



CITY OF KIRKLAND

Department of Finance & Administration

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MEMORANDUM

To: David Ramsay, City Manager

From: Tracey Dunlap, Director of Finance and Administration

Date: February 29, 2008

Subject: Council Retreat - Financial Update and Trends

The purpose of this memo is to provide a brief recap of 2007 year-end financial results, a discussion of pending 2008 budget issues, a budget trend discussion in advance of the upcoming 2009/10 budget process, and an update of the financial forecast. This information is intended to provide a basis to begin the discussion of budget policy issues and goals.

2007 Year-End Results

The year-end results for 2007 are summarized in the Financial Management Report (FMR), which is included as Attachment A. Since the 2007 financial position was discussed in some detail during the mid-biennial budget process, this section will highlight only those areas where actual results differed significantly from planned levels and that may impact the financial picture looking forward:

- The mid-biennium budget was developed in September 2007 and, at that time, **sales tax** growth was projected at 2.9% (down from over 9% in June). Sales tax continued to decline in the remaining months of 2007, resulting in overall sales tax growth of only 0.6%, which is a reduction in revenues to the General Fund of approximately \$163,000. Sales taxes from new construction were the largest contributors to the monthly sales tax decline.
- **Property tax** collections fell short of budgeted levels by about 2%, a portion of which is due to an increase in delinquencies.
- Actual 2007 **development fee revenues** fell short of projections by \$225,000, although reduced expenses offset this amount.
- In September, **Fire overtime** was estimated to exceed the budget by approximately \$330,000, but by the end of 2007, it exceeded the budget by over \$740,000. This situation is due to a number of factors, including disability hours, sick leave, and FMLA significantly higher than average and the impacts of the additional Kelly day implemented in the last collective bargaining agreement. A memorandum from Chief Blake providing further detail on this issue is included as Attachment B.
- In many departments, the 2007 **expenditures** were under budgeted levels. Since we are managing expenses on a biennial basis, no mid-biennium adjustments were funded with assumed expenditure savings. In some cases, costs budgeted in 2007 will take place in 2008 (for example, ARCH, outside agencies, and other contract payments) or 2007 expenditures were paid in 2008 (the expected accrual in the General Fund for these costs is \$740,000). Vacancies in some departments have also contributed to the under-expenditures and delays in expending annexation service packages pending the go/no-go decision are a factor.

We are continuing to analyze the 2007 results to determine if specific actions are required to offset some of these events. If specific actions are recommended, they will be incorporated into the mid-year budget update in June.

2008 Outlook

As we proceed into 2008, the negative trends continue. One positive development is that **new construction property tax** came in strong at the end of 2007. The 2008 budget assumes that property tax will increase by the 1% optional levy and 2% from new construction. Actual new construction came in at 4%, resulting in additional revenue of approximately \$269,000 (\$192,000 to General Fund, \$61,000 to Streets, and \$16,000 to Parks Maintenance). These figures became available after the mid-biennium budget recommendations had been developed, so they will be factored into the 2008 budget adjustments. Given the downward trends in development fees and sales taxes related to new development, this rate of increase may be unlikely to continue.

Since **sales tax** ended 2007 with virtually no growth over 2006 and there are one-time service packages that have been funded with sales tax, we begin 2008 with the General Fund budgeted sales tax over the prior year actual by \$348,000. In addition, the sales tax declined in January over 2007 levels, producing the possibility that 2008 receipts could come in below the prior year actual. This potential decline would more than offset the additional property tax receipts anticipated.

There continues to be uncertainty related to **development activity**. It is difficult to determine whether the slowing trend is continuing based on permit revenues because the January results are likely skewed by applications coming in before the February 1, 2008 increase in impact fees and other development services fees. We will continue to monitor this trend closely and provide an update as more information becomes available. If revenues fall short of projections, we will evaluate whether a portion of the development services reserve may be needed to offset the shortfall.

At this writing, **Fire overtime** has exceeded the biennial budget, due to the factors described earlier. While the Fire Department expects peak levels to subside, additional funding will be required to offset this expense. At the same time, the new EMS levy takes effect in 2008. Finance and Fire are working closely to develop a strategy to fund the overtime and to program in the additional EMS revenues (approximately \$274,000) consistent with the terms of the levy.

We continue to monitor **Police overtime** as well, particularly in the areas of corrections and dispatch, where there have been a number of vacancies. As the new corrections positions funded in the 07/08 budget are filled, corrections overtime should subside. At this stage, NORCOM is still in the transition stage and the ultimate impacts as dispatch is consolidated by NORCOM (expected sometime in 2009) continue to be evaluated.

The City Council is scheduled to discuss whether to proceed toward **annexation** in April. If the decision is made to proceed, we expect increases in the rate of expenditures associated with the approved service packages and there may be additional funding requests as we move toward placing the question on the ballot. If annexation does not proceed, we expect there will be de-mobilization costs, although there will likely be some funding remaining from those service packages.

The 2007/08 budget has programmed additions to **reserves** totaling \$2.76 million as follows:

- Contingency: \$986,000
- General Capital Contingency: \$394,000
- Revenue Stabilization Reserve: \$582,000
- Facilities Expansion Reserve: \$795,000

Based on developments over the next several months, we may recommend adjustments to those reserve additions, although the reserves could play an important role as we move into the 2009/10 budget process. The mid-year

budget adjustments are scheduled to be brought forward on June 5. We will be carefully monitoring these trends as we development recommended actions at that time.

2009/10 Budget Process

Budget Trends

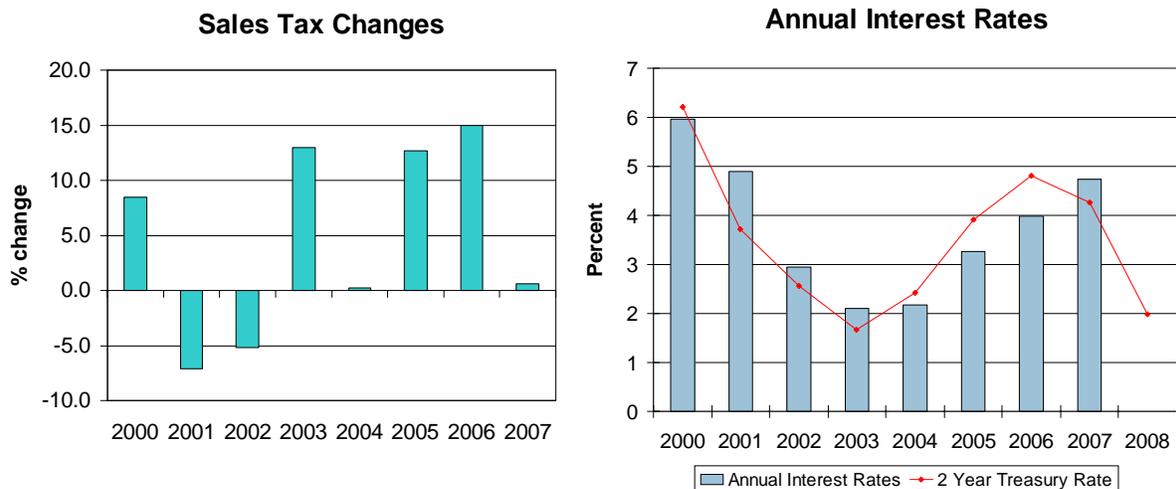
The weakness in the economy continues to fuel concerns looking forward into 2009/10. While there are some opportunities, there are also events occurring in Kirkland that magnify those concerns.

Concerns – Revenues

- Further reductions in **sales tax** revenues are likely looking forward due to several anticipated events:
 - As described earlier, 2007 actual results fell short of projections and the 2008 budgeted revenues include growth of about 2.2% over the 2007 actual results. In the past, we have forecasted sales tax revenue growth based on the historical 6% average. Given the current economic conditions, we are recommending that we assume a reduced level of growth for 2009 of 2%. If sales tax receipts in 2008 actually decline from 2007, even this reduced growth rate could prove optimistic.
 - One of the major auto dealerships in the City is anticipated to relocate its sales operation outside the current City boundaries (into the potential annexation area) by the end of 2008, while maintaining its service operation in the City. This move is estimated to result in a reduction to on-going sales tax revenues of approximately \$500,000.
 - Additional one-time events further jeopardize the baseline sales tax revenues. Costco has announced the opening of new stores in Redmond and Bellevue by the end of 2008. By their estimates, the opening of these stores could impact the Kirkland store sales by one third. The forecast that is included later in this report assumes that this reduction would be recovered over a five year period, consistent with the City’s experience with the opening of the Issaquah store back in 1995.

- **Interest earnings** returned to more robust levels in 2007/08, however, recent economic events have resulted in a reduction in interest rates due to the sub-prime mortgage collapse and recession fears. While our investment strategy helps to protect the 2008 interest earnings from the decline due to rate reductions, it is likely that our 2009/10 interest earnings will fall substantially from current levels.

To illustrate the continued volatility of sales tax and interest earnings, we updated the trend graphs presented at last year’s retreat for reference.



Concerns – Expenditures

- Since on-going revenue growth has not kept pace with expenditure growth, the City has continued to fund positions and programs using one-time revenues. There are currently 19.45 **one-time funded positions** in the 2008 budget, including 3.75 associated with annexation. In addition, a number of recurring programs have been funded using one-time resources, including ARCH, Human Services, and Outside Agencies. The total 2008 cost of the one-time positions and recurring programs is \$2.8 million. Given that we are expecting reductions to both one-time and on-going revenue streams, the ability to continue to fund all of these programs may be very limited. A list of the one-time funded positions and programs is contained in Attachment C.
- The Association of Washington Cities Benefit Trust has notified its members that there will be changes in the current **medical plan** selections, including phasing out of Plans A & B. Human Resources will begin evaluating alternatives this year, but we will likely need to recognize potential impacts in our planning for 2009/10. This uncertainty helps to reinforce the need to anticipate changes and increases in other benefit costs in our collective bargaining strategy.
- As mentioned in prior sections, **public safety overtime** represents a volatile element of the City's expenditures. If current levels do not drop back to historical norms, funding will need to be set aside to offset the higher expenditure level.
- **NORCOM** is expected to begin combined operations some time during 2009. This event will have two impacts on the City's 2009/10 budget. The first will be the funding of one-time costs associated with technology, asset transfer, and backup facilities. Kirkland's share of these estimated 2009 one-time costs is \$990,000, although NORCOM recently received a federal appropriation that would offset approximately 35% of that cost. Kirkland's share of the estimated 2010 technology cost is \$140,000. In addition to the one-time costs, Kirkland will retain certain records-related functions that will require staff support, which will need to be factored into the 2009/10 budget.
- The City continues to consider regional and local options related to **jail space**. Regardless of the option that is eventually pursued, it is almost certain that the costs of housing prisoners will increase during the 2009/10 budget period.
- While the annexation decision impacts what options the City will consider in terms of meeting its **facilities needs**, the cost of expanding facilities will begin to be felt during the next budget process. While the City has set aside some reserves toward these costs, and existing debt will be retiring that may help with the funding strategy, there will be new operating costs associated with the expanded facilities that will need to be funded.
- If the City decides to proceed with annexation, there will be **one-time and transition costs** that will need to be recognized during this budget process. While we should be able to recoup some of these costs from the state sales tax credit, the City will need to spend some of the money up front, before revenues from the potential annexation area or the state sales tax credit funds are available. While this may represent more of a cash flow challenge than an overall funding issue, it may prove challenging if economic conditions continue to be weak.

Opportunities

While there are many challenges in 2009/10, there may also be some opportunities to be considered:

- There are several **redevelopment projects** that are currently under discussion, including Park Place, Totem Lake, and projects in downtown. While most of these projects would not be complete during the next budget cycle, they could generate new construction sales tax revenues, which while one-time in nature, could be

beneficial to the budget outlook. It is important to note that both Totem Lake and Park Place are seeking City participation in project elements that provide public benefit, so all of the revenues generated by the projects may not be available to meet the City's on-going costs.

- While development activity appears to be slowing, there are still projects underway that could add **new construction** assessed valuation for property tax purposes. If this added value exceeds the 2% growth assumed in the forecast, it represents additional on-going revenue for the City.
- While lower **interest rates** impact our earnings, they can also be beneficial if the City is planning to issue debt. If we proceed with our facilities projects during this period of low rates, it would allow us to lock in the favorable rates.
- There are some revenue categories that have shown signs of strength. In particular, **telecommunications tax revenues** came in strong in 2007. This segment has proven to be volatile over time and there are lobbying efforts underway in Congress to limit these taxes, but for the present, this is a bright spot in the revenue outlook.
- **Streamlined sales tax** goes into effect in Washington on July 1, 2008. While the City has already seen some benefits from voluntary compliance, it is possible that there will be positive impacts once it becomes mandatory. The state's estimates of the impact show Kirkland relatively neutral (a net gain of about \$47,000), but actual results may vary from their projections.

Impact of Trends on the Financial Forecast

To illustrate the impact of the revenue events, we have produced two versions of the financial forecast:

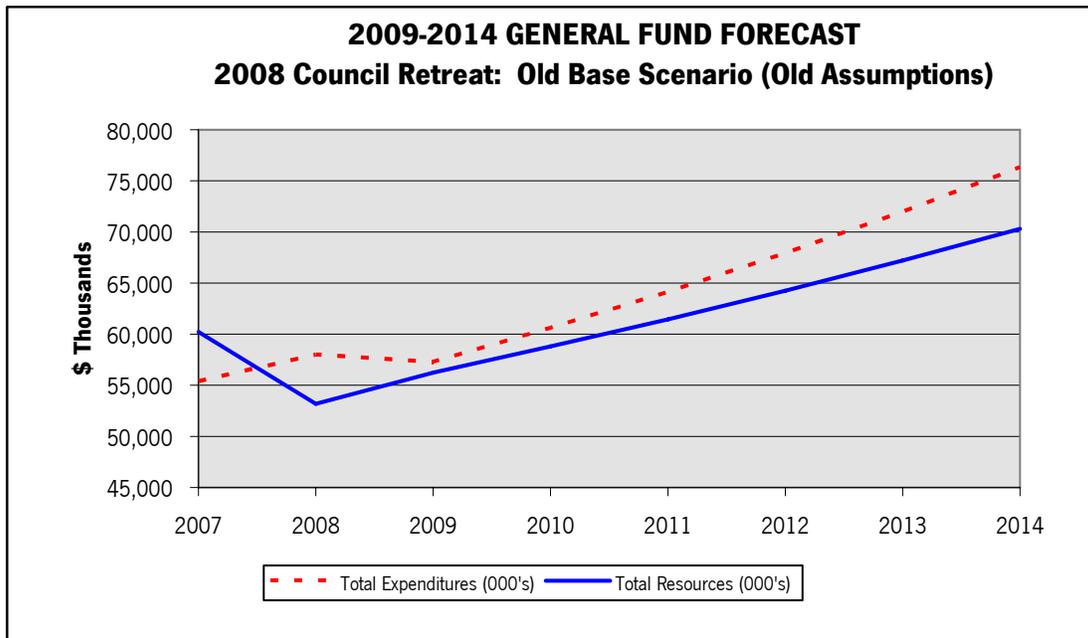
The first shows the forecast under the "prior" baseline assumptions, assuming 6% growth in sales tax revenues. The 2009/10 shortfall totals \$2.9 million.

The second version reflects the "new" baseline assumptions:

- Reduction in sales tax due to the reduced 2007 actual collections and a more moderate 2% growth assumed for 2009,
- Departure of major auto sales center, and
- Opening of the new Redmond/Bellevue Costco stores (a one third decrease at the Kirkland location assumed to recover over forecast period (Yr 1 – 10%, Yrs 2-3 – 20% each, Yrs 4-5 – 25% each).

This scenario increases the 2009/10 gap to \$5.9 million. It is important to note that both versions of the forecast reflect on-going revenues and expenditures only, so they do not include the programs and positions funded with one-time resources.

The two pages that follow contain the forecast with the "prior" baseline assumptions and the "new" baseline assumptions. The policy option impacts described later in this document will be presented in relationship to the "new" baseline assumptions.



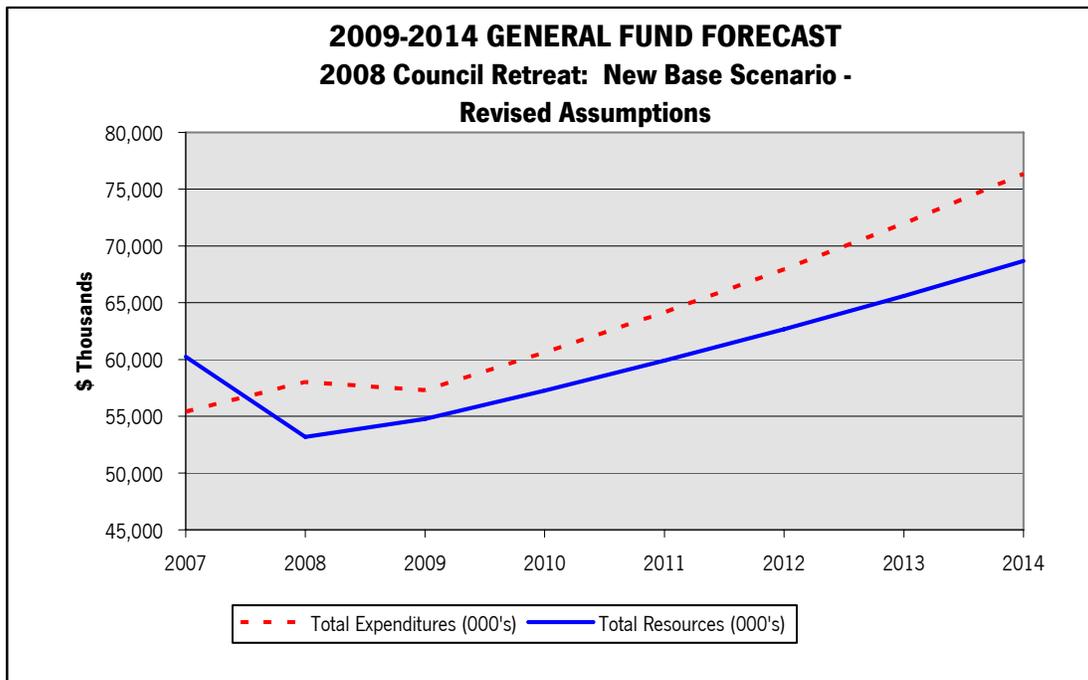
	2007	2008	2009	2010	2011	2012	2013	2014
Total Resources (000's)	60,233	53,188	56,251	58,794	61,463	64,267	67,212	70,306
Total Expenditures (000's)	55,405	58,015	57,298	60,608	64,143	67,928	71,986	76,335
Net Resources (000's)	4,828	(4,828)	(1,047)	(1,814)	(2,679)	(3,660)	(4,774)	(6,029)
Biennium Total (000's)	0		(2,861)		(6,340)		(10,803)	

Key Revenue Assumptions:

- No additional diversion of current revenue sources to CIP
- No use of reserves in 2009-2014
- 1% optional property tax in 2009-2014
- 2% annual growth in new construction property tax
- 6% annual growth in sales tax reflected in 2010-2014 projections
- 4% annual growth in utility tax in 2009-2014
- 2% annual growth in other taxes (RGRL fee, gambling & leasehold excise) in 2009-2014
- EMS levy maintained
- 5% annual growth in other revenue in 2009-2014
- Excludes one-time outside agency funding and one-time service package funding beginning in 2009 (including overtime staffing at North Finn Hill Fire Station assuming the station consolidation)

Key Expenditure Assumptions:

- Based on 2007-2008 Working Budget
- 6% annual growth in wages in 2009-2014
- 10% annual increase in total benefits in 2009-2014
- 2% annual growth in supplies, services & capital in 2009-2014
- Excludes all one-time funded positions and adjustments beginning in 2009



	2007	2008	2009	2010	2011	2012	2013	2014
Total Resources (000's)	60,233	53,188	54,761	57,248	59,895	62,675	65,595	68,679
Total Expenditures (000's)	55,405	58,015	57,298	60,608	64,143	67,928	71,986	76,335
Net Resources (000's)	4,828	(4,828)	(2,538)	(3,359)	(4,248)	(5,252)	(6,392)	(7,656)
Biennium Total (000's)	0		(5,897)		(9,500)		(14,048)	

Key Revenue Assumptions:

- No additional diversion of current revenue sources to CIP
- No use of reserves in 2009-2014
- 1% optional property tax in 2009-2014
- 2% annual growth in new construction property tax
- 2% growth in sales tax over 2008 reflected in 2009
- Includes anticipated sales tax loss in 2009 from auto dealership sales office move and Redmond and Bellevue Costco stores opening in 2008. Costco loss recovered during 2010 through 2014
- 6% annual growth in sales tax reflected in 2010-2014 projections
- 4% annual growth in utility tax in 2009-2014
- 2% annual growth in other taxes (RGRL fee, gambling & leasehold excise) in 2009-2014
- EMS levy maintained
- 5% annual growth in other revenue in 2009-2014
- Excludes one-time outside agency funding and one-time service package funding beginning in 2009 (including overtime staffing at North Finn Hill Fire Station assuming the station consolidation)

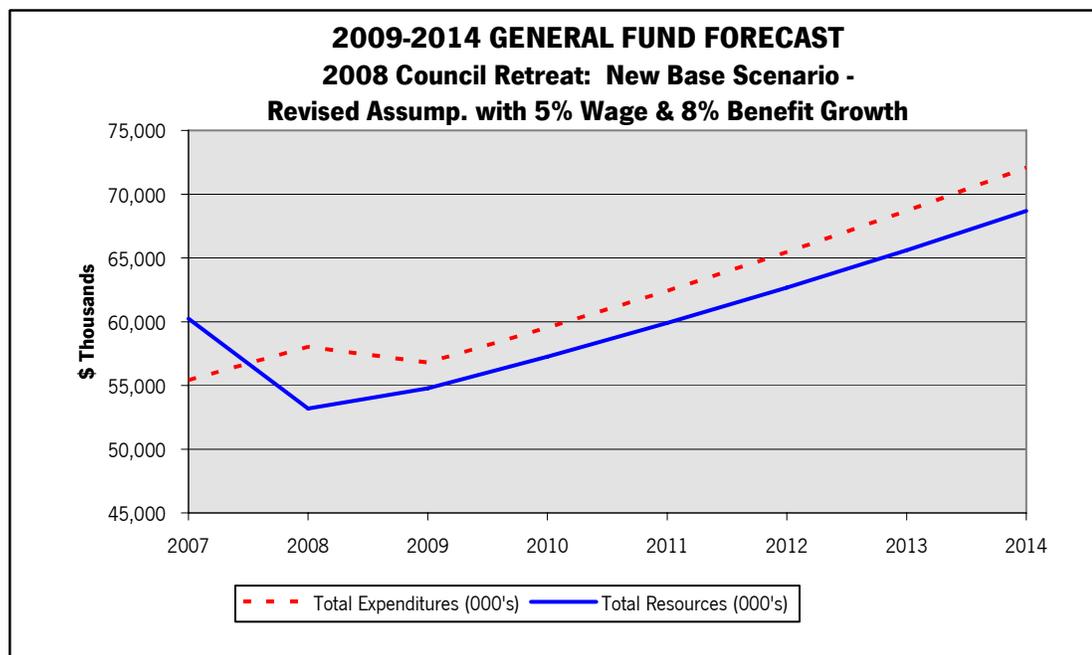
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- Based on 2007-2008 Working Budget
- 6% annual growth in wages in 2009-2014
- 10% annual increase in total benefits in 2009-2014
- 2% annual growth in supplies, services & capital in 2009-2014
- Excludes all one-time funded positions and adjustments beginning in 2009

Policy Challenges

Given that many of the challenges described above are driven by changes in the economy, the Council has three sets of tools to work with to balance the budget: cost control, use of reserves/policy changes, and revenue increases.

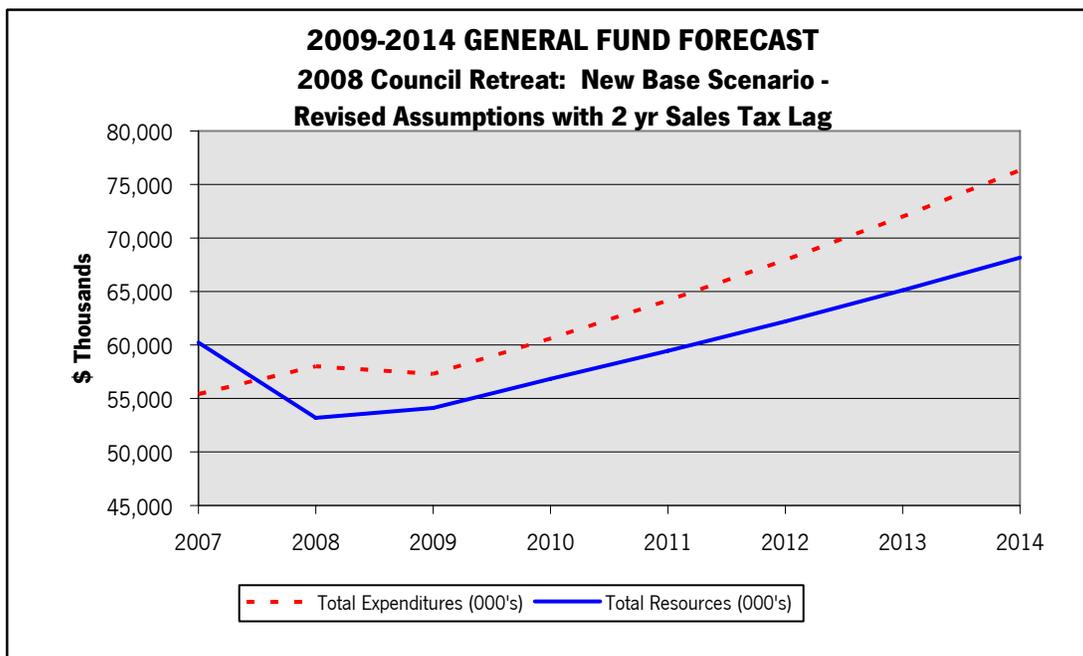
- Cost Control
 - Given the revenue outlook, there may not be one-time resources available to continue the funding for **one-time service packages**. Each department is evaluating funding strategies for their one-time programs and positions and the impacts on service levels if funding is not available.
 - Closing the gap related to the on-going portion of the sales tax revenues may require additional reductions that may **lower service levels** in some areas.
 - One of the driving factors in the “diverging lines” in the forecast is the assumption that annual wage growth will average 6% and benefit costs will grow at 10%. These growth rates are not sustainable with current revenues over the long term, which may necessitate development of specific strategies to control the **growth of wage and benefit costs** (which represent almost 70% of the general fund budget). To illustrate the impact, the forecast below shows the 2009/10 shortfall if wage growth can be contained to 5% and benefit growth to 8%.



	2007	2008	2009	2010	2011	2012	2013	2014
Total Resources (000's)	60,233	53,188	54,761	57,248	59,895	62,675	65,595	68,679
Total Expenditures (000's)	55,405	58,015	56,791	59,523	62,404	65,448	68,671	72,078
Net Resources (000's)	4,828	(4,828)	(2,030)	(2,275)	(2,509)	(2,773)	(3,076)	(3,399)
Biennium Total (000's)	0		(4,305)		(5,282)		(6,475)	

- Use of Reserves/Policy Changes

- The **revenue stabilization reserve** was established to “address temporary revenue losses due to economic cycles or other time-limited causes”. If scheduled replenishments take place and no uses of the reserve are required in 2008, the balance in this reserve for consideration in 2009/10 is estimated to be over \$2 million.
- The City’s current policy is to budget sales tax revenues on a one-year lag, as a hedge against possible future economic events. At one time, the policy was to budget the sales tax revenue on a **two-year lag**, which provided an even greater hedge. The forecast below illustrates that it would be difficult to return to a two-year lag if events unfold as expected, because the transition would widen the 2009/10 shortfall to almost \$7 million. However, a return to a two-year lag may be worth considering if conditions develop more favorably. Such a change could also be accompanied by a policy of placing surplus receipts over the budgeted amounts into the CIP rather than using the growth to fund operating costs on a one-time basis, which can contribute to volatility in the operating budget.
- The Finance Committee has reviewed and supports a proposal by staff to move the **CIP budget process** into the biennial budget year, rather than doing the CIP budget in the off budget year. Such a change should result in a variety of benefits, including better alignment of the operating and capital assumptions, efficiencies due to the current need to update the CIP within 6 months of its adoption, and the capability of evaluating options and trade-offs between operating and capital funding levels. Attachment D provides a more detailed description of the recommended change and the draft timeline to accomplish it in 2008.



	2007	2008	2009	2010	2011	2012	2013	2014
Total Resources (000's)	60,233	53,188	54,107	56,836	59,458	62,212	65,104	68,158
Total Expenditures (000's)	55,405	58,015	57,298	60,608	64,143	67,928	71,986	76,335
Net Resources (000's)	4,828	(4,828)	(3,191)	(3,771)	(4,685)	(5,716)	(6,883)	(8,177)
Biennium Total (000's)	0		(6,963)		(10,400)		(15,059)	

- Revenue Increases
 - The City's options to increase revenues without a vote include the following:
 - As of year end 2007, the City has approximately \$145,000 in remaining **banked capacity**, which is an on-going revenue source. Note that this amount can fluctuate based on prior year refunds, for example, the year end 2006 figure was \$190,000, but a large refund was issued due to a lawsuit settlement, resulting in the majority of the reduction to \$145,000.
 - The City can increase **utility taxes** on City utilities, which are currently set at 7.5%. Attachment E shows the utility taxes currently charged by neighboring jurisdictions. Each 1% increase in the tax on City utilities would generate \$280,000.
 - The City's current **business license** surcharge generates approximately \$1 million in revenue to the general fund. There are a variety of approaches to establishing business taxes, some of which could produce significant additional revenue to the City. An updated comparison of the business taxes charged in other cities is contained in Attachment F, including the portion of General Fund revenues that those taxes represent.
 - There are also revenue options that require voter approval:
 - The property tax limit can be increased by a vote of the people using a **levy lid lift**, a measure taken by Redmond for 2008 and Des Moines for 2007. Attachment G contains an overview of levy lid lifts. Also included in the attachment is the 2007 King County Assessor's comparison of assessed value and tax rates (2008 data has not been published at this time).
 - **Utility taxes on private utilities** are limited to 6% (the City's current rate) without a vote of the electorate. Federal Way and Olympia have both passed measures to raise the tax on private utilities to 7.5%. Each 1% increase would generate \$1.2 million for the City of Kirkland. The taxes levied on private utilities are also summarized in Attachment E.

Recommended Process

We are actively working to develop strategies for dealing with the economic downturn and the City's conservative fiscal policies buy us some time to consider our options. We presented an overview of much of this information at the all-employee meetings held in late February and we invited everyone's help and ideas. We will be offering some one hour sessions on budget basics in the next month or two to all employees to help them understand what is going on.

The Finance Committee will be reviewing fiscal policies and follow up items from the 2007/08 budget process during the next several months. At the June 5 special study session, we will have the mid-year budget review, which will include:

- 2008 budget adjustments,
- Update on 2009/10 concerns/opportunities, and
- Review of recommended budget guidance.

The Budget Kickoff is scheduled for July 2, with the budget study sessions beginning in late October. The revised CIP budget process will begin in April and results will be brought forward for City Council consideration in August.



Financial Management Report

AS OF DECEMBER 31, 2007

AT A GLANCE:

General Fund revenues ahead of last year by 4.4 percent, but fall short of budget. Sales tax revenue performance continues negative trend for most of the second half of 2007 (see page 5)

Development revenue down overall (see page 3)

Will the Puget Sound region dodge the recession bullet? (see page 7)

Kirkland home sales fall 27.7 percent; however prices rise 5.7 percent (see page 8)

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Summary of All Operating Funds: *Revenue*

- General Fund** revenue was budgeted to increase in 2007 over 2006, largely from expectations of higher sales and utility tax revenue and property tax dedicated to public safety staffing. Actual revenues are slightly below budget by 0.6 percent due to a dip in development-related permit and fee revenues and weakening sales tax revenue. A more detailed analysis of sales tax revenue performance can be found beginning on page 5.
- Other General Government Funds** revenues were budgeted to increase in 2007 over 2006 primarily due to increased internal charges and the move of Multi-media Services from the General Fund to the Information Technology Fund. Actual collections are tracking slightly over budget at 1.9 percent largely due to the receipt of 2006 cable tax revenue in 2007 and higher than expected lodging tax receipts.
- Water Sewer Operating Fund** revenue was budgeted higher in 2007 than 2006 due to water and sewer rate increases and normal growth. Actual revenue is tracking higher than expected, at 4.5 percent over budget, due to strong water sales and despite lower than expected connection charges.
- Surface Water Management Fund** revenue collection was budgeted higher in 2007 than 2006 due to rate increases and normal growth. Actual revenue is slightly lower than budget at 0.7 percent. Surface Water fees are paid through property tax collection, which are primarily received in April and October.
- Solid Waste Fund** revenue collection was budgeted to increase in 2007 over 2006 due to higher rates and normal growth. Actual revenue is 0.4 percent under budget.

Resources by Fund	Year-to-Date Actual			Budget			Actual Percent of Budget	
	12/31/2006	12/31/2007	Percent Change	2006	2007	Percent Change	2006	2007
General Gov't Operating:								
General Fund	51,791,872	54,078,238	4.4%	49,091,816	54,384,669	10.8%	105.5%	99.4%
Other General Gov't Operating Funds	15,773,347	17,034,604	8.0%	15,170,554	16,721,577	10.2%	104.0%	101.9%
Total General Gov't Operating	67,565,219	71,112,842	5.3%	64,262,370	71,106,246	10.6%	105.1%	100.0%
Utilities:								
Water/Sewer Operating Fund	15,534,787	17,229,776	10.9%	15,802,180	16,494,804	4.4%	98.3%	104.5%
Surface Water Management Fund	5,119,064	5,142,167	0.5%	4,977,108	5,233,189	5.1%	102.9%	98.3%
Solid Waste Fund	7,467,634	7,875,356	5.5%	7,449,930	7,909,347	6.2%	100.2%	99.6%
Total Utilities	28,121,485	30,247,299	7.6%	28,229,218	29,637,340	5.0%	99.6%	102.1%
Total All Operating Funds	95,686,704	101,360,141	5.9%	92,491,588	100,743,586	8.9%	103.5%	100.6%

* Budgeted and actual revenues exclude resources forward and include interfund transfers.



Wireless Internet access at Marina Park

Kirkland's Information Technology Department provides technology support to City departments and maintains the City's internal technology infrastructure. It also pioneers revolutionary services to citizens and visitors, such as free wireless Internet access in the downtown area (as pictured above). Additionally, this department supports two public access television channels (including the production of original programming). KGOV, channel 21, is the legislative channel broadcasting programs such as City Council meetings and legislative updates from Olympia. Channel 75, K-Life, has a community focus. In addition to monthly news magazines, K-Life airs videos generated by the Youth and Senior Councils. Other programs include public safety, fire safety, art and a series titled Wild about Washington.

Summary of All Operating Funds: *Expenditures*

- General Fund** expenditures were budgeted to increase in 2007 over 2006 largely due to increased personnel costs and additional staffing, as well as budgets for unfinished projects "carried over" from the prior year. Actual expenditures are 6.1 percent under budget due to uncompleted projects, lower personnel costs from position vacancies and delayed hiring of new positions, and 2007 budgeted payments that will occur in 2008. Expenditures were under budget despite higher than expected firefighter overtime and jail costs.
- Other Operating Funds** expenditures were budgeted to increase in 2007 over 2006 primarily due to increased personnel, operating and fuel costs, and the shift of Multi-media Services from the General Fund. Actual expenditures are 11.6 percent under budget due to timing of vehicle and computer purchases, and lower than expected fuel and repairs and maintenance costs.
- Water/Sewer Operating Fund** expenditures were budgeted to increase in 2007 over 2006 due to higher water purchases and sewer treatment costs and increased regional connection charges paid to Cascade Water Alliance (covered by regional connection charge revenue). Actual expenditures are 3 percent under budget primarily due to position vacancies.
- Surface Water Management Fund** expenditures were budgeted to increase in 2007 over 2006 primarily due to increased funding for capital projects and additional plans generated from the completed Surface Water Master Plan, and higher personnel costs. Actual expenditures are 4.7 percent under budget due to uncompleted projects and despite unplanned additional West Nile virus eradication costs and new Washington State Department of Ecology permit fees.
- Solid Waste Fund** expenditures were budgeted to increase in 2007 over 2006 due to higher solid waste contract rates. Actual 2007 expenditures are 2 percent under budget due to normal variability in disposal contract billing payment amounts and position vacancies.

Expenditures by Fund	Year-to-Date Actual			Budget			Actual Percent of Budget	
	12/31/2006	12/31/2007	% Change	2006	2007	% Change	2006	2007
General Gov't Operating:								
General Fund	47,845,789	51,312,386	7.2%	49,962,235	54,627,886	9.3%	95.8%	93.9%
Other General Gov't Operating Funds	16,439,337	15,341,827	-6.7%	15,072,831	17,364,419	15.2%	109.1%	88.4%
Total General Gov't Operating	64,285,126	66,654,213	3.7%	65,035,066	71,992,305	10.7%	98.8%	92.6%
Utilities:								
Water/Sewer Operating Fund	15,485,432	16,411,972	6.0%	15,492,943	16,919,851	9.2%	100.0%	97.0%
Surface Water Management Fund	4,607,714	5,382,452	16.8%	4,939,600	5,646,029	14.3%	93.3%	95.3%
Solid Waste Fund	7,350,421	7,700,848	4.8%	7,247,024	7,860,184	8.5%	101.4%	98.0%
Total Utilities	27,443,567	29,495,272	7.5%	27,679,567	30,426,064	9.9%	99.1%	96.9%
Total All Operating Funds	91,728,693	96,149,485	4.8%	92,714,633	102,418,369	10.5%	98.9%	93.9%

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

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

General Fund Revenue

General Fund revenue budgets were adjusted as part of the mid-biennial budget adjustment process to reflect revenue estimates. The following compares the adjusted budget to actual performance.

- **Sales tax** was budgeted to increase in 2007 over 2006 because of strong development-related activity. Actual revenue is 1 percent behind budget due to weakening of this activity as the year progressed. A detailed analysis of **sales tax** revenue can be found starting on page 5.
- **Utility tax** revenue was budgeted to increase from 2006 primarily due to higher utility rates. Actual revenue collection is 1.3 percent under budget due to slightly weaker growth than expected despite stronger than expected telecommunications taxes.
- **Business licenses and franchise fees** were budgeted to increase over 2006 primarily due to expected strong franchise fee performance. Actual revenue lagged behind budget for much of 2007, but ended 3.4 percent ahead of budget because of franchise and business license fees. The **revenue generating regulatory license** fee is 4.8 percent over budget. Timing of renewals from larger businesses at the end of the year was the primary factor for this trend.
- **Development-related** revenue budget was adjusted to decline in 2007 from 2006. **Building/structural permits** revenue ended even weaker than expected, 7.5 percent behind budget. **Engineering development charges** actual revenue is only 0.5 percent behind budget and **plan check/development** fees are 3.4 percent under budget. The trends for development-related revenue in 2007 reflect the volatility that is inherent in development activity and also are reflected in sales tax revenue performance (see page 5).
- **Miscellaneous revenues** were budgeted less in 2007 than 2006 primarily due to interest income revenue. Actual revenue is 31.9 percent ahead of budget due to NORCOM cost reimbursement from other agencies, higher than expected facilities leases and reimbursement for expenses generated from the *Extreme Makeover–Home Edition* television show.

General Fund 2007 revenues are almost \$1.9 million ahead of 2006 largely due to property, sales and utility taxes.

General Fund 2007 revenue is up 3.6 percent over 2006.

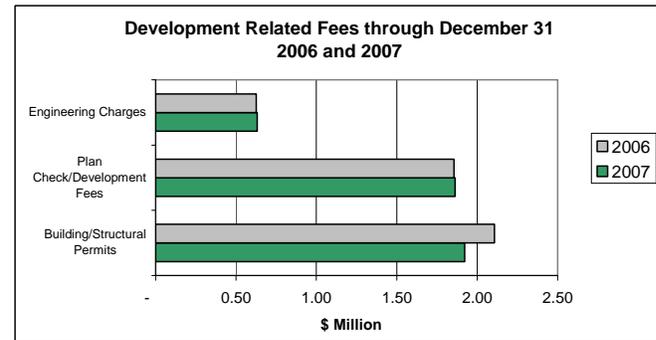
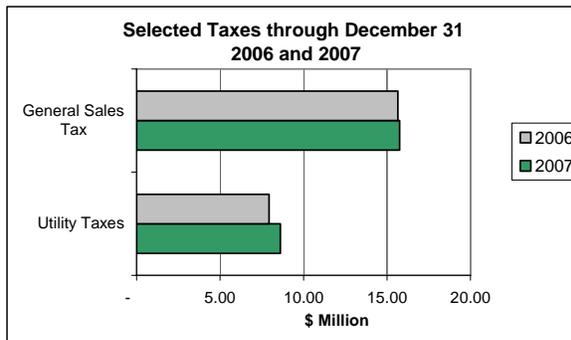
The General Fund is the largest of the General Government Operating funds. It is primarily tax supported and accounts for basic services such as public safety, parks and recreation, and community development.

About 372 of the City's 467 permanent employees are budgeted within this fund.

General Fund Resource Category	Year-to-Date Actual			Budget			Actual Percent of Budget	
	12/31/2006	12/31/2007	% Change	2006	2007	% Change	2006	2007
Taxes:								
Retail Sales Tax: General	15,658,027	15,756,446	0.6%	14,132,692	15,918,981	12.6%	110.8%	99.0%
Retail Sales Tax: Criminal Justice	1,036,737	1,159,184	11.8%	890,000	1,114,253	25.2%	116.5%	104.0%
Property Tax	8,127,663	8,612,296	6.0%	8,117,113	8,790,086	8.3%	100.1%	98.0%
Utility Taxes	7,932,114	8,611,700	8.6%	7,171,200	8,723,683	21.6%	110.6%	98.7%
Rev Generating Regulatory License	978,003	981,237	0.3%	900,000	936,671	4.1%	108.7%	104.8%
Other Taxes	432,061	534,792	23.8%	464,800	462,597	-0.5%	93.0%	115.6%
Total Taxes	34,164,605	35,655,655	4.4%	31,675,805	35,946,271	13.5%	107.9%	99.2%
Licenses & Permits:								
Building, Structural & Equipment Perm	2,107,060	1,921,523	-8.8%	2,084,742	2,078,436	-0.3%	101.1%	92.5%
Business Licenses/Franchise Fees	1,375,333	1,470,393	6.9%	1,184,775	1,421,435	20.0%	116.1%	103.4%
Other Licenses & Permits	226,338	238,051	5.2%	169,020	188,749	11.7%	133.9%	126.1%
Total Licenses & Permits	3,708,731	3,629,967	-2.1%	3,438,537	3,688,620	7.3%	107.9%	98.4%
Intergovernmental:								
Grants	126,048	195,460	55.1%	207,017	182,160	-12.0%	60.9%	107.3%
State Shared Revenues & Entitlements	543,723	636,521	17.1%	590,033	623,230	5.6%	92.2%	102.1%
Fire District #41	3,069,978	3,184,310	N/A	3,141,052	3,184,310	N/A	97.7%	100.0%
EMS	495,286	512,252	N/A	489,685	504,376	N/A	101.1%	101.6%
Other Intergovernmental Services	652,732	582,337	-10.8%	438,539	589,478	34.4%	148.8%	98.8%
Total Intergovernmental	4,887,767	5,110,880	4.6%	4,866,326	5,083,554	4.5%	100.4%	100.5%
Charges for Services:								
Internal Charges	3,291,789	3,377,529	2.6%	3,531,586	3,443,777	-2.5%	93.2%	98.1%
Engineering Services	625,331	631,926	1.1%	400,000	635,000	58.8%	156.3%	99.5%
Plan Check & Planning Fees	1,855,807	1,862,652	0.4%	2,276,836	1,927,660	-15.3%	81.5%	96.6%
Recreation	77,976	79,939	2.5%	74,000	79,516	7.5%	105.4%	100.5%
Other Charges for Services	687,970	888,969	29.2%	674,199	880,191	30.6%	102.0%	101.0%
Total Charges for Services	6,538,873	6,841,015	4.6%	6,956,621	6,966,144	0.1%	94.0%	98.2%
Fines & Forfeits	1,133,701	1,360,604	20.0%	1,157,550	1,317,860	13.8%	97.9%	103.2%
Miscellaneous	891,509	592,034	-33.6%	590,991	448,786	-24.1%	150.8%	131.9%
Total Revenues	51,325,186	53,190,155	3.6%	48,685,830	53,451,235	9.8%	105.4%	99.5%
Other Financing Sources:								
Interfund Transfers	466,686	888,083	N/A	405,986	933,434	N/A	115.0%	95.1%
Total Other Financing Sources	466,686	888,083	N/A	405,986	933,434	N/A	115.0%	95.1%
Total Resources	51,791,872	54,078,238	4.4%	49,091,816	54,384,669	10.8%	105.5%	99.4%

* Budgeted and actual revenues exclude resources forward.

General Fund Revenue *continued*



General Fund Expenditures

General Fund Department Expenditures	Year-to-Date Actual			Budget			Actual Percent of Budget	
	12/31/2006	12/31/2007	% Change	2006	2007	% Change	2006	2007
Non-Departmental	751,149	984,977	31.1%	851,614	1,128,527	32.5%	88.2%	87.3%
City Council	294,713	285,801	-3.0%	311,733	316,392	1.5%	94.5%	90.3%
City Manager's Office	2,520,099	3,081,824	22.3%	2,431,813	3,397,878	39.7%	103.6%	90.7%
Human Resources	889,200	966,042	8.6%	855,969	1,036,649	21.1%	103.9%	93.2%
City Attorney's Office	833,363	868,029	4.2%	881,406	997,460	13.2%	94.5%	87.0%
Parks & Community Services	5,001,458	5,463,872	9.2%	5,096,976	5,888,034	15.5%	98.1%	92.8%
Public Works (Engineering)	2,812,807	3,436,371	22.2%	2,887,897	3,784,150	31.0%	97.4%	90.8%
Finance and Administration	2,814,871	3,145,907	11.8%	2,891,824	3,417,487	18.2%	97.3%	92.1%
Planning & Community Development	2,886,620	3,161,601	9.5%	2,965,328	4,052,113	36.6%	97.3%	78.0%
Police	12,124,519	13,299,212	9.7%	12,669,585	14,096,033	11.3%	95.7%	94.3%
Fire & Building	14,692,710	15,888,517	8.1%	14,578,689	15,807,803	8.4%	100.8%	100.5%
Total Expenditures	45,621,509	50,582,153	10.9%	46,422,834	53,922,526	16.2%	98.3%	93.8%
Other Financing Uses:								
Interfund Transfers	2,224,280	730,233	-67.2%	3,539,401	705,360	-80.1%	62.8%	103.5%
Total Other Financing Uses	2,224,280	730,233	-67.2%	3,539,401	705,360	-80.1%	62.8%	103.5%
Total Expenditures & Other Uses	47,845,789	51,312,386	7.2%	49,962,235	54,627,886	9.3%	95.8%	93.9%

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

- The **Non-departmental** division 2007 expenditures were budgeted higher than 2006 due to a relocation of the Multi-media Services functions to Information Technology resulting in a change in accounting for the internal charges. Actual expenditures are 12.7 percent under budget primarily due to the timing of outside agency payments and lower than expected retiree medical costs.

2007 expenditure budgets were higher than 2006 for the following departments primarily due to higher personnel costs, including an unsettled labor contract from 2006 that settled in 2007 and additional positions added in 2007. In addition to this general trend, specific highlights and budget to actual comparisons by selected departments are listed below:

- Additions to the **City Manager's** 2007 budget include a communications program manager, municipal court staffing, and additional funding for economic development, outside agencies and one-time annexation studies. Actual expenditures are 9.3 percent under budget primarily due to the normal delay in hiring newly approved positions and uncompleted projects such as consulting services for NORCOM and annexation analysis.
- Additions to the **Human Resources Department** 2007 budget include an additional temporary human resources analyst. Actual expenditures are 6.8 percent under budget due to the delay of hiring the new position, timing of public safety assessment centers, and unfinished projects such as health care plans consulting services.

Compared to budget, 2007 General Fund actual expenditures are tracking slightly below last year (93.9 percent of budget in 2007 compared to 95.8 percent of budget in 2006) largely due to the normal delayed hiring of newly approved 2007 positions, position vacancies, and timing of major projects.

(Continued on page 5)

FINANCIAL MANAGEMENT REPORT AS OF DECEMBER 31, 2007

- Additions to the **Public Works Department** 2007 budget include additional positions, service packages for traffic counts and transportation management plans, as well as one-time annexation studies. Actual expenditures are 9.2 percent under budget due to position vacancies, the delay of hiring new positions, and unfinished projects such as the annexation analysis and transportation management plans.
- Additions to the **Parks & Community Services Department** 2007 budget include additional staffing, one-time increase in human services funding, and increases to parks maintenance expenditures. Actual expenditure are 7.2 percent under budget due to the normal delay in hiring new positions and timing of human services agency contract payments.
- Additions to the **Finance & Administration Department** 2007 budget include additional utility billing staff and one-time annexation studies. Actual expenditures are 7.9 percent under budget, due to projects that are in progress such as the annexation fiscal analysis.
- Additions to the **Planning Department** 2007 budget include additional development-related staffing and one-time annexation studies. Actual expenditures are 22 percent under budget due to the delay in hiring additional staffing and uncompleted projects such as the Park Place redevelopment environmental impact analysis, annexation analysis, and timing of payments to ARCH (A Regional Coalition for Housing).
- Additions to the **Police Department** 2007 budget include additional corrections officers and annexation planning staffing. Actual expenditures are 5.7 percent under budget largely due to position vacancies and despite higher than expected jail costs.
- Additions to the **Fire & Building Department** 2007 budget include additional development staff and a temporary emergency preparedness coordinator. Actual expenditures are 0.5 percent over budget primarily due to higher than expected fire operations overtime costs.

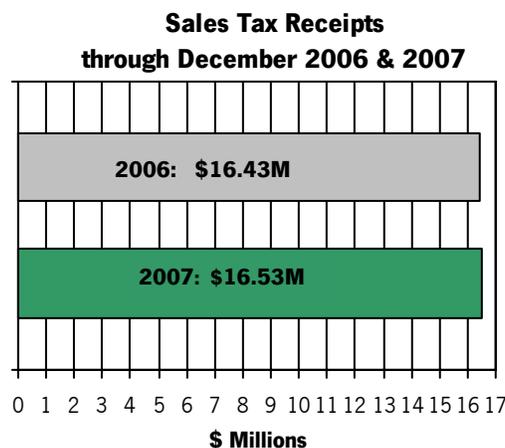


A Kirkland family was the fortunate recipient of an “Extreme Home Makeover” from the ABC television show, which aired in December. City staff from several departments coordinated the permit and inspection processes to make sure the show’s deadlines were met. Many employees and citizens also donated their own time to work on the actual construction.

Sales Tax Revenue Analysis Sales tax revenue posted negative results for the last five months of 2007 compared to 2006. As a result, the year ended **up 0.6 percent** over 2006 primarily due to significant softening in contracting revenue (see table on page 6).

Review by business sectors:

- The **miscellaneous** sector is **up 39.7 percent** due to a significant one-time receipt.
- **Auto/gas retail** remains the strongest “ongoing” performer for the year, **up 10.2 percent** compared to 2006 due to increased revenue from several key retailers, as well as two new smaller retailers. However, the last two months of December show a softening trend in this important business sector.
- **General merchandise/miscellaneous retail** is **up 1.5 percent** over 2006 due to flat performance by key retailers.
- **Retail eating/drinking** is **up 5.4 percent** compared to 2006 due to relatively good results from several larger businesses as well as the collection of a past-due account from prior years.
- **Other retail declined 3.5 percent** over 2006 due to closure of two major retailers and one-time anomalies in the retail food and health care sectors in 2006 that skew comparisons between the years.
- All business sectors but one impacted by development-related activity (contracting, wholesale, services and communications) are posting negative results in 2007 compared to 2006. Comparing to 2006: the **services** sector is **up 3.3 percent** reflecting continued strong performance in this sector from development as well as a new hotel; **contracting** is **down 8.3 percent**, and the **communications** sector is **down 17.1 percent** due to a decline in development-related activity compared to 2006; and **wholesale** is **down 15.8 percent**, as a result of declining development activity compared to 2006.



Although slowing the last two months of the year, auto/gas retail growth helped balance declines in development revenue in 2007.

Development-related sales tax revenue is falling behind 2006, but remains strong compared to historical trends (up 69 percent over 2004 revenue).

Bellevue ended the year with strong sales tax performance (up 16.5 percent) primarily due to the high level of development-related activity in 2007. Redmond was up 25.5 percent almost entirely due to one-time field recoveries; otherwise Redmond would be up about 3.2 percent.

City of Kirkland Total Actual Year-to-date Sales Tax Receipts

Business Sector Group	Jan - Dec		Dollar Change	Percent Change	Percent of Total	
	2006	2007			2006	2007
Services	1,722,501	1,779,742	57,241	3.3%	10.5%	10.8%
Contracting	3,279,243	3,007,168	-272,075	-8.3%	20.0%	18.2%
Communications	793,243	657,923	-135,320	-17.1%	4.8%	4.0%
Auto/Gas Retail	2,973,380	3,276,488	303,108	10.2%	18.1%	19.8%
Gen Merch/Misc Retail	2,524,268	2,562,537	38,269	1.5%	15.4%	15.5%
Retail Eating/Drinking	1,228,127	1,294,444	66,317	5.4%	7.5%	7.8%
Other Retail	1,800,744	1,738,458	-62,286	-3.5%	11.0%	10.5%
Wholesale	1,320,124	1,111,079	-209,045	-15.8%	8.0%	6.7%
Miscellaneous	786,514	1,098,629	312,115	39.7%	4.7%	6.7%
Total	16,428,144	16,526,468	98,324	0.6%	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 2006 and 2007 year-to-date sales tax receipts in the table to the left.

Month	Sales Tax Receipts		Dollar Change	Percent Change
	2006	2007		
January	1,116,572	1,267,021	150,449	13.5%
February	1,821,021	1,525,665	(295,356)	-16.2%
March	1,126,328	1,154,890	28,562	2.5%
April	1,061,134	1,604,395	543,261	51.2%
May	1,309,595	1,496,755	187,160	14.3%
June	1,311,259	1,422,662	111,403	8.5%
July	1,285,154	1,428,250	143,096	11.1%
August	1,749,896	1,253,921	(495,975)	-28.3%
September	1,457,353	1,445,966	(11,387)	-0.8%
October	1,400,232	1,299,258	(100,974)	-7.2%
November	1,478,235	1,348,896	(129,339)	-8.7%
December	1,311,365	1,278,789	(32,576)	-2.5%
Total	16,428,144	16,526,468	98,324	0.6%

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 December 2007 is for sales actually made in October 2007. Monthly sales tax receipts through December 2006 and 2007 are compared in the table to the left.

One-time spikes (in development-related revenue in February and August 2006 and the miscellaneous category and development-related revenue in April 2007) skew monthly comparisons between the years. August was also impacted by a significant correction by the Department of Revenue to contracting revenue that had been received in April 2007. The last 5 months of 2007 experienced negative trends compared to 2006.

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.

Totem Lake, which accounts for over 30 percent of the total sales tax receipts, is **up 7.1 percent** over 2006 primarily due to strong performance in auto/gas retail, a new hotel and sporting goods store, and despite the closure of a major supermarket and electronics store. Al-

most 60 percent of this business district's revenue comes from the auto/gas retail and general merchandise/miscellaneous retail sectors.

NE 85th Street, which accounts for over 14 percent of the total sales tax receipts, is **up 3.4 percent** over 2006 primarily due to the automotive/gas retail, general merchandise/miscellaneous retail and retail eating/drinking sectors. Over 86 percent of this business district's revenue comes from these three business sectors.

Downtown, which accounts for over 6 percent of the total sales tax receipts, is **up 1.7 percent** over 2006 primarily due to moderately

strong performance in the retail eating/drinking sector, which provides over 42 percent of this business district's revenue and despite declines in other retail and miscellaneous sector (manufacturing).

Carillon Point & Yarrow Bay, which accounts for 3 percent of the total sales tax receipts, is **down 0.6 percent** from 2006 primarily due to weak performance in communications and retail eating/drinking and despite strong performance in the business services and hotel sectors. Almost 80 percent of this business district's revenue comes from business services, retail eating/drinking and hotels.

Houghton & Bridle Trails, which accounts for almost 4 percent of the total sales tax receipts, is **up 17.8 percent** over 2006 almost entirely due to miscellaneous retail, which provides 36 percent of these business districts' revenue.

Juanita, which accounts for almost 2 percent of the total sales tax receipts, is **up 7.1 percent** over 2006 primarily due to the retail eating/drinking sector, which provides almost 44 percent of this business district's revenue.

When reviewing sales tax receipts by business district, it's important to point out that 41 percent of the revenue received in 2007 is in the "unassigned or no district" category largely due to contracting revenue (which has declined compared to last year), and increasing revenue from Internet, catalog sales and other businesses located outside of the City.

City of Kirkland Sales Tax by Business District

Business District	Jan - Dec Receipts		Dollar Change	Percent Change	Percent of Total	
	2006	2007			2006	2007
Totem Lake	4,753,780	5,091,625	337,845	7.1%	28.9%	30.8%
NE 85th St	2,361,132	2,441,384	80,252	3.4%	14.4%	14.8%
Downtown	1,071,865	1,090,444	18,579	1.7%	6.5%	6.6%
Carillon Pt & Yarrow Bay	494,436	491,422	-3,014	-0.6%	3.0%	3.0%
Houghton & Bridle Trails	532,766	627,827	95,061	17.8%	3.2%	3.8%
Juanita	264,154	282,786	18,632	7.1%	1.6%	1.7%
Unassigned or No District:						
Contracting	3,279,273	3,004,347	-274,926	-8.4%	20.0%	18.2%
Other	3,670,738	3,496,633	-174,105	-4.7%	24.0%	22.8%
Total	16,428,144	16,526,468	98,324	0.6%	100.0%	100.0%

Sales Tax Revenue Outlook The double-digit sales tax revenue increases experienced over the previous two years disappeared in 2007 largely due to the decline in development-related activity. However, a large percentage of sales tax revenue continues to come from this one-time activity, which cannot be relied upon to fund ongoing services. The vulnerability of dependence on sales tax revenue became increasingly evident as 2007 ended. While down from 2006, development related activity remained high in 2007 compared to historical averages and may not be sustainable over the long term. In addition to concerns about a general economic downturn, Costco has confirmed their plans to open new stores in Redmond and Bellevue by the end of 2008. By their estimates, the Kirkland store will lose about one third of its sales from the opening of the new stores. This impact would be felt starting in early 2009 and would compound the negative effect from other factors, which may include the relocation of the sales portion of a major automobile dealership as well as a general economic downturn.

Developing ongoing business activity is critical to ensure the City's financial health. Opportunities for growth in ongoing revenue exist from the redevelopment of Totem Lake Mall and Park Place, the completed expansions of major car dealerships, and the two additional hotels. These risks and opportunities serve as reminders that sales tax is an economically sensitive revenue source. In good times, sales tax growth easily outpaces the rate of inflation and is an attractive funding source for service packages. On the other hand, an economic recession and the return of more normal development-related activity can quickly threaten the City's financial ability to maintain existing services (as it did in 2002).

OFFICE VACANCIES:

The Eastside vacancy rate remains low at 9.3 percent and Kirkland's rate is 4.7 percent as of the fourth quarter of 2007 according to CB Richard Ellis Real Estate Services.

LODGING TAX REVENUE:

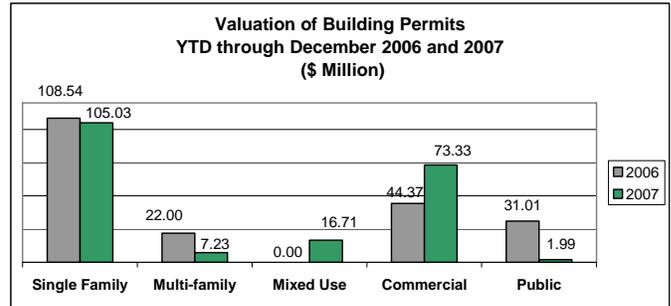
Lodging tax revenue in 2007 is up 32.8 percent compared to 2006 due to overall strong performance in the accommodations industry as well as the new hotel in Totem Lake. An additional hotel opened downtown in late 2007. The full impact won't happen until 2008.

Economic Environment Update There are conflicting forces at work impacting the local economy. On one hand, local job growth remained strong in 2007 with more than 136,000 jobs added in the Seattle-Tacoma metropolitan area since January 2005. The unemployment rate in King County dropped to 3.6 percent as of December 2007, well below the national and Washington State average of 4.8 percent. Global conditions create a positive affect; decent global growth rates and the declining dollar supports growth in exports, adding 0.5 percent to the Puget Sound's growth rate. Taxable retail sales in King County remained strong, up 9.7 percent for 2007 compared to 2006 largely due to strong development activity in Bellevue, Seattle and unincorporated King County. As of the fourth quarter of 2007, the Puget Sound office market saw its 18th quarter of positive absorption. Over 1.9 million square feet of space was filled in 2007 and 20 million square feet is in the planning stages. The Puget Sound region office market is expected to remain one of the strongest in the nation for some time.

On the other hand, slumping housing sales, volatility in the credit markets, and general concern in consumer and business confidence on a national and local level could easily dampen economic growth locally. The rest of the nation is this region's largest market for goods. If there is a significant national recession, it would affect this area. If the national economy starts to expand by the end of 2008, Washington's economy may be able to weather the national recession without too much negative impact. A longer or deeper recession would most likely be felt in this region.

As mentioned in the sales tax analysis, significant risks from business changes and slowing development activity could pose a challenge for the near future.

Local **development activity** comparing 2007 to 2006 as measured by the valuation of City of Kirkland building permits is illustrated in the chart to the right. Activity remains relatively strong, especially in the commercial /mixed use sectors. Single family activity in 2007 trended below 2006 levels for most of the year, but improved by the end of the year. The significant spike in 2006 public activity reflects the permitting for Evergreen Hospital. Concerns about the slowing local real estate market could have a significant impact on residential development activity in 2008.



Pending sales of **new and existing single-family homes** in King County are down 34 percent in December 2007 compared with a year earlier and prices declined 1.1 percent for closed sales compared to the same month last year. The median price of a single family home in December was \$435,000—down from \$445,000 in December 2006. On the Eastside, closed sales are down 36.6 percent and the median price is up 1.6 percent to \$589,500. Contributing factors to the slow-down in sales are housing prices overshooting wages, economic uncertainty and tightening consumer credit. Local economists predict 2008 housing prices to flatten to zero or decline as part of market correction and the demand for housing will keep the correction time short. However, this is contingent on the local economy remaining strong and order being restored to credit markets.

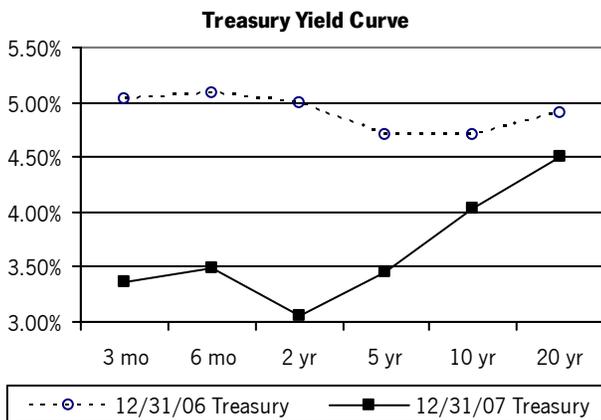
Seattle metro CPI continues to track higher than the national average (4.8 percent compared to the national average of 4.3 percent as of December). This is an increase from the Seattle index for June, which was 3.31 percent. The June 2007 CPI is used to calculate City employee cost of living adjustments (COLA) for 2008. As a result, 2008 COLA's will range from 2.98 to 3.31 percent depending on the bargaining unit contract.

Investment Report

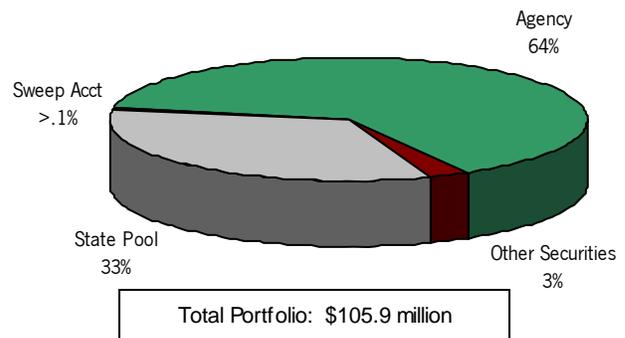
MARKET OVERVIEW

With economic news negative and problems in the subprime mortgage market the yield curve dropped and steepened as short term rates fell further than long term rates. The Fed Funds rate ended the year at 4.25%, down from 5.25% on December 31, 2006. The Fed Funds rate continued to decline in January 2008 to 3.00%. It is anticipated that the Fed Funds rate will continue to drop to 2.00% by the end of 2008.

The primary objectives for the City of Kirkland's investment activities are: legality, safety, liquidity and yield. Additionally, the City diversifies its investments according to established maximum allowable exposure limits so that reliance on any one issuer will not place an undue financial burden on the City. The City's portfolio increased nearly \$8 million in 2007 due to increases in utility funds and reserves. On December 31, 2007 Kirkland's portfolio balance was \$105.9 million compared to \$97.9 million on December 31, 2006.



Investments by Category



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.

Diversification

The City's current investment portfolio is composed of Government Agency bonds, State and Local Government bonds, US Treasury notes, the State Investment Pool and an overnight bank sweep account. City investment procedures allow for 100% of the portfolio to be invested in US Treasury or Federal Government obligations.

Investment Report *continued*

2008 ECONOMIC OUTLOOK and INVESTMENT STRATEGY

The outlook for 2008 continues to change rapidly with the weak economic growth and the severity of the housing downturn. GDP growth for 2008 is now expected to be 1.3% and core inflation to range between 2% and 2.2%. Beyond the very short term, the forecasters see little threat of accelerating inflation. The unemployment rate is expected to average 5.1% in 2008, up from earlier expectations of 4.7% in 2008. The Fed Funds rate, currently at 3.00% as of January 30, 2008, is expected to be further reduced at the March 18, 2008 meeting to 2.50% and possibly reduced to 2.00% by the end of 2008.

The duration of the portfolio will be shortened as securities mature and are called. Purchases will be made as opportunities for increased returns become available. During period of low interest rates the portfolio duration should be kept shorter with greater liquidity to take advantage of purchasing securities with higher returns when interest rates begin to rise. The State Pool is currently near 3.25 % and will continue to decline as the Fed Funds rate declines. Total estimated investment income for 2008 is \$4.2 million compared to \$3.7 million budgeted.

Liquidity

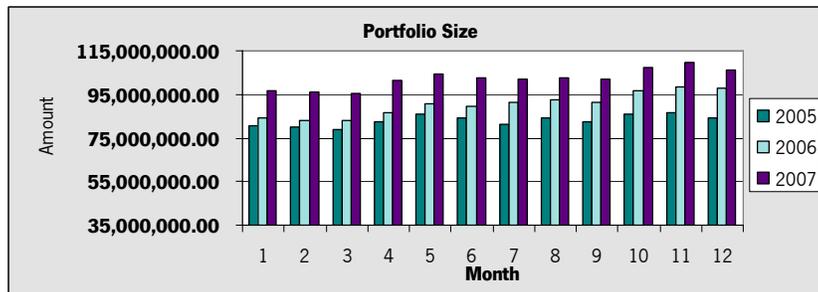
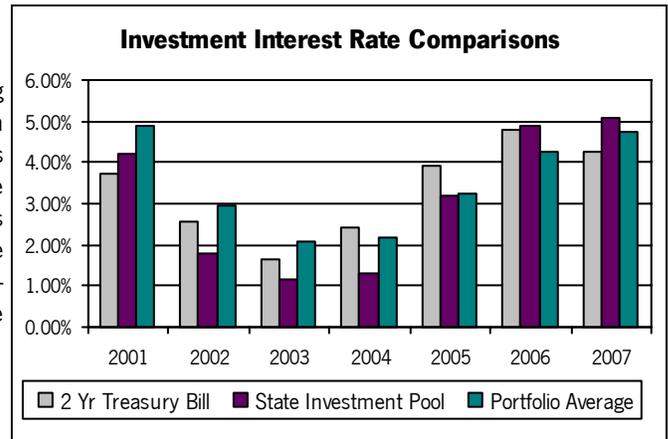
During 2007, the average maturity of the City's investment portfolio increased from .99 years to 2.01 years. This is above the target duration of 1.2 years as securities with longer maturities were purchased in the 4th quarter of 2007 to sustain higher earnings as interest rates began to rapidly decline. The target duration is based on the 2 year treasury rate which decreased from 4.82% on December 31, 2006 to 3.05% on December 31, 2007.

Yield

The City Portfolio yield to maturity increased from 4.51% on December 31, 2006 to 4.89% on December 31, 2007. Through December 31, 2007, the City's annual average yield to maturity was 4.75%, which performed under the State Investment Pool annual average yield to maturity at 5.09% and above the 2 Year Treasury note annual average for 2007 at 4.27%.

The City's practice of investing further out on the yield curve than the State Investment Pool results in earnings higher than the State Pool during declining interest rates and lower earnings than the State Pool during periods of rising interest rates. This can be seen in the adjacent graph.

Benchmark Comparison	December 31, 2006	December 31, 2007
City Yield to Maturity (YTM)	4.51%	4.89%
City Annual Average YTM	4.25%	4.75%
City Year to Date Cash Yield	3.99 %	4.73%
State Pool Average Yield	4.90%	5.09%
2 yr Treasury Note Avg YTM	4.71%	4.27%



Reserve Summary

General Operating Reserve

For the City's "Rainy Day" fund, the target is established by fiscal policy at five percent of the operating budget (excluding utility and internal service funds). Each year, the target amount will change proportional to the change in the operating budget. To maintain full funding, the increment between five percent of the previous year's budget and the current budget would be added or subtracted utilizing interest income and year-end transfers from the General Fund. It is a reserve to be used for unforeseen revenue losses and other temporary events. If the reserve is utilized by the City Council, the authorization should be accompanied by a plan for replenishing the reserve within a two to three year period.

Revenue Stabilization Reserve

The Revenue Stabilization Reserve was approved by Council in July 2003 and was created by segregating a portion of the General Operating Reserve. The purpose of this reserve is to provide an easy mechanism to tap reserves to address temporary revenue shortfalls resulting from temporary circumstances (e.g. economic cycles, weather-related fluctuations in revenue). Council set the target at ten percent of selected General Fund revenue sources which are subject to volatility (e.g. sales tax, development fees and utility taxes). The Revenue Stabilization Reserve may be used in its entirety; however, replenishing the reserve will constitute the first priority for use of year-end transfers from the General Fund.

Contingency Fund

The Contingency Fund was established pursuant to RCW 35A.33.145 to "provide monies with which to meet any municipal expense, the necessity or extent of which could not have been foreseen or reasonably evaluated at the time of adopting the annual budget." State law sets the maximum balance in the fund at \$.375 per \$1,000 of assessed valuation. This reserve would be used to address unforeseen expenditures (as opposed to revenue shortfalls addressed by the Revenue Stabilization Reserve). The fund can be replenished through interest earnings up to the maximum balance or through the year-end transfer if needed.

Reserves are an important indicator of the City's fiscal health. They effectively represent "savings accounts" that are established to meet unforeseen budgetary needs (general purpose reserves) or are otherwise dedicated to a specific purpose (special purpose reserves). The City's reserves are listed with their revised estimated balances at the end of the biennium in the table below:

Reserves	2007-08 Est End Balance	2007 Auth. Uses	2007 Auth. Additions	Revised 2007-08 End Balance
GENERAL PURPOSE RESERVES				
Contingency	3,193,826	365,936		2,827,890
General Capital Contingency	3,312,834			3,312,834
Park & Municipal Reserve:				
General Oper. Reserve (Rainy Day)	2,712,836			2,712,836
Revenue Stabilization Reserve	2,082,380			2,082,380
Building & Property Reserve	1,921,002	10,000		1,911,002
Council Special Projects Reserve	309,960	33,000		276,960
Total General Purpose Reserves	13,532,838	408,936	0	13,123,902
SPECIAL PURPOSE RESERVES				
Excise Tax Capital Improvement:				
REET 1	6,673,678	796,394		5,877,284
REET 2	6,067,898			6,067,898
Equipment Rental:				
Vehicle Reserve	5,907,138			5,907,138
Radio Reserve	36,000			36,000
Information Technology:				
PC Replacement Reserve	453,670			453,670
Major Systems Replacement Reserve	666,500			666,500
Facilities Maintenance:				
Operating Reserve	550,000			550,000
Facilities Sinking Fund	1,439,951			1,439,951
Impact Fees				
Roads	1,984,145			1,984,145
Parks	920,086			920,086
Park Bond Reserve	502,916			502,916
Cemetery Improvement	476,401			476,401
Off-Street Parking	29,564			29,564
Tour Dock	73,211			73,211
Street Improvement	1,121,498	161,100		960,398
Firefighter's Pension	1,359,860			1,359,860
Park & Municipal Reserve:				
Litigation Reserve	20,004			20,004
Labor Relations Reserve	51,255			51,255
Police Equipment Reserve	26,519			26,519
LEOFF 1 Police Reserve	625,754			625,754
Facilities Expansion Reserve	800,000			800,000
Development Services Reserve	1,290,831			1,290,831
Tree Ordinance	13,750			13,750
Donation Accounts	143,859			143,859
Revolving Accounts	148,606			148,606
Water/Sewer Operating Reserve	1,511,245			1,511,245
Water/Sewer Debt Service Reserve	820,155			820,155
Water/Sewer Capital Contingency	1,703,640	500,200		1,203,440
Water/Sewer Construction Reserve	8,738,358	835,000		7,903,358
Surface Water Operating Reserve	320,299			320,299
Surface Water Capital Contingency	876,760	202,000		674,760
Surface Water-Transp. Related Rsv	1,417,365	236,000		1,181,365
Surface Water Construction Reserve	1,240,563			1,240,563
Total Special Purpose Reserves	48,011,479	2,730,694	0	45,280,785
Grand Total	61,544,317	3,139,630	0	58,404,687

Reserve Summary *continued*

RESERVE	AMOUNT	DESCRIPTION
2007 Council Authorized Uses	\$3,139,630	
Contingency Fund	\$31,500	Funding for phase 1 of the Permit Process Improvement Project to review the single family building permit process.
	\$54,436	Funding for continued public outreach for Phase II of the annexation study.
	\$280,000	Funding for a Planned Action Environmental Impact Statement and fiscal review related to the Park Place re-development.
Building/Property Reserve	\$10,000	Funding for a study of the Peter Kirk restroom to coincide with the timing of the design for the downtown transit center.
Council Special Projects Reserve	\$15,000	Funding for the Assistance League of the Eastside's Operation School Bell program.
	\$18,000	Funding for assistance with affordable housing regulations work plan.
Real Estate Excise Tax (REET) 1 Reserve	\$235,840	Funding for the purchase of the Irvin Property in the Yarrow Bay Wetlands.
	\$362,354	Funding for the purchase of greenbelt property near Everest Park.
	\$193,200	Funding for purchase of the Niedermeier property near Everest Park.
	\$5,000	Funding for the purchase appraisal and closing costs related to the Shelton property.
Street Improvement Reserve	\$91,100	Additional funding for completion of the Central Way Improvements project (street portion).
	\$70,000	Additional funding for the 2007 Pavement Striping Program.
Water/Sewer Capital Contingency	\$113,900	Additional funding for completion of the Central Way Improvements project (utilities portion).
	\$250,000	Additional funding for water system improvements projects.
	\$81,000	Additional funding for Waverly Beach Lift Station project.
	\$55,300	Additional funding for 7th Avenue/114th Avenue NE Watermain Replacement.
Water/Sewer Construction Reserve	\$835,000	Additional funding to complete the 2007 Emergency Sewer Program.
Surface Water Capital Contingency	\$202,000	Additional funding for the Juanita Creek Channel Enhancement project.
Surface Water Transportation Reserve	\$236,000	Additional funding for the 116th Ave NE (north) Non-motorized facilities (surface water portion).
2007 Council Authorized Additions	\$0	

No Council Authorized Additions as of December 31, 2007.

Reserves	Revised 2007-08 End Balance	2007-08 Target	Over (Under) Target
GENERAL PURPOSE RESERVES			
Contingency	2,827,890	3,698,455	(870,565)
General Capital Contingency	3,312,834	5,822,280	(2,509,446)
Park & Municipal Reserve:			
General Oper. Reserve (Rainy Day)	2,712,836	3,134,779	(421,943)
Revenue Stabilization Reserve	2,082,380	2,143,422	(61,042)
Council Special Projects Reserve	276,960	250,000	26,960
General Purpose Reserves with Targets	11,212,900	15,048,936	(3,836,036)
SPECIAL PURPOSE RESERVES			
Excise Tax Capital Improvement:			
REET 1	5,877,284	1,435,000	4,442,284
REET 2	6,067,898	4,959,200	1,108,698
Information Technology:			
Major Systems Replacement Reserve	666,500	1,025,000	(358,500)
Firefighter's Pension	1,359,860	1,103,000	256,860
Park & Municipal Reserve:			
Litigation Reserve	20,004	50,000	(29,996)
LEOFF 1 Police Reserve	625,754	855,000	(229,246)
Development Services Reserve	1,290,831	1,290,831	0
Water/Sewer Operating Reserve	1,511,245	1,511,245	0
Water/Sewer Debt Service Reserve	820,155	820,155	0
Water/Sewer Capital Contingency	1,203,440	1,703,640	(500,200)
Surface Water Operating Reserve	320,299	320,299	0
Surface Water Capital Contingency	674,760	876,760	(202,000)
Special Purpose Reserves with Targets	20,438,030	15,950,130	4,487,900
Reserves without Targets	26,753,757	n/a	n/a
Total Reserves	58,404,687	n/a	n/a

The summary in the section above details all Council authorized uses and additions to each reserve through December 2007.

The table to the left compares the revised ending balance to the targets established in the budget process.



123 5th Avenue

Kirkland, Washington 98033

425-587-3101

- ◆ Tracey Dunlap, Director of Finance & Administration
- ◆ Michael Olson, Deputy Director of Finance & Administration
- ◆ Sandi Hines, Financial Planning Manager
- ◆ Sri Krishnan, Senior Financial Analyst
- ◆ Neil Kruse, Budget Analyst

www.ci.kirkland.wa.us

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 report also compares this year's actual revenue and expenditure performance to the prior year.
- The **Sales Tax Revenue Analysis Report** takes a closer look at the City's largest and most economically sensitive revenue source.
- **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:

- Jeanne Lang Jones, *Optimism 'constrained' as economy taps brakes*, Puget Sound Business Journal, December 28, 2007
- Crai S. Bower, *Conway sees slowing of regional economy in 2008*, enterpriseSeattle economic forecast (sponsored by the Puget Sound Business Journal), January 18, 2008
- *Recessionary Storm Clouds Gather*, MBIA Asset Management Economic Commentary, January 2008
- Matthew Gardner, *Home-price decline inevitable, but it shouldn't last*, Puget Sound Business Journal, February 8, 2008
- Dick Conway, *Housing market's correction – when will it end?*, Puget Sound Business Journal, February 8, 2008
- CB Richard Ellis Real Estate Services, Market View Puget Sound, Fourth Quarter 2007
- Northwest Multiple Listing Service
- Washington State Economic and Revenue Forecast Council
- Washington State Employment Security Department
- Washington State Department of Revenue
- U.S. Bureau of Labor Statistics
- City of Kirkland Building Division

2007 Fire Overtime
February 26, 2008

What caused the department to be nearly \$800,000 over budget in 2007?

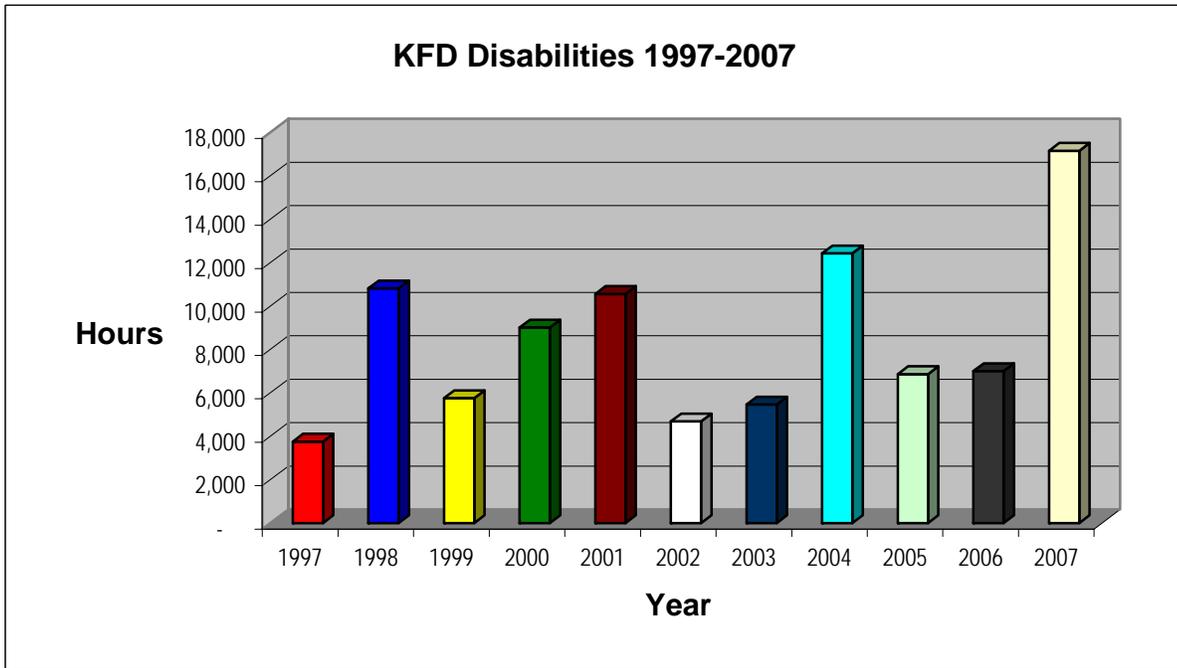
Staff analyzed the expenditures for overtime in 2007; the following are the key issues affecting our costs.

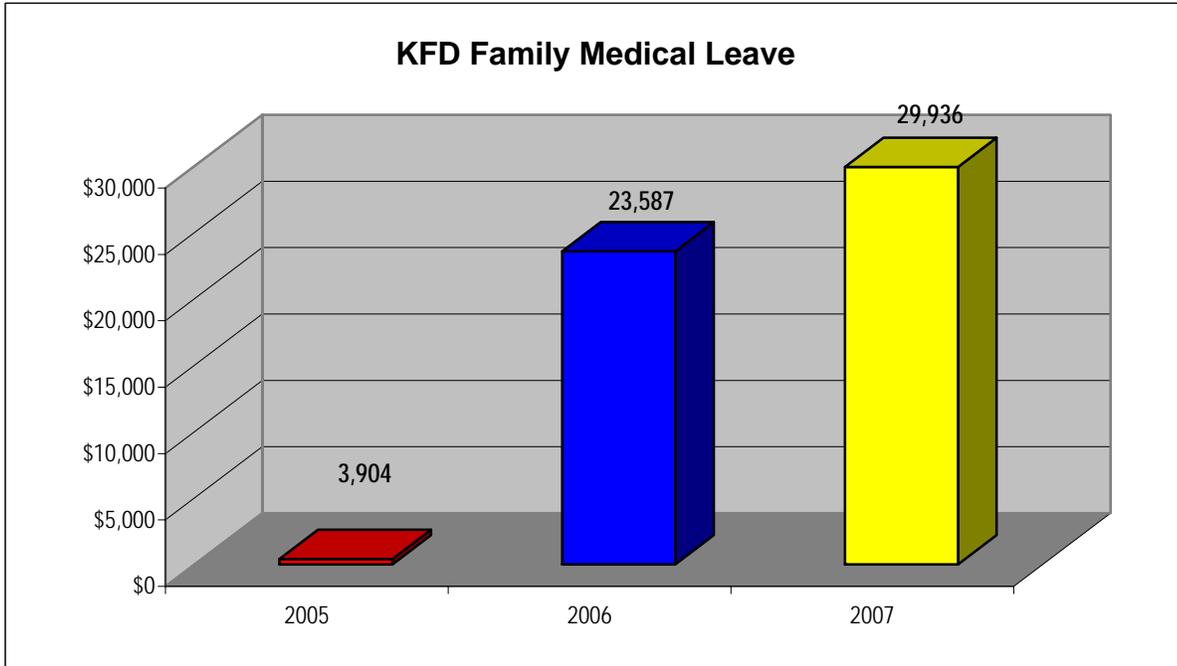
- 2007's on and off duty disabilities far exceeded any in the last ten years, see attached graph. In 2007 we had 17,060 hours of disability leave compared to an average over the previous 10 years of 7,636 hours. This is 2.25 times the average and should be considered an anomaly of expected disability hours.
- 2007 sick leave exceeded normal usage; an average of 3,666 hours were used in the previous 5 years. The 2007 sick leave hours were 6,124, which represents a 1.67 times the average. As an example of the types of things that impacted this, was the flu in 2007 "swept" through one station after another, there were days when we had up to 9 people off on anyone day. We are not staffed at a level to handle this kind of sickness. It would be cost prohibitive to try to staff for these occasional high levels of sickness.
- Unfunded Family Medical Leave use was consistent with previous years at a cost of approximately \$30,000. During the budget process, we prepared a service package to increase our overtime budget to cover the use of family medical leave; ultimately it was decided to not fund the service package and therefore when we had the use of family medical leave we incurred overtime costs for shift coverage.
- The work week reduction had a greater impact than expected; this was due to the staffing ratio changing because of the additional time off. This was caused by our staffing level already being close to the number where hiring would have been more cost effective than overtime, yet we continued to use overtime to fund a position.
- The number of personnel off per day for Kelly Days increased to 4 off per day nearly everyday as opposed to 3 off per day with an occasional 4th off. This was caused by both the workweek reduction and the hiring of firefighters for the Totem Lake medical aid unit. The following chart shows the number of personnel off per day on Kelly Days (work week reduction time off) and as you can see we have very few days left before we will need to be at five off per day on some days.

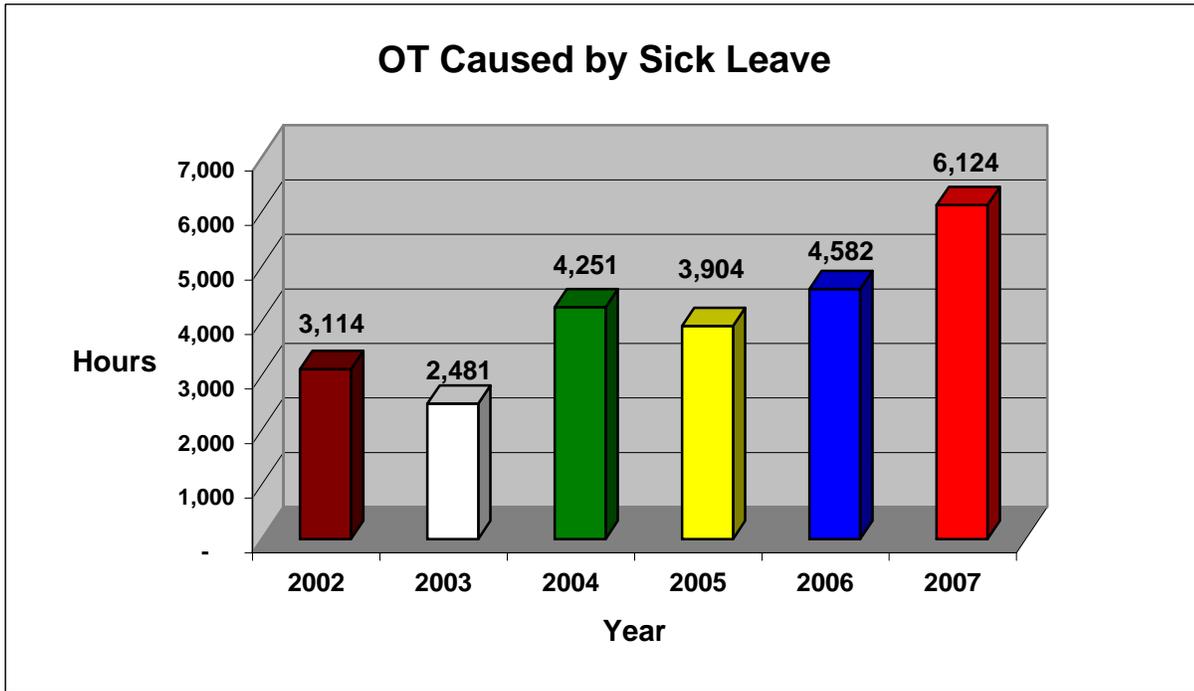
Shift	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday	# of FF's per shift
A	4	2	4	4	4	4	4	26
B	4	3	3	4	4	4	4	26
C	4	1	4	4	4	4	4	25

- North Finn Hill overtime staffing exceeded our budget by approximately \$50,000; in part this may have been due to the change in the average hourly overtime costs of a shift. During the previous contract negotiations, an average hourly overtime cost was developed. This number did not get updated in our budget process and therefore we are under budgeted for this staffing. The change over the last three years in the overtime hourly rate has increased \$10 per hour. This represents approximately \$43,800 and the remainder is most likely due to more officers or top firefighters in an acting position working these overtime shifts.

It is my expectation that we will not have the same experience in 2008; what we should do is further analyze the numbers and make a recommendation for solution both short and long term. I have a few options which could be considered, but want to explore them before making a firm recommendation.







City of Kirkland Temporary Positions & Recurring Service Package History

Current Temporary Staffing Roster (excluding Annexation & Special Projects)

Position	Department	Effective FTE	First Budgeted	2008 SP Cost	Funding Source(s)	Comment
Plans Examiner	Fire & Building	0.50	2001	45,452	GF Cash Balance/OT exp offset	
Public Grounds Tech	PW-Street Operating	1.00	2003	81,956	GF cash balance	Some seasonal labor in 2002
Field Arborist	PW-Street Operating	0.50	2004	53,789	GF cash balance	
Applications Analyst	Information Technology	1.00	2004	106,897	CIP budget	
Graffiti Specialist	PW-Street Operating	1.00	2004	82,791	GF cash balance	Included within department seasonal labor duties 2004-06; first dedicated funding for regular staffing 2007
NTCP Support	Public Works	0.50	2007	29,122	GF cash bal/hourly exp offset	
Applications Analyst-PD	Information Technology	1.00	2005	94,929	GF cash balance	Mid-year 2005
Building Permit Technician	Fire & Building	1.00	2006	63,394	GF cash balance	Mid-year 2006
Web Production Assistant	Information Technology	1.00	2006	78,351	GF cash balance	05-06 Mid-biennial
GIS Analyst	Information Technology	1.00	2006	86,804	CIP budget	Mid-year 2006
Human Resources Analyst	Human Resources	0.70	2007	56,977	GF cash balance	
Code Enforcement Officer	Planning	0.50	2007	56,127	GF cash balance	Continuation after end of Mercer Island contract
Emergency Prep Coordinator	Fire & Building	1.00	2007	103,566	Grant Revenue/GF cash balance	.50 one-time service package funding, .50 one-time grant funding.
Environmental Stewardship Outreach	Parks & Community Svcs	0.50	2007	53,588	GF revenue/GF Cash balance	
Videographer	Information Technology	0.50	2007	35,683	GF Interest Revenue (OT)	.50 FTE; .50 temp
Total		11.70		1,029,426		

Special Projects & Annexation Positions

Position	Department	Effective FTE	First Budgeted	2008 SP Cost	Funding Source(s)	Comment
Annexation Admin Support	City Manager's Office	0.75	2007	59,590	GF Sale tax revenue (OT)	
Annexation Coordination (Backfill)	City Manager's Office	1.00	2007	90,230		
Annexation Senior Planner	Planning	1.00	2007	104,863	GF revenue	Backfilled positions would return to previous positions; reduction through attrition
Annexation Recruitment Captain	Police	1.00	2007	128,524	GF cash balance	Backfilled positions would return to previous positions; patrol reduction through attrition
Construction Inspector	PW-General Fund	1.00	2006	20,422	Verizon fees for service	Temporary for Verizon FTTP project (MY 2006) expected end date 3/2008
Business Analyst	Finance & Admin	1.00	2006	87,840	CIP Budget	Backfilled position is in Customer Accounts for Document Management Project
Electrical Inspector	Fire & Building	1.00	2007		None	Backfill for Evergreen Hospital temp assignment; project completed, position not filled after permanent employee left.
Network Analyst-Wireless in the Field Project	Information Technology	1.00	2008	97,688	GF dev revenue/IT cash	2007 Midbiennial adjustment
Total		7.75		589,157		

Grand Total Current Temporary Positions: 19.45 1,618,583

Other Recurring One-time Programs budgeted in 2008

Position	Department	Effective FTE	2008 SP Cost	Funding Source(s)	Comment
Finn Hill Staffing OT	Fire & Building		350,000		
ARCH	Planning & Comm Dev		216,000		
Economic Development	City Manager's Office		95,000		
Human Services per capita	Parks & Community Svcs		71,520		
Outside Agency Requests	City Manager's Office		61,000		
Public Art	City Manager's Office		50,000		
Commute Trip Reduction Plan	Public Works		50,000		
NIMS & Emergency Prep Training	Fire & Building		38,462		
124th Avenue Parkside M&O	Parks & Community Svcs		36,291		
Legislative Advocate-State	City Manager's Office		30,000		
Traffic Counts (every other year)	Public Works		30,000		
Police Accreditation Expenses	Police		25,480		varies
Employee Flex pass	Nondepartmental		21,630		
Legislative Advocate-Federal	City Manager's Office		20,000		
Neighborhood Plans Update	Planning & Comm Dev		20,000		
Firefighters Pension Actuarial Study	Finance & Admin		16,000		biennial cost
Leash Law Enforcement	Parks & Community Svcs		10,800		
BKR Model Support	Public Works		10,000		
Transportation Mgt Plan Support	Public Works		10,000		
Goose Patrol	Parks & Community Svcs		7,306		
All City Youth Summit (every other year)	Parks & Community Svcs		4,000		
Total			1,173,489		

Total - Positions and Non-Labor 2,792,072

CIP Process Changes

- Continue with 6 year plan done on a biennial basis (i.e. full update every 2 years)
- Move timing of 6 year plan to start on odd year that would coincide with beginning year of budget biennium
- Changing cycle this year would create a 2009-2014 CIP (vs. the 2008-2013 completed last year)
- Changing to a 2009-2014 cycle would mean first 2 years of CIP plan would be incorporated into and tie to the budget biennium cycle of 2009-2010
- Changes to affect cycle to 2009-2014 this year:
 - Use mid-point update process (scheduled for spring)
 - Use 2009-2013 as adopted and make necessary prioritization edits to incorporate final year of 2014
 - Make any necessary changes to 2009-2013 as would normally be done during update process (funding changes, major scope changes, etc)
- Change in timing saves duplicate work for 2nd year of budget biennium:
 - Dept staff – would not have to do CIP budget details for the same year twice (i.e. old CIP and then new CIP for 2010)
 - Finance staff – would not have to do detailed entry, balancing of funds and reserves, and multiple adoptions for the same year twice (i.e. 2010)
- Change in timing of the cycle will make the information between the CIP and budget documents more meaningful
- Deal with policy issues affecting CIP and operating budgets:
 - Reimbursement from CIP for staff funded in General Fund falling short
 - Charging projects/staff to the CIP that should rightfully be included or not included
 - Making link between maintenance and operations costs detailed in CIP and not funded in operating budget
- Key CIP dates for 2008 for the new cycle would be as follows (draft timeline):

2009 - 14 CIP Kickoff	April 23
2009 - 14 CIP Materials Due from Depts.	May 30
2009 - 14 CIP Dept. Meetings w/ City Manager	June 13
2009 - 14 CIP Study Session with Council	August 5
2009 - 14 CIP Public Hearing	September 2
2009 - 14 CIP Adoption	September 16 or December with 09-10 Budget

Utility Tax Rate Comparison
2008

	Kirkland	Bellevue (1)	Seattle	Bothell	Edmonds	Federal Way	Lake Forest Park	Lynnwood	Mercer Island	Olympia	Redmond	Renton
Surface Water	7.50%	5.00%	11.50%	6.00%	6.00%	7.50%	No	No	No	7.00%	No	6.00%
Water	7.50%	5.00%	15.54%	5.00%	6.00%	N/A	N/A	No	No	7.00%	No	6.00%
Sewer	7.50%	5.00%	12.00%	5.00%	6.00%	N/A	No	No	No	7.00%	No	6.00%
Garbage	7.50%	4.50%	11.50%	6.00%	6.00%	7.50%	N/A	N/A	7.00%	7.00%	N/A	6.00%
Garbage - franchise fees				1.00%			2.75%					5.00%
Cable TV	6.00%	4.80%	10.00%	6.00%	1.00%	7.50%	No	No	7.00%	No	No	6.00%
Cable TV - franchise fees	5.00%	5.00%	5.00%			5.00%	5.00%	5.00%	5.00%		5.00%	5.00%
Gas	6.00%	5.00%	6.00%	6.00%	6.00%	7.50%	6.00%	No	6.00%	9.00%	6.00%	6.00%
Electric	6.00%	5.00%	6.00%	6.00%	6.00%	7.50%	No	No	6.00%	9.00%	6.00%	6.00%
Telephone	6.00%	6.00%	6.00%	6.00%	6.00%	7.50%	6.00%	3.00%	6.00%	9.00%	6.00%	6.00%
Cellular	6.00%	6.00%	6.00%	6.00%	6.00%	7.50%	6.00%	No	6.00%	9.00%	6.00%	6.00%
Revenues	\$ 8,004,268	\$ 19,650,000	\$ 148,282,222	\$ 6,605,600	\$ 4,352,000	\$ 12,105,484	\$ 615,000	\$ 900,000	\$ 3,032,000	\$ 7,600,000	\$ 8,981,633	\$ 8,153,747
% of GF Revenues	11.50%	15.00%	17.00%	18.00%	14.00%	30.30%	11.00%	2.40%	14.70% (2)	13.00%	13.50%	10.00%

(1) Bellevue also collects on behalf of point cities that they serve for utilities:
 Medina - 0%
 Clyde Hill - 10% water and sewer, 4% cable and garbage
 Hunts Point - 6.5% water, sewer and garbage
 Beaux Arts - 0%
 Yarrow Point - 5% water, sewer, cable and garbage

(2) Percentage reflects both B&O and utility tax, but is made up primarily of utility tax.

Note: N/A is no utility / No is no tax levied on these utilities.

Franchise Fee Definition:

Franchise fees are charges levied on private utilities to recoup city costs of administering the franchise and for the right to use city streets, alleys, and other public properties.

The franchise fees on light, natural gas, and telephone utilities are limited by statute to the actual administrative expenses incurred by the city directly related to receiving and approving a permit, license, or franchise; reviewing plans and monitoring construction; and preparing a detailed SEPA document.

Cable TV franchise fees are governed by federal rather than state law and are negotiated with the cable company. They may be levied at a rate of up to five percent of gross revenues, regardless of the costs of managing the franchise process.

Business License/Fees Comparison Update February 2008

Attachment F

Business Size	Type	Kirkland		# EE	Edmonds	Bothell	Lynnwood	Renton	Redmond	B & O Tax				Est. Gross Rcpts or Sq ft.
		# EE	BL Fee							Mercer Island	Bellevue	Lake Forest Park	Seattle	
Small	Retail	1	\$ 100	1	\$ 25	\$ 34	\$ 107	\$ 55	\$ 90	\$ 30	\$ -	\$ 80	\$ 244	\$ 60,000
Small	Retail	2-5	\$ 325	4	\$ 25	\$ 114	\$ 150	\$ 220	\$ 360	\$ 310	\$ 419	\$ 300	\$ 792	\$ 280,000
Medium	Professional	6-20	\$ 850	10	\$ 25	\$ 141	\$ 237	\$ 550	\$ 900	\$ 930	\$ 1,197	\$ 820	\$ 4,075	\$ 800,000
Medium	Restaurant	6-20	\$ 850	18	\$ 25	\$ 207	\$ 353	\$ 990	\$ 1,620	\$ 1,130	\$ 1,646	\$ 1,120	\$ 2,905	\$ 1,100,000
Large	Headquarters	21-100	\$ 1,600	70	\$ 25	\$ 591	\$ 1,107	\$ 3,850	\$ 6,300	\$ 8,030	\$ 16,372	\$ 8,020	\$ 35,040	19,371 sq ft or \$8 m
Large	Retail	21-100	\$ 1,600	90	\$ 25	\$ 762	\$ 1,397	\$ 4,950	\$ 8,100	\$ 16,030	\$ 23,936	\$ 16,020	\$ 36,740	\$ 16,000,000
Large	Retail	100+	\$ 2,600	150	\$ 25	\$ 1,045	\$ 2,267	\$ 8,250	\$ 13,500	\$ 60,030	\$ 89,760	\$ 60,020	\$ 132,840	\$ 60,000,000

Business License/Tax Revenues	1,408,841	765,790	260,445	974,000	2,200,000	7,000,000	508,249	30,610,399	215,000	179,200,000
Percent of General Fund	2.6%	2.6%	0.8%	2.6%	2.6%	11.0%	2.5%	21.5%	3.4%	23.0%

(Note: Percent of General Fund revenues for illustrative purposes only. Several cities place business licenses/taxes to other funds.)

Year Enacted	Under Review	Sunset Clause	Business License Fees and Taxes Specific to each City
2003	No	No	Kirkland Businesses pay a base fee of \$100 and a surcharge based on the number of employees. The surcharge is eliminated and the base fee is reduced to \$25 for businesses with gross receipts under \$2,000. The surcharge is reduced for businesses with less than \$100,000 of gross receipts.
1996	No	No	Edmonds Businesses pay a \$65 initial registration fee and an annual \$25 renewal fee. Non-resident pays only \$25.
2006	No	No	Bothell Businesses pay a fee based on number of employees, type of business and square footage. The fee for type of business is eliminated for businesses with gross receipts under \$12,000.
2007	No	No	Lynnwood Businesses pay a base fee of \$92 (first time app is \$109) and \$14.50 per emp. Home occ. businesses pay a \$27 base fee. Businesses not located in the City pay \$148 annually. Certain business are subject to other fees.
2006	No	No	Renton Businesses pay per employee at \$55 per full time equivalent (1,920 hours worked per year).
2007	No	No	Redmond Businesses pay per employee at \$90 per FTE (1,920 hours worked per year). Previous sunset clause was removed 2 years ago.
2006	No	No	Mercer Island Businesses pay an annual fee of \$30 and are subject to a business and occupation tax of .001 of the gross receipts.
2004	No	No	Bellevue Businesses pay a one time fee of \$29 and are subject to two business and occupation taxes. A gross receipts tax of .001496 of the gross receipts and/or A square footage tax of .8452 times the square footage of the business.
2000	No	No	Lake Forest Park Businesses pay an annual fee of \$20 and are subject to a business and occupation tax of .002 of the gross sales.
2000	No	No	Woodinville Business are required to register with no fee therefore are not shown on the table above.
2005	No	No	Kenmore Does not require a business license for most businesses and is also not shown on the table above. D Certain Kenmore entertainment and amusement bus., pawnbrokers and second hand dealers are required to pay lic. fees.
Revised 2008	No	No	Seattle Business taxes are composed of 4 elements Annual fee of \$90 Employee hours tax - \$25 per year per FTE or .01302 per employee hour B & O tax ranging from .00215 to .00415 of the gross receipts Square footage tax - a replacement for the losses of B & O tax due to recent legislative changes in the B & O tax

Levy Lid Lifts¹

With the passage of 2ESSB 5659 this year (Ch. 24, Laws of 2003, 1st Special Session), there are now two different approaches to a levy lid lift. They have different provisions and advantages. We will explain how to calculate how much you can raise from a levy lid lift and then discuss both types and how they work.

How Much Revenue Can You Raise from a Levy Lid Lift?

Start by calculating the difference between your current tax rate and the maximum guaranteed statutory rate. If you do not know your current rate, ask your assessor.

Maximum Statutory Tax Rate: **Cities**, along with counties, are senior taxing districts and their maximum tax rates differ, depending on whether they have a firemen's pension fund or whether they are annexed to a fire district and/or a library district.

The maximum regular property tax levy for most cities is \$3.375 per thousand dollars assessed valuation (AV). *RCW 84.52.043(1)(d)*. Some cities have a firemen's pension fund. (If you do not know whether you have one, you probably do not.) Those cities can levy an additional \$0.225 per thousand dollars assessed valuation, resulting in a maximum levy of \$3.60 per thousand dollars AV. *RCW 41.16.060*.

For cities that belong to a fire district and/or a library district, the rules are a little more complicated. Nominally they have a maximum rate of \$3.60 per thousand dollars AV. But, they can never collect that much because the levy of the special districts must be subtracted from that amount. *RCW 27.12.390 and RCW 52.04.081*. The library district levy has a maximum rate of \$0.50 per thousand dollars AV (*RCW 27.12.050*) and the fire district levy can be as high as \$1.50. *RCW 52.16.130, RCW 52.16.140, and RCW 52.16.160*. Therefore, if a city belongs to both a fire district and a library district, and if these districts are currently levying their maximum amount, then the local levy can be no higher than \$1.60 ($\$3.60 - .50 - 1.50 = \1.60).

For **counties**, the maximum regular property tax levy rate that may be imposed on real and personal property is \$1.80 per thousand dollars AV for its current expense or general fund, and \$2.25 per thousand dollars AV for its road fund. However, a county can raise its general fund levy rate up to \$2.475 per thousand dollars AV, provided the total of the levy rates for the general fund and road fund do not exceed \$4.05 per thousand dollars AV **and** the increase in the general fund levy does **not** result in a reduction in the levy of any other taxing district.

Multiply the difference between your maximum rate and current rate by your AV divided by 1000 because the tax rate is levied on each thousand dollars of assessed valuation, not each dollar.

Example. A city has a maximum tax rate of \$3.375 per thousand dollars. Its current rate is \$2.90 and its assessed valuation is \$100,000,000.

$$\$3.375 - 2.90 = \$0.475.$$

$$\$0.475 \times 100,000,000/1000 = \$47,500.$$

¹ We have a levy lid lift page on our Web site where we give examples of ordinances and other information. <http://www.mrsc.org/Subjects/finance/levylidlift.aspx>

\$47,500 is the maximum amount of **extra** revenue the city could get in its first year after doing a levy lid lift. Its total levy, if the vote on the lid lift is successful, would be \$337,500 compared to \$290,000 without the lift.

If the council is not be interested in that big an increase in the rate, multiply whatever rate increase they have in mind times your assessed valuation divided by 1000.

If you think you want to explore the idea of a levy lid lift further, what are your options?

Option 1: “Original flavor” lid lift. RCW 84.55.050, with the exception of new subsections (3)(b) and (e).

1. Purpose. It can be done for any purpose and the purpose may be included in the ballot title, but need not be. You could say it would be for hiring more firefighters, for additional money for general government purposes, or say nothing at all. In the latter case, by default, it would be for general government purposes. Stating a particular purpose may improve your chances of getting the voters to approve it.
2. Length of time of lid lift. It can be for any amount of time unless the proceeds will be used for debt service on bonds, in which case the maximum time period is nine years. Setting a specific time period may make the ballot measure more attractive to the voters. But, making it permanent means you can use the funds for ongoing operating expenditures without having to be concerned that you will have to go back to the voters for another lid lift.
3. After the first year, the jurisdiction’s levy in future years is subject to the 101 percent lid. This is the maximum amount it can increase without returning to the voters for another lid lift.
4. If the lift is for a specific number of years, the base levy for future years after the lid lift ends will be set at what the base would have been, if the lid lift had not taken place. RCW 84.55.050(4).
5. The election can take place on any election date listed in RCW 29.13.010.

Option 2: Multiple year lid lift. RCW 84.55.050, as amended by 2ESSB 5659, Ch. 24, Laws of 2003, 1st Special Session. See subsections (3)(b) and (e), in particular.

1. Purpose. It can be done for any purpose, but the purpose must be stated in the title of the ballot measure and the new funds raised may not supplant current spending for that purpose.
2. Length of time of lid lift. Six years maximum.
3. The levy can be increased for each of those six years by some amount stated in the ballot title. This can be a dollar amount, a percentage increase amount tied to an index such as the CPI, or percentage amounts just arbitrarily set. Of course, if the amount of the increase for a particular year would require a tax rate that is above the maximum tax rate, the assessor will only levy the maximum amount allowed by law.
4. The legislative body may choose to put language in the ballot title, saying that at the end of the period of the lift, the base for future year increases will be the base during the last year of the lid lift. This contrasts with the provision in the RCW 84.55.050(4) that puts the base back to what it would have been without the lift.
5. The election date must be the September primary or the November general election.

So, which is the best option?

As usual, of course, it depends. The requirement in the 2ESSB 5659 legislation that the purpose must be stated makes it less flexible than the “original flavor” version. This may be true more in theory than practice, however, because we know of only one city that has successfully passed a ballot measure where they did not specify the use of the funds. (We don’t mention counties in this example because we do not know of any county that has done a lid lift other than King County’s small recent lid lift for parks. Please let us know if you have done one.)

The requirement that there be no supplanting in expenditures is more restrictive. It certainly is attractive to have the opportunity to do a levy lid lift for a popular program, such as public safety, and then use part of the money that would have been spent on that program for, say, a new computer system. One presumes, however, that citizens believe there will be no supplanting even when the statutes do not prohibit it and that they will require some accounting from government officials.

If you use the CPI as the inflator in a multi-year lid lift, which index should you choose?

There are all sorts of consumer price indices. **It is absolutely crucial that you correctly identify the one you want to use in your ballot measure.** The considerations are the same as choosing a consumer price index for a labor contract. The Bureau of Labor Statistics has a Web site that will help you make that decision. <http://www.bls.gov/cpi/cpi1998d.htm>. Figure out when you will want the information for budgeting purposes on how much your property tax levy can be increased. Then make certain that the CPI index you have chosen will be available by that date.

The U.S. CPI figures are available monthly with a lag of about two and a half weeks. For example, the April statistics are published around May 19 or so. The Seattle-Tacoma-Bremerton CPIs are published bimonthly for even-numbered months. The February numbers are published in mid-March, to give one example. The Portland-Salem indices are only published twice a year. The second half of 2003 is published in mid-February and the first half of 2004 in mid-August.

What election date should you choose?

If you are doing a lid lift under the provisions of 2ESSB 5659, you are limited to either the September primary or the November general election. For lid lifts under the “old” provisions of RCW 82.55.050, you have more choices.

There are a number of considerations here. Your election date will determine (assuming the ballot measure is passed) when you will get your first tax receipts. Taxes levied in November are first due on April 31 of the following year. Therefore, to receive taxes next year from a levy you are discussing during the current year, your election can be no later than November. We know of some councils that first began thinking of a levy lid lift in October 2002 last year, during budget discussions for 2003. By that time it was too late to get any measure on the November ballot. Your county auditor must receive your ordinance or resolution 45 days before the date of the election. **It pays to plan ahead.**

Councils and commissions should ask around to find out what other elections will be coming up during the coming year. You may not want to go head-to-head with a school levy election or a voted bond issue.

What are the rules for what can and cannot be done to support or oppose ballot propositions?

You will probably find the information in following articles helpful.

“Use of Public Facilities to Support or Oppose Ballot Propositions.” Prepared by MRSC Legal Staff.
<http://www.mrsc.org/subjects/finance/695/pubfac-pwm.aspx>.

“What Can and Can’t Local Government Officials and Employees Do to Support or Oppose an Initiative Measure.” [Editor: the information applies to any ballot measure.] Prepared by MRSC Legal Staff.
<http://www.mrsc.org/subjects/finance/695/qanda-pwm.aspx>.

It is very important that you be cautious in what you do. Our legal staff can give you some advice. In years past, the Public Disclosure Commission was willing to review any information pamphlets that municipalities produced. However, the commission is awaiting a decision in a lawsuit before the Washington State Supreme Court and they are currently not providing this service.

ASSESSED VALUE AND TAXES BY CITY

Typical Residence in 2006 and 2007

City	2006 Average Residence			2007 Average Residence			Tax Change	Average Percent Tax	
	Value	Levy Rate (1)	2006 Tax	Value	Levy Rate (1)	2007 Tax		Change	% AV Change
Seattle	399,500	\$ 9.63	\$ 3,846.84	428,800	\$ 9.28	\$ 3,978.84	\$ 132.00	3.4%	7.3%
Algona	169,400	11.94	2,022.28	193,500	11.09	2,146.37	124.10	6.1%	14.2%
Auburn	217,100	13.05	2,833.78	230,300	12.24	2,818.60	(15.18)	-0.5%	6.1%
Beaux Arts	732,000	8.35	6,114.98	836,400	7.95	6,650.89	535.91	8.8%	14.3%
Bellevue	490,400	8.06	3,951.58	536,800	7.74	4,152.96	201.38	5.1%	9.5%
Black Diamond	292,700	10.76	3,149.80	322,100	10.26	3,304.44	154.65	4.9%	10.1%
Bothell	334,200	11.01	3,677.98	355,400	10.47	3,722.26	44.28	1.2%	6.4%
Burien	285,000	12.06	3,437.04	302,500	11.59	3,507.03	69.99	2.0%	6.1%
Carnation	248,900	10.87	2,704.62	264,300	10.07	2,662.98	(41.65)	-1.5%	6.2%
Clyde Hill	1,054,900	7.51	7,926.90	1,174,200	7.22	8,474.14	547.24	6.9%	11.3%
Covington	233,800	12.62	2,951.39	251,700	11.79	2,966.84	15.45	0.5%	7.6%
Des Moines	246,900	12.03	2,970.27	267,600	12.02	3,216.95	246.68	8.3%	8.4%
Duvall	307,200	11.43	3,510.77	327,800	10.69	3,503.97	(6.80)	-0.2%	6.7%
Enumclaw	203,900	10.69	2,180.10	217,400	10.27	2,233.33	53.23	2.4%	6.6%
Federal Way	248,200	11.80	2,927.64	267,200	11.38	3,041.27	113.63	3.9%	7.7%
Hunts Point	3,427,200	6.73	23,062.69	3,642,000	6.50	23,659.65	596.96	2.6%	6.3%
Issaquah	418,000	10.21	4,269.82	459,500	9.98	4,584.32	314.50	7.4%	9.9%
Kenmore	344,900	11.98	4,133.10	369,900	11.35	4,198.08	64.98	1.6%	7.3%
Kent	249,100	12.80	3,188.77	267,500	11.85	3,169.85	(18.92)	-0.6%	7.4%
Kirkland	448,300	9.44	4,233.70	494,900	8.99	4,449.22	215.51	5.1%	10.4%
Lake Forest Park	378,600	11.33	4,290.75	400,000	11.38	4,552.89	262.14	6.1%	5.6%
Maple Valley	260,600	11.41	2,972.32	277,300	11.66	3,233.77	261.45	8.8%	6.4%
Medina	1,897,800	7.80	14,807.26	2,053,500	7.47	15,341.92	534.66	3.6%	8.2%
Mercer Island	908,100	8.14	7,394.89	986,300	7.50	7,394.40	(0.49)	0.0%	8.6%
Milton	216,500	12.19	2,639.95	248,200	10.84	2,691.42	51.47	1.9%	14.6%
Newcastle	456,800	11.53	5,266.24	504,000	10.60	5,343.33	77.09	1.5%	10.3%
Normandy Park	448,000	11.68	5,233.37	474,500	11.26	5,341.14	107.78	2.1%	5.9%
North Bend	308,900	10.44	3,225.71	332,700	10.61	3,528.79	303.08	9.4%	7.7%
Pacific	197,300	11.91	2,350.33	215,500	10.73	2,312.51	(37.82)	-1.6%	9.2%
Redmond	383,400	9.25	3,544.65	413,300	8.81	3,643.46	98.81	2.8%	7.8%
Renton	269,800	11.95	3,222.78	293,400	10.94	3,209.20	(13.58)	-0.4%	8.7%
Sammamish	490,600	11.24	5,512.59	522,700	10.86	5,677.85	165.27	3.0%	6.5%
SeaTac	213,400	11.73	2,502.51	231,400	11.19	2,589.29	86.78	3.5%	8.4%
Shoreline	314,000	11.78	3,698.42	336,100	12.03	4,042.22	343.80	9.3%	7.0%
Skykomish	100,700	7.30	734.66	116,500	6.78	790.39	55.73	7.6%	15.7%
Snoqualmie	380,600	11.00	4,186.50	417,300	11.26	4,699.08	512.58	12.2%	9.6%
Tukwila	212,500	12.91	2,743.84	229,800	12.22	2,809.70	65.86	2.4%	8.2%
Woodinville	382,600	11.74	4,492.08	410,700	11.11	4,563.55	71.48	1.6%	7.4%
Yarrow Point	1,534,400	7.06	10,826.71	1,658,100	6.80	11,273.11	446.40	4.1%	8.1%
Unincorporated Area	323,200	11.92	3,853.46	352,400	11.98	4,221.03	367.57	9.5%	9.0%

(1) Rates vary within cities. The rate shown is the predominant rate.