



CITY OF KIRKLAND
Department of Finance & Administration
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MEMORANDUM

To: Kurt Triplett, City Manager

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

Date: June 7, 2013

Subject: CITY COUNCIL RETREAT – FINANCIAL PLANNING

The purpose of this memo is to provide a brief recap of the year-to-date 2013 financial results, an overview of the mid-year budget adjustments on the June 18 regular meeting agenda, present the 10-year (2013-2022) financial forecast, and provide a discussion of a variety of long-range financial planning and budget considerations.

FINANCIAL STATUS

The Financial Management Report (FMR) provides a review of revenue and expenditure performance for the first quarter of 2013 (Attachment A). The second quarter report should be available in mid-August.

The March/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 March/April dashboard report (Attachment B):

- Total **General Fund revenues** are at 37 percent of the budget through April, one third of the way through the year. Sales tax and utility tax revenues are slightly ahead of expectations so far, while development fees and business license fees are well ahead of last year's results. Gas taxes, which are collected on a per gallon basis, are below target at 30.4 percent of budget, likely reflecting the high price of gasoline on overall usage. While overall revenue trends are positive, the continuing volatile global economic conditions and national fiscal policy gridlock remain causes for concern.
- Overall, **General Fund expenditures** are slightly trailing the budget at 27.9 percent of budget through April. Under-expenditures are largely due to ramping up of the remaining annexation hiring, position vacancies, firefighter overtime seasonal variation and implementation delays in staffing Station 24, and jail contract savings. The rate of expenditure is expected to increase as vacant positions are filled.

The May 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 16.5 percent compared to the same period in 2012, with substantial increases in the service, contracting, and retail sectors (particularly automotive sales), and positive growth

in all major sectors. Those sectors with significant growth are also economically sensitive and inherently volatile, however, year-to-date results are encouraging.

Development fees year-to date have exceeded budget expectations, with revenues through April at 49.4 percent of budget. This is a significant improvement over last year's performance, which was at 27 percent of budget over the same period. While the current trend is impressive, the volatile nature of building permits is tied to the construction market and can lead to spikes and drops in revenue throughout the year.

The Council Finance and Administration Committee has requested a simple, one-page "financial scorecard" for 2012 that can be posted on the City's website and used in other media and at community events. A draft of the format was reviewed by the Committee on May 28 and the recommended format is included as Attachment D.

MID-YEAR BUDGET ADJUSTMENTS

At the June 18 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;
- Finalize the resources forward (cash) balances;
- Recognize positions, projects, or programs authorized since the last amendment;
- Incorporate housekeeping adjustments.

The mid-year adjustments are summarized as follows (further detail is included in the June 18 Council meeting packet):

Council Directed/Other Requests and Previously Approved Adjustments (\$4.7 million) – This category includes any additional changes identified by Council and formalizing previously approved actions (fiscal notes, etc.), such as:

- New capital projects totaling \$3.1 million, of which \$2.55 million is new external funding (such as grants) and \$556,000 is City funding;
- Additional funding for the Public Safety Building construction bid award (\$259,031);
- Funding for the Totem Lake Park Master Plan (\$120,000); and
- Approximately \$300,000 from the development services staffing reserve is being used for additional staffing and contracted services, including a construction inspector, plans examiners, planners and contracted plan review services.

Resources Forward Reconciliation (\$3.4 million) – Beginning fund balance (cash) has been reconciled to reflect actual cash balances now that the books for 2012 have been closed. Adjustments are primarily due to differences in capital project carryovers estimates to actual carryovers. The majority of these funds were planned to be spent in 2012 and are now being carried over to be spent in 2013 and therefore are already obligated. Further discussion of this adjustment is contained in the staff report for the June 18 City Council meeting.

Housekeeping Items (\$1.1 million) – This category of adjustments are needed to adjust budget accounts, fund balances, etc., such as:

- Correcting utility depreciation transfers in the utility capital funds to reflect the actual transfer from the operating funds (approximately \$800,000).

- Adjusting the replenishment to the Contingency Fund from the General Fund to reflect final budget decisions (approximately \$175,000, which was already budgeted in the General Fund).

Total appropriation adjustments result in a net budget increase of \$8,212,067. The next opportunity for budget adjustments will occur as part of the mid-biennial budget update at the end of 2013.

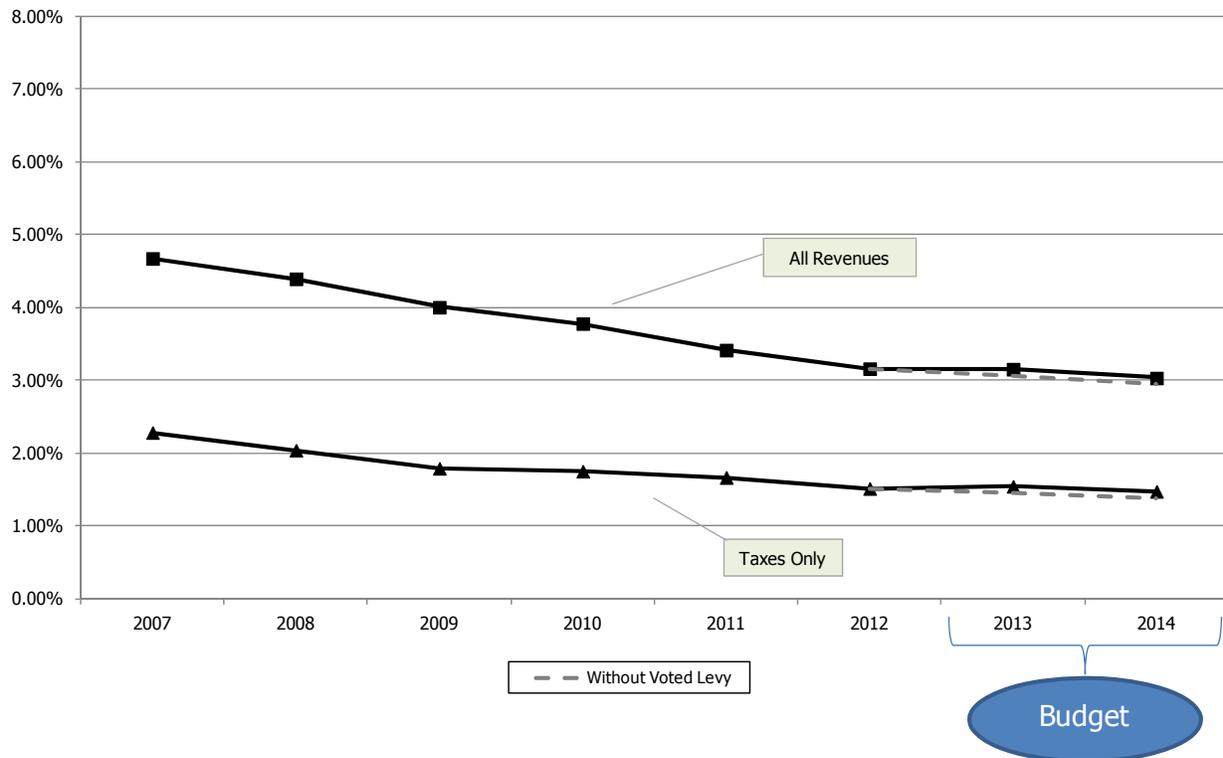
PRICE OF GOVERNMENT UPDATE

One of the strategic anchors used in the 2013-2014 budget process was the concept of affordability, as indicated by the "Price of Government". The "Price of Government" concept is defined in the book "The Price of Government" by David Osborne & Peter Hutchinson. It is a comparison of the revenues from taxes and fees of the government to the aggregate personal income level of the City's residents. 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.

Kirkland's Price of Government (POG) graph in the Budget Message reflected actual revenue data for 2007-2011, 2012 estimates, and the 2013-2014 preliminary budget. The personal income data reflected actuals published by the U.S. Census Bureau (American Community Survey) for 2007-2010 and projections based on the Washington State Economic and Revenue Forecast Council personal income growth forecast.

The adopted 2013-2014 budget and 2012 actual revenues are now available, as well as actual 2011 personal income figures, and a new personal income growth forecast. The POG graph has been updated with this new information and the revised graph is presented below.

The Price of Government City of Kirkland, Washington



The overall result has not changed significantly. 2011 is still an anomaly because the annexation occurred mid-year. The POG projections remain just above 3 percent, well below the 5 to 6 percent norm cited in the book. Note that 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 "Kirkland Quad" quadrant chart and the financial forecast. The relationship of these three strategic anchors will be discussed further in the Performance Management segment of the retreat.

FINANCIAL FORECAST

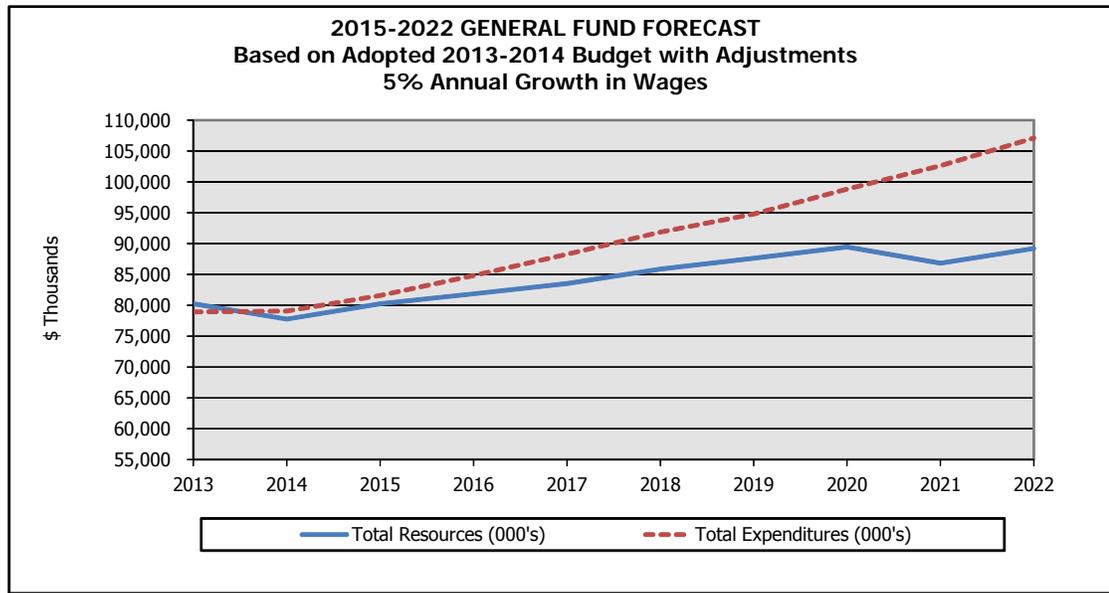
The 6-year financial forecast has been updated to reflect the adopted 2013-2014 budget and has been extended to 10 years to illustrate the impacts of the expiration of the annexation sales tax credit in 2021. The forecast includes the annexation state sales tax credit at \$3.4 million in 2013 and 2014, rising at 4% per year in future biennia in line with the forecast for other sales tax revenues. 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.

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

The key assumptions in the Baseline Forecast include:

- Revenues
 - Based on 2012 actuals and 2013-14 adopted budget - plus adjustments made by May 2013
 - 4% growth in utility taxes in 2018 and 2022. No other growth in utility taxes in 2015-2022
 - Sales tax growth of 4%
 - Annexation sales tax growth of 4%
 - No diversion of current revenue sources to CIP
 - No use of reserves in 2015-2022
 - 1% optional property tax and 1% annual growth in new construction property tax in 2015-2022
 - 1% growth in other taxes (revenue generating regulatory license and gambling taxes) over 2011 reflected in 2012; 2% annual growth in 2015-2022
 - 2% annual growth in other revenue in 2015-2022

- Expenditures
 - Based on 2012 actuals and 2013-14 adopted budget
 - 5% annual growth in wages in 2015-2022 (assumes 2.5% raises, 1.5% steps & longevity, 1% market and other adjustments)
 - 7% annual increase in total benefits in 2015-2022
 - No annual growth in supplies, services & capital in 2015-22
 - Annexation-related expenditures in 2012 continue at adopted service levels
 - 1% planned reserve replenishment until 2018 when reserves will be at 80% target



	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Resources (000's)	80,255	77,764	80,242	81,866	83,539	85,851	87,623	89,448	86,832	89,202
Total Expenditures (000's)	78,954	79,065	81,599	84,845	88,266	91,883	94,786	98,826	102,632	107,107
Net Resources (000's)	1,301	(1,301)	(1,357)	(2,979)	(4,728)	(6,032)	(7,163)	(9,379)	(15,801)	(17,906)
Biennium Total (000's)	0		(4,336)		(10,760)		(16,541)		(33,706)	

Extending the forecast to 10 years highlights a number of policy issues:

- The cumulative impact of 5 percent growth in salaries and 7 percent growth in benefit costs still causes the gap to grow throughout the forecast period. Closing the gap by just adjusting the wage growth assumption would require the annual growth rate to drop to 1.5% (see the top graph on page 7). One of the continuing items on the City's work plan is to "Continue partnership initiatives with employees to achieve sustainability of wages and benefits". Compensation strategies will continue to be a focus in these efforts.
- Closing the gap solely with revenue would require that sales tax grows by 12% per year throughout the forecast period (see the second graph on page 7).
- 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, decreases 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 fund additional on-going expenditures. However, funds from these sources accumulated before the ASTC expiration could be set aside toward one-time uses, such as the public safety sinking fund, capital improvements or recouping the annexation costs incurred by the City prior to the effective date. A summary of the City's outstanding debt is included below.
 - The City of Kirkland currently has \$36,325,000 in Councilmanic bonds, with a further \$9,140,000 in Unlimited Term General Obligation bonds.

Limited Term General Obligation (Councilmanic) Debt

Debt	Paid from	Expires	Biennial Payment					Average Biennial Payment 2023-2040	Purpose
			2013/14	2015/16	2017/18	2019/20	2021/22		
2010 Facilities Debt	General Fund/BAB Credit	2040	4,716,085	5,361,050	5,327,820	5,375,735	4,746,200	4,482,663	Public Safety Building & Maintenance Center
Teen Center	REET/Impact Fees	2019	121,972	120,694	119,088	121,754	123,850		1995 Teen Center
City Hall	General Fund	2014	662,639	-	-	-	-		1994 City Hall Expansion
Library Garage	General Fund	2014	775,617	-	-	-	-		Library Garage
McAuliffe	REET/Impact Fees	2021	494,872	429,396	369,012	363,046	360,450		McAuliffe Park
Total			6,771,185	5,911,140	5,815,920	5,860,535	5,230,500	4,482,663	
Contribution per fund									
	General Fund		4,958,711	4,184,683	4,189,333	4,286,978	3,688,217	3,406,514	
	BAB Credit		1,195,630	1,176,368	1,138,487	1,088,757	1,057,984	591,849	
	REET		616,844	550,090	488,100	484,800	484,300	484,300	

Unlimited Term General Obligation Debt

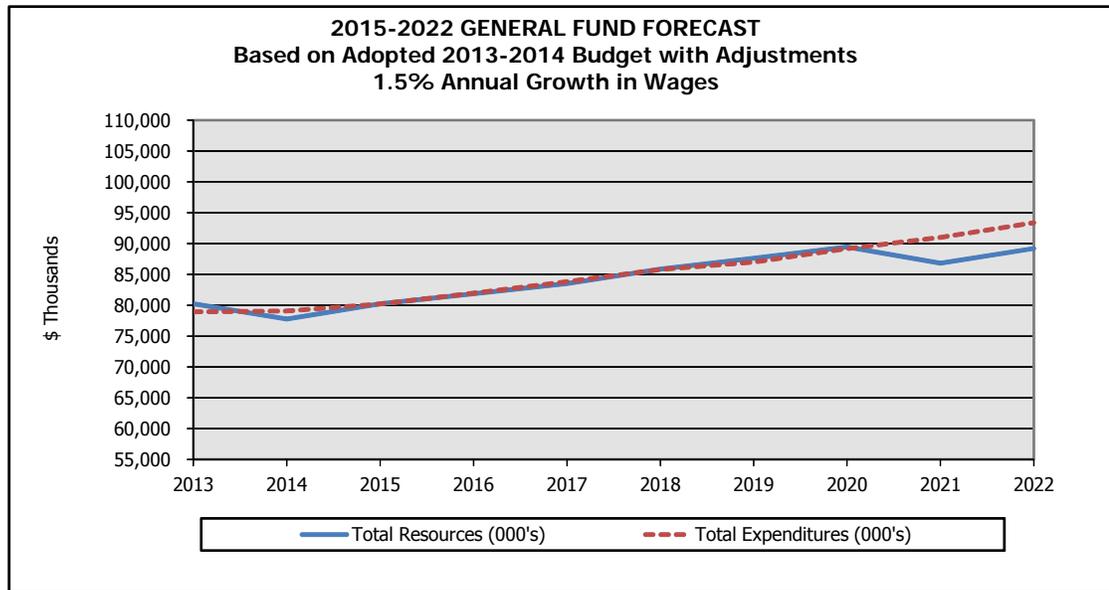
Debt	Paid from	Expires	Biennial Payment					Purpose
			2013/14	2015/16	2017/18	2019/20	2021/22	
2003 Parks Bonds	Excess Property Tax Levy	2022	1,284,910	1,293,320	1,312,520	1,276,960	1,272,820	Park Acquisition
1995 Public Safety Bond	Excess Property Tax Levy	2014	179,250					Forbes Creek Fire Station Construction
Fire District 41*	Property Tax		941,144	941,144	941,144	941,144	941,144	Fire Station Consolidation
Total			2,405,304	2,234,464	2,253,664	2,218,104	2,213,964	
Contribution per fund								
	Excess Property Tax Levy		1,464,160	1,293,320	1,312,520	1,276,960	1,272,820	Excess levy expires when debt is paid off.
	Fire District 41 Property Tax		941,144	941,144	941,144	941,144	941,144	

* While not precisely an excess levy, this debt service is paid from property tax assessed on only those properties formerly within the District. This tax revenue ceases when the debt is retired

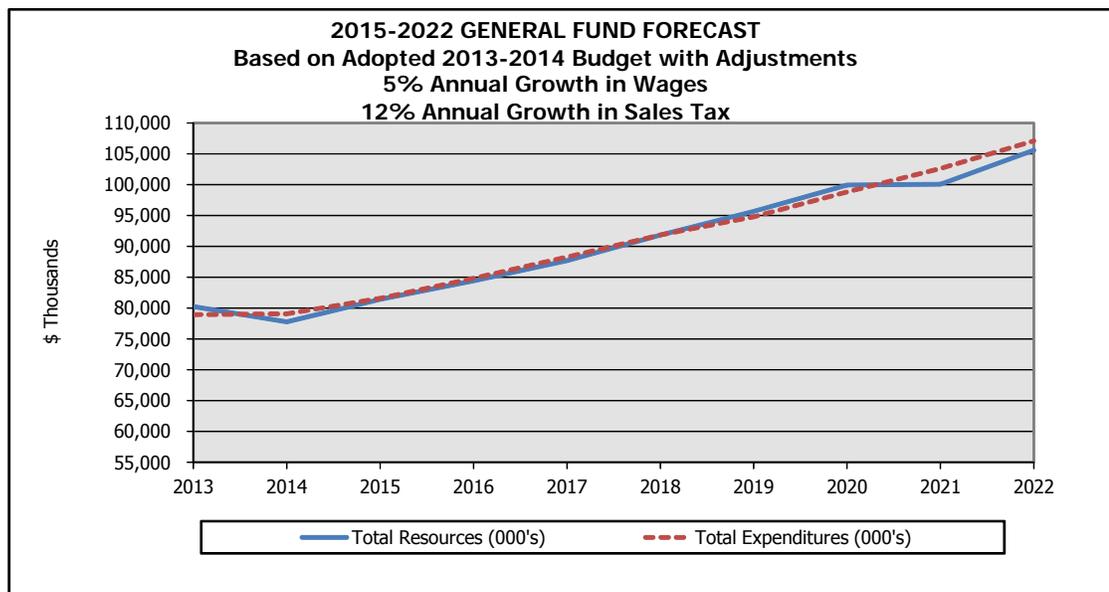
The City's ten-year debt profile shows a decline in obligations, particularly from the General Fund. Savings of approximately \$450,000 are realized at the end of the current biennium and an additional \$450,000 at the end of 2020. As described previously, staff recommends that these funds, freed up in 2014, should only be used for one-time purposes such as sinking funds, capital improvements or reserve replenishments.

Beyond 2022 the City's only outstanding obligation is the Facilities Bond (Build America Bond) which runs until 2040 with an average annual payment of \$4,482,663 per biennium.

- o Consistent with the Council's financial policies, the adopted budget assumes that 1% of revenues would go toward reserve replenishment until reserves reach their targets, which is projected in 2018. By 2018 this will amount to approximately \$1 million a year. Once these reserves are replenished, these revenues can be applied to offset the loss of the ASTC.
- o Even given these measures, the forecast would indicate that the loss of the ASTC would add \$4.2 million per year to the gap annually, by the time it expires in 2021. Closing this remainder is discussed further in the next section.



	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Resources (000's)	80,255	77,764	80,242	81,866	83,539	85,851	87,623	89,448	86,832	89,202
Total Expenditures (000's)	78,954	79,065	80,216	81,989	83,842	85,791	86,999	89,175	91,001	93,375
Net Resources (000's)	1,301	(1,301)	26	(122)	(303)	60	624	272	(4,170)	(4,173)
Biennium Total (000's)	0		(96)		(243)		896		(8,343)	



	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Resources (000's)	80,255	77,764	81,427	84,426	87,687	91,830	95,705	99,941	100,084	105,604
Total Expenditures (000's)	78,954	79,065	81,599	84,845	88,266	91,883	94,786	98,826	102,632	107,107
Net Resources (000's)	1,301	(1,301)	(172)	(419)	(579)	(54)	920	1,115	(2,548)	(1,504)
Biennium Total (000's)	0		(592)		(633)		2,035		(4,052)	

FINANCIAL CONTEXT LOOKING AHEAD

Long-range Strategies to Address the End of the ASTC

Two clear ways to close the remaining gap at the end of the ASTC are:

- To begin to reduce reliance on the credit slowly over the remaining period by reducing the amount assumed for budget purposes. Some of this could happen naturally if the growth in annexation revenues exceeded the growth in annexation expenses. In the absence of that occurring, narrowing the gap would require growth in pre-annexation revenues to fund a portion of the expenses or by slowing expense growth. However, this also leaves available funds “on the table” that could be put to beneficial use.

The General Fund forecast assumes a 4% annual growth in ASTC. ***For budget discussion purposes, should the forecast include an un-inflated or baseline ASTC amount of \$3.4 million?*** The ultimate gap to be filled upon expiration will be smaller if we assume the revenues remain at the current level.

- To set aside a portion of non-annexation on-going revenue growth equivalent to the gap for one-time uses until the expiration date. At that time, the on-going funds would be available to fund the on-going costs that continue after the expiration of the ASTC. One of those uses is to reimburse the costs incurred by the City prior to the annexation effective date, which would take the form of reserve replenishment. Other potential one-time uses for the funds that are set aside could include increased funding for sinking funds and capital projects, concepts that will be discussed further in the next section.

Other, more complex, options could include:

- If the City pursues forming a Regional Fire Authority (RFA), a decision will need to be made in terms of whether and how much the new tax imposed by the RFA would be offset by reducing the City’s existing taxes. One argument for leaving a portion of the existing tax revenue in place (resulting in an overall increase in tax revenues) would be to offset the loss of the ASTC revenue. How much net taxes increase must be weighed carefully against the public’s response, which may impact the outcome of an RFA vote.
- Pursuing a voted tax option, which might include a levy lid lift for public safety purposes (a large cost driver in the annexation) or establishing a fire benefit charge as authorized by RCW 35.13.256 reflecting the 2012 state legislature’s approval of HB 2767. Both of these options would require that the impacts of the ASTC revenue loss would be sufficiently compelling to result in a positive outcome.

As future budgets are developed and funding decisions are made, opportunities for addressing the impacts of the ASTC expiration should be identified and considered in the decision-making criteria.

Reprioritizing in the Rebound

The City Council requested a discussion of how to proactively plan what to do with new revenues as the economy recovers. To begin discussion of this topic, the following quote seems appropriate:

"Fiscal discipline is not the enemy of our good intentions but the basis for realizing them"
– Governor Jerry Brown, California State of State address, January 2013

The City has a strong fabric of fiscal policies to help guide this discussion. A few of the relevant policies are excerpted below.

OPERATING BUDGET POLICIES

The municipal budget is the central financial planning document that embodies all operating revenue and expenditure decisions. It establishes the level of services to be provided by each department within the confines of anticipated municipal revenues.

- *The City Council will adopt a biennial budget which will reflect estimated revenues and expenditures for the ensuing two years. A mid-biennium review and update will take place as prescribed by law during the first year of the biennium.*
- *The City Council will establish municipal service levels and priorities for the ensuing two years prior to and during the development of the preliminary budget.*
- *The City Manager shall incorporate the Council's priorities in the formulation of the preliminary and final budget proposal.*
- *Adequate maintenance and replacement of the City's capital plant and equipment will be provided for in the biennial budget.*
- *The biennial budget will be balanced with resources in that biennium.*

REVENUE AND EXPENDITURE POLICIES

Annual revenues are conservatively estimated as a basis for preparation of the biennial budget and City service programs.

Expenditures approved by the City Council in the biennial budget define the City's spending limits for the upcoming biennium. Beyond legal requirements, the City will maintain an operating philosophy of cost control and responsible financial management.

- *The City will maintain revenue and expenditure categories according to state statute and administrative regulation.*
- *Current revenues will be sufficient to support current expenditures.*
- *All revenue forecasts will be performed utilizing accepted analytical techniques.*
- *All fees for services shall be reviewed and adjusted (where necessary) at least every three years to ensure that rates are equitable and cover the total cost of service, or that percentage of total service cost deemed appropriate by the City.*
- ***Revenues of a limited or indefinite term will be used for capital projects or one-time operating expenditures to ensure that no ongoing service program is lost when such revenues are reduced or discontinued. (emphasis added for 6-17-13)***

RESERVE AND FUND BALANCE POLICIES

Reserve Replenishment (excerpt)

- *Reserve replenishments occur in two ways during periods of economic recovery:*
 - *Planned - A specific amount is included in the adopted budget, and*
 - *Unplanned - Ending fund balances are higher than budgeted, either due to higher than budgeted revenues or under-expenditures.*
- *Planned amounts are included as part of the adopted budget. Planned replenishments toward 80% of the target level shall be set to at least 1% of the General Fund adopted budget.*
- *Unplanned amounts available at the end of each biennium (if any) should help replenish to target faster. A high percentage (up to all) uncommitted funds available at the end of a biennium should be used for reserve replenishment until reserves meet 80% of target and the revenue stabilization reserve is at 100% of target. Some or all of those unplanned funds may be used in place of planned (budgeted) amounts in the following biennium to the extent it meets or exceeds the 1% budgeted amount.*
- *Once reserves reach 80% of target and revenue stabilization reserve is at 100%, funds may be used to meet other one time or on-going needs. Additional funds should be used to fund a variety of needs, based on the following process:*
 - *Set 50% of available cash toward reserves until they are at 100% of target.*
 - *The remaining 50% shall be available for one or more of the following needs, depending on the nature of the funds available (one-time or on-going) and in the following order of priority:*
 - *Fund liabilities related to sinking funds for public safety and information technology equipment,*
 - *Maintain current service levels,*
 - *Fund one-time projects or studies,*
 - *Increase funding for capital purposes,*
 - *Restore previous program service reductions,*
 - *Potential program and service enhancements.*

Taken as a whole, these policies provide a roadmap for evaluating decisions on how to prioritize investments and determine what performance the Council wants to buy as revenue becomes available, both one-time and ongoing. Reserve replenishment is clearly a high priority as additional revenues become available, as illustrated by the fiscal policy above. After reserves, the bullets on the list above relate directly to reprioritizing in the rebound as follows:

- **Equipment Sinking Funds** – As part of the 2013-2014 budget, the Council established new sinking funds for the replacement of public safety equipment and information technology infrastructure based on an assessment of needs over a 10 year period. The supporting analysis highlighted that some of the assets included had a life up to 20 years and that additional contributions would be necessary to fully fund the identified needs. An addition of \$1.1 million in initial contribution plus an additional annual contribution of approximately \$100,000 per year would be needed to fund the 20 year horizon. Finally, as new, incremental systems or equipment are purchased in the future, the required funding may increase.

In addition to the equipment sinking funds, the amount set aside in the facilities sinking funds is likely to increase with completion of the Public Safety Building. Additional contributions would be from General Fund sources, since the expanded square footage and the relocating functions are General Fund supported.

- **Current Service Levels** – As illustrated by the forecast discussion above, additional revenues are needed each year just to maintain current service levels. This dynamic represents the first call on new on-going revenues. In addition, the expiration of the Annexation Sales Tax Credit described earlier creates an additional on-going revenue need in 2022 to support current service levels.
- **One-time Projects or Studies** – As has been the case for many years, there are a number of needs that have been funded historically with one-time cash, but in reality represent on-going commitments. Examples include funding for A Regional Coalition for Housing (ARCH) and a portion of the funding for Human Services. In addition to the need to fund these activities reliably, the City routinely has one-time projects or periodic studies that represent calls on one-time cash. Examples include strategic/master/comprehensive plan updates, changes to technology, etc.
- **Funding for Capital Purposes** – The 2013-2018 Capital Improvement Program reflects total capital needs of \$607 million, of which \$158 million are funded and \$449 million (74%) are unfunded. Over time, a variety of resources have been pursued to make progress on funding these needs, most recently, the approval of Propositions 1 and 2 of which both include significant capital components. However, needs can be expected to increase as the numerous plan updates that are currently in progress (Comprehensive Plan, Parks, Recreation, and Open Space Plan, Transportation Master Plan, Surface Water Master Plan, etc.) incorporate the needs of the areas annexed in 2011 and update the needs previously identified.

Linking CIP to Master Plans in 2015 - Staff is evaluating the concept of changing the timing of the full-scale development of the next CIP from 2014 (developing the 2015-2020 CIP) to 2015 (developing the 2016-2021 CIP) in order to better incorporate the projects identified through the various plan updates. If the CIP development timeline is changed, a more modest update to the City's CIP would be undertaken in 2014 to update project costs and timing with an emphasis on the projects planned for 2015.

At prior retreats, the Council has received information regarding the level of capital investment by our immediate neighbors (Bellevue and Redmond) that illustrates that their more robust investment in capital purposes is due to per capita tax revenues that are at least 20% higher than those in Kirkland. This provides more General Fund resources that those cities can dedicate to capital purposes. For example, Redmond has two specific fiscal policies addressing the amount of General Fund revenue transferred to the CIP:

- *"The City will transfer, annually, at least five percent (5%) of General Fund revenues (excluding development and significant one-time revenues), available one-time money and the pavement management contribution to the capital investment program as part of the City's biennial budget."*
- *"A contribution (\$1.1 million) from sales tax on construction, adjusted annually for inflation, will be transferred into the capital investment program".*

Using the same calculation as Redmond, Kirkland currently places 2.8% of General Government revenues into the CIP. Kirkland could consider phasing in a higher level of funding from general tax revenues over time. One approach would be to set aside a portion of sales tax revenues from contracting and services, which are highly volatile sectors related

to development activity, toward capital needs. For example, a base level of revenues could be established using the low point in receipts in recent years (2010) where sales tax revenues in those two categories totaled \$3.35 million. Receipts in those categories over the baseline would be set aside toward CIP needs and those funds would be programmed into the next CIP. If this policy had been in place in 2011, \$100,000 would have been set aside toward capital. It is important to recognize, however, that these funds would not have been available to fund operations.

This topic will continue to be a focus area as the capital needs are identified through the current master planning process.

- **Restore Previous Program Service Reductions** – During the past several years, the City made a number of service level reductions in response to revenue declines. Some of those reductions were restored through Propositions 1 and 2, such as pedestrian safety and parks maintenance funding, however, the lower service levels are still in place in most areas. Consideration of whether any of these programs or service levels should be restored is likely to be a topic if overall revenues improve.
- **Potential Program and Service Enhancements** – As discussed above, the City is actively engaged in updating many of its important long range planning documents. Those updates will identify service level needs and enhancements that far exceed the City's financial resources. The question of how to prioritize those needs and make progress on funding at least a portion of them is part of the discussion of the performance management framework that will also be reviewed as part of this retreat. The further development and application of those principles will provide additional guidance on how to prioritize needs as revenues rebound.

While this memo does not provide a definitive framework, it illustrates that the Council has adopted policy language on how to prioritize funding and that there are a variety of needs to consider. This topic will continue to be a focus during the budget processes and there will be opportunities to refine the criteria further.

Mid-Biennial Budget Preview

While overall revenues are improving, there are a number of major issues and uncertainties facing the City as it moves toward the mid-biennial budget update:

- **Health Benefits Costs** – Final 2012 results used \$300,000 of the \$1 million set aside in the health benefits fund for rate stabilization purposes, due to a higher than average claims pattern that was discussed as part of the budget development process. The 2013 rate included an additional 13% be set aside toward potential claims liability. As noted at that time, if claims return to a more expected level, the additional funds set aside could add to the rate stabilization reserve. However, if claims continue at an elevated level, some use of the rate stabilization reserve may be required. Year-to-date, claims are continuing at an elevated level and we are projecting that at least \$500,000 of the rate stabilization reserve may be used in 2013 if the trend continues. The 2014 budget was set assuming an additional increase in benefit rates of 7 percent; depending on the results for the rest of this year, an additional increase may be required as part of the mid-biennial budget update. The Employee Benefits Advisory Committee is actively reviewing claims patterns and evaluating recommended program changes to help manage costs. Staff is also working diligently to understand, react to, and implement the provisions of the Affordable Care Act. Further updates on these issues will occur during the budget update in the Fall.

- **Telecommunications Utility Tax One-Time Recoveries** – The City did not realize as large an increase as expected in telecommunications utility tax revenues after the annexation was completed, despite early and frequent notification of the providers. Other agencies recommended using a contract auditor to evaluate whether the providers were correctly reporting their revenues and the City Manager authorized \$10,000 for a contract auditor to review the filings of the top 10 providers (who constitute over 90 percent of the revenues). To date, the auditor has confirmed that 6 of these providers are currently paying on the expanded service area, but delays in implementation resulted in back taxes owed by some providers. As of this time, back billings totaling over \$120,000 will be billed to providers, with more in the pipeline. Staff recommends that any one-time recoveries be set aside in a reserve until the current, unrelated utility tax refund claims by two providers, one of which is currently in litigation, are resolved. Given the results to date, staff is planning to expand the auditor's scope to include cable utility tax revenues and cable franchise fees, at an additional cost of \$10,000 from funds previously budgeted for franchise audit purposes in the IT department.
- **Needs to Meet Demands of Increased Development Activity** – If the level of development activity continues to grow, there may be need to adjust resources to maintain service standards. Some short-term adjustments have been made using Development Services reserves set aside for that purpose, but if the trend appears to last longer than the current year, additional adjustments may need to be made for 2014.
- **Needs for 2013-2014 Work Plan Items** – The City's adopted work plan for the biennium includes progress on implementation of a number of initiatives, including results of the Fire Strategic Plan and the Development Services Organizational Study. As work proceeds on these activities, supplemental funding requests are anticipated. For example, the Development Services Study called for enhancements to the website and integration of the materials developed by the departments to provide more of a "one-stop shopping" experience for the customer. Consultant services and one-time resources are anticipated to be needed to bring this recommendation into reality.

CONCLUSION

It is good to be able to report that revenues are recovering, but it is sobering to recognize that there are a variety of unmet needs that represent a call on those resources. It is also important to recognize that we are recovering from a particularly low point as illustrated by the fact that sales tax revenues (\$14.8 million in 2012) have not yet recovered to the 2007 peak level of \$16.5 million, even with the addition of the annexation areas in 2011.

Staff believes that completion of the long range planning updates will provide a strong context for assessing funding needs. Implementing the performance management framework should provide an approach to assist in prioritizing those needs and determining how effective our efforts are at meeting the Council's goals.

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 2013.



Financial Management Report as of March 31, 2013

AT A GLANCE:

Kirkland voters approve Propositions 1 and 2 to support City Streets and Parks

(page 2 sidebar)

2013 revenues through March increased over 2012 (page 3)

Sales tax revenue increased significantly in the first quarter. (page 5)

The economy continues to recover and the housing market is heating up. (pages 7-8)

Inside this issue:

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Summary of All Operating Funds: *Revenue*

- General Fund** actual 2013 revenue ended the first quarter **12.1 percent ahead** of the same period last year, an increase of over \$1.85 million. This revenue growth has been driven by improved sales tax revenues and strong growth in development services fees. The fund is at **22.4 percent of budget**, this will rise when first half property taxes are collected in the next two months. A more detailed analysis of General Fund revenue can be found on page 3, and sales tax revenue performance can be found beginning on page 5.
 - Other General Government Funds** actual 2013 revenue is **8.5 percent higher** than it was through the same period in 2012, growing more than \$300,000. Most funds increased their revenues with the only drop coming in cemetery operating revenues. Growth in revenues over 2012 can be attributed to an adjusted appropriation of funds to Parks Maintenance and increased property tax collections for Street maintenance. These funds have collected only **16.4 percent of budget** because Proposition 1 & 2 levy funds have not yet been collected and are not reflected in this quarter's revenue figures.
- There were internal accounting changes for revenues of Water/Sewer, Surface Water, and Solid Waste utilities that contributed to the increases in revenues when comparing 2013 to 2012.*
- The **Water/Sewer Operating Fund** actual 2013 revenue is **up 12.2 percent** over the same period last year due to the accounting change and rate increases, and **23.5 percent of budget** has been collected. This is slightly low because of seasonal variations.
 - Surface Water Management Fund** has received **6.9 percent of budgeted revenues**. Surface water charges are paid with property taxes which are primarily received in April and October. Some revenue came in early in 2013 and the majority of the funds are yet to be collected. This year's revenues thus far are **79.9 percent higher** than they were at the end of March 2012, primarily due to timing issues.
 - Solid Waste Fund** actual 2013 revenue is **4.2 percent ahead** compared to the same period last year, which is at **22.8 percent of budget**. Rate increases and the accounting change factored into this growth, and as with other utilities, revenues are slightly lower than budget because of the timing of billing.

Resources by Fund	Year-to-Date Actual			Budget			% of Budget	
	3/31/2012	3/31/2013	% Change	2012	2013	% Change	2012	2013
General Gov't Operating:								
General Fund	15,409,090	17,275,056	12.1%	76,241,634	77,213,977	1.3%	20.2%	22.4%
Other General Gov't Operating Funds	3,537,667	3,840,105	8.5%	18,954,113	23,486,790	23.9%	18.7%	16.4%
Total General Gov't Operating	18,946,757	21,115,161	11.4%	95,195,747	100,700,767	5.8%	19.9%	21.0%
Utilities:								
Water/Sewer Operating Fund	4,984,834	5,593,827	12.2%	20,540,187	23,794,608	15.8%	24.3%	23.5%
Surface Water Management Fund	354,011	636,747	79.9%	8,391,990	9,224,823	9.9%	4.2%	6.9%
Solid Waste Fund	3,176,461	3,310,694	4.2%	13,228,950	14,495,498	9.6%	24.0%	22.8%
Total Utilities	8,515,306	9,541,268	12.0%	42,161,127	47,514,929	12.7%	20.2%	20.1%
Total All Operating Funds	27,462,063	30,656,429	11.6%	137,356,874	148,215,696	7.9%	20.0%	20.7%



Kirkland Voters Approve Street and Parks Levies

Citizens of Kirkland voted to invest in the City's infrastructure and amenities when two permanent levy lid lifts to improve city streets and parks were passed in the November 6, 2012 general election. The Street Levy was proposed by City Council to address the declining condition of the City's streets, and the Parks Levy was initiated by a citizen group and then proposed by the City Council to address the recession-related maintenance reductions and emerging capital needs.

The people of Kirkland voted 54.8% in favor of the Street Levy and 57.9% in favor of the Parks Levy. The Street Levy implements a property tax increase \$0.204 per \$1000 of assessed valuation, and the Parks Levy increases property taxes by \$0.16 per \$1000 of assessed valuation. These levies will raise approximately \$3 million and \$2.4 million in annual revenues, respectively.

The additional revenues are already being put to work. Funds from the Street Levy are available to be spent on street maintenance, pedestrian safety improvements, and school walk-routes, and the Parks Levy can be spent on park maintenance, park facilities renovations and land acquisition.

Summary of All Operating Funds: *Expenditures*

- **General Fund** actual expenditures finished March **up 5.7 percent** over last year. Most general fund departments have increased expenditures in order to meet the expanded service needs of the City after annexation. The budget has taken this growth into account, and expenditures are at **24.1 percent of budget** a quarter through the year. A more detailed analysis of General Fund expenditures by department is found on page 4.
- **Other Operating Funds** actual expenditures were up **9.3 percent** due to rising expenditures for equipment rental, parks maintenance, and facilities maintenance. These particular increases totaled nearly \$330,000 but were largely offset by savings of \$225,000 in street operating and information technology expenditures. The overall increase in other operating funds was nearly \$350,000 and most of that can be attributed to increased spending on vehicle replacement. Vehicle replacement costs were lower than expected in 2012, so expenditures on vehicles has increased in 2013 as more vehicles are being replaced and annexation related vehicles are added to the fleet. This rise in expenses was anticipated in the budget, and these funds have kept expenditures **lower than budget at 19.8 percent**.

Expenditures in the Water/Sewer, Surface Water, and Solid Waste utility funds have increased mostly due to the internal accounting change, with the taxes now flowing through the utility fund. This results in an expenditure in the utilities as the funds are moved to the general fund, offset by tax revenues appearing in the utilities, resulting in zero net effect to ratepayers.

- **Water/Sewer Operating Fund** actual expenditures finished the quarter **29.3 percent higher** than they did in 2012, and they were slightly **above budget at 26.2 percent**. The majority of this increase is due to the accounting change, which has amounted to more than \$500,000 of new flow-through expenditures from this fund.
- **Surface Water Management Fund** actual first quarter expenditures were **20.8 percent higher** than last year. These expenditures have grown as a result of hiring annexation-related positions that were postponed in 2012 and due to the new accounting of utility taxes. This growth was anticipated and is reflected in the budget. Expenditures through March are at **13.8 percent of budget**.
- **Solid Waste Fund** has spent **19 percent more** so far in 2013 than it did in 2012, also due to the accounting change. With **24.8 percent of budget spent**, expenses have been in line with budget expectations.

Expenditures by Fund	Year-to-Date Actual			Budget			% of Budget	
	3/31/2012	3/31/2013	% Change	2012	2013	% Change	2012	2013
General Gov't Operating:								
General Fund	15,571,111	16,454,835	5.7%	67,876,117	68,371,367	0.7%	22.9%	24.1%
Other General Gov't Operating Funds	3,922,683	4,287,010	9.3%	18,821,044	21,605,796	14.8%	20.8%	19.8%
Total General Gov't Operating	19,493,794	20,741,845	6.4%	86,697,161	89,977,163	3.8%	22.5%	23.1%
Utilities:								
Water/Sewer Operating Fund	4,069,644	5,260,029	29.3%	17,325,319	20,071,914	15.9%	23.5%	26.2%
Surface Water Management Fund	1,036,394	1,251,707	20.8%	5,495,211	9,082,998	65.3%	18.9%	13.8%
Solid Waste Fund	3,177,029	3,779,557	19.0%	13,135,052	15,237,469	16.0%	24.2%	24.8%
Total Utilities	8,283,067	10,291,293	24.2%	35,955,582	44,392,381	23.5%	23.0%	23.2%
Total All Operating Funds	27,776,861	31,033,138	11.7%	122,652,743	134,369,544	9.6%	22.6%	23.1%

Financial Management Report as of March 31, 2013

General Fund Revenue

- **Sales tax** revenue allocated to the General Fund is **18.9 percent higher** than it was last year. This is **ahead of budget projections**, with **28.6 percent of budget** collected thus far. A detailed analysis of total sales tax revenue can be found starting on page 5.
- **Property tax** is ahead of last year with **27.5 percent more** collected in the first quarter. However, most property tax is collected in April and October so this category is currently sitting at **6.7 percent of budget** and a true assessment of performance will not be possible until the second quarter report.
- **Utility tax** revenue collection is **up 3.2 percent** compared to the first quarter of 2012 mostly due to moderately higher electric and telephone utility collections. Collections are **above budget at 26.6 percent**.
- **Other taxes** actual revenue is **5.0 percent higher** than the same period in 2012 due to rising gambling and leasehold excise tax revenue. This is at **44.4 percent of budget** since gambling taxes are collected twice a year.
- The **business licenses (base fee) and franchise fees** have collected **1.1 percent more** than they did at this point last year and are **above budget at 25.7 percent**.
- The **revenue generating regulatory license fee** has brought in **5.8 percent less** than it did in 2012. This is the tax the city charges employers on a per-employee basis, and it can fluctuate based on the timing of when businesses submit their payments. These revenues are healthy at **26.9 percent of budget** and should normalize compared to 2012 as the year goes on.
- The **development-related fee** revenues, collectively, are **up 38.1 percent** and are ahead of projections at **32.7 percent** of their budgeted revenue. **Building, Structural & Equipment permits** are **up 23.7 percent** over last year. **Engineering services** has collected **79.6 percent more** than last year. **Plan check fees** are **up 70.8 percent**. **Planning fees** revenue has risen **5.0 percent**. The increased revenues indicate that building and development is increasing in the City. Note that a portion of this additional revenue is for work to be done in subsequent years and will be set aside in reserve for that purpose.
- **Fines and Forfeitures** are **up 51.6 percent** due to the increase of parking and traffic fines being collected. Parking fines have particularly grown because the parking enforcement officer position that was vacant last year has now been filled, but they still **below budget at 21.4 percent**.
- The **other financing sources** category in 2012 reflected the one-time asset transfer from Woodinville Fire & Rescue. Budgeted interfund transfers were decreased in 2013, but no actuals have posted so far this year.

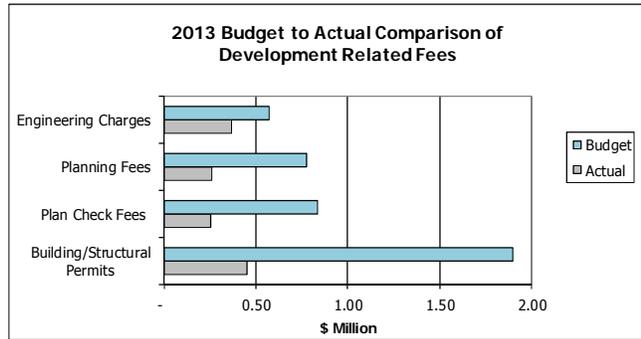
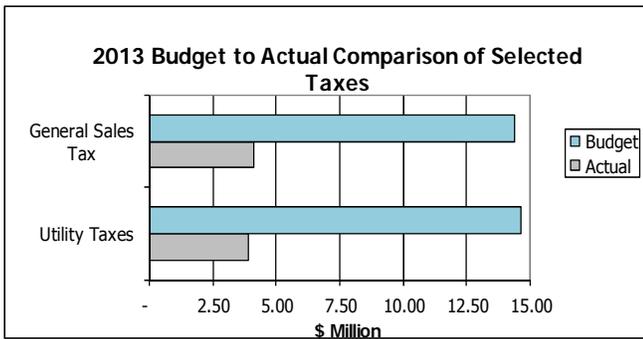
General Fund 2013 revenues ended the first quarter \$1,865,966 higher than the same period last year largely due to growth in sales tax, property tax, and permits and fees.

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.
- In 2013 about 424 of the City's 544 regular employees are budgeted within the general fund.

General Fund Resource Category	Year-to-Date Actual			Budget			% of Budget	
	3/31/2012	3/31/2013	% Change	2012	2013	% Change	2012	2013
Taxes:								
Retail Sales Tax: General	3,454,796	4,109,153	18.9%	13,972,010	14,368,962	2.8%	24.7%	28.6%
Retail Sales Tax Credit: Annexation	830,130	978,797	N/A	3,409,791	3,415,626	N/A	N/A	28.7%
Retail Sales Tax: Criminal Justice	410,139	451,682	10.1%	1,568,112	1,634,287	4.2%	26.2%	27.6%
Property Tax	866,887	1,105,695	27.5%	16,049,865	16,619,200	3.5%	5.4%	6.7%
Utility Taxes	3,763,958	3,883,235	3.2%	14,468,333	14,618,866	1.0%	26.0%	26.6%
Rev Generating Regulatory License	665,333	626,913	-5.8%	2,386,300	2,328,005	-2.4%	27.9%	26.9%
Other Taxes	452,441	474,948	5.0%	1,005,488	1,068,775	6.3%	45.0%	44.4%
Total Taxes	10,443,684	11,630,423	11.4%	52,859,899	54,053,721	2.3%	19.8%	21.5%
Licenses & Permits:								
Building, Structural & Equipment Permits	363,762	450,124	23.7%	2,423,612	1,900,182	-21.6%	15.0%	23.7%
Business Licenses/Franchise Fees	1,078,295	1,090,383	1.1%	4,109,869	4,244,605	3.3%	26.2%	25.7%
Other Licenses & Permits	108,390	142,557	31.5%	217,579	317,128	45.8%	49.8%	45.0%
Total Licenses & Permits	1,550,447	1,683,064	8.6%	6,751,060	6,461,915	-4.3%	23.0%	26.0%
Intergovernmental:								
Grants and Federal Entitlements	111,127	10,662	-90.4%	137,835	13,597	-90.1%	80.6%	78.4%
State Shared Revenues & Entitlements	260,435	239,440	-8.1%	909,967	1,033,781	13.6%	28.6%	23.2%
EMS	-	-	N/A	866,729	884,645	N/A	N/A	N/A
Other Intergovernmental Services	12,887	137,978	970.7%	186,597	500,455	168.2%	6.9%	27.6%
Total Intergovernmental	384,449	388,080	0.9%	2,101,128	2,432,478	15.8%	18.3%	16.0%
Charges for Services:								
Internal Charges	1,331,273	1,322,621	-0.6%	5,894,286	5,208,912	-11.6%	22.6%	25.4%
Engineering Services	206,632	371,043	79.6%	555,852	574,093	3.3%	37.2%	64.6%
Plan Check Fee	147,862	252,620	70.8%	814,484	836,864	2.7%	18.2%	30.2%
Planning Fees	248,418	260,918	5.0%	544,619	776,347	42.5%	45.6%	33.6%
Recreation	329,273	360,817	N/A	1,152,963	1,160,300	N/A	N/A	31.1%
Other Charges for Services	384,038	481,303	25.3%	2,187,273	3,084,228	41.0%	17.6%	15.6%
Total Charges for Services	2,647,496	3,049,322	15.2%	11,149,477	11,640,744	4.4%	23.7%	26.2%
Fines & Forfeits	269,879	409,113	51.6%	2,781,169	1,907,925	-31.4%	9.7%	21.4%
Miscellaneous	113,135	115,053	1.7%	598,901	717,194	19.8%	18.9%	16.0%
Total Revenues	15,409,090	17,275,056	12.1%	76,241,634	77,213,977	1.3%	20.2%	22.4%
Other Financing Sources:								
Transfer of FD 41 & WFR Balances	-	-	N/A	1,426,568	-	N/A	N/A	N/A
Interfund Transfers	-	-	N/A	153,560	302,228	N/A	N/A	N/A
Total Other Financing Sources	-	-	N/A	1,580,128	302,228	N/A	N/A	N/A
Total Resources	15,409,090	17,275,056	12.1%	77,821,762	77,516,205	-0.4%	19.8%	22.3%

General Fund Revenue *continued*



General Fund Expenditures

General Fund Department Expenditures	Year-to-Date Actual			Budget			% of Budget	
	3/31/2012	3/31/2013	% Change	2012	2013	% Change	2012	2013
Non-Departmental	183,685	218,733	19.1%	1,043,302	1,205,748	15.6%	17.6%	18.1%
City Council	130,066	202,520	55.7%	443,849	399,928	-9.9%	29.3%	50.6%
City Manager's Office	418,802	415,714	-0.7%	1,901,282	2,036,269	7.1%	22.0%	20.4%
Municipal Court	498,176	520,616	4.5%	2,630,719	2,237,466	-14.9%	18.9%	23.3%
Human Resources	298,219	312,937	4.9%	1,274,208	1,269,431	-0.4%	23.4%	24.7%
City Attorney's Office	325,445	337,877	3.8%	1,365,836	1,359,357	-0.5%	23.8%	24.9%
Parks & Community Services	1,600,689	1,568,882	-2.0%	7,313,947	7,336,422	0.3%	21.9%	21.4%
Public Works (Engineering)	880,734	993,538	12.8%	3,944,808	4,441,370	12.6%	22.3%	22.4%
Finance and Administration	986,424	1,049,097	6.4%	4,635,007	4,103,262	-11.5%	21.3%	25.6%
Planning & Community Development	742,234	794,950	7.1%	3,319,899	3,459,356	4.2%	22.4%	23.0%
Police	4,716,704	4,961,485	5.2%	20,049,726	20,048,918	0.0%	23.5%	24.7%
Fire & Building	4,789,934	5,078,485	6.0%	19,953,534	20,473,840	2.6%	24.0%	24.8%
Total Expenditures	15,571,111	16,454,835	5.7%	67,876,117	68,371,367	0.7%	22.9%	24.1%
Other Financing Uses:								
Interfund Transfers	1,436,295	1,740,297	21.2%	9,814,528	11,707,259	19.3%	14.6%	14.9%
Total Other Financing Uses	1,436,295	1,740,297	21.2%	9,814,528	11,707,259	19.3%	14.6%	14.9%
Total Expenditures & Other Uses	17,007,406	18,195,132	7.0%	77,690,645	80,078,626	3.1%	21.9%	22.7%

Comparing 2013 actual expenditures to the same period last year:

Overall, excluding interfund transfers, General Fund expenditures are **7.0 percent** higher than 2012, but are within the budgeted amount. So far in 2013 the City has spent **24.1 percent** of total budgeted expenditures, one quarter through the budget year. The table above illustrates that most gains have been moderate and some of the biggest increases in dollar terms have been in response to increased demand for services.

- Expenditures for **Non-departmental** are **up 19.1 percent** largely due to an increase in retiree medical benefit costs. This was budgeted for and spending is **below budget at 18.1 percent**.
- Actual 2013 expenditures for the **City Council** have **grown 55.7 percent** because of a nearly twofold increase in the costs of dues and memberships, and this amount is at **50.6 percent of budget** because the cost of the annual memberships was paid at the beginning of the year.
- The **City Manager's Office** costs are **down 0.7 percent** compared to 2012 due to continued savings in salaries and benefit expenses. These expenses are below planned spending at **20.4 percent of budget**.
- The **Municipal Court** actuals are **up 4.5 percent** due to increased personnel costs, but it is below projections at **23.3 percent of budget**.
- Actual 2013 expenditures for **Human Resources** are **up 4.9 percent** over last year, this can be attributed mostly to salary and wage increases, and is at **24.7 percent of budget**.
- The **City Attorney's Office** expenditures are **up 3.8 percent** above 2012 due to small increases in salaries and wages, along with increased payments for contracted legal services. This is in line with projections at **24.9 percent of budget**.
- First quarter 2013 expenditures for the **Parks & Community Services Department** are **down 2.0 percent** versus the same period last year. This is due to seasonal variations in salaries, wages and benefits, along with the cost for supplies, keeping expenses **below budget at 21.4 percent**.

2013 General Fund actual expenditures (excluding "other financing sources") are 5.7 percent higher than they were in 2012.

Continued on page 5

Financial Management Report as of March 31, 2013

- **Public Works** expenditures have used **22.4 percent of budget**, which is **12.8 percent higher** than first quarter 2012 due to growth in wages, salaries, and benefits as new employees have been hired to accommodate post-annexation community needs.
- The **Finance and Administration Department** expenditures are at **25.6 percent of budget, rising 6.4 percent** in dollar terms versus last year due to increases in spending on salaries, wages and benefits.
- Actual first quarter expenditures for the **Planning and Community Development Department** finished **up 7.1 percent** over last year because of increased personnel costs due to filling positions that were empty in 2012; **23 percent of this budget** has been spent.
- The **Police Department** has spent **5.2 percent more** than it had at this point last year; the department has increased personnel costs because annexation - related positions have been filled. Spending is at **24.7 percent of budget** so far this year. Jail costs continue to be under budget due to contracts with other agencies for lower rates than those charged by King County and an increase in the use of electronic home detention and other sentencing measures as alternatives to jail time.
- Expenditures for the **Fire & Building Department** grew **6 percent** over last year. As with the other general fund departments, most of this increase can be attributed to higher personnel costs and is within projections at **24.8 percent of budget**.



Rendering of Kirkland's new Public Safety Building. Construction is expected to begin in mid-2013 and take 12 months to complete.

Sales Tax Revenue Analysis Year-to-date revenue is **up 16.9 percent** compared to the same period last year. Strong performance continues in the contracting, auto/gas retail, and services sectors. The sales tax revenue received in the first quarter is from November 2012-January 2013 sales.

Review by business sectors:

- **Contracting is up 43 percent** over the same period in 2012. This is the result of several large projects and improvements in residential construction.
- Retail sectors sales tax revenue collectively are **up 11.4 percent** compared to 2012.
- The **auto/gas retail** sector is **up 19.4 percent** compared to last year due to positive performance by all of the dealerships, along with the addition of one new dealership.
- The **general merchandise/miscellaneous retail** sector is **up 8.4 percent** compared to 2012 largely due to positive performance by one key retailer.
- The **retail eating/drinking** sector performance is **up 4.7 percent** compared to last year. Higher tax receipts can be attributed to many established restaurants posting improved sales along with the opening of three new restaurants late last year.
- **Other retail** is **up 5.4 percent** compared to last year due to positive performance in most categories with the exception of food and beverage stores.
- The **services** sector is **up 18.5 percent** compared to last year primarily due to publishing and software services.
- **Wholesale** is **up 17.8 percent** compared to last year due to strong sales in durable goods such as medical equipment and construction materials.
- The **miscellaneous** sector is **up 17.4 percent** compared to last year due to positive performance in the finance, manufacturing, and utilities categories along with the allocation of uncoded sales tax revenue by the Department of Revenue.
- The **communications** sector has only slightly improved, **up 1 percent** compared to last year due to weak performance by a few large retailers.

Sales Tax Receipts Through March 2012 and 2013



Neighboring Cities Sales Tax

Bellevue was up 5.9 percent and Redmond was down 2.2 percent through March compared to the same period in 2012. Redmond's decrease is skewed due to a tax recovery in 2012.

King County Sales Tax

King County's sales tax receipts are 7.9 percent higher than they were through the first quarter of 2012.

City of Kirkland Actual Sales Tax Receipts

Business Sector Group	January-March		Dollar Change	Percent Change	Percent of Total	
	2012	2013			2012	2013
Services	460,554	545,702	85,148	18.5%	12.9%	13.1%
Contracting	485,910	694,630	208,720	43.0%	13.6%	16.6%
Communications	106,163	107,177	1,014	1.0%	3.0%	2.6%
Auto/Gas Retail	838,524	1,000,789	162,265	19.4%	23.5%	24.0%
Gen Merch/Misc Retail	512,914	556,185	43,271	8.4%	14.4%	13.3%
Retail Eating/Drinking	297,981	312,010	14,029	4.7%	8.3%	7.5%
Other Retail	517,254	545,142	27,888	5.4%	14.5%	13.1%
Wholesale	169,954	200,148	30,194	17.8%	4.8%	4.8%
Miscellaneous	183,039	214,865	31,826	17.4%	5.1%	5.1%
Total	3,572,293	4,176,648	604,355	16.9%	100.0%	100.0%

Kirkland's sales tax base is comprised of a variety of businesses which are grouped and analyzed by business sector (according to NAICS, or "North American Industry Classification System"). Nine business sector groupings are used to compare 2012 and 2013 year-to-date sales tax receipts in the table to the left.

City of Kirkland Actual Monthly Sales Tax Receipts

Month	Sales Tax Receipts		Dollar Change	Percent Change
	2012	2013		
January	1,104,022	1,333,112	229,090	20.8%
February	1,413,586	1,618,026	204,440	14.5%
March	1,054,685	1,225,510	170,825	16.2%
Total	3,572,293	4,176,648	604,355	16.9%

When analyzing monthly sales tax receipts, there are two items of special note: First, most businesses remit their sales tax collections to the Washington State Department of Revenue on a monthly basis. Small businesses only have to remit their sales tax collections either quarterly or annually, which can create anomalies when comparing the same month between two years. Second, for those businesses which remit sales tax monthly, there is a two month lag from the time that sales tax is collected to the time it is distributed to the City. For example, sales tax received by the City in March is for sales activity in January. Monthly sales tax receipts through March 2012 and 2013 are compared in the table above.

- Monthly sales tax revenues have maintained a strong growth trend so far in 2013 with gains over the same months in 2012 averaging in the high teens.
- January's revenues rose 20.8 percent year-over-year on the strength of improved performance from the contracting, services, and auto retail sectors.
- February revenues reflect December 2012 sales activity, and improved 14.5 percent over last year on the strength of contracting, auto retail, and general retail.
- March continued the year's trend of sales tax growth, with an increase of 16.2 percent, with the primary drivers of growth coming from the same sectors as in earlier months.
- A boom in revenues from the contracting, auto retail, and service sectors has driven the City's sales tax revenues higher, and the growth has been impressive, but these sectors are economically sensitive. Their growth could taper off as pent up demand for housing and durable goods is met, or revenues could drop if there is a downturn in the economy.

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

Comparing to the same period last year:

Totem Lake, which accounts for about 30 percent of the total sales tax receipts, was **up 13.8 percent** due to continued improvements in automotive/gas retail and improvements in most retail categories.

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

NE 85th Street, which accounts for 14 percent of the total sales tax receipts, was **up 7.8 percent** primarily due to increases in automotive and apparel retail categories. These retail sectors contribute 78.5 percent of this business district's revenue.

Downtown, which accounts for more than 6 percent of the total sales tax receipts, was **up 13.6 percent** largely due to the return of information services revenues (which were low in 2012 because of a one-time taxpayer refund that reduced the City's receipts).

Carillon Point & Yarrow Bay, which account for about 2 percent of the total sales tax receipts, were **up 2.1 percent** compared to last year. About 68 percent of this business district's revenue comes from business services, retail eating/drinking and accommodations.

Houghton & Bridle Trails, which account for about 2.5 percent of the total sales tax receipts, were **up 4.0 percent** due to modest growth in amusement/recreation and restaurant revenues.

Juanita, which accounts for 1.5 percent of the total sales tax receipts was **down 1.4 percent**. Increases in the retail eating/drinking were offset by decreases from the amusement/recreation & theater category. These sectors, make up about 54 percent of this business district's revenue.

North Juanita, Kingsgate, & Finn Hill account for more than 3 percent of the total sales tax receipts and were **up 4.7 percent** over 2012. Much of this growth came from the general merchandise retail category.

Year-to-date sales tax receipts by business district for 2012 and 2013 are compared in the table on the next page.

Financial Management Report as of March 31, 2013

When reviewing sales tax receipts by business district, it's important to be aware that 46.4 percent of the revenue received so far in 2013 is in the "unassigned or no district" category largely due to contracting and other revenue, which includes revenue from internet, catalog sales and other businesses located outside of the City.

City of Kirkland Sales Tax by Business District

Business District	Jan - Mar Receipts		Dollar Change	Percent Change	Percent of Total	
	2012	2013			2012	2013
Totem Lake	1,077,944	1,226,819	148,875	13.8%	30.2%	29.4%
NE 85th St	534,424	575,879	41,454	7.8%	15.0%	13.8%
Downtown	228,231	259,355	31,125	13.6%	6.4%	6.2%
Carillon Pt/Yarrow Bay	73,498	75,027	1,529	2.1%	2.1%	1.8%
Houghton & Bridle Trails	95,468	99,256	3,788	4.0%	2.7%	2.4%
Juanita	62,519	61,633	(886)	-1.4%	1.8%	1.5%
Kingsgate	44,504	44,318	(186)	-0.4%	1.2%	1.1%
North Juanita	55,234	60,550	5,316	9.6%	1.5%	1.4%
Finn Hill	27,027	27,873	846	3.1%	0.8%	0.7%
Unassigned or No District:						
Contracting	485,283	694,003	208,720	43.0%	13.6%	16.6%
Other	888,161	1,051,935	163,774	18.4%	30.0%	29.8%
Total	3,572,293	4,176,648	604,355	16.9%	100.0%	100.0%

Sales Tax Revenue Outlook Sales tax receipts for the first quarter of 2013 posted strong gains in revenues for the City as spending on big-ticket items such as home building and car sales grew substantially. The contracting and automotive/gas retail sectors have contributed 61.4 percent of 2013's overall sales tax gains over 2012, but both of these sectors are highly sensitive to economic conditions and can be volatile sources of revenue (contracting is up 43 percent compared to 2012, and auto/gas retail is up 19.4 percent, indicating a strong positive response to an improving local and national economy). All other major sectors in the City have experienced growth compared to the first quarter of 2012, with increases of 18.5 percent for services, 17.8 percent for wholesale, and 17.4 percent for miscellaneous. Total sales tax receipts ended the first quarter 16.9 percent higher than they did in 2012.

OFFICE VACANCIES:

According to CB Richard Ellis Real Estate Services, the Eastside office vacancy rate fell to 13.4 percent in the first quarter of 2013 and had the strongest performance in the Puget Sound region. The corresponding figure for the first quarter of 2012 was 14.5 percent. Kirkland's vacancy rate was 7.5 percent, lower than the Puget Sound average, but higher than the 6.4 percent vacancy rate in the first quarter of 2012.

Performance across the Puget Sound region eased off in the first quarter of 2013 following a very strong 2012. The overall vacancy rate grew slightly to 15.5 percent.

The region currently has 852,955 SF of projects under construction, including large projects on the Eastside and the continued expansion of Amazon near their current South Lake Union headquarters.

LODGING TAX REVENUE:

Lodging tax revenue remained nearly flat compared to the first quarter of 2012, finishing the first quarter of 2013 down 0.4 percent, a difference of less than \$250.

Economic Environment Update The Washington State economy is expected to grow and pick up momentum as the year progresses according to the March 2013 data from the Washington State Economic and Revenue Forecast Council. The economy in Washington State is also expected to outperform the national economy throughout 2013, with the housing sector providing a particularly positive outlook. Permits for new single family homes have increased, and there has also been a rise in house prices in the state. However, there is considerable uncertainty surrounding federal fiscal policy. While a deal was reached to avoid most of the tax increases and budget cuts that made up the fiscal cliff, automatic sequester spending cuts began on March 1st consisting of \$1.2 trillion in spending cuts over 9 years. The ongoing financial crisis in Europe also continues to pose a significant threat to the US economy. The EU has now posted five consecutive quarters of negative growth.

The Conference Board **Consumer Confidence Index**, declined from 68.0 in February to 59.7 in March, due to a sharp decline in consumer's expectations and increased pessimism about the short-term economic outlook. According to The Conference Board "the recent [Federal] sequester has created uncertainty regarding the economic outlook and as a result, consumers are less confident." An index of 90 indicates a stable economy an index of above 100 indicates growth.

King County's **unemployment rate** was **5.1 percent** in March 2013 compared to 7.2 percent in March 2012. The unemployment rate nationally and in the state of Washington is higher than in King County. US unemployment for March 2013 was 7.6 percent, while Washington State reported a 7.5 percent unemployment rate. These rates are down from 8.4 percent nationally and 8.5 percent in Washington in March 2012. The unemployment rate in Kirkland was lower than the County, State and Country with preliminary numbers for March reporting an unemployment rate of 4.3 percent in March 2013, down from 6.0 percent in March 2012.

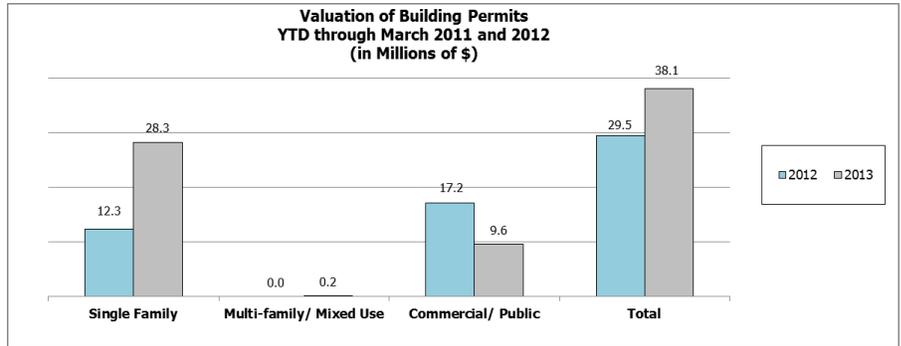
The Western Washington Purchasing Manager Index saw a healthy growth in March 2013. The index was at 62.0, up 6.9 from February. Index numbers less than 50 indicate a shrinking economy.

(Continued on page 8)

Economic Environment Update *continued*

my, while those over 50 signal an expanding economy. Although the score has increased it remains below a "high confidence" score that would be 70 or above.

Local **development activity** through March comparing 2012 to 2013, as measured by the valuation of City of Kirkland building permits, is illustrated in the chart to the right. This rise has been almost entirely driven by a large increase in the value of single family permits issued. There has actually been a decrease in the value of commercial/public permits and very little activity for multi-family/mixed use developments.



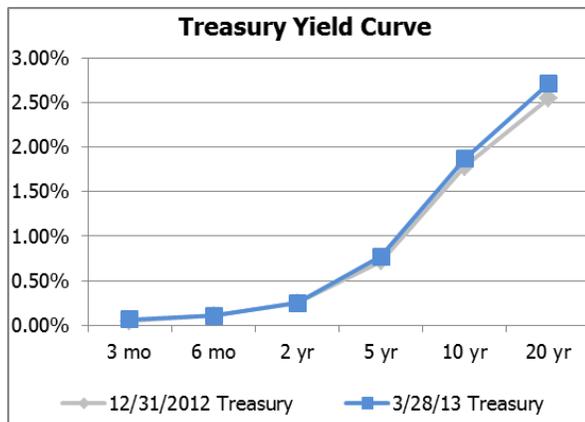
Closed sales of **new and existing single-family homes** on the Eastside were up 17.3 percent in March 2013 compared to March 2012. The median price of a single family home also increased from \$470,000 in March 2012 to \$552,415 in March 2013. Closed sales of houses across King County were also up 11.1 percent. Closed sales of condos on the Eastside also increased 9 percent between March 2012 and March 2013. The median price of a condo on the Eastside rose 11.4 percent during this time. Across King County the median price of a condo was \$225,000 in March 2013, a 28.6 percent increase from March 2012.

Seattle metro consumer price index (CPI) is calculated bi-monthly and the most recent index from February 2013 was 1.9 percent. This is higher than it was in December 2012, but lower than the 2.66 percent average for 2012. The national CPI was 1.5 percent in March, the lowest level since July 2012 and lower than the 2.12 percent average for 2012.

Investment Report

MARKET OVERVIEW

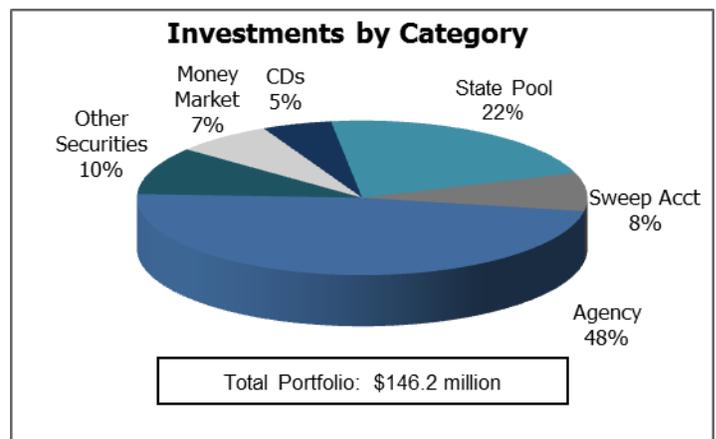
The economy gave some minor indications of accelerating performance in the beginning of the quarter then settled back into the slow recovery trend that we have seen in the last several years. The Fed Funds rate continued to remain at 0.25 percent, where it is expected to stay until mid-to-late 2015. The yield curve was unchanged at the short end and rose slightly at the long end of the curve



CITY PORTFOLIO

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

The City's portfolio decreased in the 1st quarter of 2013 to \$146.2 million compared to \$148.6 million on December 31, 2012. The decrease in the portfolio is related to the normal cash flows of the first quarter, as the first half of property taxes is received at the end of April.



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, 2013

2013 ECONOMIC OUTLOOK and INVESTMENT STRATEGY

The outlook for growth in the U.S. economy is mostly unchanged from three months ago, according to 46 forecasters surveyed by the Federal Reserve Bank of Philadelphia. The U.S. economy is expected to grow at an annual rate of 1.9 percent in 2013. CPI inflation is expected to average 2.0 percent in 2013 and 2.2 percent in 2014. The unemployment rate is expected to average 7.7 percent in 2013 and fall to 7.2 percent in 2014. The Fed Funds rate, currently at 0.25 percent, is expected to remain at this level throughout 2013 and into 2015.

The duration and earnings of the portfolio has increased with the purchase of longer term securities in the last quarter of 2012. The focus on the next 2 quarters will be purchasing shorter term securities to reduce the duration. The opportunities for increasing portfolio returns are scarce as short term interest rates continue at historically low levels. During periods of low interest rates the portfolio duration should be kept shorter with greater liquidity, so that the City is in a position to be able to purchase securities with higher returns when interest rates begin to rise. The State Pool is currently at 0.18 percent and will continue to remain low as the Fed Funds rate remains at 0.00 to 0.25 percent. Total estimated investment income for 2013 is \$500,000.

Investment Report *continued*

Liquidity

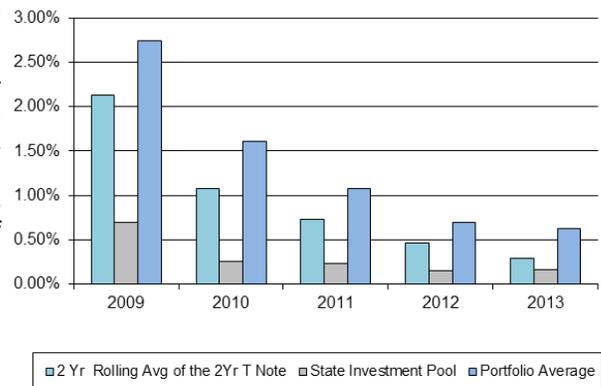
The target duration for the City's portfolio is based on the 2 year treasury rate which remained level at 0.25 percent on December 31, 2012 and March 28, 2013. The average maturity of the City's investment portfolio increased from 2.16 years on December 31, 2012 to 2.52 years on March 31, 2013, with the purchase of longer term securities as the interest rates moved higher at the end of 2012.

Yield

The City Portfolio yield to maturity remained unchanged at 0.64 percent on December 31, 2012 and March 31, 2013. Through March 31, 2013, the City's annual average yield to maturity was 0.63 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 0.29 percent on March 31, 2013.

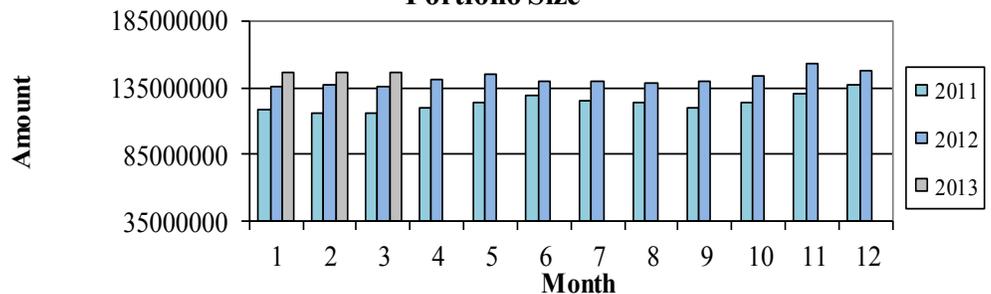
The City's practice of investing further out on the yield curve than the State Investment Pool results in earnings higher than the State Pool during declining interest rates and lower earnings than the State Pool during periods of rising interest rates. This can be seen in the adjacent graph.

Investment Interest Rate Comparisons

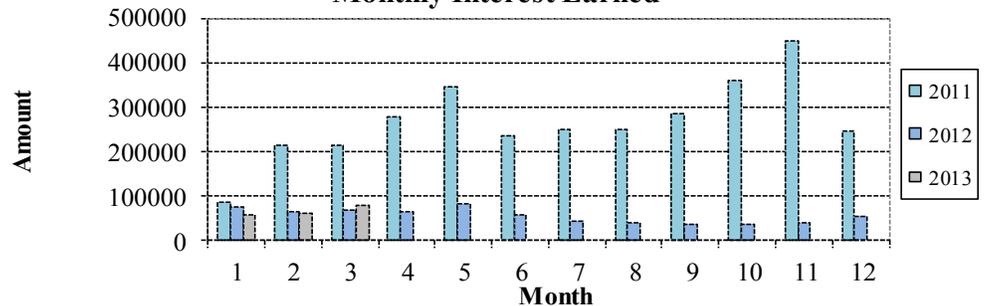


Legend: 2 Yr Rolling Avg of the 2Yr T Note (light blue), State Investment Pool (grey), Portfolio Average (dark blue)

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 March 31, 2013. This presentation will be updated to reflect actual 2013 beginning cash balances after the resource forward budget adjustments are adopted in June.

Reserve Analysis

General Purpose Reserves

- The **Revenue Stabilization Reserve** was used almost in its entirety during the 2009-10 biennium as part of the budget balancing strategy to address the severe economic downturn, which allowed the City to mitigate some negative impacts to services. Contributions have been made to replenish the reserves since then and with planned contributions in 2013 and 2014, the reserve is expected to be at target by the end of 2014.
- The **Building and Property Reserve** has been identified as an available funding source for facility expansion and renovation projects and a significant portion is planned to be used during the current biennium, which will bring the reserve just slightly below target.
- The **General Capital Contingency Reserve** was used to fund project cost over-runs in the previous biennium, so replenishment from General Fund 2012 year-end cash is planned in 2013.

General Capital Reserves

- A sign of the improving economy, **Real Estate Excise Tax (REET)** collections are 30 percent ahead of the same period last year. Revenue in 2013 is trending above budget, so the current budgeted ending balance is conservative and will be reviewed later in the year for potential adjustment. REET 2 reserves were used in 2012 to assist in the re-payment of the loan from the utilities for the purchase of the Cross Kirkland Corridor in 2011.
- **Impact fees** have also experienced improvement due to the increased development activity and are trending above budget. Transportation impact fees are slightly behind the same period last year, but park impact fees are more than double. There is minimal planned use of transportation impact fees for capital projects and no planned use of park impact fees for park capital projects in the current budget cycle except for debt related to parks.

Reserves	Est. 2013 Beginning Balance	Adopted 2014 Ending Balance	Revised 2014 Ending Balance	2013-14 Target	Revised Over (Under) Target
GENERAL PURPOSE RESERVES WITH TARGETS					
General Fund Reserves:					
General Fund Contingency	50,000	50,000	50,000	50,000	0
General Oper. Reserve (Rainy Day)	2,806,513	2,806,513	2,806,513	4,219,482	(1,412,969)
Revenue Stabilization Reserve	1,231,431	2,468,068	2,468,068	2,468,068	0
Building & Property Reserve	2,137,598	571,579	571,579	600,000	(28,421)
Council Special Projects Reserve	250,000	178,372	178,372	250,000	(71,628)
Contingency	2,201,870	2,426,425	2,426,425	4,275,442	(1,849,017)
General Capital Contingency*	2,686,557	4,810,795	4,810,795	5,735,330	(924,535)
General Purpose Reserves with Targets	11,363,969	13,311,752	13,311,752	17,598,322	(4,286,570)
ALL OTHER RESERVES WITH TARGETS					
General Fund Reserves:					
Litigation Reserve	350,000	350,000	350,000	50,000	300,000
Firefighter's Pension Reserve	1,745,549	1,484,209	1,484,209	1,568,207	(83,998)
Health Benefits Fund:					
Claims Reserve	2,297,149	2,825,758	2,825,758	1,424,472	1,401,286
Rate Stabilization Reserve	1,000,000	1,000,000	1,000,000	500,000	500,000
Excise Tax Capital Improvement:					
REET 1	3,306,765	4,336,329	4,298,329	1,035,000	3,263,329
REET 2	2,206,398	2,240,684	1,976,684	2,716,983	(740,299)
Water/Sewer Operating Reserve:	2,414,471	2,414,471	2,414,471	1,979,380	435,091
Water/Sewer Debt Service Reserve:	829,816	840,207	840,207	508,717	331,490
Water/Sewer Capital Contingency:	1,107,600	1,107,600	1,107,600	250,000	857,600
Surface Water Operating Reserve:	706,364	706,364	706,364	412,875	293,489
Surface Water Capital Contingency:	816,480	816,480	816,480	758,400	58,080
Other Reserves with Targets	16,780,592	18,122,102	17,820,102	11,204,034	6,616,068
Reserves without Targets	34,872,063	32,310,895	32,331,895	n/a	n/a
Total Reserves	63,016,624	63,744,749	63,463,749	n/a	n/a

*Includes replenishments adopted in early April 2013

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).

Current budgeted reserves are based on estimates for 2012 year-end balances. Now that the books have closed for 2012, reconciliation to recognize actual cash balances may result in adjustments to reserves in June; in most cases increases to the 2013 beginning balance. These changes will be reflected in the June FMR.

The summary to the right details all Council authorized uses and additions through March 31, 2013.

USES AND ADDITIONS HIGHLIGHTS

RESERVE	AMOUNT	DESCRIPTION
2013-14 Council Authorized Uses		
Real Estate Excise Tax 2 - Transp.	\$214,000	NE 112th Street Sidewalk
Real Estate Excise Tax 2 - Transp.	\$50,000	Central Way Pedestrian Enhancements
Real Estate Excise Tax 1 - Gen. Govt.	\$38,000	Totem Lake Park Master Plan
2013-14 Council Authorized Additions		
Surface Water Transportation Reserve	\$21,000	Central Way Pedestrian Enhancements

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. 2013 Beginning Balance	Adopted 2014 Ending Balance	Additional Authorized Uses/Additions	Revised 2014 Ending Balance
GENERAL FUND/CONTINGENCY					
General Fund Reserves:					
General Fund Contingency	Unexpected General Fund expenditures	50,000	50,000	0	50,000
General Oper. Reserve (Rainy Day)	Unforeseen revenues/temporary events	2,806,513	2,806,513	0	2,806,513
Revenue Stabilization Reserve	Temporary revenue shortfalls	1,231,431	2,468,068	0	2,468,068
Building & Property Reserve	Property-related transactions	2,137,598	571,579	0	571,579
Council Special Projects Reserve	One-time special projects	250,000	178,372	0	178,372
Contingency	Unforeseen expenditures	2,201,870	2,426,425	0	2,426,425
Total General Fund/Contingency		8,677,412	8,500,957	0	8,500,957
SPECIAL PURPOSE RESERVES					
General Fund Reserves:					
Litigation Reserve	Outside counsel costs contingency	350,000	350,000	0	350,000
Labor Relations Reserve	Labor negotiation costs contingency	69,196	69,196	0	69,196
Police Equipment Reserve	Equipment funded from seized property	67,334	67,334	0	67,334
LEOFF 1 Police Reserve	Police long-term care benefits	618,079	618,079	0	618,079
Facilities Expansion Reserve	Special facilities expansions reserve	800,000	-	0	0
Development Services Reserve*	Revenue and staffing stabilization	552,561	985,435	0	985,435
Development Svcs. Technology Reserve	Permit system replacement	264,810	404,810	0	404,810
Tour Dock	Dock repairs	130,502	163,002	0	163,002
Tree Ordinance	Replacement trees program	29,117	29,117	0	29,117
Revolving/Donation Accounts	Fees/Donations for specific purposes	486,115	578,915	0	578,915
Lodging Tax Fund	Tourism program and facilities	224,316	205,272	0	205,272
Cemetery Improvement	Cemetery improvements/debt service	662,614	690,564	0	690,564
Off-Street Parking	Downtown parking improvements	147,016	212,836	0	212,836
Firefighter's Pension	Long-term care/pension benefits	1,745,549	1,484,209	0	1,484,209
Total Special Purpose Reserves		6,147,209	5,858,769	0	5,858,769
GENERAL CAPITAL RESERVES					
Excise Tax Capital Improvement:					
REET 1	Parks/transportation/facilities projects, parks debt service	3,306,765	4,336,329	(38,000)	4,298,329
REET 2	Transportation and other capital projects	2,206,398	2,240,684	(264,000)	1,976,684
Impact Fees					
Roads	Transportation capacity projects	1,561,901	1,568,098	0	1,568,098
Parks	Parks capacity projects	342,708	255,004	0	255,004
Street Improvement	Street improvements	1,050,258	1,050,258	0	1,050,258
General Capital Contingency*	Changes to General capital projects	2,686,557	4,810,795	0	4,810,795
Total General Capital Reserves		11,154,587	14,261,168	(302,000)	13,959,168
UTILITY RESERVES					
Water/Sewer Utility:					
Water/Sewer Operating Reserve	Operating contingency	2,414,471	2,414,471	0	2,414,471
Water/Sewer Debt Service Reserve	Debt service reserve	829,816	840,207	0	840,207
Water/Sewer Capital Contingency	Changes to Water/Sewer capital projects	1,107,600	1,107,600	0	1,107,600
Water/Sewer Construction Reserve	Replacement/re-prioritized/new projects	9,093,871	5,465,943	0	5,465,943
Surface Water Utility:					
Surface Water Operating Reserve	Operating contingency	706,364	706,364	0	706,364
Surface Water Capital Contingency	Changes to Surface Water capital projects	816,480	816,480	0	816,480
Surface Water-Transp. Related Rsv	Replacement/re-prioritized/new projects	3,794,629	4,580,229	21,000	4,601,229
Surface Water Construction Reserve	Trans. related surface water projects	1,990,125	2,203,725	0	2,203,725
Total Utility Reserves		20,753,356	18,135,019	21,000	18,156,019
INTERNAL SERVICE FUND RESERVES					
Health Benefits:					
Claims Reserve	Health benefits self insurance claims	2,297,149	2,825,758	0	2,825,758
Rate Stabilization Reserve	Rate stabilization	1,000,000	1,000,000	0	1,000,000
Equipment Rental:					
Vehicle Reserve	Vehicle replacements	9,235,043	8,642,488	0	8,642,488
Radio Reserve	Radio replacements	7,686	7,686	0	7,686
Information Technology:					
PC Replacement Reserve	PC equipment replacements	339,560	351,914	0	351,914
Technology Initiative Reserve	Technology projects	690,207	301,417	0	301,417
Major Systems Replacement Reserve	Major technology systems replacement	245,500	656,200	0	656,200
Facilities Maintenance:					
Operating Reserve	Unforeseen operating costs	550,000	550,000	0	550,000
Facilities Sinking Fund	20-year facility life cycle costs	1,918,915	2,653,373	0	2,653,373
Total Internal Service Fund Reserves		12,986,911	13,163,078	0	13,163,078
Grand Total		63,016,624	63,744,749	(281,000)	63,463,749

*Includes replenishments adopted in early April 2013



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, Director of Finance & Administration
 - Michael Olson, Deputy Director of Finance & Administration
 - Sri Krishnan, Financial Planning Manager
 - Neil Kruse, Senior Financial Analyst
 - Kyle Butler, Budget Analyst
 - George Dugdale, Budget Analyst



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Economic Environment Update References:

- The Conference Board Consumer Confidence Index Press Release March 26, 2012
- Carol A. Kujawa, MA, A.P.P., *ISM-Western Washington, Inc. Report On Business*, Institute for Supply Management-Western Washington, March, 2013
- Economic & Revenue Update March 2013—Washington State Economic & Revenue Forecast Council
- CB Richard Ellis Real Estate Services, Market View Puget Sound, First Quarter 2013
- Northwest Multiple Listing Service
- 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

March/April 2013 Financial Dashboard Highlights**May 17, 2013**

- The dashboard report reflects the 2013 share of the biennial budget adopted by the City Council on December 11, 2012, as amended on April 2, 2013. The actual revenues and expenditures summarized in the dashboard reflect four months of data, which represents 33.3 percent of the calendar year.
- Total General Fund revenues received through April were at 37 percent of budget; 2012 receipts were at 33.5 percent of budget at this time last year.
 - Some sizable elements of General Fund revenues are received only periodically, including property tax (which is mostly received in April/May and October/November) and King County's semi-annual EMS payments. The first half property taxes collected in April are reflected in General Fund revenues.
 - Utility tax receipts were at 32.6 percent of budget at the end of April. In 2012, these revenues were at 34.6% through April.
 - Sales tax revenues at the end of March were at 28.5 percent of budget, and it finished April at 36.6 percent of budget. Year to date sales tax revenue is up 15 percent compared to April last year, a \$699,492 increase. This increase has been largely due to improved performance in the contracting, auto/gas retail, and service sectors. The year to date sales tax revenue is from activity from November, 2012 through February, 2013.
 - Business license revenues through April are at 38.5 percent of budget, which is ahead of last year's performance at this point.
 - Development fees for March exceeded budget expectations, coming in at 28.6 percent of budget. This trend strengthened in April with development fees finishing the month at 49.4 percent of budget. This is a significant improvement over last year's performance, which was at 27 percent of budget over the same period. While the current trend is impressive, the volatile nature of building permits is tied to the construction market and can lead to spikes and drops in revenue throughout the year.
 - Gas taxes are slightly below target at 30.4 percent of budget in April. This is comparable to 2012's numbers, when gas tax had been 31 percent of budget at the end of April. Gas tax is collected per gallon, so changes in consumption due to high gas prices and more efficient vehicles could be contributing to this decline.
- Total General Fund expenditures were under budget expectations at 27.9 percent through April.
 - General fund salaries and benefits are on budget at 32.9 percent of budget as of April.
 - Contract jail costs are below budget expectations at 13.6 percent of budget. Much of this savings is from the use of lower-cost electronic home detention and other sentencing measures as alternatives to jail time.
 - Fire suppression overtime costs are below budget at 23.6 percent of budget, but overtime costs tend to increase during the summer and holiday months. This rate is slightly higher than 2012 when 21.6 percent of budget had been used through April. Note the 2013 addition of the Finn Hill Station one-time service package for \$253,230 of additional overtime at Fire Station #24, which is shown separately on the dashboard. Staffing at Station #24 has not yet been implemented.
 - Fuel costs are under budget expectation at 23.4 percent of budget. Fuel costs reported in the dashboard document reflect bulk fuel bills as they have been paid and do not reflect fuel used at the pump.

Attachments: March/April Dashboard

March and April Development Services Revenues

5/17/2013

City of Kirkland Budget Dashboard

Annual Budget Status as of 4/30/2013 (Note 1)

Percent of Year Complete 33.33%

	2013 Budget	Year-to-Date Actual	% Received/ % Expended	Status		Notes
				Current Report	Last Report	
General Fund						
Total Revenues (2)	76,069,024	28,147,818	37.0%			Property tax/FD41/EMS spike in 2Q
Total Expenditures	82,739,483	23,111,606	27.9%			

Key Indicators (All Funds)

<i>Revenues</i>						
Sales Tax	14,638,962	5,358,636	36.6%			Prior YTD = \$4,659,144
Utility Taxes	14,618,866	4,762,886	32.6%			
Business License Fees	2,824,117	1,088,693	38.5%			
Development Fees	4,360,535	2,155,821	49.4%			
Gas Tax	1,696,178	516,372	30.4%			
<i>Expenditures</i>						
GF Salaries/Benefits	50,386,282	16,591,014	32.9%			Excludes Fire Suppression Overtime
Fire Suppression Overtime	677,895	159,895	23.6%			
F.S. #24 Overtime Staffing	253,230	-	0.0%			
Contract Jail Costs	1,611,741	218,626	13.6%			
Fuel Costs	794,758	186,154	23.4%			

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 first year of the biennium (2013).

Note 2 - Total budgeted expenditures in 2013 and 2014 exceed budgeted revenues due to planned use of reserves (ex: funding of CIP sinking fund reserves and use of Building and Property Reserve).

n/a - not applicable

Development Services Report – March 2013

Development Services is comprised of the Fire and Building, Public Works and Planning Departments. The Building Department reports on all building construction related permits including electrical, mechanical and plumbing trade permits, signs and grading permits. Fire permits are not reported on since they are tracked separately from the Building Department budget. Public Works Department revenue is generated from infrastructure improvement permits and Planning Department revenue is the result of land use permits. A review of the March, 2013 permit data allows us to offer the following:

- The March, 2013 Building Permit related statistics continue the upward trend that we witnessed throughout 2012. New single-family residential permit applications for March were up significantly with 25 applications received compared to 16 last year. We received 84 applications this year compared to 58 last year which is a 45% increase in new single-family permit activity. In contrast, there was a slight increase in commercial tenant improvement permits and single-family remodel permits with 32 applications received compared to 29 last March.
- The monthly average of total building related permits received so far this year (335) continues to lag the monthly average for 2012 (451), with the total number of permits received in March (296) lagging behind March 2012 (367).
- Although Building Department revenue for March was only \$217,746 which is 8% of our budgeted \$2,822,576 and 92% of the average monthly projected revenue of \$235,215, year to date revenue of \$731,318 has exceeded budget by \$25,673 (26% of the budgeted annual revenue has been collected).
- Public Works Department development revenue for March, 2013 was \$258,551 which is \$189,562 more than the average monthly projected revenue of \$68,989 and year-to-date revenue is ahead by \$267,492 (57% of the budgeted annual revenue has been collected). The sustained permit activity has exceeded our workload capacity and permit review times for large projects has fallen below our target review times. Public Works will be seeking approval to hire an Engineering Consultant to assist with plan review.
- Planning Department revenue for March, 2013 was \$82,536 which is \$28,374 above our adjusted monthly projected revenue average of \$54,162 for 2013. Year-to-date revenue is ahead by \$29,456 (30% of the budgeted annual revenue has been collected). Design Review Board, Process I (i.e. short plats) and Process IIA (i.e. variance) applications are the highest line items for the month.

Development Services Report – April 2013

Development Services is comprised of the Fire and Building, Public Works and Planning Departments. The Building Department reports on all building construction related permits including electrical, mechanical and plumbing trade permits, signs and grading permits. Fire permits are not reported on since they are tracked separately from the Building Department budget. Public Works Department revenue is generated from infrastructure improvement permits and Planning Department revenue is the result of land use permits. A review of the April, 2013 permit data allows us to offer the following:

- The April, 2013 Building Permit related statistics continue the upward trend that we witnessed throughout 2012. New single-family residential permit applications for April were up significantly with 34 applications received compared to 15 last year. We received 118 applications this year compared to 73 last year which is a 62% increase in new single-family permit activity. In contrast, there was a 58% decrease in commercial tenant improvement permits and single-family remodel permits with 28 applications received compared to 67 last April.
- The monthly average of total building related permits received so far this year (338) continues to lag the monthly average for 2012 (451), with the total number of permits received in April (347) lagging behind April 2012 (428).
- Building Department revenue for April was \$480,310 which is 17% of our budgeted \$2,822,576 and 204% of the average monthly projected revenue of \$235,215. Year to date revenue of \$1,211,628 has exceeded year-to-date budget by \$270,769 (43% of the budgeted annual revenue has been collected).
- Public Works Department development revenue for April, 2013 was \$195,211 which is \$126,222 more than the average monthly projected revenue of \$68,989 and year-to-date revenue is ahead by \$393,714 (81% of the budgeted annual revenue has been collected). The sustained permit activity has exceeded our workload capacity and permit review times for large projects has fallen below our target review times. Public Works has received approval to hire an Engineering Consultant to assist with plan review.
- Planning Department revenue for April, 2013 was \$54,425 which is \$240 above our adjusted monthly projected revenue average of \$54,184 for 2013. Year-to-date revenue is ahead by \$29,629 (38% of the budgeted annual revenue has been collected). Process I permits (i.e. short plats) are the highest line item for the month.



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MEMORANDUM

To: Kurt Triplett, City Manager

From: Tracey Dunlap, Director of Finance & Administration
 Kyle Butler, Budget Analyst

Date: May 28, 2013

Subject: May Sales Tax Revenue Analysis

May sales tax revenue is **up 22.5 percent** over May 2012. **Year-to-date** revenue is **up 16.5 percent** compared to the same period last year. Sales tax revenue from the service, contracting, and retail sectors has increased substantially, with positive growth in all major sectors. The sales tax revenue received in May comes from March sales.

Comparing May 2013 sales tax collections to May 2012, the following trends are notable:

- The **services** sector is **up (a very skewed) 501.2 percent** over May 2012 or about \$146,871. This figure is skewed because of a \$124,800 sales tax refund to a business in 2012. If this refund is **factored out**, the total dollar gain is \$20,050, which amounts to **an increase of 12.9 percent**.
- The **miscellaneous** sector is **up 15.6 percent** from May 2012 or about \$10,400. These increases reflect a rebound from negative performance in April, and were driven by improved receipts from finance & insurance, utilities and manufacturing.
- The **retail** sectors are collectively **up 12 percent** compared to the same month in 2012 which amounts to growth of nearly \$86,550.
 - **Auto/gas retail's** receipts **increased 15.7 percent** over last May's numbers, totaling approximately \$49,200.
 - The **retail eating/drinking** sector is **up 15.4 percent** versus May 2012, an increase of \$10,400.
 - The **General merchandise/miscellaneous retail** sector is **up 14.6 percent** over May 2012 or about \$19,500 due to improved performance by major retailers.
 - **Other retail** performance is **up 1 percent** or about \$1,650 compared to May 2012. Growth was flat or slow for many sub-sectors, and some of the gains were offset by lower revenues from electronics, health, and food & beverage retailers.
- **Contracting** continues to grow compared to 2012, as the City has seen an increase in both commercial and residential building. The sector is **up 4.2 percent** over last May, about \$8,200.
- The **communications** sector is **up 4 percent** or about \$1,400.
- **Wholesale** is **up 1.9 percent** over May 2012 or about \$1,500.

Year-to-date business sector review:

- The **services** sector is **up 43.8 percent** compared to 2012; this sector has grown the most in dollar terms out of all business sectors in the City. This growth can be attributed to growth from publishing, information, broadcasting, arts & entertainment, software and information services, but they are also skewed because of the large sales tax refund that was paid out to a business in May 2012. If that amount is factored out, the services sector is still up 22.8 percent over last year.

- Gains in **contracting** sales tax continue to be strong as the sector enters the building season, **up 29.4 percent** over the same period in 2012. This has been driven by an increase in large projects and an upswing in residential construction.
- **Retail** sales tax revenue is collectively **up 10.8 percent** compared to last year.
 - The **auto/gas retail** sector is **up 16.3 percent** versus 2012 due to the addition of one new dealership and improved revenues at the established dealerships. This sector has posted gains for twenty consecutive months.
 - **General merchandise/miscellaneous retail** sales taxes are **up 9.7 percent** from increased revenues across the sector and at two primary retailers in particular.
 - **Other retail** is **up 5.5 percent** compared to last year due to positive performance in most categories, but there have been declines in revenue from food & beverage stores, health & personal care stores, and electronics retailers. Items from these categories can be purchased at some of the large general merchandise stores, so those dollars may be transitioning to the general merchandise sector.
 - **Retail eating/drinking** performance is **up 5.7 percent** compared to 2012. Revenue increases can be attributed to many established restaurants posting improved sales along with the opening of several new restaurants late last year.
- **Wholesale** is **up 7.3 percent** compared to last year, but early gains in the teens have been offset by slower growth in March, April, and May.
- The **miscellaneous** sector is **up 10.5 percent** compared to last year due to higher revenues from the "unknown" category and improvements in the transportation, finance, and utilities categories.
- The **communications** sector continues to post small gains, **up 1.6 percent** compared to last year.

City of Kirkland Actual Sales Tax Receipts

Business Sector Group	January-May		Dollar Change	Percent Change	Percent of Total	
	2012	2013			2012	2013
Services	604,716	869,740	265,024	43.8%	10.4%	12.9%
Contracting	841,396	1,089,079	247,683	29.4%	14.5%	16.1%
Communications	177,670	180,530	2,860	1.6%	3.1%	2.7%
Auto/Gas Retail	1,436,750	1,670,354	233,604	16.3%	24.8%	24.8%
Gen Merch/Misc Retail	777,343	852,609	75,266	9.7%	13.4%	12.6%
Retail Eating/Drinking	501,594	530,309	28,715	5.7%	8.7%	7.9%
Other Retail	832,082	878,036	45,954	5.5%	14.4%	13.0%
Wholesale	303,773	325,938	22,165	7.3%	5.2%	4.8%
Miscellaneous	316,594	349,836	33,242	10.5%	5.5%	5.2%
Total	5,791,918	6,746,431	954,513	16.5%	100.0%	100.0%

National and State Context

Consumer confidence has continued to improve, with the Conference Board's Consumer Confidence Index rising from April's score of 68.1 to a five year high of 76.2 in May. When describing the results of this month's survey, Lynn Franco of the Conference Board said that "consumers' assessment of current business and labor-market conditions was more positive and they were considerably more upbeat about future economic and job prospects." The Conference Board also noted that this trend is overcoming some of the year's earlier challenges to consumer confidence, stating that "back-to-back monthly gains suggest that consumer confidence is on the mend and may be regaining the traction it lost due to the fiscal cliff, payroll-tax hike, and sequester."

National and state unemployment data is reported by the Bureau of Labor Statistics (BLS) on a one month lag, and according to the BLS' preliminary April 2013 data Washington State's unemployment rate has decreased to 6.5 percent while the national rate has decreased to 7.1 percent. More localized numbers are not yet available for April as BLS data for counties and cities are reported on a two month lag. The March data show that King County's unemployment for was 5.1 percent while the City of Kirkland's unemployment was 4.3 percent.

The Washington State Economic Forecast Council (WSEFC) reports that there has been some volatility in the Washington job market over the past month, but that employment has been trending up overall as payroll employment has increased 1.7 percent over the last year. The WSEFC states that exports have been increasing with non-transportation exports being up 8.3 percent so far in 2013.

Housing construction in the state has continued to improve, with permits applications coming in above the WSEFC's projections. The WSEFC projects that the housing recovery will continue to be spurred by demand for single-family homes and record affordability of housing costs relative to median incomes. The re-sale housing market has heated up lately, with first quarter home sales increasing 14.7 percent in 2013 compared to the same period in 2012 and the median price of existing homes in the state increasing by 14.1 percent. The Seattle Times reports that King County housing prices have increased nearly 20 percent as high demand and a "severe shortage of homes for sale" is creating an environment where the homes that are for sale are selling quickly with multiple offers.

As of late May the national average for a gallon of gas is \$3.65 per gallon and in Washington the average is \$3.95 per gallon.

Conclusion

May sales tax revenues continued 2013's upward trend with growth in every major sales sector in Kirkland and the City is on track to surpass budgeted revenues by double digits. However, much of the growth in sales tax revenues from 2012 to 2013 has come from three sectors that are economically sensitive and therefore inherently volatile: services, contracting, and automotive/gas sales. The service sector has accounted for 28 percent of this year's gains, while contracting has contributed 26 percent toward the increase and automotive/gas sales have accounted for 24.5 percent of the revenue growth. Any drop in these three sectors could dramatically change this year's prevailing revenue trends.

As a reminder, the City uses the one-year "lag" method when budgeting for expected sales tax revenue, meaning that the 2013 budget is based off of estimates for 2012 tax revenue. When comparing actual 2013 revenues with budgeted revenues, please be aware that budgeted revenues are conservative figures and that actual 2013 revenues are expected to exceed budgeted amounts, which has been the case so far this year.

FINANCIAL STABILITY Meeting community needs with quality services.



ON target

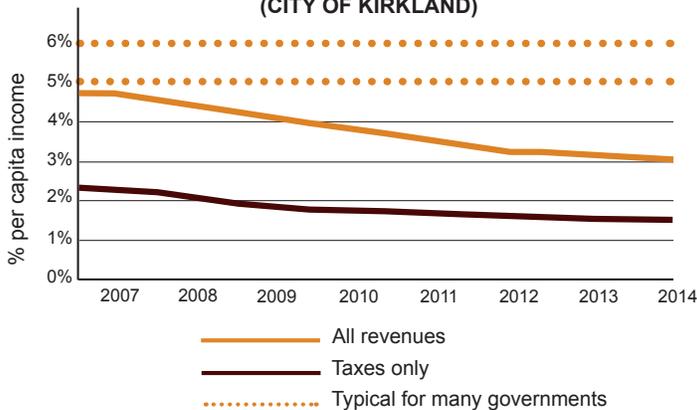
With national awards for budgeting and financial reporting, along with a track record for clean audits, Kirkland's leaders ...

- Maintained the City of Kirkland's AAA credit rating
- Funded residents' highest priority services, such as police and fire protection
- Continued replenishing the City's reserve funds
- Held price of City government to less than 3.5%
- Increased resources for street and parks by earning voter approval for levy lid lifts
- Balanced the 2013-2014 biennial budget

UNDER budget

The 2012 budget required tough choices from City leaders. They met those challenges without compromising Kirkland's fiscally conservative values.

THE PRICE OF GOVERNMENT*
(CITY OF KIRKLAND)



*The "Price of Government is a measure of affordability. It compares revenues from taxes and fees to the aggregate personal income level of the City's constituents. The typical range is between 5% and 6%.

EXPENDITURES

What we budgeted to spend What we actually spent



\$73 million \$68 million

* 1 penny = \$2 million