



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

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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 18, 2015

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

The purpose of this memo is to provide a brief overview of the year-to-date 2015 financial results and an update of the City's Price of Government using actual revenue data and update personal income growth rates.

## FINANCIAL STATUS

The Financial Management Report (FMR) provides a review of revenue and expenditure performance for the first quarter of 2015 (Attachment A). The April dashboard report provides high level monitoring of the General Fund revenues and expenditures status and a few key revenue and expenditure indicators across funds that are especially important to watch. The following are a few highlights from the April dashboard report (Attachment B):

- Total **General Fund revenues** are at 35 percent of the budget through April, one third of the way through the year. Overall revenue trends are positive; total General Fund revenue through April is 10.4 percent ahead of the same period last year. Sales tax revenues are marginally ahead of forecast and last year's number, while utility taxes are lagging due to lower usage of electricity and gas during the mild winter. Development fees are outperforming budget and prior year levels and business license fees are similarly outpacing last year's results. Gas taxes, which are collected on a per gallon basis, are slightly below target at 31.5 percent of budget, though they are 1.4 percent ahead of 2014.
- Overall, **General Fund expenditures** are 32.4 percent of budget through April. This is slightly under the tracking percentage of 33.33 percent for the first four months of the year. This margin is considered within the expected range for budget monitoring.

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 2.4 percent compared to the same period in 2014, with increases in the service, and retail sectors (particularly automotive sales) leading the way. In contrast, the Contracting category has yet to find its footing this year and is 3.7 percent below last year's collection through April. This is at least partially due to the impact of large payments received in the first quarter of last year. As discussed above, development activity remains strong, so it is possible that Contracting will turn positive in the months ahead.

Based on current financial status through the first four months of the year, trends we are tracking include:

- Utility tax collections underperforming due to lower usage during the mild winter; and,
- Fire Suppression overtime exceeding expected amounts due to the impact of ensuring minimum staffing while 5 recruits are in the fire academy and backfill of two battalion chiefs that have been on medical leave/light duty. The five new firefighters started in April, so this backfill cost will not continue. Note that \$200,000 has been set aside in reserves that can be used to mitigate the impacts if the overage is not covered with salary savings by year end.

Looking ahead, we are currently assessing the mid-term impacts of the Totem Lake and Park Place redevelopment projects, with particular attention to assessing and balancing the revenue impacts during construction, including:

- Revenue impacts from lost activity from existing businesses during construction, and;
- Potential one-time REET and construction sales tax revenues.

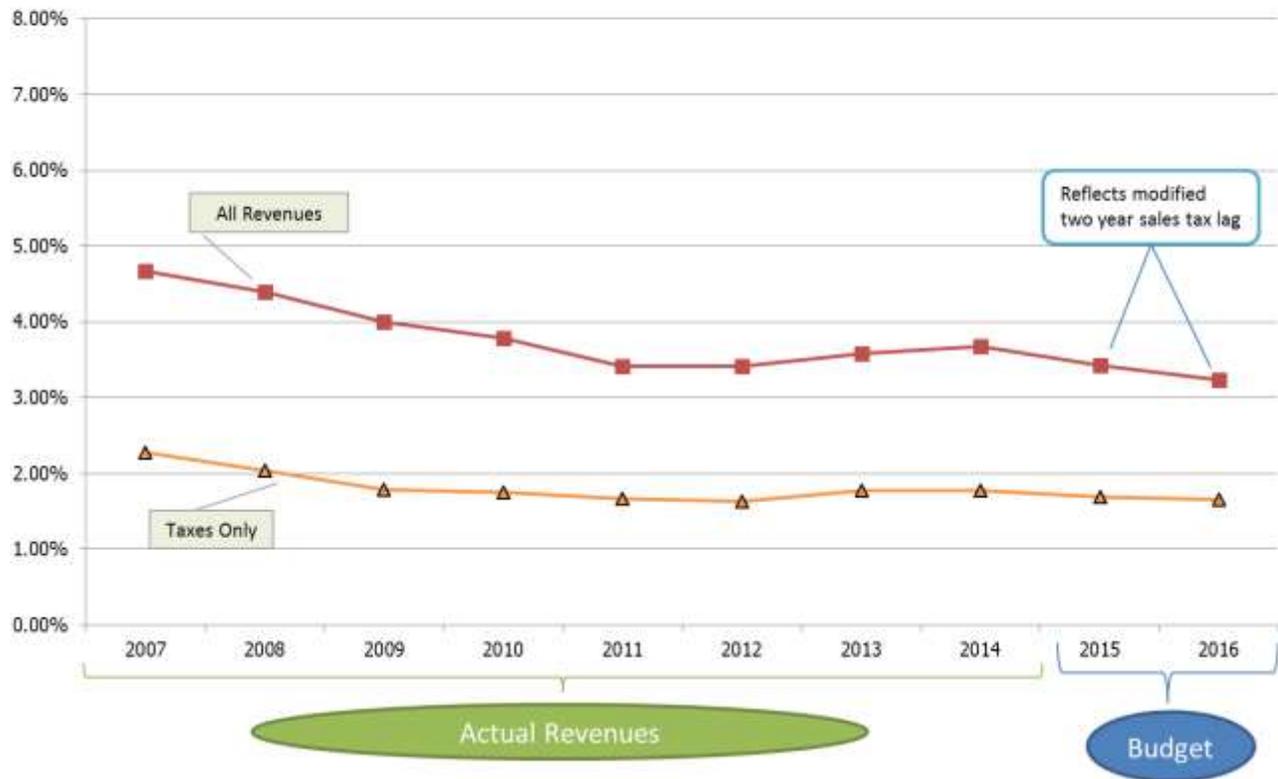
Staff will bring back recommendations on setting aside one-time revenues to help mitigate the short term revenue losses and or risks related to Totem Lake debt as part of the mid-biennial budget process.

## **PRICE OF GOVERNMENT UPDATE**

The Price of Government chart was included in the 2015-2016 budget process as a measure of affordability. It is a comparison of the revenues from taxes and fees of the government to the aggregate personal income level of the City's constituents. In general terms, the calculation is used to help define a band in which residents are willing to pay for government services. The typical range for local governments is between 5 percent and 6 percent. The Price of Government graph in the Budget Message reflected actual revenue data for 2007-2013, 2014 estimates, and the 2015-2016 preliminary budget. The personal income data reflected projections based on the Washington State Economic and Revenue Forecast Council personal income growth forecast. The adopted 2015-2016 budget and 2014 actual revenues are now available, as well as a new personal income growth forecast.

The overall result has not changed significantly. The projections remain just above 3 percent, well below the 5 to 6 percent normal range cited in the literature. Note that 2015 and 2016 include the modified two-year lag for sales taxes, which means actual results are likely to be higher if current trends continue. Also, if actual revenues exceed the budget due to economic recovery, the price of government will go up without any increase in tax rates or fees. Similarly, if personal income growth exceeds revenue growth the price of government will go down. As a result, this broad metric should be viewed as a trend indicator and in context with other measures, such as the quadrant chart and the forecast.

**The Price of Government**  
**City of Kirkland, Washington**  
(Revenue as a percent of Aggregate Personal Income)



**CONCLUSION**

Overall financial performance is positive. Total revenue growth is within expected ranges, and expenditures are below budget. Sales taxes are no longer growing at the rapid pace seen in recent years, and have now settled into more moderate growth. Items to track in the months ahead include fire suppression overtime and utility tax collections trends. Affordability, as measured by the Price of Government, remains below 4 percent. The next major financial review by the Council will be the mid-biennial budget process that will begin in September and result in an amendment to the budget by the end of 2015.



# Financial Management Report as of March 31, 2015

## AT A GLANCE:

Kirkland receives an award for constructing a more environmentally friendly road (page 2 sidebar)

2015 first quarter general fund revenues increased 5% over 2014 (page 3)

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

Unemployment continues to decrease, inflation is low 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 **4.6 percent ahead** of 2014, an increase of \$902,069. Most of the increase came from Charges for Services which were 39.6 percent higher due to increased collections for Engineering Services, Plan Check fees, and Planning Fees. Actual revenues finished the first quarter **at 22.2 percent** of budget, 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.
  - Other General Government Funds** revenue finished the quarter **2.3 percent higher** than 2014, up \$103,763. The Facilities Maintenance Fund led the way with 30.4% year over year, primarily due to the impact of new internal service charge revenue from operations at the Kirkland Justice Center. Lodging tax followed with an increase of 24.1. Actual revenue for total other general government operating funds, excluding interfund transfers was **17.1 percent** of budget. Street Operating, Parks Levy, and Parks Maintenance revenues from property taxes are primarily collected in April and October. Equipment Rental revenues were down 0.9 percent from 2014. This is likely due to the timing of rental fees paid to fleet that will pay for large purchases. The equipment rental revenue budget was also increased 33.5 percent for 2015 to include the purchase and maintenance of a fire truck.
  - Water/Sewer Operating Fund** first quarter revenue is **up 9.9 percent** over 2014. Actual revenue for the quarter was **23.5 percent of budget** which is higher than the last two years. This is primarily due to increased water/sewer rates which were 4.9 and 4.1 percent respectively. In addition to the rate increase, water connections are also up 1 percent over 2014.
  - Surface Water Management Fund** revenues finished March at **7.9 percent of budget**. Revenues in the first quarter of 2015 were **29.0 percent higher** than they were in 2014. 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 **25.3 percent of budgeted revenues**. This is **4.2 percent higher** than 2014, due to growth in commercial collections.
- Overall, first quarter utility fund revenues were **up 8.7 percent** compared to 2014, and finished March at **21.3 percent of budget**.

Resources by Fund	Year-to-Date Actual			Budget			% of Budget	
	3/31/2014	3/31/2015	% Change	2014	2015	% Change	2014	2015
<b>General Gov't Operating:</b>								
General Fund	18,135,679	18,970,247	4.6%	78,716,413	85,638,564	8.8%	23.0%	22.2%
Other General Gov't Operating Funds	4,448,751	4,552,513	2.3%	24,773,970	26,611,765	7.4%	18.0%	17.1%
<b>Total General Gov't Operating</b>	<b>22,584,429</b>	<b>23,522,761</b>	<b>4.2%</b>	<b>103,490,383</b>	<b>112,250,329</b>	<b>8.5%</b>	<b>21.8%</b>	<b>21.0%</b>
<b>Utilities:</b>								
Water/Sewer Operating Fund	5,647,484	6,204,436	9.9%	24,341,974	26,406,995	8.5%	23.2%	23.5%
Surface Water Management Fund	586,545	756,565	29.0%	9,460,539	9,559,416	1.0%	6.2%	7.9%
Solid Waste Fund	4,023,092	4,190,927	4.2%	15,898,408	16,412,340	3.2%	25.3%	25.5%
<b>Total Utilities</b>	<b>10,257,120</b>	<b>11,151,928</b>	<b>8.7%</b>	<b>49,700,921</b>	<b>52,378,751</b>	<b>5.4%</b>	<b>20.6%</b>	<b>21.3%</b>
<b>Total All Operating Funds</b>	<b>32,841,550</b>	<b>34,674,688</b>	<b>5.6%</b>	<b>153,191,304</b>	<b>164,629,080</b>	<b>7.5%</b>	<b>21.4%</b>	<b>21.1%</b>

## Achievement for More Environmentally Friendly Roads

Greenroads, an international environmental organization based in Seattle formed in 2010 to advocate for more sustainable roads and bridge construction practices, awarded the City of Kirkland on April 24 with the highest rating it has ever administered. Kirkland's Northeast 120th Street project received the silver certification for earning 46 out of the organization's 118 total points.

"Other projects have rated Greenroads Silver, but no project has earned 46 points," said Dr. Jeralee Anderson, Executive Director of Greenroads. "The City of Kirkland made a commitment right from the start to make this as green as possible and it shows. That's a testament to Kirkland's commitment to sustainability."

Kirkland earned 46 points by leveraging several opportunities to reduce the 880-foot road extension's environmental burden. Examples include L.E.D. street lighting, reused pavement for backfill, and using warm-mix asphalt rather than hot-mix asphalt. To protect Totem Lake from the gushes of stormwater, Kirkland used trees to soak up some of that stormwater and also built a 270,000-gallon concrete vault to capture and slowly release stormwater.

One of the best ways to reduce the environmental burden of road construction is to build and repave roads less often. Therefore Kirkland chose to use 40-year pavement rather than 20 year pavement at no extra cost to the City. The primary difference between 40-year pavement and 20-year pavement is the pavement's thickness.

The street will also help reduce vehicle emissions by offering residents a variety of ways to travel. The extension features bike lanes and sidewalks on both sides, as well as nearby bus stops.



## Summary of All Operating Funds: *Expenditures*

- General Fund** expenditures (excluding transfers) finished the first quarter of 2015 **up 6.1 percent** from the year before. Actual expenditures finished at **25.2 percent of budget**. Services spending, which **grew by 30.1%** over 2014 actuals, contributed the largest share of the total fund increase. 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 **0.4 percent lower** than 2014 due to savings in Equipment Rental and Information Technology expenditures offsetting higher spending in all other categories. Equipment Rental has lower expenses due to a decline in the number of vehicle replacements scheduled during this time and a decrease in the price of oil and fuel. Information Technology expenditures were 3.6 percent lower than 2014 due to the rental rates decreasing as a result of multiple hires which drive the per FTE rental cost down. Street operating had the highest increase in expenditures due to payments being processed in the first quarter for delayed PSE billing related to street lighting.
- In aggregate, other general government operating funds finished March at **27.5%** of budgeted funds spent which is 4.5 percent higher than 2014. This increase is due to increased spending in facilities maintenance which resulted from an increase in the Facilities Life Cycle Model contributions. In addition, maintenance for the Kirkland Justice Center has been added to the model.
- Water/Sewer Operating Fund** actual expenditures were **6.8 percent lower** than in 2014. The decrease in expenditures was primarily a result of the timing of the King County Metro Sewer payment which did not post until April. If this payment had posted for March Water/Sewer Operating Funds would have finished the first quarter 1.3 percent lower than 2014. In total, the Water/Sewer fund finished March at **23.8 percent of budget**.
  - Surface Water Management Fund** expenditures at the end of the first quarter were **11.1 percent higher** than 2014. Year over year growth was due mostly to the Department of Ecology permit billed in the first quarter and an increase in IT rental rates due the addition of 6.5 departmental FTEs. Expenditures at the end of March were **lower than budgeted, at 13.6 percent of** the yearly budget. All spending categories finished below budget, with under-expenditures for other services contributing the largest share due to the utility services budget being increased in order to increase environmental stewardship activities such as building rain gardens and invasive species mitigation.
  - Solid Waste Fund** expenditures were **1.7 percent higher** in 2015 than in 2014. Small increases in expenditures for the waste disposal contract, personnel, and external taxes were the cause of the overall increase. Expenditures in the fund finished the first quarter at **25.1 percent of budget** which is in line with expected budget expenditures.

Expenditures by Fund	Year-to-Date Actual			Budget			% of Budget	
	3/31/2014	3/31/2015	% Change	2014	2015	% Change	2014	2015
<b>General Gov't Operating:</b>								
General Fund	19,068,405	20,230,105	6.1%	78,255,751	80,222,012	2.5%	24.4%	25.2%
Other General Gov't Operating Funds	4,809,683	4,789,883	-0.4%	21,225,949	23,483,364	10.6%	22.7%	20.4%
<b>Total General Gov't Operating</b>	<b>23,878,089</b>	<b>25,019,988</b>	<b>4.8%</b>	<b>99,481,700</b>	<b>103,705,376</b>	<b>4.2%</b>	<b>24.0%</b>	<b>24.1%</b>
<b>Utilities:</b>								
Water/Sewer Operating Fund	5,777,618	5,382,950	-6.8%	20,601,544	22,623,571	9.8%	28.0%	23.8%
Surface Water Management Fund	1,293,001	1,435,943	11.1%	6,353,316	10,549,379	66.0%	20.4%	13.6%
Solid Waste Fund	3,908,664	3,974,439	1.7%	15,668,380	15,857,007	1.2%	24.9%	25.1%
<b>Total Utilities</b>	<b>10,979,283</b>	<b>10,793,332</b>	<b>-1.7%</b>	<b>42,623,240</b>	<b>49,029,957</b>	<b>15.0%</b>	<b>25.8%</b>	<b>22.0%</b>
<b>Total All Operating Funds</b>	<b>34,857,371</b>	<b>35,813,320</b>	<b>2.7%</b>	<b>142,104,940</b>	<b>152,735,333</b>	<b>7.5%</b>	<b>24.5%</b>	<b>23.4%</b>

### General Fund Revenue

- **Sales tax** revenue allocated to the General Fund in the first quarter of 2015 was **2.2 percent higher** than it was in 2014. The increase is partially due to the \$270,000 street allocation now being taken from business license fees. A detailed analysis of total sales tax revenue can be found starting on page 5.
- **Property tax** finished March **14.2 percent lower** than 2014 due to property tax payments normally received in March being received in April. Most property tax payments are receipted to the City in April and October, therefore this number will likely normalize during the second quarter of 2015.
- **Utility tax** collections finished March 2.7 percent lower than March 2014 at **26.0 percent** of budget due to mild weather which resulted in a decline in electricity usage and gas.
- **Other taxes** actual revenues was **24.2 percent lower** than in 2014. This is due mainly to increased 2014 revenues from a higher level of card game winnings being receipted to the City. Punch board and pull tabs and leasehold tax were also elevated in 2014.
- The **business licenses (base fee) and franchise fees** were **1.3 percent** higher than in 2014 and finished March at **24.9 percent**.
- Collections from the **revenue generating regulatory license fee** were **3.4 percent higher** than in 2014. Revenues were at **30 percent of budget**. 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** finished the quarter **up 101.2 percent** and **Building, Structural and Equipment permits** were **down 9.4 percent** compared to 2014. **Planning fees** revenue **increased 98.6 percent**, while **Engineering Services** collected **221.5 percent more** than 2014. High gains are present in planning fees and engineering services this quarter due to the Google Campus Phase 2 Expansion. Building permit revenue valuations do not reflect this project yet due to the order sequence of city planning, engineering, and building permit processes.
- **Fines and Forfeitures** were **down 9.8 percent from 2014** due to a decrease in civil traffic fines. This revenue source finished March at **15.7 percent**. However, traffic infraction penalties are not receipted 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 **6.0 percent down** from 2014 due to last year having a larger insurance recovery payment than normal. This category was **below budget projections at 22.9 percent of budget**. The underperformance in this category will continue to be monitored. The expectation is that revenue will increase as insurance recoveries are received as well as various other miscellaneous revenues that cannot be categorized into other revenue streams.

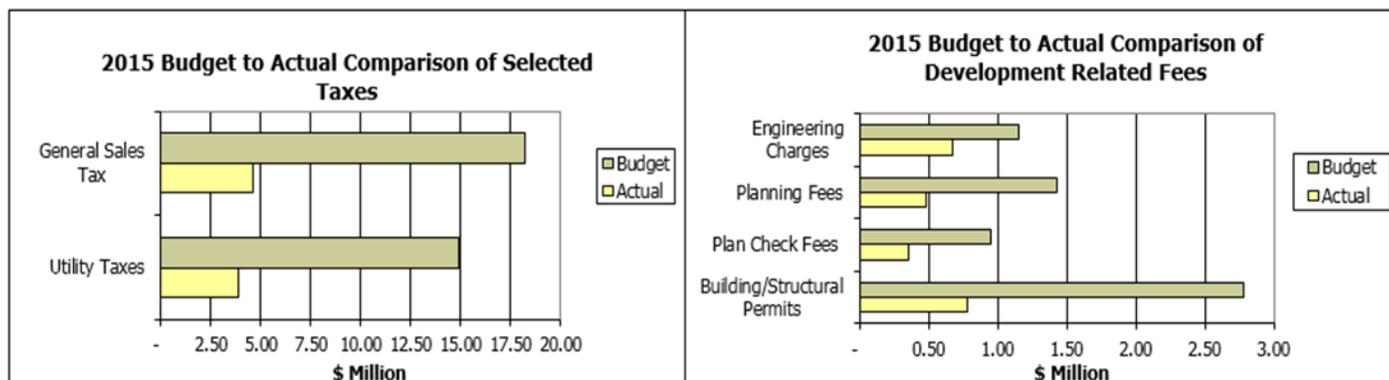
General Fund revenues ended the first quarter \$902,069 higher than in 2014 largely due to growth in charges for services.

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 436 of the City's 574 regular employees are budgeted within the general fund this year.

General Fund Resource Category	Year-to-Date Actual			Budget			% of Budget	
	3/31/2014	3/31/2015	% Change	2014	2015	% Change	2014	2015
<b>Taxes:</b>								
Retail Sales Tax: General	4,482,143	4,581,769	2.2%	15,263,571	18,230,397	19.4%	29.4%	25.1%
Retail Sales Tax Credit: Annexation	1,054,952	1,081,700	2.5%	3,415,626	3,792,500	11.0%	30.9%	28.5%
Retail Sales Tax: Criminal Justice	481,247	517,827	7.6%	1,666,973	2,036,370	22.2%	28.9%	25.4%
Property Tax	1,129,825	969,224	-14.2%	16,953,959	17,456,855	3.0%	6.7%	5.6%
Utility Taxes	3,983,547	3,877,205	-2.7%	14,779,443	14,895,606	0.8%	27.0%	26.0%
Rev Generating Regulatory License	678,254	701,424	3.4%	2,351,285	2,338,315	-0.6%	28.8%	30.0%
Other Taxes	469,097	355,358	-24.2%	1,073,303	1,063,075	-1.0%	43.7%	33.4%
<b>Total Taxes</b>	<b>12,279,065</b>	<b>12,084,506</b>	<b>-1.6%</b>	<b>55,504,160</b>	<b>59,813,118</b>	<b>7.8%</b>	<b>22.1%</b>	<b>20.2%</b>
<b>Licenses &amp; Permits:</b>								
Building, Structural & Equipment Permits	865,707	784,160	-9.4%	2,029,631	2,778,063	36.9%	42.7%	28.2%
Business Licenses/Franchise Fees	1,114,872	1,129,482	1.3%	4,297,593	4,532,649	5.5%	25.9%	24.9%
Other Licenses & Permits	163,503	165,925	1.5%	327,848	379,955	15.9%	49.9%	43.7%
<b>Total Licenses &amp; Permits</b>	<b>2,144,082</b>	<b>2,079,567</b>	<b>-3.0%</b>	<b>6,655,072</b>	<b>7,690,667</b>	<b>15.6%</b>	<b>32.2%</b>	<b>27.0%</b>
<b>Intergovernmental:</b>								
Grants and Federal Entitlements	13,899	75,074	440.1%	54,421	127,815	134.9%	25.5%	58.7%
State Shared Revenues & Entitlements	292,580	279,502	-4.5%	1,237,172	1,098,514	-11.2%	23.6%	25.4%
EMS	-	-	N/A	884,645	902,338	2.0%	N/A	N/A
<b>Total Intergovernmental</b>	<b>306,479</b>	<b>354,576</b>	<b>15.7%</b>	<b>2,176,238</b>	<b>2,128,667</b>	<b>-2.2%</b>	<b>14.1%</b>	<b>16.7%</b>
<b>Charges for Services:</b>								
Internal Charges	1,273,223	1,441,417	13.2%	5,717,970	6,072,987	6.2%	22.3%	23.7%
Engineering Services	208,880	671,540	221.5%	689,483	1,156,000	67.7%	30.3%	58.1%
Plan Check Fee	174,123	350,410	101.2%	1,189,607	951,346	-20.0%	14.6%	36.8%
Planning Fees	243,036	482,681	98.6%	775,550	1,427,149	84.0%	31.3%	33.8%
Recreation	402,560	475,681	18.2%	1,160,300	1,195,800	3.1%	34.7%	39.8%
Other Charges for Services	472,203	450,240	-4.7%	2,190,907	1,980,204	-9.6%	21.6%	22.7%
<b>Total Charges for Services</b>	<b>2,774,026</b>	<b>3,871,969</b>	<b>39.6%</b>	<b>11,723,817</b>	<b>12,783,486</b>	<b>9.0%</b>	<b>23.7%</b>	<b>30.3%</b>
<b>Fines &amp; Forfeits</b>	<b>380,788</b>	<b>343,446</b>	<b>-9.8%</b>	<b>1,929,999</b>	<b>2,189,359</b>	<b>13.4%</b>	<b>19.7%</b>	<b>15.7%</b>
<b>Miscellaneous</b>	<b>251,239</b>	<b>236,184</b>	<b>-6.0%</b>	<b>727,127</b>	<b>1,033,267</b>	<b>42.1%</b>	<b>34.6%</b>	<b>22.9%</b>
<b>Total Revenues</b>	<b>18,135,679</b>	<b>18,970,247</b>	<b>4.6%</b>	<b>78,716,413</b>	<b>85,638,564</b>	<b>8.8%</b>	<b>23.0%</b>	<b>22.2%</b>
<b>Other Financing Sources:</b>								
Interfund Transfers	-	-	N/A	270,323	333,760	23.5%	N/A	N/A
<b>Total Other Financing Sources</b>	<b>-</b>	<b>-</b>	<b>N/A</b>	<b>270,323</b>	<b>333,760</b>	<b>23.5%</b>	<b>N/A</b>	<b>N/A</b>
<b>Total Resources</b>	<b>18,135,679</b>	<b>18,970,247</b>	<b>4.6%</b>	<b>78,986,736</b>	<b>85,972,324</b>	<b>8.8%</b>	<b>23.0%</b>	<b>22.1%</b>

General Fund Revenue *continued*

## General Fund Expenditures

General Fund Department Expenditures	Year-to-Date Actual			Budget			% of Budget	
	3/31/2014	3/31/2015	% Change	2014	2015	% Change	2014	2015
Non-Departmental	318,882	558,983	75.3%	1,447,774	2,856,258	97.3%	22.0%	19.6%
City Council	196,192	198,670	1.3%	457,470	461,013	0.8%	42.9%	43.1%
City Manager's Office	491,044	430,510	-12.3%	1,951,468	1,909,431	-2.2%	25.2%	22.5%
Municipal Court	553,705	603,751	9.0%	2,301,428	2,410,401	4.7%	24.1%	25.0%
Human Resources	331,764	364,995	10.0%	1,451,068	1,428,029	-1.6%	22.9%	25.6%
City Attorney's Office	341,352	337,596	-1.1%	1,384,479	1,212,975	-12.4%	24.7%	27.8%
Parks & Community Services	1,695,767	1,832,467	8.1%	7,752,416	7,785,508	0.4%	21.9%	23.5%
Public Works (Engineering)	1,127,375	1,270,884	12.7%	5,079,098	5,072,721	-0.1%	22.2%	25.1%
Finance and Administration	1,290,816	1,127,345	-12.7%	4,874,055	4,780,910	-1.9%	26.5%	23.6%
Planning & Community Development	886,832	1,117,946	26.1%	3,871,077	4,042,360	4.4%	22.9%	27.7%
Police	5,919,658	6,086,378	2.8%	24,447,897	24,628,920	0.7%	24.2%	24.7%
Fire & Building	5,915,019	6,300,580	6.5%	23,237,521	23,633,486	1.7%	25.5%	26.7%
<b>Total Expenditures</b>	<b>19,068,405</b>	<b>20,230,105</b>	<b>6.1%</b>	<b>78,255,751</b>	<b>80,222,012</b>	<b>2.5%</b>	<b>24.4%</b>	<b>25.2%</b>
<b>Other Financing Uses:</b>								
Interfund Transfers	622,200	533,011	-14.3%	4,915,588	6,879,142	39.9%	12.7%	7.7%
<b>Total Other Financing Uses</b>	<b>622,200</b>	<b>533,011</b>	<b>-14.3%</b>	<b>4,915,588</b>	<b>6,879,142</b>	<b>39.9%</b>	<b>12.7%</b>	<b>7.7%</b>
<b>Total Expenditures &amp; Other Uses</b>	<b>19,690,605</b>	<b>20,763,116</b>	<b>5.4%</b>	<b>83,171,339</b>	<b>87,101,154</b>	<b>4.7%</b>	<b>23.7%</b>	<b>23.8%</b>

## Comparing 2015 and 2014 expenditures:

In 2015, excluding interfund transfers, General Fund expenditures were **6.1 percent higher** than 2014, however, this increase was anticipated for the first quarter as expenditures were **25.2 percent** of budget. Specific reasons for increased expenditures are highlighted below:

- Expenditures for **Non-departmental** were **up 75.3 percent** due to a large legal settlement payment to AT&T mobility. Despite this increase, Non-departmental finished the first quarter below **budget expectations at 19.6 percent**. This is due to a re-categorization of legal services into the non-departmental budget. Currently public defense services are being paid out of the City Attorney's Office.
- Actual **Interfund Transfers** finished the first quarter down **14.3 percent** from 2014 because of significantly lower debt service due to the retirement of the parking garage General Obligation Bond.
- Actual 2015 expenditures for the **City Council increased 1.3 percent** from 2014. Increased spending for car allowances, as authorized by the Salary Commission beginning in 2015, is partially offset by a decrease in IT rental charges.
- The **City Manager's Office** finished the first quarter **down 12.3 percent** from 2014 with 22.5 percent of budget expended. This is 1.9 percent lower than 2014 mostly due to a decrease in spending on professional services and neighborhood planning as well as a decrease in interdepartmental IT rental payments due to lowered per FTE IT rental rates.
- First quarter expenditures for the **Parks & Community Services Department** were **up 8.1 percent** from 2014 due mainly to increases in human service expenditures as well as increases in parks maintenance costs. Parks and Community Services finished the first quarter below expected expenditures at **23.5 percent of budget**.
- Planning and Community Development** finished the quarter **26.1 percent above** 2014, with 27.7

Continued on page 5

2015 General Fund actual expenditures (excluding "other financing uses") were 6.1 percent higher than they were in 2014.

## Financial Management Report as of March 31, 2015

percent of the budget expended. Savings in benefits were completely offset by higher expenditures in Rental and Insurance. The Services and Charges subcategory is currently 53.2 percent expended due to liability insurance being paid in full at the beginning of the year. WCIA increased liability insurance for a claims reserve in relation to a land use moratorium.

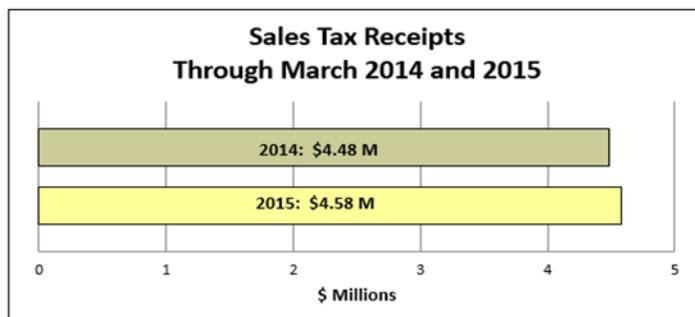
- **Public Works - General Fund** expenditures were **12.7 percent above 2014**. This large increase is mainly due to the impact of the vacant Public Works Director position in 2014 which is now filled. This year also includes an increase in professional services due to the Slalom LLC Consulting project for the development services website architecture.
- **Police** expenditures ended the quarter **2.8 percent above 2014**. Jail contract costs ended the quarter 11.4 percent less than 2014 with 22.0 percent of budget expended. The decrease was due to reduced need to house inmates at third party facilities.
- Expenditures for the **Fire & Building Department** finished the first quarter **6.5 percent above 2014**. However, expenses are only slightly above budget. The increase in expenditures over last year is due to the cost of backfilling five vacant firefighter positions, which are expected to be filled in April by recruits that are currently in the firefighter academy. There are no current vacancy related salary savings since the recruits attending the academy are on the City's payroll during their training. In addition, two Battalion Chiefs are on medical leave and/or light duty and are expected to return to active duty in May.

Summary of Fire District 41 Funds	
2015 Revenues & Expenditures	
Beginning Balance	5,196,781
Investment Interest	-
Expenditures	2,695
<b>Current Balance</b>	<b>\$ 5,194,086</b>

### Sales Tax Revenue Analysis

*Beginning in 2015, a \$270,000 transfer of sales tax revenue to the Street Operating Fund has been replaced by a transfer of business license fees. As such, the collections comparisons discussed in this section will be skewed slightly since the 2014 figures include the impact of this transfer.*

First quarter sales tax revenue was **2.2 percent** higher in 2015 than 2014. This growth in revenue was concentrated in auto/gas retail, services, and general merchandise with auto/gas retail making up the largest single increase. Sales tax revenue received through March is from sales activity between November 2014 and January 2015.



### Review by business sectors:

- **Contracting ended down 2.8 percent** through March compared to 2014. Construction trends were slower than 2014, due to several large commercial and multi-family projects in the first quarter of last year.
- Sales tax from the retail sectors was collectively **up 6.0 percent** compared to 2014.
- **Auto/gas retail** sector was **up 7.2 percent** compared to 2014.
- **General merchandise/miscellaneous retail** sector was **up 6.3 percent** in 2015 compared to 2014 due to positive gains from retailers across the city.
- **Retail eating/drinking** sector performance was **up 7.4 percent** compared to 2014. Revenue increases can be attributed to improved sales at many established restaurants along with the opening of some new establishments over the course of the year.
- **Other retail** was **up 2.9 percent** compared to 2014 due to positive performance across most categories, including internet sales, building & garden stores and food & beverage retailers.
- The **services** sector was **up 6.4 percent** compared to 2014. This increase can be attributed to growth from Administration Support, Accommodation, and Healthcare.
- **Wholesale** revenues were **up 6.4 percent** in 2015, outpacing retail sales in general.
- The **miscellaneous** sector was **down 25.9 percent** in 2015, largely due to a one-time payment received in early 2014.

#### Regional Sales Tax

Bellevue was up 10.8 percent, Redmond was down 6.0 percent through March 2015 compared to March 2014.

#### King County

King County's sales tax receipts were up 0.7 percent through the end of the quarter compared to 2014.

Business Sector Group	YTD		Dollar Change	Percent Change	Percent of Total		Percent of \$ Change
	2014	2015			2014	2015	
Services	567,735	603,927	36,192	6.4%	12.7%	13.2%	36.3%
Contracting	663,803	645,482	(18,321)	-2.8%	14.8%	14.1%	-18.4%
Communications	125,912	126,960	1,048	0.8%	2.8%	2.8%	1.1%
Auto/Gas Retail	1,078,636	1,156,481	77,845	7.2%	24.1%	25.2%	78.1%
Gen Merch/Misc Retail	558,764	593,799	35,035	6.3%	12.5%	13.0%	35.2%
Retail Eating/Drinking	340,801	366,141	25,340	7.4%	7.6%	8.0%	25.4%
Other Retail	613,687	631,666	17,979	2.9%	13.7%	13.8%	18.0%
Wholesale	193,202	205,518	12,316	6.4%	4.3%	4.5%	12.4%
Miscellaneous	339,603	251,795	(87,808)	-25.9%	7.6%	5.5%	-88.1%
<b>Total</b>	<b>4,482,143</b>	<b>4,581,769</b>	<b>99,626</b>	<b>2.2%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

*Kirkland's sales tax base is comprised of a variety of businesses which are grouped and analyzed by business sector (according to "North American Industry Classification System" or NAICS). Nine business sector groupings are used to compare 2014 and 2015 sales tax receipts in the table to the left.*

Month	2014	2015	\$ Change	% Change
January	1,390,304	1,406,662	16,358	1.2%
February	1,800,690	1,783,689	(17,001)	-0.9%
March	1,291,149	1,391,418	100,269	7.8%
<b>Total</b>	<b>4,482,143</b>	<b>4,581,769</b>	<b>99,626</b>	<b>2.2%</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 2015 were 2.2 percent higher than the first quarter of 2014.
- Growth has been sporadic in the early months. In January revenues were up 1.2 percent then fell 0.9 percent in February. March Sales tax rebounded with 7.8 percent month to month growth.

Sales tax revenue growth in the first quarter is primarily due to growth across all sectors but contracting and miscellaneous. Retail/Eating and Drinking saw the largest percentage increase followed closely by Auto/Gas Retail and Services. These growth sectors are heavily dependent on consumer spending and can be sensitive to the wider economic environment.

Miscellaneous and Contracting were collectively down 10.6 percent from 2014. The miscellaneous category is sensitive to delayed tax payments and refunds. Declines in Contracting are due to the timing of large projects in the early months of 2014. The building department reports high levels of permit applications in the first quarter of 2015, so it is possible that the trend will improve in the months ahead.

*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 29.8 percent of the total sales tax receipts in the first quarter, was **up 11.4 percent** from 2014 due to the continued sales growth in the automotive/gas retail sector and repairs & maintenance with mixed 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 14.1 percent of the total sales tax receipts in 2015, was **up 2.6 percent** compared to 2014. This area's sales grew due to improving auto retail and general retail sales. These two retail sectors contribute 82.8 percent of this business district's revenue.

**Downtown**, which accounted for 6.6 percent of first quarter sales tax receipts, was **down 1.8 percent**. Information revenues grew the most out of any sector downtown in 2015, with other sectors being mixed.

**Carillon Point & Yarrow Bay**, which account for 1.6 percent

of the total sales tax receipts, were **down 1.5 percent** compared to 2014. About 64.7 percent of this business district's revenue came from retail eating/drinking and accommodations.

**Houghton & Bridle Trails**, which has produced 2.5 percent of the total sales tax receipts in 2015, were **down 0.2 percent** due to a drop in Retail Eating & Drinking and Personal Services.

**Juanita**, which generated 1.4 percent of the total 2015 sales tax receipts, was **down 8.8 percent** compared to 2014. Revenues were down for retail/eating & drinking and other retail.

**North Juanita, Kingsgate, & Finn Hill** accounted for 3.0 percent of the total sales tax receipts in 2015 and were **down 0.7 percent** over 2014. With growth in Kingsgate and North Juanita being offset by a decline in Finn Hill. Overall, Kingsgate grew the most out of these neighborhoods with growth of 6.4 percent, with North Juanita increasing modestly at 2.9 percent. Finn Hill revenues, however, decreased 10.0 percent; this is due to a one-time impact in 2014.

***Year-to-date tax receipts by business district for 2014 and 2015 are compared in the table on the next page.***

## Financial Management Report as of March 31, 2015

When reviewing sales tax receipts by business district, it's important to be aware that 45.4 percent of the revenues received in 2015 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	Jan - Mar Receipts		Dollar Change	Percent Change	Percent of Total	
	2014	2015			2014	2015
Totem Lake	1,226,477	1,365,877	139,400	11.4%	27.4%	29.8%
NE 85th St	631,912	648,147	16,236	2.6%	14.1%	14.1%
Downtown	305,582	300,229	(5,353)	-1.8%	6.8%	6.6%
Carillon Pt/Yarrow Bay	76,354	75,207	(1,147)	-1.5%	1.7%	1.6%
Houghton & Bridle Trails	114,922	114,719	(203)	-0.2%	2.6%	2.5%
Bridle Trails	47,121	43,339	(3,782)	-8.0%	1.1%	0.9%
Houghton	67,801	71,380	3,579	5.3%	1.5%	1.6%
Juanita	68,934	62,857	(6,077)	-8.8%	1.5%	1.4%
Kingsgate	48,473	51,588	3,115	6.4%	1.1%	1.1%
North Juanita	59,665	61,376	1,711	2.9%	1.3%	1.3%
Finn Hill	28,882	26,005	(2,877)	-10.0%	0.6%	0.6%
Unassigned or No District:						
Contracting	662,403	642,798	(19,605)	-3.0%	14.8%	14.0%
Other	1,258,537	1,232,965	(25,572)	-2.0%	32.6%	31.4%
<b>Total</b>	<b>4,482,142</b>	<b>4,581,769</b>	<b>99,627</b>	<b>2.2%</b>	<b>100.0%</b>	<b>100.0%</b>

**Sales Tax Revenue Outlook** Sales tax growth slowed between the fourth quarter of 2014 and first quarter of 2015 after growing quickly during the first three quarters of 2014. This slowing trend has continued into 2015. However, revenues have remained at record setting levels in dollar terms. Retail and wholesale trade have been the highest contributors to sales tax growth so far this year making up 32.3 percent of first quarter receipts.

**OFFICE VACANCIES:**

According to the latest report from CB Richard Ellis Real Estate Services, Kirkland's office vacancy rate in the first quarter of 2015 was 2.2 percent, significantly lower than the Puget Sound total vacancy rate of 13.0 percent, and an improvement from 2014's vacancy rate of 4.5 percent. Overall the Eastside has become the strongest office market in the Puget Sound region, with an office vacancy rate of 11.1 percent, now equal with downtown Seattle's vacancy rate.

The region currently has 1.7 million square feet of office space under construction, nearly 2.5 times less than this time last year. This includes projects on the Eastside, with over 1.5 million square feet planned in Bellevue and 180,000 in Kirkland. Facebook is contributing 274,000 square feet of new office space in Seattle's Dexter Station.

**LODGING TAX REVENUE:**

Lodging tax revenue grew compared to 2014, finishing the quarter up 24.1 percent, an increase of \$10,401. This meant revenues finished the first quarter at 20.7 percent of budget.

**Economic Environment Update** The Washington State economy continued to expand, adding 31,600 nonfarm jobs in the first quarter of 2015, according to the February 2015 update from the Washington State Economic and Revenue Forecast Council. Migration into Washington is currently the strongest on record according to Department of Licensing data.

The Conference Board's **Consumer Confidence Index** decreased from 103.8 in January to 96.4 in February but rebounded to 101.4 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 the labor market is a concern to consumers as there are a large number of jobs available but the perception that competition for these jobs is high.

The Bureau of Labor Statistics **unemployment data** from March show the seasonally adjusted national rate remained steady at 5.5 percent. Washington State unemployment ended the quarter at 5.9 percent, decreasing from 6.3 percent in February 2015. Local unemployment rates declined for King County, moving from 4.9 percent in February 2015 to 4.1 percent in March 2015. Kirkland's unemployment rate increased slightly from 4.1 percent in January 2015 to 4.2 percent in February 2015. 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 2015. The index was at 61.6 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 3.8 points lower than forecasted.

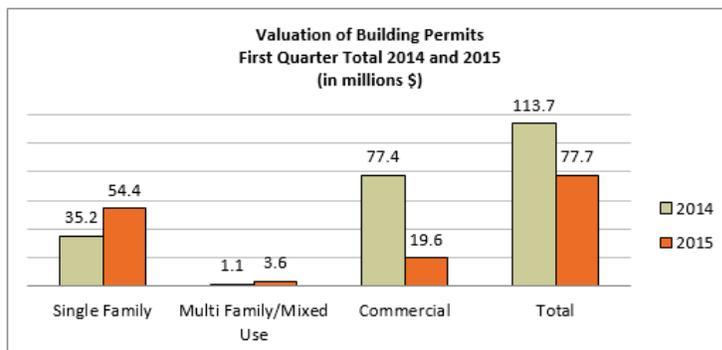
(Continued on page 8)

## Economic Environment Update *continued*

Local **building permitting activity** has dropped 31.7 percent compared to March 2014 largely due to impact of the Google Phase I expansion which was in the first quarter of 2014. Permitting activity has increased in residential building, but dropped significantly in the commercial category. The Google Phase 2 project has gone through the engineering and plan check phase, contributing to revenue growth in those categories. Permit valuation revenue for Google Phase 2 will be reflected in the second quarter report as permitting was obtained in April of this year.

The **housing market** was strong and stable in the first quarter of 2015 with the Case-Shiller housing index for the Seattle metro area remaining at 170.33. The pre-recession peak index score was 192.3 in July 2007. There were 161,000 new housing permits issued in the first quarter of 2015 according to the Washington State Economic and Revenue Council. The sale prices of existing home have remained robust over the past year and were stable during the first quarter, although prices were still 11.4 percent below their 2007 peak.

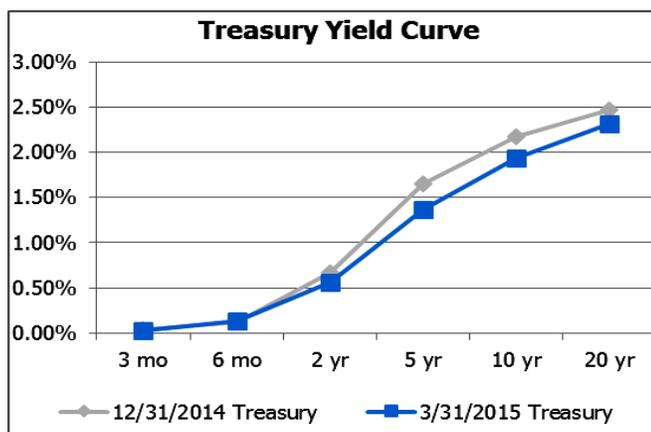
**Inflation** in the Seattle area remained low. In February 2015, the Seattle core CPI increased 1.1 percent compared to the previous February while the national CPI remained steady with 0% year-to-year growth.



## Investment Report

### MARKET OVERVIEW

The economic growth continued at current low levels, very similar to the first quarter in 2014, affected by poor weather in much of the country. The Fed Funds rate remains at 0.25 percent, where it is expected to stay until the fall of 2015. The yield curve flattened slightly as rates in the long end of the curve declined and the short term rates remained nearly unchanged.

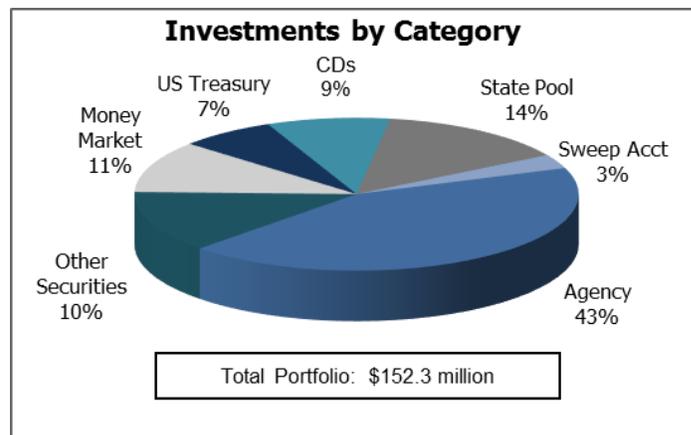


### CITY PORTFOLIO

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 \$4 million in the first quarter of 2015, moving from \$156.5 million on January 1, 2015 to \$152.3

million on March 31, 2015. This is primarily due to increasing the balance in the City’s General Bank Account by \$4 million to cover bank service charges. All funds deposited in the bank are 100% collateralized and covered by the Public Deposit Protection Commission.



### 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, the State Investment Pool and an overnight bank sweep account. 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, 2015**

**2015 ECONOMIC  
OUTLOOK and  
INVESTMENT STRATEGY**

The outlook for growth in the U.S. economy looks the same as that of three months ago, according to 39 forecasters surveyed by the Federal Reserve Bank of Philadelphia. The U.S. economy is expected to grow at an annual rate of 3.2 percent in 2015 and 2.9 percent in 2016. CPI inflation is expected to average 1.9 percent in 2015 and 2.10 percent in 2016. The unemployment rate is expected to average 5.4 percent in 2015 and fall to 5.1 percent in 2016. The Fed Funds rate, currently at 0.25%, is expected to remain at this level into late 2015.

The City's investment advisor, Government Portfolio Advisors (GPA) is currently recommending that the duration of the portfolio be kept unchanged 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 as economic conditions should continue to be strong. GPA also suggests that the portfolio position their maturities for a flattening yield curve. They expect rates to rise modestly with the two year rising more than the five year note.

The State Pool is currently at 0.16% and will continue to remain low as the Fed Funds rate remains at 0.00 to 0.25 percent. Total estimated investment income for 2015 is \$922,000.

**Investment Report *continued***

**Liquidity**

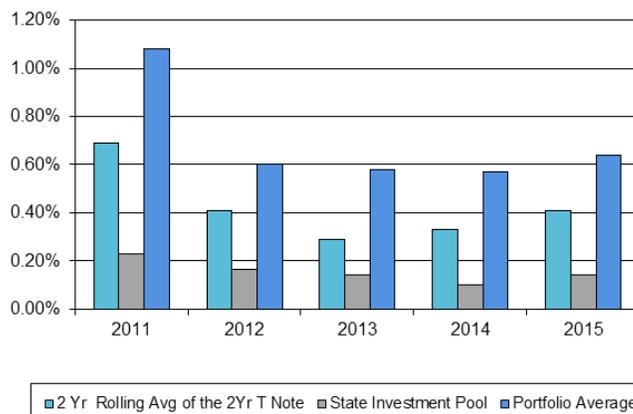
The target duration for the City's portfolio is based on the 0-5 year U.S. Treasury. The average maturity of the City's investment portfolio decreased from 1.44 years on December 31, 2014 to 1.36 years on March 31, 2015 as the securities in the portfolio move closer to maturity.

**Yield**

The City Portfolio yield to maturity increased from 0.62 percent on December 31, 2014 to 0.65 percent on March 31, 2015. Through March 31, 2015, the City's annual average yield to maturity also increased to 0.64 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 0.41 percent on March 31, 2015.

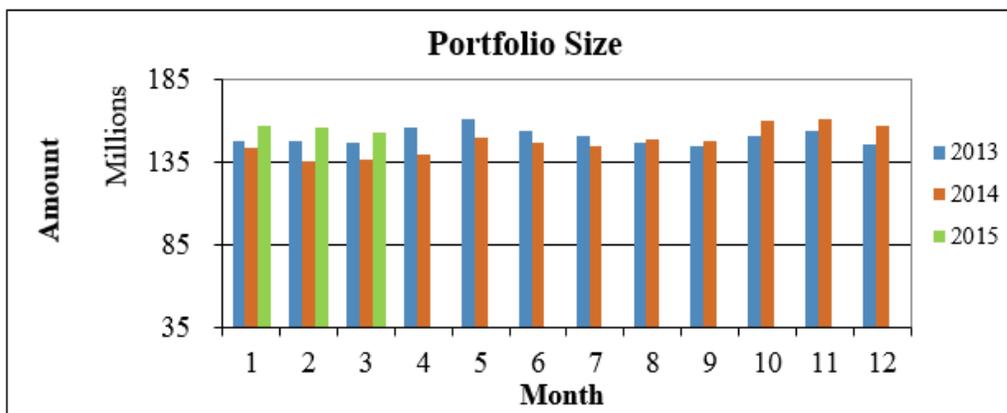
The City's practice of investing further out on the yield curve than the State Investment Pool results in earnings higher than the State Pool during declining interest rates and lower earnings than the State Pool during periods of rising interest rates. This can be seen in the adjacent graph.

**Investment Interest Rate Comparisons**

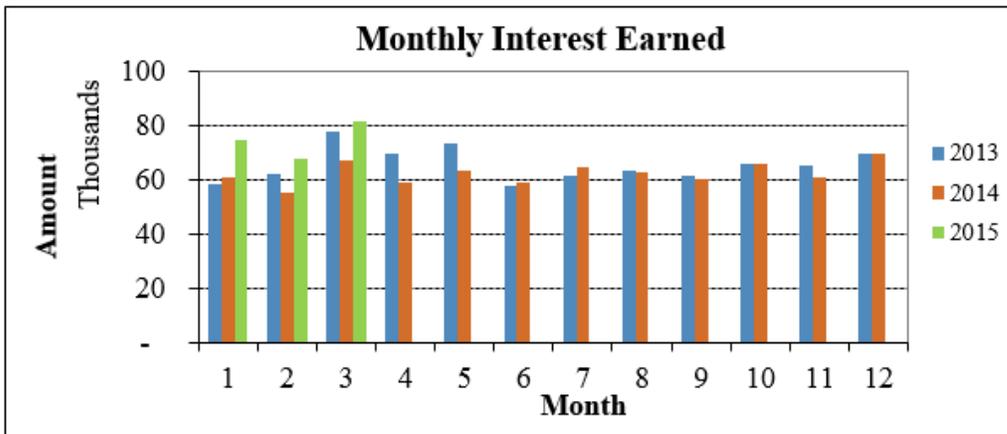


■ 2 Yr Rolling Avg of the 2Yr T Note ■ State Investment Pool ■ Portfolio Average

**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. The reserves are listed with their revised estimated balances as of December 31, 2014. These amounts will be reconciled with actual results as part of the April 2015 budget adjustments and will be reflected in the second quarter FMR.

### 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 steady for the first quarter of 2015. **Real Estate Excise Tax (REET)** collections finished the quarter **28.7 percent ahead of 2014**. Revenue through the end of the quarter was **29 percent of budget**, so the current budgeted ending balance does not reflect actual revenue trends. This budget amount was adjusted upward for the 2015-2016 biennium.
- Reflecting continued high level of development activity, **Impact fees** are significantly ahead of the first quarter of 2014. **Park Impact fees** are already **209 percent of budget** and **Transportation Impact fees** are at **99 percent of budget** and they are **278 percent and 107 percent ahead** of the same quarter last year respectively. As with REET, the ending balances below do not reflect the current revenue trends.
- The City is currently in the process of updating the 2015-2020 Capital Improvement Program (CIP) after the recent completion of several master plans. The balances available in REET and Impact Fees will be considered for funding projects identified in these processes.

Reserves	Est. 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	0
General Oper. Reserve (Rainy Day)	2,806,513	4,797,472	4,797,472	4,797,472	0
Revenue Stabilization Reserve	2,570,090	2,848,220	2,848,220	2,848,220	0
Building & Property Reserve	571,579	600,000	600,000	600,000	0
Council Special Projects Reserve	250,000	250,000	250,000	250,000	0
Contingency	2,426,425	4,036,425	4,036,425	5,536,076	(1,499,651)
General Capital Contingency	3,729,946	4,923,789	4,923,789	5,701,001	(777,212)
<b>General Purpose Reserves with Targets</b>	<b>12,404,553</b>	<b>17,505,906</b>	<b>17,505,906</b>	<b>19,782,769</b>	<b>(2,276,863)</b>
<b>ALL OTHER RESERVES WITH TARGETS</b>					
General Fund Reserves:					
Litigation Reserve	150,000	150,000	150,000	150,000	0
Firefighter's Pension Reserve	1,493,687	1,227,072	1,227,072	933,405	293,667
Health Benefits Fund:					
Claims Reserve	2,058,311	2,058,311	2,058,311	2,058,311	0
Rate Stabilization Reserve	1,000,000	1,000,000	1,000,000	1,000,000	0
Excise Tax Capital Improvement:					
REET 1	5,843,876	8,361,750	8,361,750	1,732,329	6,629,421
REET 2	4,888,788	6,629,264	6,340,021	2,436,255	3,903,766
Water/Sewer Operating Reserve:					
Water/Sewer Debt Service Reserve:	498,591	501,024	501,024	501,024	0
Water/Sewer Capital Contingency:	1,107,600	613,300	613,300	613,300	0
Surface Water Operating Reserve:	893,306	893,306	893,306	893,306	0
Surface Water Capital Contingency:	391,380	391,380	391,380	391,380	0
<b>Other Reserves with Targets</b>	<b>20,740,010</b>	<b>24,485,339</b>	<b>24,196,096</b>	<b>13,369,242</b>	<b>10,826,854</b>
<b>Reserves without Targets</b>	<b>44,427,607</b>	<b>48,986,784</b>	<b>48,220,278</b>	<b>n/a</b>	<b>n/a</b>
<b>Total Reserves</b>	<b>77,572,170</b>	<b>90,978,029</b>	<b>89,922,280</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>		
REET 2 Reserve	\$270,000	Juanita Drive 'Quick Wins'
Surface Water Construction Reserve	\$204,700	100th Avenue NE Corridor
Surface Water Construction Reserve	\$125,200	Decant Facility Upgrade
Surface Water Construction Reserve	\$59,683	Park Lane Pedestrian Improvements
Water/Sewer Construction Reserve	\$5,000	Park Lane Pedestrian Improvements
Surface Water Construction Reserve	\$388,000	99th Place Emergency Storm Drain Replacement
REET 2 Reserve	\$19,243	NE 68th Street/108th Avenue NE Intersection
<b>2015-16 Council Authorized Additions</b>		
Surface Water Construction	\$16,077	NE 68th Street/108th Avenue NE Intersection

*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 2014 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. Reserve (Rainy Day)	Unforeseen revenues/temporary events	2,806,513	4,797,472		4,797,472
Revenue Stabilization Reserve	Temporary revenue shortfalls	2,570,090	2,848,220		2,848,220
Building & Property Reserve	Property-related transactions	571,579	600,000		600,000
Council Special Projects Reserve	One-time special projects	250,000	250,000		250,000
Contingency	Unforeseen expenditures	2,426,425	4,036,425		4,036,425
<b>Total General Fund/Contingency</b>		<b>8,674,607</b>	<b>12,582,117</b>	<b>0</b>	<b>12,582,117</b>
<b>SPECIAL PURPOSE RESERVES</b>					
General Fund Reserves:					
Litigation Reserve	Outside counsel costs contingency	150,000	150,000		150,000
Labor Relations Reserve	Labor negotiation costs contingency	74,928	64,608		64,608
Police Equipment Reserve	Equipment funded from seized property	50,284	60,284		60,284
Police Equipment Reserve			0		0
Fire OT & Equipment Reserve	Contingency for overtime and equipment	200,000	200,000		200,000
LEOFF 1 Police Reserve	Police long-term care benefits	618,079	618,079		618,079
LEOFF 1 Police Reserve			0		0
LEOFF 1 Police Reserve			0		0
Facilities Expansion Reserve	Special facilities expansions reserve	150,982	150,982		150,982
Development Services Reserve	Revenue and staffing stabilization	2,572,520	2,487,837		2,487,837
Development Svcs. Technology Reserve	Permit system replacement	1,040,324	931,586		931,586
Tour Dock	Dock repairs	206,271	272,121		272,121
Tree Ordinance	Replacement trees program	56,267	66,267		66,267
Revolving/Donation Accounts	Fees/Donations for specific purposes	940,331	813,430		813,430
Lodging Tax Fund	Tourism program and facilities	310,420	155,688		155,688
Cemetery Improvement	Cemetery improvements/debt service	736,215	734,728		734,728
Off-Street Parking	Downtown parking improvements	259,161	389,811		389,811
Fire Equipment Life Cycle	20-year fire equipment costs	418,326	1,102,826		1,102,826
Police Equipment Life Cycle	20-year police equipment costs	343,114	680,714		680,714
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	1,227,072		1,227,072
<b>Total Special Purpose Reserves</b>		<b>10,284,509</b>	<b>11,371,150</b>	<b>0</b>	<b>11,371,150</b>
<b>GENERAL CAPITAL RESERVES</b>					
Excise Tax Capital Improvement:					
REET 1	Parks/transportation/facilities projects, parks debt service	5,843,876	8,361,750		8,361,750
REET 2	Transportation and other capital projects	4,888,788	6,629,264	(289,243)	6,340,021
Impact Fees					
Roads	Transportation capacity projects	3,663,839	4,017,985		4,017,985
Parks	Parks capacity projects	1,727,746	1,882,062		1,882,062
Street Improvement	Street improvements	995,958	995,958		995,958
General Capital Contingency	Changes to General capital projects	3,729,946	4,923,789		4,923,789
<b>Total General Capital Reserves</b>		<b>20,850,153</b>	<b>26,810,808</b>	<b>(289,243)</b>	<b>26,521,565</b>
<b>UTILITY RESERVES</b>					
Water/Sewer Utility:					
Water/Sewer Operating Reserve	Operating contingency	2,414,471	2,659,932	0	2,659,932
Water/Sewer Debt Service Reserve	Debt service reserve	498,591	501,024	0	501,024
Water/Sewer Capital Contingency	Changes to Water/Sewer capital projects	1,107,600	613,300	0	613,300
Water/Sewer Construction Reserve	Replacement/re-prioritized/new projects	10,051,937	10,591,907	(5,000)	10,586,907
Surface Water Utility:					
Surface Water Operating Reserve	Operating contingency	893,306	893,306	0	893,306
Surface Water Capital Contingency	Changes to Surface Water capital projects	391,380	391,380	0	391,380
Surface Water Construction Reserve	Trans. related surface water projects	5,656,579	7,828,203	(761,506)	7,066,697
<b>Total Utility Reserves</b>		<b>21,013,864</b>	<b>23,479,052</b>	<b>(766,506)</b>	<b>22,712,546</b>
<b>INTERNAL SERVICE FUND RESERVES</b>					
Health Benefits:					
Claims Reserve	Health benefits self insurance claims	2,058,311	2,058,311	0	2,058,311
Rate Stabilization Reserve	Rate stabilization	1,000,000	1,000,000	0	1,000,000
Equipment Rental:					
Vehicle Reserve	Vehicle replacements	10,068,738	8,455,734	0	8,455,734
Radio Reserve	Radio replacements	59,463	74,764	0	74,764
Information Technology:					
PC Replacement Reserve	PC equipment replacements	459,063	630,049	0	630,049
Major Systems Replacement Reserve	Major technology systems replacement	656,200	872,000	0	872,000
Facilities Maintenance:					
Operating Reserve	Unforeseen operating costs	550,000	550,000	0	550,000
Facilities Sinking Fund	20-year facility life cycle costs	1,897,262	3,094,044		3,094,044
<b>Total Internal Service Fund Reserves</b>		<b>16,749,037</b>	<b>16,734,902</b>	<b>0</b>	<b>16,734,902</b>
<b>Grand Total</b>		<b>77,572,170</b>	<b>90,978,029</b>	<b>(1,055,749)</b>	<b>89,922,280</b>



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
  - Alyshia Saltman, Budget Analyst



City of Kirkland  
123 5th Avenue  
Kirkland, WA 98033  
Ph. 425-587-3101

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***Economic Environment Update References:***

- The Conference Board Consumer Confidence Index Press Release April 15, 2015
- Carol A. Kujawa, MA, A.P.P., *ISM-Western Washington, Inc. Report On Business*, Institute for Supply Management-Western Washington, March, 2015
- Quarterly Economic & Revenue Forecast, March 2015—Washington State Economic & Revenue Forecast Council
- Monthly Economic and Revenue Publication, February 2015—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 2015 Financial Dashboard Highlights

May 15, 2015

- The dashboard report reflects the 2015 share of the biennial budget adopted by the City Council on December 9, 2014. The actual revenues and expenditures summarized reflect results through April 30, 2015, 33.3 percent through the year.
- Total General Fund revenues received through April were at 34.9 percent of budget. Collections are slightly higher than expected due largely to strong development fee revenues.
  - Sales tax revenues at the end of April were up 2.4 percent compared to April 2014 and were 32.9 percent of budget. Last year's collections through the first four months included a number of one-time transactions, including a large manufacturing sales tax receipt, making the prior year comparison higher than normal. Sales tax is up 4.4 percent if those transactions from 2014 are excluded. 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 \$5,157,597 in April, which is 34.6 percent of the budget. This is 4.0 percent lower than April 2014. This decrease is a result of lower usage due to a mild winter.
  - April business license revenues are 39.0 percent of budget; this is higher than last April's revenue by \$85,115, an increase of 8.0 percent.
  - Development fees through the end of April were at 39.0 percent of budget. This is due to a high level of development activity to start the year. This is 37.2 percent higher than last year due to strong collections of building and engineering fees.
  - Gas taxes finished April at \$527,816, which is 31.5 percent of the annual budget. This is slightly higher than April 2014 by 1.5 percent. The gas tax collection trend has been mostly flat for the past two years.
- Total General Fund expenditures were 32.0 percent of budget at the end of April.
  - General fund salaries and benefits were \$18.47 million, which is 32.4 percent of the annual budget, with one third of the year completed. Salaries and benefits are 4.2 percent higher than in 2014, 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 \$373,929 at the end of April, which is 45.0 percent of budget, and \$105,949 higher than in 2014. The overtime through April is a combination of two factors. One has been the cost of backfilling five vacant firefighter positions, which were filled beginning in April by recruits that were in the firefighter academy, so this backfill cost will not continue. There are no current vacancy related salary savings since the recruits attending the academy did so on the City's payroll. In addition, two Battalion Chiefs have been on medical leave and/or light duty and are expected to return to active duty in May. This budget was increased by \$100,666 in the adopted April budget adjustments as part of the Fire Prevention Staffing service package and filling this internal posting will require overtime backfill while a new firefighter is trained.
  - The 2015-16 one-time service package for \$465,944 of additional overtime funding to staff Fire Station #24 is shown separately on the Dashboard. Expenses are on track, with 32.2 percent spent on overtime staffing for the station in April.
  - Contract jail costs were 18.8 percent of budget at the end of April. This budget covers the costs of housing inmates that cannot be kept at the Kirkland Justice Center jail for medical reasons.
  - Fuel costs ended April at \$124,336 or 17.0 percent of budget. This is \$64,511 lower than 2014, due to lower oil costs and the timing of fuel deliveries. The yearly comparison is expected to remain lower as long as oil prices are down, and variances due to delivery schedules should normalize as more months of data are received.

Attachments: April Dashboard, Development Services Report

**City of Kirkland Budget Dashboard**

**Date Completed**

**5/15/2015**

**Annual Budget Status as of**      **4/30/2015** (Note 1)  
**Percent of Year Complete**      **33.33%**

	2015 Budget	Year-to-Date Actual	% Received/ % Expended	Status		Notes
				Current Report	Last Report	
<b>General Fund</b>						
Total Revenues (2)	86,319,586	30,101,451	34.9%			
Total Expenditures	87,529,927	28,039,126	32.0%			

**Key Indicators (All Funds)**

<i>Revenues</i>						
Sales Tax	17,963,747	5,905,706	32.9%			Prior YTD = \$5,767,946
Utility Taxes	14,895,606	5,157,597	34.6%			Telephone Utility Tax Audit = \$119,475
Business License Fees	2,955,769	1,152,722	39.0%			
Development Fees	7,263,391	2,854,413	39.3%			
Gas Tax	1,675,751	527,816	31.5%			
<i>Expenditures</i>						
GF Salaries/Benefits	57,086,054	18,471,900	32.4%			Excludes Fire Suppression Overtime
Fire Suppression Overtime	830,758	373,929	45.0%			Excludes FS 24 Overtime
F.S. #24 Overtime Staffing	465,944	150,208	32.2%			
Contract Jail Costs	431,172	80,944	18.8%			
Fuel Costs	731,927	124,336	17.0%			

**Status Key**

Revenue is higher than expected or expenditure is lower than expected

Revenue/expenditure is within expected range

WATCH - Revenue/expenditure outside expected range



Note 1 - Report shows annual values during the first year of the biennium (2015).

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

n/a - not applicable

## Development Services Report – April 2015

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

- The April, 2015 Building permit related statistics continues the upward trend that we witnessed throughout 2014. New single-family residential permit applications for April were up with 38 applications received compared to 30 last year. In addition, there was a 6% increase in commercial tenant improvement permits and single-family remodel permits with 51 applications received compared to 48 last April.
- The monthly average of total building related permits received so far this year (514) exceeds the monthly average for 2014 (461) with the total number of permits received in April (591), exceeding April 2014 (561) by 5%.
- Building Department revenue for April, 2015 was \$347,827 which is \$13,420 above the average monthly projected revenue of \$334,407 (38% of the budgeted annual revenue of \$4,012,880 has been collected).
- Public Works Department development revenue for April, 2015 was \$99,203 which is \$26,631 less than the average monthly projected revenue of \$125,833 (59% of the budgeted annual revenue of \$1,510,000 has been collected).
- Planning Department revenue for April, 2015 was \$139,809 which is \$54,312 above the average monthly projected revenue of \$85,497 (38% of the budgeted annual revenue of \$1,025,959 has been collected).



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

## MEMORANDUM

**To:** Kurt Triplett, City Manager

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

**Date:** April 29, 2015

**Subject:** April Sales Tax Revenue

Sales tax revenue through April was **up 2.4 percent** compared to the same period last year. The increase was driven by Retail Eating/Drinking, Auto/Gas Retail, and Services, which were up 7.3, 6.8, and 6.5 percent, respectively. In aggregate, all other sectors decreased by 1.14 percent, with growth being outweighed by a 21.1 percent decline in the miscellaneous category. Results this month reflect sales activity in February, due to the two month lag in reporting sales tax data.

### Comparing April 2015 to April 2014

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

#### 2014-2015 Sales Tax Receipts by Business Sector-Monthly Actuals

Business Sector Group	April		Dollar Change	Percent Change	Percent of Total	
	2014	2015			2014	2015
Services	157,721	168,582	10,862	6.9%	12.3%	12.7%
Contracting	216,501	202,513	(13,988)	-6.5%	16.8%	15.3%
Communications	40,248	39,800	(448)	-1.1%	3.1%	3.0%
Retail:						
Auto/Gas Retail	315,176	331,880	16,704	5.3%	24.5%	25.1%
Gen Merch/Misc Retail	145,508	151,900	6,392	4.4%	11.3%	11.5%
Retail Eating/Drinking	104,075	111,026	6,951	6.7%	8.1%	8.4%
Other Retail	156,866	168,506	11,639	7.4%	12.2%	12.7%
Wholesale	59,503	62,395	2,892	4.9%	4.6%	4.7%
Miscellaneous	90,205	87,335	(2,871)	-3.2%	7.1%	6.6%
<b>Total</b>	<b>1,285,803</b>	<b>1,323,936</b>	<b>38,133</b>	<b>3.0%</b>	<b>100%</b>	<b>100%</b>

Comparing month to month, April sales tax collections this year are \$38,133 (**3.0 percent**) higher than April 2014. The 3.0 percent growth is a slowdown from last month's sales tax growth of 7.8 percent. This

month's performance is in part due to decreases in Contracting, Miscellaneous, and Communication sectors. This month Auto/Gas Retail has continued to rebound with an increase of 5.3 percent. Declines in Contracting are due to the timing of large projects in the early months of 2014. The building department reports high levels of permit applications in the early months of 2015, so it is possible that the trend will improve in the months ahead. Declines in Miscellaneous tax revenues (**3.2 percent**) are the result of a 64.2 percent drop in the Unknown category related to miscellaneous taxes. As described in earlier reports, last year the miscellaneous category included a large one-time purchase which resulted in an inflated amount for 2014.

### Year-to-Date Business Sector Review

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

#### City of Kirkland Actual Sales Tax Receipts

Business Sector Group	YTD		Dollar Change	Percent Change	Percent of Total	
	2014	2015			2014	2015
Services	725,139	772,489	47,350	6.5%	12.6%	13.1%
Contracting	880,628	848,002	(32,626)	-3.7%	15.3%	14.4%
Communications	166,199	166,791	592	0.4%	2.9%	2.8%
Retail:						
Auto/Gas Retail	1,393,812	1,488,361	94,549	6.8%	24.2%	25.2%
Gen Merch/Misc Retail	704,272	745,692	41,420	5.9%	12.2%	12.6%
Retail Eating/Drinking	444,867	477,167	32,300	7.3%	7.7%	8.1%
Other Retail	771,153	800,605	29,453	3.8%	13.4%	13.6%
Wholesale	252,718	267,963	15,246	6.0%	4.4%	4.5%
Miscellaneous	429,159	338,635	(90,524)	-21.1%	7.4%	5.7%
<b>Total</b>	<b>5,767,946</b>	<b>5,905,706</b>	<b>137,759</b>	<b>2.4%</b>	<b>100%</b>	<b>100%</b>

Through the end of April, sales tax is **2.4 percent** higher compared to last year, however this includes one-time factors in 2014 that have been reported previously. Excluding these factors, sales tax collections would be up **4.4 percent** through the end of April compared to last year.

Sales tax growth is being led by Auto/Gas, Services, and General Merchandise. In general, all consumer categories are showing moderate to strong growth. Weakness in miscellaneous is due to one-time factors and does not appear to be indicative of a trend. Contracting is coming off a high reading from last year, but is poised to rebound as strong permitting activity transitions into contracting activity.

### National and Regional Economic Context:

Information about wider trends in the economy provides a mechanism to help understand current results in Kirkland, as well as predict future performance. The table on the following page provides a summary of the most current information available.

**2014-2015 Wider Economic Indicators**

Indicator	Most recent month of data	Unit	Month			Yearly Average	
			Current	Previous	Change	2014	2015
<b>Consumer Confidence</b>							
Consumer Confidence Index	April	Index	<b>95.2</b>	101.4	-6.2	86.9	99.2
<b>Unemployment Rate</b>							
National	March	%	<b>5.5</b>	<b>5.5</b>	0	6.2	5.6
Washington State	March	%	<b>5.9</b>	6.3	-0.4	6.0	n/a
King County	March	%	<b>4.1</b>	<b>4.9</b>	-0.8	4.7	n/a
Kirkland (pre annex boundaries)	February	%	<b>4.2</b>	<b>4.1</b>	0.1	4.7	n/a
<b>Housing</b>							
New House Permits	February	Thousands	<b>59.6</b>	<b>59</b>	0.6	34.4	n/a
Seattle Area Home Prices	February	Index	<b>170.3</b>	<b>168.8</b>	1.5	167	n/a
<b>Inflation (Core CPI)</b>							
National	March	% Change	<b>0.6</b>	<i>0.5</i>	0.0	1.6	<i>-0.18</i>
<b>Car Sales</b>							
New Vehicle Registrations	March	Thousands	<b>24.4</b>	24.1	0.3	23.4	24.1

**Bold numbers** indicate data point is highest or lowest in that year.  
Numbers in *italics* indicate a negative movement from the previous month's data.

At the time of this publication, new data for many of the economic indicators have been updated. The **Consumer Confidence** Index decreased from 101.4 in March to 95.2 in April. This index score remains higher than it was at any point in 2014, but is the lowest point this year. The Conference Board reported that the month's decline was prompted by slow performance in the labor market. Consumer confidence is currently expected to remain stagnant in the months ahead as consumers continue to be disappointed in the ability to gain new employment. **National Unemployment Rates** remained flat from February to March at 5.5 percent. Unemployment nationwide has been declining steadily. The **Washington State Unemployment Rate** has fallen 0.4 percent from 6.3 percent in February to 5.9 percent in March, which is the third largest drop in the nation behind California and Florida. **King County** continues this trend with the lowest unemployment rate in the state at 4.1 percent. **Kirkland Unemployment Rates** are slightly higher at 4.2 percent. The low unemployment rates are encouraging, but they are partially due to "underemployment" and a relatively low labor participation rate of 62.7 percent (compared to the pre-recession high of 66.4 percent), so they should be interpreted with some caution.

**National inflation data** (Consumer Price Index) shows continued low inflation with a national CPI of 0.6 percent from February 2015 to March 2015. This is due to slow rising gas prices. The Federal Reserve's target inflation rate is 2 percent.

Analysis of statewide housing market indicators and vehicle registrations provides useful information on the health of two of the City's most important sales tax categories. Statewide **New Housing Permits** increased from 59,000 to 59,900 from January to February. This number has been updated since the last memo. **Seattle Area Home Price Index** also increased from 168.83 to 170.33 from January to

