



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

**To:** Kurt Triplett, City Manager

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

**Date:** June 8, 2012

**Subject:** **2012 MID-YEAR BUDGET ADJUSTMENTS**

### RECOMMENDATION:

City Council receive an update on the City's financial condition, approve the ordinance adjusting the 2011-2012 budget appropriation for selected funds, and approve the resolution updating fiscal policies during the regular meeting on June 19.

### BACKGROUND DISCUSSION:

The Mid-Year Budget review addresses a variety of topics regarding the current budget biennium. This memo describes the various attachments included in the packet, including:

- **Fiscal Policies** – The attached resolution adopting revisions to the City's Fiscal Policies (Attachment A), which incorporates the revised targets as directed on March 6, 2012 and the City's Reserve Replenishment Principles passed by Resolution R-4900 on October 18, 2011 (Attachment B).
- **Financial Status** – The Financial Management Report (FMR) for the period ending March 31, 2012 (Attachment C), the April Dashboard Report (Attachment D), April and May sales tax memos (Attachment E-F) are included.
- **Budget Adjustments** – A recommendation concerning mid-year budget adjustments needed to meet unanticipated needs, recognizing additional resources, and housekeeping adjustments (Attachment G).

### FISCAL POLICIES

The City Council was presented with a review of reserve policies and recommendations at the October 4, 2011 Study Session, which summarized the results of the Finance Committee review over the preceding six months. Based on the direction received at that meeting, the reserve replenishment policies were adopted by Resolution R-4900 (Attachment B), which directed the City Manager to propose revised reserve targets for Council's review and adoption prior to initiation of the 2013-14 budget development process.

The Reserve Replenishment Principles approved by Council on October 11, 2011 have been incorporated in the Reserve and Fund Balance Policies section of the City's Fiscal Policies (Attachment A). On March 6, 2012, the City Council approved modifications to the reserve targets as summarized in the table below. One additional housekeeping change provides for enterprise debt to be issued for a period of up to 30 years, consistent with debt management policies.

Fund	Change to Target
Contingency Reserve	Changed from 100% to 80% of statutory maximum
General Operating Reserve	
General Capital Contingency	Changed from 10% of 6-year CIP budget to 10% of 2-year CIP
Revenue Stabilization	
Building & Property Reserve	Added language to include \$600,000 minimum balance requirement
Council Special Projects Reserve	Added language to include \$250,000 balance target

The resolution to approve the revisions to the Fiscal Policies is included and will be implemented as part of the 2013-2014 budget.

#### FINANCIAL STATUS

The Financial Management Report (FMR) provides an overview of revenue and expenditure performance for the first quarter of 2012 (Attachment C). The second quarter report should be available in mid-August.

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

- Total **General Fund revenues** are meeting budget expectations. Revenues received through April are at 33.1 percent of budget. Note that \$1.7 million of revenue received in December 2011 is revenue from Woodinville Fire and Rescue budgeted for receipt in 2012. Including this amount, the total revenue received through April would be at 35.25 percent of budget. Utility taxes are at or above expectations so far, although declining telecommunication and cables taxes are currently offset by higher revenue from gas and electricity. Annexation sales tax revenue continues the trend of 2011, which is much lower than originally planned, but overall revenue is coming slightly ahead of expectations. Development revenues are on target collectively, but the delay of the expected commencement of Park Place re-development in 2012 is causing building development revenue to fall short of budget. The continuing volatile global and national economic conditions and the potential impact to economically-sensitive revenue remain a concern.
- Overall, **General Fund expenditures** are slightly trailing the budget at 30.4 percent. Savings are largely due to postponement of some annexation hiring, position vacancies, firefighter overtime lower than budgeted, and jail contract savings. Fuel costs remain a concern since the average price per gallon cost of \$3.86 as of April is about 25 percent above budget, but is currently being absorbed within the existing operating budget. Decisions about filling vacant positions will impact future expenditure trends.

The April and May sales tax memo (Attachments E and F) includes an analysis of sales tax revenue trends by business sectors and compares monthly and year-to-date data to last year. While the results for these two months are mixed, year-to-date revenues are up 6.4 percent compared to a budgeted increase of 4.4 percent over 2011.

#### MID-YEAR BUDGET ADJUSTMENTS

State law prohibits expenditures from exceeding the budgeted appropriation for any fund and requires the City to adjust appropriations when:

1. Unanticipated revenue exists and will potentially be expended;
2. New funds are established during the budget year which were not included in the original budget; or
3. The City Council authorizes positions, projects, or programs not incorporated into the current year's budget.

This budget adjustment allows for appropriation increases where it is anticipated that total expenditures may be in excess of the adopted 2011-2012 budget.

Unless there is an immediate need, budget adjustments that represent ongoing increases in the level of service are generally not introduced at mid-year. Rather, they are submitted as service package requests during the budget preparation and mid-biennial review processes.

As usual for the Mid-Year Adjustment process, adjustments are recommended for unexpected issues such as grant funding and Council use of reserves that have occurred since the last adjustment.

Total appropriation adjustments result in a net budget increase of \$1,516,291. The budget adjustment summary (Attachment G) shows both line item and appropriation changes. Line item changes are administrative adjustments within funds and are provided for reference. Appropriation adjustments change the total budget and require adoption of the ordinance.

*Council Directed/Other Requests and Previously Approved Adjustments* – The first category of adjustments includes any additional changes identified by Council and formalizing previously approved actions (fiscal notes, etc). Some of these requests have been approved by the Council since the mid-biennial adjustments in December 2011, but the formal appropriation adjustment is occurring as part of the mid-year budget update.

A large portion of the adjustments are related to capital projects, including the planned transfer of remaining Fire District #41 assets to the CIP fund in anticipation of funding the fire station consolidation/relocation project. Another significant housekeeping adjustment is reallocating property tax revenue related to the 2002 Parks Maintenance Levy from the General Fund to the Parks Maintenance Fund to align with the actual 2012 property tax levy (related parks maintenance expenses are also moved). The expected impacts from final state budget decisions regarding state-shared revenue and Initiative 1183 are also recognized.

The following is a list of selected adjustments:

- Use of Real Estate Excise Tax (REET) 1 Reserves for one-time staffing support for the Green Kirkland Partnership program in the Parks department due to unavailability of

planned grant funding (includes use of REET Flexibility of \$43,298 based on Council direction at the May 15 meeting). The net appropriation change is \$4,159 comprised of adding \$43,298 in REET to offset the loss of \$41,451 from the King Conservation District; the difference is due to updated cost estimates.

- Recognizing the expected reduction in General Fund state-shared revenue of \$317,264 as a result of the final outcome of State budget cuts and effects of I-1183 on liquor revenues. State Liquor Board profits were previously budgeted as reserves as a contingency pending the outcome of the initiative and State budget decisions. This adjustment will reduce the General Fund reserve level to about \$566,000 (after one-time uses previously approved, including funding the Emergency Preparedness Coordinator position, purchasing electronic patient record tablets, the City's share of the Fire Strategic Plan, and temporary fire administration staffing).
- Recognizing the transfer of remaining Fire District 41 cash assets of \$1,225,681 to the Consolidated Fire Station Capital Improvement Project as included in the Interlocal Agreement (ILA) approved by Council on May 4, 2011. This adjustment sets aside the remaining balance from the Fire District 41 asset transfer in a reserve to 1) fund station construction costs in excess of the bond proceeds, 2) pay debt service, and 3) other administrative costs associated with the transfer of assets from the District per the ILA.
- Other Council directed adjustments made in 2012 total \$1,447,900 and include the following:
  - 2012 Summerfest – \$7,000 from the Council Special Project reserve.
  - Tall Ships Event – \$4,800 from the Tourism fund reserve.
  - Central Way Pedestrian Enhancement (CNM 0065) – \$34,000 from REET 2 reserves to provide components above the base project scope, including additional sidewalk and surface water improvements, as well as a public art element, as approved by Council at the May 15, 2012 meeting.
  - Cross Kirkland Corridor acquisition costs – \$264,775 from King County Parks Levy (current levy reserve balance and expected 2012 revenue) to fund engineering surveys, legal, and other acquisition-related activities.
  - Replace broken watermain and repair road damage on 120<sup>th</sup> Ave NE/NE 70<sup>th</sup> Street - \$272,000 from the Water/Sewer Capital Reserve.
  - Protect city utility infrastructure during I-405 freeway widening – \$39,500 from the Water/Sewer Capital Reserve to enter into a construction agreement with the Washington State Department of Transportation to protect city-owned utility infrastructure located within the right-of-way of the State's freeway project.
  - Totem Lake culvert replacements – \$922,600 from Annual Storm Drain Replacement Program as approved by Council at the April 17, 2012 meeting. This project addresses two major failures and continues in the 2013-18 CIP, with an expected total cost of \$3.3 million. It is also a part of the comprehensive approach to solve flooding issues in the area.
  - Totem Lake Flooding (CSD 0059) – recognize external revenue of \$168,000 from a King County grant. This is a housekeeping item to change funding from internal to external and does not change the total project budget.

*Housekeeping Items* – The second category of adjustments are needed to adjust budget accounts, fund balances, etc., including:

- Water Rescue Equipment – Estimated to cost \$45,000. Funded by reallocating unspent balances from three completed Capital Improvement Projects: Thermal Imaging Cameras, Mobile Data Computers and RFTD Office Space. This adjustment will bring the Near Shore Water Rescue Program into compliance with Washington State requirements.
- Funding a Temporary Construction Inspector on loan from King County to address a backlog of development-related inspections - \$57,003 funded by fees set aside in the Development Services Reserve from 2011 engineering revenues.
- Adjusting Development Services Reserves - \$280,000 funded by recognizing development engineering fee revenues which exceeded the budgeted amount in 2011, and will be needed for future development review staffing.
- Reallocating the Parks Maintenance Service Package and Parks Levy revenues to the Parks Maintenance Fund from the General Fund - \$399,697 from the General Fund to the Parks Maintenance Fund, based on the 2012 parks levy. The original budget reflected revenues and expenditures in the General Fund due to uncertainty in Levy revenues from the annexation area and associated costs of services. However, the levy amount is less than the service package total expenditures. As a result, the General Fund is subsidizing the Parks Maintenance Fund with a one-time transfer of \$28,270 in 2012. The operational costs of pending vehicle purchases have not been included at this point and could add up to \$100,000 annually. The structural difference between levy revenue and expenditures will be an issue that will need to be addressed as part of the 2013-14 budget process.
- Moving Teen Center debt service from REET to impact fees - \$40,185; this debt service was originally funded from impact fees but was backfilled by REET because impact fee revenue projections indicated that it would not be sufficient to support the debt payment. Impact fee revenues have slightly improved in 2011-12 and actual current balance is adequate to support the 2012 Teen Center debt service payment as originally scheduled.
- Hiring of a temporary staff member in the Information Technology (IT) Applications Division to provide adequate resources for completing major Hansen upgrades, the facilities management model and email archiving - \$59,560 funded by IT reserves, temporary position to continue through 2014.
- Other 2012 housekeeping adjustments total \$217,418 and include the following:
  - Energov backfill January-April 2012 – \$32,336 funded by the Permit Plan Replacement Capital Improvement Project.
  - 2011 overhead distribution reconciliation (Cost of Service Model) – Reduced revenue from Interfund Citywide Overhead charges by \$2,550 to reflect actual costs in 2011.
  - On-call staffing and tax consulting services – Total cost of \$20,000. Funded by NORCOM revenue from the temporary assignment of the Finance & Administration Director to NORCOM Executive Director – \$12,500, and utility tax revenues of \$7,500.
  - Tourism services – \$11,425 funded by tourism tax revenues as recommended by the Tourism Development Committee. These program changes include printing more tourism guides and producing a tourism video. The increased costs are partially offset by reducing consultant contract costs.

- GIS Street Asset Inventory worker – \$51,354 funded by a transfer of annexation service package funds approved in the Information Technology fund to the Street Operating Fund.
- Life Cycle Reserves – \$54,190 returning funding to the Life Cycle Reserve in the Facilities Fund from Capital Improvement Fund as a result of closing multiple completed life cycle projects.
- U.S. Fish and Wildlife Grant and grant match – \$30,933 moving from the Surface Water Capital fund to the Surface Water Operating fund.
- Recycling collection events and commercial recycling outreach – \$19,436 funded by a Department of Ecology Grant in the Solid Waste Fund.
- Other housekeeping adjustments totaling \$294.

**SUMMARY**

The budget is adopted at the fund level which sets the total expenditure authority for the biennium for each fund. A summary of the adjustments and 2011-2012 revised budget by fund type is included in the table below:

<b>Fund Type</b>	<b>Current 11-12 Budget</b>	<b>Adjustments</b>	<b>Revised 11-12 Budget</b>
<b>General Government:</b>			
General Fund	161,866,657	(634,746)	161,231,911
Other Operating Funds	18,142,126	462,476	18,604,602
Internal Service Funds	57,126,665	54,484	57,181,149
Non-Operating Funds	112,376,530	1,446,641	113,823,171
<b>Utilities:</b>			
Water/Sewer	66,961,952	-	66,961,952
Surface Water	33,025,878	168,000	33,193,878
Solid Waste	25,083,065	19,436	25,102,501
<b>Total Budget</b>	<b>474,582,873</b>	<b>1,516,291</b>	<b>476,099,164</b>

The next opportunity for budget adjustments will occur at the end of 2012, which will include a final reconciliation of grants received by the City in support of the Cross Kirkland Corridor and potential funding for a Regional Decant facility.

**CITY OF KIRKLAND*****FISCAL POLICIES*****BACKGROUND AND PURPOSE**

The stewardship of public funds is one of the greatest responsibilities given to the officials and managers of the City of Kirkland. Therefore, the establishment and maintenance of wise fiscal policies enables city officials to protect public interests and ensure public trust.

This document incorporates past financial practices in defining the current policies to be used by the City to meet its obligations and operate in a financially prudent manner. These policies have been established to provide general fiscal guidelines and are intended to provide sound direction in the management of the City's financial affairs.

**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.
- Grant applications to fund new service programs with state or federal funds will be reviewed by the City, as they become available, with due consideration being given to whether locally generated revenues will be required to support these programs when outside funding is no longer available.

- The City of Kirkland will establish and maintain Special Revenue Funds which will be used to account for proceeds from a substantial restricted or committed revenue source used to finance designated activities which are required by statute, ordinance, resolution or executive order.
- Biennial expenditures will be maintained within the limitations of biennial revenues. The City will not use short-term borrowing to finance current operating needs without full financial analysis and prior approval of the City Council.
- In order to ensure the continuity of services, the City will budget no more sales tax revenue than was received in the prior year as a hedge against possible future economic events.
- Interest income revenue will be used to finance one-time capital or time-limited goods or services including debt service on councilmanic bond issues.
- All authorized positions will be budgeted for a full year (or biennium) unless specifically designated by the City Council as a partial-year position.
- In the event that budget reductions are needed in order to balance revenues and expenditures, the City Council will provide policy direction to staff as to the priority order and combination for using the following strategies:
  - Raise revenue
  - Reduce expenditures
  - Use reserves
- The use of reserves to balance the budget will only be used to address short term temporary revenue shortfalls and expenditure increases.
- The biennial budget will be formally amended by the City Council as needed to acknowledge unforeseen expenditures. All requests for funding will be analyzed by the Finance and Administration Department. The Council will be provided with a discussion of the legality and/or policy basis of the expenditure, the recommended funding source, an analysis of the fiscal impact and a review of all reserves and

previously approved amendments since budget adoption.

- A request will not be approved at the same meeting at which it is introduced unless it is deemed an urgent community issue by a supermajority vote of the City Council. Requests made to Council outside of the formal budget adjustment process will be analyzed and presented to the Council for approval at the next regular Council meeting that allows sufficient time for staff to prepare an analysis and recommendation.

#### **ENTERPRISE FUND POLICIES**

The City will establish enterprise funds for City services when 1) the intent of the City is that all costs of providing the service should be financed primarily through user charges; and/or 2) the City Council determines that it is appropriate to conduct a periodic review of net income for capital maintenance, accountability, or other public policy purposes.

- Enterprise funds will be established for City-operated utility services.
- Enterprise fund expenditures will be established at a level sufficient to properly maintain the fund's infrastructure and provide for necessary capital development.
- Each enterprise fund will maintain an adequate rate structure to cover the costs of all operations, including maintenance, depreciation, capital and debt service requirements, reserves (as established by fiscal policy or bond covenant), and any other cost deemed necessary.
- Rates may be offset from available fund cash after requirements are met for cash flow and scheduled reserve contributions.
- Enterprise fund services will establish and maintain reserves for general contingency and capital purposes consistent with those maintained for general governmental services.
- Revenue bonds shall be issued only when projected operating revenues are insufficient for the enterprise's capital financing needs.

- The City will insure that net operating revenues of the enterprise constitute a minimum of 1.5 times the annual debt service requirements.
- The City will limit the maturities of all utility revenue bond issues to 2530 years or less.

### **CASH MANAGEMENT AND INVESTMENT POLICIES**

Careful financial control of the City's daily operations is an important part of Kirkland's overall fiscal management program. Achieving adequate cash management and investment control requires sound financial planning to ensure that sufficient revenues are available to meet the current expenditures of any one operating period. Once steps are taken to ensure that the City maintains a protected cash position in its daily operations, it is to the municipality's advantage to prudently invest idle funds until such time as they are required to make expenditures.

- The City's idle cash will be invested on a continuous basis in accordance with the City's adopted investment policies.
- The City will maintain a formal investment policy which is reviewed and endorsed by state and/or national professional organizations. The complete policy can be found in the appendix of this document.
- The City will invest all funds (in excess of current requirements) based upon the following order of priority: 1) legality; 2) liquidity; 3) safety; and 4) yield.
- Investments with City funds shall not be made for purposes of speculation.
- The City is prohibited from investing in derivative financial instruments for the City's managed investment portfolio.
- Proper security measures will be taken to safeguard investments. The City's designated banking institution will provide adequate collateral to insure City funds.
- The City's investment portfolio will be reviewed every three years by a qualified portfolio valuation service to assess the portfolio's degree of risk and compliance with the adopted investment policies.

- An analysis of the City's cash position will be prepared at regular intervals throughout the fiscal year.
- The City Council will be provided with quarterly reports on the City's investment strategy and performance.
- Sufficient cash shall be maintained to provide adequate funds for current operating expenditures.
- Where permitted, the City will pool its cash resources from various funds ("Treasurer's Cash") for investment purposes.
- Net investment income from Treasurer's Cash will be allocated in accordance with KMC 5.24.060 considering 1) average cash balance of the participating fund and 2) the minimum cash balance needs of each fund as determined by the Director of Finance and Administration. Net investment income is the amount of annual investment proceeds after an allocation of earned interest is made to certain funds as required by the State and Council-directed obligations are met for General Fund purposes.
- The City of Kirkland will select its official banking institution through a formal bidding process in order to provide the City with the most comprehensive, flexible, and cost-effective banking services available.

### **ACCOUNTING, FINANCIAL REPORTING AND AUDITING POLICIES**

The City of Kirkland will establish and maintain a high standard of accounting practices. Accounting and budgetary systems will, at all times, conform to Generally Accepted Accounting Principles, the State of Washington Budgeting Accounting Reporting System (BARS) and local regulations.

- A comprehensive accounting system will be maintained to provide all financial information necessary to effectively operate the City.
- The City will meet the financial reporting standards set by the Governmental Accounting Standards Board.

- Full disclosure will be provided in all City financial reports and bond representations.
- An annual audit will be performed by the State Auditor's Office and include the issuance of a financial opinion.

### **RESERVE AND FUND BALANCE POLICIES**

Adequate fund balance and reserve levels are a necessary component of the City's overall financial management strategy and a key factor in external agencies' measurement of the City's financial strength.

Maintenance of fund balance for each accounting fund assures adequate resources for cash flow and to mitigate short-term effects of revenue shortages.

City and state regulations have been established to allow the City of Kirkland to create and maintain specific reserve funds. Prudent use of reserve funds enables the City to defray future costs, take advantage of matching funds, and beneficial (but limited) opportunities. Reserve funds provide the City with the ability to exercise flexible financial planning in developing future capital projects. Reserve funds are necessary to enable the City to deal with unforeseen emergencies or changes in condition.

- The City will establish minimum fund balance targets for each fund based on the cash flow requirements of the fund. The City will include all fund balances in the biennial budget.
- The minimum fund balance will be attained and maintained through expenditure management, revenue management and/or contributions from the General Fund.
- All expenditures drawn from reserve accounts shall require prior Council approval unless previously authorized by the City Council for expenditure in the biennial budget or otherwise provided for by City policies.

#### Reserve Purposes and Targets

- A Contingency Reserve Fund shall be maintained in accordance with RCW 35A.33.145 to meet any municipal expense, the necessity or extent of

which could not have been reasonably foreseen at the time of adopting the biennial budget. The target balance will be ~~consistent with state law at set at 80 percent of the statutory maximum of~~ \$0.375 per \$1,000 of assessed valuation. ~~Annual contributions to the Contingency Fund will be budgeted from interest income and General Fund resources.~~

- The City will maintain a General Operating Reserve at an amount equivalent to five percent of the tax-supported general government budgets (General Fund, Street Operating Fund and Parks Maintenance Fund) for the second year of the biennium. The General Operating Reserve is available to address unforeseen revenue shortfalls or expenditure needs that occur during the current biennium. ~~Annual contributions will be budgeted from General Fund resources as available to attain and maintain an established reserve level.~~
- The City will maintain a Revenue Stabilization Reserve to address temporary revenue losses due to economic cycles or other time-limited causes. The Revenue Stabilization Reserve will be maintained at ten percent of selected General Fund revenue sources which, in the judgment of the Director of Finance and Administration, are subject to volatility. The Revenue Stabilization Reserve may be used in its entirety; however, ~~replenishing the reserve will constitute the first priority for use of year-end General Fund resources in excess of those needed to maintain the fund balance at the target level.~~ replenishment will be a priority, consistent with adopted policies.
- The City will maintain a Council Special Project Reserve, which is available to the City Council to fund special one-time projects that were unforeseen at the time the budget was prepared. When the reserve is used, it is replenished from the General Fund year-end fund balance to a target balance of \$250,000.
- The City will maintain a General Capital Contingency to address unforeseen project expenditures or external revenue shortfalls in an amount equivalent to ten percent of the funded ~~six~~ two-year CIP budget, less proprietary fund

projects. ~~Contributions will be made from General Fund resources as they are available.~~

- The City Manager may authorize the use of capital funding reserves up to an aggregate total of \$100,000 per year in increments not to exceed \$25,000. The City Manager will provide regular reports to the City Council at a regular Council meeting if this authorization is used. Capital funding reserves include: General Capital Contingency, Street Improvement Reserve, REET Reserves, Impact Fee Reserves, Water/Sewer Capital Contingency, Water/Sewer Construction Reserve, Surface Water Capital Contingency, and Surface Water Construction Reserve.
- The City will maintain a Capital Improvement Project Grant Match Reserve as a means of assuring the availability of cash resources to leverage external funding when the opportunity arises. The reserve will be maintained in the Real Estate Excise Tax Capital Reserve Fund and maintained through excise tax revenue received over and above the annual allocation to the Capital Improvement Plan.
- The City will maintain a Building and Property Reserve with a minimum balance of \$600,000. This reserve is used for property purchases, building improvements and other property-related transactions. It can also be used as a general purpose reserve to fund Council-approved unanticipated expenditures.
- The City will maintain fully funded reserves for the replacement of vehicles and personal computers. Contributions will be made through assessments to the using funds and maintained on a per asset basis.
- Additional reserve accounts may be created ~~by Council~~ to account for monies for future known expenditures, special projects, or other specific purposes.
- All reserves will be presented in the biennial budget.

#### Reserve Replenishment

- 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.
- In terms of priority for replenishing the individual reserves, the following guidelines shall be used:

- If the Council Special Projects reserve is below target, replenish to target at the start of each biennium.
- If the revenue stabilization reserve is below target, prioritize replenishing the reserve.
- To the extent cash is from volatile revenues above budgeted amounts, those funds should be applied to revenue stabilization reserve first.
- If unplanned funds are available because planned reserve uses did not occur, those funds should be returned to the source reserve.
- The source of uncommitted funds should be taken into consideration (for example, interest earnings over budget could be applied to the capital contingency, since they are one of the designated sources for this reserve).
- The degree to which an individual reserve is below target (for example, the reserve that is furthest from its target level on a percentage basis might receive a larger share of the funds).
- Decisions on how replenishments are allocated to specific reserves will be based on where available funds came from and on each reserve's status at the time the decision is made.
- The replenishment policy will provide a mechanism whereby Council may take action to suspend replenishment policies if it was found that special conditions existed warranting such action.

#### **DEBT MANAGEMENT POLICIES**

The amount of debt issued by the City is an important factor in measuring its financial performance and condition. Proper use and management of borrowing can yield significant advantages. From a policy perspective, the City of Kirkland uses debt in two ways: (1) as a mechanism to equalize the costs of needed improvements to both present and future citizens; and (2) as a mechanism to reduce the immediate costs of substantial public improvements.

- The City will maintain a formal Debt Management Policy which is reviewed and endorsed by state and/or national professional organizations. The complete policy can be found in the appendix of this document.
- City Council approval is required prior to the issuance of debt.
- An analytical review shall be conducted prior to the issuance of debt.
- The City will continually strive to maintain its bond rating by improving financial policies, budget forecasts and the financial health of the City so its borrowing costs are minimized and its access to credit is preserved.
- All debt issued by the City will include a written opinion by bond counsel affirming that the City is authorized to issue the proposed debt.
- The City of Kirkland will not use long-term debt to support current operations.
- Long-term borrowing will only be used for capital improvements that cannot be financed from current revenues.
- Non-capital furnishings, supplies, and personnel will not be financed from bond proceeds.
- Interest, operating and/or maintenance expenses will be capitalized only for enterprise activities; and will be strictly limited to those expenses incurred prior to actual operation of the facilities.
- The general obligation debt of Kirkland will not exceed an aggregated total of 7.5% of the assessed valuation of the taxable property within the City.
- The following individual percentages shall not be exceeded in any specific debt category:
  - General Debt – 2.5% of assessed valuation
  - Non-Voted – 1.5% Limited Tax General Obligation (LTGO) Bonds
  - Voted – 1.0% Unlimited Tax General Obligation Bonds
  - Utility Debt – 2.5% of assessed valuation

- Open Space and Park Facilities – 2.5% of assessed valuation
- The City’s policy is to plan and direct the use of debt so that debt service payments will be a predictable and manageable part of the Operating Budget.
- Short-term borrowing will only be used to meet the immediate financing needs of a project for which long-term financing has been secured but not yet received.
- Assessment bonds will be considered in place of general obligation bonds, where possible, to assure the greatest degree of public equity.
- Limited Tax General Obligation (LTGO) bonds will be issued only if:
  - A project requires funding not available from alternative sources;
  - Matching fund monies are available which may be lost if not applied for in a timely manner; or
  - Emergency conditions exist.
- The issuance of bonds shall be financed for a period not to exceed a conservative estimate of the asset's useful life.
- General Obligation bonds will be issued with maturities of 30 years or less unless otherwise approved by Council.
- The maturity of all assessment bonds shall not exceed statutory limitations. RCW 36.83.050.
- The City will use refunding bonds, where appropriate, when restructuring its current outstanding debt.

### **CAPITAL IMPROVEMENT POLICIES**

Kirkland's City government is accountable for a considerable investment in buildings, parks, roads, sewers, equipment and other capital investments. The preservation, maintenance, and future improvement of these facilities are a primary responsibility of the City. Planning and implementing sound capital improvement policies and programs

today will help the City avoid emergencies and major costs in the future, therefore:

- The City will establish and implement a comprehensive multi-year Capital Improvement Program.
- The Capital Improvement Program will be prepared biennially concurrent with the development of the biennial budget. A mid-biennium review and update will take place during the first year of the biennium.
- The City Council will designate annual ongoing funding levels for each of the major project categories within the Capital Improvement Program.
- Financial analysis of funding sources will be conducted for all proposed capital improvement projects.
- A Capital Improvement Budget will be developed and adopted by the City Council as part of the biennial budget and will be amended during the mid-biennial budget review process (during the first year of the biennium) to reflect any changes in the updated Capital Improvement Program.
- The Capital Improvement Program will be consistent with the Capital Facilities Element of the Comprehensive Plan.
- The City Manager may authorize the reallocation of CIP project funds between CIP projects within a CIP category up to \$50,000 per instance. Funding may only be reallocated within a CIP category (i.e. between Transportation projects, or Parks projects, or Public Safety projects, etc.) when one project is over budget and, in the same period, a second project within the same CIP category has been completed and is closing out under budget. The City Manager will provide regular reports to the City Council at a regular Council meeting if this authorization is used.

## RESOLUTION R-4900

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF KIRKLAND  
ESTABLISHING RESERVE REPLENISHMENT PRINCIPLES.

WHEREAS, reserves are an integral part of the City's financial planning strategy and provide a tangible external measure of financial strength; and

WHEREAS, maintaining reserves is a best practice in government financial management and the Government Finance Officers Association (GFOA) has published best practice guidelines, including "Replenishing Fund Balance in the General Fund"; and

WHEREAS, the economic downturn that began in 2008 resulted in the planned use of over \$4 million dollars in reserves to help smooth the transition to lower revenue and service levels; and

WHEREAS, revenues appear to be stabilizing and the 2011-2012 budget was balanced without the use of reserves, however, the continued discussion of the process for replenishing those uses needs to be a priority;

NOW, THEREFORE, be it resolved by the City Council of the City of Kirkland as follows:

Section 1. The City Manager is hereby authorized and directed to implement the Reserve Replenishment Principles as outlined in the attached "Exhibit 1" dated October 18, 2011.

Section 2. The City Manager is further authorized and directed to incorporate the Reserve Replenishment Principles as outlined in attached "Exhibit 1" into the reserve fiscal policies during the next update for the 2013-2014 budget.

Section 3. The City Manager is further authorized and directed to provide updated reserve targets for Council review and adoption by April 30, 2012, for incorporation into the reserve fiscal policies for the 2013-2014 budget.

Passed by majority vote of the Kirkland City Council in open meeting this 18th day of October, 2011.

Signed in authentication thereof this 18th day of October, 2011.

  
MAYOR

Attest:

  
City Clerk

**Exhibit 1: Reserve Replenishment Principles – October 18, 2011**

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 (see flowchart on the following page):
  - 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/service enhancements.

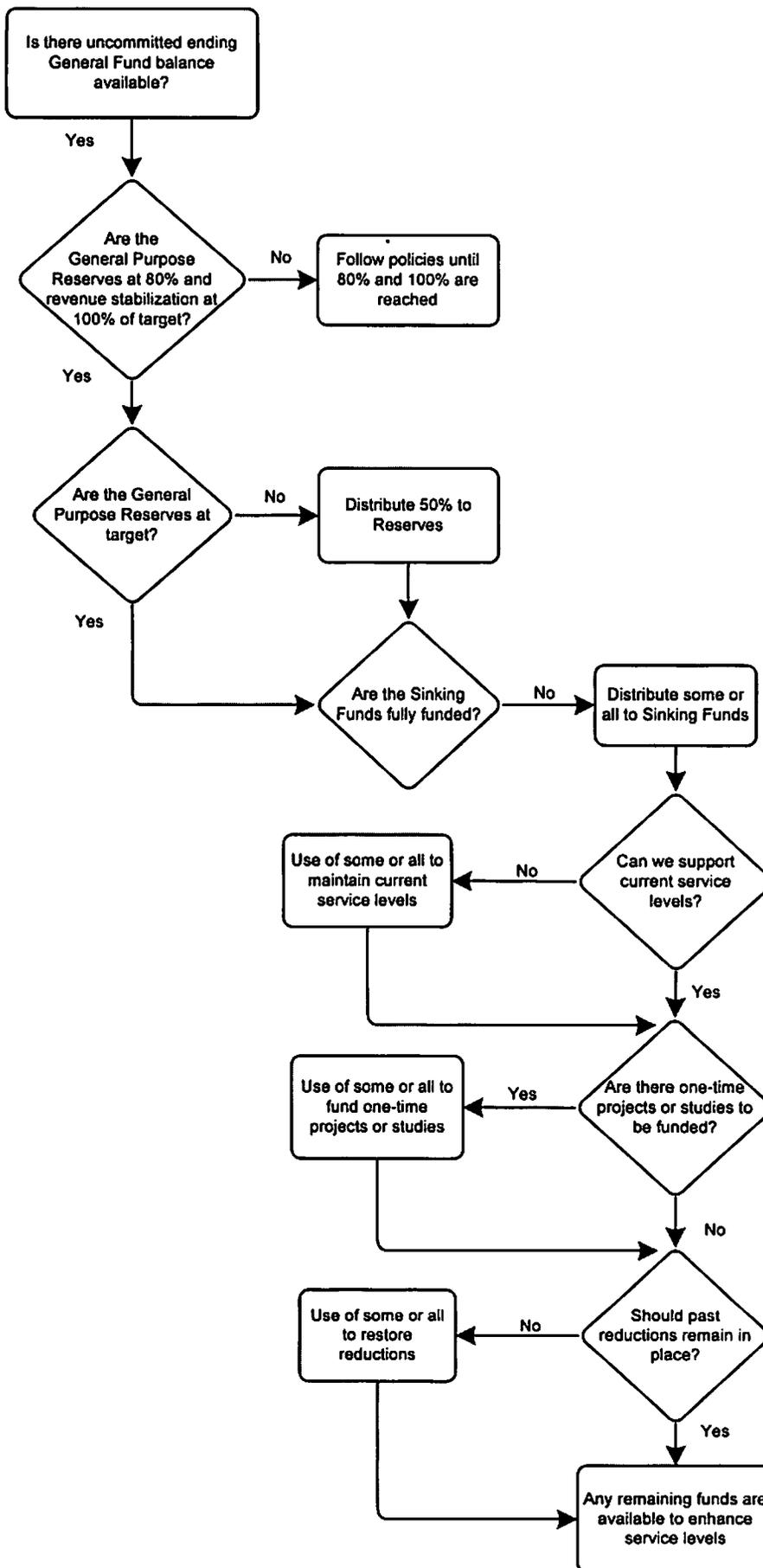
In terms of priority for replenishing the individual reserves, the following guidelines shall be used:

- If the Council Special Projects reserve is below target, replenish to target at the start of each biennium.
- If the revenue stabilization reserve is below target, prioritize replenishing the reserve.
- To the extent cash is from volatile revenues above budgeted amounts, those funds should be applied to revenue stabilization reserve first.
- If unplanned funds are available because planned reserve uses did not occur, those funds should be returned to the source reserve.
- The source of uncommitted funds should be taken into consideration (for example, interest earnings over budget could be applied to the capital contingency, since they are one of the designated sources for this reserve).
- The degree to which an individual reserve is below target (for example, the reserve that is furthest from its target level on a percentage basis might receive a larger share of the funds).

Decisions on how replenishments are allocated to specific reserves will be based on where available funds came from and on each reserve's status at the time the decision is made.

The replenishment policy will provide a mechanism whereby Council may take action to suspend replenishment policies if it was found that special conditions existed warranting such action.

### Decision Making Process for Unplanned Fund Balances if Reserves are Greater Than 80% of Target





# Financial Management Report as of March 31, 2012

## AT A GLANCE:

City implements new permit tracking system (page 2 sidebar)

2012 revenues through March continue to be unpredictable due to annexation (page 3)

2012 Sales tax revenue through March is ahead of 2011 (page 5)

Economy sends mixed signals (pages 7-8)

## Inside this issue:

Expenditure Summary	2
General Fund Revenue	3
General Fund Expenditures	4
Sales Tax Revenue	5
Economic Environment	7
Investment Report	8
Reserve Summary	10

*The Financial Management Report will be a challenge to interpret in 2012 due to annexation, which impacted expenditures and revenues at different times throughout 2011 and 2012. As a result, instead of discussing the comparison of 2012 actual revenues and expenditures to the prior year, this quarter's FMR will compare the 2012 actual results to the 2012 budget and highlight revenues received in 2011 that will be used to offset expenditures budgeted in 2012.*

## Summary of All Operating Funds: Revenue

- General Fund** actual 2012 revenue through March is at **19.7 percent** of budget. This does not include \$1.7 million of revenue received from Woodinville Fire and Rescue in December 2011, but budgeted for receipt in 2012. Including this amount, the total revenue received through March would be at 21.9 percent of budget. The 2012 budget includes revenues projected for the new neighborhoods (annexation area), which are coming in lower than projected. A more detailed analysis of General Fund revenue can be found on page 3, and sales tax revenue performance can be found beginning on page 5.
- Other General Government Funds** actual 2012 revenue through March is at **19.0 percent** of budget. \$1.1 million of one-time County Road Levy revenue budgeted in 2012 to offset authorized expenditures was received in 2011. Including the road tax received in 2011, Other General Government Funds actual 2012 revenue to budget would be at 25.1 percent.
- Water/Sewer Operating Fund** actual 2012 revenue through March is **24.3 percent** of budget. Sewer rates increased in 2012 5.5 percent and water rates increased 2.2 percent.
- Surface Water Management Fund** actual 2012 revenue is **4.1 percent** of budget. Surface Water charges are paid with property taxes, which are primarily received in April and October.
- Solid Waste Fund** actual 2012 revenue through March is **24.0 percent** of budget. This is in line with current Solid Waste expenditures through March. In 2011, Solid Waste customers had the opportunity to move to a smaller can size. More customers moved to a smaller size than expected which caused rate revenue to come in lower than expected. The finance committee began evaluating current rate policies during the first quarter of 2012, this evaluation will continue into the second quarter.

Resources by Fund	Year-to-Date Actual			Budget			% of Budget	
	3/31/2011	3/31/2012	% Change	2011	2012	% Change	2011	2012
<b>General Gov't Operating:</b>								
General Fund	11,864,538	15,389,097	29.7%	68,664,728	78,272,302	14.0%	17.3%	19.7%
Other General Gov't Operating Funds	3,170,115	3,537,668	11.6%	16,672,780	18,578,522	11.4%	19.0%	19.0%
<b>Total General Gov't Operating</b>	<b>15,034,653</b>	<b>18,926,765</b>	<b>25.9%</b>	<b>85,337,508</b>	<b>96,850,824</b>	<b>13.5%</b>	<b>17.6%</b>	<b>19.5%</b>
<b>Utilities:</b>								
Water/Sewer Operating Fund	4,584,248	4,984,834	8.7%	19,807,418	20,540,187	3.7%	23.1%	24.3%
Surface Water Management Fund	267,011	346,467	29.8%	6,847,891	8,372,990	22.3%	3.9%	4.1%
Solid Waste Fund	2,123,972	3,169,993	49.2%	10,040,676	13,209,514	31.6%	21.2%	24.0%
<b>Total Utilities</b>	<b>6,975,231</b>	<b>8,501,294</b>	<b>21.9%</b>	<b>36,695,985</b>	<b>42,122,691</b>	<b>14.8%</b>	<b>19.0%</b>	<b>20.2%</b>
<b>Total All Operating Funds</b>	<b>22,009,884</b>	<b>27,428,059</b>	<b>24.6%</b>	<b>122,033,493</b>	<b>138,973,515</b>	<b>13.9%</b>	<b>18.0%</b>	<b>19.7%</b>

Budgeted and actual revenues exclude resources forward and interfund transfers.



### City Implements New Permit Tracking System

On Monday, April 2, 2012, the City of Kirkland put into operation one of the largest software implementations in its history. For the past 24 years, construction, land use, fire, right-of-way permits and business licenses have been tracked in a system that was based on older technology. The new system, EnerGov, provides much more robust features that will make the permit application, review, and issuance process for applicants and city development services staff easier and faster.

The new permit tracking system is dynamically linked with the City's GIS system, hosts historical permit data for the customer to see, and allows for customers to call in to schedule inspections and check the status of a permit. Much of the administrative requirements for processing a permit will now be automated, saving staff time. Permit applicants are asked to be patient with development services and business license staff as the transition is made to the new system.

For more information, contact Tom Phillips, Building Official, City of Kirkland, at 425-587-3604 or [tphillips@kirklandwa.gov](mailto:tphillips@kirklandwa.gov).

## Summary of All Operating Funds: *Expenditures*

- **General Fund** actual expenditures are at **22.8 percent** of budget, 25 percent of the way through the year. Savings are largely due to postponing some annexation-related hiring, position vacancies, lower fire overtime, and jail contract savings. A more detailed analysis of General Fund expenditures by department is found on page 4.
- **Other Operating Funds** actual expenditures through March 2012 are at **21.9 percent** of budget largely due to budgeted vehicle purchases which have not yet occurred and lower facility utility costs. Vehicle costs vary year-to-year depending on the planned replacement cycle. In addition, there are several new annexation-related vehicles budgeted in 2012 which have been delayed and are currently under review. Facility utility costs are down, partially due to milder winter weather, but also from staff conservation efforts and the pay-off from past investments in updated controls and equipment at various locations. Other Operating funds have also seen some savings in personnel costs due to position vacancies, primarily for annexation.
- **Water/Sewer Operating Fund** actual expenditures through March are at **23.5 percent** of budget despite higher water costs. The City pays Cascade Water Alliance (CWA) a set rate for water each month based on average demands over three years (currently 2008-2010).
- **Surface Water Management Fund** actual 2012 expenditures through March are at **18.8 percent** of budget due to delays in hiring annexation-related positions resulting in significant savings in the personnel and supplies categories.
- **Solid Waste Fund** actual 2012 expenditures through March are at **24.3 percent** of budget and in-line with expectations.

Expenditures by Fund	Year-to-Date Actual			Budget			% of Budget	
	3/31/2011	3/31/2012	% Change	2011	2012	% Change	2011	2012
<b>General Gov't Operating:</b>								
General Fund	15,326,644	16,457,267	7.4%	67,878,459	72,219,258	6.4%	22.6%	22.8%
Other General Gov't Operating Funds	3,525,992	3,972,184	12.7%	17,106,576	18,130,670	6.0%	20.6%	21.9%
<b>Total General Gov't Operating</b>	<b>18,852,636</b>	<b>20,429,451</b>	<b>8.4%</b>	<b>84,985,035</b>	<b>90,349,928</b>	<b>6.3%</b>	<b>22.2%</b>	<b>22.6%</b>
<b>Utilities:</b>								
Water/Sewer Operating Fund	4,201,482	4,021,087	-4.3%	16,765,372	17,129,916	2.2%	25.1%	23.5%
Surface Water Management Fund	761,238	1,005,143	32.0%	4,338,938	5,334,002	22.9%	17.5%	18.8%
Solid Waste Fund	2,067,997	3,177,029	53.6%	10,070,151	13,057,781	29.7%	20.5%	24.3%
<b>Total Utilities</b>	<b>7,030,717</b>	<b>8,203,259</b>	<b>16.7%</b>	<b>31,174,461</b>	<b>35,521,699</b>	<b>13.9%</b>	<b>22.6%</b>	<b>23.1%</b>
<b>Total All Operating Funds</b>	<b>25,883,353</b>	<b>28,632,710</b>	<b>10.6%</b>	<b>116,159,496</b>	<b>125,871,627</b>	<b>8.4%</b>	<b>22.3%</b>	<b>22.7%</b>

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

## Financial Management Report as of March 31, 2012

## General Fund Revenue

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

- **Sales tax** revenue allocated to the General Fund is close to budget expectations at **24.7 percent**. A detailed analysis of total **sales tax** revenue compared to 2011 can be found starting on page 5.
- Selected large General Fund revenues are received in periodic increments, specifically **property tax** (mostly received in April/May and October/November) and **King County EMS** payments (quarterly or semi-annually).
- **Utility tax** receipts, including projected new neighborhood area revenues, are at **26.0 percent** of budget. Telecommunication utility tax revenues, continue the trends of 2011 coming in short of budget expectations at 19.6 percent. The shortfall is currently offset by higher gas and cable utility taxes.
- **Other taxes** actual revenue is at **45.0 percent** of budget due to gambling revenue from the new neighborhoods (annexation area). Note that these taxes are paid on a semi-annual basis.
- The **business licenses (base fee) and franchise fees** are at **26.2 percent** of budget. Both business license and franchise fees are on target with budget expectations.
- The **revenue generating regulatory license fee** is slightly exceeding budget expectations at **27.9 percent** of budget.
- The **development-related fee** revenues, collectively are below budget expectations at **22.3 percent** of budget. **Building permits** and **plan check revenue** collectively are at **15.8 percent** of budget and **engineering services** revenue is at **37.2 percent** of budget. **Planning fees** revenue are at **39.9 percent** of budget primarily due to major Process IIA and Design Board permit revenues.
- **Fines and Forfeitures** are below budget expectations at **9.7 percent** due to lower than expected parking infraction and traffic infraction penalty revenues. This is offset in part by salary savings from a parking enforcement officer, multiple police officer vacancies and delayed hiring of annexation-related court staff.
- **Other financing sources** includes the asset transfer from Woodinville Fire & Rescue that was received in late 2011 and budgeted in 2012. \$175,000 in Interfund Transfers budgeted for the purchase of public safety radios in 2011 will occur later in 2012.

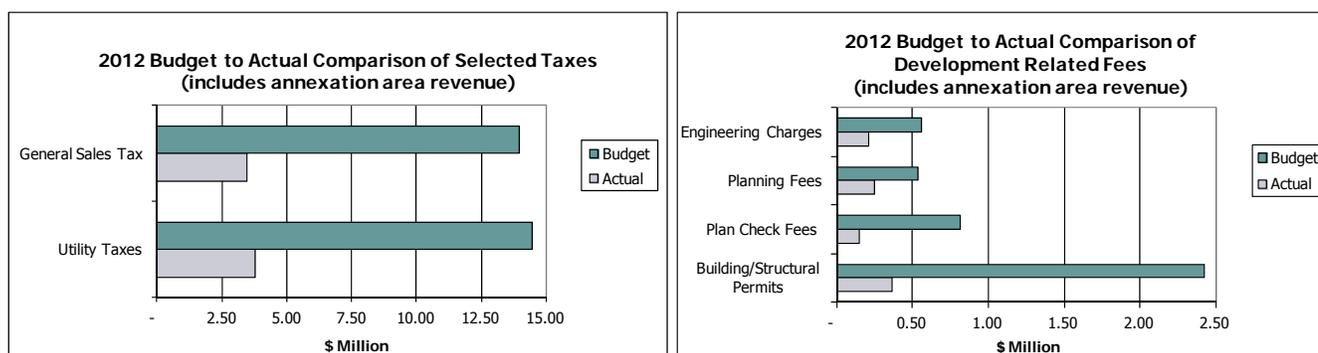
General Fund 2011 revenues are at 19.7 percent of budget, (excluding \$1.7 million of revenue received from Woodinville Fire and Rescue in December 2011).

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

In 2012, about 421 of the City's 541 regular employees are budgeted within this fund.

General Fund Resource Category	Year-to-Date Actual			Budget			% of Budget	
	3/31/2011	3/31/2012	% Change	2011	2012	% Change	2011	2012
<b>Taxes:</b>								
Retail Sales Tax: General	3,274,456	3,454,796	5.5%	12,885,899	13,972,010	8.4%	25.4%	24.7%
Retail Sales Tax Credit: Annexation	-	830,130	N/A	1,129,866	3,409,791	N/A	N/A	24.3%
Retail Sales Tax: Criminal Justice	244,298	410,139	67.9%	1,149,997	1,568,112	36.4%	21.2%	26.2%
Property Tax	667,005	866,887	42.8%	13,261,709	16,412,792	23.8%	4.6%	5.3%
Utility Taxes	2,796,567	3,763,958	34.6%	12,436,696	14,460,833	16.3%	22.5%	26.0%
Rev Generating Regulatory License	667,300	665,333	-0.3%	2,344,069	2,386,300	1.8%	28.5%	27.9%
Other Taxes	95,391	452,441	374.3%	312,250	1,005,488	222.0%	30.5%	45.0%
<b>Total Taxes</b>	<b>7,685,017</b>	<b>10,443,684</b>	<b>35.9%</b>	<b>43,520,486</b>	<b>53,215,326</b>	<b>22.3%</b>	<b>17.7%</b>	<b>19.6%</b>
<b>Licenses &amp; Permits:</b>								
Building, Structural & Equipment Permits	334,532	363,762	8.7%	1,748,605	2,423,612	38.6%	19.1%	15.0%
Business Licenses/Franchise Fees	592,014	1,078,295	82.1%	3,014,279	4,109,869	36.3%	19.6%	26.2%
Other Licenses & Permits	86,964	108,390	24.6%	217,579	217,579	0.0%	40.0%	49.8%
<b>Total Licenses &amp; Permits</b>	<b>1,013,510</b>	<b>1,550,447</b>	<b>53.0%</b>	<b>4,980,463</b>	<b>6,751,060</b>	<b>35.6%</b>	<b>20.3%</b>	<b>23.0%</b>
<b>Intergovernmental:</b>								
Grants and Federal Entitlements	202,093	111,127	-45.0%	548,052	137,051	-75.0%	36.9%	81.1%
State Shared Revenues & Entitlements	204,590	260,435	27.3%	947,385	1,227,231	29.5%	21.6%	21.2%
Property Tax - Fire District	-	-	-	-	1,426,568	-	N/A	N/A
Fire District #41	-	-	N/A	3,684,071	-	N/A	N/A	N/A
EMS	-	-	N/A	868,678	866,729	N/A	N/A	N/A
Other Intergovernmental Services	87,667	12,887	-85.3%	533,087	168,540	-68.4%	16.4%	7.6%
<b>Total Intergovernmental</b>	<b>494,350</b>	<b>384,449</b>	<b>-22.2%</b>	<b>6,581,273</b>	<b>3,826,119</b>	<b>-41.9%</b>	<b>7.5%</b>	<b>10.0%</b>
<b>Charges for Services:</b>								
Internal Charges	1,363,430	1,331,273	-2.4%	5,558,328	5,850,356	5.3%	24.5%	22.8%
Engineering Services	131,297	206,632	57.4%	464,146	555,852	19.8%	28.3%	37.2%
Plan Check Fee	93,473	147,862	58.2%	1,115,779	814,484	-27.0%	8.4%	18.2%
Planning Fees	150,418	248,418	65.2%	495,044	536,799	8.4%	30.4%	46.3%
Recreation	311,258	329,273	N/A	1,162,406	1,152,963	N/A	N/A	28.6%
Other Charges for Services	195,369	384,038	96.6%	1,709,373	2,187,273	28.0%	11.4%	17.6%
<b>Total Charges for Services</b>	<b>2,245,245</b>	<b>2,647,496</b>	<b>17.9%</b>	<b>10,505,076</b>	<b>11,097,727</b>	<b>5.6%</b>	<b>21.4%</b>	<b>23.9%</b>
<b>Fines &amp; Forfeits</b>	<b>328,361</b>	<b>269,879</b>	<b>-17.8%</b>	<b>2,435,490</b>	<b>2,781,169</b>	<b>14.2%</b>	<b>13.5%</b>	<b>9.7%</b>
<b>Miscellaneous</b>	<b>98,055</b>	<b>113,135</b>	<b>15.4%</b>	<b>641,940</b>	<b>600,901</b>	<b>-6.4%</b>	<b>15.3%</b>	<b>18.8%</b>
<b>Total Revenues</b>	<b>11,864,538</b>	<b>15,409,090</b>	<b>29.9%</b>	<b>68,664,728</b>	<b>78,272,302</b>	<b>14.0%</b>	<b>17.3%</b>	<b>19.7%</b>
<b>Other Financing Sources:</b>								
Transfer of FD 41 & WFR Balances	-	-	N/A	1,722,725	-	N/A	N/A	N/A
Interfund Transfers	-	-	N/A	275,028	54,853	N/A	N/A	N/A
<b>Total Other Financing Sources</b>	<b>-</b>	<b>-</b>	<b>N/A</b>	<b>1,997,753</b>	<b>54,853</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
<b>Total Resources</b>	<b>11,864,538</b>	<b>15,409,090</b>	<b>29.9%</b>	<b>70,662,481</b>	<b>78,327,155</b>	<b>10.8%</b>	<b>16.8%</b>	<b>19.7%</b>

### General Fund Revenue *continued*



### General Fund Expenditures

General Fund Department Expenditures	Year-to-Date Actual			Budget			% of Budget	
	3/31/2011	3/31/2012	% Change	2011	2012	% Change	2011	2012
Non-Departmental	237,044	290,926	22.7%	1,480,669	1,857,281	25.4%	16.0%	15.7%
City Council	139,518	130,066	-6.8%	321,477	449,021	39.7%	43.4%	29.0%
City Manager's Office	790,906	916,977	15.9%	3,556,701	4,347,959	22.2%	22.2%	21.1%
Human Resources	292,690	298,219	1.9%	1,267,998	1,247,645	-1.6%	23.1%	23.9%
City Attorney's Office	264,300	325,445	23.1%	1,162,037	1,349,047	16.1%	22.7%	24.1%
Parks & Community Services	1,501,985	1,607,923	7.1%	7,108,434	7,595,607	6.9%	21.1%	21.2%
Public Works (Engineering)	831,820	880,800	5.9%	3,771,045	3,846,587	2.0%	22.1%	22.9%
Finance and Administration	978,941	986,424	0.8%	4,097,765	4,527,958	10.5%	23.9%	21.8%
Planning & Community Development	691,799	757,176	9.5%	2,932,820	3,402,313	16.0%	23.6%	22.3%
Police	4,864,255	5,373,405	10.5%	22,201,553	23,422,595	5.5%	21.9%	22.9%
Fire & Building	4,733,386	4,889,906	3.3%	19,977,960	20,173,245	1.0%	23.7%	24.2%
<b>Total Expenditures</b>	<b>15,326,644</b>	<b>16,457,267</b>	<b>7.4%</b>	<b>67,878,459</b>	<b>72,219,258</b>	<b>6.4%</b>	<b>22.6%</b>	<b>22.8%</b>
<b>Other Financing Uses:</b>								
Interfund Transfers	629,344	617,566	-1.9%	3,286,374	3,693,042	12.4%	19.2%	16.7%
<b>Total Other Financing Uses</b>	<b>629,344</b>	<b>617,566</b>	<b>-1.9%</b>	<b>3,286,374</b>	<b>3,693,042</b>	<b>12.4%</b>	<b>19.2%</b>	<b>16.7%</b>
<b>Total Expenditures &amp; Other Uses</b>	<b>15,955,988</b>	<b>17,074,833</b>	<b>7.0%</b>	<b>71,164,833</b>	<b>75,912,300</b>	<b>6.7%</b>	<b>22.4%</b>	<b>22.5%</b>

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

The 2012 Budget incorporates budget reductions in response to the economic downturn and additions as a result of annexation. The same dynamics impacted the 2011 budget at varying times throughout the year. This creates a challenge comparing 2012 to 2011, therefore, expenditures will only be compared to the 2012 budget.

#### Comparing first quarter 2012 actual expenditures to the 2012 budget:

Overall, General Fund expenditures are trailing the budget at 22.8 percent of budget, excluding interfund transfers. About half of the under expenditures are a result of salary and benefit savings partially due to delays in hiring for annexation; this savings is not expected to continue at this level through 2012. The remaining under expenditures are primarily due to savings in intergovernmental (timing of ARCH contributions, election costs, and savings in jail contract costs) and professional services.

- Actual 2012 expenditures for the **City Council** are at **29.0 percent** of budget due to a significant portion of dues and memberships paid in the beginning of the year.
- The **City Manager's Office** actuals are at **21.1 percent** of budget due to savings in personnel costs associated with unfilled positions in Municipal Court services.
- Actual 2012 expenditures for **Human Resources** are at **23.9 percent** of budget due to savings in professional services and advertising. This savings is not expected to continue through 2012.
- The **City Attorney's Office** expenditures are at **24.1 percent** of budget due to savings in legal fees.
- Actual 2012 expenditures for the **Parks & Community Services Department** are at **21.2 percent** of budget due to unfilled positions, operating supplies and human services contract payments, the majority of which will occur later in 2012.

2012 General Fund actual first quarter expenditures (excluding "other financing sources") are at 22.8 percent of budget, primarily due to delays in annexation-related hiring and position vacancies in multiple departments, savings in jail costs and fire overtime.

(Continued on page 5)

## Financial Management Report as of March 31, 2012

- Actual expenditures for the **Public Works Department** are at **22.9 percent** of budget due to position vacancies and professional services that will occur later in the year.
- The **Finance and Administration Department** expenditures are at **21.8 percent** of budget due to professional services, election costs, and printing expenses which will be incurred later in the year.
- Actual 2012 expenditures for the **Planning and Community Development Department** are at **22.3 percent** of budget due to savings in personnel costs as a result of unfilled positions.
- Actual 2012 expenditures for the **Police Department** are at **22.9 percent** of budget due to savings from delayed annexation-related staffing and increased hiring of laterals (and related expenses) along with position vacancies. In addition, jail costs are under budget about \$300,000 due to contracts with other agencies for lower rates than those charged by King County and an increase in the use of electronic home detention and other sentencing measures as alternatives to jail time.
- Actual 2012 expenditures for the **Fire & Building Department** are at **24.2 percent** of budget due to savings in fire suppression overtime and delayed hiring of annexation-related positions in the Building Division. A reconciliation of the funds received from the assumption of Fire District 41 appears to the right; this includes 2011-2012 revenues and expenditures. The ending total balance of approximately \$5.2 million will be used for the planned fire station consolidation capital project.

### Summary of Fire District 41 Funds: Revenues & Expenditures

	Capital	General Government
<b>Revenues:</b>		
Beginning Balance	4,000,000	1,724,497
Fire District Revenues	-	1,872,041
Interest and Other Revenues	22,507	2,697
<b>Total Revenues</b>	<b>4,022,507</b>	<b>3,599,235</b>
<b>Expenditures:</b>		
Operating Costs (per ILA)*	-	169,063
Fire District 2011 Contract	-	2,209,496
Station Consolidation Project	37,872	-
<b>Total Expenditures</b>	<b>37,872</b>	<b>2,378,559</b>
<b>Ending Balance</b>	<b>3,984,635</b>	<b>1,220,676</b>

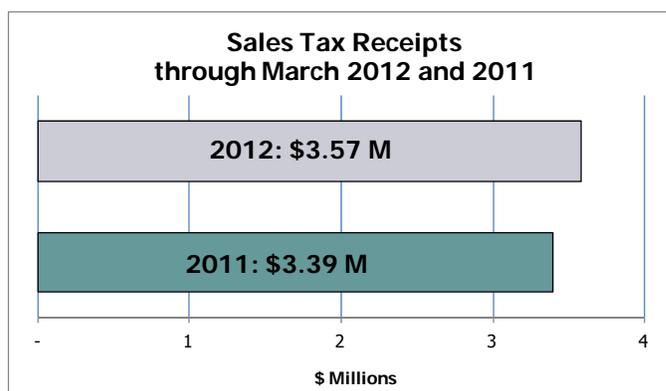
\*Includes 2012 obligations

### Sales Tax Revenue Analysis 2012

sales tax revenue through March is **up 5.3 percent** compared to the same period in 2011. The 2012 budget assumes a 4.4 percent increase over 2011 actuals. The year to date increase of 5.3 percent is ahead of budget assumptions by just under 1 percent.

#### Review by business sectors:

- The **general merchandise/miscellaneous retail** sector is **down 5.7 percent** compared to last year due to the one-time large receipt received last year from development-related activity from one key business. Factoring out last year's large one-time receipt, the year to date revenues are 5.1 percent greater than last year.
- The **auto/gas retail** sector is **up 4.4 percent** compared to last year, largely due to the addition of a new dealership in March of last year and positive performance by a few key retailers.
- The **retail eating/drinking** sector performance is **up 13.6 percent** compared to last year. About 56 percent of the revenue increase is from eating and drinking establishments in the new neighborhoods.
- Other retail** is **up 24.9 percent** compared to last year. About 43 percent, or \$44,000 of the increase, is revenue from retail establishments in the new neighborhoods. The **services** sector is **up 7.2 percent** compared to last year, largely due to positive performance in the repairs and maintenance, administrative support, health care, arts and entertainment, and accommodations categories and despite negative performance in the professional scientific and internet categories. The accommodations sector is up 9.8 percent or about \$5,700.
- Wholesale** is **up 9.8 percent** compared to last year largely due to increases in sales in the furniture and computer equipment categories.
- The **communications** sector is **down 35.3 percent** compared to last year due to one-time revenues in February 2011 in the telecommunications category. Factoring out this one-time revenue, this category would be up 5.3 percent compared to last year.
- The **contracting** sector is **up 12.7 percent** compared to last year. Some of the gain in this category is due to the construction of two new elementary schools in the new neighborhoods.



#### Streamlined Sales Tax

Local coding sales tax rules changed in as a result of Washington State joining the national Streamlined Sales Tax Agreement. Negative impacts from this change are mitigated by the State of Washington. First quarter 2012 revenue is about \$27,000, trending slightly under budget. This revenue source has been reduced due to the impact of state budget decisions.

#### Neighboring Cities Sales Tax

Bellevue was up only 0.1 percent and Redmond was down 0.4 percent through March compared to the same period in 2011.

## City of Kirkland Actual Sales Tax Receipts

Business Sector Group	January-March		Dollar Change	Percent Change	Percent of Total	
	2011	2012			2011	2012
Services	429,698	460,570	30,872	7.2%	12.7%	12.9%
Contracting	428,700	482,936	54,236	12.7%	12.6%	13.5%
Communications	163,897	106,015	(57,882)	-35.3%	4.8%	3.0%
Auto/Gas Retail	803,055	838,545	35,490	4.4%	23.7%	23.5%
Gen Merch/Misc Retail	544,296	513,007	(31,289)	-5.7%	16.0%	14.4%
Retail Eating/Drinking	262,693	298,289	35,596	13.6%	7.7%	8.4%
Other Retail	416,290	519,863	103,573	24.9%	12.3%	14.6%
Wholesale	152,544	167,569	15,025	9.8%	4.5%	4.7%
Miscellaneous	190,789	185,502	(5,287)	-2.8%	5.6%	5.2%
<b>Total</b>	<b>3,391,962</b>	<b>3,572,296</b>	<b>180,334</b>	<b>5.3%</b>	<b>100.0%</b>	<b>100.0%</b>

*Kirkland's sales tax base is comprised of a variety of businesses which are grouped and analyzed by business sector (according to NAICS, or "North American Industry Classification System"). Nine business sector groupings are used to compare 2011 and 2012 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
	2011	2012		
January	1,082,225	1,104,023	21,798	2.0%
February	1,366,850	1,413,587	46,737	3.4%
March	942,887	1,054,686	111,799	11.9%
<b>Total</b>	<b>3,391,962</b>	<b>3,572,296</b>	<b>180,334</b>	<b>5.3%</b>

*When analyzing monthly sales tax receipts, there are two items of special note: First, most businesses remit their sales tax collections to the Washington State Department of Revenue on a monthly basis. Small businesses only have to remit their sales tax collections either quarterly or annually, which can create anomalies when comparing the same month between two years. Second, for those businesses which remit sales tax monthly, there is a two month lag from the time that sales tax is collected to the time it is distributed to the City. For example, sales tax received by the City in March is for sales activity in January. Monthly sales tax receipts through March 2011 and 2012 are compared in the table above.*

- The comparison includes revenues from the new neighborhoods in 2012.
- Monthly revenue performance in 2012 continues the improvements seen in 2011.
- January 2012 was slightly ahead of January 2011. A large one-time receipt in January 2011 skews the comparison. The increase is 7.6 percent after factoring out this one-time event.
- Receipts for February were also skewed by a large one time adjustment in the communications category and the revenues from the new neighborhoods. Factoring out these revenues results in an increase of 1.8 percent.
- March revenue also includes revenues from the new neighborhoods. Factoring out revenues from the new neighborhoods results in an increase of 8.1 percent.

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

## Comparing to the same period last year:

**Totem Lake**, which accounts for about 29 percent of the total sales tax receipts, is **up 1.7 percent** due to improvements in automotive/gas retail and despite poor performance in several of the retail sales categories in 2012. About 58 percent of this business district's revenue comes from the auto/gas retail sector.

total sales tax receipts, are **down 56.4 percent** compared to last year primarily due to a one-time revenues in the other retail category in February 2011. About 69 percent of this business district's revenue comes from business services, retail eating/drinking and accommodations.

**Houghton & Bridle Trails**, which account for more than 2 percent of the total sales tax receipts, are **up 14.9 percent** collectively due to strong performance in the other retail category. The retail sectors provide about 74 percent of these business districts' revenue.

**Juanita**, which accounts for about 2 percent of the total sales tax receipts are **up 0.1 percent**. Increases in the retail eating/drinking are offset by poor performance in the business services category. These sectors, along with miscellaneous retail provide, about 75 percent of this business district's revenue.

**North Juanita, Kingsgate, & Finn Hill** account for more than 3 percent of the total sales tax receipts. Sales tax receipts for these business districts continue to perform below budget projections. Retail eating/drinking and food retail sectors provide about 67 percent of these business districts sales tax revenues.

*Year-to-date sales tax receipts by business district for 2011 and 2012 are compared in the table on the next page.*

**NE 85<sup>th</sup> Street**, which accounts for 15 percent of the total sales tax receipts, is **up 1.8 percent** primarily due to an increase in other retail, retail eating/drinking and automotive/gas retail categories. These sectors, along with general merchandise/miscellaneous retail, contribute almost 86 percent of this business district's revenue.

**Downtown**, which accounts for over 6 percent of the total sales tax receipts, is **up 3.9 percent** due to positive performance in the retail apparel/general merchandise category and retail eating/drinking category. The retail eating/drinking sector, accommodations and other retail provide almost 71 percent of this business district's revenue.

**Carillon Point & Yarrow Bay**, which account for 2 percent of the

When reviewing sales tax receipts by business district, it's important to point out that more than 44 percent of the revenue received in 2012 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	
	2011	2012			2011	2012
Totem Lake	1,036,023	1,053,376	17,353	1.7%	30.5%	29.5%
NE 85th St	524,723	534,425	9,702	1.8%	15.5%	15.0%
Downtown	218,474	227,086	8,612	3.9%	6.4%	6.4%
Carillon Pt/Yarrow Bay	165,024	71,997	(93,027)	-56.4%	4.9%	2.0%
Houghton & Bridle Trails	83,118	95,534	12,416	14.9%	2.5%	2.7%
Juanita	62,423	62,476	53	0.1%	1.8%	1.7%
Kingsgate	-	43,873	43,873	N/A	0.0%	1.2%
North Juanita	-	54,794	54,794	N/A	0.0%	1.5%
Finn Hill	-	25,428	25,428	N/A	0.0%	0.7%
Unassigned or No District:						
Contracting	428,700	482,764	54,064	12.6%	12.6%	13.5%
Other	873,477	920,543	47,066	5.4%	27.6%	30.9%
<b>Total</b>	<b>3,391,962</b>	<b>3,572,296</b>	<b>180,334</b>	<b>5.3%</b>	<b>100.0%</b>	<b>100.0%</b>

**Sales Tax Revenue Outlook** Sales tax receipts for 2012 continue to indicate a slow recovery and the normal revenue volatility associated with sales tax revenues. The services, contracting, automotive/gas retail and other retail sectors contributed the largest amount of gain, but these sectors are very sensitive to economic conditions. The contracting sector has shown small signs of recovery, some of this gain is due to the construction two new elementary schools in the new neighborhoods. The impact from streamlined sales tax sourcing rule changes has negatively impacted some sectors, but is offset by gains in others. Anticipating revenues from the new neighborhoods in 2012, the budget includes a 4.4 percent increase over 2011 actual. Year to date sales tax revenue is approximately 27 percent of the 2012 budget which is similar to the trends over the last years. The slow economic recovery poses significant risk to the City's ability to maintain services, since sales tax is one of the primary sources of general fund revenue.

**OFFICE VACANCIES:**

According to CB Richard Ellis Real Estate Services, the Eastside office vacancy rate was 14.5 percent for the first quarter of 2012 compared to 17.4 percent for the first quarter of 2011. Kirkland's 2012 vacancy rate is 6.4 percent, significantly lower than the 2011 rate of 21.6 percent and one of the lowest vacancy rates in King County.

The Puget Sound office market has recorded eight consecutive quarters of positive absorption, which makes it one of the stronger performing markets in the country.

A positive outlook, along with a shortage of larger blocks of vacant spaces, has developers proposing 10 million square feet of new office space in Bellevue and Seattle.

**LODGING TAX REVENUE:**

Lodging tax revenue ended the first quarter of 2012 at 20.4 percent of the budget and 11.9 percent ahead of the same period in 2011.

**Economic Environment Update** The Washington state economy is giving off mixed signals in the first quarter of 2012. Employment growth is slightly higher than expected, but earlier estimates had been revised down, so it remains lower than previously anticipated. Housing construction was stronger than expected, but prices remain depressed. Aerospace employment continues to expand, but more slowly than 2011. On the upside, the state has experienced a significant increase in new automobile and truck sales and the Seattle area ranked eighth in number of jobs added over the last 12 months. However, the risks to the economy remain high. Oil and gasoline prices have stabilized somewhat, but the financial crisis in Europe remains a real possibility. Next year, there is a risk of financial contraction if tax cuts expire as scheduled, the 2 percent payroll tax holiday and extended unemployment benefits end, and the automatic spending cuts mandated by the Budget Control Act are implemented. The state's economy is expected to outperform the national economy this year by a slight margin.

The U.S. **consumer confidence index** in March was close to the one-year high, but slightly declined to 70.2 from 71.6 (revised) in February. Positive factors include the best six months of job growth since 2006, unemployment at a 3-year low, and stock market gains. All of these factors have helped boost consumer confidence despite higher fuel costs. The improving job market and stabilizing housing market have encouraged a growing number of Americans to say they plan to buy cars, homes, and appliances. An index of 90 indicates a stable economy and one at or above 100 indicates growth.

King County's **unemployment rate** was **7.1 percent** in March 2012 compared to 8.4 percent in March 2011. King County's unemployment rate is lower than the Washington State and national rates, which were 8.3 and 8.2 percent respectively. The unemployment rate in Kirkland for March was 6 percent compared to 7.2 percent in March 2011.

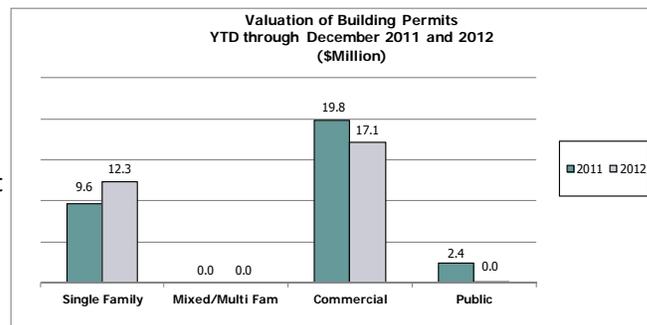
Local survey indices are also mixed. The Western Washington Purchasing Manager index fell in March to 65 from 71.2 in February. However, while optimism slipped, a score above 50 suggest a growing economy. A northwest regional survey of 206 business executives by Hebert Research

(Continued on page 8)

## Economic Environment Update *continued*

indicates business leaders expected a slight improvement in the economy this year. The confidence score of 54 is ahead of last year's score of 50, but far below a "high confidence" score that would be in the 70 range. The survey cited reasons for low confidence as uncertainty about government regulations, taxes, and rising fuel costs. Another survey of Seattle executives by Washington State University School of Economic Sciences and the Seattle Business Executives Association indicated more optimism and expectations of modest growth in 2012.

Local **development activity** through March comparing 2011 to 2012 as measured by the valuation of City of Kirkland building permits is illustrated in the chart to the right. Overall activity is down about 7 percent from last year primarily due to declines in the commercial and public sectors and despite strong gains in single family construction, which is up about 28 percent over the same period last year. There has been no activity in mixed used development in either 2011 or 2012.



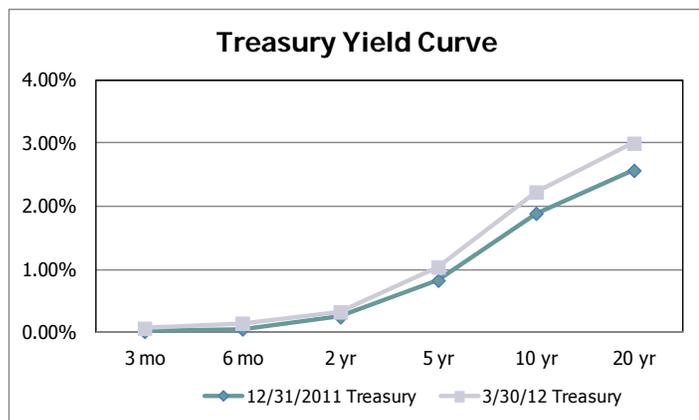
Closed sales of **new and existing single-family homes** on the Eastside were up 8.9 percent in March 2012 compared to March 2011. However, the median price of a single family home decreased 5.5 percent to \$470,000. Closed sales of condos were up 35.3 percent and median prices declined by 12.5 percent to \$209,975. Overall closed sales of homes and condos in King County were up 10.5 percent. An indication of increased market activity are pending sales, which were up 31.1 percent and inventory numbers are declining, which may help reverse the downward trend on prices. Activity in the Kirkland submarket remains strong.

**Seattle metro consumer price index (CPI)** fluctuated throughout 2011, peaking at 4.3 percent in October, but averaging 3.2 percent for the year. The Seattle index is calculated on a bi-monthly basis and the most recent index in February was 2.8 percent. The national index also fluctuated throughout 2011, peaking at 4.4 percent with an annual average of 3.6 percent. The latest index in March was 2.9 percent. It appears that both local and national inflation rates in the first quarter of 2012 are trending lower than most of 2011.

## Investment Report

### MARKET OVERVIEW

The Fed Funds rate remained at 0.25 percent during the first quarter of 2012 as the economy continued its below average recovery. As can be seen in the accompanying graph, the Treasury yield curve rose slightly with increasing gains on the long end of the curve.



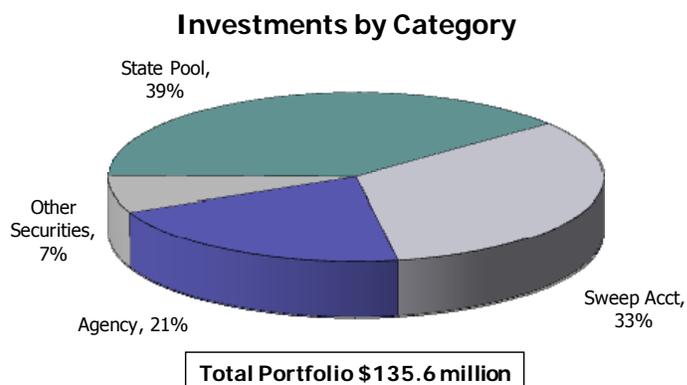
### Diversification

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

### CITY PORTFOLIO

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

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



The City's portfolio decreased in the first quarter of 2012 to \$135.6 million compared to \$137.4 million on December 31, 2011. The decrease in the portfolio is related to the normal cash flows of the first quarter, as the first half of property taxes is not received until the end of April.

**2012 ECONOMIC OUTLOOK and INVESTMENT STRATEGY**

The outlook for growth in the U.S. economy is mostly unchanged from three months ago, according to 45 forecasters surveyed by the Federal Reserve Bank of Philadelphia. The U.S. economy is expected to grow at an annual rate of 2.3 percent in 2012. CPI inflation is expected to average 2.0 percent in 2012 and 2.2 percent in 2013. The unemployment rate is expected to average 8.3 percent in 2012 and fall to 7.9 percent in 2013. The Fed Funds rate, currently at 0.25%, is expected to remain at this level throughout 2013 and into 2014.

The duration and earnings of the portfolio will continue to decrease as securities mature and are called. Opportunities for increasing portfolio returns are scarce as short-term interest rates continue at historically low levels. New security purchases will be made as opportunities to obtain moderate returns become available. 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 0.15% and will continue to remain low as the Fed Funds rate remains at 0.00 to 0.25 percent. Total estimated investment income for the City of Kirkland in 2012 is \$800,000.

**Investment Report *continued***

**Liquidity**

The target duration for the City's portfolio is based on the 2 year treasury rate which increased from 0.25 percent on December 31, 2011 to 0.33 percent on March 30, 2012. The average maturity of the City's investment portfolio decreased slightly from 0.79 years on December 31, 2011 to 0.75 years on March 31, 2012 due to the longer term securities being called as the interest rates continue to drop.

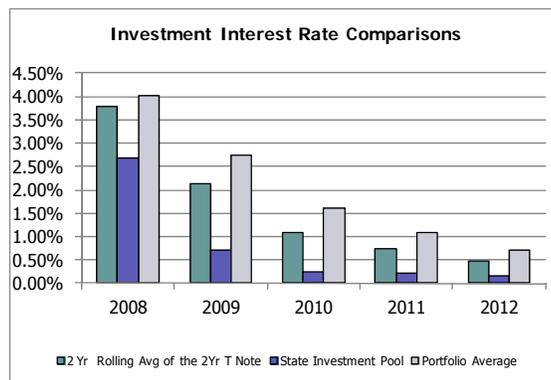
**Yield**

The City Portfolio yield (interest earnings) to maturity decreased from 0.79 percent on December 31, 2011 to 0.69 percent on March 31, 2012. Through March 31, 2012, the City's annual average yield to maturity was 0.70 percent.

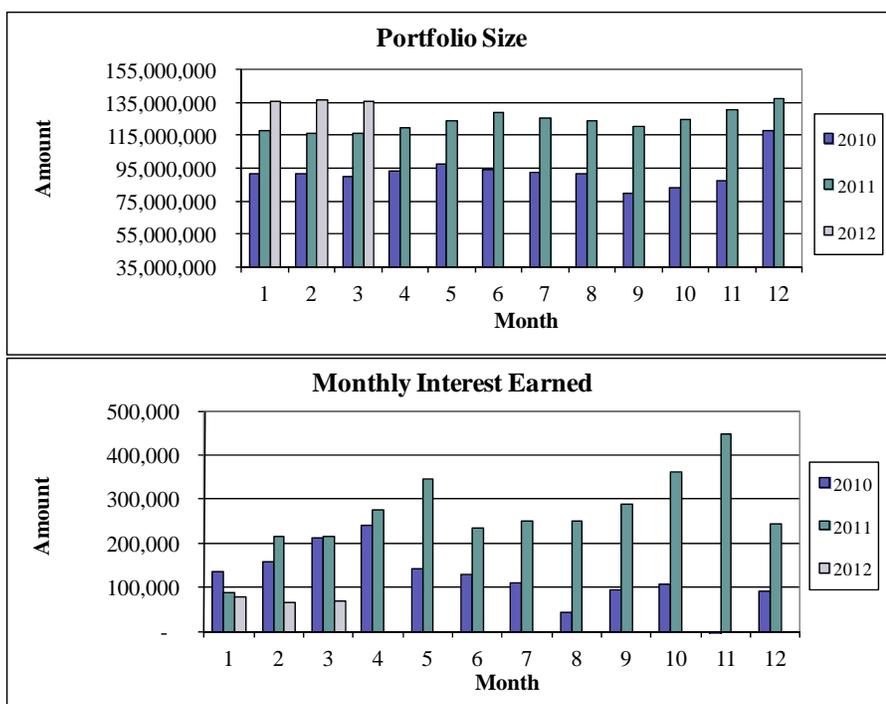
Benchmark Comparison	December 31, 2011	March 31, 2011
City Yield to Maturity (YTM)	0.79%	0.69%
City Average YTM	1.05%	0.70%
City Year to Date Cash Yield	1.02%	0.09%
90 Day Treasury Bill	0.02%	0.07%
2 yr T Note 2 Yr Avg YTM	0.54%	0.47%

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 the 90 day T Bill (0.07 percent) at 0.09 percent and was below the 2 year rolling average of the 2 year Treasury Note (0.47 percent), on March 31, 2012. The cash yield will increase later in the year as the bulk of the interest earnings come in June and July.

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.



The charts below compare the monthly portfolio size and interest earnings for 2010 through March 2012.



*Reserves are an important indicator of the City's fiscal health and effectively represent "savings accounts" that are established to meet unforeseen budgetary needs (general purpose reserves) or are dedicated to a specific purpose. The reserves are listed with their revised estimated balances at the end of the biennium as of March 31, 2012.*

**Reserve Analysis**

**General Purpose Reserves**

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

**General Capital Reserves**

- The downturn in real estate transactions over the last few years has significantly impacted **Real Estate Excise Tax (REET)** collections resulting in adjustments to capital project planning to reflect available funding. Through March 31, 2012 REET revenues saw a 92 percent increase over 2010 largely due to the sale of a property which occurred in January for \$47 million. REET revenues are at 56.2 percent of budget 25 percent of the way through the year.
- **Impact fees** have also been significantly impacted by the sale of the property in January. 2012 revenue is currently 18 percent ahead of the same period in 2011 with increases in both transportation and park impact fees. Transportation fees through March 31, 2012 are at 70.8 percent of the 2012 budget and park fees are at 60.6 percent. There is no planned use for capital projects in the current budget cycle, since these revenue sources were expected to remain extremely low compared to historical trends until development activity improves.

**General Government & Utility Reserves Targets Summary**

Reserves	2011 Beginning Balance	Adopted 2012 Ending Balance	Revised 2012 Ending Balance	2011-12 Target	Revised Over (Under) Target
<b>GENERAL PURPOSE RESERVES WITH TARGETS</b>					
General Fund Reserves:					
General Fund Contingency	50,000	50,000	50,000	50,000	0
General Oper. Reserve (Rainy Day)	2,806,513	2,806,513	2,806,513	4,127,496	(1,320,983)
Revenue Stabilization Reserve	131,431	731,431	1,231,431	2,279,251	(1,047,820)
Council Special Projects Reserve	201,534	251,534	196,534	250,000	(53,466)
Contingency	2,051,870	2,201,870	2,201,870	4,016,232	(1,814,362)
General Capital Contingency:	4,844,957	4,669,463	3,919,463	6,766,320	(2,846,857)
<b>General Purpose Reserves with Targets</b>	<b>10,086,305</b>	<b>10,710,811</b>	<b>10,405,811</b>	<b>17,489,299</b>	<b>(7,083,488)</b>
<b>ALL OTHER RESERVES WITH TARGETS</b>					
General Fund Reserves:					
Litigation Reserve	70,000	70,000	55,000	50,000	5,000
Firefighter's Pension Reserve	1,595,017	1,734,215	1,734,215	1,568,207	166,008
Health Benefits Fund:					
Claims Reserve	0	1,424,472	1,424,472	1,424,472	0
Rate Stabilization Reserve	0	500,000	500,000	500,000	0
Excise Tax Capital Improvement:					
REET 1	1,530,280	1,019,907	870,520	1,035,000	(164,480)
REET 2	7,121,695	4,975,718	4,692,465	11,484,000	(6,791,535)
Water/Sewer Operating Reserve:	1,979,380	1,979,380	1,939,380	1,979,380	(40,000)
Water/Sewer Debt Service Reserve:	822,274	508,717	508,717	508,717	0
Water/Sewer Capital Contingency:	1,793,630	1,793,630	1,793,630	250,000	1,543,630
Surface Water Operating Reserve:	412,875	412,875	412,875	412,875	0
Surface Water Capital Contingency:	858,400	858,400	858,400	758,400	100,000
<b>Other Reserves with Targets</b>	<b>16,183,551</b>	<b>15,277,314</b>	<b>14,789,674</b>	<b>19,971,051</b>	<b>(5,181,377)</b>
<b>Reserves without Targets</b>	<b>30,815,305</b>	<b>36,462,059</b>	<b>35,930,427</b>	<b>n/a</b>	<b>n/a</b>
<b>Total Reserves</b>	<b>57,085,161</b>	<b>62,450,184</b>	<b>61,125,912</b>	<b>n/a</b>	<b>n/a</b>

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

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

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

**USES AND ADDITIONS HIGHLIGHTS**

RESERVE	AMOUNT	DESCRIPTION
<b>2011-12 Council Authorized Uses</b>		
2011 First Quarter Total Uses	\$248,253	
2011 Second Quarter Total Uses	\$13,000	
2011 Third Quarter Total Uses	\$342,352	
2011 Fourth Quarter Total Uses	\$919,853	
Water/Sewer Construction Reserve	\$272,000	120th Ave NE Watermain Replacement
	\$39,500	I-405 WSDOT Const. Agreement Utilities Protect
<b>2011-12 Council Authorized Additions</b>		
Council Special Projects Reserve	\$3,000	CDBG Funding Request Withdrawn
Revenue Stabilization Reserve	\$500,000	Replenishing Revenue Stabilization Reserve
Radio Reserve	\$7,686	Reimbursement from NORCOM

*The summary to the right details all Council authorized uses and additions through March 31, 2012.*

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

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

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

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

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

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

Reserves	Description	2011 Beginning Balance	Adopted 2012 Ending Balance	Additional Authorized Uses/Additions	Revised 2012 Ending Balance
<b>GENERAL FUND/CONTINGENCY</b>					
General Fund Reserves:					
General Fund Contingency	Unexpected General Fund expenditures	50,000	50,000	0	50,000
General Oper. Reserve (Rainy Day)	Unforeseen revenues/temporary events	2,806,513	2,806,513	0	2,806,513
Revenue Stabilization Reserve	Temporary revenue shortfalls	131,431	731,431	500,000	1,231,431
Building & Property Reserve	Property-related transactions	2,137,598	2,137,598	0	2,137,598
Council Special Projects Reserve	One-time special projects	201,534	251,534	(55,000)	196,534
Contingency	Unforeseen expenditures	2,051,870	2,201,870	0	2,201,870
<b>Total General Fund/Contingency</b>		<b>7,378,946</b>	<b>8,178,946</b>	<b>445,000</b>	<b>8,623,946</b>
<b>SPECIAL PURPOSE RESERVES</b>					
General Fund Reserves:					
Litigation Reserve	Outside counsel costs contingency	70,000	70,000	(15,000)	55,000
Labor Relations Reserve	Labor negotiation costs contingency	70,606	70,606	0	70,606
Police Equipment Reserve	Equipment funded from seized property	50,086	50,086	0	50,086
LEOFF 1 Police Reserve	Police long-term care benefits	618,079	618,079	0	618,079
Facilities Expansion Reserve	Special facilities expansions reserve	800,000	800,000	0	800,000
Development Services Reserve	Revenue and staffing stabilization	486,564	636,564	(57,000)	579,564
Tour Dock	Dock repairs	81,745	81,745	0	81,745
Tree Ordinance	Replacement trees program	29,117	29,117	(10,000)	19,117
Donation Accounts	Donations for specific purposes	185,026	185,026	0	185,026
Revolving Accounts	Fee/reimbursement for specific purposes	436,386	436,386	(2,318)	434,068
Lodging Tax Fund	Tourism program and facilities	146,384	123,566	(15,000)	108,566
Cemetery Improvement	Cemetery improvements/debt service	439,415	439,415	0	439,415
Off-Street Parking	Downtown parking improvements	10,776	10,776	(1,500)	9,276
Firefighter's Pension	Long-term care/pension benefits	1,595,017	1,734,215	0	1,734,215
<b>Total Special Purpose Reserves</b>		<b>5,019,201</b>	<b>5,285,581</b>	<b>(100,818)</b>	<b>5,184,763</b>
<b>GENERAL CAPITAL RESERVES</b>					
Excise Tax Capital Improvement:					
REET 1	Parks/transportation/facilities projects, parks debt service	1,530,280	1,019,907	(149,387)	870,520
REET 2	Transportation capital projects	7,121,695	4,975,718	(283,253)	4,692,465
Impact Fees					
Roads	Transportation capacity projects	525,095	1,112,245	0	1,112,245
Parks	Parks capacity projects	2,033	3,038	0	3,038
Street Improvement	Street improvements	1,092,258	1,092,258	(42,000)	1,050,258
General Capital Contingency	Changes to General capital projects	4,844,957	4,669,463	(750,000)	3,919,463
<b>Total General Capital Reserves</b>		<b>15,116,318</b>	<b>12,872,629</b>	<b>(1,224,640)</b>	<b>11,647,989</b>
<b>UTILITY RESERVES</b>					
Water/Sewer Utility:					
Water/Sewer Operating Reserve	Operating contingency	1,979,380	1,979,380	(40,000)	1,939,380
Water/Sewer Debt Service Reserve	Debt service reserve	822,274	508,717	0	508,717
Water/Sewer Capital Contingency	Changes to Water/Sewer capital projects	1,793,630	1,793,630	0	1,793,630
Water/Sewer Construction Reserve	Replacement/re-prioritized/new projects	7,870,665	9,871,542	(411,500)	9,460,042
Surface Water Utility:					
Surface Water Operating Reserve	Operating contingency	412,875	412,875	0	412,875
Surface Water Capital Contingency	Changes to Surface Water capital projects	858,400	858,400	0	858,400
Surface Water-Transp. Related Rsv	Replacement/re-prioritized/new projects	2,483,250	3,666,250	0	3,666,250
Surface Water Construction Reserve	Trans. related surface water projects	2,848,125	3,376,431	0	3,376,431
<b>Total Utility Reserves</b>		<b>19,068,599</b>	<b>22,467,225</b>	<b>(451,500)</b>	<b>22,015,725</b>
<b>INTERNAL SERVICE FUND RESERVES</b>					
Health Benefits:					
Claims Reserve	Health benefits self insurance claims	0	1,424,472	0	1,424,472
Rate Stabilization Reserve	Rate stabilization	0	500,000	0	500,000
Equipment Rental:					
Vehicle Reserve	Vehicle replacements	7,718,221	8,047,063	0	8,047,063
Radio Reserve	Radio replacements	0	0	7,686	7,686
Information Technology:					
PC Replacement Reserve	PC equipment replacements	258,311	318,646	0	318,646
Technology Initiative Reserve	Technology projects	690,207	690,207	0	690,207
Major Systems Replacement Reserve	Major technology systems replacement	245,500	84,900	0	84,900
Facilities Maintenance:					
Operating Reserve	Unforeseen operating costs	550,000	550,000	0	550,000
Facilities Sinking Fund	20-year facility life cycle costs	1,039,858	2,030,515	0	2,030,515
<b>Total Internal Service Fund Reserves</b>		<b>10,502,097</b>	<b>11,721,331</b>	<b>7,686</b>	<b>11,729,017</b>
<b>Grand Total</b>		<b>57,085,161</b>	<b>62,450,184</b>	<b>(1,324,272)</b>	<b>61,125,912</b>



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- ◆ Tracey Dunlap, Director of Finance & Administration
- ◆ Michael Olson, Deputy Director of Finance & Administration
- ◆ Sri Krishnan, Financial Planning Manager
- ◆ Neil Kruse, Senior Financial Analyst
- ◆ Tammy McCorkle, Budget Analyst
- ◆ Karen Terrell, Budget Analyst

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

- It provides a **summary budget to actual comparison** for year-to-date revenues and expenditures for all operating funds.
- The **Sales Tax Revenue Analysis** report takes a closer look at one of the City's larger and most economically sensitive revenue sources.
- **Economic environment** information provides a brief outlook at the key economic indicators for the Eastside and Kirkland such as office vacancies, residential housing prices/sales, development activity, inflation and unemployment.
- The **Investment Summary** report includes a brief market overview, a snapshot of the City's investment portfolio, and the City's year-to-date investment performance.
- The **Reserve Summary** report highlights the uses of and additions to the City's reserves in the current year as well as the projected ending reserve balance relative to each reserve's target amount.

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*Economic Environment Update References:*

- Peter Neurath, *Most local execs expect revenue will rise, survey finds*, Puget Sound Business Journal, March 23, 2012
- Lorraine Woellert and Shobhana Chandra, *Consumer Confidence in U.S. Holds Close to One-Year High*, bloomberg.com, March 27, 2012
- *NW purchasing manager optimism declines*, Puget Sound Business Journal, April 7, 2012
- *Seattle execs' business optimism rises: Survey*, Puget Sound Business Journal, May 10, 2012
- *Seattle No. 8 in number of jobs added among U.S. metro areas*, Puget Sound Business Journal, May 17, 2012
- Economic & Revenue Update—Washington State Economic & Revenue Forecast Council
- CB Richard Ellis Real Estate Services, Market View Puget Sound, First Quarter 2012
- 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

## April 2012 Financial Dashboard Highlights

May 23, 2012

- The dashboard report reflects the 2012 annual budget adopted by the City Council on December 7, 2010 and budget adjustments adopted in March, July and December 2011. The actual revenues and expenditures summarized in the dashboard reflect four months of data, which represents 33.33% of the calendar year.
- Total General Fund revenues are meeting budget expectations due to the following:
  - Revenues received through April are at 33.1 percent of budget. Note that \$1.7 million of revenue received in December 2011 is revenue from Woodinville Fire and Rescue budgeted for receipt in 2012. Including this amount, the total revenue received through April would be at 35.25 percent of budget.
  - Selected large General Fund revenues are received in periodic increments including property tax (mostly received in April/May and October/November) and King County EMS payments (quarterly or semi-annually). The first quarter EMS payment has not yet been received; about 36% of projected property taxes have been received.
  - April sales tax revenue is up 20.8 percent compared to April 2011. Year-to-date revenue performance is up 8.6 percent compared to the same period last year. April 2012 data includes revenues from the new neighborhoods (contributing about 21 percent of the monthly gain). Factoring out revenues from the new neighborhoods results in an increase of 16.6 percent for the month of April. Sales tax revenue received this month is for activity in February. The 2012 budget assumes a 4.36 percent increase over 2011 actuals. The year to date increase of 8.6 percent is ahead of budget assumptions by 4.24 percent.
  - Utility tax receipts for 2012 are on target with budget expectations at 34.6 percent. The shortfall in telecommunication and cable utility tax revenues experienced in 2011 continues through April 2012 with revenues under expectations by approximately 2.9 percent or \$141,000. These shortfalls are offset by gas and electric utility tax revenues exceeding budget expectations.
  - Business license revenues year-to-date are at 37.4 percent of budget, slightly above expectations.
  - In aggregate, development revenues are on target with budget expectations at 33.6 percent. Note that Engineering and Planning development revenues are currently exceeding budget, whereas Building development revenues are falling short of budget expectations, mainly due to budgeted Park Place revenues. More information about development activity in March and April is available at the end of the dashboard report.
  - Motor Vehicle Gas tax revenues continue falling short of budget expectations at 33.0 percent of budget, due to reduced usage resulting from increased prices (gas tax is collected on a per gallon basis).
- Total General Fund expenditures are within expectations.
  - Overall, General Fund expenditures are slightly trailing the budget at 30.4 percent. Savings are largely due to postponement of some annexation hiring, position vacancies and jail contract savings.
  - Fire Suppression overtime and jail contract costs are in line with budget expectations.
  - Fuel costs continue exceeding budget expectations by 14.1 percent or about \$64,000. The average price per gallon through April is \$3.86 and the 2012 budget is based on an average of \$3.10 per gallon.

Attachments: March/April Dashboard  
March and April Development Services Highlights

5/23/2012

**City of Kirkland Budget Dashboard**

**Annual Budget Status as of 4/30/2012** (Note 1)

**Percent of Year Complete 33.33%**

	2012 Budget	Year-to-Date Actual	% Received/ % Expended	Status		Notes
				Current Report	Last Report	
<b>General Fund</b>						
Total Revenues (2)	78,327,155	25,887,895	33.1%			Property tax/FD41/EMS spike in 2Q
Total Expenditures	75,912,300	23,104,858	30.4%			

**Key Indicators (All Funds)**

<i>Revenues</i>						
Sales Tax	14,442,010	4,659,144	32.3%			Prior YTD = \$4,291,381
Utility Taxes	14,460,833	5,008,668	34.6%			
Business License Fees	2,880,710	1,078,155	37.4%			
Development Fees	4,444,828	1,493,787	33.6%			
Gas Tax	1,704,588	511,907	30.0%			
<i>Expenditures</i>						
GF Salaries/Benefits	51,142,503	15,699,813	30.7%			Excludes Fire Suppression Overtime
Fire Suppression Overtime	611,588	123,050	20.1%			
Contract Jail Costs	1,850,729	214,811	11.6%			
Fuel Costs	453,192	214,947	47.4%			

**Status Key**

Revenue is higher than expected or expenditure is lower than expected

Revenue/expenditure is within expected range

WATCH - Revenue/expenditure outside expected range



Note 1 - Report shows annual values during the second year of the biennium (2012).

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

n/a - not applicable

## Development Services Report – March, 2012

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

- New single-family residential permit applications for March were up significantly with 16 applications received compared to 1 in March of last year. There was however a 19% decrease in commercial tenant improvement permits and single-family remodel permits with 29 applications this March compared to 36 last year.
- The monthly average of total building related permits received so far this year (329) continues to exceed the monthly average for 2011 (292), with the total number of permits received in March 2012 (367) exceeding March 2011 (188). This month the New Neighborhoods generated 102 permits applications with 265 coming from pre-annexation Kirkland. Since last June, permit applications in the New Neighborhoods have contributed to a 39% increase in permit volume.
- Building Department revenue for March was \$207,518 which is 6.4% of our budgeted \$3,231,698 and 77% of the average monthly projected revenue of \$269,308. The 2012 budget includes \$734,290 in revenue for the redevelopment of Parkplace which is still on hold. By excluding this potential revenue, our budget would be \$2,497,408 for the year with an average monthly projected revenue of \$208,117. Our March revenue would be 99.7% of this adjusted average.
- Public Works Department development revenue for March 2012 was \$146,622 which is \$90,526 more than the average monthly projected revenue of \$56,096. 2012 is off to a good start considering that most of the major projects that have helped generate the large revenue totals in 2011 will continue to be under construction through 2012 and will require Public Works engineering and inspection services until the projects are completed.
- Planning Department revenue for March 2012 was \$50,528 which is \$10,511 above our adjusted monthly projected revenue average of \$40,017 for 2012. Process I review (short plats) is the highest fee line item for the month.

## Development Services Report – April, 2012

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

- New single-family residential permit applications for April were up with 15 applications received compared to 11 in April of last year. There was also a 148% increase in commercial tenant improvement permits and single-family remodel permits with 67 applications this April compared to 27 last year.
- The monthly average of total building related permits received so far this year (354) continues to exceed the monthly average for 2011 (292), with the total number of permits received in April 2012 (428) far exceeding April 2011 (233). The new EnerGov reports are still being refined to distinguish the New Neighborhoods permits applications from pre-annexation Kirkland. Since last June, permit applications in the New Neighborhoods had contributed to a 39% increase in permit volume through March.
- Building Department revenue for April was \$391,425 which is 12% of our budgeted \$3,231,698 and 145% the average monthly projected revenue of \$269,308. The 2012 budget includes \$734,290 in revenue for the redevelopment of Parkplace which is still on hold. By excluding this potential revenue, our budget would be \$2,497,408 for the year with an average monthly projected revenue of \$208,117. Our April revenue would be 188% of this adjusted average.
- Public Works Department development revenue for April 2012 was \$30,049 which is \$26,047 less than the average monthly projected revenue of \$56,096, but year-to-date revenue is ahead by \$85,000 (46% of the estimated annual revenue has been collected). 2012 is off to a good start considering that most of the major projects that have helped generate the large revenue totals in 2011 will continue to be under construction through 2012 and will require Public Works engineering and inspection services until the projects are completed.
- Planning Department revenue for April 2012 was \$57,127 which is \$17,110 above our adjusted monthly projected revenue average of \$40,017 for 2012. Process I permits (i.e. short plats) is the highest line item for the month.



## CITY OF KIRKLAND

Department of Finance & Administration

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### MEMORANDUM

**To:** Kurt Triplett, City Manager

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

**Date:** May 2, 2012

**Subject:** April Sales Tax Revenue Analysis

April sales tax revenue is **up 20.8 percent** compared to April 2011. **Year-to-date** revenue performance is **up 8.6 percent** compared to the same period last year. April 2012 data includes revenues from the new neighborhoods (contributing about 21 percent of the monthly gain). Factoring out revenues from the new neighborhoods results in an increase of 16.6 percent for the month of April. Sales tax revenue received this month is for activity in February. The 2012 budget assumes a 4.36 percent increase over 2011 actuals. The year to date increase of 8.6 percent is ahead of budget assumptions by 4.24 percent.

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

- **Contracting** sector performance is **up 34.8 percent** (about \$41,000), approximately 58 percent of the gain in this category can be attributed to the construction of two new elementary schools in the new neighborhoods.
- **Auto/gas retail** sector is **up 27.4 percent** this month (about \$61,200), most of the gains in this category are due to positive performance by key retailers and the addition of a new dealership in March of last year.
- **Other retail** is **up 24.2 percent** (about \$27,800), primarily due to positive performance in all of the categories with the exception of the electronics and furniture categories. Revenue from establishments in the new neighborhoods makes up about 66 percent of the increase (\$18,300).
- **Communications** is **up 23.8 percent** (almost \$6,800), due to positive performance by key retailers in this category.
- The **miscellaneous** sector performance is **up 23.2 percent** (about \$12,600), due to positive performance in the real estate category.
- **Retail eating/drinking** sector is **up 19.3 percent** (about \$15,900), about 51 percent of the increase in revenues in the category is from the new neighborhoods.
- **Wholesale** is **up 13.2 percent** (about \$6,100), due to increases in sales in the medical equipment and computer equipment categories.
- The **general merchandise/miscellaneous retail** sector is **up 9.8 percent** (about \$11,700), due to positive performance by two key retailers.
- The **services** sector is **up 3.9 percent** (almost \$4,400), primarily due to strong performance in the repairs and maintenance and the health care categories and despite negative performance in the professional scientific category and a one-time field recovery in the internet category.

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

Business Sector Group	April		Dollar Change	Percent Change	Percent of Total	
	2011	2012			2011	2012
Services	113,011	117,375	4,364	3.9%	12.6%	10.8%
Contracting	117,724	158,685	40,961	34.8%	13.1%	14.6%
Communications	28,579	35,376	6,797	23.8%	3.2%	3.3%
Auto/Gas Retail	223,198	284,394	61,196	27.4%	24.8%	26.2%
Gen Merch/Misc Retail	119,339	131,071	11,732	9.8%	13.3%	12.1%
Retail Eating/Drinking	82,282	98,189	15,907	19.3%	9.1%	9.0%
Other Retail	114,739	142,502	27,763	24.2%	12.8%	13.1%
Wholesale	46,139	52,234	6,095	13.2%	5.1%	4.8%
Miscellaneous	54,414	67,022	12,608	23.2%	6.0%	6.1%
<b>Total</b>	<b>899,425</b>	<b>1,086,848</b>	<b>187,423</b>	<b>20.8%</b>	<b>100.0%</b>	<b>100.0%</b>

**Year To Date Business Sector Review:**

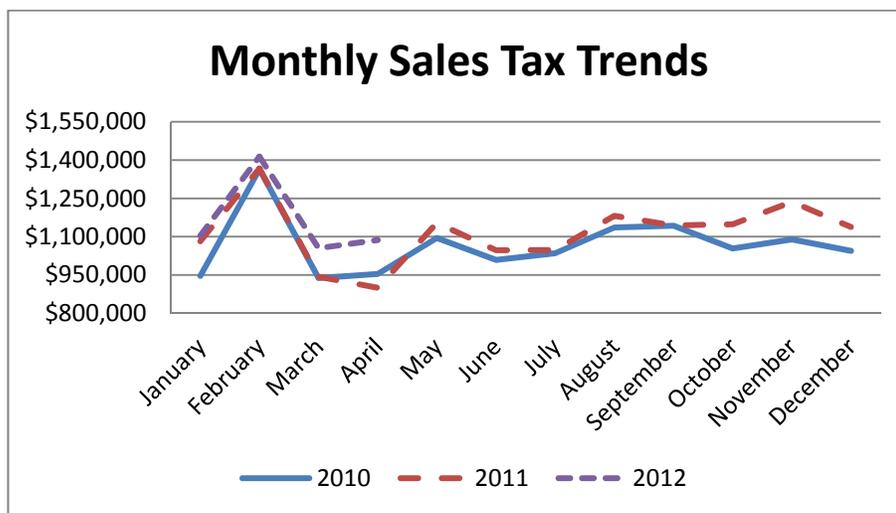
- Retail sectors sales tax revenue collectively are up 10.1 percent compared to 2011.
  - The **general merchandise/miscellaneous retail** sector is **down 2.9 percent** compared to last year due to the one-time large receipt received last year from development-related activity from one key business. Factoring out last year's large one-time receipt, the year to date revenues are 8.6 percent greater than last year.
  - The **auto/gas retail** sector is **up 9.4 percent** compared to last year, largely due to the addition of a new dealership in March of last year and positive performance by most of the key retailers in this category.
  - The **retail eating/drinking** sector performance is **up 14.9 percent** compared to last year. About 57 percent of the revenue increase is from eating and drinking establishments in the new neighborhoods.
  - **Other retail** is **up 24.7 percent** compared to last year. About 48 percent or \$62,000 of the increase is revenue from retail establishments in the new neighborhoods. Without the revenues from the new neighborhoods this category would be up 13.0 percent year to date compared to last year.
- The **services** sector is **up 6.5 percent** compared to last year, largely due to positive performance in the repairs and maintenance, administrative support, health care, and accommodations categories and despite negative performance in the professional scientific category and a one-time field recovery in the internet category. The accommodations sector is up 9.5 percent or about \$7,300.
- **Wholesale** is **up 10.6 percent** compared to last year largely due to increases in sales in the furniture, electrical and computer equipment categories.
- The **communications** sector is **down 26.5 percent** compared to last year due to one-time revenues in February 2011 in the telecommunications category. Factoring out this one-time revenue, this category would be up 9.4 percent compared to last year.
- The **contracting** sector is **up 17.4 percent** compared to last year. Some of the gain in this category is one-time revenue due to the construction of two new elementary schools in the new neighborhoods.
- The **miscellaneous** sector is **up 3.0 percent** compared to last year due to increases in the public administration category.

## City of Kirkland Actual Sales Tax Receipts

Business Sector Group	January-April		Dollar Change	Percent Change	Percent of Total	
	2011	2012			2011	2012
Services	542,649	577,965	35,316	6.5%	12.6%	12.4%
Contracting	546,424	641,620	95,196	17.4%	12.7%	13.8%
Communications	192,476	141,391	(51,085)	-26.5%	4.5%	3.0%
Auto/Gas Retail	1,026,219	1,122,916	96,697	9.4%	23.9%	24.1%
Gen Merch/Misc Retail	663,635	644,079	(19,556)	-2.9%	15.5%	13.8%
Retail Eating/Drinking	344,975	396,478	51,503	14.9%	8.0%	8.5%
Other Retail	531,078	662,368	131,290	24.7%	12.4%	14.2%
Wholesale	198,688	219,808	21,120	10.6%	4.6%	4.7%
Miscellaneous	245,243	252,519	7,276	3.0%	5.7%	5.4%
<b>Total</b>	<b>4,291,387</b>	<b>4,659,144</b>	<b>367,757</b>	<b>8.6%</b>	<b>100.0%</b>	<b>100.0%</b>

## Conclusion

Monthly sales tax revenue is coming in higher than in 2010 and 2011. The chart below includes revenue from the new neighborhoods that began reporting to Kirkland as of July 1, 2011, with revenues remitted to the City beginning in September of 2011.



The Conference Board Consumer Confidence Index, which had declined slightly in March, remained nearly unchanged in April. The Index now stands at 69.2, down from 69.5 in March. The Present Situation Index increased from 49.9 to 51.4. The Expectations Index declined from 82.5 in March to 81.1 in April. Consumers appear to remain cautiously optimistic about the state of the economy.

Washington State's economy appears to be improving slightly. The job market in Washington is consistent with projections in the February forecast. Employment in Washington has been expanding for two years but the 91,900 jobs gained since the low point in February 2010, still makes up less than half of the 207,000 jobs lost during the recession. The biggest threat to the U.S. and Washington State economies is now high energy costs, but the sovereign debt crisis in Europe remains a significant risk as well. The construction sector, which is extremely important for Washington State revenue, has stopped declining but is not yet adding to the growth. Single-family housing continues to struggle but multi-family construction is improving.



## CITY OF KIRKLAND

### Department of Finance & Administration

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## MEMORANDUM

**To:** Kurt Triplett, City Manager

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

**Date:** June 6, 2012

**Subject:** May Sales Tax Revenue Analysis

May sales tax revenue is **down 1.9 percent** compared to May 2011. **Year-to-date** revenue performance is **up 6.4 percent** compared to the same period last year. May 2012 data reflect a one-time Department of Revenue reduction of \$127,000 due to a taxpayer refund. Also last year included the Department of Revenue amnesty program revenues of \$71,000 which skew the monthly comparison. Factoring out these one-time amounts, monthly revenues would be up 16.3 percent. Sales tax revenue received this month is for activity in March. The 2012 budget assumes a 4.4 percent increase over 2011 actuals. The year to date increase of 6.4 percent is ahead of budget assumptions by 2.0 percent.

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

- **Contracting** sector performance is **up 52.1 percent** (about \$67,000), approximately 76 percent of the gain in this category can be attributed to the construction of two new elementary schools in the new neighborhoods.
- **Other retail** is **up 25.1 percent** (about \$34,400), primarily due to positive performance in all of the categories with the exception of the furniture category. Revenue from establishments in the new neighborhoods makes up about 55 percent of the increase (\$18,800).
- **Auto/gas retail** sector is **up 17.3 percent** this month (about \$46,400), due to positive performance by most of the key retailers in this category.
- **Retail eating/drinking** sector is **up 16.6 percent** (about \$15,000), about 60 percent of the increase (about 9,000) in revenues in this category is from the new neighborhoods.
- **Communications** is **up 11.1 percent** (almost \$3,500), due to positive performance by key retailers in this category.
- The **general merchandise/miscellaneous retail** sector is **down 2.7 percent** (about \$3,700), due to negative performance by a key retailer.
- **Wholesale** is **down 20.0 percent** (about \$20,000), due to decreases in sales in the electrical equipment category.
- The **miscellaneous** sector performance is **down 47.8 percent** (about \$61,500), because 2011 data includes one-time Department of Revenue amnesty program revenue.
- The **services** sector is **down 77.3 percent** (about \$102,500), largely due to a one-time taxpayer refund in the other information services category that reduces the City's receipts in May.

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

Business Sector Group	May		Dollar Change	Percent Change	Percent of Total	
	2011	2012			2011	2012
Services	132,627	30,145	(102,482)	-77.3%	11.5%	2.7%
Contracting	128,466	195,446	66,980	52.1%	11.1%	17.3%
Communications	32,108	35,682	3,574	11.1%	2.8%	3.1%
Auto/Gas Retail	267,502	313,837	46,335	17.3%	23.2%	27.7%
Gen Merch/Misc Retail	137,217	133,493	(3,724)	-2.7%	11.9%	11.8%
Retail Eating/Drinking	90,529	105,543	15,014	16.6%	7.8%	9.3%
Other Retail	136,752	171,092	34,340	25.1%	11.8%	15.1%
Wholesale	100,548	80,457	(20,091)	-20.0%	8.7%	7.1%
Miscellaneous	128,503	67,079	(61,424)	-47.8%	11.2%	5.9%
<b>Total</b>	<b>1,154,252</b>	<b>1,132,774</b>	<b>(21,478)</b>	<b>-1.9%</b>	<b>100.0%</b>	<b>100.0%</b>

**Year To Date Business Sector Review:**

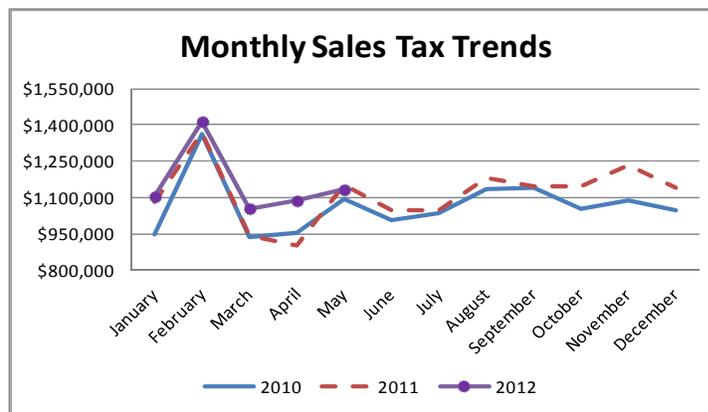
- Retail sectors sales tax revenue collectively are up 11.0 percent compared to 2011.
  - The **general merchandise/miscellaneous retail** sector is **down 2.9 percent** compared to last year due to the one-time large receipt received last year from development-related activity from one key business. Factoring out last year's large one-time receipt, the year to date revenues are 4.4 percent greater than last year.
  - The **auto/gas retail** sector is **up 17.3 percent** compared to last year, largely due to the addition of a new dealership in March of last year and positive performance by most of the key retailers in this category.
  - The **retail eating/drinking** sector performance is **up 15.3 percent** compared to last year. About 57 percent of the revenue increase is from eating and drinking establishments in the new neighborhoods.
  - **Other retail** is **up 25 percent** compared to last year. About 49 percent or \$81,000 of the increase is revenue from retail establishments in the new neighborhoods. Without the revenues from the new neighborhoods, this category would be up 12.8 percent year to date compared to last year.
- The **contracting** sector is **up 24 percent** compared to last year. Some of the gain in this category is one-time revenue due to the construction of two new elementary schools in the new neighborhoods.
- **Wholesale** is **up 0.2 percent** compared to last year despite being negative this month.
- The **services** sector is **down 10 percent** compared to last year, largely due to a one-time taxpayer refund of \$127,000 in the other information category. The accommodations sector is up 7.9 percent or about \$7,800.
- The **communications** sector is **down 21.2 percent** compared to last year due to one-time development related revenues in February 2011 in the telecommunications category. Factoring out this one-time revenue, this category would be up 9.1 percent compared to last year.
- The **miscellaneous** sector is **down 14.5 percent** compared to last year because the City received one-time Department of Revenue amnesty program revenues in 2011.

## City of Kirkland Actual Sales Tax Receipts

Business Sector Group	January-May		Dollar Change	Percent Change	Percent of Total	
	2011	2012			2011	2012
Services	676,248	608,692	(67,556)	-10.0%	12.4%	10.5%
Contracting	674,976	836,910	161,934	24.0%	12.4%	14.4%
Communications	224,289	176,700	(47,589)	-21.2%	4.1%	3.1%
Auto/Gas Retail	1,293,721	1,436,754	143,033	11.1%	23.8%	24.8%
Gen Merch/Misc Retail	800,754	777,688	(23,066)	-2.9%	14.7%	13.4%
Retail Eating/Drinking	435,225	501,644	66,419	15.3%	8.0%	8.7%
Other Retail	666,760	833,255	166,495	25.0%	12.2%	14.4%
Wholesale	299,975	300,693	718	0.2%	5.5%	5.2%
Miscellaneous	373,691	319,582	(54,109)	-14.5%	6.9%	5.5%
<b>Total</b>	<b>5,445,639</b>	<b>5,791,918</b>	<b>346,279</b>	<b>6.4%</b>	<b>100.0%</b>	<b>100.0%</b>

## Conclusion

Year to date sales tax revenue is still coming in higher than in 2010 and 2011, however, a one-time taxpayer refund to correct prior period receipts this month caused revenue to be slightly lower than 2011. The chart below shows monthly trends in sales tax revenue for 2010, 2011, and through May 2012. The data includes revenue from the new neighborhoods that began reporting to Kirkland as of July 1, 2011, with revenues remitted to the City beginning in September of 2011.



The Conference Board Consumer Confidence Index, which had declined slightly in April, fell again in May. The Index now stands at 64.9, down from 68.7 in April. The Present Situation Index decreased from 51.2 to 45.9. The Expectations Index declined from 80.4 in April to 77.6 in May. High gasoline prices tend to reduce consumer confidence and pose a risk to economic recovery. Civil unrest in oil producing countries can create the potential for supply disruptions that could keep gasoline prices high which can slow the economic recovery.

Washington State's economy appears to be trending closely with the February forecast. Employment in Washington increased in the first quarter this year. New car and truck sales have seen a surge in the first few months of the year in both Washington and the United States. Washington housing permits came in strong in March at 41,100 units, which was the highest since late 2007. In 2013, some of the Bush tax cuts are scheduled to expire and the 2 percent payroll tax holiday and the extended unemployment compensation will end. With the end of these tax cuts, there is a risk that both Washington state and the United States economy could see further decline.

City of Kirkland  
 2011-2012 Budget  
 2012 Mid Year Budget Adjustment Summary

Adjustment Type	Dept.	Description	Adjustments	Appropriation Adjustment	Funding Source			Funding Source/Notes
					Internal Transf./Chrg.	Resources Forward	External Revenue	
<b>General Fund</b>								
Council Directed/Other	PK	Green Kirkland	4,159	4,159	45,610		(41,451)	CIP/REET/King County Conservation District Grant
Council Directed/Other	CMO	2012 Summerfest	7,000					Council Special Project Reserve
Council Directed/Other	N/A	Recognizing Impacts from State Budget on Liquor Revenues	(317,264)	(317,264)			(317,264)	Liquor Revenues
Council Directed/Other	N/A	Transfer to Fire Station Consolidation CIP Project	1,225,681					Fire District 41 Asset Transfer
Housekeeping	PW	Temporary Construction Inspector	57,003					Engineering Development Reserves
Housekeeping	PW	Development Services Reserves	280,000					Engineering Development Revenues
Housekeeping	Bldg/PCD	Energov Backfill	32,336	32,336	32,336			Intergovernmental Revenue - Energov CIP
Housekeeping	N/A	2011 Cost of Service Model Reconciliation	(2,550)	(2,550)	(2,550)			Internal Transfer/Reserve Reduction
Housekeeping	PK	Moving Parks Maint. Annex. Service Package to Pk Maint. Fund	(371,427)	(371,427)			(371,427)	2012 Parks Maint. Prop. Tax Levy/Park Rentals
Housekeeping	FA	425 Hours of On-call Staffing	10,000	10,000			10,000	NORCOM/Intergovernmental Revenue
Housekeeping	FA	Tax Consulting Services	10,000	10,000			10,000	Utility Taxes/NORCOM
<b>General Fund Total</b>			<b>934,938</b>	<b>(634,746)</b>	<b>75,396</b>	<b>-</b>	<b>(710,142)</b>	
<b>OTHER FUNDS</b>								
<b>Lodging Tax Fund</b>								
Council Directed/Other	CMO	Tall Ships Event	4,800					Reserves
Housekeeping	CMO	Tourism Services, Website, Events, etc.	11,425	11,425			11,425	Lodging Tax
<b>Lodging Tax Fund Total</b>			<b>16,225</b>	<b>11,425</b>	<b>-</b>	<b>-</b>	<b>11,425</b>	
<b>OTHER FUNDS continued</b>								
<b>Street Operating Fund</b>								
Housekeeping	PW	2011 Cost of Service Model Reconciliation	4,400					Reserves
Housekeeping	PW	Moving Street Asset Inventory Work from IT to Streets	51,354	51,354	51,354			Internal Professional Services
<b>Street Operating Fund Total</b>			<b>55,754</b>	<b>51,354</b>	<b>51,354</b>	<b>-</b>	<b>-</b>	
<b>Cemetery Operating Fund</b>								
Housekeeping	N/A	2011 Cost of Service Model Reconciliation	2,795					Reserves
<b>Cemetery Operating Fund Total</b>			<b>2,795</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Parks Maintenance Fund</b>								
Housekeeping	PK	2011 Cost of Service Model Reconciliation	(536)					Reserves
Housekeeping	PK	Moving Parks Maintenance Annexation Service Package from GF	399,697	399,697	28,270		371,427	2012 Parks Maint. Prop. Tax Levy/Park Rentals
<b>Parks Maintenance Fund Total</b>			<b>399,161</b>	<b>399,697</b>	<b>28,270</b>	<b>-</b>	<b>371,427</b>	
<b>Impact Fees Fund</b>								
Housekeeping	N/A	Moving a Portion of Teen Center Debt Service from REET	40,185	40,185			40,185	Impact Fees
<b>Impact Fees Fund Total</b>			<b>40,185</b>	<b>40,185</b>	<b>-</b>	<b>-</b>	<b>40,185</b>	

Adjustment Type	Dept.	Description	Adjustments	Appropriation Adjustment	Funding Source			Funding Source/Notes
					Internal Transf./Chrg.	Resources Forward	External Revenue	
<b>Real Estate Excise Tax Fund</b>								
Council Directed/Other	PK	Green Kirkland	43,298					REET 1 Reserve
Council Directed/Other	PW	Central Way Ped Enhancement CNM 0065	34,000					REET 2 Reserve
Housekeeping	N/A	Moving a Portion of Teen Center Debt Service to Impact Fees	40,185					Return Funds to REET 1 Reserve
<b>Real Estate Excise Tax Fund Total</b>			<b>117,483</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>General Capital Projects Fund</b>								
Council Directed/Other	PK	Green Kirkland - Parks Environmental Services Pos. Reclass.	2,312					Parks CIP Environmental Services
Council Directed/Other	N/A	Fire Station Consolidation CIP Project	1,225,681	1,225,681	1,225,681			Fire District 41 Asset Transfer from General Fund
Council Directed/Other	N/A	King County Parks Levy funding for Cross Kirkland Corridor	(118,000)	(118,000)			(118,000)	King County Parks Levy move to Cross Kirkland Corridor
Council Directed/Other	FB	Water Rescue Equipment	45,000					Transfer from Unspent CIP Project Balances
Housekeeping	N/A	Return Completed Balances of Life Cycle (LC) Proj. to LC Reserve	54,190					Transfer to Facilities Fund
<b>General Capital Projects Fund Total</b>			<b>1,209,183</b>	<b>1,107,681</b>	<b>1,225,681</b>	<b>-</b>	<b>(118,000)</b>	
<b>Transportation Capital Projects Fund</b>								
Council Directed/Other	PW	Central Way Pedestrian Enhancement CNM 0065	34,000	34,000	34,000			REET 2 Reserve
Council Directed/Other	PW	Cross Kirkland Corridor Acquisition Costs	264,775	264,775	146,775		118,000	Funded from KC Parks Levy/Park Acquisition Reserve
<b>Transportation Capital Projects Fund Total</b>			<b>298,775</b>	<b>298,775</b>	<b>180,775</b>	<b>-</b>	<b>118,000</b>	
<b>Water/Sewer Utility Operating Fund</b>								
Housekeeping	PW	2011 Cost of Service Model Reconciliation	(83,304)					Reserves
<b>Water/Sewer Utility Operating Fund Total</b>			<b>(83,304)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Water/Sewer Capital Fund</b>								
Council Directed/Other	PW	Replace Broken Watermain and Repair Road Damage	272,000					Water/Sewer Capital Reserve
Council Directed/Other	PW	Protect City Utility Infrastructure During I-405 Freeway Widening	39,500					Water/Sewer Capital Reserve
<b>Water/Sewer Capital Fund Total</b>			<b>311,500</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Surface Water Operating Fund</b>								
Housekeeping	PW	2011 Cost of Service Model Reconciliation	55,261					Reserves
Housekeeping	PW	U.S. Fish and Wildlife Grant and Grant Match - move from capital	30,933	19,000			19,000	U.S. Fish & Wildlife Grant/Reserves
<b>Surface Water Operating Fund Total</b>			<b>86,194</b>	<b>19,000</b>	<b>-</b>	<b>-</b>	<b>19,000</b>	
<b>Surface Water Capital Fund</b>								
Housekeeping	PW	U.S. Fish and Wildlife Grant and Grant Match - move to operating	(30,933)	(19,000)			(19,000)	U.S. Fish & Wildlife Grant/Reserves
Council Directed/Other	PW	Totem Lake Culvert Replacement	922,600					Annual Storm Drain Replacement Program
Council Directed/Other	PW	King County Grant for Totem Lake Funding	168,000	168,000			168,000	King County
<b>Surface Water Capital Fund Total</b>			<b>1,059,667</b>	<b>149,000</b>	<b>-</b>	<b>-</b>	<b>149,000</b>	

Adjustment Type	Dept.	Description	Adjustments	Appropriation Adjustment	Funding Source			Funding Source/Notes
					Internal Transf./Chrg.	Resources Forward	External Revenue	
<b>Solid Waste Fund</b>								
Housekeeping	PW	2011 Cost of Service Model Reconciliation	18,834					Reserves
Housekeeping	PW	Dept. of Ecology Grant for Recycling Collection Events	19,436	19,436			19,436	Department of Ecology Grant
<b>Solid Waste Fund Total</b>			<b>38,270</b>	<b>19,436</b>	<b>-</b>	<b>-</b>	<b>19,436</b>	
<b>Information Technology Fund</b>								
Housekeeping	IT	Applications Division Temporary Staffing	59,560					IT Reserves
Housekeeping	PCD	Change from Desktop to Laptop Computers	294	294	294			Adjust computer replacement rate
<b>Information Technology Fund Total</b>			<b>59,854</b>	<b>294</b>	<b>294</b>	<b>-</b>	<b>-</b>	
<b>Facilities Fund</b>								
Housekeeping	PW	Return Completed Balances of Life Cycle (LC) Proj. to LC Reserve	54,190	54,190	54,190			Transfer from General Capital Projects Fund
<b>Facilities Fund Total</b>			<b>54,190</b>	<b>54,190</b>	<b>54,190</b>	<b>-</b>	<b>-</b>	
<b>TOTAL OTHER FUNDS</b>			<b>3,661,132</b>	<b>2,151,037</b>	<b>1,540,564</b>	<b>-</b>	<b>610,473</b>	
<b>TOTAL ALL FUNDS</b>			<b>4,596,070</b>	<b>1,516,291</b>	<b>1,615,960</b>	<b>-</b>	<b>(99,669)</b>	

ORDINANCE O-4360

AN ORDINANCE OF THE CITY OF KIRKLAND AMENDING THE BIENNIAL BUDGET FOR 2011-2012.

WHEREAS, the City Council finds that the proposed adjustments to the Biennial Budget for 2011-2012 reflect revenues and expenditures that are intended to ensure the provision of vital municipal services at acceptable levels;

NOW, THEREFORE, the City Council of the City of Kirkland do ordain as follows:

Section 1. The Mid-Year 2012 adjustments to the Biennial Budget of the City of Kirkland for 2011-2012 are hereby adopted.

Section 2. In summary form, modifications to the totals of estimated revenues and appropriations for each separate fund and the aggregate totals for all such funds combined are as follows:

<u>Funds</u>	Current Budget	Adjustments	Revised Budget
General	161,866,657	(634,746)	161,231,911
Lodging Tax	525,824	11,425	537,249
Street Operating	14,665,172	51,354	14,716,526
Cemetery Operating	762,492	-	762,492
Parks Maintenance	2,188,638	399,697	2,588,335
Contingency	2,246,510	-	2,246,510
Impact Fees	1,931,783	40,185	1,971,968
Excise Tax Capital Improvement	12,866,748	-	12,866,748
Limited General Obligation Bonds	6,437,377	-	6,437,377
Unlimited General Obligation Bonds	2,144,487	-	2,144,487
General Capital Projects	51,795,910	1,107,681	52,903,591
Transportation Capital Projects	33,186,616	298,775	33,485,391
Water/Sewer Operating	45,945,527	-	45,945,527
Water/Sewer Debt Service	2,962,187	-	2,962,187
Utility Capital Projects	18,054,238	-	18,054,238
Surface Water Management	18,423,953	19,000	18,442,953
Surface Water Capital Projects	14,601,925	149,000	14,750,925
Solid Waste	25,083,065	19,436	25,102,501
Health Benefits	15,735,691	-	15,735,691
Equipment Rental	19,214,533	-	19,214,533
Information Technology	11,460,688	294	11,460,982
Facilities Maintenance	10,715,753	54,190	10,769,943
Firefighter's Pension	1,767,099	-	1,767,099
	<u>474,582,873</u>	<u>1,516,291</u>	<u>476,099,164</u>

Section 3. This ordinance shall be in force and effect five days from and after its passage by the Kirkland City Council and publication, as required by law.

Passed by majority vote of the Kirkland City Council in open meeting this \_\_\_\_ day of \_\_\_\_, 2012.

Signed in authentication thereof this \_\_\_\_ day of \_\_\_\_, 2012.

\_\_\_\_\_  
MAYOR

Attest:

\_\_\_\_\_  
City Clerk

Approved as to Form:

\_\_\_\_\_  
City Attorney

RESOLUTION R-4926

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF KIRKLAND  
ADOPTING THE FISCAL POLICIES FOR THE CITY OF KIRKLAND.

WHEREAS, the stewardship of public funds is one of the  
greatest responsibilities given to the officials and managers of the City  
of Kirkland; and

WHEREAS, the establishment of and maintenance of wise fiscal  
policies enables City officials to protect public interests and ensure  
public trust; and

WHEREAS, most of the City of Kirkland's Fiscal Policies  
represent long-standing principles, traditions, and practices that have  
guided the City management in the past and are intended to ensure  
that the City is financially able to meet its immediate and long-term  
objectives; and

WHEREAS, the City of Kirkland's Fiscal Policies need to be  
amended to be to reflect incorporation of the Reserve Replenishment  
Principles;

NOW, THEREFORE, be it resolved by the City Council of the  
City of Kirkland as follows:

Section 1. The City Council hereby adopts the City of Kirkland's  
Fiscal Policies a copy of which is attached hereto and by this reference  
incorporated herein.

Section 2. The City of Kirkland's Fiscal Policies are intended to  
provide general fiscal guidelines and to provide sound direction in the  
management of the City's financial affairs.

Passed by majority vote of the Kirkland City Council in open  
meeting this \_\_\_\_ day of \_\_\_\_, 2012.

Signed in authentication thereof this \_\_\_\_ day of \_\_\_\_, 2012.

\_\_\_\_\_  
MAYOR

Attest:

\_\_\_\_\_  
City Clerk