



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

**To:** Kurt Triplett, City Manager  
**From:** Tracey Dunlap, Director of Finance and Administration  
Sri Krishnan, Financial Planning Manager  
**Date:** November 29, 2010  
**Subject:** **2011-2012 BUDGET ADOPTION**

RECOMMENDATION:

Council approves the attached ordinance adopting the budget for the 2011-2012 biennium.

BACKGROUND DISCUSSION:

Background for the major budget adjustments are provided below. The Final Budget ordinance and Exhibit A to the ordinance are included as attachments at the end of this memorandum.

**2011-2012 Budget Adoption**

The attached ordinance adopts the 2011-2012 Budget as proposed by the City Manager and amended by the City Council. By state law, the budget must be adopted by December 31, 2010. The budget is adopted at the fund level which sets the total expenditure authority for the biennium for each fund. A summary of the 2011-2012 Final Budget by fund type, as compared to the 2009-2010 Amended Budget, is included in the table below:

<b>Fund Type</b>	<b>2009-10 Budget</b>	<b>2011-12 Budget</b>	<b>% Change</b>
<b>General Government:</b>			
General Fund	121,338,605	158,468,558	30.60%
Other Operating Funds	15,839,848	17,230,772	8.78%
Internal Service Funds	33,208,295	55,810,759	68.06%
Non-Operating Funds	117,008,295	97,499,275	-16.67%
<b>Utilities:</b>			
Water/Sewer	68,107,620	62,234,551	-8.62%
Surface Water	24,184,544	27,270,430	12.76%
Solid Waste	18,578,902	30,858,591	66.09%
<b>Total Budget</b>	<b>398,266,109</b>	<b>449,372,936</b>	<b>12.83%</b>

The 2011-2012 Final Budget totals \$449.4 million which represents an increase of 12.83% or \$51.1 million from the 2009-2010 Approved Budget (as of year-end 2010). The 2011-2012 Budget

incorporates budget reductions in response to the economic downturn, additions as a result of annexation, the move to medical self-insurance, and fund restructuring to comply with accounting rule changes. These changes make comparisons to the 2009-2010 budget challenging. The table below is an updated breakdown of the major changes between the 2009-2010 Approved Budget and the 2011-2012 Final Budget:

Category	Amount (in thousands)
Annexation Impact	48,471
Health Benefits Internal Service Fund	15,736
General Capital Changes (CWIP)	9,986
Debt Service (including portion of State Sales Tax Credit)	2,822
Non-Annexation Service Packages	1,766
Remaining State Sales Tax Credit	1,718
Impact Fee/REET Revenue Reductions	(7,048)
Non-Annexation Budget Reductions	(6,446)
Water/Sewer Reductions	(5,873)
Net Fund Restructuring/Reserve Changes	(5,245)
One-Time Funded Activities	(4,780)
<b>TOTAL</b>	<b>51,106</b>

The total General Fund budget is \$158.5 million, which represents an increase of 30.6% from the 2009-2010 Approved Budget. It should be noted that the increase is for a two year period. Several factors contribute to the significant increase, including costs for commencing service in the annexation area (about \$25.7 million), fund structure changes caused by new accounting rules which resulted in consolidating several non-operating funds (primarily reserves) into the General Fund (about \$9.5 million), and recognition of the debt service expense for the new Public Safety Building (about \$2.8 million). **Normalizing for these factors, the General Fund would have declined by about 0.7 percent.**

Factors contributing to the change in the Final 2011-2012 Budget from the Preliminary Budget include: the impact of Council's restoration of selected expenditure reductions proposed by the City Manager, restoration of the liquor profit revenues after the failure of the initiative that would have eliminated them, estimated debt service costs for the new public safety building, changes to the 2011-2016 Capital Improvement Plan (CIP), and various housekeeping items. A Final Budget Overview by fund is provided as Exhibit A to the budget ordinance.

The total adjustments increase the General Fund by \$5.17 million and the total budget \$14.52 million. Council directed adjustments to the Preliminary Budget as of the November 16 Council meeting include:

- **Human Services One-Time Funding** – Adding \$117,656 in one-time funding for Human Services in 2011. This change increases Human Services funding to the Tier 2 level (\$113,780) and also funds the following programs: Latino Sr. Nutrition, Teen Link, and NAMI Eastside for a total \$3,876. These costs are offset by \$102,701 from the Voluntary Separation Incentive Program set-aside that was not needed to fund the program and \$14,955 from the elimination of the Neighborhood Connections program in 2011.
- **Lifeguards** – Restoring lifeguards at Houghton and Waverly beaches that were recommended as budget reductions with one-time money from the Voluntary Separation

Incentive Program set-aside. The total cost in 2011 is \$32,000. Funding in 2012 will be revisited during the mid-biennial budget update next fall.

- **Voluntary Separation Incentive Program Set-Aside** – The Preliminary Budget included \$152,438 of one-time funding as a reserve for the Voluntary Separation Incentive Program. \$134,701 of the reserve is used to restore Human Services (\$102,701) and lifeguards (\$32,000) in 2011.
- **Neighborhood Connections Program** – Eliminating the Neighborhood Connections capital improvement program and using the remaining funding of \$50,000 (\$25,000 per year) as follows:
  - increasing neighborhood grants from \$615 to \$1,000 (use of \$6,545 per year);
  - purchasing insurance for neighborhood events at an annual cost of \$3,500;
  - using \$14,955 for Human Services funding in 2011; and
  - setting-aside \$14,955 in a reserve in 2012.
- **Fire Overtime/Rolling Brown Outs** – Using fire overtime/equipment budget set aside in a contingency reserve (\$100,000 in 2011 and \$80,195 in 2012) as bridge funding in the first quarter of 2011 – resulting in no rolling brown outs in January, February, or March 2011. This is a line-item adjustment that requires no change in appropriation to the 2011-2012 Budget. The remaining budget reductions resulting in rolling brown outs are still reflected in the budget but could be restored with new revenues from the implementation of the fee for transport program proposed to begin on March 1, 2011. If the program is approved, a budget adjustment will be brought forward in March to reflect the change.
- **Council Dues** – Reinstating Chamber of Commerce and Eastside Transportation Partnership (ETP) dues of \$500 each per year for a total of \$2,000 in 2011-2012.
- **Liquor Profit Revenues** – Setting aside the current City portion \$731,210 (\$364,210 and \$367,000 in 2011 and 2012 respectively) in a Public Safety Reserve and recognizing the annexation area share of the liquor profits \$353,982 (\$98,061 and \$255,921 in 2011 and 2012 respectively), which frees up a portion of the State sales tax credit to reimburse a portion of the pre-annexation costs. If not needed to fund State or County unfunded mandates, the current City portion will be considered for the partial restoration of the **ProAct** unit that was decommissioned at the end of 2009 and the **Fire Strategic Plan** update.

Other major adjustments to the Preliminary Budget include:

- **Debt Service** – Adding \$2.82 million for debt service in 2011-2012 for the Public Safety Building bonds. This is based on \$36 million in bonds being issued in 2010. The debt service assumes a portion of the debt allocable to the annexation area being amortized over 10 years, the length of time the state sales tax credit for annexation is available. The remainder of the debt is amortized for 30 years for both the current City and the annexation area. The current City's portion of the debt service in 2011-2012 is budgeted at \$1.16 million and the remaining \$1.66 million is the annexation area's portion. This adjustment is recognized twice in the Budget, once as a transfer of revenues out of the General Fund and again as payment of the debt service in the Debt Service Fund.
- **State Sales Tax Credit** – Acknowledging state sales tax credit of \$1.1 million and \$3.4 million in 2011 and 2012 respectively for a total of \$4.5 million. \$2.3 million of this amount is set aside in the General Fund Contingency recognizing that it will be used if the City does not

receive the Staffing for Adequate Fire and Emergency Response (SAFER) grant used to offset the annexation-related costs in the Fire Department of adding 9 firefighters and an aid car.

- **ARCH** – A housekeeping adjustment of particular note is the removal of the transfer of \$893,635 in ARCH trust fund reserves to the City of Bellevue, which will be managing the trust fund for the region per the terms of the recently approved inter local agreement, from the 2011-2012 Budget. This transfer was finalized in 2010.
- **Interest Backfill** – The Preliminary Budget included the use of \$200,000 in one-time money as backfill for the anticipated interest revenue shortfall to fund capital projects in 2011-2012. The Final Budget reallocates the \$200,000 for payment of debt service in 2011-2012 without adversely impacting the CIP.
- Net Miscellaneous Adjustments is comprised of a variety of minor changes, resulting in a net reduction of \$15,676.

The table below summarizes the General Fund changes from the Preliminary Budget to the Final Budget:

Item	Amount
<b>Preliminary 2011-2012 Budget - General Fund</b>	<b>153,294,091</b>
Council Directed Changes to Preliminary Budget:	
Human Services One-Time Funding in 2011	117,656
Lifeguards One-Time Funding in 2011	32,000
Reduction of Voluntary Separation Incentive Program Reserve to fund above	(134,701)
Increase Neighborhood Matching Grants (increase of \$6,545 per year)	13,090
Purchase Insurance for neighborhood events (\$3,500 per year)	7,000
Unallocated Neighborhood Connections Program balance (2012)	14,955
Fire Overtime: Bridge funding for first quarter 2011 rolling brownouts (line item - no change in appropriation)	0
Chamber of Commerce & Eastside Transportation Partnership Dues	2,000
Liquor Profits Set-Aside in Public Safety Reserve	731,210
Annexation Area Liquor Profits reimbursing pre-annexation costs	353,982
Other Changes to Preliminary Budget:	
Public Safety Building Debt Service:	
Current City Share	1,163,529
Annexation Area Share (Sales Tax Credit)	1,658,482
State Sales Tax Credit reimbursement of pre-annexation costs	2,324,575
Remove ARCH Trust Reserves (sent to Bellevue in 2010)	(893,635)
Adjustment to CIP transfer for Interest Backfill	(200,000)
Net Miscellaneous Adjustments	(15,676)
<b>Total Changes to General Fund from Preliminary to Final Budget</b>	<b>5,174,467</b>
<b>Final 2011-2012 Budget - General Fund</b>	<b>158,468,558</b>

In addition to the adjustments to the General Fund discussed above, the Final Budget includes the following adjustments to other funds:

- **Radio Reserve** – Recognizing the use of \$36,000 in radio reserves in the Equipment Rental Fund to purchase police radios in 2010.
- **Lease Revenue** – Recognizing lease revenues of \$25,000 per month for 15 months, or a total of \$375,000 in 2011-2012, from the lease of the future Public Safety Building to a retail tenant, My Home Wholesale. A portion of these revenues will offset taxes and maintenance costs related to the property.

- **Contingency** – Recognizing replenishment from General Fund of \$150,000 that was omitted in the Preliminary Budget.
- **Impact Fees** – Adding \$200,000 in Parks Impact Fee revenues to reflect actual revenue trends in 2010. This revenue will be used for the McAuliffe Park debt service in 2011-2012.
- **LTGO Debt Service** – Recognizing the payment of debt service for the Public Safety Building in 2011-2012 for a total of \$2.82 million.
- **General Capital Projects** – Recognizing the elimination of the Neighborhood Connections program from the CIP – reduction of \$50,000 in 2011-2012.
- **Transportation Capital Projects** – Recognizing the changes to the Preliminary 2011-2016 CIP, including:
  - Acquisition of the Eastside Rail Corridor, between Bellevue and the northern City limits for the potential future use as a recreational trail, light-rail corridor, and right-of-way for addressing surface water needs in the Totem Lake area in 2011 with \$5 million in external funding.
  - Use of \$600,000 in REET Reserves in 2012 for the Annual Concurrency Street Improvements project (ST 8888).
  - Other changes to the transportation capital projects in 2011-2012 result in a net increase to the Transportation Capital Projects fund of \$267,000.

The table below summarizes the changes to the Preliminary Budget which totals \$14.52 million:

	2011-2012 Preliminary Budget	Adjustments	2011-2012 Final Budget
<b>General Fund</b>	153,294,091	5,174,467	158,468,558
<b>Other Funds:</b>			
<b>Equipment Rental</b> - Use of radio reserve for 2010 radio replacements	18,576,173	(36,000)	18,540,173
<b>Facilities Maintenance</b> - Lease revenue and expenses from Public Safety Building	9,512,410	375,000	9,887,410
<b>Contingency</b> - Recognize replenishment from General Fund	2,096,510	150,000	2,246,510
<b>Impact Fees</b> - Update impact fee revenue projection	1,501,073	200,000	1,701,073
<b>LTGO Debt Service</b> - Public Safety Building Debt Service	2,242,388	2,822,011	5,064,399
<b>General Capital Projects</b> - Elimination of Neighborhood Connections	42,771,620	(50,000)	42,721,620
<b>Transportation Capital Projects</b> - Finalized CIP (primarily Eastside Rail Corridor Acquisition)	23,076,971	5,867,000	28,943,971
<b>Water/Sewer Debt Service</b> - Housekeeping correction - recognizing interest revenue	2,941,670	20,517	2,962,187
All other Funds with no changes from 2011-2012 Preliminary Budget	178,837,025	0	178,837,025
<b>TOTAL</b>	<b>434,849,931</b>	<b>14,522,995</b>	<b>449,372,926</b>

Note that the Final Budget does not include the revenue from the EMS transportation fee that the City is currently evaluating. If the Council adopts the new fee effective March 1, 2011, staff will incorporate the change in the budget adjustments to the 2011-2012 Budget that will be brought forward for Council consideration in March 2011. The EMS transportation fee revenue is anticipated to offset the rolling brown-outs recommended as part of the budget reductions to balance the 2011-2012 Budget.

### Follow-up Requested by Council

Along with modifications to the biennial budget, Council requested several reports as future follow-up items. Note that, while some of the reports will be included in the reading file in the next several months, several of the items listed are long-term issues and will be brought forward through the Council subcommittees or as part of the 2013-2014 budget development process.

- A discussion of alternate approaches for setting **Human Services, ARCH, and Outside Agencies funding.**
- A report on the one-time costs associated with **adding a new FTE.**
- A discussion of options and potential sequencing of **public involvement in the 2013-2014 Budget Process.**
- A report on the performance of the **Antique Mall paid parking.**
- Develop **new sinking fund reserves** for public safety and IT equipment replacements for consideration during the 2013-2014 Budget Process.
- A discussion of **performance measures and Council goals** before retreat.
- Review **reserves target policy** in light of annexation, including duration of revenue stabilization.
- Ask the Parks Board to explore a possible **future parks maintenance levy.**
- A report on **jail transport costs** as part of the Public Safety Building planning process.
- Add the release of Labor & Industries **FTE data to the City to assist with business license compliance** to the legislative agenda.
- Consider reestablishing a **2-year sales tax lag** (once revenues improve) as part of the 2013-2014 Budget Process.
- A report on **sharing engineering resources** with smaller cities.
- A report on City **communications in non-electronic forms.**
- A report on the history of **KPC support** by the City.
- Research the ability of a City to **negotiate dues with regional agencies.**

Copies of the final budget document will be available during the first quarter of 2011.

ORDINANCE NO. 4277

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

WHEREAS, the Kirkland City Council conducted a duly noticed public hearing on November 16, 2010, to take public comment with respect to the proposed Biennial Budget of the City of Kirkland for 2011-2012 and all persons wishing to be heard were heard; and

WHEREAS, the City Council finds that the proposed Biennial Budget for 2011-2012 reflects 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 Biennial Budget of the City of Kirkland for 2011-2012, as set out in Exhibit "A" attached hereto and by this reference incorporated herein as though fully set forth, is hereby adopted as the Biennial Budget of the City of Kirkland for 2011-2012.

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

<u>Funds</u>	<u>Estimated Revenues</u>	<u>Appropriations</u>
General	158,468,558	158,468,558
Lodging Tax	495,989	495,989
Street Operating	13,867,939	13,867,939
Cemetery Operating	733,281	733,281
Parks Maintenance	2,133,563	2,133,563
Contingency	2,246,510	2,246,510
Impact Fees	1,701,073	1,701,073
Excise Tax Capital Improvement	12,917,441	12,917,441
Limited General Obligation Bonds	5,064,399	5,064,399
Unlimited General Obligation Bonds	2,138,406	2,138,406
General Capital Projects	42,721,620	42,721,620
Transportation Capital Projects	28,943,971	28,943,971
Water/Sewer Operating	45,401,516	45,401,516
Water/Sewer Debt Service	2,962,187	2,962,187
Utility Capital Projects	13,870,848	13,870,848
Surface Water Management	16,639,340	16,639,340
Surface Water Capital Projects	10,631,090	10,631,090
Solid Waste	30,858,591	30,858,591
Health Benefits	15,735,691	15,735,691
Equipment Rental	18,540,173	18,540,173
Information Technology	11,647,485	11,647,485

Facilities Maintenance	9,887,410	9,887,410
Firefighter's Pension	1,765,855	1,765,855
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	449,372,936	449,372,936

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 7<sup>th</sup> day of December, 2010.

Signed in authentication thereof this 7<sup>th</sup> day of December, 2010.

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MAYOR

Attest:

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

Approved as to Form:

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

# CITY OF KIRKLAND

## 2011-12 BUDGET OVERVIEW: BY FUND/FUND TYPE

### General Government Operating Funds

Fund	2009-10 Budget	2011-12 Final Budget	Percent Change
<i>General Fund</i>			
010 General	121,338,605	158,468,558	30.60%
<i>Special Revenue Funds</i>			
112 Lodging Tax	798,648	495,989	-37.90%
117 Street Operating	9,705,917	13,867,939	42.88%
122 Cemetery Operating	210,362	733,281	248.58%
125 Parks Maintenance	2,227,124	2,133,563	-4.20%
126 Recreation Revolving	2,897,797	-	-100.00%
<b>Total Special Revenue Funds</b>	<b>15,839,848</b>	<b>17,230,772</b>	<b>8.78%</b>
<i>Internal Service Funds</i>			
511 Health Benefits Fund	-	15,735,691	N/A
521 Equipment Rental	13,667,679	18,540,173	35.65%
522 Information Technology	10,167,580	11,647,485	14.56%
527 Facilities Maintenance	9,373,036	9,887,410	5.49%
<b>Total Internal Service Funds</b>	<b>33,208,295</b>	<b>55,810,759</b>	<b>68.06%</b>
<b>Total General Government Operating Funds</b>	<b>170,386,748</b>	<b>231,510,089</b>	<b>35.87%</b>

### General Government Non-Operating Funds

Fund	2009-10 Budget	2011-12 Final Budget	Percent Change
<i>Special Revenue Funds</i>			
152 Contingency	2,598,660	2,246,510	-13.55%
154 Cemetery Improvement	586,574	-	-100.00%
156 Impact Fees	4,151,098	1,701,073	-59.02%
157 Park & Municipal Reserve	11,528,172	-	-100.00%
158 Off-Street Parking Reserve	217,610	-	-100.00%
159 Tour Dock	126,275	-	-100.00%
170 Street Improvement	2,833,503	-	-100.00%
188 Grant Control Fund	222,924	-	-100.00%
190 Excise Tax Capital Improvement	22,396,187	12,917,441	-42.32%
<b>Total Special Revenue Funds</b>	<b>44,661,003</b>	<b>16,865,024</b>	<b>-62.24%</b>

**CITY OF KIRKLAND  
2011-12 BUDGET OVERVIEW: BY FUND/FUND TYPE**

**General Government Non-Operating Funds (Continued)**

Fund		2009-10 Budget	2011-12 Final Budget	Percent Change
<i>Debt Service Funds</i>				
210	LTGO Debt Service	2,585,729	5,064,399	95.86%
220	UTGO Debt Service	2,687,388	2,138,406	-20.43%
<b>Total Debt Service Funds</b>		<b>5,273,117</b>	<b>7,202,805</b>	<b>36.59%</b>
<i>Capital Projects Funds</i>				
310	General Capital Projects	47,109,696	42,721,620	-9.31%
320	Transportation Capital Projects	18,330,402	28,943,971	57.90%
<b>Total Capital Projects Funds</b>		<b>65,440,098</b>	<b>71,665,591</b>	<b>9.51%</b>
<i>Trust Funds</i>				
620	Firefighter's Pension	1,634,077	1,765,855	8.06%
<b>Total Trust Funds</b>		<b>1,634,077</b>	<b>1,765,855</b>	<b>8.06%</b>
<b>Total General Government Non-Op Funds</b>		<b>117,008,295</b>	<b>97,499,275</b>	<b>-16.67%</b>

**Water/Sewer Utility Funds**

Fund		2009-10 Budget	2011-12 Final Budget	Percent Change
<i>Operating Fund</i>				
411	Water/Sewer Operating	46,202,650	45,401,516	-1.73%
<b>Total Operating Fund</b>		<b>46,202,650</b>	<b>45,401,516</b>	<b>-1.73%</b>
<i>Non-Operating Funds</i>				
412	Water/Sewer Debt Service	3,505,639	2,962,187	-15.50%
413	Utility Capital Projects	18,399,331	13,870,848	-24.61%
<b>Total Non-Operating Funds</b>		<b>21,904,970</b>	<b>16,833,035</b>	<b>-23.15%</b>
<b>Total Water/Sewer Utility Funds</b>		<b>68,107,620</b>	<b>62,234,551</b>	<b>-8.62%</b>

**CITY OF KIRKLAND  
2011-12 BUDGET OVERVIEW: BY FUND/FUND TYPE**

**Surface Water Utility Funds**

Fund		2009-10 Budget	2011-12 Final Budget	Percent Change
<i>Operating Fund</i>				
421	Surface Water Management	12,946,027	16,639,340	28.53%
<b>Total Operating Fund</b>		<b>12,946,027</b>	<b>16,639,340</b>	<b>28.53%</b>
<i>Non-Operating Fund</i>				
423	Surface Water Capital Projects	11,238,517	10,631,090	-5.40%
<b>Total Non-Operating Funds</b>		<b>11,238,517</b>	<b>10,631,090</b>	<b>-5.40%</b>
<b>Total Surface Water Utility Funds</b>		<b>24,184,544</b>	<b>27,270,430</b>	<b>12.76%</b>

**Solid Waste Utility Fund**

Fund		2009-10 Budget	2011-12 Final Budget	Percent Change
<i>Operating Fund</i>				
431	Solid Waste Utility	18,578,902	30,858,591	66.09%
<b>Total Operating Fund</b>		<b>18,578,902</b>	<b>30,858,591</b>	<b>66.09%</b>
<b>Total Solid Waste Utility Fund</b>		<b>18,578,902</b>	<b>30,858,591</b>	<b>66.09%</b>

<b>TOTAL ALL FUNDS</b>		<b>398,266,109</b>	<b>449,372,936</b>	<b>12.83%</b>
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