CITY OF KIRKLAND
Department of Finance & Administration
123 Fifth Avenue, Kirkland, WA 98033 425.587.3100
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MEMORANDUM

To: Kurt Triplett, City Manager

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

Date: December 5, 2012

Subject: **2013-2014 BUDGET ADOPTION**

RECOMMENDATION:

Council approves the attached ordinance adopting the budget for the 2013-2014 biennium and the related resolutions and ordinances on the consent calendar.

BACKGROUND DISCUSSION:

As part of the Council's action to adopt the 2013-2014 Budget, the Council will need to act on the following related items:

- Suspending reserve replenishment requirements
- Updating the City's fiscal policies
- Extending suspension of impact fees for change of use
- Exempting revenue generating regulatory license (RGRL) fees for the first year for new, small (10 FTEs or fewer) businesses inside the City

Background information for each of the items listed above and the adjustments included in the final budget are provided below. The resolutions and ordinances to implement policy changes are on the consent calendar and included as attachments to this memorandum. The Final Budget ordinance and Exhibit A to the ordinance are also included as attachments at the end of this memorandum.

Suspending Reserve Replenishment Requirements

The City's current fiscal policies require a high percentage of (up to all) uncommitted funds available at the end of a biennium to be used for reserve replenishment until reserves meet 80% of target and the revenue stabilization reserve is at 100% of target (Attachment A). The fiscal policies also permit the Council to suspend the requirements to replenish reserves under special circumstances. The 2013-2014 Budget as proposed by the City Manager and amended by the Council assumes the suspension of the replenishment element restricting the use of unplanned funds until 80% of all targets are met due to the following special conditions:

- Continuation of the past practice of funding some programs with one-time funds (ARCH Trust Fund, Kirkland Performance Center support, and others) given the discretionary nature of the funding levels and the absence of reliable ongoing resources for those purposes;
- One-time investment needed to establish the Public Safety/Information Technology sinking funds; and
- The objective of addressing some of the high-priority recommendations from the recently completed Fire Strategic Plan.

In order to suspend the reserve replenishment requirements, staff recommends that Council adopts the attached resolution, R-4947.

Updating Fiscal Policies

The City's current fiscal policies do not address the impact of voted property tax levies on establishing reserve targets. Staff proposes that in establishing targets for the Contingency Reserve, General Operating Reserve, Revenue Stabilization Reserve, Council Special Projects Reserve, and the General Capital Contingency, voted property tax levies be excluded from the calculations, since the levies were not intended to burden the General Fund and are expected to absorb unexpected costs from levy proceeds. This proposed amendment of the City's fiscal policies is presented for Council action in the attached resolution, R-4948.

Extending Suspension of Impact Fees for Change of Use[1]

At their meeting on January 18, 2011, the City Council adopted Ordinance 4288 amending the Kirkland Municipal Code (KMC) to temporarily suspend the charging of impact fees for a "change in use" of an existing building through December 31, 2013 (Attachment B). At the Council's direction, staff has drafted an ordinance (Ordinance 4393) that would amend the Kirkland Municipal Code Section 27.04.035 extending the expiration date from December 31, 2013 to December 31, 2014 to match the 2013-2014 budget cycle. A transportation impact fee update will also occur in 2013/2014 as part of the Comprehensive Plan update process and this update will help inform the Council as it decides whether to restore the fee in the future, or sunset it permanently.

Exempting Revenue Generating Regulatory License (RGRL) Fees

At the Council's direction, staff has drafted an ordinance (Ordinance 4394) that would amend the City's code regarding Revenue Generating Regulatory License (RGRL) fees to encourage economic development within the City. The proposed amendment would add a new subsection to KMC 7.02.160 that would exempt a business with 10 or fewer employees or FTE's located within the city limits of Kirkland from the RGRL for the first year of business operation only. Businesses exempt from the RGRL under this subsection will still be required to pay the basic license fee under KMC 7.02.120 and register the number of employees and FTE's with the City.

2013-2014 Budget Adoption

The attached ordinance (Ordinance 4396) adopts the 2013-2014 Budget as proposed by the City Manager and amended by the City Council. By state law, the budget must be adopted by

[1] The 2013-2014 Budget includes increasing the impact and development fees based on inflation. These fee changes will be processed administratively and effective early in 2013.

December 31, 2012. The budget is adopted at the fund level which sets the total expenditure authority for the biennium for each fund.

The table below summarizes the changes to the Preliminary Budget, which total $3.35 million:

	2013-2014 Preliminary Budget	Adjustments	2013-2014 Final Budget
General Fund	171,895,906	(269,068)	171,626,838
Other Funds:			
Street Operating - Reduction in projected levy revenues	20,294,540	(127,254)	20,167,286
Park Levy - Levy funds going through operating fund then transferred to CIP	2,747,711	2,258,366	5,006,077
Equipment Rental - Operating transfer in for utility vehicle in approved service package	19,059,357	31,000	19,090,357
Excise Tax Capital Improvement - Revised revenue estimates, early repayment of loan and change in the timing of ST 0057 funding	15,375,429	(2,778,254)	12,597,175
General Capital Projects - Revised Capital Improvement Program	54,679,019	80,329	54,759,348
Transportation Capital Projects - Revised Capital Improvement Program	35,099,887	4,316,496	39,416,383
Utility Capital Projects - Remove 2013-14 interest due to loan payback in 2012	22,442,804	(27,743)	22,415,061
Surface Water Management - Remove Department of Ecology Grant	21,553,357	(109,000)	21,444,357
Surface Water Capital Projects - Remove 2013-14 interest due to loan payback in 2012	18,342,631	(27,328)	18,315,303
All other funds with no changes from 2013-14 Preliminary Budget	158,870,726	-	158,870,726
Total	**540,361,367**	**3,347,544**	**543,708,911**

Factors contributing to the change in the Final 2013-2014 Budget from the Preliminary Budget include: funding Human Services at the Option #2 level, the Time Bank, and CERT classes on a one-time basis in 2013-2014. The one-time needs identified amount to $50,814 per year. The Council directed staff to use Council Contingency along with reducing the proposed level of funding for ARCH to fund these one-time needs. Additionally, Council directed that the one-time sales tax revenue resulting from receipts in excess of budgeted levels in October 2012 be used to replenish reserves as part of the budget adjustment during the first quarter of 2013. The table below summarizes Council directions on the changes to the preliminary 2013-2014 Budget from the meetings on November 7th and November 20th.

	Annual Amount	Biennial Amount
Uses:		
Human Services at Option # 2 Level	44,814	89,628
Time Bank	1,000	2,000
CERT	5,000	10,000
Total Uses	**50,814**	**101,628**
Funding Sources:		
Reduction in ARCH Funding	15,000	30,000
Council Contingency	35,814	71,628
Funding Needed	**-**	**-**

The Council's direction on the funding of these one-time needs in 2013-2014 is included in the attached ordinance adopting the 2013-2014 Budget.

Other major adjustments to the Preliminary Budget include:

- **Converting ongoing hourly wages to FTE** – Authorize addition of 0.35 FTE in the City Manager's Office using existing on-call staff funding to support LTAC (0.06 FTE) and economic development (0.29 FTE). This change has no net budget impact.

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

- **Street Operating** – Reflecting the revised revenue estimate from the passage of Proposition 1, a reduction in budget of $127,254.

- **Park Levy** – Receipting all revenues from the passage of Proposition 2 in the Park Levy Fund and then transferring it to the Capital Improvement Funds to provide a clear segregation of the levy funds for accountability purposes increases the budget by $2.26 million. This results in the revenues appearing in both the levy fund and the Capital fund.

- **Equipment Rental** – Recognizing a transfer in to fund the purchase of a vehicle as approved in a service package, an increase in appropriation of $31,000.

- **Excise Tax Capital Improvement** – Recognizing revised revenue estimates, repayment of the interfund loan to purchase the Cross Kirkland Corridor (CKC) in 2012 and the funding of the NE 120th Roadway Extension project (ST 0057) reduces the beginning balance of this fund. The total change is a reduction of $2.78 million.

- **General Capital Projects** – Recognizing the CIP changes as discussed at the November 20th Council meeting and the adjustments to the Park Levy (Proposition 2) funded project as discussed in the 2013-2018 CIP adoption memo – net addition of $80,329 in 2013-2014.

- **Transportation Capital Projects** – Recognizing the CIP changes as discussed at the November 20th Council meeting and the adjustments to the Street Levy (Proposition 1) funded project (Street Maintenance and Pedestrian Safety – ST 0006 003) – net addition of $4.3 million in 2013-2014.

- Reducing interest revenue in 2013-14 from early repayment of the interfund loan to purchase the CKC:

    - **Utility Capital Projects** – Reduce budget by $27,743
    - **Surface Water Capital Projects** – Reduce budget by $27,328

- **Surface Water Management** – Reducing the budget by $109,000 because the anticipated grant from the Department of Ecology is already included in the 2011-2012 budget.

A summary of the 2013-2014 Final Budget by fund type, as compared to the 2011-2012 Amended Budget as of December, 2012, is included in the table below.

Fund Type	2011-12 Amended Budget	2013-14 Final Budget	% Change
GENERAL GOVERNMENT			
General Fund	161,361,264	171,626,838	6.4%
Other Operating	18,604,602	29,740,972	59.9%
Internal Service Funds	57,122,240	68,541,621	20.0%
Non-Operating Funds	117,935,647	123,593,196	4.8%
UTILITIES			
Water/Sewer	66,961,952	77,811,900	16.2%
Surface Water	33,193,878	39,759,660	19.8%
Solid Waste	25,102,501	32,634,724	30.0%
TOTAL BUDGET	**480,282,084**	**543,708,911**	13.2%

The 2013-2014 Final Budget totals $543.71 million which represents an increase of 13.2% or an increase of $63.4 million from the Amended 2011-2012 Budget (as of December 2012), including the year-end adjustments. This will be the comparison in the Final 2013-2014 Budget document.

Follow-up Requested by Council

Along with modifications to the biennial budget, Council requested several reports as future follow-up items. See Attachment C for the list of follow-up items as presented to Council on November 7, 2012. Note that, most of the items listed will be brought forward through Council subcommittees.

Copies of the final budget document will be available during the first quarter of 2013.

Exhibit 1: Reserve Replenishment Principles – October 18, 2011

Reserve replenishments occur in two ways during periods of economic recovery:

- Planned - A specific amount is included in the adopted budget, and
- Unplanned - Ending fund balances are higher than budgeted, either due to higher than budgeted revenues or under-expenditures.

Planned amounts are included as part of the adopted budget. **Planned replenishments toward 80% of the target level shall be set to at least 1% of the General Fund adopted budget.**

Unplanned amounts available at the end of each biennium (if any) should help replenish to target faster. A high percentage (up to all) uncommitted funds available at the end of a biennium should be used for reserve replenishment until reserves meet 80% of target and the revenue stabilization reserve is at 100% of target. Some or all of those unplanned funds may be used in place of planned (budgeted) amounts in the following biennium to the extent it meets or exceeds the 1% budgeted amount.

Once reserves reach 80% of target and revenue stabilization reserve is at 100%, funds may be used to meet other one time or on-going needs. Additional funds should be used to fund a variety of needs, based on the following process:

- Set 50% of available cash toward reserves until they are at 100% of target. The remaining 50% shall be available for one or more of the following needs, depending on the nature of the funds available (one-time or on-going) and in the following order of priority (see flowchart on the following page):
    - Fund liabilities related to sinking funds for public safety and information technology equipment,
    - Maintain current service levels,
    - Fund one-time projects or studies,
    - Increase funding for capital purposes,
    - Restore previous program service reductions,
    - Potential program/service enhancements.

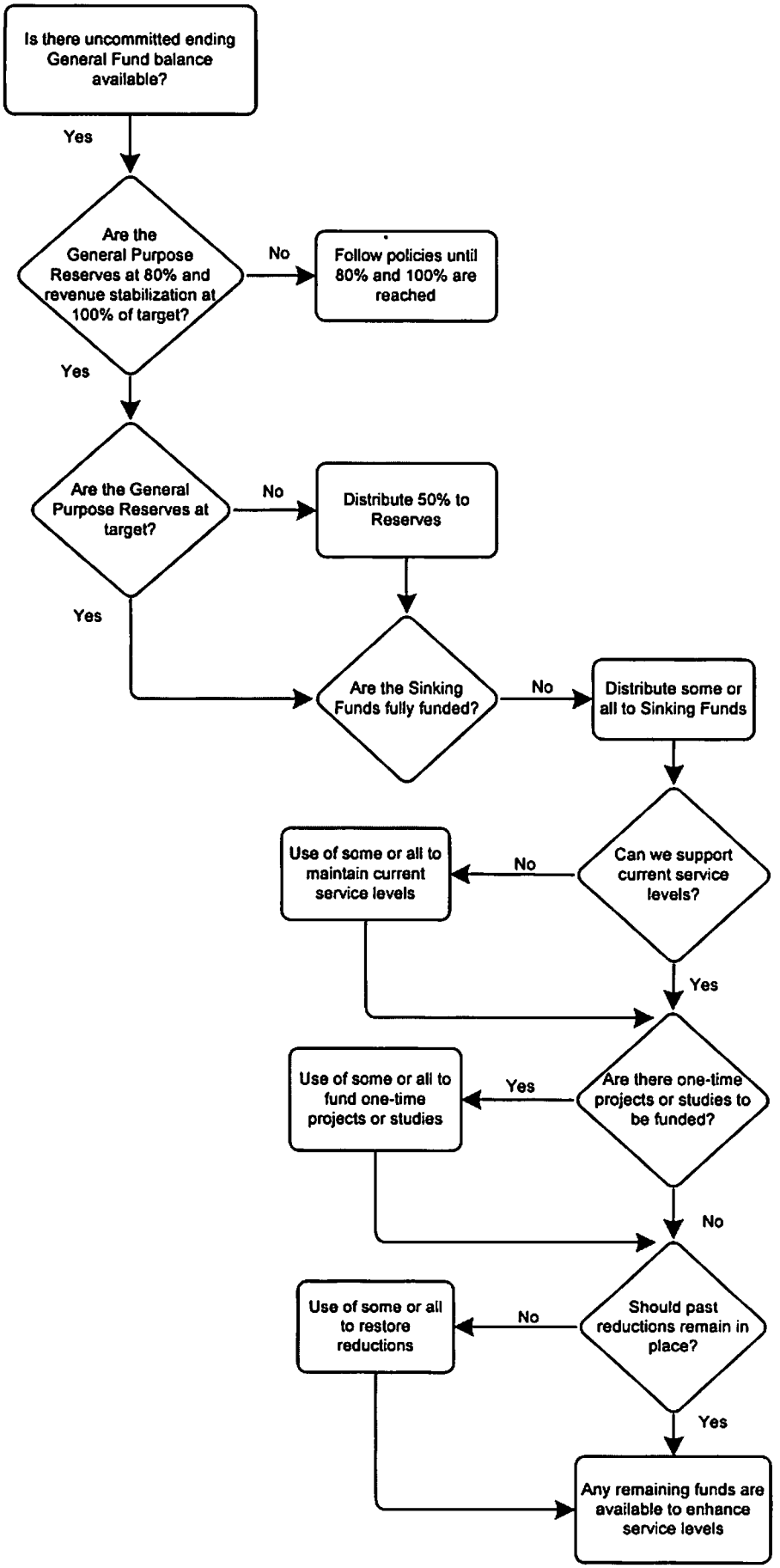
In terms of priority for replenishing the individual reserves, the following guidelines shall be used:

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

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

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

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



Council Meeting: 01/18/2011
Agenda: New Business
Item #: 11. b.

CITY OF KIRKLAND
Public Works Department
123 Fifth Avenue, Kirkland, WA 98033 425.587-3800
www.ci.kirkland.wa.us

MEMORANDUM

To: Kurt Triplett, City Manager

From: Ellen Miller-Wolfe, Economic Development Manager
David Godfrey, P.E., Transportation Manager
Ray Steiger, P.E., Interim Public Works Director

Date: January 6, 2011

Subject: Suspension of Change in Use Impact Fees

RECOMMENDATION

It is recommended that the City Council adopt the attached ordinance amending the Kirkland Municipal Code (KMC) to temporarily suspend the charging of impact fees for a "change in use" of an existing building through December 31, 2013.

BACKGROUND

At its 2010 Retreat, the City Council determined that economic development is both an important and urgent issue for Kirkland. In response to this concern, staff undertook a competitiveness study (Attachment 1) to understand how taxes and fee policies might be affecting the City's ability to remain competitive among its peer communities. While the study determined that the portion of locally variable costs that can be attributed to tax and fee policies is a relatively small share of these costs, it also indicated that a combination of the market and tax and fee costs make Kirkland one of the higher cost places in the region to do business. The consultants, Berk & Associates, indicated that targeting incentives toward new development and reducing historically high vacancy rates was important in this recessionary climate. One approach they suggested was to eliminate impact fees that are charged when a change of use results in an increase in SOV trips, but there is no related increase in square footage.

The Economic Development Committee (EDC), who studied this issue, asked if eliminating impact fees for changes of use could apply solely to specific business districts such as just in the Downtown area. It was determined that because the impact fee ordinance applied city-wide, it was legally challenging and inequitable to focus this incentive only on certain areas. In recognition of the current financial situation for the business community, the EDC recommended temporarily eliminating the charging of impact fees for change of use for the entire City at its November 22, 2010 meeting. It was recommended by the EDC at their November meeting that staff return to the full Council with an ordinance suspending the change of use impact fee.

Memorandum to Kurt Triplett
January 11, 2011

State law authorizes the collection of impact fees to help defray the costs of new transportation infrastructure. Currently, the City collects impact fees on all new development including development/redevelopment of an existing structure from one use (i.e. furniture store) to another use (i.e. auto parts store). The attached ordinance authorizes the suspension until the City completes its next impact fee study likely to be completed in 2013. The suspension automatically expires on December 31, 2013.

Suspension of change of use impact fees will not affect the collection of impact fees for new development or the enlargement of existing buildings; it applies to a limited component of the development sector. It is estimated that change in use impact fees over the time since impact fees were first adopted, June of 1999, account for approximately 25-30% of all impact fees collected city-wide and for the 2011/2012 biennium, the potential loss of revenue is estimated to be approximately $250,000.

This loss in impact fees previously dedicated to CIP projects will require additional grant funding, other resources, or a delay in projects funded by the anticipated impact fees. At this time, the likely affected projects that are funded in part with impact fees in 2011/2012 are two signal projects associated with the NE 85th Street corridor improvements: 124th Ave NE, and 132nd Ave NE. Based on the current bidding climate in which bids are consistently 20 to 30% below the engineer's estimate, and as the 2012 construction of these improvements approaches, staff will modify the CIP projects accordingly.

ORDINANCE 4288

AN ORDINANCE OF THE CITY OF KIRKLAND RELATING TO IMPACT FEES FOR CHANGES IN USE AND SUSPENDING TRANSPORTATION IMPACT FEES FOR CHANGES OF USE THAT DO NOT RESULT IN INCREASED FLOOR AREA.

The City Council of the City of Kirkland do ordain as follows:

Section 1. A new Kirkland Municipal Code Section 27.04.035 is hereby created to read as follows:

27.04.035 Temporary suspension of transportation impact fees relating to change of use

Notwithstanding any other provision of this Chapter, the City temporarily suspends the imposition of transportation impact fees to the extent the assessment of the fee is the result of a change to a land use category that results in a higher fee under KMC 27.04.150; provided that this Section shall not apply to a project to the extent it will add, increase or expand the gross floor area of an existing building; and provided further that this Section applies only to the use, renovation or remodeling of existing structures and does not apply to redevelopment projects or other projects in which existing structures are replaced or substantially redeveloped. This Section shall apply to projects for which complete building applications are filed with the City between February 1, 2011 and December 31, 2013. This Section shall automatically expire on December 31, 2013.

Section 2. If any provision of this ordinance or its application to any person or circumstance is held invalid, the remainder of the ordinance, or the application of the provision to other persons or circumstances is not affected.

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 18th day of January, 2011.

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

MAYOR

Attest:

City Clerk

Approved as to Form:

City Attorney

Summary of Follow-up Items from October 25, 2012 Council Study Session

ITEMS TO BE DISCUSSED AT COUNCIL MEETING ON NOVEMBER 7, 2012:

- Breakdown of causes of budget increase (Finance)
- Discussion of potential to privately contract some of the services in expenditure reduction category (Finance/HR)
- Where is head tax revenue going (i.e. what does it support)? (Finance)
- Discuss buildable lands inventory process (Planning)
- Options to fund winter shelters by reducing ARCH trust fund contribution or other alternatives (Finance)
- Consider earlier Council Retreat timing

ITEMS REFERRED TO COMMITTEES:

- Finance Committee
    - Evaluate a "glide slope" to a two year sales tax lag
    - Council should look at their budget in advance of the City Manager's proposed budget.
    - Where is head tax revenue going (i.e. what does it support)? (Finance)

- Public Safety Committee
    - What is the impact of the passage of the marijuana initiative on police and court?
    - Jail –
        - What is the feasibility of a regional jail transport system and should Kirkland take a lead role in initiating a study?
        - Get more market information on jail demand before opening bids.
    - Where is the prevention emphasis for Public Safety? Provide a list of prevention based approaches included in the budget.

- Committee TBD
    - What can we find out about other cities' total human services spending (i.e. what is equivalent of Kirkland's $4.7 million)?
    - Create a policy basis for per capita human services funding level

- Economic Development Committee
    - Events (to be addressed as part of the larger Events review by EDC)
        - Concern about Uncorked and preventing access to the lake
        - Include in study opportunities for synergies and efficiencies through partnerships between event organizers.
        - Events tend to focus on downtown core. Should we expand our view of where events can occur? Need to activate more business districts through events (e.g. Totem Lake).
        - What does Redmond do for funding events?

POTENTIAL CITY COUNCIL RETREAT ITEMS

- How do we better understand the community's perceptions about human services importance and performance? (As part of overall discussion of refining how we use the quadrant tool)
- In-depth discussion of performance management program service package

OTHER DISCUSSION ITEMS:

- More education/information to the public about what we're doing and how we're doing

RESOLUTION R-4947

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF KIRKLAND FINDING THAT SPECIAL CONDITIONS EXIST AND SUSPENDING THE RESERVE REPLENISHMENT PRINCIPLE RESTRICTING THE USE OF UNPLANNED FUNDS.

WHEREAS, in October 2011, the City Council passed Resolution R-4900 establishing Reserve Replenishment Principles; and

WHEREAS, one of the Reserve Replenishment Principles provides that once reserves reach 80 percent of target and the revenue stabilization reserve is at 100 percent of target, unplanned ending fund balances available at the end of the biennium may be used to meet other one time or ongoing needs; and

WHEREAS, there is a need to use some of the available ending fund balances for one time needs during the 2013-2104 biennium although the 80 percent reserve target has not been met; and

WHEREAS, the Reserve Replenishment Principles provide that the City Council may take action to suspend Reserve Replenishment Principles if the City Council finds that special conditions exist warranting such action; and

WHEREAS, the City Council makes the findings set forth below;

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

Section 1. Findings.

A. There is a need to continue the City Council practice of funding some programs with one-time funds, such as the ARCH Trust Fund and the Kirkland Performance Center, given the importance of these programs to the quality of life of the community, the discretionary nature of the funding levels and the absence of reliable ongoing resources for those purposes.

B. A one-time revenue investment is needed to establish the Public Safety/Information Technology sinking funds which are critical to the health and well being of the community and the safe and reliable operations of the government.

C. There is a need to use one-time funds to address some of the high priority recommendations from the recently completed Fire Strategic Plan to enhance the public safety of the residents of the City.

Section 2. Suspension. Based upon the special conditions described in Section 1, "Findings," the City Council suspends the Reserve Replenishment Principle restricting the use of unplanned funds during the 2013-2014 biennium.

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

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

_____
MAYOR

Attest:

_____
City Clerk

RESOLUTION R-4948

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

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

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

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

WHEREAS, the City of Kirkland's Fiscal Policies need to be amended to be to reflect changes related to the recently approved levy lid lifts;

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

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

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

Passed by majority vote of the Kirkland City Council in open meeting this 11th day of December, 2012.

Signed in authentication thereof this 11th day of December, 2012.

_____
MAYOR

Attest:

_____
City Clerk

CITY OF KIRKLAND

FISCAL POLICIES

BACKGROUND AND PURPOSE

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

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

OPERATING BUDGET POLICIES

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

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

REVENUE AND EXPENDITURE POLICIES

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

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

- The City will maintain revenue and expenditure categories according to state statute and administrative regulation.
- Current revenues will be sufficient to support current expenditures.
- All revenue forecasts will be performed utilizing accepted analytical techniques.
- All fees for services shall be reviewed and adjusted (where necessary) at least every three years to ensure that rates are equitable and cover the total cost of service, or that percentage of total service cost deemed appropriate by the City.
- Revenues of a limited or indefinite term will be used for capital projects or one-time operating expenditures to ensure that no ongoing service program is lost when such revenues are reduced or discontinued.
- Grant applications to fund new service programs with state or federal funds will be reviewed by the City, as they become available, with due consideration being given to whether locally generated revenues will be required to support these programs when outside funding is no longer available.
- The City of Kirkland will establish and maintain Special Revenue Funds which will be used to account for proceeds from a substantial restricted or committed revenue source used to finance designated activities

which are required by statute, ordinance, resolution or executive order.

- Biennial expenditures will be maintained within the limitations of biennial revenues. The City will not use short-term borrowing to finance current operating needs without full financial analysis and prior approval of the City Council.
- In order to ensure the continuity of services, the City will budget no more sales tax revenue than was received in the prior year as a hedge against possible future economic events.
- Interest income revenue will be used to finance one-time capital or time-limited goods or services including debt service on councilmanic bond issues.
- All authorized positions will be budgeted for a full year (or biennium) unless specifically designated by the City Council as a partial-year position.
- In the event that budget reductions are needed in order to balance revenues and expenditures, the City Council will provide policy direction to staff as to the priority order and combination for using the following strategies:
    - Raise revenue
    - Reduce expenditures
    - Use reserves
- The use of reserves to balance the budget will only be used to address short term temporary revenue shortfalls and expenditure increases.
- The biennial budget will be formally amended by the City Council as needed to acknowledge unforeseen expenditures. All requests for funding will be analyzed by the Finance and Administration Department. The Council will be provided with a discussion of the legality and/or policy basis of the expenditure, the recommended funding source, an analysis of the fiscal impact and a review of all reserves and previously approved amendments since budget adoption.
- A request will not be approved at the same meeting at which it is introduced unless it is deemed an urgent community issue by a supermajority vote of the City Council. Requests made to Council outside of the formal budget adjustment process will be analyzed and presented to the Council for approval at the next regular Council meeting that allows sufficient time for staff to prepare an analysis and recommendation.

ENTERPRISE FUND POLICIES

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

- Enterprise funds will be established for City-operated utility services.
- Enterprise fund expenditures will be established at a level sufficient to properly maintain the fund's infrastructure and provide for necessary capital development.
- Each enterprise fund will maintain an adequate rate structure to cover the costs of all operations, including maintenance, depreciation, capital and debt service requirements, reserves (as established by fiscal policy or bond covenant), and any other cost deemed necessary.
- Rates may be offset from available fund cash after requirements are met for cash flow and scheduled reserve contributions.
- Enterprise fund services will establish and maintain reserves for general contingency and capital purposes consistent with those maintained for general governmental services.
- Revenue bonds shall be issued only when projected operating revenues are insufficient for the enterprise's capital financing needs.
- The City will insure that net operating revenues of the enterprise constitute a minimum of 1.5 times the annual debt service requirements.

- The City will limit the maturities of all utility revenue bond issues to 30 years or less.

CASH MANAGEMENT AND INVESTMENT POLICIES

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

- The City's idle cash will be invested on a continuous basis in accordance with the City's adopted investment policies.
- The City will maintain a formal investment policy which is reviewed and endorsed by state and/or national professional organizations. The complete policy can be found in the appendix of this document.
- The City will invest all funds (in excess of current requirements) based upon the following order of priority: 1) legality; 2) liquidity; 3) safety; and 4) yield.
- Investments with City funds shall not be made for purposes of speculation.
- The City is prohibited from investing in derivative financial instruments for the City's managed investment portfolio.
- Proper security measures will be taken to safeguard investments. The City's designated banking institution will provide adequate collateral to insure City funds.
- The City's investment portfolio will be reviewed every three years by a qualified portfolio valuation service to assess the portfolio's degree of risk and compliance with the adopted investment policies.
- An analysis of the City's cash position will be prepared at regular intervals throughout the fiscal year.
- The City Council will be provided with quarterly reports on the City's investment strategy and performance.
- Sufficient cash shall be maintained to provide adequate funds for current operating expenditures.
- Where permitted, the City will pool its cash resources from various funds ("Treasurer's Cash") for investment purposes.
- Net investment income from Treasurer's Cash will be allocated in accordance with KMC 5.24.060 considering 1) average cash balance of the participating fund and 2) the minimum cash balance needs of each fund as determined by the Director of Finance and Administration. Net investment income is the amount of annual investment proceeds after an allocation of earned interest is made to certain funds as required by the State and Council-directed obligations are met for General Fund purposes.
- The City of Kirkland will select its official banking institution through a formal bidding process in order to provide the City with the most comprehensive, flexible, and cost-effective banking services available.

ACCOUNTING, FINANCIAL REPORTING AND AUDITING POLICIES

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

- A comprehensive accounting system will be maintained to provide all financial information necessary to effectively operate the City.
- The City will meet the financial reporting standards set by the Governmental Accounting Standards Board.
- Full disclosure will be provided in all City financial reports and bond representations.
- An annual audit will be performed by the State Auditor's Office and include the issuance of a financial opinion.

RESERVE AND FUND BALANCE POLICIES

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

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

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

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

Reserve Purposes and Targets

- A Contingency Reserve Fund shall be maintained in accordance with RCW 35A.33.145 to meet any municipal expense, the necessity or extent of which could not have been reasonably foreseen at the time of adopting the biennial budget. The target balance will be set at 80 percent of the statutory maximum of $0.375 per $1,000 of assessed valuation.
- The City will maintain a General Operating Reserve at an amount equivalent to five percent of the tax-supported general government budgets (General Fund, Street Operating Fund and Parks Maintenance Fund) for the second year of the biennium. The General Operating Reserve is available to address unforeseen revenue shortfalls or expenditure needs that occur during the current biennium.
- The City will maintain a Revenue Stabilization Reserve to address temporary revenue losses due to economic cycles or other time-limited causes. The Revenue Stabilization Reserve will be maintained at ten percent of selected General Fund revenue sources which, in the judgment of the Director of Finance and Administration, are subject to volatility. The Revenue Stabilization Reserve may be used in its entirety; however, replenishment will be a priority, consistent with adopted policies.
- The City will maintain a Council Special Project Reserve, which is available to the City Council to fund special one-time projects that were unforeseen at the time the budget was prepared. When the reserve is used, it is replenished from the General Fund year-end fund balance to a target balance of $250,000.
- The City will maintain a General Capital Contingency to address unforeseen project expenditures or external revenue shortfalls in an amount equivalent to ten percent of the funded two-year CIP budget, less proprietary fund projects.
- In establishing targets for the reserves defined above, voted property tax levies will be excluded from the calculations, since the levies are not intended to burden the General Fund and are expected to absorb unexpected costs from levy proceeds.
- The City Manager may authorize the use of capital funding reserves up to an aggregate total of $100,000 per year in increments not to exceed $25,000. The City Manager will provide regular reports to the City Council at a regular Council meeting if this authorization is used. Capital funding reserves include: General Capital Contingency, Street Improvement Reserve,

REET Reserves, Impact Fee Reserves, Water/Sewer Capital Contingency, Water/Sewer Construction Reserve, Surface Water Capital Contingency, and Surface Water Construction Reserve.

- The City will maintain a Capital Improvement Project Grant Match Reserve as a means of assuring the availability of cash resources to leverage external funding when the opportunity arises. The reserve will be maintained in the Real Estate Excise Tax Capital Reserve Fund and maintained through excise tax revenue received over and above the annual allocation to the Capital Improvement Plan.
- The City will maintain a Building and Property Reserve with a minimum balance of $600,000. This reserve is used for property purchases, building improvements and other property-related transactions. It can also be used as a general purpose reserve to fund Council-approved unanticipated expenditures.
- The City will maintain fully funded reserves for the replacement of vehicles and personal computers. Contributions will be made through assessments to the using funds and maintained on a per asset basis.
- Additional reserve accounts may be created to account for monies for future known expenditures, special projects, or other specific purposes.
- All reserves will be presented in the biennial budget.

Reserve Replenishment

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

those funds should be applied to revenue stabilization reserve first.

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

DEBT MANAGEMENT POLICIES

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

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

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

CAPITAL IMPROVEMENT POLICIES

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

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

ORDINANCE O-4393

AN ORDINANCE OF THE CITY OF KIRKLAND RELATING TO IMPACT FEES FOR CHANGES IN USE AND SUSPENDING TRANSPORTATION IMPACT FEES FOR CHANGES OF USE THAT DO NOT RESULT IN INCREASED FLOOR AREA AND AMENDING SECTION 27.04.035 OF THE KIRKLAND MUNICIPAL CODE.

The City Council of the City of Kirkland do ordain as follows:

Section 1. Kirkland Municipal Code Section 27.04.035 is hereby amended to read as follows:

27.04.035 Temporary suspension of transportation impact fees relating to change of use.

Notwithstanding any other provision of this chapter, the city temporarily suspends the imposition of transportation impact fees to the extent the assessment of the fee is the result of a change to a land use category that results in a higher fee under Section 27.04.150; provided, that this section shall not apply to a project to the extent it will add, increase or expand the gross floor area of an existing building; and provided further, that this section applies only to the use, renovation or remodeling of existing structures and does not apply to redevelopment projects or other projects in which existing structures are replaced or substantially redeveloped. This section shall apply to projects for which complete building applications are filed with the city between February 1, 2011, and December 31, 201~~3~~4. This section shall automatically expire on December 31, 201~~3~~4.

Section 2. This ordinance shall be in force and effect five days from and after its passage by the Kirkland City Council and publication, as required by law.

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

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

_____
MAYOR

Attest:

_____
City Clerk

Approved as to Form:

_____
City Attorney

ORDINANCE O-4394

AN ORDINANCE OF THE CITY OF KIRKLAND RELATING TO THE REVENUE GENERATING REGULATORY LICENSE FEE (RGRL) AND AMENDING SECTION 7.02.160(a) OF THE KIRKLAND MUNICIPAL CODE.

The City Council of the City of Kirkland do ordain as follows:

Section 1. Kirkland Municipal Code Section 7.02.160(a) is amended to read as follows:

7.02.160 Revenue generating regulatory license fee (RGRL).

(a) General. In addition to the basic license fee, the highest applicable RGRL in this section shall be paid for the annual license issued under this chapter.

(1) A business with less than twelve thousand dollars of average annual gross receipts shall be exempt from any RGRL.

(2) A business located within the city limits of Kirkland with 10 or fewer employees or FTE's shall be exempt from the RGRL for the first year of business operation only. Businesses exempt from the RGRL under this subsection shall still be required to pay the basic license fee under 7.02.120 and register the number of employees and FTE's under this chapter.

(~~2~~3) For the purposes of this section and in determining the applicable RGRL, the term "employee" means and includes each of the following persons who are not required by the city to have his/her/its own separate city of Kirkland business license:

(A) Any person who is on the business's payroll, and includes all full-time, part-time, and temporary employees or workers; and

(B) Self-employed persons, sole proprietors, owners, managers, and partners; and

(C) Any other person who performs work, services or labor at the business, including an independent contractor who is not required to have a separate city of Kirkland business license.

(~~3~~4) An entity that is entirely exempt from paying the basic license fee shall be exempt from any RGRL.

(~~4~~5) An entity with some activities or functions that are exempt from the basic license fee and some that are not exempt shall pay an RGRL based on the number of its employees that are involved in the functions or activities that are not exempt.

Section 2. This ordinance shall be in force and effect five days from and after its passage by the Kirkland City Council and publication, as required by law.

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

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

_____
MAYOR

Attest:

_____
City Clerk

Approved as to Form:

_____
City Attorney