56,267	65,488		65,488
Revolving/Donation Accounts	Fees/Donations for specific purposes	940,331	943,300	(25,000)	918,300
Lodging Tax Fund	Tourism program and facilities	310,420	190,548	(119,549)	70,999
Cemetery Improvement	Cemetery improvements/debt service	736,215	767,040	2,568	769,608
Off-Street Parking	Downtown parking improvements	259,161	391,613	(285,500)	106,113
Fire Equipment Life Cycle	20-year fire equipment costs	418,326	896,704		896,704
Police Equipment Life Cycle	20-year police equipment costs	343,114	806,243		806,243
Technology Equipment Life Cycle	20-year technology equipment costs	663,600	1,265,117		1,265,117
Firefighter's Pension	Long-term care/pension benefits	1,493,687	1,225,835		1,225,835
<b>Total Special Purpose Reserves</b>		<b>10,284,509</b>	<b>11,943,851</b>	<b>(427,481)</b>	<b>11,516,370</b>
<b>GENERAL CAPITAL RESERVES</b>					
Excise Tax Capital Improvement:					
REET 1	Parks/transportation/facilities projects, parks debt service	5,843,876	8,697,813	(3,483,959)	5,213,854
REET 2	Transportation and other capital projects	4,888,788	7,146,044	(1,145,700)	6,000,344
Impact Fees					
Transportation	Transportation capacity projects	3,663,839	4,227,671	(2,300,900)	1,926,771
Parks	Parks capacity projects	1,727,746	2,007,936	(484,599)	1,523,337
Street Improvement	Street improvements	995,958	995,958	(995,958)	0
General Capital Contingency	Changes to General capital projects	3,768,012	4,961,855		4,961,855
<b>Total General Capital Reserves</b>		<b>20,888,219</b>	<b>28,037,277</b>	<b>(8,411,116)</b>	<b>19,626,161</b>
<b>UTILITY RESERVES</b>					
Water/Sewer Utility:					
Water/Sewer Operating	Operating contingency	2,414,471	2,659,932		2,659,932
Water/Sewer Debt Service	Debt service	498,591	495,390	(460,000)	35,390
Water/Sewer Capital Contingency	Changes to Water/Sewer capital projects	1,107,600	613,300		613,300
Water/Sewer Construction	Replacement/re-prioritized/new projects	10,051,937	17,664,869	(4,127,036)	13,537,833
Surface Water Utility:					
Surface Water Operating	Operating contingency	706,364	893,306		893,306
Surface Water Capital Contingency	Changes to Surface Water capital projects	845,163	391,380		391,380
Surface Water Construction	Trans. related surface water projects	5,656,579	7,597,175	(759,300)	6,837,875
<b>Total Utility Reserves</b>		<b>21,280,705</b>	<b>30,315,352</b>	<b>(5,346,336)</b>	<b>24,969,016</b>
<b>INTERNAL SERVICE FUND RESERVES</b>					
Health Benefits:					
Claims	Health benefits self insurance claims	2,058,311	2,058,311		2,058,311
Rate Stabilization	Rate stabilization	1,000,000	1,000,000		1,000,000
Equipment Rental:					
Vehicle	Vehicle replacements	10,068,738	8,583,511	22,829	8,606,340
Radio	Radio replacements	59,463	74,764		74,764
Information Technology:					
PC Replacement	PC equipment replacements	459,063	518,292		518,292
Major Systems Replacement	Major technology systems replacement	656,200	1,165,089	135,200	1,300,289
Facilities Maintenance:					
Operating	Unforeseen operating costs	550,000	550,000		550,000
Facilities Sinking Fund	20-year facility life cycle costs	1,897,262	3,748,621	(470,300)	3,278,321
<b>Total Internal Service Fund Reserves</b>		<b>16,749,037</b>	<b>17,698,588</b>	<b>(312,271)</b>	<b>17,386,317</b>
<b>Grand Total</b>		<b>77,877,077</b>	<b>100,583,101</b>	<b>(14,583,204)</b>	<b>85,999,897</b>

\*Adjusted for actual cash balances in April



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

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



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***Economic Environment Update References:***

- The Conference Board Consumer Confidence Index Press Release April 26, 2016
- Carol A. Kujawa, MA, A.P.P., *ISM-Western Washington, Inc. Report On Business*, Institute for Supply Management-Western Washington, March, 2016
- Quarterly Economic & Revenue Forecast, February 2016—Washington State Economic & Revenue Forecast Council
- Monthly Economic and Revenue Publication, March 2016—Washington State Economic & Revenue Forecast Council
- CB Richard Ellis Real Estate Services, Market View Puget Sound, First Quarter 2015
- S&P/Case-Shiller Seattle Home Price 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

## April 2016 Financial Dashboard Highlights

May 16, 2016

- The dashboard report reflects the 2016 share of the biennial budget adopted by the City Council on December 9, 2014 and adjusted on December 8, 2015. The actual revenues and expenditures summarized reflect results through April 30, 2016, 33.3 percent through the year.
- Total General Fund revenues received through April were at 34.0 percent of budget. Collections are slightly higher than expected due largely to strong sales tax and plan check fee revenue.
  - Sales tax revenues at the end of April were up 9.6 percent compared to April 2015 and were 36.6 percent of budget. All sectors, with the exception of communications, are up compared to 2015; high levels of contracting sales tax revenues account for over 20 percent of the year to date growth. The sales tax revenue reflects activity from February 2015 due to the two month lag in receipt of the funds from the Department of Revenue.
  - Utility tax receipts were \$5,210,019 in April, which is 34.3 percent of the budget. This is 1.0 percent higher than April 2015.
  - April business license revenues are 45.9 percent of budget; this is higher than last April's revenue by \$219,207, an increase of 19.0 percent. The above-budget performance this year is partly the result of city efforts to identify businesses operating without licenses. Many of these businesses owe the City up to three years of business license fees. The improvement in compliance with licensing means revenues should be higher on average going forward this year, but the collection of past due fees represents one-time revenues.
  - Development fees through the end of April were at 39.7 percent of budget. This is due to a high level of development activity to start the year, as Kirkland Urban and Totem Lake development begin to generate planning fee revenue. This is 8.8 percent higher than 2015, which was also a solid year.
  - Gas taxes finished April at \$559,602, which is 33.2 percent of the annual budget. This is higher than April 2015 by 6.0 percent, continues this year's strong performance over the past few years.
- Total General Fund expenditures were 32.8 percent of budget at the end of April.
  - General fund salaries and benefits were \$18.75 million, which is 31.5 percent of the annual budget, with one third of the year completed. Salaries and benefits are 1.5 percent higher than in 2015, due to one time and ongoing positions added as part of the 2015-16 budget to increase service levels and meet the needs of the citizens.
  - Fire suppression overtime expenditures were \$395,633 at the end of April, which is 47.3 percent of budget, and \$21,704 higher than in 2015. April's overtime was particularly high due to the minimum staffing requirement to fill an above average amount absences for the month.
  - Contract jail costs were 22.1 percent of budget at the end of April. This budget is for costs of housing inmates that cannot be kept at the Kirkland Justice Center jail for medical reasons. They are incurred only as necessary on an individual basis. Spending for these services was under budget last year, and is on pace to be so again this year.
  - Fuel costs ended April at \$91,406 or 12.4 percent of budget. Low fuel prices are driving decreased expenditures, though timing of fuel orders can also skew this number downwards. Delivery schedules are beginning to normalize, but low prices continue to keep expenditures under budget.

Attachments: April Dashboard

City of Kirkland Budget Dashboard

Date Completed

5/13/2016

Annual Budget Status as of **4/30/2016** (Note 1)  
 Percent of Year Complete **33.33%**

	2016 Budget	Year-to-Date Actual	% Received/ % Expended	Status		Notes
				Current Report	Last Report	
<b>General Fund</b>						
Total Revenues	89,272,784	30,320,437	34.0%			
Total Expenditures	88,821,589	29,090,611	32.8%			

**Key Indicators (All Funds)**

<i>Revenues</i>						
Sales Tax	17,697,097	6,474,893	36.6%			Prior YTD = \$5,905,706
Utility Taxes	15,175,950	5,210,019	34.3%			
Business License Fees	2,988,028	1,371,929	45.9%			
Development Fees	7,824,031	3,104,819	39.7%			
Gas Tax	1,684,070	559,602	33.2%			
<i>Expenditures</i>						
GF Salaries/Benefits	59,499,617	18,745,168	31.5%			Excludes Fire Suppression Overtime
Fire Suppression Overtime	836,077	395,633	47.3%			Excludes FS 24 Overtime
Contract Jail Costs	416,867	92,004	22.1%			
Fuel Costs	738,927	91,406	12.4%			

**Status Key**

Revenue is higher than expected or expenditure is lower than expected

Revenue/expenditure is within expected range

WATCH - Revenue/expenditure outside expected range



Note 1 - Report shows annual values during the second year of the biennium (2016).



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

## MEMORANDUM

**To:** Kurt Triplett, City Manager

**From:** Michael Olson, Director of Finance & Administration  
 Kyle Butler, Budget Analyst

**Date:** May 13, 2016

**Subject:** April Sales Tax Revenue

April sales tax revenue is **up 8.8 percent** compared to April 2015. Growth continues for a fourth consecutive month in 2016, which is partly due to a relatively slow start to sales tax revenues in 2015. Increases in Services (29.5 percent, up \$50,000) and Auto/Gas Retail (8.4 percent, up \$28,000) are the main drivers of this growth along with increases in Other Retail sector (11.0 percent, up \$19,000) and Wholesale (15.4 percent, up \$9,500). General Merchandise/Miscellaneous Retail sales stalled in April, falling 3.7 percent (\$5,000). This is at least partially due to lost business activity at Totem Lake Mall and Parkplace due to displacement during redevelopment. Overall, 2016 continues to perform well relative to 2015, though not at the higher rates of January and February. Results this month reflect sales activity in February, due to the two month lag in reporting sales tax data.

### Comparing April 2016 to April 2015

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

#### 2016 Sales Tax Receipts by Business Sector-Monthly Actuals

Business Sector Group	April		Dollar Change	Percent Change	Percent of Total	
	2015	2016			2015	2016
Services	168,651	218,347	49,696	29.5%	12.7%	15.2%
Contracting	202,345	215,198	12,853	6.4%	15.3%	14.9%
Communications	39,800	36,184	(3,616)	-9.1%	3.0%	2.5%
Retail:						
Auto/Gas Retail	331,880	359,665	27,785	8.4%	25.1%	25.0%
Gen Merch/Misc Retail	145,038	139,693	(5,345)	-3.7%	11.0%	9.7%
Retail Eating/Drinking	111,243	118,779	7,536	6.8%	8.4%	8.2%
Other Retail	175,857	195,164	19,307	11.0%	13.3%	13.6%
Wholesale	61,892	71,417	9,525	15.4%	4.7%	5.0%
Miscellaneous	87,230	85,630	(1,600)	-1.8%	6.6%	5.9%
<b>Total</b>	<b>1,323,936</b>	<b>1,440,078</b>	<b>116,141</b>	<b>8.8%</b>	<b>100%</b>	<b>100%</b>

Comparing month to month, April sales tax collections this year are **\$116,000 (8.8 percent)** higher than April 2015. Sectors with high percentage growth include Services, Wholesale and Other Retail.

In terms of dollar growth, **Services** performed best compared to April 2015, increasing by **\$50,000 (29.5 percent)** largely due to an increase in personal services revenues. The top three improving sectors were rounded out by **Auto/Gas Retail** which was up **\$28,000 (8.4 percent)** and **Other Retail**, which grew **\$19,000 (11.0 percent)**. The Auto/Gas Retail sector is critical to Kirkland's sales tax base and continued growth in sales is encouraging since these sales make up 25 percent or more of the City's sales tax revenues historically. The Other Retail sector has grown due to increasing revenues from the Electronics, Online Retail and Health & Personal Care sub sectors. The first quarter began with strong Contracting revenues driving the month-to-month growth rate; growth was still moderate, however the rate trailed other categories.

Three sectors did experience decreased revenues when compared to April Last year. **General Merchandise/Miscellaneous Retail** declined **\$5,300 (3.7 percent)** partly due to lower gross revenues and also a potential late tax filing. **Communications** fell **\$3,600 (9.1 percent)** this month, which is related to a change in the calculation of gross revenues for cellular services. This change took effect following May 2015 when the Department of Revenue issued a refund due to an error in reporting by the carriers that had resulted in the overpayment of sales taxes by some carriers. **Miscellaneous** revenues fell **\$1,600 (1.8 percent)** due to a potential late tax filing. The City will follow up with the Department of Revenue on the tax filing issues above.

### Year-to-Date Business Sector Review

Year-to-date sales tax totals are useful for comparing revenues received so far this year with last year's totals through the same period. This information gives context on each sector's longer term performance and allows developing trends to be identified.

#### City of Kirkland Actual Sales Tax Receipts

Business Sector Group	YTD		Dollar Change	Percent Change	Percent of Total	
	2015	2016			2015	2016
Services	772,410	864,922	92,512	12.0%	13.1%	13.4%
Contracting	848,198	981,531	133,333	15.7%	14.4%	15.2%
Communications	167,084	151,899	(15,185)	-9.1%	2.8%	2.3%
Retail:						
Auto/Gas Retail	1,488,098	1,583,356	95,258	6.4%	25.2%	24.5%
Gen Merch/Misc Retail	715,041	716,178	1,137	0.2%	12.1%	11.1%
Retail Eating/Drinking	477,337	489,802	12,465	2.6%	8.1%	7.6%
Other Retail	832,675	938,660	105,985	12.7%	14.1%	14.5%
Wholesale	266,634	328,924	62,290	23.4%	4.5%	5.1%
Miscellaneous	338,228	419,625	81,397	24.1%	5.7%	6.5%
<b>Total</b>	<b>5,905,706</b>	<b>6,474,893</b>	<b>569,187</b>	<b>9.6%</b>	<b>100%</b>	<b>100%</b>

Through the end of April, year to date sales taxes were up **9.6 percent**. Growth has slowed from the beginning of the year, but is still robust. However, as the early month are compared to a slow start in 2015, staff expects the growth rate to moderate in the months ahead, which is consistent with this month's results.

By dollar amount, the largest growth is in **Contracting**, which is up **\$133,000 (15.7 percent)** from last year. **Other Retail** and **Auto/Gas Retail** are the next two leading sectors, up **\$106,000 (12.7 percent)** and **\$95,000 (6.4 percent)** respectively. Contracting has continued a strong start to 2016 and most other sectors have contributed to growth in revenues.

**Communications** is down **\$15,000 (9.1 percent)** on the year, with this drop in revenues from the reflecting a statewide change in the calculation of gross taxable revenues in the telecommunications industry.

### Neighboring City Performance

Neighboring cities are performing well this year with Bothell, Bellevue, and Renton up 12.6, 7.2, and 8.1 percent respectively. Seattle’s revenue is up 6.9 percent, with a slight rebound in April sales taxes after a slow first quarter. Redmond continues an incredible start to the year and is up 59.9 percent, due to one-time audit recoveries.

### National and Regional Economic Context:

Information about wider trends in the economy provides a mechanism to help understand current results in Kirkland, as well as predict future performance. The combination of consumer confidence, unemployment levels, housing data and auto sales provide the broader economic context for key factors in sales tax revenues.

2016 Wider Economic Indicators					
Indicator	Most Recent Month of Data	Unit	Month		
			Current	Previous	Change
<b>Consumer Confidence</b>					
Consumer Confidence Index	April	Index	94.2	96.1	(1.9)
<b>Unemployment Rate</b>					
National	April	%	5.0	5.0	0.0
King County	March	%	4.7	4.8	(0.1)
<b>Housing</b>					
New House Permits	March	Thousands	40.8	33.5	7.3
Seattle Area Home Prices	February	Index	188.9	187.0	2.0
<b>Inflation (CPI-W)</b>					
National	March	% Change	0.5	0.7	(0.2)
Seattle	February	% Change	2.4	2.3	0.1
<b>Car Sales</b>					
New Vehicle Registrations	April	Thousands	24.6	25.7	(1.1)

The Consumer Conference Board reported a decrease in the **Consumer Confidence Index**, from 96.1 in March to 94.2 in April. According to the Conference Board, consumer confidence is holding about steady with moderate fluctuations from month to month. Their survey shows that consumers think that current conditions have improved but expectations for short term market conditions have moderated from previous months, suggesting that consumers do not foresee either growth or contraction in the economy in the coming months.

**Unemployment Rates** were static at the National level, remaining at 5.0 percent from March to April. The unemployment rate in King County decreased from 4.8 percent in February to 4.7 percent in March, which is the latest available data point.

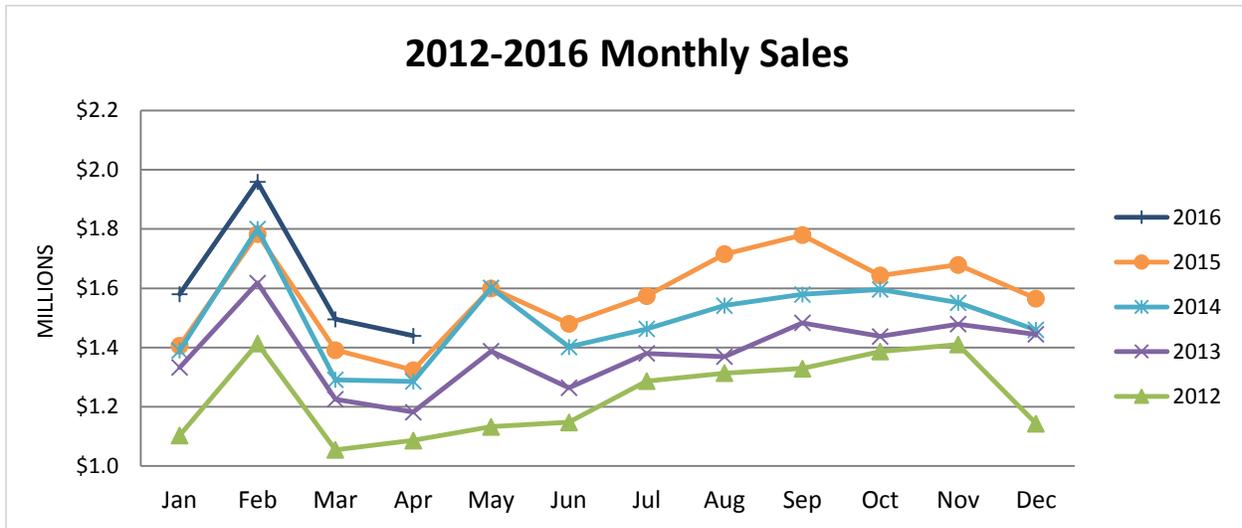
Statewide housing market and car sales data indicate continued strength. Statewide housing market values continue to rise as shown by the **Seattle Area Home Price Index**, which grew from 187 in January to 188.9 in February. This figure continues to get closer to the pre-recession high point of 192.3 set in August 2007. **New House Permits** in the state increased by 7,300 (21.8 percent) from February to March, with 40,800 new permits across the state.

**New Vehicle Registrations** in Washington have declined from the two year high water mark of 28,400 in January, falling to 27,300 in February, 25,700 in March and 24,600 in April. Despite the decline, April’s

figure is still a solid month of sales, ranking in the middle of the pack over the last two years. However, the recent declining trend is worth noting.

### Conclusion

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



Sales tax revenue in 2016 continues to outperform revenue in 2015. This gap had been closing in the first quarter but widened slightly after April. As shown in the graph above, there was a slow start in 2015 compared to 2014 over the first five months of the year. This has not been the case in 2016, with positive growth over each month in 2015 so far, however there is a chance that revenues in the last two thirds of the year may be challenged to meet the strong results over the same time frame in 2015. Contracting and Auto/Gas Retail continue to be drivers of growth in Kirkland and the performance of these economically sensitive sectors will be the key to continued sales tax growth in Kirkland.



## CITY OF KIRKLAND

Department of Finance & Administration

123 Fifth Avenue, Kirkland, WA 98033 425.587.3100

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### MEMORANDUM

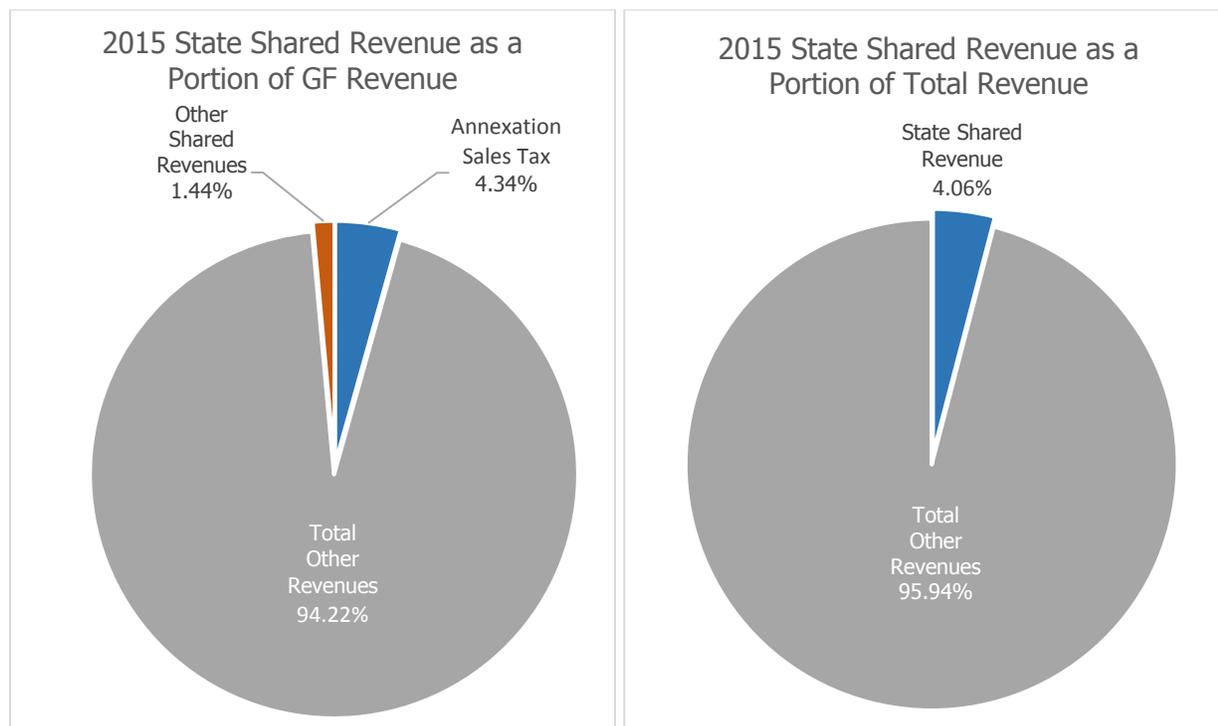
**To:** Kurt Triplett, City Manager

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

**Date:** May 8, 2016

**Subject:** State Shared Revenue History

At its April 1<sup>st</sup> meeting, the Council's Legislative Workgroup requested a review of state shared revenue received by the City of Kirkland. In 2015, the state distributed a total of \$6.9 million to the City of Kirkland through 11 different programs. This represented approximately 4.06 percent of total City revenues for the year. Most of the shared revenue are deposited in the City's General Fund. As shown in the chart below, state shared revenue represented 7.7 percent of total General Fund revenue in 2015. Of this amount, more than half is from the Annexation Sales Tax Credit program. The following section includes overviews of the individual revenue sharing programs, and a brief history of legislative changes to the distributions, where applicable.



### **Annexation Sales Tax Credit: \$3.9 million in 2015**

The State allows cities to impose an additional sales tax on a temporary basis to help absorb the costs of local annexations. The allowable rate for this sales tax is 0.1 percent for annexations of areas with a population of 10,000-19,999, and 0.2 percent for annexation of areas with a population of 20,000 or greater. The additional tax may be imposed for a maximum of ten years. To ensure there is no additional impact to local taxpayers, the amount of revenue generated from the tax acts as a credit against the state sales taxes for the area. The tax credit is available only to areas where the cost to provide municipal services to the annexation area is greater than the additional revenue the city receives from the annexation area. Furthermore, the amount of the credit cannot exceed the difference between revenues and expenditures in the annexed area. In 2015, the state distributed \$16.3 million to 7 cities through this program.

Kirkland, having annexed the neighborhoods of Finn Hill, North Juanita, and Kingsgate in June 2011, has received this credit since July 2011 and currently expects to receive this tax credit until June 2021. Kirkland received \$3.9 million in 2015, 4.34 percent of General Fund Revenues.

### **Criminal Justice Assistance Program: \$103,000 in 2015**

This is a state distribution from the State's General Fund, through the Municipal Criminal Justice Assistance Account. The state began this revenue sharing program in 2000, initially distributing \$4.6 million and increasing it by the state's Fiscal Growth Factor (average growth in state personal income for the ten previous fiscal years) each year thereafter. Based on the growth since the program's inception, the state distribution in 2016 is scheduled to be \$8.5 million. The money is distributed as follows:

- Violent Crime Distribution – 20 percent to cities with a three-year average violent crime rate in excess of 150 percent of the statewide three-year average. Kirkland does not qualify for this distribution.
- Contracted Programs Distribution – 10 percent to cities that contract the majority of law enforcement services to outside agencies. Kirkland does not qualify for this distribution.
- Population Distribution – 16 percent to cities according to population as determined by the latest Office of Financial Management (OFM) population estimate. No city may receive less than \$1,000.
- Special Programs Distribution – 54 percent is distributed to cities on a per capita basis to be used specifically for:
  - o innovative programs;
  - o programs to help at-risk children or child abuse victim response programs; and,
  - o programs designed to reduce the level of domestic violence or to provide counseling for domestic violence victims.

The only legislative change to state contributions occurred during the State's 2011-2013 biennium, in which distributions were temporarily reduced by 3.4 percent.

In 2015, Kirkland received \$22,000 under the Population Distribution and \$81,000 under the Special Programs Distribution. The amount for the Special Programs Distribution funds a

Family/Youth Advocate. This revenue grows consistently each year, largely due to increases in the Fiscal Growth Factor.

### **Court Salary Contributions: \$22,000 in 2015**

In 2005, the state increased existing court fees, added several new fees, and directed the increased revenue to the state General Fund. Of this increased revenue, fifty percent is appropriated to the State Court Administrator to be distributed to local jurisdictions to pay a portion of district court judges' and eligible elected municipal court judges' salaries. It is distributed on the basis of eligible judge FTEs in each court as a proportion of eligible judge FTEs statewide.

Kirkland's distribution was \$22,000 in 2015. This distribution has not been altered legislatively since its original adoption; fluctuations in 2009 and 2010 occurred due to a change in payment frequency by the state, from an annual to quarterly distribution. Fluctuations can occur year-to-year as the pool of eligible judges statewide is not constant.

### **Fire Insurance Premium Tax: \$92,000 in 2015**

Washington levies a 2 percent tax on most insurance premiums. Of the revenue it collects from fire insurance premiums, it distributes 25 percent to cities, towns, and fire protection districts to be used for firefighter pension funds. The state distributes this money according to the number of paid firefighters in each city, town, or fire protection district as a percentage of paid firefighters in the state. In the state's 2015 fiscal year, the total amount shared with cities/districts was \$4.4 million, of which Kirkland received \$92,000.

According to Milliman, the contracted actuary that conducted the most recent assessment of Kirkland's Firefighter's Pension Fund, the fund is actuarially fully funded to meet its obligations. As such, Milliman has advised that the City can use a portion of the monies in the Firefighter's Pension Fund to pay a portion of ongoing retired Firefighter health care costs. Therefore, the monies received from the state are also used to help offset a portion of this cost, which totaled \$643,170 in 2015.

The State Legislature's recently adopted Supplemental Operating Budget, changed the allocation methodology for this shared revenue, which would have eliminated Kirkland's distribution. This provision was ultimately vetoed by the Governor.

### **Impaired Driving – DUI: \$12,500 in 2015**

In 1998, the State created an Impaired Driving Safety Account, into which it deposits 63 percent of fees charged to reissue licenses that were suspended as the result of operating motor vehicles under the influence of alcohol or other drugs. Expenditures from this account are used for projects to reduce impaired driving and to "provide funding to local governments for costs associated with enforcing laws relating to driving and boating while under the influence of intoxicating liquor or any drug."

Of the 63 percent of fee revenues deposited into the Impaired Driving Safety Account, 60 percent is distributed to counties and 40 percent is distributed to cities according to population. In 2015, Kirkland received \$12,500.

### **Liquor Excise Tax: \$255,000 in 2015**

The state levies a separate Liquor Excise Tax, in the form of a sales tax, on both the retail sale of liquor (20.5 percent) and the sale of liquor at bars and restaurants (13.7 percent). The state deposits 35 percent of the revenues from these taxes, into the Liquor Excise Tax Fund to make the following distributions:

- \$10 million annually to the state General Fund; and of the remainder:
  - o 20 percent to counties; and,
  - o 80 percent to cities distributed according to population.

The state has legislated changes to distribution in the past, most notably in 2012 and 2013, in which quarterly distributions to cities and counties were not made in October 2012 or January, April, and July of 2013. Additionally, during the 2013-2015 biennium, just 22.5 percent of liquor sales tax revenues were diverted to the Liquor Excise Tax Fund as opposed to 35 percent. The State's 2015-2017 Biennial Budget returned the distribution to 35 percent. According to the MRSC's 2016 Budget Suggestions document, as a result of this change, the total distribution to cities will increase from \$15.5 million in the 2015 state fiscal year to \$25.3 million in the 2016 state fiscal year.

Kirkland's Liquor Excise Tax Revenue decreased significantly after 2012 from \$298,000 to \$55,000 in 2013, as a result of the cuts mentioned above. Revenues have since increased to \$154,000 in 2014 and \$225,000 in 2015, due to the partial impact of the return to the 35 percent distribution (the first half of the states 2016 fiscal year coincides with the end of Kirkland's 2015 fiscal year). As 2016 is the first full fiscal year in which the various state cuts to Liquor Excise distribution are no longer in effect, revenues should rebound to near 2012 levels. During the mid-biennial budget deliberations, the Council dedicated this additional revenue in 2016 (\$243,000) to fund a portion of the annual contributions to the Public Safety Sinking Fund.

### **Liquor Profits: \$724,000 in 2015**

The privatization of liquor stores in Washington led to several changes to the tax code. The state now collects license fees from both retailers and distributors. Retailers pay 17 percent on total liquor revenues and an annual renewal fee of \$160, while distributors pay 10 percent on total liquor revenues and an annual renewal fee of \$1,320 for each licensed location. The state changed the distribution of these revenues, mandating that each category of recipients from the Liquor Revolving Fund (border areas, counties, cities/towns, and the MRSC) shall receive no less than the amount received during comparable periods prior to privatization, but does not mandate any growth of those distributions. After distributions to the MRSC, the state now distributes \$39,438,000 to counties, cities/towns, and border areas. The state distributes an additional \$10 million from the new licensing fee revenues for the enhancement of public safety programs, bringing the total distributions for counties, cities/towns, and border areas to \$49,438,000. Border areas receive 0.3 percent of these funds, and of the remainder, cities receive 80 percent, while counties receive 20 percent. The money to both cities and counties is distributed according to population.

As the current law only creates a floor for the amount to be distributed by the state, and does not mandate any planned growth of the Liquor Profits distribution, the state has only distributed

the minimum required since 2013. Liquor Profits are likely to increase as time goes on, meaning that the state is holding onto a greater portion of Liquor Profits year after year.

In terms of Kirkland's revenues, income more than doubled from 2011 to 2012, increasing from \$391,000 to \$806,000. There are two factors contributing to this increase, one being the new tax code, the other being the annexation of Juanita, Kingsgate, and Finn Hill. Though Kirkland's population did not double with annexation, the additional \$10 million distributed by the state in conjunction with annexation meant that Kirkland's total revenues under state shared Liquor Profits more than doubled.

### **Marijuana Enforcement: \$9,600 in 2015**

When the state legalized recreational marijuana in 2012, it initially imposed a 25 percent tax at each level from producer to retailer. Over the first two years, the state did research and decided the initial tax policy was excessively burdensome for the industry. Starting in 2015, the state changed the tax on marijuana to a 37 percent excise tax at the point of sale. The state also changed the distribution method. For the 2015-2017 biennium, the state distributes \$6 million a year to counties and cities. Counties that have not prohibited the production, processing, or sale of marijuana receive 60 percent of this appropriation. It is distributed according to the total taxable sales of marijuana products (medical marijuana is not taxed) in the prior fiscal year in each county. The remaining 40 percent is distributed to eligible cities by the same criteria. Kirkland received \$9,600 in 2015, which was the first distribution the City received.

Starting in the State's 2018 fiscal year, if marijuana excise tax collections deposited into the State's General Fund in the prior fiscal year exceeds \$25 million, then the legislature must appropriate 30 percent of all marijuana excise taxes deposited into the State General Fund from that year to be distributed to counties, cities, and towns.

### **Motor Vehicle Fuel Tax (MVFT): \$1.7 million in 2015**

The state imposes a tax on motor vehicle fuel and special fuels that is currently 44.5 cents per gallon, and scheduled to increase by 4.9 cents per gallon beginning on July 1, 2016. Revenues from these taxes are deposited into the Motor Vehicle Fund. After paying refunds and administrative expenses, the state distributes 10.6961 percent of the remaining fund to cities and towns. From that portion, the state deducts 2.83 percent for various other transportation programs, as well as an amount necessary to pay for the state's annual cost-audit of all street records for each city and town. The state distributes the remainder on a monthly basis to cities according to population.

In 2015, the state collected \$1.23 billion in Motor Fuels taxes, of which approximately \$127.8 million was distributed to cities. In 2015, Kirkland's portion was \$1.7 million. These revenues are deposited into the Street Operating Fund. After the Annexation Sales Tax Credit, this is the second largest portion of state shared revenue Kirkland receives. The state has not changed of this distribution to cities, either temporarily or on a permanent basis.

### **Multimodal Transportation: \$25,000 in 2015**

The state started this distribution in 2015 to share a portion of additional revenues raised as a result of the new transportation package. It allocated a total of \$11.7 million to be distributed in

the 2016 and 2017 fiscal years, and bumped that figure up to \$25.1 million in 2018 and thereafter. This amount is split evenly between counties and cities. The portion to cities is distributed according to population. Kirkland is expected to receive \$89,000 annually under the initial distribution, and \$190,000 annually after the 2018 increase. These revenues are deposited in the Street Operating Fund and are used to fund Transportation projects in the six year Capital Improvements Program.

### **Streamlined Sales and Use Tax Mitigation: \$91,000 in 2015**

The Streamlined Sales and Use Tax Agreement changed the distribution of sales tax revenue to the locality in which sales were delivered, rather than the locality from which they were shipped. As a result, localities with large commercial shipping/distribution centers lost significant amounts of sales tax revenue. To compensate for this, the state created the Streamlined Sales and Use Tax Mitigation Account into which it annually deposits, from the General Fund, the amount required to mitigate net losses under the aforementioned agreement. From July 2008 through December 2009, the state performed a study to determine the net loss for each city. The state used the net loss figure for each city as the baseline for mitigation payments. This baseline payment is designed to decrease over time as the state reduces payments every year by an offset amount that accounts for additional revenue resulting from new retailers opting into the program. In addition, the state temporarily reduced distributions by 3.4 percent in the 2011-2013 biennium.

Kirkland's portion of this revenue was \$91,000 in 2015, which has decreased steadily since the inception of the mitigation payment. There were early fluctuations in revenue under this provision, but it was nothing more than administrative bumps as the state implemented the new program. As new retailers opt into the program, the state adjusts the mitigation payments downward, which will eventually result in a reduced payment over time.

### **LEOFF Plan 2 Contribution**

Since 1977, the state has funded 20 percent of the annual contribution rate of the LEOFF 2 retirement system. The LEOFF Plan 2 Board is authorized to set contribution rates based on an actuarial analysis of the plan in odd-numbered years. The rates are effective for the next biennium. An appropriation is made in the operating budget of the Department of Retirement Systems (DRS) to pay 20 percent of the contribution rate on a monthly basis for each member of the plan. The DRS pays this amount *to the LEOFF Plan 2 Fund on behalf of cities and fire districts*, thus cities themselves do not receive these funds. In 2015, the state contributed \$710,000 to the LEOFF Plan 2 Fund on behalf of Kirkland.

### **Conclusion**

In 2015 state shared revenues composed 4.23 percent of Kirkland's total revenues, and 8.39 percent of General Fund revenues. The Annexation Sales Tax Credit accounts for 4.34 percent of General Fund revenues. The following table displays a ten year history of collections.

<b>Kirkland's State Shared Revenue 10 Year History</b>											
<b>Revenue</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Total</b>
Annexation Sales Tax	-	-	-	-	-	1,088,061	3,543,431	3,787,395	3,763,633	3,864,058	<b>16,046,577</b>
CJ – Population	8,717	9,319	9,879	10,441	10,938	12,632	18,218	19,596	21,016	22,069	<b>142,824</b>
CJ – Special Programs	34,415	36,373	38,096	39,860	41,434	47,688	68,492	72,938	77,868	80,860	<b>538,025</b>
Court Salary Contribution	-	19,571	24,348	17,667	28,507	22,468	22,632	22,796	22,503	21,878	<b>202,370</b>
Fire Insurance Premium	55,586	68,210	70,929	67,634	74,559	77,880	79,217	91,513	97,205	91,852	<b>774,586</b>
DUI	7,602	10,891	8,653	15,835	9,113	11,864	15,111	14,804	14,715	12,512	<b>121,101</b>
Liquor Excise	196,184	215,056	230,506	236,566	243,575	279,788	297,734	54,584	153,576	224,855	<b>2,132,424</b>
Liquor Profits	296,804	345,310	323,675	333,110	393,203	391,968	806,344	732,422	726,201	723,679	<b>5,072,716</b>
Marijuana Excise Tax	-	-	-	-	-	-	-	-	-	9,582	<b>9,582</b>
Multimodal Transportation*	-	-	-	-	-	-	-	-	-	25,089	<b>25,089</b>
MVFT*	723,010	632,775	570,499	519,140	519,707	652,075	1,101,891	1,684,424	1,685,795	1,740,336	<b>9,829,653</b>
Sales Tax Mitigation	-	-	74,548	215,697	115,815	105,458	99,929	95,577	89,180	91,429	<b>887,633</b>
<b>Total</b>	<b>1,322,319</b>	<b>1,337,506</b>	<b>1,351,133</b>	<b>1,455,950</b>	<b>1,436,851</b>	<b>2,689,881</b>	<b>6,052,998</b>	<b>6,576,050</b>	<b>6,651,693</b>	<b>6,908,198</b>	<b>35,782,579</b>

\*Multimodal and MVFT revenues are deposited into the Street Operating Fund