



CITY OF KIRKLAND
Department of Finance & Administration
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MEMORANDUM

To: Kurt Triplett, City Manager

From: Tracey Dunlap, Director of Finance and Administration
Tom Mikesell, Financial Planning Manager

Date: November 7, 2014

Subject: PUBLIC HEARING ON PRELIMINARY 2015-2016 BUDGET

RECOMMENDATION:

City Council holds a public hearing on the Preliminary 2015-2016 Budget.

BACKGROUND DISCUSSION:

The purpose of this public hearing is to solicit public comment on the Preliminary 2015-2016 Budget as submitted by the City Manager and available to the public on October 21, 2014. The budget document is available at:

<http://www.kirklandwa.gov/budgetdoc>

A public hearing on anticipated revenue sources was held on September 16, 2014. RCW 35A.33 requires that a public hearing on the upcoming budget period be held on or before the first Monday in December. A public hearing on the Preliminary 2015-2016 Budget was held on November 3, 2014.

Additionally, Council budget study sessions were held on October 30th and November 3rd. At the November 3rd study session, Council requested additional information on a number of topics, as follows:

- How many CERT classes were held per year prior to the last recession?
 - The Fire and Building Department estimates that there have been 2 CERT classes per year since 2006.
- When was the last year in which Kirkland had two School Resource Officers in the schools?
 - The most recent year with two school resource officers was 2008.

- What are the potential sponsorship levels for Leadership Eastside?
 - There are a number of sponsorship options, as shown in the table of sponsorship levels on the attached "Leadership Eastside Partner Opportunities and 2014-2015 Annual Budget" (Attachment A).
 - It is worth noting that while the Partner Opportunities document lists \$10,000 as the full year municipal support amount, Issaquah currently supports at \$15,000, Redmond at \$10,000 and Bellevue at \$6,000.
 - Staff is recommending that the City plan to send three participants per year and defer funding any sponsorships pending a discussion with Leadership Eastside (LE) as to the measurable outcomes that such a sponsorship would provide to both LE and Kirkland.

- What is the process for receiving and approving the use of cultural organization grant matching funds?
 - The suggested process begins with the cultural organization notifying the City Manager that they are pursuing a grant from an organization such as 4Culture. As part of that notification the organization would provide details on the nature, amount, and public purpose of the grant and the request match.
 - The City Manager, supported by the Economic Development Manager, would evaluate the public purpose and amount and makes a determination of the amount eligible for city matching funds. The applicant is then notified in writing of the financial commitment from the City in the event that the organization receives the grant.
 - Upon receipt of the written notification that grant funds are approved, the applicant submits grant paperwork to the City, which then disburses the approved matching funds.

- Bring back additional information on using home demolition fees as dedicated funding for ARCH.
 - Please refer to Attachment B for materials on this topic presented to the ARCH Board.

The Council also discussed a number of additional 2015-2016 funding needs at the October 30th, 2014 and November 3, 2014 budget study sessions. If approved in total, these changes would require ongoing and one-time funding of \$86,989 and \$276,712, respectively.

In terms of potential resources to meet these needs, as mentioned at the October 30, 2014 budget study session, recent updates to Kirkland's new construction assessed valuation from the King County Assessor's Office indicate an increase above the amount used in the preliminary budget. In addition, corrections and refunds to prior year valuation are eligible to be added to Kirkland's allowable 2015 levy. These two factors provide sufficient unbudgeted property tax revenue to fund the ongoing SRO in the 2015-16 biennium.

Also, at the November 3rd study session, Council discussed the concept of utilizing a portion of the Special Projects Reserve in 2015-2016 to fund a set-aside of resources pending a regional plan for the Northshore Public Health Center. The Council made no final decision regarding the

source of the health center funding. If the Council does not use the Special Projects Reserve, the \$80,000 would likely come from unallocated ending fund balance. As the books are closed on 2014, staff will know whether there will be sufficient fund balance to absorb this amount, or whether it would result in a small reduction to reserve replenishment. Staff is seeking a Council decision on funding and will finalize the chart and funding sources accordingly before final budget adoption on December 8th.

Finally, the City's current fiscal policies require a high percentage (up to all) of uncommitted funds available at the end of the biennium to be used for reserve replenishment until reserves meet 80% of target. The policies also permit the Council to suspend the requirements to replenish reserves under special circumstances. With planned replenishments, reserves are projected to exceed the 80% level during the 2015-2016 biennium, which triggers the provision that 50% of any remaining funds can be used for one-time purposes. The one-time expenditures in the proposed budget, including the additional items summarized below, exceed this 50% threshold. As a result, staff is planning to prepare a resolution to suspend the reserve replenishment requirement for Council action on December 9th.

The following table displays the 2015-2016 funding needs discussed in the budget study sessions, and includes the sources proposed to fund them, assuming full use of newly available property tax revenues, potential use of the Council Special Projects Reserve for the Northshore Public Health Center one-time set-aside, and suspension of the reserve replenishment requirements.

Uses	2015-16 Cost		
	Ongoing	One-time	Total
Human Services Option 3	-	116,226	116,226
School Resource Officer	86,989	12,780	99,769
Northshore Public Health Center Set-Aside	-	80,000	80,000
Leadership Eastside Scholarships ^{1/}	-	24,000	24,000
KAN Request	-	10,202	10,202
Social Worker at John Muir Elementary	-	23,504	23,504
Cultural Organization Grant Matching	-	10,000	10,000
Grand Total Uses	86,989	276,712	363,701
Resources			
Higher New Construction/ Rebates	86,989	-	86,989
Council Special Projects Reserve/ NPHC set-aside		80,000	80,000
Unallocated year end resources	-	196,712	196,712
Grand Total Resources	86,989	276,712	363,701

1/ Based on 3 participants per year with no sponsorship. May be partially offset by participant match.

The Council's direction on the funding of the identified needs in 2015-2016 will be incorporated in the budget ordinance brought forward for Council action on December 9th.

For additional reference, attached are the Sales Tax Report for October (Attachment C) and the 3rd Quarter 2014 Financial Management Report (Attachment D).

	Event/ Opportunity	Description/Audience	Available	Sponsorship Amount
FULL YEAR	<u>Annual Corporate/ Organizational & Municipal Support</u>	Annual underwriting for Leadership Eastside's Inform, Equip, and Connect programs. Recognized on website, in all events, and all publications. <i>Estimated annual reach: 50,000+ impressions. (Customized additional recognition upon request.)</i>	Available: Corporate Sponsorship (2 remaining); Organizational (non-profit/public) Sponsorship (2 remaining); City Sponsorship (unlimited). <i>Sold: Corporate Sponsorship (Boeing, Republic Services, Microsoft, Symetra); Current Municipal Sponsorships (Redmond, Bellevue, Issaquah, Mercer Island)</i>	\$10,000
FULL YEAR	<u>State of the Eastside Lead Partners</u>	Annual partnership and key recognition of one organization within each of the seven sectors that make up a healthy community. The Lead (Issue) Partners are involved in organizing LE discussions about their related issues, invited to contribute a highlighted article in the publication of <i>LE Impact</i> that focuses on their issue area, invited to participate in (and be recognized at) LE panels and forums that focus on their issue area, Highlighted recognition and Issue Table Sponsorship at the Annual State of the Eastside Lunch, and are invited to contribute to the annual State of the Eastside Address and Report. They are also consulted regarding community projects related to their issue area. Audience includes attendees at events, <i>LE Impact</i> subscribers, program sponsors, LE Board, and members of the LE Network. Estimated annual reach: 5000 community leaders in East King County.	Available: 1 State of the Eastside Lead Partner in the following issue areas Arts and Culture, Basic Needs, Economy, Health and Wellness, Education, Environment, Neighborhoods and Community Building. <i>Sold: 2014 Health and Wellness Lead Partner (Bellevue Children's Hospital). Pending: 2014 Basic Needs Lead Partner (United Way of King County)</i>	\$5,000
FULL YEAR	<u>State of the Eastside Issues Partners</u>	Annual partnership with organizations related to each of seven sectors that make up a healthy community. State of the Eastside Partners are involved in LE discussions about their related issues, highlighted in the publication of <i>LE Impact</i> that focuses on their issue area, recognition and Issue Table Sponsorship at the Annual State of the Eastside Lunch, and invited to contribute to the annual State of the Eastside Address and Report. Audience includes attendees at events, <i>LE Impact</i> subscribers, program sponsors, LE Board, and members of the LE Network. Estimated annual reach: 5000 people.	Available: State of the Eastside Partnerships in the following issue areas (limited to 10 in each area): Arts and Culture, Basic Needs, Economy, Health and Wellness, Education, Environment, Neighborhoods and Community Building. <i>Sold: 2014: United Way of King County, Imagine Housing, Puget Sound Energy, Studio East, Boeing, Overlake Hospital, Cascadia Community College, AAA Washington, Republic Services, Meydenbauer Center.</i>	\$500



	Event/ Opportunity	Description/Audience	Available	Sponsorship Amount
FULL YEAR	LE Impact: Issue date: First Wednesday, monthly	LE monthly electronic communication. <i>Estimated circulation: 3000 subscribers .</i>	Available: Presenting Sponsorship. <i>Sold: 2014 (Washington Trust Bank)</i>	\$2,500
SEP- MAY	Monthly Leader Days	10 Monthly "Class Days" for program participants held in locations across the Eastside. <i>Estimated attendance, each day: 35-50 people.</i>	Available: Presenting Sponsorship: Includes Opportunity to welcome attendees. Host/Lunch Sponsorship. Includes Opportunity to welcome attendees. <i>(Various 2015 Partnerships Available)</i>	\$4,000 (Full Year Presenting Sponsor) OR \$500 (Individual Day Sponsor) Host for Individual Class Day (Offset cost for room and food, approximately \$500)
2-YEAR	Scholarship Sponsor	Support tuition of program participants who require financial assistance so that all qualified applicants can participate, regardless of personal or organizational ability to pay. Audience includes the LE Board, members of the LE Network, and members of the Eastside community at large. <i>Estimated annual reach: 500 people.</i>	Available: Named and unnamed scholarships for Diversity, Fellowship, or issue area. Recognized throughout the two-year participation of the class member, and captured historically on the LE website. <i>(Various 2015 Partnerships Available)</i>	Various
Opportunities by Month				
JAN 2015	LEx: Happy Hour for the Greater Good: 1/20 5:30pm - 7:30pm (Wilde Rover, Kirkland)	Networking and leadership skill-building event for LE alumni and members of the LE Network. - January 2015 Focus: How Leaders Thrive <i>Estimated attendance: 75 people.</i>	Available: 1 Presenting Sponsorship: Includes opportunity to welcome attendees from podium. 1 Host: Includes recognition from podium. All sponsorships include recognition in online communications marketing the event.	\$1,000 (Presenting Sponsor) Host (Offset cost for room and food, approximately \$500)

	Event/ Opportunity	Description/Audience	Available	Sponsorship Amount
FEB	State of the Eastside Luncheon and Address Thu 2/12, 12pm-1:30pm, (Location TBA).	5th annual event bringing together community leaders from each of seven sectors that make up a healthy community to discuss the trends, concerns, and focus of community leadership across the Eastside for the upcoming year. Audience includes current program participants, alumni, LE Board, and elected officials. <i>Estimated attendance: 300 people.</i>	Available: 2 Presenting Sponsorships: Includes opportunity to welcome attendees from the podium. 2 Supporting Sponsorships: Includes highlighted recognition from the podium. All sponsorships include Issue Table Sponsorship and recognition in online communications marketing the event. 10th Anniversary Celebration Sponsors also recognized at this event.	\$5,000 (Presenting Sponsor) \$2,500 (Supporting Sponsors) \$800 (Issue Table Sponsors)
FEB-NOV	LE 10th Anniversary Celebration	LE celebrates its 10th anniversary with a series of events that kicks off with the State of the Eastside Lunch and culminates with a Gala in November 2015. Sponsors supporting the celebration will receive recognition via print, online, LE Impact, and social media. <i>Estimated attendance of event series: 1000 people. Estimated media, impressions: 50,000+</i>	Available: 2 Presenting Sponsorships: Includes opportunity to welcome attendees from the podium. 5 Supporting Sponsorships: Includes highlighted recognition from the podium. Unlimited Celebration Sponsorships.	\$5,000 (Presenting Sponsor) \$2,500 (Supporting Sponsors) \$1000 (Celebration Sponsors)
FEB	LE Class of 2015 Project Presentation Day Thu 2/19, 8:00-10:00am (Location TBD)	Annual presentation of community projects undertaken by participants in their second year LE program year. Audience includes Class of 2015, program sponsors, project stakeholders, LE Board, and members of the LE Network. <i>Estimated attendance: 100 people.</i>	Available: Presenting Sponsorship. Host. All sponsorships include recognition in online communications marketing the event.	\$1,000 (Presenting Sponsor) Host (Offset cost for room and food, approximately \$500)
MAR	LEx: Happy Hour for the Greater Good : 3/31 5:30pm - 7:30pm (Wilde Rover, Kirkland)	Networking and leadership skill-building event for LE alumni and members of the LE Network. - March 2015 Focus: TBD <i>Estimated attendance: 75 people.</i>	Available: 1 Presenting Sponsorship: Includes opportunity to welcome attendees from podium. 1 Host: Includes recognition from podium. All sponsorships include recognition in online communications marketing the event.	\$1,000 (Presenting Sponsor) Host (Offset cost for room and food, approximately \$500)

	Event/ Opportunity	Description/Audience	Available	Sponsorship Amount
APR	<u>State of the Eastside Report</u> (printed and online versions) Issue Date April 2015	3rd annual published report consolidated from partners across seven sectors that make up a healthy community. Includes feedback from community leaders in attendance at the State of the Eastside Luncheon. Audience includes elected officials, current program participants, alumni, and other members of the LE Network. <i>Estimated audience: 3000 people.</i>	Available: Presenting Sponsorship.	\$2,500
MAY	<u>LE Class of 2015 Graduation and All Class Celebration</u> Thu 5/21 7:00-9pm, (Location TBD).	Annual graduation reception and celebration for participants successfully completing their second year of the LE Leadership Enrichment Program. Celebration of the year-end for the rest of the program participants. Audience includes both class years, spouses and other family, employers, LE Board, and members of the LE Network. <i>Estimated attendance: 150 people.</i>	Available: Includes opportunity to welcome attendees from podium. 1 Host: Includes recognition from podium. All sponsorships include recognition in online communications marketing the event.	\$1,000 (Presenting Sponsor) Host (Offset cost for room and food, approximately \$500)
AUG	<u>Class of 2017 Welcome Reception</u> Thu 8/14, 7:pm-9pm: (Woodmark Hotel, Kirkland).	Program welcome and expectation setting. Incoming class members, their spouses/guests, and employers. <i>Estimated attendance: 100 people.</i>	Available: 1 Presenting Sponsorship: Includes opportunity to welcome attendees from the podium. 1 Text Book Sponsorship: Includes written note to each class member included in text books received that evening and recognition from the podium. All sponsorships include recognition in online communications marketing the event.	\$2,500 (Presenting Sponsor) \$1,500 (Text Book Sponsor)
SEP	<u>Mayors' Lunch</u> Fri 9/10, 12pm-2pm, (Cascadia Community College, Bothell).	The kick-off of the curriculum year for the two LE Enrichment Program class years. Panel of mayors from Eastside cities discussing local issues and how class members might engage. <i>Estimated attendance: 150 people.</i>	Available: 1 Presenting Sponsorship: Includes opportunity to welcome attendees from the podium. 2 Supporting Sponsorships: Includes recognition from the podium. Sold: Host Sponsorship (Cascadia Community College). All sponsorships include recognition in online communications marketing the event.	\$2,500 (Presenting Sponsor) \$1,000 (Supporting Sponsor)



	Event/ Opportunity	Description/Audience	Available	Sponsorship Amount
	LEx: Happy Hour for the Greater Good : Date TBD 5:30pm - 7:30pm (Wilde Rover, Kirkland)	Networking and leadership skill-building event for LE alumni and members of the LE Network. - September 2014 Focus: TBD <i>Estimated attendance: 75 people.</i>	Available: 1 Presenting Sponsorship: Includes opportunity to welcome attendees from podium. 1 Host: Includes recognition from podium. All sponsorships include recognition in online communications marketing the event.	\$1,000 (Presenting Sponsor) Host (Offset cost for room and food, approximately \$500)
NOV	Leadership Eastside 10th Anniversary Gala November date TBD 2015	Gala event celebrating LE's 10th anniversary as well as the legacy of its predecessor organizations Advance Bellevue and Leadership Institute/Leadership Redmond. Audience includes current program participants, alumni, LE Board, and community luminaries. <i>Estimated attendance: 500 people.</i>	Available: 1 Presenting Sponsorship: Includes opportunity to welcome attendees/introduce speaker from the podium. Supporting Sponsorships (5) includes recognition from podium. Table Sponsorships (30). 1 Reception and Beverage Sponsorship. 10th Anniversary Celebration Sponsors also recognized at this event. All sponsorships include recognition in online communications marketing the event.	\$10,000 (Presenting Sponsor) \$3,000 (Supporting Sponsors) \$2,000 (Table Sponsors)



FY 2014-2015 Budget Proposal for adoption at 6/10/2014 LE Board Meeting

Overall budget intent is to limit expenses to FY '13-'14 actual income and budget revenues conservatively.

Budget Overview	
Total Tuition and program fees	\$ 176,475
Corporate and Org Support	80,000
City and Public Support	35,000
Grants	20,000
Annual Events ("Tickets")	15,750
Individual Giving	8,000
Total income	\$ 335,225
Payroll Exp, Curriculum Management & Prof. Svcs	254,448
Other Programs, Events, and Admin/Rent	80,550
Total Expense	\$ 334,998
NET	\$ 227

Note: Add'l revenue from 10th Anniversary anticipated, but not included in operational budget

Potential Annual Dedicated Revenue for Housing

5/22/14

<i>Funding Category</i> Source of Revenue	Low Estimate	High Estimate
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Consumers

1. Utility Tax	6,757,000	13,515,000
tax rate: % of utility bills	0.5%	1%
2. Sales Tax	6,493,000	12,985,000
tax rate: % of taxable purchases	0.05%	0.10%

Development and Real Estate Activity

3. Sales Tax on Construction	2,537,000	10,147,000
Pct of collected taxes for new construction	25%	100%
4. Linkage Fee for Commercial Development	339,000	3,390,000
fee per sq. ft. commercial development	\$0.50	\$5.00
4. Demolition Fee	387,000	1,290,000
fee per unit demolished	\$3,000	\$10,000
6. Condominium Conversion Fee	27,000	7,060,000
fee per unit converted	\$100	\$25,000
7. Fee for Commercial Bonus Capacity	0	0
fee per bonus sq. ft. developed		

Property Owners

8. Housing Levy (Property Tax)	10,403,000	52,013,000
tax rate / \$1,000 property value	\$0.10	\$0.50
9. Real Estate Excise Tax	6,102,000	15,255,000
tax on sale price of property	0.10%	0.25%

Businesses

10. Business Gross Receipts Tax (B&O Tax)	6,637,000	12,412,000
tax rate: % of gross receipts of business	0.00008	0.0001496
11. Business License Fee	3,460,000	6,920,000
license fee per full-time equivalent employee	\$10	\$20
12. Tax on Low-Wage Businesses	1,545,000	2,889,000
tax rate: % of gross receipts of low-wage business	0.00008	0.0001496

5. Demolition Fee

5/22/14

	Annual Average Units Demolished 2006-11	\$3,000 Demolition Fee per Unit for Housing	\$10,000 Demolition Fee per Unit for Housing	Each City's % of Total Demo Fee	Each City's Parity %
Beaux Arts Village	-	-	-	0.00%	0.05%
Bellevue	12	36,000	120,000	9.30%	28.85%
Bothell (KC part)	3	9,000	30,000	2.33%	6.63%
Clyde Hill	4	12,000	40,000	3.10%	0.50%
Hunts Point	2	6,000	20,000	1.55%	0.09%
Issaquah	7	21,000	70,000	5.43%	5.48%
Kenmore	3	9,000	30,000	2.33%	4.56%
Kirkland	43	129,000	430,000	33.33%	12.35%
Medina	8	24,000	80,000	6.20%	0.51%
Mercer Island	16	48,000	160,000	12.40%	4.50%
Newcastle	3	9,000	30,000	2.33%	3.52%
Redmond	12	36,000	120,000	9.30%	22.96%
Sammamish	13	39,000	130,000	10.08%	6.37%
Woodinville	1	3,000	10,000	0.78%	3.46%
Yarrow Point	2	6,000	20,000	1.55%	0.17%
Total	129	387,000	1,290,000	100.00%	100.00%

Sources:

Demolitions 2006-2011 collected by ARCH.

Assumptions:

\$3,000 Fee per Demolished Multi-Family Unit for Housing (Highland Park, IL)

\$10,000 Fee per Demolished Single-Family Unit for Housing (Highland Park, IL)

Highland Park, IL adopted the fees in 2002. The rates have remained the same since then.

Authority:

Existing authority to charge regulatory fees might provide basis, otherwise need legislation.

Need for completion of analysis

1. Units demolished 2012 and 2013



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MEMORANDUM

To: Kurt Triplett, City Manager

From: Tracey Dunlap, Director of Finance & Administration
George Dugdale, Budget Analyst

Date: October 27, 2014

Subject: October Sales Tax Revenue

October sales tax revenue is **up 11.0 percent** compared to October 2013. **Year-to-date** revenues are **up 9.3 percent** compared to the same period last year. Results this month reflect sales activity in August, due to the two month lag in reporting sales tax data.

Comparing October 2014 to October 2013

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

2013-2014 Sales Tax Receipts by Business Sector-Monthly Actuals

Business Sector Group	October		Dollar Change	Percent Change	Percent of Total	
	2013	2014			2013	2014
Services	177,837	278,889	101,052	56.8%	12.4%	17.5%
Contracting	228,242	252,867	24,625	10.8%	15.9%	15.8%
Communications	43,525	39,306	(4,219)	-9.7%	3.0%	2.5%
Retail:						
Auto/Gas Retail	398,444	403,412	4,968	1.2%	27.7%	25.3%
Gen Merch/Misc Retail	156,085	166,058	9,973	6.4%	10.9%	10.4%
Retail Eating/Drinking	121,052	131,269	10,217	8.4%	8.4%	8.2%
Other Retail	176,108	183,337	7,229	4.1%	12.2%	11.5%
Wholesale	59,810	59,503	(307)	-0.5%	4.2%	3.7%
Miscellaneous	76,560	81,360	4,800	6.3%	5.3%	5.1%
Total	1,437,663	1,596,001	158,338	11.0%	100.0%	100.0%

Comparing month to month, October sales tax collections this year are **\$158,300** (11.0 percent) higher than October 2013. This is higher than the **6.5 percent** increase between September 2014 and September 2013, and is the fifth month this year that the increase has been above 10 percent compared to the same month in 2013.

However, a large proportion of this gain was made up by a series of payments and field collections made by a single business in the **services sector**, which accounted for \$122,000 of the growth. Corrections by the department of revenue and one-time payments are not uncommon, but can be both positive and negative amounts and do not necessarily indicate a sustained upturn in revenue. Without this revenue, sales tax would be up **2.5 percent** compared to the same period last year.

Outside of services, receipts from two business sectors were over \$10,000 higher than October 2013. The largest of these was in **contracting**, particularly in the specialty trade contracting sector, which is

focused on specialized areas of construction such as plumbing and electrical roofing work. The other is **retail eating/drinking**, which grew **8.4 percent** due to broad growth across most large establishments in the City.

Overall, the month to month comparison suggests moderate growth across the City. Small growth across most sectors, including the City's largest single sector (**auto/gas retail**) is positive. However, without the money collected through corrections made to a single business account, growth would be much lower.

Year-to-Date Business Sector Review

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

City of Kirkland Actual Sales Tax Receipts

Business Sector Group	January-October		Dollar Change	Percent Change	Percent of Total		Percent of Change
	2013	2014			2013	2014	
Services	1,738,780	1,972,870	234,090	13.5%	12.7%	13.2%	18.4%
Contracting	2,189,621	2,358,976	169,355	7.7%	16.0%	15.8%	13.3%
Communications	381,596	420,794	39,198	10.3%	2.8%	2.8%	3.1%
Retail:							
Auto/Gas Retail	3,458,908	3,659,850	200,942	5.8%	25.3%	24.5%	15.8%
Gen Merch/Misc Retail	1,678,872	1,754,680	75,808	4.5%	12.3%	11.7%	6.0%
Retail Eating/Drinking	1,125,914	1,221,244	95,330	8.5%	8.2%	8.2%	7.5%
Other Retail	1,758,607	1,968,538	209,931	11.9%	12.9%	13.2%	16.5%
Wholesale	630,184	688,227	58,043	9.2%	4.6%	4.6%	4.6%
Miscellaneous	719,125	907,498	188,373	26.2%	5.3%	6.1%	14.8%
Total	13,681,607	14,952,677	1,271,070	9.3%	100.0%	100.0%	100.0%

Through the end of October, sales tax is **up 9.3 percent** compared to last year, with every category increasing.

The largest growth by dollar amount of any sector is **other retail**, which contains food and beverage stores as well as online retailers. Owing to the growth in online retail, this makes up an increasing share of the City's sales tax receipts (13.2 percent in 2014).

Four other categories, **auto/gas retail**, **contracting**, **services**, and **miscellaneous** have grown over \$100,000 year to date. However, caution should be used when interpreting these results for the following reasons:

- **Auto/gas retail** and **contracting** are two of the revenue sources that decline most significantly and abruptly during economic downturns. These two sectors currently make up 40.3% of the City's total sales tax revenue, so their decline would present a danger to the City's revenue base.
- Both the **services** and **miscellaneous** categories include large one-time or irregular payments in 2014 that provided approximately \$275,000 in revenue.

The overall performance of sales tax through October 2014 has been strong. Growth across every sector, accompanied by one time payments, has created a strong revenue base for the City. However, this picture could change very quickly if the wider economy experienced a downturn.

National and Regional Economic Context:

Information about wider trends in the economy provides a mechanism to help understand current results in Kirkland, as well as predict future performance. The combination of consumer confidence,

unemployment levels, housing data and auto sales provide a high level picture of key factors in sales tax revenues.

2013-2014 Wider Economic Indicators

Indicator	Most recent month of data	Unit	Month			Yearly Average	
			Current	Previous	Change	2014	2013
Consumer Confidence							
Consumer Confidence Index	October	Index	94.5	89.0	5.5	85.8	78.1
Unemployment Rate							
National	September	%	5.9	6.1	-0.2	6.3	7.4
Washington State	September	%	5.7	5.6	0.1	6.0	7.0
King County	September	%	4.8	4.9	-0.1	4.9	5.2
Kirkland (pre annex boundaries)	September	%	4.8	5.0	-0.2	4.8	4.8
Housing							
New House Permits	August	Thousands	30.4	34.3	-3.9	33.7	30.8
Seattle Area Home Prices	August	Index	171	171	0	166	154
Inflation (Core CPI)							
National	August	% Change	1.7	1.9	-0.2	1.8	1.8
Seattle	August	% Change	1.8	2.0	-0.2	1.9	1.2
Car Sales							
New Vehicle Registrations	September	Thousands	23.9	24.3	-0.4	23.2	22.1

bold numbers indicate data point is highest or lowest in that year.

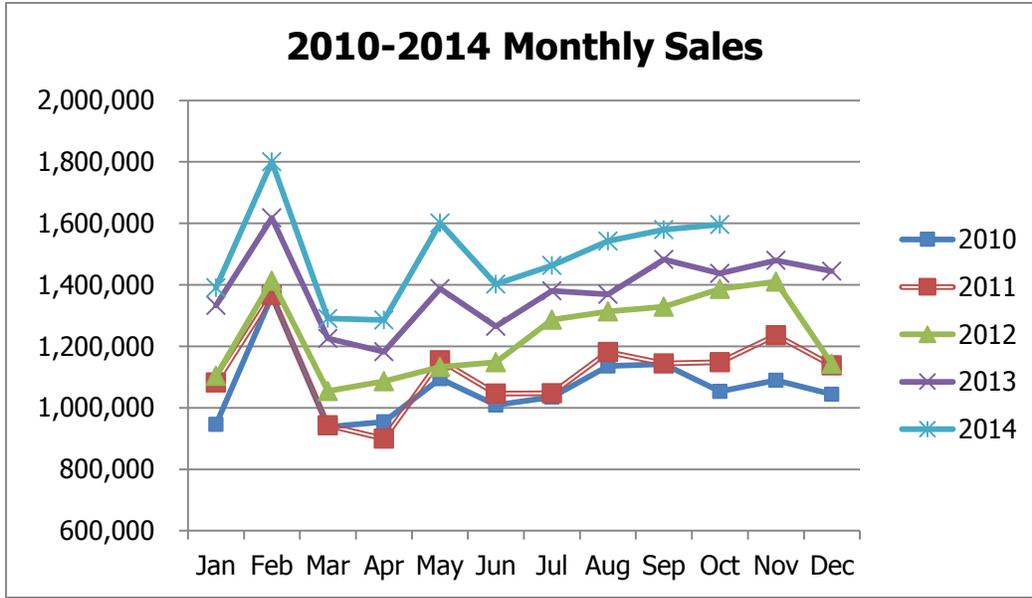
Numbers in red indicate a negative movement from the previous months data.

The **Consumer Confidence Index** increased from 89.0 in September to 94.5 in October and is now at its highest point since October 2007. This is in line with the Bureau of Labor Statistics **unemployment data** from September, which shows the seasonally adjusted national rate falling below 6 percent for the first time since July 2008. State and local unemployment rates also declined in September, although these remain within the range of data points seen in 2014. The relatively low unemployment rates should be interpreted with some caution, since some analysts have argued that the declining unemployment rate is due at least in part to falling participation in the labor market and “underemployment”, rather than strong employment numbers. National and Seattle area **inflation rates** also remained below the Federal Reserve’s target of 2 percent, as they have done for most of the past two years.

Analysis of statewide vehicle registrations and housing market indicators provides useful information on the health of two of the City’s most important sales tax categories. After steadily climbing for over two years, **Seattle area home prices** have remained flat for the past few months. This has been accompanied by slow growth in the number of new houses, with the number of **new housing permits** down in the second and third quarters. While not a cause for immediate concern, this data does show growth moderating after the rapid pace of homebuilding to meet pent up demand during the regional housing market recovery. Data on **new vehicle registrations** shows a similar pattern to the housing market. After strong increases as the economy recovered from the recession, new registrations reached a post-recession high in the second quarter of 2014 and have remained at that level for the past few months.

Conclusion

As the chart below shows, sales tax revenues have increased steadily since 2010 and the past two years have seen consistent increases compared to the same month in the previous year. The wider economy has also been improving and has been matched by growing consumer confidence. However, the level of growth has slowed, especially in important sectors such as auto sales.





Financial Management Report as of September 30, 2014

AT A GLANCE:

Google partners with the City of Kirkland on Cross Kirkland Corridor Improvements (page 2 sidebar)

Most revenues increased over 2013 through the third quarter of 2014 (page 3)

Sales tax revenue growth continued into 2014, slowing at first, but accelerating in the second quarter and has continued with an upward trend in the third quarter (page 5)

In the wider economy the housing market and auto sales have flattened out and inflation is rising slowly (pages 7-8)

Inside this issue:

Expenditure Summary	2
General Fund Revenue	3
General Fund Expenditures	4
Sales Tax Revenue	5-6
Economic Environment	7-8
Investment Report	8-9
Reserve Summary	10-11

Summary of All Operating Funds: *Revenue*

- General Fund** revenue ended the third quarter of 2014 **4.4 percent ahead** of the same period in 2013, an increase of \$2.63 million. Higher than budgeted revenues from retail sales tax and other taxes, along with higher property tax collections in the first nine months of 2014 were primarily responsible for the increase. Second half EMS revenues came in earlier in 2014 than in 2013, also contributing to the increase. Revenues finished the third quarter at **77.1 percent of budget**. A more detailed analysis of General Fund revenue can be found on page 3, and details on sales tax revenue begin on page 5.
 - Water/Sewer Operating Fund** revenue through three quarters of the year continues to be higher than in 2013, **up 4.1 percent**. At the end of the third quarter, revenue was **74.8 percent of budgeted** revenue, in line with collections in previous years. Water sales are traditionally higher in the second half of the year, so it is likely these categories will reach 100 percent of budget by the end of the year.
 - Surface Water Management Fund** revenues at the end of September were **53 percent of budget**. This is expected since the majority of payments are received in May and October. Revenues through the third quarter of 2014 were **4.5 percent lower** than in 2013, primarily because of a Department of Ecology grant and internal wage reimbursements received in 2013.
 - Revenue in the **Solid Waste Fund** was **77.5 percent of budget**. This is **3.8 percent more revenue** than in 2013. Revenue was higher across residential, commercial and multi-family properties.
- budget** largely due to the timing of property tax payments, the second half of which are normally received in October and November.

Resources by Fund	Year-to-Date Actual			Budget			% of Budget	
	9/30/2013	9/30/2014	% Change	2013	2014	% Change	2013	2014
General Gov't Operating:								
General Fund	58,227,943	60,790,484	4.4%	77,699,996	78,890,220	1.5%	74.9%	77.1%
Other General Gov't Operating Funds	15,966,070	16,725,321	4.8%	23,452,132	24,628,836	5.0%	68.1%	67.9%
Total General Gov't Operating	74,194,013	77,515,805	4.5%	101,152,128	103,519,056	2.3%	73.3%	74.9%
Utilities:								
Water/Sewer Operating Fund	17,489,501	18,214,887	4.1%	24,234,608	24,342,543	0.4%	72.2%	74.8%
Surface Water Management Fund	5,257,243	5,018,710	-4.5%	9,224,823	9,460,539	2.6%	57.0%	53.0%
Solid Waste Fund	11,851,610	12,299,032	3.8%	15,954,564	15,875,727	-0.5%	74.3%	77.5%
Total Utilities	34,598,354	35,532,629	2.7%	49,413,995	49,678,809	0.5%	70.0%	71.5%
Total All Operating Funds	108,792,367	113,048,434	3.9%	150,566,123	153,197,865	1.7%	72.3%	73.8%



Kirkland City Council unanimously approves multi-million dollar agreement that nets public improvements with Google expansion project

On September 16, 2014, the Kirkland City Council unanimously approved an agreement, via Resolution R-5069, between the City of Kirkland and SRM Development for public improvements including two new traffic signals and street frontage improvements to adjacent and surrounding streets to the Kirkland Google campus.

Specifically, the agreement provides for two new traffic signals on 6th Street South at Kirkland Way and at 9th Avenue South. The 6th Street South/Kirkland Way signal will be funded through Transportation Impact Fees. The new 6th Street South/9th Avenue South signal is required per SEPA and is the responsibility of SRM who, per the Agreement, will pay for construction costs estimated at more than \$1 million. Additionally, the Agreement requires that the City complete the installation of water, sewer, and partial stormwater facilities on 7th Avenue South by December 31, 2014.

Once the utility improvements are completed, SRM will install street frontage improvements (curb, gutter and sidewalk) on 7th Avenue South up to State Street no later than May 31, 2015. Approximately 1,200 feet of new sidewalk will be installed along the west side of 6th Street South from the Google Phase I campus to 5th Place South. These sidewalk improvements will be installed by the City using Transportation Improvement Board (TIB) grant funding and more than \$330,000 from SRM.

In addition to improvements identified in the Agreement, SRM has proposed \$2.8 million worth of public improvements along the Cross Kirkland Corridor. The improvements include a 16-foot wide hard surface trail, meandering secondary trail, basketball court, resting and gathering spots, trees, beach-like dunes with volley ball court, and a children's play area. The City is reviewing construction plans and the work is scheduled to begin early November 2014 and be completed by June 2015.

Summary of All Operating Funds: *Expenditures*

- **General Fund** expenditures finished the third quarter of 2014 **up 7.0 percent** from 2013. Actual expenditures finished the third quarter at **71.9 percent of budget**. A more detailed analysis of General Fund expenditures by department is found on page 4.
- **Other Operating Funds** actual expenditures were **up 12.0 percent** compared to the third quarter of 2013, mostly due to higher expenditures in the Information Technology and Fleet funds. Information Technology expenditures were higher largely because of higher computer replacement costs in 2014. Similarly, Fleet costs were primarily higher because vehicle replacement costs were higher in 2014 than 2013. Both of these expenditures are higher some years than others based on operational needs and do not necessarily represent a trend of higher spending.
- **Water/Sewer Operating Fund** actual expenditures finished September **3.7 percent lower** than in 2013. Expenses were skewed higher earlier in the year because the City paid two months of metro sewer charges in January 2014, after not paying in December 2013. Therefore, the city effectively paid for seven months during the first half of 2014, but will make five payments in the remaining two quarters, which has brought expenditures back in line with budget. Additionally, dues and memberships are paid in full in January, and the combination of these two factors means expenditures are usually higher in the early part of the year. This has proven true so far in 2014 as first quarter expenditures were higher than the second quarter, which in turn, was higher than the third quarter. Expenditures are expected to continue to normalize as the year continues. Expenditures at the end of September 2014 were **77.9 percent of budget**
- **Surface Water Management Fund** expenditures through September 2014 were **7.9 percent higher** than the same time in 2013, due to an increase in personnel costs and the purchase of a new computer software program. Despite this increase, there have been salary savings in the Surface Water fund, which meant that expenditures through September were **lower than budgeted at 65.4 percent** of the yearly budget. These salary savings were also present in 2012 and 2013.
- **Solid Waste Fund** expenditures were **1.6 percent higher** during the first nine months of 2014, compared to the same period in 2013. This increase is due to an expected increase in the cost of the waste disposal contract. Since this increase was planned for and all other expenses were also in line with budget, expenditures finished the first three quarters of 2014 at **75.2 percent of budget**.

Expenditures by Fund	Year-to-Date Actual			Budget			% of Budget	
	9/30/2013	9/30/2014	% Change	2013	2014	% Change	2013	2014
General Gov't Operating:								
General Fund	50,143,839	53,635,571	7.0%	70,685,005	74,560,827	5.5%	70.9%	71.9%
Other General Gov't Operating Funds	12,659,047	14,175,647	12.0%	20,609,514	20,933,875	1.6%	61.4%	67.7%
Total General Gov't Operating	62,802,886	67,811,218	8.0%	91,294,519	95,494,702	4.6%	68.8%	71.0%
Utilities:								
Water/Sewer Operating Fund	16,657,584	16,042,671	-3.7%	20,909,022	20,601,544	-1.5%	79.7%	77.9%
Surface Water Management Fund	3,892,944	4,199,185	7.9%	6,546,354	6,425,048	-1.9%	59.5%	65.4%
Solid Waste Fund	11,598,724	11,785,701	1.6%	15,374,063	15,668,380	1.9%	75.4%	75.2%
Total Utilities	32,149,253	32,027,557	-0.4%	42,829,439	42,694,972	-0.3%	75.1%	75.0%
Total All Operating Funds	94,952,139	99,838,774	5.1%	134,123,958	138,189,674	3.0%	70.8%	72.2%

General Fund Revenue

- **Sales tax** revenue allocated to the General Fund through the third quarter of 2014 was **9.2 percent higher** than it was during the same period of 2013. This was higher than budgeted at **86.2 percent of budget** because sales tax is budgeted on a one year lag. A detailed analysis of total sales tax revenue can be found starting on page 5.
- **Property tax** finished the third quarter at **54.9 percent of budget**. Most property tax payments are receipted to the City in April and October, therefore this number will be close to 100 percent of budget by the end of the fourth quarter.
- **Utility tax** collections finished September 2014 with **no change** compared to 2013. These revenues are within the expected range, at **75.1 percent of budget**.
- **Other taxes** actual revenue was **110.2 percent of budget** at the end of the third quarter of 2014. This is a **20.5 percent increase** compared to the same period in 2013. The increase is driven by a large increase in leasehold excise tax, which is at \$180,000 through the first three quarters of 2014, over 150 percent of budget and three times higher than in 2013, due to a one-time payment by one taxpayer.
- The **revenue generating regulatory license fee** was **4.5 percent higher** than the first half of 2013. This increase means revenues were ahead of the budgeted amount at **82.2 percent of budget**. This tax is charged to employers on a per-employee basis, and fluctuates based on the timing of when businesses submit their payments, as well as the number of employees at each business, therefore revenues could be lower in the final quarter of 2014.
- The **business licenses (base fee) and franchise fees** were **up 3.0 percent** compared to the same period in 2013 and finished the quarter **ahead of budget at 78.6 percent**.
- **Development-related fee** revenues were collectively **down 7.6 percent** at the end of the third quarter of 2014 compared to 2013. **Plan check fees** were **down 16.5 percent**, **Engineering Services** were **down 14.1 percent**, and **Planning Fees** were **down 8.3 percent**. This was partially offset by **Building Structural and Equipment permits**, which were **up 0.3 percent**. Despite the decline, development related fee revenues have been strong, and have already exceeded the annual budget. Collectively **development fees** were at **103.5 percent of budget** at the end of the third quarter, with **Building, Structural and Equipment permits (110.1 percent)**, **Engineering Services (157.2 percent)**, and **Planning fees (101.4 percent)** all being ahead of budget three quarters of the way through the year. Only **Plan Check fees** were behind with **65.2 percent of budget** collected through the end of September.
- **Fines and Forfeitures** were **down 1.4 percent** compared to 2013 and were slightly **ahead of budget expectations at 76.9 percent**, overcoming a slow start to the year in traffic infraction penalties due to collection timing, which has normalized in the third quarter.
- **Miscellaneous** revenue was **up \$198,400**, or **25.9 percent** from 2013 and was **ahead of budget at 126.7 percent**, largely due to an insurance recovery payment in 2014.
- **Interfund Transfers** represent expected revenues from other funds, these should be at 100 percent of budget by year end.

General Fund revenues ended the third quarter \$2.46 million higher than in 2013 (including interfund transfers), largely due to continued growth in sales tax, development activity, and the timing of the biannual EMS payments.

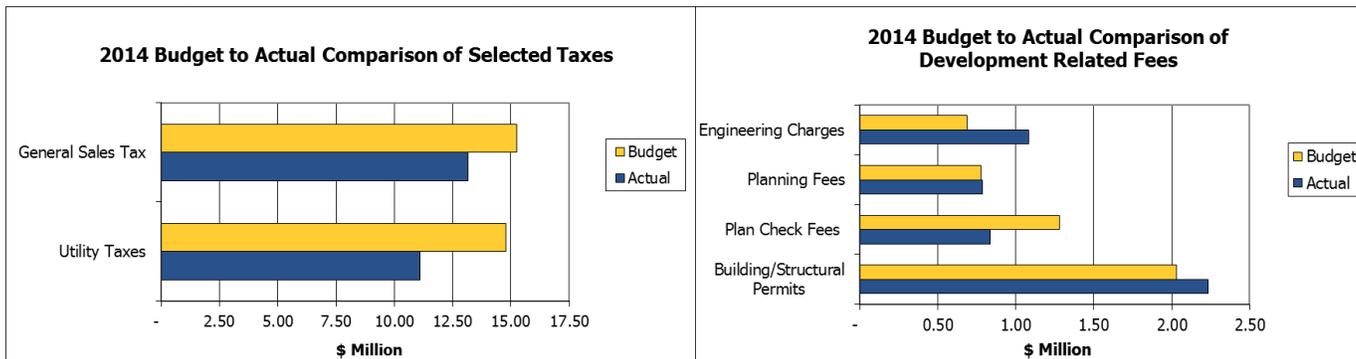
The General Fund is the largest of the General Government Operating funds. Primarily tax supported the fund accounts for services such as public safety, parks and recreation, and community development.

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

- In 2014 about 428 of the City's 556 regular employees were budgeted within the general fund.

General Fund Resource Category	Year-to-Date Actual			Budget			% of Budget	
	9/30/2013	9/30/2014	% Change	2013	2014	% Change	2013	2014
Taxes:								
Retail Sales Tax: General	12,041,445	13,154,175	9.2%	15,057,904	15,263,571	1.4%	80.0%	86.2%
Retail Sales Tax Credit: Annexation	2,757,965	2,704,101	-2.0%	3,415,626	3,415,626	0.0%	80.7%	79.2%
Retail Sales Tax: Criminal Justice	1,331,907	1,426,721	7.1%	1,634,287	1,666,973	2.0%	81.5%	85.6%
Property Tax	9,037,102	9,308,897	3.0%	16,619,200	16,953,959	2.0%	54.4%	54.9%
Utility Taxes	11,097,398	11,096,461	0.0%	14,618,866	14,779,443	1.1%	75.9%	75.1%
Rev Generating Regulatory License	1,848,246	1,932,250	4.5%	2,328,005	2,351,285	1.0%	79.4%	82.2%
Other Taxes	982,071	1,183,128	20.5%	1,063,975	1,073,303	0.9%	92.3%	110.2%
Total Taxes	39,096,134	40,805,732	4.4%	54,737,863	55,504,160	1.4%	71.4%	73.5%
Licenses & Permits:								
Building, Structural & Equipment Permits	2,227,352	2,234,817	0.3%	2,013,727	2,029,631	0.8%	110.6%	110.1%
Business Licenses/Franchise Fees	3,277,786	3,375,448	3.0%	4,191,459	4,295,440	2.5%	78.2%	78.6%
Other Licenses & Permits	373,983	387,942	3.7%	319,266	330,001	3.4%	117.1%	117.6%
Total Licenses & Permits	5,879,121	5,998,208	2.0%	6,524,452	6,655,072	2.0%	90.1%	90.1%
Intergovernmental:								
Grants and Federal Entitlements	54,987	106,042	92.8%	198,622	104,421	-47.4%	27.7%	101.6%
State Shared Revenues & Entitlements	716,390	825,141	15.2%	1,033,781	1,237,172	19.7%	69.3%	66.7%
EMS	442,323	884,645	100.0%	884,645	884,645	0.0%	50.0%	100.0%
Total Intergovernmental	1,213,700	1,815,828	49.6%	2,117,048	2,226,238	5.2%	57.3%	81.6%
Charges for Services:								
Internal Charges	3,936,674	4,229,034	7.4%	5,396,481	5,717,970	6.0%	72.9%	74.0%
Engineering Services	1,261,859	1,083,761	-14.1%	951,385	689,483	-27.5%	132.6%	157.2%
Plan Check Fee	999,774	835,057	-16.5%	1,082,220	1,279,914	18.3%	92.4%	65.2%
Planning Fees	857,680	786,588	-8.3%	848,164	775,550	-8.6%	101.1%	101.4%
Recreation	1,105,843	1,217,113	10.1%	1,160,300	1,160,300	0.0%	95.3%	104.9%
Other Charges for Services	1,606,292	1,570,276	-2.2%	2,210,020	2,190,907	-0.9%	72.7%	71.7%
Total Charges for Services	9,768,121	9,721,828	-0.5%	11,648,570	11,814,124	1.4%	83.9%	82.3%
Fines & Forfeits	1,505,155	1,484,804	-1.4%	1,928,925	1,929,999	0.1%	78.0%	76.9%
Miscellaneous	765,712	964,084	25.9%	743,138	760,627	2.4%	103.0%	126.7%
Total Revenues	58,227,943	60,790,484	4.4%	77,699,996	78,890,220	1.5%	74.9%	77.1%
Other Financing Sources:								
Interfund Transfers	99,780	-	N/A	402,008	300,535	-25.2%	24.8%	N/A
Total Other Financing Sources	99,780	-	N/A	402,008	300,535	-25.2%	24.8%	N/A
Total Resources	58,327,723	60,790,484	4.2%	78,102,004	79,190,755	1.4%	74.7%	76.8%

General Fund Revenue *continued*



General Fund Expenditures

General Fund Department Expenditures	Year-to-Date Actual			Budget			% of Budget	
	9/30/2013	9/30/2014	% Change	2013	2014	% Change	2013	2014
Non-Departmental	1,007,453	838,247	-16.8%	1,230,254	1,097,924	-10.8%	81.9%	76.3%
City Council	322,743	350,779	8.7%	403,932	457,470	13.3%	79.9%	76.7%
City Manager's Office	1,303,131	1,380,037	5.9%	2,064,111	1,911,468	-7.4%	63.1%	72.2%
Municipal Court	1,578,443	1,683,972	6.7%	2,249,404	2,299,621	2.2%	70.2%	73.2%
Human Resources	922,001	1,009,988	9.5%	1,263,257	1,451,068	14.9%	73.0%	69.6%
City Attorney's Office	998,617	1,001,716	0.3%	1,371,489	1,384,479	0.9%	72.8%	72.4%
Parks & Community Services	5,225,318	5,617,985	7.5%	7,435,801	7,629,713	2.6%	70.3%	73.6%
Public Works (Engineering)	3,072,053	3,437,935	11.9%	4,754,961	5,079,098	6.8%	64.6%	67.7%
Finance and Administration	3,411,480	3,457,839	1.4%	4,590,803	4,839,597	5.4%	74.3%	71.4%
Planning & Community Development	2,524,349	2,779,258	10.1%	3,753,152	3,871,077	3.1%	67.3%	71.8%
Police	14,524,786	15,129,888	4.2%	19,919,588	21,899,889	9.9%	72.9%	69.1%
Fire & Building	15,253,464	16,947,927	11.1%	21,648,253	22,639,423	4.6%	70.5%	74.9%
Total Expenditures	50,143,839	53,635,571	7.0%	70,685,005	74,560,827	5.5%	70.9%	71.9%
Other Financing Uses:								
Interfund Transfers	6,145,862	5,061,880	-17.6%	15,696,855	8,303,511	-47.1%	39.2%	61.0%
Total Other Financing Uses	6,145,862	5,061,880	-17.6%	15,696,855	8,303,511	-47.1%	39.2%	61.0%
Total Expenditures & Other Uses	56,289,701	58,697,450	4.3%	86,381,860	82,864,338	-4.1%	65.2%	70.8%

Comparing 2014 and 2013 expenditures:

In the three quarters of 2014, excluding interfund transfers, General Fund expenditures were **7.0 percent higher** than 2013. This increase was budgeted for and expenditures were slightly below budget with **71.9 percent** of budgeted expenses spent through the end of September.

Across the General Fund, most of the \$2.41 million increase in expenditures were personnel related. A number of temporary, as well as some ongoing positions, were added during the 2013-14 Mid Biennial process, which accounts for a portion of the increase, while normal personnel increases make up the majority of the rest. Together salaries and benefits have increased \$2.8 million, but savings in supplies and professional services helped mitigate this increase. Significant expenditure changes are highlighted below; for departments not highlighted below, increases were largely due to personnel costs.

General Fund expenditures through the first three quarters (excluding "other financing uses") were 7 percent higher than they were in 2013.

- Actual expenditures for the **City Council** were **up 8.7 percent** compared to 2013 and finished the third quarter at **76.7 percent of budget**. Expenditures are ahead of budget because most of the City's dues and memberships are paid from the Council budget, and these are paid in full in January. Expenditures are higher than in 2013 because of the community survey, which was budgeted and carried out in early 2014.
- The **City Manager's Office** finished the third quarter of 2014 **5.9 percent higher** than in 2013. This is partly due to personnel costs, but also because of higher professional services spending in 2014 related to Kirkland 2035 efforts. This increase in expenses was anticipated, so the City Manager's office finished the third quarter at **72.2 percent of budget**.
- Public Works** General Fund expenditures were up **11.9 percent** due to new positions added in re-

Continued on page 5

Financial Management Report as of September 30, 2014

sponse to high demand for permit applications. These additional expenditures were budgeted for and have been mitigated by other staffing vacancies in the department, including the Maintenance Center Superintendent position, which was vacant until the middle of April, meaning Public Works finished the quarter at **67.7 percent of budget**.

- **Police** expenditures finished the first nine months of 2014 at **69.1 percent of budget**. This is below budget, with 75 percent of the year complete. Within this overall number, contract jail costs are over 100 percent of budget, as a delay in moving the jail to the Kirkland Justice Center lengthened the time the City had to pay for jail beds. This has been offset by salary savings, including the delayed hire of three corrections officers, as well as professional services savings.
- Expenditures for the **Fire & Building Department grew 11.1 percent** over the third quarter of 2013. This increase is related to higher personnel costs as positions were added to deal with the increased workload from development services activities that has resulted in higher contract work and overtime costs (which are offset by revenues). As these expenses were anticipated based on 2013 development workloads, the department's expenses finished the third quarter at **74.9 percent of budget**. A summary of Fire District #41 funds is shown in the table to the right. Currently these funds are dedicated to the consolidated fire station capital project.
- The budget for **Interfund transfers** is lower than in 2013, because there were a large number of transfers budgeted for the Kirkland Justice Center in 2013. Not all transfers budgeted for the Kirkland Justice Center in 2013 were made, so these will be made in 2014, pushing 2014 transfers over 100 percent of budget. Since interfund transfers are known and planned expenses actual expenditures should equal 100 percent of the biennial budget by the end of 2014.

Summary of Fire District 41 Funds	
2014 Revenues & Expenditures	
Beginning Balance	5,223,879
Investment Interest	\$ 10,391
Expenditures:	\$ 35,384
Current Balance	\$ 5,198,886

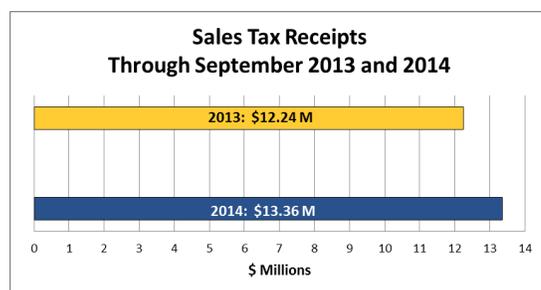
Sales Tax Revenue Analysis

The total in this section contains \$202,500 that has been passed to the Street Operating Fund so far in 2014. As a result the total is \$202,500 higher than the sales tax figure in the General Fund Revenue table on page 3.

Sales tax revenue was **9.1 percent** higher through September 2014 than in the same period in 2013. This growth in revenue was broadly spread across all categories, led by key retail sectors. Sales tax revenue received through September was from sales between November 2013 – July 2014.

Review by business sectors:

- The **contracting** sector was **up 7.3 percent** compared to 2013. Contracting was among the largest growth sectors in the City through the first half of 2013, but slowed later in the year. A decline in January 2014 meant receipts started lower than in 2013, but growth through the second and third quarters led to the overall revenue increase.
- Sales tax revenues for retail sectors were **up 7.7 percent** collectively compared to 2013.
 - The **auto/gas retail** sector was **up 6.4 percent** compared to last year. Vehicle sales accounted for 17.6 percent of sales tax growth through the first three quarters of 2014.
 - **General merchandise/miscellaneous retail** sector was **up 4.3 percent** in 2014 compared to 2013.
 - The **retail eating/drinking** sector was **up 8.5 percent**, an increase of \$85,300, compared to the same period in 2013.
 - Other retail was **up 12.8 percent** compared to 2013 due to increases in a number of categories particularly food and beverage, online, and building & garden retailers.
- The **services** sector was **up 8.5 percent** compared to last year. Revenues in professional-scientific, administrative support and accommodation contributed significantly to this increase.
- **Wholesale** was **up 10.3 percent** compared to last year, an increase of \$58,600. Following declining revenue in February, wholesale revenues have improved steadily over the past seven months, and now account for the same percentage of the City's total sales tax revenue as in 2013.
- The **miscellaneous** sector was **up 28.6 percent** due to a large payment that has been previously reported as well as increased statewide pool revenues - which is how the State distributes improperly coded revenues out to local jurisdictions.
- The **communications** sector was **up 12.8 percent** compared to last year, due to broad growth amongst the wireless and cable providers within the category.



Third quarter Sales Tax data was unavailable at the time of publication, below are highlights from the second quarter

Neighboring Cities Sales Tax

Sales tax in Bellevue was up 12.4 percent through June 2014, compared to the same period last year. Redmond was up 5.7 percent.

Unincorporated King County was up 5.5 percent.

City of Kirkland Actual Sales Tax Receipts

Business Sector Group	January-September		Dollar Change	Percent Change	Percent of Total		Percent of \$ Change
	2013	2014			2013	2014	
Services	1,561,530	1,694,078	132,548	8.5%	12.8%	12.7%	11.9%
Contracting	1,961,282	2,105,379	144,097	7.3%	16.0%	15.8%	12.9%
Communications	338,071	381,488	43,417	12.8%	2.8%	2.9%	3.9%
Auto/Gas Retail	3,060,464	3,256,438	195,974	6.4%	25.0%	24.4%	17.6%
Gen Merch/Misc Retail	1,522,864	1,588,981	66,117	4.3%	12.4%	11.9%	5.9%
Retail Eating/Drinking	1,003,013	1,088,336	85,323	8.5%	8.2%	8.1%	7.7%
Other Retail	1,581,994	1,784,539	202,545	12.8%	12.9%	13.4%	18.2%
Wholesale	570,351	628,933	58,582	10.3%	4.7%	4.7%	5.3%
Miscellaneous	644,376	828,503	184,127	28.6%	5.3%	6.2%	16.5%
Total	12,243,945	13,356,675	1,112,730	9.1%	100.0%	100.0%	100.0%

Kirkland's sales tax base is comprised of a variety of businesses which are grouped and analyzed by business sector (according to NAICS, or "North American Industry Classification System"). Nine business sector groupings are used to compare 2013 and 2014 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
	2013	2014		
January	1,333,113	1,390,304	57,191	4.3%
February	1,618,028	1,800,690	182,662	11.3%
March	1,225,511	1,291,149	65,638	5.4%
April	1,181,984	1,285,803	103,819	8.8%
May	1,387,795	1,601,648	213,853	15.4%
June	1,264,563	1,402,468	137,905	10.9%
July	1,380,475	1,462,879	82,404	6.0%
August	1,369,409	1,542,047	172,638	12.6%
September	1,483,067	1,579,687	96,620	6.5%
Total	12,243,945	13,356,675	1,112,730	9.1%

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.

- The average monthly gain during the third quarter was 8.4 percent, lower than in the second quarter.
- Despite a decline in services revenue, **July** posted overall growth due to strong performance in the wholesale and auto/gas retail sectors.
- **August** sales tax revenues saw the highest percentage increase of the third quarter, and the second highest increase of 2014 compared to 2013. The growth was spread widely, with most categories posting increases over 10 percent.
- In **September** there were large increases in services, contracting and retail eating/drinking, but auto/gas retail was down for the first time in 2014.
- Growth in sales tax revenues continued during the third quarter of 2014, although at a slower rate than the second quarter. Within individual sectors there was some volatility with strong growth in some months being followed by smaller gains, or even slight declines during others. However, the overall picture of broad moderate growth established during the first two quarters continued creating a strong revenue base through the end of September.

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

Comparing to the same period last year:

Totem Lake, which accounted for 28.4 percent of the total sales tax receipts through the third quarter of 2014, was **up 2.5 percent** compared to 2013, or \$91,700. Growth in

Totem Lake would be stronger, but for a large refund paid to a manufacturing business in 2014. Continued growth in the auto/gas retail section, which is up \$101,100, led this sector.

NE 85th Street, which made up 14.0 percent of the total sales tax receipts in the first three quarters of 2014, was **up 7.1 percent** compared to the same period last year. This area's sales grew due to improving retail performance which accounted for 96.7 percent of the revenue in this neighborhood.

Downtown, which accounted for **6.4 percent** of combined first, second, and third quarter sales tax receipts in 2014, was **up 4.2 percent** largely due to the growth in the retail eating/drinking category. However, third quarter revenue was lower in 2014 than 2013 as information sector receipts were higher in the third quarter of 2013.

Carillon Point & Yarrow Bay, which accounted for 2.0 percent of the total sales tax receipts in the first three quarters of 2014, were **up 5.2 percent** compared to 2013, or \$13,100.

Taken together, retail eating and accommodation categories make up 63.8 percent of sales in this neighborhood.

Houghton & Bridle Trails, which produced 2.5 percent of the total sales tax receipts through the third quarter, were **up 0.8 percent**.

Juanita, which generated 1.5 percent of the total sales tax receipts during the first half of 2014, was **up 4.0 percent** compared to the same period in 2013. Continued positive growth in eating & drinking revenues along with growth in miscellaneous retail stores combined with small increases in some other categories for a total increase of \$7,600.

North Juanita, Kingsgate, & Finn Hill accounted for 3.0 percent of the total sales tax receipts in the first nine months of 2014 and were collectively **up 3.0 percent** over the first three quarters of 2013.

Contracting revenue, which is not assigned to a district, grew by 7.3 percent, as discussed in the previous section.

Other revenue not assigned to a single district grew by 24.0 percent over 2013 due to a number of one-time large payments and refunds, which were not assigned to any business districts.

Third quarter tax receipts by business district for 2013 and 2014 are compared in the table on the next page.

Financial Management Report as of September 30, 2014

When reviewing sales tax receipts by business district, it's important to be aware that 46.6 percent of the revenue received in the first quarter of 2014 was in the "unassigned or no district" category largely due to contracting and other revenue, which includes revenue from internet, catalog sales and other businesses located outside of the City. This percentage has grown in recent years as internet sales have grown in volume.

Business District	Jan - Sep Receipts		Dollar Change	Percent Change	Percent of Total	
	2013	2014			2013	2014
Totem Lake	3,700,946	3,792,616	91,670	2.5%	30.2%	28.4%
NE 85th St	1,753,134	1,876,948	123,813	7.1%	14.3%	14.1%
Downtown	822,043	856,161	34,118	4.2%	6.7%	6.4%
Carillon Pt/Yarrow Bay	252,621	265,763	13,142	5.2%	2.1%	2.0%
Houghton & Bridle Trails	332,934	335,476	2,542	0.8%	2.7%	2.5%
Juanita	191,466	199,031	7,565	4.0%	1.6%	1.5%
Kingsgate	123,424	129,599	6,175	5.0%	1.0%	1.0%
North Juanita	178,281	180,690	2,409	1.4%	1.5%	1.4%
Finn Hill	72,939	75,647	2,708	3.7%	0.6%	0.6%
Unassigned or No District:						
Contracting	1,959,270	2,102,877	143,607	7.3%	16.0%	15.7%
Other	2,856,887	3,541,868	684,981	24.0%	28.0%	30.9%
Total	12,243,945	13,356,675	1,112,730	9.1%	100.0%	100.0%

- Sales Tax Revenue Outlook** Sales tax revenue in 2014 has continued to grow compared to 2013, although year-on-year gains are much smaller between 2013 and 2014 than they were between 2012 and 2013. Additionally, the sectors driving the growth in 2013, while still growing, have slowed in 2014 which has led to the overall slow down in the rate of growth. This suggests that the pent up demand in the construction and auto industry seen in 2013 may be levelling off. Despite this, growth has remained consistent across most sectors and major business districts throughout the year, and as long as the wider economy remains strong through the final three months of the year sales tax revenue for 2014 should be higher than it was in 2013.

OFFICE VACANCIES:

According to the latest report from CB Richard Ellis Real Estate Services, Kirkland's office vacancy rate in the third quarter of 2014 was 4.6 percent, less than half the Puget Sound average of 13.7 percent, and the lowest in the Puget Sound region. The Eastside also has the lowest vacancy rate among regions in the Puget Sound region, with a vacancy rate of 11.2 percent, ahead of Tacoma/Fife at 12.2 percent.

Overall vacancy rates in the Puget Sound region have fallen for the fifth straight quarter with net absorption totaling over 600,000 square feet.

The region currently has 3,689,094 SF of office space under construction, including 180,000 SF in Kirkland and the continued expansion of Amazon near their current South Lake Union headquarters.

LODGING TAX REVENUE:

Lodging tax revenue grew compared to 2013, finishing the third quarter up 8.6 percent, an increase of almost \$15,000, which put revenues at 78.1 percent of budget.

Economic Environment Update The October update from the Washington State Economic and Revenue Forecast Council (ERFC) found the Washington economy added 21,600 net new jobs from December 2013 through June 2014, a strong seasonally adjusted 2.98 percent rate of annual growth. Private, service-providing industries accounted for most of the job growth adding a net 15,200 jobs. The construction sector added 2,500, with manufacturing adding an additional 2,100, in part due to an unexpected 1,200 aerospace jobs.

The **Consumer Confidence Index** rose to its highest level since 2007 during the third quarter before declining in September. The index rose from 86.4 to peak at 93 in August, before finishing the third quarter at 89. According to the Conference Board, "Consumer confidence retreated in September after four consecutive months of improvement. A less positive assessment of the current job market, most likely due to the recent softening in growth, was the sole reason for the decline in consumers' assessment of present-day conditions. Looking ahead, consumers were less confident about the short-term outlook for the economy and labor market, and somewhat mixed regarding their future earnings potential. All told, consumers expect economic growth to ease in the months ahead."

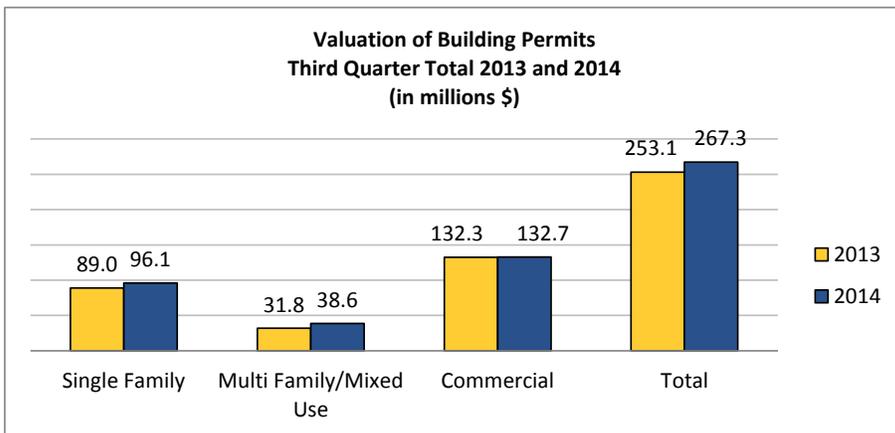
The U.S. **unemployment rate** for September 2014 was 5.9 percent, the lowest rate since before the recession. The rate for Washington State also reached a post-recession low of 5.6 in July and August, before climbing slightly to 5.7. The unemployment rate in Kirkland finished the third quarter at 5 percent, which was an increase from 4.3 percent in the second quarter of 2014, although still below the national and state average. Note that the Bureau of Labor Statistics (BLS) data for the City of Kirkland does not yet include the 2011 annexation areas, and these areas will not be included until early 2015 when the database will be updated based on Census data according to the BLS. Unemployment data is reported on a one month lag at the national and state levels and on a two month lag at the county and city levels.

The Institute of Supply Management Western Washington Index grew slightly in the third quarter of 2014, peaking at 62.9 in August before falling slightly to 60.3 in September. Despite the decline the index remains healthy, indicated by a score above 50, where it has remained in every month since July 2009.

(Continued on page 8)

Economic Environment Update *continued*

Local **development activity**, in terms of the valuation of the City’s building permits for the third quarter of 2014, has risen compared to 2013. This is illustrated in the chart to the right. Development activity has increased with the largest percentage increase in the multi family sector and the largest dollar increase in the single family sector. The overall rate of increase through the first three quarters of 2014 is 6 percent, which is an increase of \$14 million.



Regional **home prices** continued to rise in the third quarter. According to the S&P/Case-Shiller Home Price Indices, Seattle area

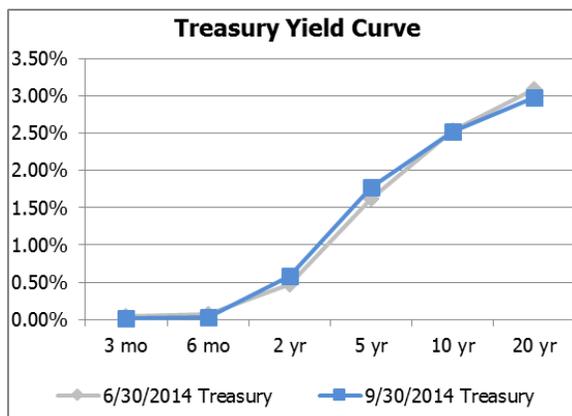
home prices have not experienced a monthly decline for over two and a half years. However, the rate of increase has slowed, and the results for the third quarter were more stable suggesting the housing market might have peaked.

After rising in the second quarter **inflation** in the Seattle area remained stable throughout the third quarter. In August 2014, the Seattle CPI-w was 1.8 percent higher than the previous year compared to the 1.7 percent increase for the U.S. city average. Analysts have suggested that the above average inflation rate in Seattle is entirely due to more rapidly rising shelter costs.

Investment Report

MARKET OVERVIEW

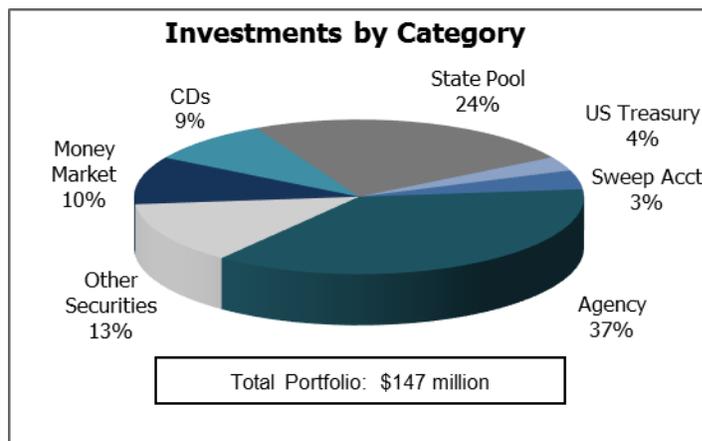
The growth in economic activity continued in the 3rd quarter with Gross Domestic Product (GDP) increasing at an annual rate of 3.5 percent. The Fed Funds rate continued to remain at 0.25 percent, where it is expected to stay until mid-to-late 2015. The yield curve steepened slightly in the middle with rates falling on the short and long end and rising slightly in the 2 to 5 year range.



CITY PORTFOLIO

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

The City’s portfolio increased slightly in the 3rd quarter of 2014 to \$147 million compared to \$146.5 million on June 30, 2014. The stability of the portfolio is related to the increase in tax revenues compared to prior years. Normal cash flows of the 3rd quarter result in declining balances as the second half of property taxes is received at the end of October and early November.



Diversification

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

2014 ECONOMIC OUTLOOK and INVESTMENT STRATEGY

The outlook for growth in the U.S. economy looks mostly unchanged from that of three months ago, according to 43 forecasters surveyed by the Federal Reserve Bank of Philadelphia. The U.S. economy is expected to grow at an annual rate of 2.1 percent in 2014 and 3.1 percent in 2015. CPI inflation is expected to average 2.3 percent in 2014 and 2.2 percent in 2015. The unemployment rate is expected to average 6.3 percent in 2014 and fall to 5.7 percent in 2015. The Fed Funds rate, currently at 0.25%, is expected to remain at this level throughout 2014 and into 2015.

The duration of the portfolio has been declining as securities move closer to maturity. In the next two quarters the City will begin the process of rebalancing the investment portfolio to take advantage of rising interest rates. Rebalancing would involve selling some of the low performing securities to be replaced with securities generating greater interest returns.

The State Pool is currently at 0.08% and will continue to remain low as the Fed Funds rate remains at 0.00 to 0.25 percent. Total estimated investment income for 2014 is \$690,000.

Investment Report *continued*

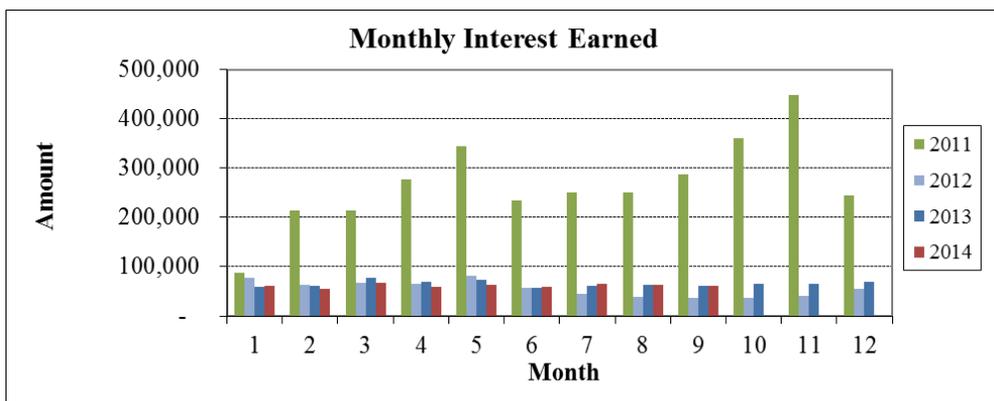
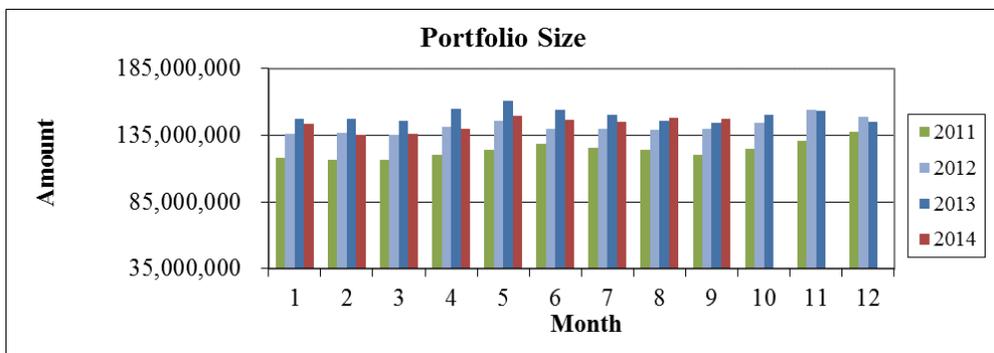
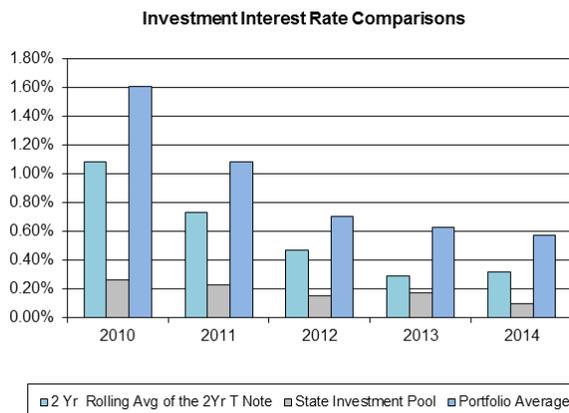
Liquidity

The target duration for the City's portfolio is based on the 0-5 year U.S. Treasury. The average maturity of the City's investment portfolio decreased from 1.56 years on June 30, 2014 to 1.38 years on September 30, 2014 as the securities in the portfolio move closer to maturity.

Yield

The City Portfolio yield to maturity increased slightly to 0.57 percent on September 30, 2014 from 0.56 percent on June 30, 2014. Through September 30, 2014, the City's annual average yield to maturity remained steady at 0.57 percent. The City's portfolio benchmark is the range between the 90 day Treasury Bill and the 2 year rolling average of the 2 year Treasury Note. This benchmark is used as it is reflective of the maturity guidelines required in the Investment Policy adopted by City Council. The City's portfolio outperformed both the 90 day T Bill and the 2 year rolling average of the 2 year Treasury Note which was 0.32 percent on September 30, 2014 .

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.



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 display budgeted beginning 2013 and ending 2014 balances, with changes caused by subsequent authorized uses or additions.

Reserve Analysis

General Purpose Reserves

- The **Revenue Stabilization Reserve** was used almost in its entirety during the 2009-10 biennium as part of the budget balancing strategy to address the severe economic downturn, which allowed the City to mitigate some negative impacts to services. Contributions have been made to replenish the reserves since then and with planned contributions in 2014, the reserve is expected to be at target by the end of 2014.
- The **Building and Property Reserve** has been identified as an available funding source for facility expansion and renovation projects and a significant portion was used as planned during the current biennium, which will bring the reserve just slightly below target.
- The **General Capital Contingency Reserve** was used to fund project cost increases in the previous biennium, so replenishment from General Fund 2012 year-end cash was planned in 2013. The recent use of \$820,000 of this reserve to provide funding for property acquisition for Totem Lake Park expansion is planned to be replenished from King County Park Levy revenue over approximately 4 years.

General Capital Reserves

- Real estate activity continues at a strong pace in 2014, although slightly below the same period in 2013. As of the third quarter, **Real Estate Excise Tax (REET)** collections are **4.1 percent behind** 2013. Revenue is still on trending above budget expectations at **139 percent of budget**.
- **Impact fees** are 338 and 621 percent of budget for Park and Transportation respectively. Third quarter revenues were especially strong primarily due to substantial transportation impact fee revenue related to the Google expansion. Compared to the third quarter last year, **Parks Impact Fees** are **49.7 percent ahead** and **Transportation Impact fees** are **87.2 percent ahead**. There is minimal planned use of transportation impact fees for capital projects and no planned use of park impact fees for park capital projects in the current budget cycle except for debt related to parks.
- Improved results from these revenue sources are not currently being programmed in anticipation of the completion of several master plans by the end of 2014 which will result in identifying capital project needs in the next biennium.

Reserves	Est. 2013 Beginning Balance	Adopted 2014 Ending Balance	Revised 2014 Ending Balance	2013-14 Target	Revised Over (Under) Target
GENERAL PURPOSE RESERVES WITH TARGETS					
General Fund Reserves:					
General Fund Contingency	50,000	50,000	3,382	50,000	(46,618)
General Oper. Reserve (Rainy Day)	2,806,513	2,806,513	2,806,513	4,219,482	(1,412,969)
Revenue Stabilization Reserve	1,231,431	2,468,068	2,468,068	2,468,068	0
Building & Property Reserve	2,137,598	571,579	571,579	600,000	(28,421)
Council Special Projects Reserve	250,000	178,372	33,072	250,000	(216,928)
Contingency	2,201,870	2,426,425	2,426,425	4,275,442	(1,849,017)
General Capital Contingency*	2,686,587	4,810,795	3,990,795	5,735,330	(1,744,535)
General Purpose Reserves with Targets	11,363,999	13,311,752	12,299,834	17,598,322	(5,298,488)
ALL OTHER RESERVES WITH TARGETS					
General Fund Reserves:					
Litigation Reserve	350,000	350,000	350,000	50,000	300,000
Firefighter's Pension Reserve*	1,746,298	1,484,958	1,484,958	1,568,207	(83,249)
Health Benefits Fund:					
Claims Reserve*	1,187,813	2,615,856	2,615,856	1,424,472	1,191,384
Rate Stabilization Reserve	1,000,000	1,000,000	1,000,000	500,000	500,000
Excise Tax Capital Improvement:					
REET 1**	3,477,948	4,507,512	2,922,724	1,071,000	1,851,724
REET 2**	2,284,826	2,319,112	1,933,483	2,225,500	(292,017)
Water/Sewer Operating Reserve:					
Water/Sewer Debt Service Reserve:	488,200	498,591	498,591	508,717	(10,126)
Water/Sewer Capital Contingency:	1,107,600	1,107,600	1,107,600	250,000	857,600
Surface Water Operating Reserve:	706,364	706,364	706,364	412,875	293,489
Surface Water Capital Contingency:	816,480	816,480	816,480	758,400	58,080
Other Reserves with Targets	15,580,000	17,820,944	15,850,527	10,748,551	5,101,976
Reserves without Targets	35,751,424	35,847,270	33,881,002	n/a	n/a
Total Reserves	62,695,423	66,979,966	62,031,363	n/a	n/a

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

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

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

*Includes replenishments adopted in early April 2013 and adjustments to actual cash balances adopted in June.

**Includes replenishments adopted in early April 2013 and adjustments to actual cash balances adopted in June; does not reflect increased collections in 2013.

USES AND ADDITIONS HIGHLIGHTS

RESERVE	AMOUNT	DESCRIPTION
2013-14 Council Authorized Uses		
2013 First Quarter Uses	\$302,000	
2013 Second Quarter Uses	\$626,319	
2013 Third Quarter Uses	\$489,981	
2013 Fourth Quarter Uses	\$1,103,451	
2014 First Quarter Uses	\$1,369,000	
2014 Second Quarter Uses	\$174,300	
REET 1 Reserves	\$11,100	Juanita Heights Park Property Acquisition
REET 2 Reserves	\$50,317	Park Lane Pedestrian Improvements
Surface Water Transp. Reserve	\$869,936	Park Lane Pedestrian Improvements
Street Improvement Reserve	\$2,002	2013 Crosswalk Upgrade Program
REET 2 Reserves	\$90,000	Kirkland Intelligent Transportation Phase IB
2013-14 Council Authorized Additions		
Real Estate Excise Tax 2 - Transp.	\$77,303	Return from NE 120th Street Extension (East)
Surface Water Transportation	\$49,000	Return from NE 112th Street Sidewalk
Council Special Projects Reserve	\$13,500	Return from 9-11 Memorial Sculpture

The summary to the right details all Council authorized uses and additions through September 2014

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

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

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

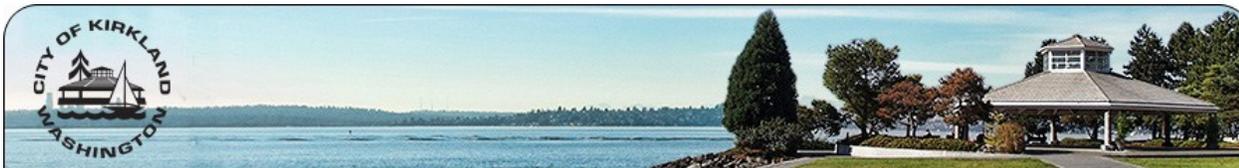
Utility reserves are funded from utility rates and provide the utilities with the ability to respond to unexpected costs and accumulate funds for future replacement projects.

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

Reserves	Description	Est. 2013 Beginning Balance	Adopted 2014 Ending Balance	Additional Authorized Uses/Additions	Revised 2014 Ending Balance
GENERAL FUND/CONTINGENCY					
General Fund Reserves:					
General Fund Contingency	Unexpected General Fund expenditures	50,000	50,000	(46,618)	3,382
General Oper. Reserve (Rainy Day)	Unforeseen revenues/temporary events	2,806,513	2,806,513	0	2,806,513
Revenue Stabilization Reserve	Temporary revenue shortfalls	1,231,431	2,468,068	0	2,468,068
Building & Property Reserve	Property-related transactions	2,137,598	571,579	0	571,579
Council Special Projects Reserve	One-time special projects	250,000	178,372	(145,300)	33,072
Contingency	Unforeseen expenditures	2,201,870	2,426,425	0	2,426,425
Total General Fund/Contingency		8,677,412	8,500,957	(191,918)	8,309,039
SPECIAL PURPOSE RESERVES					
General Fund Reserves:					
Litigation Reserve	Outside counsel costs contingency	350,000	350,000	0	350,000
Labor Relations Reserve*	Labor negotiation costs contingency	65,348	65,348	0	65,348
Police Equipment Reserve*	Equipment funded from seized property	48,685	58,685	0	58,685
LEOFF 1 Police Reserve	Police long-term care benefits	618,079	618,079	0	618,079
Facilities Expansion Reserve	Special facilities expansions reserve	800,000	-	0	0
Development Services Reserve*	Revenue and staffing stabilization	1,004,194	1,187,020	0	1,187,020
Development Svcs. Technology Reserve	Permit system replacement	264,810	159,792	0	159,792
Tour Dock*	Dock repairs	138,892	171,392	0	171,392
Tree Ordinance*	Replacement trees program	29,717	29,717	0	29,717
Revolving/Donation Accounts*	Fees/Donations for specific purposes	451,090	537,890	0	537,890
Lodging Tax Fund*	Tourism program and facilities	240,991	221,951	0	221,951
Cemetery Improvement*	Cemetery improvements/debt service	662,614	712,174	0	712,174
Off-Street Parking	Downtown parking improvements	147,016	212,836	0	212,836
Firefighter's Pension*	Long-term care/pension benefits	1,746,298	1,484,958	0	1,484,958
Total Special Purpose Reserves		6,567,734	5,809,842	0	5,809,842
GENERAL CAPITAL RESERVES					
Excise Tax Capital Improvement:					
REET 1**	Parks/transportation/facilities projects, parks debt service	3,477,948	4,507,512	(1,584,788)	2,922,724
REET 2**	Transportation and other capital projects	2,284,826	2,319,112	(385,629)	1,933,483
Impact Fees					
Roads**	Transportation capacity projects	2,060,540	2,066,737	0	2,066,737
Parks**	Parks capacity projects	685,727	598,023	0	598,023
Street Improvement	Street improvements	995,958	995,958	(2,002)	993,956
General Capital Contingency*	Changes to General capital projects	2,686,587	4,810,795	(820,000)	3,990,795
Total General Capital Reserves		12,191,586	15,298,137	(2,792,419)	12,505,718
UTILITY RESERVES					
Water/Sewer Utility:					
Water/Sewer Operating Reserve	Operating contingency	2,414,471	2,414,471	0	2,414,471
Water/Sewer Debt Service Reserve*	Debt service reserve	488,200	498,591	0	498,591
Water/Sewer Capital Contingency	Changes to Water/Sewer capital projects	1,107,600	1,107,600	0	1,107,600
Water/Sewer Construction Reserve	Replacement/re-prioritized/new projects	9,093,871	8,228,606	0	8,228,606
Surface Water Utility:					
Surface Water Operating Reserve	Operating contingency	706,364	706,364	0	706,364
Surface Water Capital Contingency	Changes to Surface Water capital projects	816,480	816,480	0	816,480
Surface Water-Transp. Related Rsv	Replacement/re-prioritized/new projects	3,794,629	4,580,229	(153,619)	4,426,610
Surface Water Construction Reserve	Trans. related surface water projects	1,990,126	1,485,091	(1,334,936)	150,155
Total Utility Reserves		20,411,741	19,837,432	(1,488,555)	18,348,877
INTERNAL SERVICE FUND RESERVES					
Health Benefits:					
Claims Reserve*	Health benefits self insurance claims	1,187,813	2,615,856	0	2,615,856
Rate Stabilization Reserve	Rate stabilization	1,000,000	1,000,000	0	1,000,000
Equipment Rental:					
Vehicle Reserve*	Vehicle replacements	9,154,784	9,260,709	0	9,260,709
Radio Reserve	Radio replacements	7,686	7,686	0	7,686
Information Technology:					
PC Replacement Reserve*	PC equipment replacements	308,256	482,150	0	482,150
Technology Initiative Reserve	Technology projects	690,207	523,835	0	523,835
Major Systems Replacement Reserve	Major technology systems replacement	245,500	656,200	0	656,200
Facilities Maintenance:					
Operating Reserve	Unforeseen operating costs	550,000	550,000	0	550,000
Facilities Sinking Fund*	20-year facility life cycle costs	1,702,704	2,437,162	(475,711)	1,961,451
Total Internal Service Fund Reserves		14,846,950	17,533,598	(475,711)	17,057,887
Grand Total		62,695,423	66,979,966	(4,948,603)	62,031,363

*Includes replenishments adopted in early April 2013 and adjustments to actual cash balances adopted in June.

**Includes replenishments adopted in early April 2013 and adjustments to actual cash balances adopted in June; does not reflect increased collections in 2013, which will be considered for budget adjustments.



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

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



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Economic Environment Update References:

- The Conference Board Consumer Confidence Index Press Release September, 2014
- Carol A. Kujawa, MA, A.P.P., *ISM-Western Washington, Inc. Report On Business*, Institute for Supply Management-Western Washington, September, 2014
- Quarterly Economic and Revenue Publication, September 2014—Washington State Economic & Revenue Forecast Council
- CB Richard Ellis Real Estate Services, Market View Puget Sound, Third Quarter 2014
- CB Richard Ellis Real Estate Services, Market View Puget Sound, Third Quarter 2013
- Northwest Multiple Listing Service
- U.S. Bureau of Labor Statistics
- Washington State Employment Security Department
- Washington State Department of Revenue
- Washington State Department of Labor & Industries
- City of Kirkland Building Division
- City of Kirkland Finance & Administration Department