



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

MEMORANDUM

To: Kurt Triplett, City Manager

From: Tracey Dunlap, Director of Finance & Administration
Sri Krishnan, Financial Planning Manager
Tammy Whipple, Budget Analyst

Date: December 3, 2012

Subject: 2012 YEAR-END BUDGET ADJUSTMENTS

RECOMMENDATION:

City Council receives an update on the City's financial condition and approves the ordinance adjusting the 2011-2012 budget appropriation for selected funds.

BACKGROUND DISCUSSION:

The year-end budget review addresses a variety of topics regarding the current biennium (2011-2012). This memo describes the various attachments included in the packet, including:

- **Financial Status** – The Financial Management Report (FMR) for the period ending September 30, 2012 (Attachment A), the October Dashboard Report (Attachment B), October and November sales tax memos (Attachments C and D) are included.
- **Budget Adjustments** – A recommendation concerning year-end budget adjustments needed to meet unanticipated needs, recognizing additional resources, and housekeeping adjustments (Attachment E).

FINANCIAL STATUS

The Financial Management Report (FMR) provides an overview of revenue and expenditure performance through the third quarter of 2012 (Attachment A).

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

- Total **General Fund revenues** are meeting budget expectations. Revenues received through October are at 83.8 percent of budget, 83.33 percent of the way through the year. Utility tax revenues are under budget expectations primarily because of shortfalls in telecommunication, electric and water utility taxes. This shortfall is offset by sales tax revenue that is coming in

better than expected. Development services-related revenues have exceeded the budget and as a portion of these revenues will result in work that will be completed in the next biennium, about \$433,000 is being set aside for a total development services staffing reserve of about \$985,000 in the 2013-2014 Budget.

- Overall, **General Fund expenditures** are trailing the budget at 76.6 percent. Savings are largely due to postponement of some annexation hiring, position vacancies, and jail contract savings. Decisions about filling vacant positions will impact future expenditure trends.

The October and November sales tax memos (Attachments C and D) include an analysis of sales tax revenue trends by business sectors and compares monthly and year-to-date data to last year. Overall year-to-date sales tax revenues are up 11.6 percent compared to a budgeted increase of 7.9 percent over 2011.

YEAR-END BUDGET ADJUSTMENTS

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

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

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

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

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

Total appropriation adjustments result in a net budget increase of \$4,182,920. The budget adjustment summary (Attachment E) shows both line item and appropriation changes. Line item changes are administrative adjustments within funds and are provided for reference. Appropriation adjustments change the total budget and require adoption of the ordinance.

Appropriation Adjustments

Council Directed/Other Requests and Previously Approved Adjustments – The first category of adjustments includes any additional changes identified by Council and formalizing previously approved actions (fiscal notes, etc). Some of these requests have been approved by the Council since the mid-year adjustments in June 2012, but the formal appropriation adjustment is occurring as part of the year-end budget update.

- A large portion of the Council Directed/Other adjustments is related to recognizing the refunding of Kirkland's municipal bonds in 2011. This adjustment of \$4,453,003 recognizes the repayment of the 1999 and 2001 Limited Tax General Obligation Bonds (LTGO) when the 2011 bonds were issued at a lower interest rate. This adjustment is required because the 2011-2012 Budget as

adopted did not anticipate the refinancing of the 1999 and 2001 bonds and the related expenditure of funds in the current biennium. This expenditure is fully offset by the revenues received from the refunding bonds issued in 2011.

- Another large adjustment reallocates the surface water fund portion of the purchase of the Cross Kirkland Corridor (CKC). The purchase of the CKC was originally budgeted in the Transportation Capital Improvement fund assuming a \$1.0 million transfer-in from the Surface Water Utility Fund. In order to capitalize the project as part of the Surface Water Utility, the Surface Water Capital Fund has to show an actual expenditure rather than a transfer-out to the Transportation Capital Fund. This results in a budget reduction of \$1.0 million in the Transportation Capital Projects fund and a budget adjustment to add the expenditure to the Surface Water Fund. The adjustment to the Surface Water Fund is a line item change with no change in the appropriation in this fund. This accounting-driven adjustment reduces the City's budget by \$1.0 million.

Other Council directed adjustments made in 2012 that change fund appropriation total \$429,300 and include the following:

- Fiscal Notes previously presented and approved by Council, including:
 - Lakeview Elementary Pedestrian Improvement Project – has two budget adjustments:
 1. To account for the transfer out of funding from the Street Operating Fund the amount of \$26,300; and
 2. To account for the receipt of the funds from the Street Operating Fund in the Transportation Capital Projects Fund and increase the expenditure authority in the latter by \$26,300.
 - 100th Avenue NE Bicycle Lanes Project - change in scope, \$86,000
- NE 120th Roadway Extension – Right-of-Way Purchase, \$317,000 funded with REET reserves. The current budget anticipated external revenue this year and the use of REET reserves next biennium. External revenue is now expected next year necessitating the use of REET reserves this year. There is no net increase to the project total beyond what the Council already authorized.

Housekeeping Items – The second category of adjustments are needed to adjust budget accounts, fund balances, etc. Housekeeping adjustments made in 2012 that change fund appropriation total \$300,617 and include the following:

- Water Rescue Equipment – Funded by reallocating unspent balances from three completed Capital Improvement Projects totaling \$45,000: Thermal Imaging Cameras, Mobile Data Computers and RFTD Office Space. This adjustment will bring the Near Shore Water Rescue Program into compliance with Washington State requirements. This adjustment recognizes the transfer of funds to the General Fund from the General Capital Projects fund approved by Council as part of the June 2012 adjustments.
- Fire District 41 debt service – Recognizing the payment of \$480,173. This is a housekeeping adjustment to ensure adequate appropriation authority is provided in the Debt Service fund. The adjustment recognizes the Fire District 41 property tax and payment of debt service per the Fire District 41 debt service schedule.
- Police evidence storage cabinet – \$10,409, transfer from the Facilities Maintenance fund to the General Fund. This adjustment also includes an equivalent non-appropriation change in the Facilities Maintenance Fund of \$10,409.

- Grants, reimbursements and a fee-in-lieu adjustment in the General Fund – \$73,944.
- Adjustments resulting in budget reductions totaling \$308,909:
 - CIP project Maintenance Management System Upgrade (GG 0006 702) delayed to 2013-14, resulting in a budget reduction in the General Capital Improvement Fund of \$250,000.
 - Distributing the 2012 adjusted Fleet Model rates resulting in a reduction because of reduced vehicle reserve contributions for vehicle purchases that are delayed or canceled for a total of \$58,909.

Line Item Adjustments

Council directed and housekeeping adjustments not affecting fund appropriation total \$3,518,066 and include the following:

- Cost of Living Adjustments (COLA) totaling: \$951,391, this accounts for all closed bargaining unit adjustments and other agreed upon COLA adjustments for personnel.
- Fiscal Notes previously presented and approved by Council, including:
 - Parking Pay Station Pilot Project, \$1,380
 - Juanita Beach Park Supplemental Funding, \$346,000
 - NE 85th St Watermain Replacement, \$626,000
 - Screwsucker Pump Purchase, \$53,307
 - CMAQ Grant Match, \$203,000
- Temporary Construction Inspector – Additional funding of \$14,457 for the inspector on loan from King County to address a backlog of development-related inspections. This is funded by fees set aside in the Development Services Reserve from 2011 engineering revenues.
- Development Services Study – Use of \$45,000 from the Development Services Reserve to fund one-half of the Development Services Study, an additional \$45,000 is expected to be expended in 2013. The balance is expected to be replenished in 2013 with year-end savings.
- Credit card fees not previously budgeted in the Water/Sewer Utility Operating fund (\$136,880) and the Solid Waste Fund (\$73,942), this adjustment recognizes payments for 2012 and previous year credit card fees.
- Recognizing the use of reserves in the Facilities Maintenance Fund for a facilities energy audit – \$30,000.

SUMMARY

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

Fund Type	Current 11-12 Budget	Adjustments	Revised 11-12 Budget
General Government:			
General Fund	161,231,911	129,353	161,361,264
Other Operating Funds	18,604,602	-	18,604,602
Internal Service Funds	57,181,149	(58,909)	57,122,240
Non-Operating Funds	113,823,171	4,112,476	117,935,647
Utilities:			
Water/Sewer	66,961,952	-	66,961,952
Surface Water	33,193,878	-	33,193,878
Solid Waste	25,102,501	-	25,102,501
Total Budget	476,099,164	4,182,920	480,282,084



Financial Management Report as of September 30, 2012

AT A GLANCE:

City of Kirkland Gets High Marks from State Auditor (page 2 sidebar)

2012 revenues through September continued to be unpredictable due to annexation (page 3)

2012 sales tax revenue through September is on target with budget assumptions (page 5)

Economy continues a slow recovery (pages 7-8)

Inside this issue:

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

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

Summary of All Operating Funds: Revenue

- General Fund** actual 2012 revenue, excluding resources forward and interfund transfers, through September is at **71.8 percent** of budget, 75 percent of the way through the year. Note that the majority of the second half of property taxes will be received in October and November. The 2012 budget includes revenues projected for the new neighborhoods (annexation area), which are coming in lower than projected. A more detailed analysis of General Fund revenue can be found on page 3, and sales tax revenue performance can be found beginning on page 5.
- Other General Government Funds** actual 2012 revenue through September is at **66.3 percent** of budget. \$1.1 million of one-time County Road Levy revenue budgeted to offset authorized expenditures in 2012 was received in 2011. Including the road tax received in 2011, Other General Government Funds actual 2012 revenue to budget would be at 72.3 percent.
- Water/Sewer Operating Fund** through September is **70.7 percent** of budget. In 2012, sewer rates increased by 5.5 percent and water rates increased 2.2 percent. This result is due in part to a relatively cool and damp early summer.
- Surface Water Management Fund** actual 2012 revenue is **56.5 percent** of budget. Surface Water charges are paid with property taxes, which are primarily received in April and October.
- Solid Waste Fund** actual 2012 revenue through September is **72.2 percent** of budget. In 2011, Solid Waste customers had the opportunity to move to a smaller can size. More customers moved to a smaller size than expected which caused rate revenue to come in lower than expected.

Resources by Fund	Year-to-Date Actual			Budget			% of Budget	
	9/30/2011	9/30/2012	% Change	2011	2012	% Change	2011	2012
General Gov't Operating:								
General Fund	44,809,525	54,677,414	22.0%	68,664,728	76,167,690	10.9%	65.3%	71.8%
Other General Gov't Operating Funds	9,863,740	12,606,747	27.8%	16,672,780	19,013,022	14.0%	59.2%	66.3%
Total General Gov't Operating	54,673,265	67,284,161	23.1%	85,337,508	95,180,712	11.5%	64.1%	70.7%
Utilities:								
Water/Sewer Operating Fund	13,555,657	14,527,501	7.2%	19,807,418	20,540,187	3.7%	68.4%	70.7%
Surface Water Management Fund	3,076,673	4,744,263	54.2%	6,847,891	8,391,990	22.5%	44.9%	56.5%
Solid Waste Fund	6,347,794	9,547,120	50.4%	10,040,676	13,228,950	31.8%	63.2%	72.2%
Total Utilities	22,980,124	28,818,884	25.4%	36,695,985	42,161,127	14.9%	62.6%	68.4%
Total All Operating Funds	77,653,389	96,103,045	23.8%	122,033,493	137,341,839	12.5%	63.6%	70.0%

Budgeted and actual revenues exclude resources forward and interfund transfers.



City of Kirkland Gets Clean Marks from State Auditor

The Washington State Auditor's Office recently completed its annual audit of the City of Kirkland in the areas of accountability, financial statement, and federal grant compliance. The accountability audit includes legal compliance with the Open Public Meetings Act and the safeguarding of public resources with proper internal controls. The Office had no audit recommendations or findings in any of the three audit areas. The Auditor's Office indicated that Kirkland's results are noteworthy as there are very few entities in Washington State that achieved "clean" audits for 2011 and that the Auditor's Office has been issuing more findings.

"These are amazing accomplishments for the City, the Finance Department, and our citizens," notes City Council Member Amy Walen, Chair of the Council's Finance Committee. "These show our continued commitment to fiscal responsibility."

To view the audit report, go to the Washington State Auditor's Office website at www.sao.wa.gov, select "Audits," then "Local Governments," and then select "City of Kirkland." To view a video on the City's commitment to financial stability, go to www.kirklandwa.gov/kirklandworks.

Summary of All Operating Funds: *Expenditures*

- **General Fund** actual expenditures, excluding reserves and interfund transfers, are at **70.3 percent** of budget, 75 percent of the way through the year. Savings are largely due to postponement of some annexation-related hiring, position vacancies, and jail contract savings. A more detailed analysis of General Fund expenditures by department is found on page 4.
- **Other Operating Funds** actual expenditures through September 2012 are at **69.9 percent** of budget largely due to budgeted vehicle purchases which have not yet occurred and lower facility utility costs. Vehicle costs vary year-to-year depending on the planned replacement cycle. In addition, there are several new annexation-related vehicles budgeted in 2012 which have been delayed and are currently under review. Facility utility costs are down, partially due to milder winter weather, but also from staff conservation efforts and the pay-off from past investments in updated controls and equipment at various locations. Other Operating funds have also seen some savings in personnel costs due to annexation related positions not being filled.
- **Water/Sewer Operating Fund** actual expenditures through September are at **74.4 percent** of budget. The City pays Cascade Water Alliance (CWA) a set rate for water each month based on average demands over three years (currently 2008-2010).
- **Surface Water Management Fund** actual 2012 expenditures through September are at **62.1 percent** of budget as a result of postponing the hiring of annexation-related positions resulting in significant savings in the personnel and supplies categories.
- **Solid Waste Fund** actual 2012 expenditures through September are at **60.7 percent** of budget and in-line with expectations.

Expenditures by Fund	Year-to-Date Actual			Budget			% of Budget	
	9/30/2011	9/30/2012	% Change	2011	2012	% Change	2011	2012
General Gov't Operating:								
General Fund	46,368,939	50,500,953	8.9%	67,878,459	71,868,993	5.9%	68.3%	70.3%
Other General Gov't Operating Funds	10,692,295	13,079,052	22.3%	17,106,576	18,708,834	9.4%	62.5%	69.9%
Total General Gov't Operating	57,061,234	63,580,005	11.4%	84,985,035	90,577,827	6.6%	67.1%	70.2%
Utilities:								
Water/Sewer Operating Fund	12,580,195	12,710,779	1.0%	16,765,372	17,073,833	1.8%	75.0%	74.4%
Surface Water Management Fund	2,521,466	3,373,193	33.8%	4,338,938	5,431,637	25.2%	58.1%	62.1%
Solid Waste Fund	6,327,903	7,951,640	25.7%	10,070,151	13,096,051	30.0%	62.8%	60.7%
Total Utilities	21,429,564	24,035,612	12.2%	31,174,461	35,601,521	14.2%	68.7%	67.5%
Total All Operating Funds	78,490,798	87,615,617	11.6%	116,159,496	126,179,348	8.6%	67.6%	69.4%

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

Financial Management Report as of September 30, 2012

General Fund Revenue

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

- **Sales tax** revenue allocated to the General Fund is meeting budget expectations at **75.3 percent**. A detailed analysis of total **sales tax** revenue can be found starting on page 5.
- Selected large General Fund revenues are received in periodic increments, specifically **property tax** (mostly received in April/May and October/November) and **King County EMS** payments (quarterly or semi-annually).
- **Utility tax** receipts, including projected new neighborhood area revenues, are at **72.7 percent** of budget. The shortfall in telecommunication utility tax revenues experienced in 2011 continues through September 2012. In addition, water and electric utility tax revenues are coming in under budget due to weather related variations. Together these three revenues are under expectations, approximately 8.5 percent or \$761,277. These shortfalls are partially offset by gas and cable utility tax revenues exceeding budget expectations.
- **Other taxes** actual revenue is at **104.6 percent** of budget due to gambling revenue from the new neighborhoods. Note that these taxes are paid on a semi-annual basis.
- The **business licenses (base fee) and franchise fees** are at **78.8 percent** of budget. Both business license and franchise fees are slightly exceeding budget expectations.
- The **revenue generating regulatory license** fee is slightly exceeding budget expectations at **79.9 percent** of budget.
- The **development-related fee** revenues, collectively are exceeding budget expectations at **99.0 percent** of budget. **Building permits** and **plan check revenue** collectively are at **79.5 percent** of budget and **engineering services** revenue is at **182.6 percent** of budget. **Planning fees** revenue are at **129.7 percent** of budget primarily due to major Process IIA and Design Board permit revenues. Note that some of this revenue is for work to be done in subsequent years and will be set aside in reserve for that purpose.
- **Fines and Forfeitures** are below budget expectations at **41.5 percent** due to lower than expected parking and traffic infraction penalty revenues. This is offset in part by salary savings from a parking enforcement officer, multiple police officer vacancies and delayed hiring of annexation-related court staff. The parking enforcement and some police officer positions have been filled and these revenues are expected to improve.
- **Other financing sources** includes the asset transfer from Woodinville Fire & Rescue that was received in late 2011 and budgeted in 2012. \$175,000 in Interfund Transfers budgeted for the purchase of public safety radios in 2011 will occur later in 2012.

General Fund 2012 revenues are at **71.8 percent** of budget (excluding other financing sources).

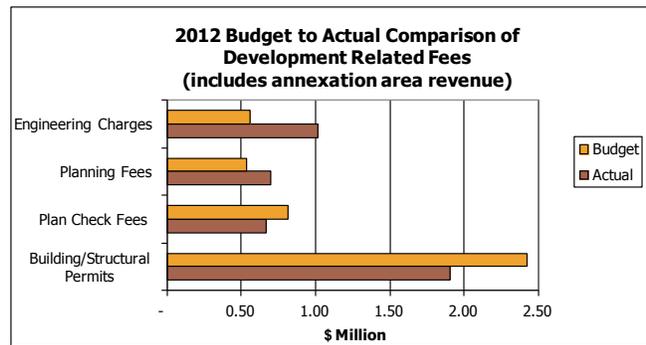
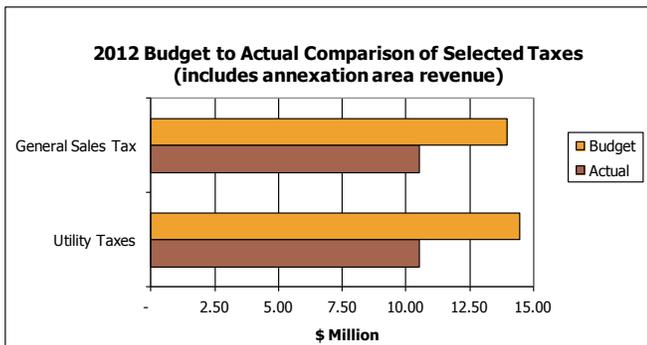
The General Fund is the largest of the General Government Operating funds. It is primarily tax supported and accounts for basic services such as public safety, parks and recreation, and community development.

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

General Fund Resource Category	Year-to-Date Actual			Budget			% of Budget	
	9/30/2011	9/30/2012	% Change	2011	2012	% Change	2011	2012
Taxes:								
Retail Sales Tax: General	9,598,833	10,517,292	9.6%	12,885,899	13,972,010	8.4%	74.5%	75.3%
Retail Sales Tax Credit: Annexation	266,026	2,583,004	N/A	1,129,866	3,409,791	N/A	N/A	75.8%
Retail Sales Tax: Criminal Justice	742,283	1,226,615	65.2%	1,149,997	1,568,112	36.4%	64.5%	78.2%
Property Tax	7,313,871	9,002,553	23.1%	13,261,709	16,049,865	21.0%	55.2%	56.1%
Utility Taxes	8,408,223	10,513,435	25.0%	12,436,696	14,468,333	16.3%	67.6%	72.7%
Rev Generating Regulatory License	1,941,312	1,906,727	-1.8%	2,344,069	2,386,300	1.8%	82.8%	79.9%
Other Taxes	364,833	1,051,517	188.2%	312,250	1,005,488	222.0%	116.8%	104.6%
Total Taxes	28,635,381	36,801,143	28.5%	43,520,486	52,859,899	21.5%	65.8%	69.6%
Licenses & Permits:								
Building, Structural & Equipment Permits	1,297,158	1,909,181	47.2%	1,748,605	2,423,612	38.6%	74.2%	78.8%
Business Licenses/Franchise Fees	1,687,931	3,238,725	91.9%	3,014,279	4,109,869	36.3%	56.0%	78.8%
Other Licenses & Permits	189,552	194,233	2.5%	217,579	217,579	0.0%	87.1%	89.3%
Total Licenses & Permits	3,174,641	5,342,139	68.3%	4,980,463	6,751,060	35.6%	63.7%	79.1%
Intergovernmental:								
Grants and Federal Entitlements	660,733	241,150	-63.5%	548,052	95,600	-82.6%	120.6%	252.2%
State Shared Revenues & Entitlements	582,526	1,095,398	88.0%	947,385	909,967	-3.9%	61.5%	120.4%
Fire District #41	1,586,765	-	N/A	3,684,071	-	N/A	43.1%	N/A
EMS	420,073	427,546	N/A	868,678	866,729	N/A	48.4%	49.3%
Other Intergovernmental Services	211,131	86,816	-58.9%	533,087	181,040	-66.0%	39.6%	48.0%
Total Intergovernmental	3,461,228	1,850,910	-46.5%	6,581,273	2,053,336	-68.8%	52.6%	90.1%
Charges for Services:								
Internal Charges	4,029,379	4,005,410	-0.6%	5,558,328	5,882,454	5.8%	72.5%	68.1%
Engineering Services	682,569	1,014,729	48.7%	464,146	555,852	19.8%	147.1%	182.6%
Plan Check Fee	413,193	666,155	61.2%	1,115,779	814,484	-27.0%	37.0%	81.8%
Planning Fees	491,789	696,167	41.6%	495,044	536,799	8.4%	99.3%	129.7%
Recreation	977,169	1,028,940	N/A	1,162,406	1,152,963	N/A	N/A	89.2%
Other Charges for Services	1,046,627	1,396,322	33.4%	1,709,373	2,187,273	28.0%	61.2%	63.8%
Total Charges for Services	7,640,726	8,807,723	15.3%	10,505,076	11,129,825	5.9%	72.7%	79.1%
Fines & Forfeits	1,326,004	1,154,356	-12.9%	2,435,490	2,781,169	14.2%	54.4%	41.5%
Miscellaneous	571,545	721,143	26.2%	641,940	592,401	-7.7%	89.0%	121.7%
Total Revenues	44,809,525	54,677,414	22.0%	68,664,728	76,167,690	10.9%	65.3%	71.8%
Other Financing Sources:								
Transfer of FD 41 & WFR Balances	1,724,497	-	N/A	1,722,725	1,426,568	N/A	N/A	N/A
Interfund Transfers	-	-	N/A	275,028	98,151	N/A	N/A	N/A
Total Other Financing Sources	1,724,497	-	N/A	1,997,753	1,524,719	N/A	86.3%	N/A
Total Resources	46,534,022	54,677,414	17.5%	70,662,481	77,692,409	9.9%	65.9%	70.4%

Budgeted and actual revenues exclude resources forward.

General Fund Revenue *continued*



General Fund Expenditures

General Fund Department Expenditures	Year-to-Date Actual			Budget			% of Budget	
	9/30/2011	9/30/2012	% Change	2011	2012	% Change	2011	2012
Non-Departmental	639,003	812,971	27.2%	1,480,669	1,614,807	9.1%	43.2%	50.3%
City Council	250,173	299,983	19.9%	333,977	443,849	32.9%	74.9%	67.6%
City Manager's Office	1,128,209	1,299,859	15.2%	1,577,493	1,829,449	16.0%	71.5%	71.1%
Municipal Court	1,345,113	1,510,188	12.3%	1,966,708	2,590,750	31.7%	68.4%	58.3%
Human Resources	943,030	915,953	-2.9%	1,267,998	1,253,506	-1.1%	74.4%	73.1%
City Attorney's Office	802,816	978,790	21.9%	1,162,037	1,353,373	16.5%	69.1%	72.3%
Parks & Community Services	4,937,251	5,176,513	4.8%	7,108,434	7,211,739	1.5%	69.5%	71.8%
Public Works (Engineering)	2,457,305	2,643,655	7.6%	3,771,045	3,932,111	4.3%	65.2%	67.2%
Finance and Administration	2,877,337	3,285,720	14.2%	4,097,765	4,567,770	11.5%	70.2%	71.9%
Planning & Community Development	2,134,153	2,310,946	8.3%	2,932,820	3,366,041	14.8%	72.8%	68.7%
Police	14,541,407	16,128,477	10.9%	22,201,553	23,507,119	5.9%	65.5%	68.6%
Fire & Building	14,313,142	15,137,898	5.8%	19,977,960	20,198,479	1.1%	71.6%	74.9%
Total Expenditures	46,368,939	50,500,953	8.9%	67,878,459	71,868,993	5.9%	68.3%	70.3%
Other Financing Uses:								
Interfund Transfers	2,077,096	1,852,699	-10.8%	3,286,374	4,946,993	50.5%	63.2%	37.5%
Total Other Financing Uses	2,077,096	1,852,699	-10.8%	3,286,374	4,946,993	50.5%	63.2%	37.5%
Total Expenditures & Other Uses	48,446,035	52,353,652	8.1%	71,164,833	76,815,986	7.9%	68.1%	68.2%

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

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

Comparing 2012 actual expenditures through the third quarter to the 2012 budget:

Overall, General Fund expenditures are at 70.3 percent of budget, excluding interfund transfers. About half of the under expenditures are a result of salary and benefit savings partially due to delayed hiring for annexation; this savings may not continue at this level through the remainder of 2012. The remaining under expenditures are primarily due to savings in intergovernmental (timing of ARCH contributions, election costs, and savings in jail contract costs) and professional services.

- Actual 2012 expenditures for the **City Council** are at **67.6 percent** of budget due to some savings in dues and memberships since increases as a result of annexation were less than expected.
- The **City Manager's Office** actuals are at **71.1 percent** of budget due to some savings in benefit expenses and professional services.
- The **Municipal Court** actuals are at **58.3 percent** of budget due to savings in personnel costs associated with unfilled annexation positions.
- Actual 2012 expenditures for **Human Resources** are at **73.1 percent** of budget and are on target with budget expectations.
- The **City Attorney's Office** expenditures are at **72.3 percent** of budget due to some savings in legal fees.

2012 General Fund actual third quarter expenditures (excluding "other financing sources") are at 70.3 percent of budget, primarily due to postponement of annexation-related hiring and position vacancies in multiple departments and savings in jail costs.

(Continued on page 5)

Financial Management Report as of September 30, 2012

- Actual 2012 expenditures for the **Parks & Community Services Department** are at **71.8 percent** of budget due to vehicles for annexation not yet purchased, operating supplies and human services contract payments, the majority of which will occur later in 2012 and the first quarter of 2013.
- Actual expenditures for the **Public Works Department** are at **67.2 percent** of budget due to position vacancies and professional services that will occur later in the year.
- The **Finance and Administration Department** expenditures are at **71.9 percent** of budget due to election and audit costs, and printing expenses which will be incurred during the last quarter of the year.
- Actual 2012 expenditures for the **Planning and Community Development Department** are at **68.7 percent** of budget due to savings in personnel costs as a result of unfilled positions.
- Actual 2012 expenditures for the **Police Department** are at **68.6 percent** of budget due to savings from delayed annexation-related staffing and increased hiring of laterals (and related expenses) along with position vacancies. In addition, jail costs are under budget about \$875,000, in part, due to contracts with other agencies for lower rates than those charged by King County and an increase in the use of electronic home detention and other sentencing measures as alternatives to jail time.
- Actual 2012 expenditures for the **Fire & Building Department** are at **74.9 percent** of budget and are on target with budget expectations. A reconciliation of the funds received from the assumption of Fire District 41 is presented in the table to the right; this includes 2011-2012 revenues and expenditures. The ending total balance of approximately \$5.2 million is expected to be used for the planned fire station consolidation capital project.

Summary of Fire District 41 Funds: Revenues & Expenditures

	Capital	General Government
Revenues:		
Beginning Balance	4,000,000	1,724,497
Fire District Revenues	-	1,872,041
Interest and Other Revenues	22,507	2,697
Transfer from General Fund**	1,225,681	-
Total Revenues	5,248,188	3,599,235
Expenditures:		
Operating Costs (per ILA)*	-	164,058
Fire District 2011 Contract	-	2,209,496
Transfer to Capital Project**	-	1,225,681
Station Consolidation Project	37,872	-
Total Expenditures	37,872	3,599,235
Ending Balance	5,210,316	(0)

*Includes 2012 obligations

**Transfer of remaining Fire District 41 revenues from the General Fund to the Consolidated Fire Station Capital Improvement Project

Sales Tax Revenue Analysis 2012 sales tax revenue through September is up 10.2 percent compared to the same period in 2011. The 2012 budget for sales tax revenue assumed an increase of 7.9 percent over 2011 actuals which reflected anticipated increases due to annexation.

Review by business sectors:

The **general merchandise/miscellaneous retail** sector is **up 2.5 percent** compared to last year largely due to positive performance by two key retailers in this category.

The **auto/gas retail** sector is **up 13.9 percent** compared to last year, largely due to positive performance by most of the key retailers in this category.

The **retail eating/drinking** sector performance is **up 12.1 percent** compared to last year, due to positive performance by a few key retailers.

Other retail is **up 19.3 percent** compared to last year, due to positive performance in the food and beverage and health and personal care categories, and despite negative performance in the furniture and electronics categories.

The **contracting** sector is **up 42.4 percent** compared to last year, due to significant increases in contracting activity over the last several months. Some of the gain in this category is one-time revenue due to the construction of two new elementary schools in the new neighborhoods and other major projects.

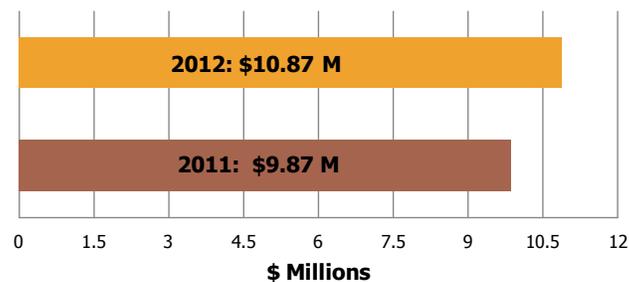
The **wholesale** sector is **up 4.9 percent** compared to last year, largely due to increases in the other miscellaneous non-durable goods category.

The **services** sector is **down 3.8 percent** compared to last year, largely due to a one-time taxpayer refund by the Department of Revenue of \$127,000 in the other information category. The accommodations sector is up 1.0 percent or about \$2,000.

The **communications** sector is **down 10.8 percent** compared to last year due to one-time development related revenues in February 2011 in the telecommunications category. Factoring out this one-time revenue, this category would be up 7.5 percent compared to last year.

The **miscellaneous** sector is **down 19.9 percent** compared to last year because the City received one-time Department of Revenue amnesty program revenues in 2011.

Sales Tax Receipts Through September 2012 and 2011



Streamlined Sales Tax

Local coding sales tax rules changed as a result of Washington State joining the national Streamlined Sales Tax Agreement. Negative impacts from this change are mitigated by the State of Washington. Year-to-date revenue is about \$75,000, and continues to trend slightly under budget. This revenue source has been reduced due to the impact of state budget decisions.

Neighboring Cities Sales Tax

Bellevue was up 0.5 percent and Redmond was down 24.1 percent through September compared to the same period in 2011. Redmond was much lower due to \$4.6 million in field recoveries received in February and March 2011. Excluding field recoveries Redmond received about the same revenues through September in 2011 and 2012.

City of Kirkland Actual Sales Tax Receipts

Business Sector Group	January-September		Dollar Change	Percent Change	Percent of Total	
	2011	2012			2011	2012
Services	1,250,464	1,202,722	(47,742)	-3.8%	12.7%	11.1%
Contracting	1,213,814	1,728,375	514,561	42.4%	12.3%	15.9%
Communications	365,255	325,660	(39,595)	-10.8%	3.7%	3.0%
Auto/Gas Retail	2,337,480	2,661,678	324,198	13.9%	23.7%	24.5%
Gen Merch/Misc Retail	1,374,138	1,408,465	34,327	2.5%	13.9%	13.0%
Retail Eating/Drinking	834,280	935,574	101,294	12.1%	8.5%	8.6%
Other Retail	1,231,019	1,468,937	237,918	19.3%	12.5%	13.5%
Wholesale	524,218	549,927	25,709	4.9%	5.3%	5.1%
Miscellaneous	734,932	588,454	(146,478)	-19.9%	7.4%	5.4%
Total	9,865,600	10,869,792	1,004,192	10.2%	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 2011 and 2012 year-to-date sales tax receipts in the table to the left.

City of Kirkland Actual Monthly Sales Tax Receipts

Month	Sales Tax Receipts		Dollar Change	Percent Change
	2011	2012		
January	1,082,225	1,104,023	21,798	2.0%
February	1,366,850	1,413,587	46,737	3.4%
March	942,887	1,054,686	111,799	11.9%
April	899,425	1,086,848	187,423	20.8%
May	1,154,252	1,132,774	(21,478)	-1.9%
June	1,046,570	1,147,892	101,322	9.7%
July	1,047,452	1,287,015	239,563	22.9%
August	1,181,633	1,313,808	132,175	11.2%
September	1,144,307	1,329,159	184,852	16.2%
Total	9,865,601	10,869,792	1,004,191	10.2%

- January 2012 was slightly ahead of January 2011. A large one-time receipt in January 2011 skews the comparison. The increase is 7.6 percent after factoring out this one-time event.
- Receipts for February were also skewed by a large one time adjustment in the communications category and the revenues from the new neighborhoods. Factoring out these revenues results in an increase of 1.8 percent.
- April receipts showed significant increases in the contracting, other retail and auto/gas categories.
- Receipts for May were down largely due to a one-time taxpayer refund.
- June continued to see increases in the contracting, other retail and auto/gas retail categories.
- July and August continued to see significant improvements in construction-related activity, strong performance in the auto/gas retail sector, and a general stabilization in the economy.
- September 2012 revenue is coming in significantly higher than 2011 due to strong performance in the contracting and auto/gas retail sectors. In September 2011, the City started receiving sales tax revenues from businesses in the new neighborhoods; therefore, this is the first month where there is a true comparison of the sales tax activity.

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

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

Comparing to the same period last year:

Totem Lake, which accounts for about 30 percent of the total sales tax receipts, is **up 10.1 percent** due to continued improvements in automotive/gas retail and improvements in the all retail categories.

in February 2011. About 72 percent of this business district's revenue comes from business services, retail eating/drinking and accommodations.

Houghton & Bridle Trails, which account for more than 2 percent of the total sales tax receipts, are **up 13.0 percent** collectively due to strong performance in the other retail category. The retail sectors provide about 70 percent of these business districts' revenue.

Juanita, which accounts for about 2 percent of the total sales tax receipts are **up 3.5 percent**. Increases in the retail eating/drinking are offset by poor performance in the business services category. These sectors, along with miscellaneous retail provide, about 75 percent of this business district's revenue.

North Juanita, Kingsgate, & Finn Hill account for more than 3 percent of the total sales tax receipts. Sales tax receipts for these business districts continue to perform below budget projections, which were based on data from King County. Retail eating/drinking and food retail sectors provide about 66 percent of these business districts sales tax revenues.

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

About 60 percent of this business district's revenue comes from the auto/gas retail sector.

NE 85th Street, which accounts for 15 percent of the total sales tax receipts, is **up 8.4 percent** primarily due to increases in all of the retail categories. These retail sectors contribute almost 96 percent of this business district's revenue.

Downtown, which accounts for almost 5 percent of the total sales tax receipts, is **down 13.8 percent** largely due to a one-time taxpayer refund in the other information services category that reduced the City's receipts in May. If this one-time tax-payer refund is factored out Downtown tax receipts would be up 5.7 percent.

Carillon Point & Yarrow Bay, which account for 2 percent of the total sales tax receipts, are **down 29.5 percent** compared to last year primarily due to one-time revenues in the other retail category

When reviewing sales tax receipts by business district, it's important to point out that more than 45 percent of the revenue received in 2012 is in the "unassigned or no district" category largely due to contracting and other revenue, which includes revenue from Internet, catalog sales and other businesses located outside of the City.

City of Kirkland Sales Tax by Business District

Business District	Jan-September Receipts		Dollar Change	Percent Change	Percent of Total	
	2011	2012			2011	2012
Totem Lake	2,940,641	3,238,047	297,406	10.1%	29.8%	29.8%
NE 85th St	1,489,660	1,615,051	125,391	8.4%	15.1%	14.9%
Downtown	651,905	562,088	(89,816)	-13.8%	6.6%	5.2%
Carillon Pt/Yarrow Bay	358,763	252,915	(105,848)	-29.5%	3.6%	2.3%
Houghton & Bridle Trails	251,832	284,554	32,722	13.0%	2.6%	2.6%
Bridle Trails	112,244	127,753			1.1%	1.2%
Houghton	139,588	156,801			1.4%	1.4%
Juanita	182,489	188,829	6,340	3.5%	1.8%	1.7%
Kingsgate	45,584	133,025	87,441	N/A	0.5%	1.2%
North Juanita	78,926	168,262	89,336	N/A	0.8%	1.5%
Finn Hill	37,318	69,651	32,333	N/A	0.4%	0.6%
Unassigned or No District:						
Contracting	1,211,818	1,726,259	514,441	42.5%	12.3%	15.9%
Other	2,616,664	2,631,110	14,446	0.6%	30.0%	29.3%
Total	9,865,600	10,869,792	1,004,192	10.2%	100.0%	100.0%

Sales Tax Revenue Outlook Sales tax receipts for 2012 continue to indicate a slow recovery and the normal revenue volatility associated with sales tax revenues. The services, contracting, automotive/gas retail and other retail sectors contributed the largest amount of gain, but these sectors are very sensitive to economic conditions. The contracting sector has shown signs of recovery, with some of this gain due to the construction of two new elementary schools in the new neighborhoods. Anticipating revenues from the new neighborhoods in 2012, the budget includes a 7.9 percent increase over 2011 actual. New neighborhood revenue is below expectations offset by gains in the pre-annexation City and contracting. Year-to-date sales tax revenue is approximately 75 percent of the 2012 budget which is similar to the trends over the last year. The slow economic recovery poses significant risk to the City's ability to maintain services, since sales tax is one of the primary sources of general fund revenue.

OFFICE VACANCIES:

According to CB Richard Ellis Real Estate Services, the Eastside office vacancy rate remained at 13.8 percent for the third quarter of 2012 compared to 16.0 percent for the third quarter of 2011. Kirkland's 2012 vacancy rate is 7.4 percent, lower than the 2011 rate of 11.5 percent and one of the lowest vacancy rates in King County.

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

Employment growth in high-tech companies has strengthened the Puget Sound office market in the third quarter of 2012. This has resulted in decreased vacancy rates and increased lease rates. It has also resulted in increased purchases and investments in office space.

LODGING TAX REVENUE:

Lodging tax revenue ended the third quarter of 2012 at 75.2 percent of the budget and 6.1 percent ahead of the same period in 2011.

Economic Environment Update The Washington State economy is performing stronger than expected in the third quarter of 2012 according to Washington State Economic and Revenue Forecast Council. Washington employment has shown moderate growth, housing construction was much stronger than expected and home prices are higher than they were last year. The Washington economy added 10,300 jobs, 3,500 more than the 6,800 expected in the June forecast. Overall, the risks to the economy remain high. Next year, there is a risk of financial contraction if tax cuts expire as scheduled, the 2 percent payroll tax holiday and extended unemployment benefits end, and the automatic spending cuts mandated by the Budget Control Act are implemented. The state's economy is expected to outperform the national economy in 2012 by a slight margin, however recovery and a decline in unemployment will remain slow by historical standards.

The U.S. **consumer confidence index** rebounded in September from 61.3 in August to 70.3 and is back to levels seen in the first quarter of 2012 (71.6 in February 2012). Despite continuing economic uncertainty, consumers are slightly more optimistic than they have been in several months in their assessment of current conditions in the job market, the short-term outlook for business conditions, and their financial situation. An index of 90 indicates a stable economy and one at or above 100 indicates growth.

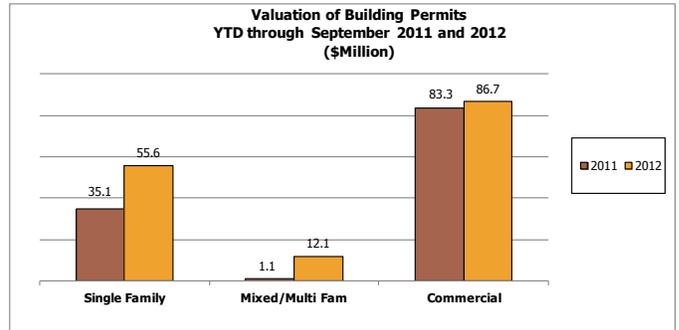
King County's **unemployment rate** was **6.9 percent** in September 2012 compared to 8.0 percent in September 2011. King County's unemployment rate is lower than the Washington State and national rates, which were 7.7 and 7.6 percent respectively. The unemployment rate in Kirkland for September was 6.2 percent compared to 7.3 percent in September 2011.

The Western Washington Purchasing Manager index rose in September to 56.8 from 53.5 in August, a score above 50 suggests a growing economy. The confidence score is lower than last year's score of 61.3 in September, and below a "high confidence" score that would be in the 70 range.

(Continued on page 8)

Economic Environment Update *continued*

Local **development activity** through September comparing 2011 to 2012 as measured by the valuation of City of Kirkland building permits is illustrated in the chart to the right. Overall activity is up about 29 percent from last year primarily due to strong gains in single family construction, which is up about 59 percent over the same period last year and an increase in mixed use and multi-family permits. Beginning in June of 2012 public building permit data has been combined with commercial permits.



Closed sales of **new and existing single-family homes** on the Eastside were up 21 percent in September 2012 compared to September 2011. The median price of a single family home remained relatively flat at \$517,000 in September 2012 compared to \$510,000 in 2011. Closed sales of condos throughout King County were up 25 percent and median prices increased by 10 percent, from \$195,000 to \$214,500. Overall the median price of single-family homes and condos has risen over 2011 prices throughout King County every month since April. One reason for the rise in prices is the lack of available inventory. Houses listed for sale in King County are down 36 percent from September 2011 and condos are down 50 percent. Even with the lack of inventory, the third quarter of 2012 has been the busiest time for home sales in King County in five years according to the Northwest Multiple Listing Service.

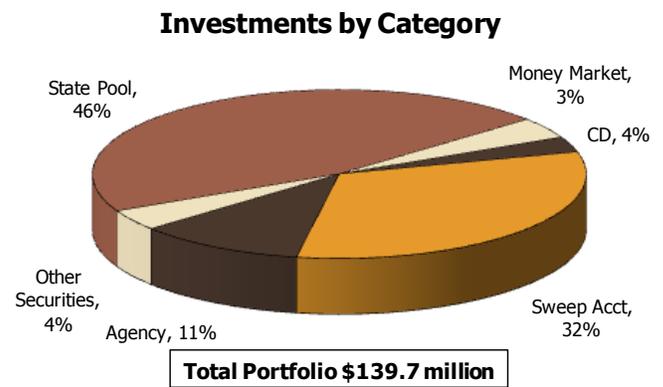
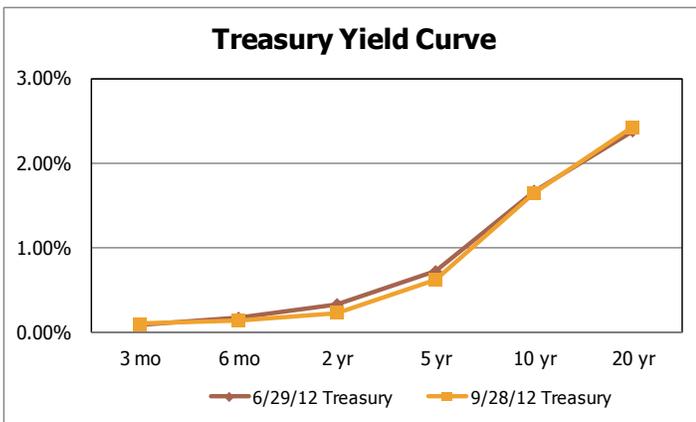
Seattle metro consumer price index (CPI) fluctuated throughout 2011, peaking at 4.3 percent in October, but averaging 3.2 percent for the year. The Seattle index is calculated on a bi-monthly basis and the most recent index in August was unchanged from June at 2.7 percent. The national index also fluctuated throughout 2011, peaking at 4.4 percent with an annual average of 3.6 percent. The latest national index in September was 2.0 percent. Both local and national inflation rates through the third quarter of 2012 are trending lower than most of 2011.

Investment Report

MARKET OVERVIEW

The Fed Funds rate continues to hold at 0.25 percent through the third quarter of 2012. It is now expected that these rates will remain at this level well into 2015. There was little change in the economy for this quarter. The yield curve saw almost no changes for this quarter other than a slight drop in rates in the middle of the curve.

The City's portfolio balance changed very little in the third quarter of 2012. The balance was \$139.7 million on September 30, 2012 compared to \$140 million on June 30, 2012. The majority of the portfolio is in cash (State Pool and Sweep Account). With interest rates holding at historically low levels, the portfolio is positioned to invest in longer-term instruments when interest rates begin to rise.



CITY PORTFOLIO

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

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

Diversification

The City's current investment portfolio is composed of Government Sponsored Enterprises (GSEs) bonds, State and Local Government bonds, the State Investment Pool, an overnight bank sweep account, CD's and a money market account. Kirkland's investment policy allows up to 100 percent of the portfolio to be invested in U.S. Treasury or Federal Government obligations.

2012 ECONOMIC OUTLOOK and INVESTMENT STRATEGY

The outlook for growth in the U.S. economy looks weaker now than it did three months ago, according to 48 forecasters surveyed by the Federal Reserve Bank of Philadelphia. The U.S. economy is expected to grow at an annual rate of 2.2 percent in 2012. CPI inflation is expected to average 1.8 percent in 2012 and 2.2 percent in 2013. The unemployment rate is expected to average 8.2 percent in 2012 and fall to 7.9 percent in 2013. The Fed Funds rate, currently at 0.25 percent, is expected to remain at this level well into 2015.

The duration and earnings of the portfolio continues to decrease as securities mature and are called. Opportunities for increasing portfolio returns are scarce as short-term interest rates continue at historically low levels. New security purchases will be made as opportunities to obtain moderate returns become available. During periods of low interest rates the portfolio duration should be kept shorter with greater liquidity so that the City is in a position to be able to purchase securities with higher returns when interest rates begin to rise. The State Pool is currently at 0.18 percent and will continue to remain low as the Fed Funds rate remains at 0.00 to 0.25 percent. Total estimated investment income for 2012 is \$890,000.

Investment Report *continued*

Liquidity

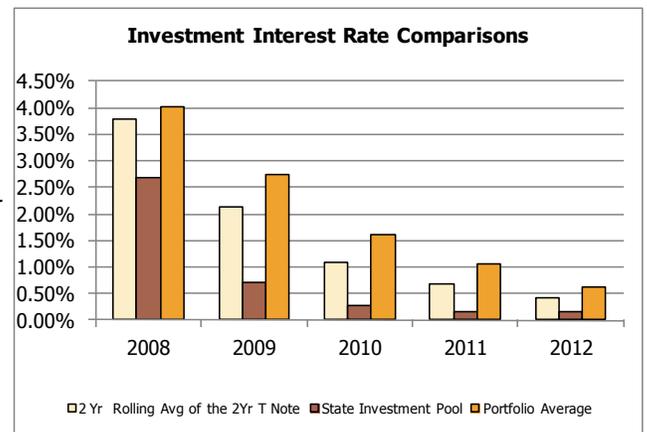
The target duration for the City's portfolio is based on the 2-year treasury rate which declined from 0.33 percent on June 30, 2012 to 0.23 percent on September 30, 2012. The average maturity of the City's investment portfolio decreased slightly from 0.66 years on June 30, 2012 to 0.63 years on September 30, 2012 as the longer term securities continue being called while the interest rates move lower.

Yield

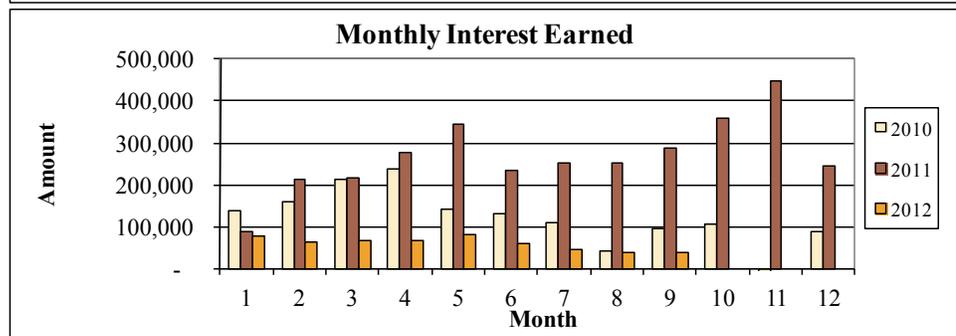
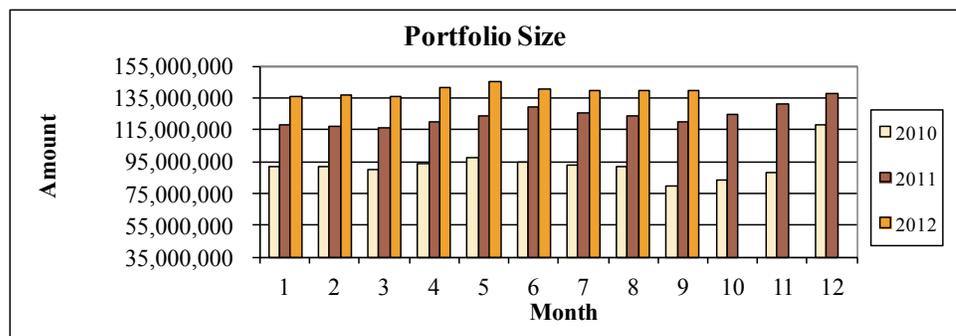
The City Portfolio yield to maturity decreased from 0.52 percent on June 30, 2012 to 0.47 percent on September 30, 2012. Through September 30, 2012, the City's annual average yield to maturity was 0.61 percent. The City's portfolio benchmark is the range between the 90-day Treasury Bill and the 2 year 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 0.37 percent on September 30, 2012.

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.

Benchmark Comparison	June 30, 2012	Sept. 30, 2012
City Yield to Maturity (YTM)	0.52%	0.47%
City Average YTM	0.68%	0.61%
City Year to Date Yield	0.74%	0.53%
90 Day Treasury Bill	0.09%	0.10%
2 yr Rolling Avg 2 yr T Note	0.40%	0.37%



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



Reserves are an important indicator of the City's fiscal health and effectively represent "savings accounts" that are established to meet unforeseen budgetary needs (general purpose reserves) or are dedicated to a specific purpose. The reserves are listed with their revised estimated balances at the end of the biennium as of September 30, 2012.

Reserve Analysis

General Purpose Reserves

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

General Capital Reserves

- The downturn in real estate transactions over the last few years has significantly impacted **Real Estate Excise Tax (REET)** collections resulting in adjustments to capital project planning to reflect available funding. Through September 30, 2012, REET revenues saw a 41 percent increase over 2011. REET revenues are at 178 percent of budget 75 percent of the way through the year.
- **Impact fees** are currently 143 percent ahead of the same period in 2011 with increases in both transportation and park impact fees. Transportation fees through September 30, 2012 are at 193 percent of the 2012 budget and park fees are at 241 percent. There is no planned use for capital projects in the current budget cycle (except that Park impact fees will be used to pay related debt), since these revenue sources were expected to remain extremely low compared to historical trends until development activity improved.

General Government & Utility Reserves Targets Summary

Reserves	2011 Beginning Balance	Adopted 2012 Ending Balance	Revised 2012 Ending Balance	2011-12 Target	Revised Over (Under) Target
GENERAL PURPOSE RESERVES WITH TARGETS					
General Fund Reserves:					
General Fund Contingency	50,000	50,000	50,000	50,000	0
General Oper. Reserve (Rainy Day)	2,806,513	2,806,513	2,806,513	4,127,496	(1,320,983)
Revenue Stabilization Reserve	131,431	731,431	1,231,431	2,279,251	(1,047,820)
Council Special Projects Reserve	201,534	251,534	189,534	250,000	(60,466)
Contingency	2,051,870	2,201,870	2,201,870	4,016,232	(1,814,362)
General Capital Contingency:	4,844,957	4,669,463	3,593,463	4,631,904	(1,038,441)
General Purpose Reserves with Targets	10,086,305	10,710,811	10,072,811	15,354,883	(5,282,072)
ALL OTHER RESERVES WITH TARGETS					
General Fund Reserves:					
Litigation Reserve	70,000	70,000	0	50,000	(50,000)
Firefighter's Pension Reserve	1,595,017	1,734,215	1,734,215	1,568,207	166,008
Health Benefits Fund:					
Claims Reserve	0	1,424,472	1,424,472	1,424,472	0
Rate Stabilization Reserve	0	500,000	500,000	500,000	0
Excise Tax Capital Improvement:					
REET 1	1,530,280	1,019,907	825,373	1,035,000	(209,627)
REET 2	7,121,695	4,975,718	4,658,465	11,484,000	(6,825,535)
Water/Sewer Operating Reserve:	1,979,380	1,979,380	1,939,380	1,979,380	(40,000)
Water/Sewer Debt Service Reserve:	822,274	508,717	508,717	508,717	0
Water/Sewer Capital Contingency:	1,793,630	1,793,630	1,793,630	250,000	1,543,630
Surface Water Operating Reserve:	412,875	412,875	412,875	412,875	0
Surface Water Capital Contingency:	858,400	858,400	858,400	758,400	100,000
Other Reserves with Targets	16,183,551	15,277,314	14,655,527	19,971,051	(5,315,524)
Reserves without Targets	30,815,305	36,462,059	31,463,436	n/a	n/a
Total Reserves	57,085,161	62,450,184	56,191,774	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).

The summary to the right details all Council authorized uses and additions through September 30, 2012.

USES AND ADDITIONS HIGHLIGHTS

RESERVE	AMOUNT	DESCRIPTION
2011-12 Council Authorized Uses		
2011 Total Uses	\$1,891,458	
2012 First Quarter Total Uses	\$311,500	
2012 Second Quarter Total Uses	\$4,178,338	
Street Improvement Reserve	\$26,300	Lakeview Elementary Pedestrian Improvements
General Capital Contingency Reserve	\$326,000	Juanita Beach Park Acceptance of Work
Surface Wtr Mgmt Capital Reserve	\$203,000	Cross Kirkland Funding
Litigation Reserve	\$55,000	Outside Council
Equipment Rental Reserve	\$57,500	Snow Removal Equipment
2011-12 Council Authorized Additions		
Council Special Projects Reserve	\$3,000	CDBG Funding Request Withdrawn
Revenue Stabilization Reserve	\$500,000	Replenishing Revenue Stabilization Reserve
Radio Reserve	\$7,686	Reimbursement from NORCOM
Development Services Reserve	\$280,000	Recognizing Additional Development Services Revenue for Future Work

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

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

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

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

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

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

Reserves	Description	2011 Beginning Balance	Adopted 2012 Ending Balance	Additional Authorized Uses/Additions	Revised 2012 Ending Balance
GENERAL FUND/CONTINGENCY					
General Fund Reserves:					
General Fund Contingency	Unexpected General Fund expenditures	50,000	50,000	0	50,000
General Oper. Reserve (Rainy Day)	Unforeseen revenues/temporary events	2,806,513	2,806,513	0	2,806,513
Revenue Stabilization Reserve	Temporary revenue shortfalls	131,431	731,431	500,000	1,231,431
Building & Property Reserve	Property-related transactions	2,137,598	2,137,598	0	2,137,598
Council Special Projects Reserve	One-time special projects	201,534	251,534	(62,000)	189,534
Contingency	Unforeseen expenditures	2,051,870	2,201,870	0	2,201,870
Total General Fund/Contingency		7,378,946	8,178,946	438,000	8,616,946
SPECIAL PURPOSE RESERVES					
General Fund Reserves:					
Litigation Reserve	Outside counsel costs contingency	70,000	70,000	(70,000)	0
Labor Relations Reserve	Labor negotiation costs contingency	70,606	70,606	0	70,606
Police Equipment Reserve	Equipment funded from seized property	50,086	50,086	0	50,086
LEOFF 1 Police Reserve	Police long-term care benefits	618,079	618,079	0	618,079
Facilities Expansion Reserve	Special facilities expansions reserve	800,000	800,000	0	800,000
Development Services Reserve	Revenue and staffing stabilization	486,564	636,564	165,997	802,561
Tour Dock	Dock repairs	81,745	81,745	0	81,745
Tree Ordinance	Replacement trees program	29,117	29,117	(10,000)	19,117
Donation Accounts	Donations for specific purposes	185,026	185,026	0	185,026
Revolving Accounts	Fee/reimbursement for specific purposes	436,386	436,386	(2,318)	434,068
Lodging Tax Fund	Tourism program and facilities	146,384	123,566	(19,800)	103,766
Cemetery Improvement	Cemetery improvements/debt service	439,415	439,415	0	439,415
Off-Street Parking	Downtown parking improvements	10,776	10,776	(1,500)	9,276
Firefighter's Pension	Long-term care/pension benefits	1,595,017	1,734,215	0	1,734,215
Total Special Purpose Reserves		5,019,201	5,285,581	62,379	5,347,960
GENERAL CAPITAL RESERVES					
Excise Tax Capital Improvement:					
REET 1	Parks/transportation/facilities projects, parks debt service	1,530,280	1,019,907	(194,534)	825,373
REET 2	Transportation capital projects	7,121,695	4,975,718	(317,253)	4,658,465
Impact Fees					
Roads	Transportation capacity projects	525,095	1,112,245	0	1,112,245
Parks	Parks capacity projects	2,033	3,038	0	3,038
Street Improvement	Street improvements	1,092,258	1,092,258	(68,300)	1,023,958
General Capital Contingency	Changes to General capital projects	4,844,957	4,669,463	(1,076,000)	3,593,463
Total General Capital Reserves		15,116,318	12,872,629	(1,656,087)	11,216,542
UTILITY RESERVES					
Water/Sewer Utility:					
Water/Sewer Operating Reserve	Operating contingency	1,979,380	1,979,380	(40,000)	1,939,380
Water/Sewer Debt Service Reserve	Debt service reserve	822,274	508,717	0	508,717
Water/Sewer Capital Contingency	Changes to Water/Sewer capital projects	1,793,630	1,793,630	0	1,793,630
Water/Sewer Construction Reserve	Replacement/re-prioritized/new projects	7,870,665	9,871,542	(2,441,888)	7,429,654
Surface Water Utility:					
Surface Water Operating Reserve	Operating contingency	412,875	412,875	0	412,875
Surface Water Capital Contingency	Changes to Surface Water capital projects	858,400	858,400	0	858,400
Surface Water-Transp. Related Rsv	Replacement/re-prioritized/new projects	2,483,250	3,666,250	(2,000,000)	1,666,250
Surface Water Construction Reserve	Trans. related surface water projects	2,848,125	3,376,431	(571,000)	2,805,431
Total Utility Reserves		19,068,599	22,467,225	(5,052,888)	17,414,337
INTERNAL SERVICE FUND RESERVES					
Health Benefits:					
Claims Reserve	Health benefits self insurance claims	0	1,424,472	0	1,424,472
Rate Stabilization Reserve	Rate stabilization	0	500,000	0	500,000
Equipment Rental:					
Vehicle Reserve	Vehicle replacements	7,718,221	8,047,063	(57,500)	7,989,563
Radio Reserve	Radio replacements	0	0	7,686	7,686
Information Technology:					
PC Replacement Reserve	PC equipment replacements	258,311	318,646	0	318,646
Technology Initiative Reserve	Technology projects	690,207	690,207	0	690,207
Major Systems Replacement Reserve	Major technology systems replacement	245,500	84,900	0	84,900
Facilities Maintenance:					
Operating Reserve	Unforeseen operating costs	550,000	550,000	0	550,000
Facilities Sinking Fund	20-year facility life cycle costs	1,039,858	2,030,515	0	2,030,515
Total Internal Service Fund Reserves		10,502,097	11,721,331	(49,814)	11,671,517
Grand Total		57,085,161	62,450,184	(6,258,410)	56,191,774



123 5th Avenue
Kirkland, Washington 98033
425-587-3101

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

www.kirklandwa.gov

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

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

Economic Environment Update References:

- Reuters, *Consumer Confidence is the Highest in 7 Months*, The New York Times, September 25, 2012
- Alex Kowalski, U.S. *Consumer Prices Rose in September on Cost of Fuel*, Bloomberg.com, October 16, 2012
- Eric Pryne, *King County Home Sales, Median Prices up from a Year Ago*, Seattle Times, October 4, 2012
- Carol A. Kujawa, MA, A.P.P., *ISM-Western Washington, Inc. Report On Business*, Institute for Supply Management-Western Washington, September, 2012
- Economic & Revenue Update—Washington State Economic & Revenue Forecast Council
- CB Richard Ellis Real Estate Services, *Market View Puget Sound, Third Quarter 2012*
- Northwest Multiple Listing Service
- U.S. Bureau of Labor Statistics
- Washington State Employment Security Department
- Washington State Department of Revenue
- Washington State Department of Labor & Industries
- City of Kirkland Building Division
- City of Kirkland Finance & Administration Department

September/October 2012 Financial Dashboard Highlights**November 14, 2012**

- The dashboard report reflects the 2012 annual budget adopted by the City Council on December 7, 2010 and budget adjustments adopted in March, July and December 2011 and June 2012. The actual revenues and expenditures summarized in the dashboard reflect ten months of data, which represents 83.33% of the calendar year.
- Total General Fund revenues are in line with budget expectations due to the following:
 - Revenues received through October are at 83.8 percent of budget.
 - Selected large General Fund revenues are received in periodic increments including property tax (mostly received in April/May and October/November) and King County EMS payments (semi-annually). Through October about 88% of projected property taxes have been received.
 - Sales tax revenue through October is up 11.3 percent year-to-date over the same period in 2011. The 2012 budget for sales tax revenue assumed an increase of 7.9 percent over 2011 actuals which reflected anticipated increases due to annexation. September monthly sales tax revenue was up 16.2 percent compared to September 2011. Following the annexation of Juanita, Finn Hill and Kingsgate neighborhoods on June 1, 2011, the City received sales tax revenue from these new neighborhoods in September 2011. As a result September's sales tax data is the first that can be compared directly with last year's monthly data. Sales tax revenue received in September is for activity in July. October sales tax was up 20.7 percent compared to October 2011. Sales tax revenue received in October is for activity in August.
 - Utility tax receipts for 2012 are falling short of budget expectations at 81.5 percent. The shortfall in telecommunication utility tax revenues experienced in 2011 continues through October 2012, in addition, electric and water utility tax revenues are coming in under budget due to weather related variations. In total, these three utilities are coming in under budget about 9 percent or \$800,000. These shortfalls are partially offset by gas utility tax revenues exceeding budget expectations which will make up for about \$100,000 of the shortfall.
 - Business license revenues year-to-date are exceeding budget expectations at 90.8 percent of budget.
 - In aggregate, development revenues have exceeded the budget at 108.4 percent. Note that Engineering and Planning development revenues have exceeded the 2012 budget, and Building development revenues are meeting budget expectations, despite budgeted Park Place revenues that have not yet occurred. Note that some of the revenues collected in 2012 are to pay for work that will take place in 2013-2014 and additions to reserves at year-end are planned to recognize this obligation. More information about development activity in September and October is available at the end of the dashboard report.
 - Motor Vehicle Gas tax revenues continue falling short of budget expectations at 80.3 percent of budget, due to reduced usage resulting from increased prices (gas tax is collected on a per gallon basis).
- Total General Fund expenditures are within expectations.
 - Overall, General Fund expenditures are trailing the budget at 76.6 percent. Savings are largely due to postponement of some annexation hiring, position vacancies and jail contract savings.
 - Fire Suppression overtime is in line with budget expectations at 82.0 percent of budget.
 - Fuel costs continue exceeding budget expectations by 43.8 percent or about \$198,000. The average price per gallon through October is \$3.83 and the 2012 budget is based on an average of \$3.10 per gallon.

Attachments: September/October Dashboard
September and October Development Services Highlights

11/14/2012

City of Kirkland Budget Dashboard

Annual Budget Status as of 10/31/2012 (Note 1)
Percent of Year Complete 83.33%

	2012 Budget	Year-to-Date Actual	% Received/ % Expended	Status		Notes
				Current Report	Last Report	
General Fund						
Total Revenues (2)	77,692,409	65,072,034	83.8%			
Total Expenditures	76,815,986	58,807,903	76.6%			

Key Indicators (All Funds)

<i>Revenues</i>						
Sales Tax	14,442,010	12,256,541	84.9%			Prior YTD = \$11,099,889
Utility Taxes	14,468,333	11,796,362	81.5%			
Business License Fees	2,880,710	2,614,536	90.8%			
Development Fees	4,448,601	4,823,522	108.4%			
Gas Tax	1,704,588	1,367,999	80.3%			
<i>Expenditures</i>						
GF Salaries/Benefits	50,890,234	40,139,456	78.9%			Excludes Fire Suppression Overtime
Fire Suppression Overtime	611,588	501,401	82.0%			
Contract Jail Costs	1,850,729	646,950	35.0%			
Fuel Costs	453,192	576,063	127.1%			

Status Key

Revenue is higher than expected or expenditure is lower than expected

Revenue/expenditure is within expected range

WATCH - Revenue/expenditure outside expected range



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

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

n/a - not applicable

Development Services Report – September, 2012

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

- Although new single-family residential permit applications for September went down with 12 applications received compared to 17 in September of last year, we have received 159 applications so far this year compared to 83 through September of last year. There was also a 3% decrease in commercial tenant improvement permits and single-family remodel permits with 33 applications this September compared to 34 last year.
- The monthly average of total building related permits received so far this year (388) continues to exceed the monthly average for 2011 (292), with the total number of permits received in September 2012 (359) exceeding September 2011 (315). Since last June, permit applications in the New Neighborhoods have contributed to a 40% increase in permit volume.
- Building Department revenue for September was \$219,452 which is 7% of our budgeted \$3,231,698 and 82% the average monthly projected revenue of \$269,308, however, year to date revenue has exceeded year to date budget by \$135,911 (79% of the estimated annual revenue has been collected). The 2012 budget includes \$853,890 in revenue for the redevelopment of Parkplace which is still on hold.
- Public Works Department development revenue for September 2012 was \$132,958 which is \$76,862 more than the average monthly projected revenue of \$56,096 and year-to-date revenue is ahead by \$733,605 (184% of the estimated annual revenue has been collected).
- Planning Department revenue for September, 2012 was \$21,237 which is \$19,094 below our adjusted monthly projected revenue average of \$40,331 for 2012. Year-to-date revenue is ahead by \$171,369 (110% of the estimated annual revenue has been collected).

Development Services Report – October, 2012

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

- The October 2012 Building Permit related statistics continue the upward trend that we witnessed in 2011. New single-family residential permit applications for October were up significantly with 30 applications received compared to 8 in October of last year. We have received 189 applications so far this year compared to 91 through October of last year. In contrast, there was a 45% decrease in commercial tenant improvement permits and single-family remodel permits with 23 applications this October compared to 42 last year.
- The monthly average of total building related permits received so far this year (389) continues to exceed the monthly average for 2011 (292), with the total number of permits received in October 2012 (397) exceeding October 2011 (369). Since last June, permit applications in the New Neighborhoods have contributed to a 40% increase in permit volume.
- Building Department revenue for October was \$253,326 which is 8% of our budgeted \$3,231,698 and 94% the average monthly projected revenue of \$269,308, however, year to date revenue has exceeded year to date budget by \$119,929 (87% of the estimated annual revenue has been collected). The 2012 budget assumed \$853,890 in revenue for the redevelopment of Parkplace which is still on hold.
- Public Works Department development revenue for October 2012 was \$115,810 which is \$59,714 more than the average monthly projected revenue of \$56,096 and year-to-date revenue is ahead by \$793,319 (201% of the estimated annual revenue has been collected).
- Planning Department revenue for October, 2012 was \$63,409 which is \$23,078 above our adjusted monthly projected revenue average of \$40,331 for 2012. Year-to-date revenue is ahead by \$194,448 (124% of the estimated annual revenue has been collected). Code enforcement fines were unusually high in October due to the resolution of a long standing case.



CITY OF KIRKLAND

Department of Finance & Administration

123 Fifth Avenue, Kirkland, WA 98033 425.587.3100

www.kirklandwa.gov

MEMORANDUM

To: Kurt Triplett, City Manager

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

Date: November 14, 2012

Subject: October Sales Tax Revenue Analysis

October sales tax revenue is **up 20.7 percent** compared to October 2011. **Year-to-date** revenue performance is **up 11.3 percent** compared to the same period last year. The 2012 budget for sales tax revenue assumed an increase of 7.9 percent over 2011 actuals which reflected anticipated increases due to annexation.

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

- **Contracting** sector performance is **up 50.9 percent** (about \$85,500); about 40 percent of the gain in this category can be attributed to the construction of two new elementary schools in the new neighborhoods and other construction of retail and office buildings.
- **Auto/gas retail** sector is **up 16.3 percent** this month (about \$46,500), due to positive performance by most of the key retailers in this category.
- **Other retail** is **up 19.1 percent** (about \$28,900), due to positive performance in all of the retail categories and a one-time adjustment of \$10,527 from the Department of Revenue for a retail store in the new neighborhoods.
- The **general merchandise/miscellaneous retail** sector is **up 21.2 percent** (about \$28,400), due to positive performance by two key retailers.
- **Wholesale** is **up 54.9 percent** (about \$25,700), due to increases in both the non-durable and durable goods categories.
- The **services** sector is **up 8.3 percent** (about \$11,800), due to positive performance in all of the categories except for education services.
- The **miscellaneous** sector performance is **up 8.9 percent** (about \$6,700), due to increases in the public administration and real estate categories.
- **Retail eating/drinking** sector is **up 2.7 percent** (about \$3,000), due to positive performance by most key retailers in this category, and despite a few retailers not reporting for this period. We continue to work with the Department of Revenue to ensure Kirkland is receiving the tax revenue it is due. Once these payments are collected, the payments will be remitted to the City.
- **Communications** is **up 5.1 percent** (about \$1,750), due to positive performance by key retailers in this category.

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

Business Sector Group	October		Dollar Change	Percent Change	Percent of Total	
	2011	2012			2011	2012
Services	142,804	154,606	11,802	8.3%	12.4%	11.1%
Contracting	167,735	253,160	85,425	50.9%	14.6%	18.3%
Communications	34,552	36,304	1,752	5.1%	3.0%	2.6%
Auto/Gas Retail	285,341	331,877	46,536	16.3%	24.8%	23.9%
Gen Merch/Misc Retail	134,223	162,638	28,415	21.2%	11.7%	11.7%
Retail Eating/Drinking	110,355	113,350	2,995	2.7%	9.6%	8.2%
Other Retail	151,131	180,019	28,888	19.1%	13.2%	13.0%
Wholesale	46,769	72,440	25,671	54.9%	4.1%	5.2%
Miscellaneous	75,646	82,355	6,709	8.9%	6.6%	6.0%
Total	1,148,556	1,386,749	238,193	20.7%	100.0%	100.0%

Year to Date Business Sector Review:

- Retail sectors sales tax revenue collectively are up 12.5 percent compared to 2011.
 - The **general merchandise/miscellaneous retail** sector is **up 4.2 percent** compared to last year largely due to positive performance by two key retailers in this category.
 - The **auto/gas retail** sector is **up 14.1 percent** compared to last year, largely due to positive performance by most of the key retailers in this category.
 - The **retail eating/drinking** sector performance is **up 11.0 percent** compared to last year, due to positive performance by a few key retailers.
 - **Other retail** is **up 19.3 percent** compared to last year, due to positive performance in all of the categories except for furniture and electronics categories.
- The **contracting** sector is **up 43.4 percent** compared to last year, due to significant increases in contracting activity over the last several months, some of the gain in this category is one-time revenue due to the construction of two new elementary schools in the new neighborhoods and other major projects.
- The **wholesale** sector is **up 9.0 percent** compared to last year, largely due to increases in both the durable and non-durable goods categories.
- The **services** sector is **down 2.6 percent** compared to last year, largely due to a one-time taxpayer refund by the Department of Revenue of \$127,000 in the other information category. The accommodations sector is up 1.5 percent or about \$3,600.
- The **communications** sector is **down 9.5 percent** compared to last year due to one-time development related revenues in February 2011 in the telecommunications category. Factoring out this one-time revenue, this category would be up 7.2 percent compared to last year.
- The **miscellaneous** sector is **down 17.2 percent** compared to last year because the City received one-time Department of Revenue amnesty program revenues in 2011.

City of Kirkland Actual Sales Tax Receipts

Business Sector Group	January-October		Dollar Change	Percent Change	Percent of Total	
	2011	2012			2011	2012
Services	1,393,308	1,357,333	(35,975)	-2.6%	12.7%	11.1%
Contracting	1,381,556	1,981,268	599,712	43.4%	12.5%	16.2%
Communications	399,808	361,964	(37,844)	-9.5%	3.6%	3.0%
Auto/Gas Retail	2,622,821	2,993,554	370,733	14.1%	23.8%	24.4%
Gen Merch/Misc Retail	1,508,444	1,571,444	63,000	4.2%	13.7%	12.8%
Retail Eating/Drinking	944,636	1,048,924	104,288	11.0%	8.6%	8.6%
Other Retail	1,382,135	1,648,932	266,797	19.3%	12.5%	13.5%
Wholesale	570,967	622,392	51,425	9.0%	5.2%	5.1%
Miscellaneous	810,481	670,731	(139,750)	-17.2%	7.4%	5.5%
Total	11,014,156	12,256,542	1,242,386	11.3%	100.0%	100.0%

Conclusion

Year to date sales tax revenue is coming in significantly higher than 2011 due to strong performance in the contracting, auto/gas retail sectors, the other retail categories and revenue increases due to annexation.



Washington State economists expect the state of Washington to outperform the U.S. economy however, the recovery will continue to be slow by historical standards and unemployment will decline gradually. In the last three months, the Washington State economy added 12,700 jobs. Manufacturing has led the employment growth and remains strong. Of all the jobs added, manufacturing added 3,700 and of those jobs 3,400 were in the aerospace sector. Construction employment growth remains weak with only 500 net new jobs and government employment continues to decline, losing 600 jobs. Housing construction, as measured by building permits, continues to strengthen. The upturn in the construction sector has been led by multi-family housing.

Economic growth in the U.S. was stronger than forecasted in the third quarter, propelled by gains in consumer spending, defense outlays and homebuilding. Gross domestic product, the value of all goods and services produced, rose at a 2 percent annual rate after climbing 1.3 percent in the last quarter. Consumer confidence rose to a five-year high in October, suggesting that gains in spending can be sustained as the real-estate revival bolsters household finances. "We are encouraged by the improvement we're seeing in consumer spending and housing," said Dean Maki, chief U.S. economist in New York for Barclays Plc.



CITY OF KIRKLAND

Department of Finance & Administration

123 Fifth Avenue, Kirkland, WA 98033 425.587.3100

www.kirklandwa.gov

MEMORANDUM

To: Kurt Triplett, City Manager

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

Date: November 26, 2012

Subject: November Sales Tax Revenue Analysis

November sales tax revenue is **up 14.1 percent** compared to November 2011. **Year-to-date** revenue performance is **up 11.6 percent** compared to the same period last year. The 2012 budget for sales tax revenue assumed an increase of 7.9 percent over 2011 actuals which reflected anticipated increases due to annexation.

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

- **Contracting** sector performance is **up 50.1 percent** (about \$97,100); about 20 percent of the gain in this category can be attributed to the construction of two new elementary schools in the new neighborhoods. Other construction of retail and office buildings, multifamily and residential projects have seen significant improvement this month.
- **Auto/gas retail** sector is **up 25.4 percent** this month (about \$68,700), due to positive performance by all of the key retailers in this category.
- **Other retail** is **up 6.9 percent** (about \$11,600), due to positive performance by most of the retail categories with the exception of the food and beverage category.
- The **miscellaneous** sector performance is **up 14.3 percent** (about \$9,400), due to increases in the finance and insurance and real estate categories.
- The **general merchandise/miscellaneous retail** sector is **up 6.3 percent** (about \$9,200), due to positive performance by two key retailers.
- **Retail eating/drinking** sector is **up 4.9 percent** (about \$5,300), due to positive performance by most key retailers in this category.
- **Communications** is **down 7.0 percent** (about \$2,600), due to negative performance by one key retailer in this category.
- The **services** sector is **down 2.9 percent** (about \$4,700), due to a one-time correction by the Department of Revenue in the repairs and maintenance category last year.
- **Wholesale** is **down 23.6 percent** (almost \$20,000), due to negative performance by one key retailer in the durable goods (household appliances) category.

November 26, 2012

Page 2

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

Business Sector Group	November		Dollar Change	Percent Change	Percent of Total	
	2011	2012			2011	2012
Services	164,755	160,007	(4,748)	-2.9%	13.3%	11.3%
Contracting	193,827	290,929	97,102	50.1%	15.7%	20.6%
Communications	37,015	34,409	(2,606)	-7.0%	3.0%	2.4%
Auto/Gas Retail	270,975	339,681	68,706	25.4%	21.9%	24.1%
Gen Merch/Misc Retail	146,231	155,463	9,232	6.3%	11.8%	11.0%
Retail Eating/Drinking	106,745	112,006	5,261	4.9%	8.6%	7.9%
Other Retail	166,323	177,881	11,558	6.9%	13.5%	12.6%
Wholesale	84,751	64,787	(19,964)	-23.6%	6.9%	4.6%
Miscellaneous	65,642	75,038	9,396	14.3%	5.3%	5.5%
Total	1,236,264	1,410,201	173,937	14.1%	100.0%	100.0%

Year to Date Business Sector Review:

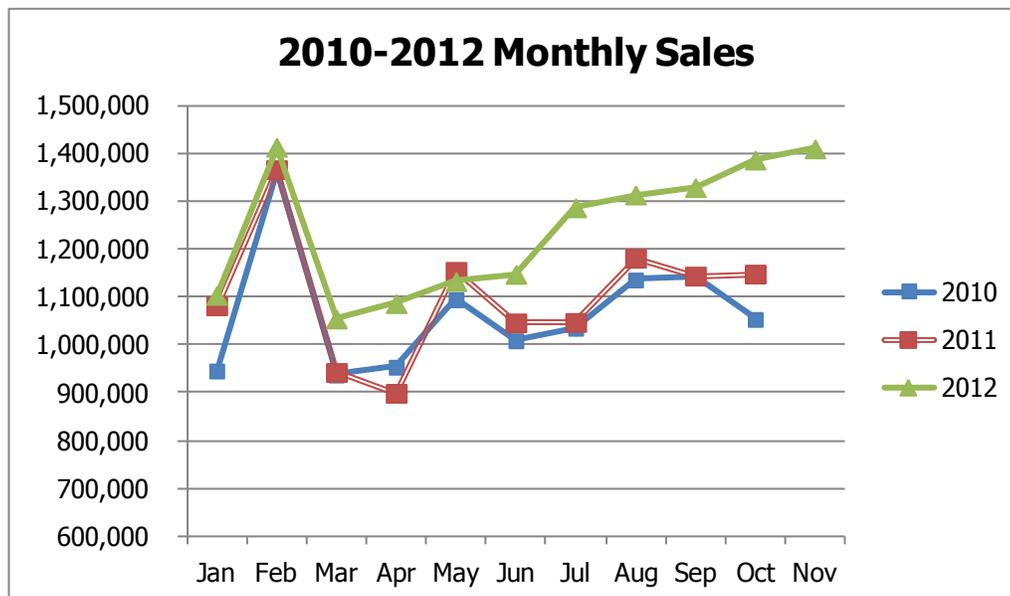
- Retail sectors sales tax revenue collectively are up 13.7 percent compared to 2011.
 - The **general merchandise/miscellaneous retail** sector is **up 4.4 percent** compared to last year largely due to positive performance by two key retailers in this category.
 - The **auto/gas retail** sector is **up 15.2 percent** compared to last year, largely due to positive performance by all of the key retailers in this category.
 - The **retail eating/drinking** sector performance is **up 10.4 percent** compared to last year, due to positive performance by several key retailers.
 - **Other retail** is **up 18.0 percent** compared to last year, due to positive performance in all of the categories except for furniture and electronics categories.
- The **contracting** sector is **up 44.3 percent** compared to last year, due to significant increases in contracting activity over the last several months.
- The **wholesale** sector is **up 4.8 percent** compared to last year, largely due to increases in the durable and non-durable goods categories.
- The **services** sector is **down 2.7 percent** compared to last year, largely due to a one-time taxpayer refund by the Department of Revenue of \$127,000 in the other information category. The accommodations sector is up 2.0 percent or about \$5,400.
- The **communications** sector is **down 9.3 percent** compared to last year due to one-time development related revenues in February 2011 in the telecommunications category. Factoring out this one-time revenue, this category would be up 5.8 percent compared to last year.
- The **miscellaneous** sector is **down 14.9 percent** compared to last year because the City received one-time Department of Revenue amnesty program revenues in 2011.

City of Kirkland Actual Sales Tax Receipts

Business Sector Group	January-November		Dollar Change	Percent Change	Percent of Total	
	2011	2012			2011	2012
Services	1,557,880	1,516,179	(41,701)	-2.7%	12.7%	11.1%
Contracting	1,575,411	2,272,867	697,456	44.3%	12.9%	16.6%
Communications	436,822	396,373	(40,449)	-9.3%	3.6%	2.9%
Auto/Gas Retail	2,893,795	3,333,235	439,440	15.2%	23.6%	24.4%
Gen Merch/Misc Retail	1,654,637	1,727,115	72,478	4.4%	13.5%	12.6%
Retail Eating/Drinking	1,051,381	1,160,930	109,549	10.4%	8.6%	8.5%
Other Retail	1,548,862	1,827,415	278,553	18.0%	12.6%	13.4%
Wholesale	655,526	687,082	31,556	4.8%	5.4%	5.0%
Miscellaneous	876,107	745,546	(130,561)	-14.9%	7.2%	5.5%
Total	12,250,421	13,666,742	1,416,321	11.6%	100.0%	100.0%

Conclusion

Year to date sales tax revenue continues to come in significantly higher than 2011 due to strong performance in the contracting, auto/gas retail sectors, the other retail categories and revenue increases due to annexation.



Washington employment continues to grow at a moderate rate. The manufacturing sector is slowing but construction is improving. The Washington economy added 2,400 jobs in September, 2,100 fewer than the 4,500 expected in the September forecast. Manufacturing employment unexpectedly declined by 500 in September as food manufacturing fell and aerospace grew less than expected. Construction employment rose 1,000 compared to the forecast of 400 jobs. Government employment declined by 500 in September but private service-providing employment rose 2,400. The state's unemployment rate declined slightly in September to 8.5% from 8.6% in August.

The Conference Board Consumer Confidence Index, improved again in October. The Index now stands at 72.2, up from 68.4 in September. The Present Situation Index increased from 48.7 to 56.2. Lynn Franco, Director of Economic Indicators at The Conference Board says: "The Consumer Confidence Index increased again in October and is now at its highest level this year. Consumers were considerably more positive in their assessment of current conditions, with improvements in the job market as the major driver. Consumers were modestly more upbeat about their financial situation and the short-term economic outlook, and appear to be in better spirits approaching the holiday season."

**City of Kirkland
2011-2012 Budget
2012 Year-End Budget Adjustment Summary**

Adjustment Type	Dept.	Description	Adjustments	Appropriation Adjustment	Funding Source			Funding Source/Notes
					Internal Transf./Chrg.	Resources Forward	External Revenue	
General Fund								
Council Directed/Other		2012 Cost of Living Adjustments (excluding IAFF personnel)	720,400					Reserves - Undistributed Personnel Costs
Housekeeping	PW	Temporary Construction Inspector	14,457					Development Services Reserve
Housekeeping	PD	Grant and Reimbursement Revenue for Police Services	55,624	55,624			55,624	Grants/Reimbursements
Housekeeping	FB	Grant Revenue for Fire Services and CERT Donations	10,500	10,500			10,500	Grants/Donations
Housekeeping	PD	Police Evidence Storage Cabinet	10,409	10,409	10,409			Transfer from Facilities Maintenance Fund
Housekeeping	PK	Jasper's Dog Park	7,820	7,820			7,820	Ho Short Plat Fee in Lieu
Housekeeping		Development Services Study	45,000					Development Services Reserve
Housekeeping	FB	Transfer of funds from CIP for Nearshore Water Rescue Equip.	45,000	45,000	45,000			Transfer from Capital Improvement Projects
General Fund Total			909,210	129,353	55,409	-	73,944	
OTHER FUNDS								
Lodging Tax Fund								
Council Directed/Other		2012 Cost of Living Adjustments	1,464					Reserves - Undistributed Personnel Costs
Lodging Tax Fund Total			1,464	-	-	-	-	
Street Operating Fund								
Council Directed/Other	PW	Parking Pay Station Pilot Project	1,380					Reserves
Council Directed/Other	PW	Lakeview Elementary Pedestrian Improvement Project	26,300					Reserves/Transfer to Transportation Capital Project Fund
Council Directed/Other		2012 Cost of Living Adjustments	36,238					Reserves - Undistributed Personnel Costs
Street Operating Fund Total			63,918	-	-	-	-	
Parks Maintenance Fund								
Council Directed/Other		2012 Cost of Living Adjustments	16,256					Reserves - Undistributed Personnel Costs
Parks Maintenance Fund Total			16,256	-	-	-	-	
LTGO Debt Service Fund								
Housekeeping		Fire District 41 Debt Service Payments	480,173	480,173			480,173	Fire District 41 Property Tax
Council Directed/Other		Recognizing 2011 Bond Refunding	4,453,003	4,453,003			4,453,003	2011 Bond Refunding
LTGO Debt Service Fund Total			4,933,176	4,933,176	-	-	4,933,176	
General Capital Projects Fund								
Council Directed/Other	PK	Juanita Beach Park Supplemental Funding	346,000					Reserves
Housekeeping		Maintenance Management System Upgrade Delayed to 2013-14	(250,000)	(250,000)	(250,000)			Transfer in from IT, Surface Water and Water/Sewer Funds
General Capital Projects Fund Total			96,000	(250,000)	(250,000)	-	-	
Transportation Capital Projects Fund								
Council Directed/Other	PW	Lakeview Elementary Pedestrian Improvement Project	26,300	26,300	26,300			Transfer from Street Improvement Reserve
Council Directed/Other	PW	NE 120th Roadway Extension - Right-of-Way Purchase	317,000	317,000	317,000			REET Reserves
Council Directed/Other	PW	100th Avenue NE Bicycle Lanes Project - Change in Scope	86,000	86,000	86,000			REET Reserves
Council Directed/Other	PW	Moving Portion of CKC Purchase Budget to Surface Wtr.	(1,000,000)	(1,000,000)			(1,000,000)	Department of Transportation Grant
Transportation Capital Projects Fund			(570,700)	(570,700)	429,300	-	(1,000,000)	

Adjustment Type	Dept.	Description	Adjustments	Appropriation Adjustment	Funding Source			Funding Source/Notes
					Internal Transf./Chrg.	Resources Forward	External Revenue	
Water/Sewer Utility Operating Fund								
Housekeeping	PW	Credit Card Fees	136,880					Reserves
Council Directed/Other		2012 Cost of Living Adjustments	35,628					Reserves - Undistributed Personnel Costs
Water/Sewer Utility Operating Fund Total			172,508	-	-	-	-	
Water/Sewer Capital Fund								
Council Directed/Other	PW	NE 85th St Watermain Replacement	626,000					Reserves
Water/Sewer Capital Fund Total			626,000	-	-	-	-	
Surface Water Operating Fund								
Council Directed/Other	PW	Screwsucker Pump Purchase	53,307					Reserves
Council Directed/Other		2012 Cost of Living Adjustments	49,864					Reserves - Undistributed Personnel Costs
Surface Water Operating Fund Total			103,171	-	-	-	-	
Surface Water Capital Fund								
Council Directed/Other	PW	CMAQ Grant Match	203,000					Reserves
Council Directed/Other		Surface Water Portion of Cross Kirkland Corridor Purchase	1,000,000					Transfer from Totem Lake and Forbes Creek Surf. Wtr. Proj.
Surface Water Capital Fund Total			1,203,000	-	-	-	-	
Solid Waste Fund								
Housekeeping	PW	Credit Card Fees	73,942					Reserves
Council Directed/Other		2012 Cost of Living Adjustments	6,315					Reserves - Undistributed Personnel Costs
Solid Waste Fund Total			80,257	-	-	-	-	
Equipment Rental Fund								
Housekeeping	PW	2012 Fleet Model Rate Distribution	(58,909)	(58,909)	(58,909)			Replacement Rates
Council Directed/Other		2012 Cost of Living Adjustments	14,088					Reserves - Undistributed Personnel Costs
Equipment Rental Fund Total			(44,821)	(58,909)	(58,909)	-	-	
Information Technology Fund								
Council Directed/Other		2012 Cost of Living Adjustments	59,396					Reserves - Undistributed Personnel Costs
Information Technology Fund Total			59,396	-	-	-	-	
Facilities Maintenance Fund								
Housekeeping	PW	Facilities Energy Audit	30,000					Reserves
Housekeeping	PD	Police Evidence Storage Cabinet	10,409					Reserves/Transfer to General Fund
Council Directed/Other		2012 Cost of Living Adjustments	11,742					Reserves - Undistributed Personnel Costs
Facilities Maintenance Fund Total			52,151	-	-	-	-	
TOTAL OTHER FUNDS			6,791,776	4,053,567	120,391	-	3,933,176	
TOTAL ALL FUNDS			7,700,986	4,182,920	175,800	-	4,007,120	

ORDINANCE O-4395

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

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

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

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

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

<u>Funds</u>	Current Budget	Adjustments	Revised Budget
General	161,231,911	129,353	161,361,264
Lodging Tax	537,249	-	537,249
Street Operating	14,716,526	-	14,716,526
Cemetery Operating	762,492	-	762,492
Parks Maintenance	2,588,335	-	2,588,335
Contingency	2,246,510	-	2,246,510
Impact Fees	1,971,968	-	1,971,968
Excise Tax Capital Improvement	12,866,748	-	12,866,748
Limited General Obligation Bonds	6,437,377	4,933,176	11,370,553
Unlimited General Obligation Bonds	2,144,487	-	2,144,487
General Capital Projects	52,903,591	(250,000)	52,653,591
Transportation Capital Projects	33,485,391	(570,700)	32,914,691
Water/Sewer Operating	45,945,527	-	45,945,527
Water/Sewer Debt Service	2,962,187	-	2,962,187
Utility Capital Projects	18,054,238	-	18,054,238
Surface Water Management	18,442,953	-	18,442,953
Surface Water Capital Projects	14,750,925	-	14,750,925
Solid Waste	25,102,501	-	25,102,501
Health Benefits	15,735,691	-	15,735,691
Equipment Rental	19,214,533	(58,909)	19,155,624
Information Technology	11,460,982	-	11,460,982
Facilities Maintenance	10,769,943	-	10,769,943
Firefighter's Pension	1,767,099	-	1,767,099
	<u>476,099,164</u>	<u>4,182,920</u>	<u>480,282,084</u>

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

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

Signed in authentication thereof this ____ day of _____, 2012.

MAYOR

Attest:

City Clerk

Approved as to Form:

City Attorney