



CITY OF KIRKLAND
Department of Finance & Administration
123 Fifth Avenue, Kirkland, WA 98033 425.587.3100
www.ci.kirkland.wa.us

MEMORANDUM

To: Marilyne Beard, Interim City Manager

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

Date: June 3, 2010

Subject: 2010 MID-YEAR BUDGET REVIEW & ADJUSTMENTS

RECOMMENDATION

City Council receive an update on the City's financial condition and an overview of budget planning information and approve the ordinance adjusting the 2009-10 budget appropriation for selected funds.

BACKGROUND:

The Mid-Year Budget review addresses a variety of topics regarding the current budget biennium. This memo describes the various attachments included in the packet.

- **Financial Status** – The Financial Management Report (FMR) for the period ending March 31, 2010 (Attachment A – note that the FMR does not reflect the budget adjustments adopted on April 20, 2010) and the April Dashboard Report (Attachment B) are included, as well as updated information on fire overtime (Attachment C) and sales tax received in May (Attachment D).
- **Budget Adjustments** – A recommendation concerning mid-year budget adjustments needed to meet unanticipated needs and recognizing additional revenues (See Attachment to Ordinance). The adopted budget as of June 30, 2010 will form the basis for development of the 2011-2012 Budget. In addition, a memo from the Internal Services Division on Facilities Staffing is included as Attachment E and a memo from the Planning Department regarding the annexation area Shoreline Master Program (SMP) and related budget adjustment is included as Attachment F.
- **2011-2012 Budget Process** – The 2011-2012 budget and CIP process calendar (Attachment G) lists the dates for Council meetings regarding the upcoming budget. Also included is a description of the proposed process for updating the Core Services exercise. The forms to gather Council members' input will be distributed at the June 15 meeting.

FINANCIAL STATUS

The Financial Management Report (FMR) provides an overview of revenue and expenditure performance for the first quarter of 2010. The monthly dashboard report provides high level monitoring of the General Fund revenues and expenditures status, including a few key revenue and expenditure indicators across funds that are especially important to watch. The following are a few highlights from the FMR and April dashboard report (included as Attachment A and Attachment B respectively).

- General Fund revenues are below expectations despite improvement to sales tax revenue, primarily from lower utility tax and development fee revenues. Development services functions have taken action to help mitigate the shortfall in development revenues by contracting with other agencies to use City staff.
- Sales tax revenue is ahead of last year primarily due to significant improvements in the auto/gas retail and other retail sectors and a slowing of the decline in contracting sector revenue.
- Utility tax revenues are below last year primarily due to lower electricity and gas tax collections resulting from the warmer winter weather.
- Business license fees are ahead of last year but still trending below budget.
- Development-related revenue for the first quarter is still running behind the same period in 2009, except for planning fees, which are ahead. Development revenue appears to be improving as of March.
- Property tax revenue is received primarily in April and October. Fire District #41 payments are received quarterly and the first payment for 2010 was received in May. The first half of the EMS levy revenue is usually received in late June/early July.
- General Fund expenditures are trailing the budget, reflecting actions taken to date to slow spending.
- Fire overtime is trending higher than budget. The City Council adopted a "hard cap" for fire overtime as part of the budget-balancing strategy for 2010. Based on current trends (49.5% of the budget has been spent through May) fire overtime is expected to exceed the 2010 budget of \$747,941 in September. A memo from Chief Nalder addressing solutions for this issue is included as Attachment C.
- Seattle metro consumer price index (CPI), which was often negative in 2009, remains low for the first reading in 2010 at 1.1%. The national index started increasing last November and the March reading was 3%, substantially higher than the local rate. The June 2010 CPI (released in July 2010) will be the contractual basis for budgeting 2011 cost of living adjustment (COLA) increases.
- In the Mid-Biennial budget adjustment process, it was noted that the use of the Rainy Day reserve would need to occur if revenues are projected to fall short and other offsets cannot be identified. At mid-year, no transfer appears to be needed. Council will be advised if it appears that the use of this reserve is required to offset any revenue shortfalls in 2010 before year-end.

Sales tax revenue received in May was up 8.6 percent compared to May 2009. Year-to-date revenue is up 4.9 percent compared to the same period last year. However, fairly significant one-time field recoveries skew the comparison. Factoring out these one-time events changes the monthly increase to about 6.9 percent and the annual increase to about 4.1 percent. While the improvement to this important revenue source is encouraging, the revenue still falls far below that of a few years ago (down \$1.7 million compared to the same period in 2007 and \$1.1 million compared to the same period in 2008). More information on sales tax results through May is included in Attachment D.

Positive economic indicators both nationally and in Washington State include an improving consumer confidence index and growth in gross domestic product. Job growth is occurring, but unemployment rates remain high. The current volatility of the stock market and continued concerns regarding credit availability pose potential risks in dampening the weak recovery.

MID-YEAR BUDGET ADJUSTMENTS

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

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

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

As usual for the Mid-Year Adjustment process, adjustments are recommended for unexpected issues such as grant funding and Council use of reserves that have occurred since the last adjustment. The following is a list of the recommended mid-year budget adjustments (Attachment to the Ordinance provides further details):

- Public Safety Equipment funded by Community Policing (COPS) Grant (\$300,000).
- Emergency Preparedness developing sheltering and volunteer management program funded from additional Emergency Management Performance (EMPG) grants (\$30,000).
- Cultural Council support funded by American Recovery & Reinvestment (ARRA) and 4Culture Grants (\$14,500).
- Tree canopy assessment funded by Washington State Department of Natural Resources grant (\$10,000).
- Waste bags and signage for parks funded from King Conservation District (KCD) grant (\$9,000).
- Artist brochure funded from Washington State Department of Commerce (CTED) grants (\$7,000).
- Increasing the temporary Environmental & Education Outreach Specialist in the Parks & Community Services Department for work related to the Green Kirkland program (\$26,000). Further on-side work requires additional devoted staff time. Funding for this increase comes from the Green Kirkland CIP project.
- Recognizing revenue and the resulting backfill expenses for staff time contracted to the e-CityGov Alliance (\$9,984).
- In-house expedited review activity staffed with overtime and funded from fee revenue \$2,000.
- One-time use of available cash balance in the Facilities Fund to increase staff resources allocated to manage the facilities expansion projects. This is a line-item adjustment within the Facilities Fund and further explanation is provided in Attachment E.

Previously approved by the City Council:

- Additional funding for the Permit System replacement, funded by the Technology Major Systems Reserve (\$200,000).
- 100th Avenue NE/99th Place NE Sidewalk and 2009 Annual Striping Program (\$23,000 and \$9,567 respectively) funded from the Street Improvement Reserve.

On April 6, the Council approved the 2010 Planning Work Program for the Planning Department. The Shoreline Master Program (SMP) for the annexation area was included as element of the approved work plan. Council did not identify a funding source at the time of approving this element of the work plan. Planning Department staff has determined that \$13,750 is required to complete the annexation area SMP. A memo from Paul Stewart explaining the scope and costs of the project is included as Attachment F. Council Special Projects Reserve has been identified as the source of funding for this project and the related fiscal note is enclosed as an attachment to the memo from the Planning Department.

Municipal Court staff has identified a need for additional resources at the Court to address the current workload, which is not included in these adjustments. Projected revenue (probation and fines and forfeits) above budget is a potential source of funding for the expected additional costs. Staff is planning

on reviewing the Court's workload and options for addressing the issue with the Public Safety Committee and will approach the full Council with the committee's recommendation at a future date.

An ordinance adopting the mid-year budget adjustments is included with this report. Staff will continue to monitor revenue and expenditures in the coming months and report to Council on the same through the monthly dashboard (posted as part of the monthly Finance Committee packet on [CouncilNet](#)) and the quarterly Financial Management Reports (FMR). The next budget adjustment period will be the Year-end Review that will be presented to Council in November 2010 as part of the budget development process.

2011-2012 BUDGET PROCESS

As discussed at the 2010 Council Retreat in March, the development of the 2011-2012 budget will be challenging because we will be working to:

- Close the existing City gap,
- Gear up for annexation,
- Deal with uncertainties surrounding the economic recovery,
- Address fund changes due to changing accounting regulations, and
- Consider establishing sinking fund reserves for on-going replacement of public safety equipment and information technology infrastructure as discussed in the Preliminary 2011-2016 CIP.

The 2011-2012 Budget calendar is included as Attachment G. A significant addition is the inclusion of the Core Services exercise starting in June as part of the budget development process. This is in response to Council feedback at their Retreat in March 2010 to revisit the Core Services exercise as part of the 2011-2012 budget development process. To assist with this exercise, staff will distribute the 2010 Services Matrix (updated to reflect reductions made since the last exercise) to Council members at the June 15 meeting. Specific instructions on completing the matrix update will be provided at that time. The tentative timeline is:

- June 15 – Services Matrix distributed to Council.
- June 30 – Council members return completed forms.
- August 4 - Special Study Session – discussion of results of the exercise.

The results will be part of the information used to develop the 2011-2012 Budget.



Financial Management Report as of MARCH 31, 2010

AT A GLANCE:

Higher business tax and stabilizing sales tax revenues push 2010 ahead of 2009 year-to-date (page 2)

2010 Sales tax revenue improves (page 5)

Development-related fee revenue performance still shaky, but glimmer of hope? (page 5)

Goodbye (page 2 sidebar)
Hello (page 5 photograph)

Economy turning the corner? (pages 7-8)

Inside this issue:

Expenditure Summary 2

General Fund Revenue 3

General Fund Expenditures 4

Sales Tax Revenue 5

Economic Environment Update 7

Investment Report 8

Reserve Summary 10

Summary of All Operating Funds: *Revenue*

- General Fund** actual 2010 revenue is **2.3 percent ahead** of the same period last year largely due to higher business tax revenue and an increase in engineering charges from several large transportation projects. Additionally, sales tax and planning fee revenue performance has improved, after suffering negative performance last year. However, slumping utility tax and building permit fee revenue remain a problem. A more detailed analysis of General Fund revenue can be found on page 3, and sales tax revenue performance can be found beginning on page 5.
- Other General Government Funds** actual 2010 revenue is **7.4 percent lower** compared to the same period last year primarily due to lower internal rates. These rates were reduced for fleet (recognizing lower fuel prices and expenditure reductions) and technology (reduced personnel costs and use of fund cash for replacement charges as a budget reduction strategy). Lodging tax revenue is down 11.7 percent compared to the same period last year. This is less of a decline than the 2009 performance, which ended the year 23.4 percent lower than 2008. Motor vehicle fuel tax, which ended 2009 down 9 percent compared to 2008, is up 9 percent compared to the same period last year. This may be a sign of increasing economic activity. The fuel tax is collected on a flat rate per gallon, so more moderate fuel prices have helped improve this revenue's performance; however higher fuel prices may result in reduced consumption. Recreation class revenue is about even compared to the same period last year. However, facilities rental revenue is up significantly primarily due to increased rentals of Heritage Hall for private functions that are a result of the Parks Department's marketing efforts.
- Water Sewer Operating Fund** actual 2010 revenue is **3.3 percent ahead** of the same period last year due to a higher percentage of billing collections.
- Surface Water Management Fund** actual 2010 revenue is **45.2 percent lower** compared to the same period last year primarily due to timing of revenue collection. Rates are paid through property taxes, which are primarily received in April and October and can be somewhat volatile from year to year. Revenue received in subsequent months brought rate revenue back to normal and slightly ahead of last year.
- Solid Waste Fund** actual 2010 revenue is **1.7 percent ahead** of the same period last year due to normal variations in timing of revenue collection.

Resources by Fund	Year-to-Date Actual			Budget			% of Budget	
	3/31/2009	3/31/2010	% Change	2009	2010	% Change	2009	2010
General Gov't Operating:								
General Fund	10,254,151	10,485,456	2.3%	54,549,760	54,440,793	-0.2%	18.8%	19.3%
Other General Gov't Operating Funds	3,392,278	3,141,763	-7.4%	16,563,457	15,655,990	-5.5%	20.5%	20.1%
Total General Gov't Operating	13,646,429	13,627,219	-0.1%	71,113,217	70,096,783	-1.4%	19.2%	19.4%
Utilities:								
Water/Sewer Operating Fund	4,155,356	4,290,593	3.3%	19,807,210	20,660,066	4.3%	21.0%	20.8%
Surface Water Management Fund	371,740	203,675	-45.2%	5,350,962	5,270,500	-1.5%	6.9%	3.9%
Solid Waste Fund	2,106,440	2,142,604	1.7%	8,612,724	8,627,630	0.2%	24.5%	24.8%
Total Utilities	6,633,537	6,636,873	0.1%	33,770,896	34,558,196	2.3%	19.6%	19.2%
Total All Operating Funds	20,279,966	20,264,091	-0.1%	104,884,113	104,654,979	-0.2%	19.3%	19.4%

Budgeted and actual revenues exclude resources forward and interfund transfers.

Farewells.....

**City Manager Retires**

For Dave Ramsay, being Kirkland's City Manager involves keeping the City Council, community and city organization informed and engaged in decisions that affect Kirkland's present and future.

"I've been very fortunate to have worked for outstanding Council members in my 12 years here." Ramsay retired as City Manager on April 2. "I am most proud of the high quality organization and positive work environment that we've created at the City," reflects Ramsay. "The can-do attitude, sense of team and commitment of the staff in serving the City Council and community is nothing short of awesome."

As Ramsay retires from his 38-year career in city management, he plans to keep walking as part of his physical exercise routine and possibly integrate it into his next career. He is interested in pursuing non-profit agency opportunities in areas such as walking, smart growth, land conservancy and human services.

**Public Works Director Leaves**

Public Works Director, Daryl Grigsby left Kirkland February 5th to accept the same position in

Pomona, California. Since being hired by Kirkland in 2005, Grigsby led the department's efforts to create its first strategic plan, including a vision statement, mission statement and values. He is proud of the work he led to develop Kirkland's award-winning pedestrian safety program and recycling programs which attained the highest single-family recycling rate in King County.

In announcing his departure to fellow employees, Grigsby stated "This is a difficult decision - for of all the jobs I have held over the last 31 years, this, by far, is the best."

Grigsby accepted the position to be closer to several family members who live in California. Grigsby was the recipient of the national 2009 "Top Ten Public Works Leaders of the Year" award from the American Public Works Association (APWA). He also received APWA's 2008 Roy Morse Award for outstanding professional and technical accomplishments in the field of public works.

Summary of All Operating Funds: *Expenditures*

- **General Fund** actual expenditures are **0.1 percent behind** last year primarily due to lower personnel and internal service rate costs and despite an increase in contracted regional dispatch costs. A regional agency began providing dispatch services as of July 1, 2009. This resulted in a shift from salaries and benefits to contracted services, which is the reason for the increased contracted costs and one of the reasons for reduced personnel costs. Personnel costs are also down due to reduced 2010 salaries taken by most employees (who received furlough days in return) as a budget reduction strategy, as well as reduction in staffing and slightly lower overtime costs. A more detailed analysis of General Fund expenditures by department is found on page 4.
- **Other Operating Funds** actual expenditures are **9.1 percent behind** the same period last year due to generally lower personnel costs and internal rates (primarily due to expenditure reductions), reduced Street operating supplies, and substantially lower facility utility costs and despite higher vehicle/equipment purchases. Facility utility costs are down almost 50 percent, partially due to milder winter weather, but even more importantly from staff conservation efforts and the pay-off from investments in updated controls and equipment at various locations, including City Hall, Maintenance Center and Peter Kirk Community Center. Vehicle replacement costs vary year-to-year depending on the planned replacement cycle.
- **Water/Sewer Operating Fund** actual expenditures are **3.5 percent behind** the same period last year primarily due to a significant decline in regional water connection charges (with a corresponding reduction in connection revenue).
- **Surface Water Management Fund** actual expenditures are **10.5 percent ahead** of the same period last year due to higher personnel costs reflecting full staffing in 2010 and increased surface water project activity.
- **Solid Waste Fund** actual expenditures are **1.2 percent behind** the same period last year due to the timing of disposal contract billing payments.

Expenditures by Fund	Year-to-Date Actual			Budget			% of Budget	
	3/31/2009	3/31/2010	% Change	2009	2010	% Change	2009	2010
General Gov't Operating:								
General Fund	14,573,154	14,559,524	-0.1%	59,167,520	57,630,573	-2.6%	24.6%	25.3%
Other General Gov't Operating Funds	3,674,173	3,339,616	-9.1%	15,415,335	13,104,036	-15.0%	23.8%	25.5%
Total General Gov't Operating	18,247,327	17,899,140	-1.9%	74,582,855	70,734,609	-5.2%	24.5%	25.3%
Utilities:								
Water/Sewer Operating Fund	3,644,953	3,517,264	-3.5%	15,555,212	15,903,927	2.2%	23.4%	22.1%
Surface Water Management Fund	687,085	759,077	10.5%	3,605,721	3,448,620	-4.4%	19.1%	22.0%
Solid Waste Fund	1,496,495	1,479,102	-1.2%	8,455,673	8,590,036	1.6%	17.7%	17.2%
Total Utilities	5,828,532	5,755,443	-1.3%	27,616,606	27,942,583	1.2%	21.1%	20.6%
Total All Operating Funds	24,075,859	23,654,583	-1.7%	102,199,461	98,677,192	-3.4%	23.6%	24.0%

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

General Fund Revenue

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

- **Sales tax** revenue allocated to the General Fund for 2010 was adjusted to reflect lower projections as a result of the economic recession. However, actual revenue is **2 percent ahead** of the same period last year. A detailed analysis of **sales tax** revenue can be found starting on page 5.
- **Utility tax** actual revenue collection is **3.7 percent behind** the same period last year primarily due to significantly lower revenue from natural gas (down 29.5 percent) and electricity (down 5.9 percent). This is a result of much milder winter weather compared to the previous year along with lower natural gas rates.
- **Other taxes** actual revenue is **23.1 percent behind** the same period last year due to lower gambling and admissions tax revenue.
- The **business licenses (base fee) and franchise fees** actual revenue is **36.4 percent ahead** of the same period last year primarily due to higher franchise fee revenue. The **revenue generating regulatory license** fee is **15.8 percent ahead** of the same period last year. This fee was restructured and substantially increased in 2009. The increase in 2010 is a combination of fully realizing the restructured fees, as well as changes in timing for renewal of larger employers.
- The continuing development activity slump is reflected in **development-related fee** revenues, which collectively are **down 16.4 percent** compared to the same period in 2009. Compared to the same period last year, **building permits and plan check revenue** are collectively **16.6 percent lower** and

engineering services revenue is **74 percent lower**. However, **planning fees** revenue is **ahead 142.3 percent** due to a significant increase in pre-submittal process applications, which may be a hopeful sign of improvement in future development activity. It is also due to very low collections during the same period in 2009.

- Compared to the same period last year: **Grant** revenue is **ahead 70.8 percent** due to funding received for the environmental outreach and emergency preparedness programs, as well as federal stimulus grants for culture and court security; **Other intergovernmental services** revenue is **13.9 percent behind** due to the elimination of the contract providing dispatching services to other cities caused by the formation of a regional communications center and despite an increase to revenue received from providing staffing to the regional Criminal Justice Training Center. It should be noted that revenue from Fire District 41 is usually received quarterly. The first quarter payment was not receipted until the second quarter due to the necessary reconciliation calculation for 2009 charges to the district.
- **Internal Charges** are **13.9 percent ahead** compared to the same period last year primarily due to an increase in capital project engineering charges.
- **Other financing sources** are behind last year due to the timing of transfers, as well as the use of reserves in 2009.

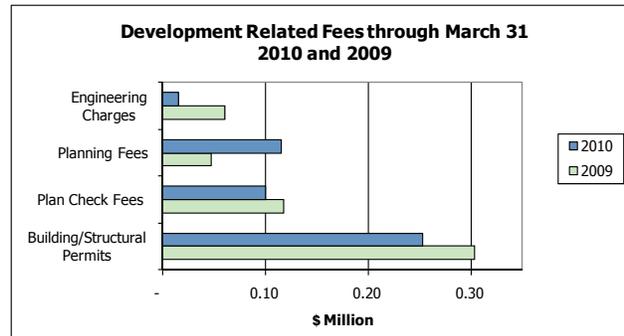
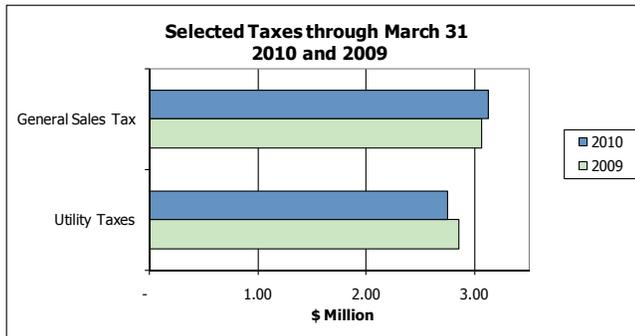
General Fund 2010 revenues are \$231,000 higher than the same period in 2009 largely due to higher business and sales tax revenue and despite lower utility tax and development-related revenue.

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 350 of the City's 447 regular employees are budgeted within this fund.

General Fund Resource Category	Year-to-Date Actual			Budget			% of Budget	
	3/31/2009	3/31/2010	% Change	2009	2010	% Change	2009	2010
Taxes:								
Retail Sales Tax: General	3,068,579	3,129,978	2.0%	11,564,551	11,464,179	-0.9%	26.5%	27.3%
Retail Sales Tax: Criminal Justice	256,376	241,152	-5.9%	1,107,000	1,129,140	2.0%	23.2%	21.4%
Property Tax	406,459	443,187	9.0%	9,264,941	9,904,815	6.9%	4.4%	4.5%
Utility Taxes	2,854,392	2,748,632	-3.7%	10,604,676	10,983,789	3.6%	26.9%	25.0%
Rev Generating Regulatory License	533,238	617,310	15.8%	2,599,920	2,567,468	-1.2%	20.5%	24.0%
Other Taxes	145,423	111,802	-23.1%	591,779	463,900	-21.6%	24.6%	24.1%
Total Taxes	7,264,467	7,292,060	0.4%	35,732,867	36,513,291	2.2%	20.3%	20.0%
Licenses & Permits:								
Building, Structural & Equipment Permits	302,836	252,445	-16.6%	1,645,600	1,436,990	-12.7%	18.4%	17.6%
Business Licenses/Franchise Fees	334,496	456,203	36.4%	1,654,903	1,720,921	4.0%	20.2%	26.5%
Other Licenses & Permits	66,829	82,580	23.6%	183,500	175,460	-4.4%	36.4%	47.1%
Total Licenses & Permits	704,161	791,228	12.4%	3,484,003	3,333,371	-4.3%	20.2%	23.7%
Intergovernmental:								
Grants	90,262	154,177	70.8%	218,754	313,433	43.3%	41.3%	49.2%
State Shared Revenues & Entitlements	229,311	237,197	3.4%	908,404	809,010	-10.9%	25.2%	29.3%
Fire District #41	-	-	N/A	3,850,077	3,598,238	N/A	N/A	N/A
EMS	-	-	N/A	836,938	866,231	N/A	N/A	N/A
Other Intergovernmental Services	168,185	144,824	-13.9%	654,713	537,436	-17.9%	25.7%	26.9%
Total Intergovernmental	487,758	536,198	9.9%	6,468,886	6,124,348	-5.3%	7.5%	8.8%
Charges for Services:								
Internal Charges	1,035,992	1,179,579	13.9%	4,905,963	4,663,482	-4.9%	21.1%	25.3%
Engineering Services	60,331	15,701	-74.0%	357,134	225,000	-37.0%	16.9%	7.0%
Plan Check Fee	117,922	99,470	-15.6%	520,000	408,252	-21.5%	22.7%	24.4%
Planning Fees	47,634	115,403	142.3%	247,157	243,420	-1.5%	19.3%	47.4%
Other Charges for Services	189,122	184,017	-2.7%	756,426	742,937	-1.8%	25.0%	24.8%
Total Charges for Services	1,451,001	1,594,170	9.9%	6,786,680	6,283,091	-7.4%	21.4%	25.4%
Fines & Forfeits	255,882	237,660	-7.1%	1,407,595	1,532,000	8.8%	18.2%	15.5%
Miscellaneous	90,882	34,139	-62.4%	669,729	654,692	-2.2%	13.6%	5.2%
Total Revenues	10,254,151	10,485,456	2.3%	54,549,760	54,440,793	-0.2%	18.8%	19.3%
Other Financing Sources:								
Interfund Transfers	476,143	-	N/A	3,899,053	2,234,780	N/A	12.2%	N/A
Total Other Financing Sources	476,143	-	N/A	3,899,053	2,234,780	N/A	12.2%	N/A
Total Resources	10,730,293	10,485,456	-2.3%	58,448,813	56,675,573	-3.0%	18.4%	18.5%

Budgeted and actual revenues exclude resources forward.

General Fund Revenue *continued*

General Fund Expenditures

General Fund Department Expenditures	Year-to-Date Actual			Budget			% of Budget	
	3/31/2009	3/31/2010	% Change	2009	2010	% Change	2009	2010
Non-Departmental	287,808	290,493	0.9%	1,254,877	1,253,818	-0.1%	22.9%	23.2%
City Council	146,598	170,300	16.2%	353,175	353,130	0.0%	41.5%	48.2%
City Manager's Office	829,719	732,691	-11.7%	3,434,631	3,066,140	-10.7%	24.2%	23.9%
Human Resources	248,410	246,901	-0.6%	1,081,720	1,124,972	4.0%	23.0%	21.9%
City Attorney's Office	249,267	248,112	-0.5%	993,790	974,121	-2.0%	25.1%	25.5%
Parks & Community Services	1,507,702	1,514,901	0.5%	7,621,687	6,670,931	-12.5%	19.8%	22.7%
Public Works (Engineering)	888,601	828,138	-6.8%	3,629,985	3,325,385	-8.4%	24.5%	24.9%
Finance and Administration	909,786	865,373	-4.9%	3,671,314	3,733,652	1.7%	24.8%	23.2%
Planning & Community Development	722,306	682,469	-5.5%	2,835,702	2,704,807	-4.6%	25.5%	25.2%
Police	4,327,796	4,408,487	1.9%	16,557,994	17,136,276	3.5%	26.1%	25.7%
Fire & Building	4,455,159	4,571,661	2.6%	17,732,645	17,287,341	-2.5%	25.1%	26.4%
Total Expenditures	14,573,154	14,559,524	-0.1%	59,167,520	57,630,573	-2.6%	24.6%	25.3%
Other Financing Uses:								
Interfund Transfers	189,381	151,969	-19.8%	1,705,441	1,254,335	-26.5%	11.1%	12.1%
Total Other Financing Uses	189,381	151,969	-19.8%	1,705,441	1,254,335	-26.5%	11.1%	12.1%
Total Expenditures & Other Uses	14,762,535	14,711,492	-0.3%	60,872,961	58,884,908	-3.3%	24.3%	25.0%

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

Personnel costs in most General Fund departments are down compared to last year due to the combination of the implementation of furloughs (which reduced salaries and benefit costs) and reduction in staffing as strategies to balance the budget in response to declining revenues. In addition, specific factors for individual departments are noted below:

Comparing to the same period last year:

- Actual 2010 expenditures for the **City Council** are **16.2 percent ahead** primarily due to a one time citizen survey paid for this year.
- Actual 2010 expenditures for the **City Manager's Office** are **11.7 percent lower** due to reduced facilities charges resulting from the purchase of the Municipal Court and lower professional services costs, including court interpreter services and the federal lobbyist (which was funded for 2009 only), as well as the timing of outside agency funding payments.
- Actual 2010 expenditures for the **Parks & Community Services Department** are **0.5 percent ahead** primarily due to the timing of human service agency grants and despite reductions to staffing levels.
- Actual 2010 expenditures for the **Public Works Department** are **6.8 percent lower** almost entirely due to staffing reductions and reallocations.
- Actual 2010 expenditures for the **Finance and Administration Department** are **4.9 percent behind** due to election costs paid in 2009 and despite one position added in anticipation of annexation.

Compared to 2009, 2010 General Fund actual expenditures are 0.1 percent lower primarily due to lower personnel costs and despite higher costs for the regional dispatch contract, as noted in the explanation of Police and Fire Department expenditures.

(Continued on page 5)

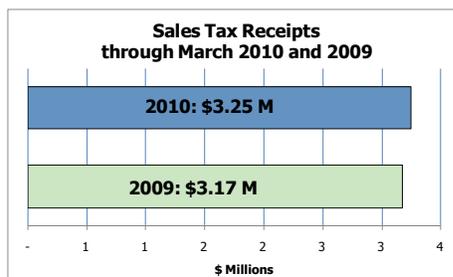
Financial Management Report as of MARCH 31, 2010

- Actual 2010 expenditures for the **Planning and Community Development Department** are **5.5 percent behind** due to one-time 2009 costs for the Shoreline Master Plan update, as well as staffing reductions.
- Actual 2010 expenditures for the **Police Department** are **1.9 percent ahead** due to charges for the regional dispatch agency and despite lower personnel costs (partially caused by the shift from in-house dispatch staffing as of July 2009 to contracting with the agency). Staffing will be hired throughout 2010 in anticipation of annexation, which commences June 1, 2011. Increases to jail costs, which have been a concern over the last few years, have moderated due to contracts with other agencies for lower rates than those charged by King County.
- Actual 2010 expenditures for the **Fire & Building Department** are **2.6 percent ahead** due to charges for the regional dispatch agency and despite lower personnel costs. Fire suppression overtime expenses in 2010 are down about 6.1 percent compared to the same period last year, but remain a concern, as the cost is trending above budget.



Kirkland welcomes three new City Council Members in 2010: Doreen Marchione, Deputy Mayor Penny Sweet, and Amy Walen. Mayor Joan McBride (not pictured) was also re-elected.

Sales Tax Revenue Analysis 2010 sales tax revenue has stabilized in the first quarter, **up 2.3 percent** compared to the same period last year. The primary reasons are improvements to the retail sectors (up 3.6 percent collectively over the same period last year) largely driven by auto/gas retail and internet/catalog sales, as well as the services and wholesale sectors. Also, the contract sector revenue decline lessened and total February revenue benefiting from milder winter weather compared to the prior year (see tables on page 6).



Review by business sectors:

- Auto/gas retail** is **up 14.3 percent** compared to the same period last year due to generally positive performance by key retailers. Improvement for this sector locally reflects national trends.
- Other retail** is **up 10 percent** compared to the same period last year due to electronics, furniture, health care, and internet retailers, as well as the re-classification of one retailer from the general merchandise/miscellaneous retail sector. Streamlined sales tax rule changes have also contributed to the increase.
- The **services** sector is **up 10.5 percent** compared to the same period last year largely due to software and temporary agency services, likely a result of the sourcing rule change. The accommodations sector is essentially flat after significant declines in 2009, down 1.1 percent compared to the same period last year.
- Wholesale** is **up 16.8 percent** compared to the same period last year primarily due to changes in local coding sourcing rules from streamlined sales tax and development-related activity.
- The **miscellaneous** sector is **up 3.6 percent** compared to the same period last year largely due to increases in the manufacturing category, most likely reflecting changes in streamlined sales tax sourcing rules.
- The **contracting** sector is **down 11.8 percent** compared to the same period last year and remains the largest drag on revenue. Development activity is down considerably due to the recession. Large public projects, including the replacement of Lake Washington High School and the Downtown Transit Center, have helped contribute to the slowing of the revenue decline in this sector's performance compared to last year.
- General merchandise/miscellaneous retail** is **down 10.2 percent** compared to the same period last year due to disappointing performance by key retailers, the previously mentioned reclassification of one business, as well as impacts from streamlined sales tax rule changes. The revenue loss in this sector compared to last year is almost as much as in the contracting sector.
- Retail eating/drinking** is **down 3.7 percent** compared to the same period last year. This sector continues its negative trend that started in the second half of 2008. Reduced consumer discretionary spending is evident from the generally negative performance by several businesses in this sector as well as the closure of several restaurants. However, this performance is a smaller decline compared to the 13.1 percent decline the sector experienced in 2009 compared to 2008.
- The **communications** sector is **down 6.3 percent** compared to the same period last year due to reduced development-related activity and declining revenue from telecommunications companies.

Streamlined Sales Tax

Washington State implemented new local coding sales tax rules as of July 1, 2008 as a result of joining the national Streamlined Sales Tax Agreement. Negative impacts from this change are mitigated by the State of Washington. The first quarter 2010 payment of about \$32,000 was received in March.

Neighboring Cities

Bellevue and Redmond 2010 sales tax revenue through March is down 5.4 percent and 6.9 percent respectively compared to the same period in 2009.

City of Kirkland Actual Sales Tax Receipts

Business Sector Group	January-March		Dollar Change	Percent Change	Percent of Total	
	2009	2010			2009	2010
Services	378,855	418,718	39,863	10.5%	11.9%	12.9%
Contracting	479,097	422,550	(56,547)	-11.8%	15.1%	13.0%
Communications	122,071	114,438	(7,633)	-6.3%	3.8%	3.5%
Auto/Gas Retail	641,063	732,417	91,354	14.3%	20.2%	22.6%
Gen Merch/Misc Retail	540,878	485,467	(55,411)	-10.2%	17.0%	14.9%
Retail Eating/Drinking	272,973	262,891	(10,082)	-3.7%	8.6%	8.1%
Other Retail	402,446	442,624	40,178	10.0%	12.7%	13.6%
Wholesale	152,843	178,447	25,604	16.8%	4.8%	5.5%
Miscellaneous	183,347	189,923	6,576	3.6%	5.8%	5.8%
Total	3,173,573	3,247,475	73,902	2.3%	100.0%	100.0%

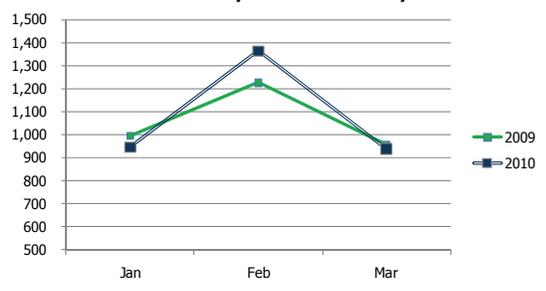
Kirkland's sales tax base is comprised of a variety of businesses which are grouped and analyzed by business sector (according to NAICS, or "North American Industry Classification System"). Nine business sector groupings are used to compare 2009 and 2010 year-to-date sales tax receipts in the table to the left.

City of Kirkland Actual Monthly Sales Tax Receipts

Month	Sales Tax Receipts		Dollar Change	Percent Change
	2009	2010		
January	994,146	945,992	(48,154)	-4.8%
February	1,224,935	1,364,023	139,088	11.4%
March	954,492	937,460	(17,032)	-1.8%
Total	3,173,573	3,247,475	73,902	2.3%

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 March is for sales activity in January. Monthly sales tax receipts through March 2009 and 2010 are compared in the table to the left.

2009-2010 Monthly Sales Tax January-March



- Monthly revenue performance in 2010 has improved from the mostly double digit declines experienced throughout 2009.
- February 2010 was substantially ahead of February 2009 primarily due to significant improvements in auto/gas retail, other retail, and contracting. Revenue received in February is from activity in December, so it reflects an important part of the critical holiday shopping season.
- In addition to the economic recession, unusually severe winter weather experienced in December 2008 hampered holiday shopping, which negatively impacted February 2009 revenue.

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

Comparing to the same period last year:

Totem Lake, which accounts for almost 31 percent of the total sales tax receipts, is **up 1.7 percent** primarily due to

significant improvement in automotive/gas retail sales.

Almost 67 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 16 percent of the total sales tax receipts, is **down 1.2 percent** primarily due to the general merchandise/miscellaneous retail and despite improvements to automotive/gas retail. These two sectors contribute about 86 percent of this business district's revenue.

Downtown, which accounts for over 7 percent of the total sales tax receipts, is **down 2.6 percent** due to the loss of several retailers and poor performance in the retail eating/drinking sector. The retail eating/drinking and accommo-

dations sectors provide over 68 percent of this business district's revenue.

Carillon Point & Yarrow Bay, which account for about 2 percent of the total sales tax receipts, are **up 3.3 percent** compared to last year primarily due to other retail and the accommodations sectors and despite poor performance in the retail eating/drinking sector. About 70 percent of this business district's revenue comes from business services, retail eating/drinking and accommodations.

Houghton & Bridle Trails, which account for about 2 percent of the total sales tax receipts, are **down 10.1 percent** collectively almost entirely due to miscellaneous retail and other retail (partially due to the closure of a major supermarket, which is expected to re-open in May). These sectors provide about 72 percent of these business districts' revenue.

Juanita, which accounts for about 2 percent of the total sales tax receipts, is **down 2.2 percent** primarily due to retail eating/drinking and personal services. These sectors, along with miscellaneous retail, provide almost 71 percent of this business district's revenue.

When reviewing sales tax receipts by business district, it's important to point out that over 42 percent of the revenue received in 2010 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 - Mar Receipts		Dollar Change	Percent Change	Percent of Total	
	2009	2010			2009	2010
Totem Lake	980,560	997,314	16,754	1.7%	30.9%	30.7%
NE 85th St	516,141	510,049	(6,092)	-1.2%	16.3%	15.7%
Downtown	236,618	230,472	(6,146)	-2.6%	7.5%	7.1%
Carillon Pt/Yarrow Bay	66,931	69,167	2,236	3.3%	2.1%	2.1%
Houghton & Bridle Trails	77,645	69,819	(7,826)	-10.1%	2.4%	2.1%
Juanita	72,916	71,331	(1,585)	-2.2%	2.3%	2.2%
Unassigned or No District:						
Contracting	479,089	422,550	(56,539)	-11.8%	15.1%	13.0%
Other	743,673	876,773	133,100	17.9%	25.7%	29.3%
Total	3,173,573	3,247,475	73,902	2.3%	100.0%	100.0%

Sales Tax Revenue Outlook 2010 sales tax first quarter revenue performance appears to confirm that the local economy is no longer in a free-fall. While both January and March were down compared to the same months of 2009, they were single-digit declines rather than the double-digit declines experienced through most of 2009. The spike in February revenue, which is partially due to milder weather in December compared to the previous year, helps take 2010 ahead of 2009 for the first quarter. Recovery for the local economy remains uneven. The largest contributor to revenue improvement, the automotive/gas retail sector is especially sensitive to changing economic conditions, which poses a significant risk. Contracting, while declining less than last year, remains significantly lower than a few years ago. Sales tax revenue, which is the City's largest single General Fund revenue source, is inherently volatile and especially so during these unusual economic times. 2010 revenue was budgeted to remain flat compared to 2009, so the fact that it is ahead as of March is good news. However, sustaining the positive performance throughout the year is uncertain considering the current economic conditions.

OFFICE VACANCIES:

According to CB Richard Ellis Real Estate Services, the Eastside vacancy rate is 19.7 percent for first quarter 2010 compared to 13.8 percent for first quarter 2009. Kirkland's 2010 vacancy rate is 30.6 percent, significantly higher than the 2008 rate of 7.8 percent largely due to Google new space at the Lakeview Plaza complex.

The Puget Sound regional market saw a spike in vacancy rates in 2008-09 as the economy declined and new construction overwhelmed market demand. The vacancy rate continues to rise, currently at about 20%, but the trend seems to be turning. The first quarter of 2010 was the smallest hike in vacancy rates since the beginning of 2008.

LODGING TAX REVENUE:

Lodging tax 2010 revenue is down 11.7 percent compared to the same period last year.

Economic Environment Update Washington State's economy has turned the corner and is expanding at a moderate rate according to the latest update from the Washington State Economic and Revenue Forecast Council. Employment is on the rise, consumer spending appears to be improving, and the manufacturing outlook remains positive. Housing permits continue to grow, but construction employment continues to decline. The state is expected to continue to benefit from the global recovery. The recent European Union concerns are expected to have little impact to the state, since the EU comprises only about 7 percent of Washington's export market.

Nationally, the gross domestic product grew at 3.2 percent (annualized) during the first quarter of 2010. Net job growth has occurred in 5 of the last 6 months and business and consumer spending is improving. Consumer spending was up 3.6 percent (annualized) during the first quarter of 2010; double that of fourth quarter 2009 and the largest gain since the beginning of 2007. However, in Kirkland, the signs of economic recovery are still uncertain. Sales tax revenue seems to have stabilized, but development activity remains very slow.

The U.S. **consumer confidence index** rebounded to **52.3** in March after falling in February to 46.4. February was considerably lower than January, which was 56.5. Despite the improvement in March, consumers continue to express concern about labor and business conditions. An index of 90 indicates a stable economy and one at or above 100 indicates growth.

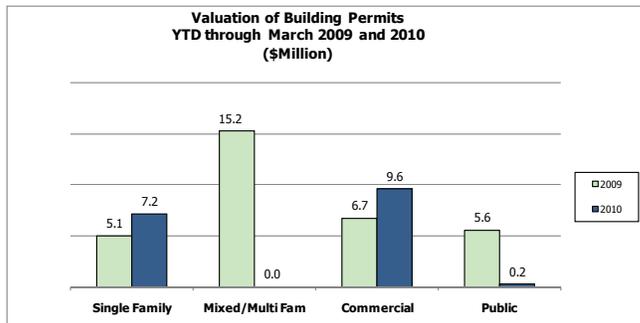
King County's **unemployment rate** is **8.1 percent** in March compared to 7.9 percent in March 2009. While remaining high compared to a few years ago, King County is considerably lower than both Washington State and national rates, which are 9.9 and 9.7 percent respectively. The number of jobs available in the county increased by over 11,000 since January 2010.

The **Western Washington chapter of Purchasing Managers survey index** remained about **the same** in March at **55.0**, down from 55.8 in February. However, the national survey index increased to 59.6 from 56.5. An index reading greater than 50 indicates a growing economy, while scores below suggest a shrinking economy.

(Continued on page 8)

Economic Environment Update *continued*

Local **development activity** through March comparing 2010 to 2009 as measured by the valuation of City of Kirkland building permits is illustrated in the chart to the right. Activity has improved in the single family and commercial sectors. However, activity in the mixed use/multifamily and public sectors is almost nonexistent and the 2010 building permit valuation is 48 percent below 2009.



Closed sales of **new and existing single-family homes** on the East-side are up 108.1 percent in March 2010 compared to March 2009. However, the median price of a single family home declined 1.9 percent (\$495,000 compared to \$504,500). Closed sales for condominium were up 78.4 percent, but the median price dropped 9.4 percent (to \$253,832 from \$290,000). Countywide, housing prices posted the first year-over-year increase in two years, up 0.9 percent to \$367,250. The upswing in sales is attributed to both consumer concerns about increases to mortgage rates and the federal tax credit available through the end of April.

Seattle metro consumer price index (CPI), which was often negative in 2009, remains low for the first reading in 2010 at 1.1% (which matches the February 2009 index). The Seattle index is calculated bi-monthly. The June 2009 CPI (-0.7 percent) would normally be used to calculate City employee cost of living adjustments (COLA) for 2010. As a result of the negative index, employees with closed bargaining units received no adjustment this year. (Four bargaining units and management had already agreed to this beforehand as part of a budget reduction strategy.) The national index started increasing last November and the March reading was 3%, substantially higher than the local rate. However, forecasters expect minimal threat of accelerating inflation and the Federal Reserve is expected to keep the Fed Funds rate at the current rate of 0.25 percent throughout 2010. The June 2010 CPI (released in July 2010), will be the contractual basis for budgeting 2011 COLA increases.

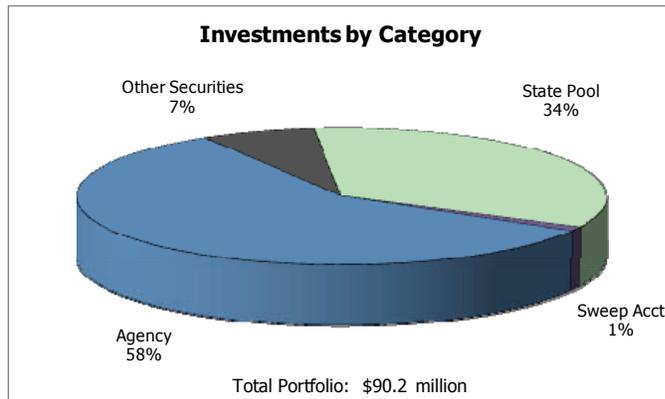
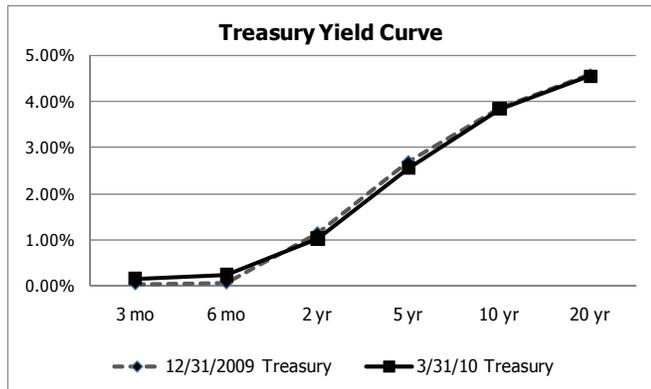
The upswing in sales is attributed to both consumer concerns about increases to mortgage rates and the federal tax credit available through the end of April.

Investment Report

MARKET OVERVIEW

Fed Funds rate remained at 0.25 percent during the first quarter of 2010 as the economy continued giving indications of a slow recovery. The yield curve remained fairly constant. There were slight decreases in interest rates at the short end of the curve and nearly no changes in rates at the longer end of the curve.

cash flows of the first quarter, as the first half of property taxes is received at the end of April.



CITY PORTFOLIO

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

Diversification

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

The City’s portfolio decreased in the first quarter of 2010 to \$90.2 million compared to \$95.2 million on December 31, 2009. The decrease in the portfolio is related to the normal

Investment Report *continued*

2010 ECONOMIC OUTLOOK and INVESTMENT STRATEGY

The U.S. economy is expected to grow at an annual rate of 2.7 percent over each of the next five quarters, according to 42 forecasters surveyed by the Federal Reserve Bank of Philadelphia. The forecasters project that real GDP growth will be 3 percent in 2010. The forecasters continue to see little threat of accelerating inflation. The unemployment rate is expected to average 9.8 percent in 2010 and fall to 9.2 percent in 2011. The Fed Funds rate, currently at 0.25 percent, is expected to remain at this level throughout 2010.

The duration of the portfolio will decrease as securities mature and are called. Opportunities for increasing portfolio returns are scarce as shorter term interest rates continue at very low levels. New security purchases will be made as opportunities to obtain moderate returns become available. During periods of low interest rates the portfolio duration should be kept shorter with greater liquidity so that the City is in a position to be able to purchase securities with higher returns when interest rates begin to rise. The State Pool is currently at 0.22 percent and will continue to remain historically low as the Fed Funds rate remains at 0.00 to 0.25 percent. Total estimated investment income for 2010 is \$1.4 million.

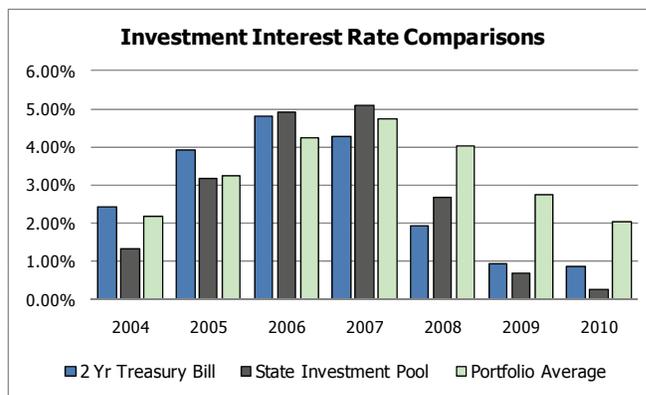
Liquidity

The target duration for the City's portfolio is based on the 2-year treasury rate which decreased from 1.14 percent on December 31, 2009 to 1.02 percent on March 31, 2010. The average maturity of the City's investment portfolio increased from 0.72 years on December 31, 2009 to 1.6 years on March 31, 2010 due to the purchase of longer term securities to lock in higher yields. It is expected that those securities will be called on their call dates as the interest rates of the securities are higher than current rates.

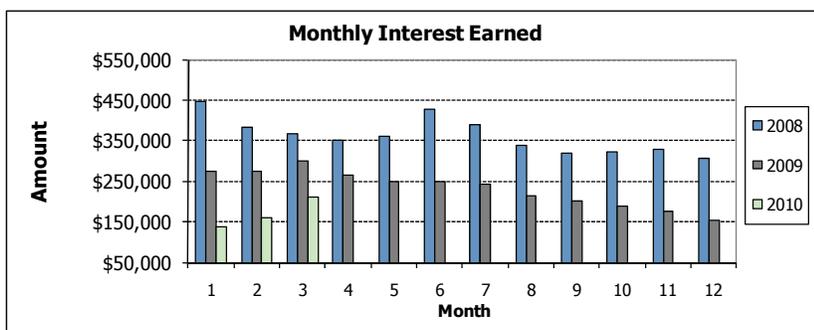
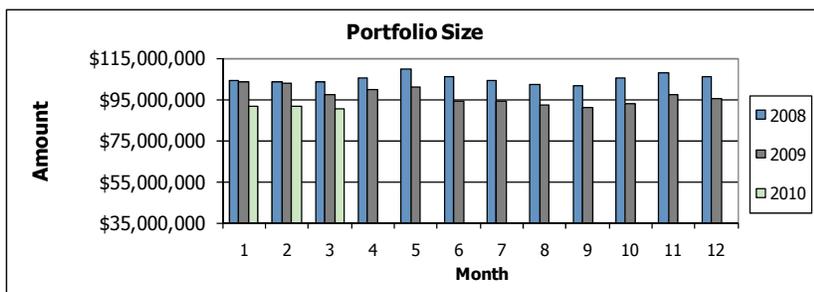
Benchmark Comparison	December 31, 2009	March 31, 2010
City Yield to Maturity	1.66%	2.08%
City Average YTM	2.74%	2.04%
City Year to Date Yield	3.04%	1.53%
90 Day Treasury Bill	0.06%	0.16%
2 yr Rolling Avg 2 yr T	1.44%	1.33%

Yield

The City Portfolio yield to maturity increased from 1.66 percent on December 31, 2009 to 2.08 percent on March 31, 2010. Through March 31, 2010, the City's annual average yield to maturity was 2.04 percent. With Council adoption of the amended Investment Policy on January 5, 2010, the City's portfolio benchmark was changed to the range between the 90 day Treasury Bill and the 2 year rolling average of the 2-year Treasury Note. This benchmark is more reflective of the maturity guidelines required in the Investment Policy. The City's portfolio outperformed both the 90 day T Bill and the 2 Year rolling average of the 2-year Treasury Note, which was 1.33 percent on March 31, 2010. 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



The City's portfolio outperformed both the 90 day T Bill and the 2 Year rolling average of the 2-year Treasury Note, which was 1.33 percent on March 31, 2010. 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



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 at the end of the biennium.

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:

General Government & Utility Reserves Summary

Reserves	2009-10 Est End Balance	2009-10 Auth. Uses	2009-10 Auth. Additions	Revised 2009-10 End Balance
GENERAL PURPOSE RESERVES				
Contingency ¹	2,324,515	518,557	50,000	1,855,958
General Capital Contingency	2,444,561	266,514		2,178,047
Park & Municipal Reserve:				
General Oper. Reserve (Rainy Day)	2,712,836			2,712,836
Revenue Stabilization Reserve	1,082,380	1,082,380		0
Building & Property Reserve	2,059,669	125,000		1,934,669
Council Special Projects Reserve ²	271,960	116,676		155,284
Total General Purpose Reserves	10,895,921	2,109,127	50,000	8,836,794
SPECIAL PURPOSE RESERVES				
Excise Tax Capital Improvement:				
REET 1	8,370,417	2,349,314	266,078	6,287,181
REET 2	8,134,095		361,336	8,495,431
Equipment Rental:				
Vehicle Reserve	6,421,787			6,421,787
Radio Reserve	36,000			36,000
Information Technology:				
PC Replacement Reserve	494,373			494,373
Major Systems Replacement Reserve	247,900		197,600	445,500
Facilities Maintenance:				
Operating Reserve	550,000			550,000
Facilities Sinking Fund	1,051,963			1,051,963
Impact Fees				
Roads	3,429,578			3,429,578
Parks	237,809			237,809
Park Bond Reserve	558,981			558,981
Cemetery Improvement	523,405			523,405
Off-Street Parking	204,410			204,410
Tour Dock	70,175			70,175
Street Improvement	994,576	32,567		962,009
Firefighter's Pension	1,590,102			1,590,102
Park & Municipal Reserve:				
Litigation Reserve	51,329			51,329
Labor Relations Reserve	67,183			67,183
Police Equipment Reserve	48,093			48,093
LEOFF 1 Police Reserve	612,029			612,029
Facilities Expansion Reserve	800,000			800,000
Development Services Reserve	457,331			457,331
Tree Ordinance	28,980			28,980
Donation Accounts	161,257			161,257
Revolving Accounts	86,175			86,175
Water/Sewer Operating Reserve	1,799,424			1,799,424
Water/Sewer Debt Service Reserve	826,759			826,759
Water/Sewer Capital Contingency	3,018,240	239,200		2,779,040
Water/Sewer Construction Reserve	9,444,066	21,787		9,422,279
Surface Water Operating Reserve	394,485			394,485
Surface Water Capital Contingency	617,690			617,690
Surface Water-Transp. Related Rsv	1,302,179	38,126		1,264,053
Surface Water Construction Reserve	3,186,434			3,186,434
Total Special Purpose Reserves	55,817,225	2,680,994	825,014	53,961,245
Grand Total	66,713,146	4,790,121	875,014	62,798,039

¹ Addition of \$320,000 authorized in April 2010 replenished from 2009 General Fund expenditure savings

² Addition of \$80,000 authorized in April 2010 replenished from 2009 General Fund expenditure savings

Financial Management Report as of MARCH 31, 2010

Reserve Summary *continued*

USES AND ADDITIONS HIGHLIGHTS		
RESERVE	AMOUNT	DESCRIPTION
2009-10 Council Authorized Uses		
Contingency	\$54,750	Verizon franchise negotiations
	\$188,262	Hydrant Costs
	\$272,000	2009 Firefighter Overtime
	\$3,545	Return 2008 Interest Backfill to General Fund
General Capital Contingency	\$64,000	Downtown Transit Center
	\$43,800	NE 73rd Street Sidewalk additional funding
	\$98,544	Return 2008 Interest Backfill to General Fund
	\$60,170	Pandemic Flu Supplies
Revenue Stabilization Reserve	\$1,082,380	Backfill General Fund revenue deficit
Building & Property Reserve	\$125,000	Return 2008 Interest Backfill to General Fund
Council Special Projects Reserve	\$2,000	Council Retreat facilitator
	\$26,000	Funding for federal lobbyist services for 2009
	\$25,000	Funding for Neighborhood Connections in 2010
	\$20,000	Hopelink relocation
	\$13,770	Flexpass program
	\$12,506	Bank of America project review process
	\$5,000	Council special investigation
	\$12,400	Medical transport fee consultant contract
Excise Tax Capital REET 1	\$2,349,314	Municipal Court Building purchase
Street Improvement Fund	\$23,000	99th Place NE/100th Ave NE Sidewalk
	\$9,567	2009 Annual Striping Program
Water/Sewer Capital Contingency	\$54,000	Additional funding of \$54,000 for telemetry system upgrades at Supply Station #2 to coincide with a City-wide upgrade of telemetry panels at other water facility sites.
	\$128,000	Funding for the completion of the 2009 Water System Improvement Project.
	\$17,200	NE 73rd Street Sidewalk (watermain replacement) additional funding
	\$40,000	3rd Street Watermain Replacement
Water/Sewer Construction Reserve	\$21,787	Bridle View Annexation Water System Purchase from Redmond
Surface Water-Transp. Related Rsv	\$23,000	Downtown Transit Center (surface water component)
	\$15,126	NE 124th Street/124th Ave NE Intersection Improvements (surface water component)
2009-10 Council Authorized Additions		
Excise Tax Capital REET 1	\$266,078	Closed Capital Projects
Excise Tax Capital REET 2	\$361,336	Closed Capital Projects
Major Systems Replacement Reserve	\$197,600	Closed Capital Projects
Contingency	\$50,000	Reimbursement from Verizon for franchise negotiations

The summary above details all Council authorized uses and additions to each reserve for the biennium through March 2010.

General Government & Utility Reserves Targets Summary

Reserves	Revised 2009-10 End Balance	2009-10 Target	Over (Under) Target
GENERAL PURPOSE RESERVES			
Contingency	1,855,958	4,915,571	(3,059,613)
General Capital Contingency	2,178,047	9,032,430	(6,854,383)
Park & Municipal Reserve:			
General Oper. Reserve (Rainy Day)	2,712,836	3,567,649	(854,813)
Revenue Stabilization Reserve	0	2,188,803	(2,188,803)
Council Special Projects Reserve	155,284	250,000	(94,716)
General Purpose Reserves with Targets	6,902,125	19,954,453	(13,052,328)
SPECIAL PURPOSE RESERVES			
Excise Tax Capital Improvement:			
REET 1	6,287,181	1,653,500	4,633,681
REET 2	8,495,431	8,477,130	18,301
Firefighter's Pension	1,590,102	1,103,000	487,102
Park & Municipal Reserve:			
Litigation Reserve	51,329	50,000	1,329
Water/Sewer Operating Reserve	1,799,424	1,799,424	0
Water/Sewer Debt Service Reserve	826,759	826,759	0
Water/Sewer Capital Contingency	2,779,040	3,018,240	(239,200)
Surface Water Operating Reserve	394,485	394,485	0
Surface Water Capital Contingency	617,690	617,690	0
Special Purpose Reserves with Targets	22,841,441	17,940,228	4,901,213
Reserves without Targets	33,054,473	n/a	n/a
Total Reserves	62,798,039	n/a	n/a

Use of the Revenue Stabilization Reserve was part of the budget-balancing strategy for the 2009-10 biennial budget.

The table to the left compares the revised ending balance to the targets established in the budget process for those reserves with targets.



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

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

- *Consumers slowly show signs of springing back*, msnbc.com, March 30, 2010
- *Purchasing manager optimism about the same in Northwest*, Puget Sounds Business Journal, April 5, 2010
- Eric Pryne, *King County house prices post year-over-year rise for first time in 2 years*, Puget Sound Business Journal, April 6, 2010
- Lucia Mutikani, *Economy expands as consumer spending picks up*, Market Watch, April 30, 2010
- CB Richard Ellis Real Estate Services, Market View Puget Sound, First Quarter 2010
- Washington State Economic & Revenue Forecast Council
- Consumer Board Confidence Index
- U.S. Bureau of Labor Statistics
- Washington State Employment Security Department
- Washington State Department of Revenue
- Washington State Department of Labor & Industries
- City of Kirkland Building Division
- City of Kirkland Finance & Administration Department

April 2010 Financial Dashboard Highlights

May 24, 2010

- The dashboard report reflects the 2010 annual budget, including the budget adjustments adopted by the City Council during 2009 and in April 2010. The actual revenues and expenditures summarized in the dashboard reflect four months of data, which represents 33% of the calendar year.
- Total General Fund revenues are below expectations due to the following:
 - April sales tax revenue is up 9.9 percent compared to April 2009, in contrast to the decrease of 1.8 percent experienced in March. Sales tax revenue received this month is for activity in February. Year-to-date revenue performance is up 4.4 percent compared to the same period last year. However, a fairly significant one-time field recovery adjustment received this month skews both the monthly and annual comparison. Normalizing for this one-time event changes the monthly increase to about 6.8 percent and the year-to-date increase to about 3.3 percent. Note that the budgeted sales tax revenue has been adjusted downward to reflect the amended budget approved on April 20 related to the 3.4% compensation concessions.
 - Utility tax receipts are slightly below budget expectations, due to the warmer than average winter (gas/electric) and lower than average telecommunications collections.
 - The business license revenues year-to-date are ahead of last year, but below budget expectations.
 - Development revenues year-to-date continue to be below budget, however, there has been an increase in activity in March and April. Further discussion of April development activity follows the dashboard.
 - Gas tax revenues are falling short of expectations due to reduced usage resulting from increased prices (gas tax is collected on a per gallon basis).
 - Overall General Fund revenues include property tax collected in April and the first quarter Fire District 41 payment.
- Total General Fund expenditures are within expectations.
 - Overall, General Fund expenditures are trailing the budget, reflecting actions that have been taken to date to slow spending.
 - Fire Suppression overtime in April was \$73,827, which is more than the monthly budget of \$62,328. Overtime is at about 40% of budget, \$52,779 higher than expected 33% of the way through the year.
 - Contracted jail costs are above budget expectations, but are expected to moderate as lower bed-day costs are realized due to new contracts.
 - Fuel costs are still below budgeted levels, but prices have risen over the past several months.

Attachments: April Dashboard
Development Services Highlights

5/21/2010

City of Kirkland Budget Dashboard

Annual Budget Status as of **4/30/2010** (Note 1)Percent of Year Complete **33.33%**

	2010 Budget	Year-to-Date Actual	% Received/ % Expended	Status		Notes
				Current Month	Last Month	
General Fund						
Total Revenues	56,675,573	15,672,107	27.7%			Property tax/FD41/EMS spike in 2Q
Total Expenditures (2)	60,159,143	19,088,373	31.7%			

Key Indicators (All Funds)

<i>Revenues</i>						
Sales Tax	11,934,179	4,201,404	35.2%			Prior YTD = \$4,041,305
Utility Taxes	10,983,789	3,610,152	32.9%			Warm weather impacting gas/electric
Business License Fees	2,998,723	960,789	32.0%			
Development Fees	2,313,662	710,032	30.7%			
Gas Tax	1,147,090	329,844	28.8%			
<i>Expenditures</i>						
GF Salaries/Benefits	41,176,243	13,020,367	31.6%			Excludes Fire Suppression Overtime
Fire Suppression Overtime	747,941	302,092	40.4%			
Contract Jail Costs	944,644	357,316	37.8%			
Fuel Costs	408,310	112,767	27.6%			

Status Key

Revenue is higher than expected or expenditure is lower than expected

Revenue/expenditure is within expected range

WATCH - Revenue/expenditure outside expected range



Note 1 - Report shows annual values during the second year of the biennium (2010).

Note 2 - Total budgeted expenditures exceed revenues due to planned use of reserves/cash balances to balance the budget.

n/a - not applicable

Development Services Report – April 2010

A review of the April 2010 permit data allows us to offer the following:

- The April 2010 statistics continue to be reversing the trend that we witnessed in 2009. New single family residential permit applications for April were up dramatically (10 applications received compared to 1 in April of last year) continuing the slight improvement we witnessed in the last half of 2009. In the past, when we have seen a downturn in new development permits, we have seen an increase in commercial tenant improvement permits and single-family remodel permits and that is indeed the case so far this year (116 applications year to date compared to 81 last year).
- While the monthly average for 2010 (194) is slightly higher than the monthly average for 2009 (184), the total number of permits received in April 2010 (184) is a marked improvement over April 2009 (152).
- Building Department revenue for April 2010 was \$167,415, above our revised projected monthly revenue average of \$162,771 for 2010. Year-to-date total revenue falls short of projections by \$125,377 (or 19.26%). Revenue of \$8,764 per month is being generated by loaning one Building Inspector to the City of Issaquah for the next 2 years. We have invoiced the City of Monroe \$4,417 through April per our agreement to provide both plan review and inspection services on larger projects.
- Public Works Department development revenue for April 2010 was \$62,904, which is above our monthly projected revenue average of \$29,333. Year-to-date revenue is slightly ahead of projections by \$4,954. Camwest has indicated that they will pick-up their Land Surface Modification Permit for the Merriwether Multi-Family project in Houghton in May or June; this permit will generate over \$40,000 in review and inspection revenue for Public Works.
- Planning Department revenue for April 2010 was \$28,965 which is above our adjusted monthly revenue average of \$16,035 for 2010. Revenues have been above the monthly average for the past three months.
- The redesigned McLeod project (addition to Hector's) received DRB approval in December. We have entered into an agreement to be paid in advance for providing code compliance review services during the design process prior to receiving their building permit application. We expect them to apply for their permit this spring.
- Touchstone is continuing the design review process for the redevelopment of Park Place. Permits for buildings will be phased, probably beginning in 2010. Meanwhile, Development Review Services is in preliminary discussions with the Park Place design team to provide review services during the design process. As with the McLeod Project, this approach has the potential of generating substantial fees prior to the actual submittal of their permit applications and a shorter review period once they submit.



CITY OF KIRKLAND
Fire & Building Department
123 Fifth Avenue, Kirkland, WA 98033 425.587.3000
www.ci.kirkland.wa.us

MEMORANDUM

To: Marilynne Beard, Interim City Manager

From: Kevin Nalder, Director Fire & Building
Jack Henderson, Deputy Fire Chief Operations

Date: June 5, 2010

Subject: JANUARY-MAY 2010 OVERTIME SUMMARY

As of May 31, 2010 the Kirkland Fire Department (KFD) has used \$369,942 or 52.35% of the 2010 overtime budget to maintain daily minimum staffing levels. The total 2010 budget for suppression overtime is \$747,942. As of June 1, 2010 there is \$378,000 remaining in the 2010 overtime budget.

Background

The Kirkland fire service staffing consists of 81 line personnel assigned to 3 shifts:

- "A" Shift - 27 line personnel
- "B" Shift - 27 line personnel
- "C" Shift - 27 line personnel

Negotiated contractual obligations allow for **scheduled leave** of duty:

- 4 Personnel off per shift on Kelly day each shift (contracted to obtain 48 hour work week)
- 4 Personnel off on vacation, holiday, physical fitness leave, furlough days, and community service day.

Consequently, up to eight personnel can be off on scheduled leaves per shift leaving a total of 19 line personnel to meet minimum staffing levels. A total of 18 line personnel are needed on shift each day in order to achieve minimum staffing levels. This allows for one line personnel per shift to cover for all personnel off duty due to **unscheduled leaves** (includes sick leave, disabilities, light duty assignments, military leave, court and jury leave, and bereavement leave).

In addition to scheduled and unscheduled leaves, there are currently three vacant positions in the department. One position has been vacant since November 2009. Retirements in March and May created another two vacancies. These vacancies have reduced the current number of employees available per shift from 27 to 26, leaving no personnel to replace personnel off duty due to unscheduled leaves. As a result, coupled with disabilities and the addition of furlough days, these vacancies created a higher than normal need to use overtime to cover these leaves in order to meet minimum staffing levels.

Personnel off duty for scheduled leave from January 1st thru May 31st were as follows:

Kelly day	562 shifts
Kelly admin. day	63 shifts
Vacation	133 shifts
Furlough	228 shifts
Holiday	81 shifts
Physical fitness leave	15 shifts
Community service day	<u>21 shifts</u>
Total	1,103 shifts

Personnel off duty for unscheduled leave from January 1st thru May 31st were as follows:

Sick leave	223 shifts
Disabilities	214 shifts
Light duty	39 shifts
Military leave	13 shifts
Court/Jury duty	21 shifts
Bereavement	<u>2 shifts</u>
Total	512 shifts

The total of 1,103 scheduled leave shifts and 512 unscheduled leave shifts equals 1,651 shifts. The average number of employees necessary to maintain minimum staffing level on a daily basis is derived by dividing the 1,651 shifts by the 151 days (January 1st thru May 31st) which equals 10.7 employees per day. If the department does not have any vacancies, there are 9 employees to cover for the scheduled and unscheduled leave shifts. During this 151 day period, it was necessary to have an average of 1.7 employees on overtime to maintain minimum daily staffing. ($10.7 - 9 = 1.7$)

Not all leaves need to be covered with overtime. There were 240 actual shifts covered during this time period using overtime budget to maintain daily minimum staffing level at 18 personnel on duty per shift. This translates to an average of 1.6 personnel per shift during this time period that was paid with overtime budget monies.

Three new firefighters will be added to the line personnel staffing on July 1, 2010 to fill vacancies that occurred earlier this year. This will return the actual number of employees per shift to 27. In mid-July another employee will retire which will reduce one of the three shifts back to 26 line personnel, requiring overtime coverage. This vacancy is assumed to be filled starting January 1, 2011. Some offsetting savings in regular salaries are achieved due to vacancies that partially offset the higher than normal overtime to backfill the vacancies; however, there are added salary costs associated with the leave payouts to retiring employees and salary overlap while the new recruits are in training. The net salary savings projected for these position changes is \$24,415.

In addition to vacancies and unscheduled leaves, the department has four line personnel on light duty assignment. Although light duty assignments have great benefit to the department, it still requires line personnel coverage for the unscheduled leave of that employee until they return to full duty and their position on the line. There is also one employee on off duty disability. The light duty personnel may be returned to their line assignments by September

2010. This means that we will continue to be, on average, two line personnel below minimum daily staffing each shift until these firefighters are able to be released back to full duty. These two positions will continue to be covered using the overtime budget.

Overtime Budget Summary

The highest percentage of overtime usage typically occurs during the summer months due to scheduled vacations. From June 1st to September 30th, 2009, 42.19 % of the 2010 overtime budget had been utilized. In contrast, from October 1st to December 31st, 2009, 18.36% of the 2010 overtime budget had been utilized. Based on this comparative data, the current 2010 overtime budget could be exhausted by October 15, 2010. This data also suggests the overtime budget will be exceeded by approximately \$221,200.

Overtime Budget	747,942
YTD Actual	<369,942>
Balance	378,000
Remaining Overtime Estimate	<599,200>
Overtime Deficit	<221,200>
Vacancy Salary Savings	24,415
Estimated Shortfall	<196,785>

As part of the 2010 Mid-biennial budget adjustment, the City Council approved a "hard cap" on overtime with the understanding that if it appeared as though the cap would be reached before year-end, staff would return to the City Council for direction. Options previously presented to Council are summarized below:

- 1. Operate Below Minimum Staffing** -- KFD can implement a "rolling brownout" of fire stations on days when on duty personnel falls below the personnel necessary to maintain the minimum daily staffing level of 18. Under a rolling brownout, the City would not staff an engine company and an aid car, as is currently the practice. This would require other stations to cover calls that would otherwise be covered by the station that is understaffed for that shift. The specific station to be impacted would rotate so as not to impact one geographic area. This action is associated with a life safety risk to the citizens and firefighters. In addition, it appears that this action will create a breach of the MOU between the City and IAFF Local 2545 regarding the 3.4% salary concession for 2010 which states "no reduction to service to the community as provided in Directive 3.001 will occur". Based on 2009 data, October 15th through December 31st, it is estimated that during this same 77 day period in 2010 that one station would be understaffed approximately 67 days.
- 2. Augment Overtime Budget** – The City Council could infuse an additional \$196,785 into the fire department budget in order to maintain the minimum staffing level of 18 personnel per shift per day.
- 3. Hire Additional Staff** – The City Council could authorize the hiring of additional line personnel in order to transition the cost of maintaining the minimum staffing level of 18 line personnel per shift, from overtime funding at time and half, to straight time funding. However, this option is not feasible in the current budget climate.



CITY OF KIRKLAND

Department of Finance & Administration

123 Fifth Avenue, Kirkland, WA 98033 425.587.3100

www.ci.kirkland.wa.us

MEMORANDUM

To: Marilynne Beard, Interim City Manager

From: Tracey Dunlap, Director of Finance & Administration
Neil Kruse, Senior Financial Analyst

Date: May 25, 2010

Subject: May Sales Tax Revenue Analysis

Positive news again in May, revenue is **up 8.6 percent** compared to May 2009. Sales tax revenue received this month is for activity in March. **Year-to-date** revenue performance is **up 4.9 percent** compared to the same period last year. However, fairly significant one-time field recovery adjustments received this month and last skew both the monthly and annual comparison. Normalizing for these one-time events changes the monthly increase to about 6.9 percent and the year-to-date increase to about 4.1 percent. Receipts year-to-date are about \$250,000 ahead of expectations; however that is about the same amount that gas and electricity utility tax revenues are lagging due to the warm winter weather.

Comparing May 2010 performance to May 2009, the following business sector trends are noteworthy:

- **Auto/gas retail** improved significantly again this month (up 38.3 percent or about \$74,000). Virtually every dealership experienced positive performance compared to the same month last year.
- **Wholesale** is up 76.8 percent (about \$38,000) this month, partially due to the previously mentioned field recovery. However, this sector has also been positively impacted from the streamlined sales tax sourcing rule change and is up about 32 percent factoring out the one-time recovery.
- The **services** sector is up 15.4 percent or about \$19,000 largely due to technology services. This could also be due to development-related activity and from the change in streamlined sales tax sourcing rule.
- **Other retail** is up 10.8 percent for the month (about \$13,000) primarily due to internet/catalog retailers, as well as the reclassification of one retailer from the general merchandise sector.
- The **miscellaneous** category posted the largest decline for the month (down 46.1 percent or about \$35,000) primarily due to a one-time adjustment, but also due to declines in the real estate sector. Factoring out this one-time adjustment, the sector would be down about 23 percent (but the sector would still show the largest monthly decline).
- For the month, the **general merchandise/miscellaneous retail** sector is down 11.2 percent (about \$17,000). Once again, this can be partially attributed to a reclassification of one significant business to a different sector and the impact from streamlined sales tax sourcing rules.
- The **retail eating/drinking** sector remains in negative territory again, down 9.8 percent or about \$10,000.
- **Contracting** is even with the same month last year, up 0.2 percent (about \$350).

Year-to Date Business sector review:

- Trends for retail sectors sales tax revenue remain consistent, collectively up 4.3 percent compared to the same period last year due to the improvement in auto/gas retail and other retail and despite declines in general merchandise/miscellaneous retail and retail eating/drinking.
 - The **auto/gas retail** sector is **up 18.5 percent** compared to the same period last year. As mentioned in the monthly analysis, sales revenue received this month (for activity in March) was especially strong. All major dealerships are experiencing positive performance over the course of the year so far.
 - **Other retail is up 9.8 percent** compared to the same period last year due to electronics, furniture, health care, and internet retailers, and despite significant declines in building and

garden retailers. This sector is possibly an example of the mixed blessing of the impact of the streamlined sales tax rule changes. Revenue from Internet retailers is up, but building and garden retailers is down. The local coding for sales tax revenue is destination-based, so products that are delivered are coded to the delivery location. Products delivered from a building/garden retailer located within Kirkland previously would have been coded to the retail location, but now they would be coded to the delivery location, which may be outside the City. Deliveries made from businesses outside the City to Kirkland homes are now coded to Kirkland. Previously these transactions would have been coded to the business location instead.

- The **general merchandise/miscellaneous retail** sector is **down 11.2 percent** compared to the same period last year. The factors remain the same as previous months: disappointing performance by key retailers, the reclassification of one significant retailer, and the impact of the streamlined sales tax sourcing rule change.
- The **retail eating/drinking** sector is **down 6.6 percent** compared to the same period last year, continuing the negative trend that started during the fourth quarter of 2008. While several restaurants that closed last year remain so, there are several that experienced gains this month, so the sector may be stabilizing.
- **Wholesale** is **up 38.7 percent** compared to the same period last year. The sector appears to benefit from streamlined sales tax sourcing rule changes as well as some potential development activity. However, a significant portion of the increase is due to the previously mentioned field recoveries (almost \$40,000) resulting from Department of Revenue taxpayer audits. Normalizing for these one-time events brings this sector's year-to-date performance to about 22 percent ahead of last year.
- The **services** sector is **up 14 percent** compared to the same period last year, largely due to software, publishing and temporary agency services (all possibly impacted by streamlined sales tax rule changes). The accommodations sector improved compared to earlier in the year, up 4.1 percent compared to the same period last year.
- The **miscellaneous** sector is **up 1.6 percent** compared to the same period last year primarily due to manufacturing, most likely due to changes in streamlined sales tax sourcing rules and despite the significant one-time adjustment mentioned in the monthly analysis. Normalizing for the one-time adjustment, this sector would be about 7 percent ahead of the same period last year.
- The decline in the **contracting** sector continues to diminish compared to the significant declines experienced last year, **down 7.2 percent** year to date. However, compared to the same period in 2007, revenue is down by more than half (52% or about \$742,000).
- The **communications** sector is **down 4.1 percent** compared to the same period last year due to changes in development activity as well as declining revenue from telecommunications companies.

City of Kirkland Actual Sales Tax Receipts

Business Sector Group	January-May		Dollar Change	Percent Change	Percent of Total	
	2009	2010			2009	2010
Services	602,800	687,118	84,318	14.0%	11.9%	13.0%
Contracting	750,885	696,634	(54,251)	-7.2%	14.9%	13.2%
Communications	194,541	186,549	(7,992)	-4.1%	3.9%	3.5%
Auto/Gas Retail	1,012,357	1,199,819	187,462	18.5%	20.1%	22.7%
Gen Merch/Misc Retail	833,539	740,257	(93,282)	-11.2%	16.5%	14.0%
Retail Eating/Drinking	460,776	430,571	(30,205)	-6.6%	9.1%	8.1%
Other Retail	634,754	696,793	62,039	9.8%	12.6%	13.2%
Wholesale	243,168	337,169	94,001	38.7%	4.8%	6.4%
Miscellaneous	316,269	321,324	5,055	1.6%	6.3%	6.1%
Total	5,049,089	5,296,234	247,145	4.9%	100.0%	100.0%

Streamlined Sales Tax Mitigation

The first quarterly 2010 payment of about \$30,000 was received in March. The fixed 2010 quarterly payments were set at about \$32,000. However, the mitigation payment is reduced for sales tax revenue received from businesses participating in the voluntary compliance program. The next payment will be received at the end of June.

Conclusion

While May continues a positive trend, the increases are single-digit compared to the double-digit declines experienced for most of 2009. As a result, even with the positive trends, 2010 revenue is more than \$1.7 million behind 2007 and almost \$1.1 million behind 2008. 2010 revenue was budgeted to remain flat compared to 2009, but actual performance year to date is almost 5 percent ahead. As mentioned earlier, the gain in sales tax revenue is offset by lower than expected utility tax revenue resulting from the warmer than average winter weather (gas/electricity) and lower telecommunications revenue.

Sales tax revenue remains the single largest source of General Fund revenue and therefore creates significant challenges to providing ongoing services when it falls as dramatically as it did last year. The three primary factors that have stabilized this volatile revenue source pose significant risks as well:

1. The auto/gas retail sector has contributed about 75 percent of the dollar gain in 2010 compared to 2009. This sector is especially economically sensitive.
2. Some sectors appear to be impacted from the streamlined sales tax sourcing rule changes (notably wholesale and other retail). These sectors also may be more dependent on discretionary spending and also influenced by development-related activity.
3. Although contracting remains in the negative for the year, it still has improved considerably from last year. The relative improvement is primarily the result of some large projects, several of which are public projects (Lake Washington High School replacement, Downtown Transit Center, and Lake Washington College Allied Health Building). If the general development activity doesn't recover as these projects are completed, this sector could revert to becoming a more significant drain on sales tax revenue.

On a national level, May consumer confidence continued to increase for the third consecutive month to 63.3, compared to April (revised to 57.7). May replaced last month as the highest index number in more than a year and a half—September 2008 was 61.4. The increase was boosted by consumers' outlook over the next six months (one component of the index), which was at its highest level since August 2007, before the recession began. The index reached an all-time low of 25.3 in February 2009.

The Commerce Department announced that the U.S. economy grew at an annualized rate of 3.2 percent for the first quarter of 2010. This compares to the first quarter of 2009, which shrank by 6.4 percent—the lowest point in the deepest recession since the 1930's. Despite three straight quarters of economic growth, the recession still has not been declared officially over. The National Bureau of Economic Research, which determines the lengths of business cycles, said this month that it "would be premature" to set a date marking the end of the recession and the start of an economic expansion. The primary concern is the continuing high unemployment rate. Although job growth has returned, the national unemployment rate remains high, at 9.9 percent as of April (latest available).

Consumer spending was up 3.6 percent (annualized) for the first quarter of 2010. However, there are signs that unstable stock market prices may be impacting consumer spending, especially for big-ticket items. This could create a damper for the recovery.

The May update to the Washington State Economic and Revenue Forecast Council remains consistent with last month. First quarter 2010 economic indicators continue to improve, along with job growth. But, similar to the national situation, the unemployment rate remains high and construction activity is still lagging. They predict that the unemployment rate in Washington State will peak in the current quarter and start improving as the year progresses.

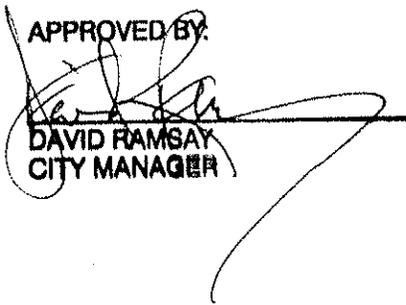

CITY OF KIRKLAND
Department of Public Works

123 Fifth Avenue, Kirkland, WA 98033 425.587.3800

www.ci.kirkland.wa.us
MEMORANDUM

To: Tracey Dunlap, Director of Finance & Administration
From:  Ray Steiger, P.E., Interim Director of Public Works
 Donna Burris, Internal Services Manager
Date: February 12, 2010
Subject: **Internal Services Division Staffing Proposal**

APPROVED BY:


DAVID RAMSAY
 CITY MANAGER

In 2009, the Internal Services Division (ISD) was created bringing together under one umbrella Facilities Maintenance, Fleet Management, and Public Works Maintenance Center Administration. This is a change from the previous structure under Erin Leonhart.

There have been several significant changes to the workload of this division since it was created. Primary among these changes is the responsibility for space needs relative to the newly approved annexation. While this work was anticipated as part of the pending annexation, the planning and implementation needs are currently far greater than the resources available to the ISD Manager. This proposal outlines an approach to securing resources to assist the ISD Manager with annexation-related City facility development.

Due to aggressive management of the Facilities Services budget during 2009, there has been a savings of \$329,000 of which \$20,000 remains earmarked for projects that were started in 2009 but not yet completed. The following are the major areas where we were able to achieve savings:

- Additional reductions in janitorial services above the mandatory reductions
- Performance of repairs and maintenance items in-house, where possible
- Energy conservation measures
- Reduced professional services contract scope
- Reduced overtime and standby needs
- Minimal repairs and maintenance at City Rental Facilities
- Held off on purchases of small tools and minor equipment if the technicians were able to purchase a small part at minimal cost to repair the tool/equipment. Resulted in more time to make repairs but at a cost savings
- Minimal repairs needed at the Fire Stations, Maintenance Center, and North Kirkland Community Center in 2009
- Replacement of equipment through Lifecycle extended the need for repairs or maintenance at some facilities

In addition to savings through the aforementioned areas, the Facilities budget savings also includes \$57,000 that was added to the budget for solid waste collection during the mid-biennial update in late 2009. Facilities Services had already planned, and did, address the solid waste collection in City facilities by other means including rates adjustments until the 2011/2012 budget process. This \$57,000 can be returned to its original funding source.

In an effort to provide the ISD Manager with more time to make the immediate space needs a priority, and yet still manage the ISD effectively, we are proposing the use of funding from 2009 budget savings for one-time expenditures on the following:

1. Increase the Maintenance and Inventory Control position from its current 0.75 FTE to 1.0 FTE level.

This position is approved at 0.5 FTE and an additional 0.25 FTE (temporary component of the position) has been funded with savings in Professional Services from the 2007-2008 biennium; the position is now funded at 0.75 FTE through the end of 2010. Our current proposal would utilize an additional \$40,836 worth of Professional Services funds saved in 2009 to add an additional .25 FTE (\$21,118) which will allow us to complete all of 2010 at full time and 0.5 FTE (\$19,718) for January 2011- May 2011 at full time. At the end of May 2011, the position would revert to 0.5 FTE.

See attachment for current duties performed by Maintenance and Inventory Control position within the 0.75 FTE. Management of the janitorial services has grown to be a major component of the position and needs additional attention. If the Maintenance and Inventory Control position was allowed to revert to 0.5 FTE at the end of 2010, some of the tasks would be assumed by the ISD Manager and the Facilities Technician Lead.

In addition, this position can assume the management of the rental properties which includes the processing of rental property checks, working with the property management company, and tracking rents for processing of Leasehold Excise Tax payments. Some administrative assistance for space needs may be included.

2. Hire a temporary 1.0 FTE Facilities "Project Engineer".

We propose the hiring of a temporary Project Engineer that will be dedicated to Facilities at 1.0 FTE through May 2011; the approximate 14-16 month temporary position would utilize \$141,000 of fund savings from the 2009 budget.

This position will be key to implementing the City facilities long-needed for the Police Department as well as other expanded facilities. Duties assigned would include assisting the ISD Manager through planning and design of City Facilities that include the City Hall expansion/remodel or potentially a separate Public Safety building, expansion of the Maintenance Center Facilities, and various tenant improvements of leased facilities. The position would also assist in the planning and implementation of other interim facilities. The role and responsibilities associated with the position will most closely align with the role and responsibilities that are now required in the Capital Projects Division and held by the Project Engineers.

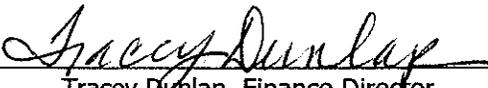
3. Delegate additional duties to from ISD Manager to the Management Analyst.

It is proposed that the Management Analyst will take a greater role in assisting with resource conservation efforts partnering with the ISD Manager. In this capacity, the Management Analyst will be the Public Works Maintenance "Ambassador" on promoting sustainability efforts such as recycling and energy conservation, administration of the Climate Protection Action Plan including tracking and reporting status of greenhouse gas emissions reductions annually to City Council, reporting for Energy Efficiency and Conservation Block Grant (EECBG) and future grants, compiling data for Utility Resource Conservation reports to City Council, and generate Professional and/or General Services contracts, as needed. Proposed

changes will have no financial impact however will require current Management Analyst duties be reprioritized.

2009 Budget savings & surplus solid waste funds	\$ 329,255
Needed to complete projects initiated in 2009	\$ (20,000)
Return of solid waste funds to source	\$ (57,114)
Increase Maintenance & Inventory Control FTE	\$ (40,836)
Hire temporary Facilities Project Engineer	\$ (140,745)
Balance of savings remaining in Facilities budget	\$ 70,560

If you have any questions, please feel free to contact Donna Burris at 425.587.3931 or by email at dburris@ci.kirkland.wa.us. If you concur with this proposal, please sign below and this will be forwarded to the City Manager Office for their concurrence.

I concur 
Tracey Dunlap, Finance Director

2/17/10
Date

I concur _____
David Ramsay, City Manager

Date

Attachment

Inventory Maintenance Control .50FTE (.75 FTE 2009-2010)

Manage work order system:

- Convert email request to a work orders & track cost
- Close out work orders when work is complete.
- Track inventory of janitorial supplies, lighting, HVAC filters
- Manage card key system
- Track and issue building keys
- Maintain Preventive Maintenance scheduling

Purchasing:

- Janitorial supplies
- Office supplies
- Lighting
- HVAC filters
- Misc. supplies

Bill Paying/IFAS

Issue and track all purchase orders distributed. Pay utilities bills for all outlying buildings as well as all invoices for supply and repair parts purchased.
Reconcile Visa statement

Utility Tracking:

Track the cost of all utilities (Water, Sewer, Storm, Gas, Electric) for budget purposes.

Additional duties as assigned:

Manage the janitorial contract
Assist with any budget preparation as needed
Manage Nextel phone systems
Maintain filing systems
Assist with any special projects as needed
Back up phones and front counter at MC as needed

**CITY OF KIRKLAND****Planning and Community Development Department**

123 Fifth Avenue, Kirkland, WA 98033 425.587.3225

www.ci.kirkland.wa.us

MEMORANDUM

Date: May 25, 2010

To: Marilynne Beard, Interim City Manager

From: Paul Stewart, Deputy Planning Director
Eric Shields, Planning Director

Subject: Annexation Area Shoreline Master Program Budget Request
(File No. ZON06-00017)

Recommendation

City Council authorize \$13,750 for environmental consulting services, public notice and public involvement from the Council Special Projects Reserve to incorporate the annexation area into the City's Shoreline Master Program.

Background

The City recently completed its update to the Shoreline Master Program (SMP) as required by state law and has submitted it to the Department of Ecology (DOE) for final review and approval. DOE action is anticipated to be completed by the end of June, 2010.

King County is moving ahead with its own SMP and it is expected to be completed by the end of 2010 or early 2011. We have been advised by DOE that absent a Kirkland SMP on the date of annexation, the County's SMP would be in effect. Staff would recommend that it would be best if Kirkland's SMP for the annexation area is completed and in place by the June 1, 2011 effective date. This would enable the City to have a consistent set of regulations and procedures throughout the city. As a result it would minimize confusion and save time and costs for both permit applicants and staff by not having to review applications under the County's SMP rules. Otherwise the City would be implementing and administering the County's SMP.

Staff has already begun preliminary work in preparation of incorporating the annexation area into the City's Shoreline Master Program. Given the estimated time of one year needed to prepare the SMP for the annexation area and for the Department of Ecology to review, hold a public hearing, submit comments, and approve the SMP, we need to begin that process now in order to complete it by June 1, 2011.

In order to complete the work, staff would need \$13,750 in funding for environmental consulting services, public notice and public involvement. A fiscal note prepared by the

Memo to Marilynne Beard
 May 25, 2010
 Page 2 of 2

Finance Department is included as Attachment A. The costs are broken down as noted below:

\$12,550	Shoreline Environmental Consulting (The Watershed Company & Stacy Clauson, Shoreline Planner)
<u>\$ 1,200</u>	Mail out notice to property owners.
\$13,750	

Due to budget constraints, this is an adequate, but "bare bones" approach. Much of the baseline work was done when the City did the inventory and characterization report in 2006. In anticipation of the possibility of annexation, we included the annexation area in this study. However additional work is required.

Environmental consulting expertise is needed to have a sufficient and science-based SMP. The primary tasks for professional services involve:

- Determining the shoreline environment designations.
- Amending the Restoration Plan.
- Revising the Cumulative Impact Analysis.
- Reviewing the regulations (piers, bulkheads, setbacks, etc.).
- Attendance at public meetings (Planning Commission and City Council) and the public hearing before the Planning Commission.

With the exception of some multi-family housing near Juanita Beach and the O.O. Denny Park, the annexation shoreline area is all single family homes. Since we already have the basic SMP framework in place, the effort need not be as extensive as was needed for the City's SMP.

In order to minimize costs, one public workshop and one public hearing would be held. Staff would maintain a web page and prepare informational materials. If desired, additional public events with mail-out notice could occur but would run about \$1,000 - \$2,000 per meeting.

FISCAL NOTE

CITY OF KIRKLAND

Source of Request							
Paul Stewart, Deputy Planning Director							
Description of Request							
Request for \$13,750 from the Council Special Projects Reserve for environmental consulting services, public notice and involvement to incorporate the annexation area into the the Shoreline Master Plan.							
Legality/City Policy Basis							
Fiscal Impact							
One-time use of \$13,750 of the Council Special Projects Reserve. The reserve is able to fully fund this request.							
Recommended Funding Source(s)							
Reserve	Description	2010 Est End Balance	Prior Auth. 2009-10 Uses	Prior Auth. 2009-10 Additions	Amount This Request	Revised 2010 End Balance	2010 Target
	Council Special Projects Reserve	271,960	136,676	80,000	13,750	201,534	247,900
2009-2010 Prior Authorized Uses of this reserve include: \$2,000 for Council Retreat facilitator, \$26,000 for federal lobbyist services, \$25,000 for Neighborhood Connections program, \$20,000 for Hopelink's relocation, \$13,770 for the Flexpass alternative program, \$5,000 for Council requested special investigation, \$12,506 for the Bank of America review, \$12,400 for Medical Transport consultant fee and \$20,000 for Parkplace Development agreement legal/financial services. 2009-10 Prior Authorized Additions include: \$80,000 transfer from General Fund approved by Council on April 20, 2010.							
Revenue/Exp Savings							
Other Source							
Other Information							
Prepared By	Neil Kruse, Senior Financial Analyst				Date	June 1, 2010	

<p>Updated Schedule 2011-2012 Budget & 2011-2016 CIP Timeline Council/Finance Committee Key Dates</p>
--

MAY

2011-2016 CIP Presentation at Council Meeting	May 18
---	--------

JUNE

Core Services Exercise to Council (provided at meeting)	June 15
---	---------

Council Input on Core Services Exercise Due	June 30
---	---------

JULY

Annexation Service Package Discussion at Special Study Session	July 20
--	---------

August

Core Services Discussion at Special Study Session	August 4
---	----------

SEPTEMBER

Public Hearing on Proposed Revenue Sources	September 21
--	--------------

Public Hearing on 2011-2016 CIP	September 21
---------------------------------	--------------

Regular Finance Committee Meeting – Budget Update	September 28
---	--------------

OCTOBER

Finance Committee Review of Budget Issues and Process (Special Meeting)	October 12
--	------------

City Manager’s Proposed Budget to City Council and Public	October 21
---	------------

Regular Finance Committee Meeting – Budget Update	October 26
---	------------

Council Budget Work Session (3 – 9pm)	October 28 (Thurs)
---------------------------------------	--------------------

NOVEMBER

Council Study Session	November 2
-----------------------	------------

Potential Public Hearing for Budget Input	November 2
---	------------

Council Study Session	November 8 (Mon) if needed
-----------------------	----------------------------

Public Hearing on Proposed 2011-2012 Budget	November 16
---	-------------

Preliminary 2011 Property Tax Levy	November 16
------------------------------------	-------------

DECEMBER

Budget Adoption & Final Property Tax Levy	December 7
---	------------

2011-2016 CIP Adoption	December 7
------------------------	------------

ORDINANCE NO. 4247

AN ORDINANCE OF THE CITY OF KIRKLAND AMENDING THE BIENNIAL BUDGET FOR 2009-2010.

WHEREAS, the City Council finds that the proposed adjustments to the Biennial Budget for 2009-2010 reflect revenues and expenditures that are intended to ensure the provision of vital municipal services at acceptable levels;

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

Section 1. The Mid-year 2010 adjustments to the Biennial Budget of the City of Kirkland for 2009-2010 are hereby adopted.

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

<u>Funds</u>	Current Budget	Adjustments	Revised Budget
General	121,032,104	272,311	121,304,415
Lodging Tax	791,648	0	791,648
Street Operating	9,577,812	0	9,577,812
Cemetery Operating	210,362	0	210,362
Parks Maintenance	2,227,124	0	2,227,124
Recreation Revolving	2,890,797	0	2,890,797
Contingency	2,598,660	0	2,598,660
Cemetery Improvement	586,574	0	586,574
Impact Fees	4,151,098	0	4,151,098
Park & Municipal Reserve	11,528,172	0	11,528,172
Off-Street Parking Reserve	217,610	0	217,610
Tour Dock	126,275	0	126,275
Street Improvement	2,833,503	0	2,833,503
Grant Control Fund	222,924	0	222,924
Excise Tax Capital Improvement	22,396,187	0	22,396,187
Limited General Obligation Bonds	2,585,729	0	2,585,729
Unlimited General Obligation Bonds	2,687,388	0	2,687,388
General Capital Projects	42,989,570	359,567	43,349,137
Grant Capital Projects	18,307,402	23,000	18,330,402
Water/Sewer Operating	46,202,650	0	46,202,650
Water/Sewer Debt Service	3,505,639	0	3,505,639
Utility Capital Projects	18,399,331	0	18,399,331
Surface Water Management	12,946,027	0	12,946,027
Surface Water Capital Projects	11,238,517	0	11,238,517
Solid Waste	18,578,902	0	18,578,902
Equipment Rental	13,599,185	0	13,599,185

<u>Funds</u>	Current Budget	Adjustments	Revised Budget
Information Technology	10,167,580	0	10,167,580
Facilities Maintenance	9,373,036	0	9,373,036
Firefighter's Pension	1,634,077	0	1,634,077
	<u>393,605,883</u>	<u>654,878</u>	<u>394,260,761</u>

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

Passed by majority vote of the Kirkland City Council in open meeting this 15th day of June, 2010.

Signed in authentication thereof this 15th day of June, 2010.

MAYOR

Attest:

City Clerk

Approved as to Form:

City Attorney

Adjustment Type	Dept.	Description	Adjustments	Appropriation Adjustment	Funding Source				Funding Source Notes
					Internal Transf./Chrg.	Reserves	Resources Forward	External Revenue	
General Fund									
Housekeeping	PCD	Shoreline Master Plan-Annexation Area	13,750	13,750		13,750			Council Special Project Reserve
Other Adjustment	CM	Cultural Council Staffing Support	14,500	14,500				14,500	4Culture Grant-King County/ARRA Grant from NEA
Other Adjustment	CM	Artist Brochure	7,000	7,000				7,000	Community Trade & Economic Development Grant
Other Adjustment	HR	e-CityGov Staffing Backfill	9,984	9,984				9,984	External Revenue
Other Adjustment	PK	Parks Disposal Bags and Signage	9,000	9,000				9,000	King Conservation District Grant
Other Adjustment	PK	Green Kirkland Environmental Stewardship Program	26,077	26,077	26,077				Green Kirkland CIP
Other Adjustment	PCD	Tree Canopy Analysis	10,000	10,000				10,000	Department of Natural Resources Grant
Other Adjustment	PCD	Expedited Plan Review Program-Internal Staffing	2,000	2,000				2,000	Expedited Review Revenue
Other Adjustment	PD/FB	Public Safety Equipment	150,000	150,000				150,000	Community Oriented Policing Services Grant
Other Adjustment	FB	Emerg. Prep. Sheltering/Volunteer Mgt. Program Development	30,000	30,000				30,000	Emergency Management Performance Grant
General Fund Total			272,311	272,311	26,077	13,750	-	232,484	
OTHER FUNDS									
General Capital Projects Fund									
Housekeeping	IT	Permit Plan Replacement-additional funding	200,000	200,000		200,000			Technology Major Systems Replacement Reserve
Housekeeping	PW	2009 Annual Striping Program CST 0980-additional funding	9,567	9,567		9,567			Street Improvement Reserve
Housekeeping	FB	Public Safety Equipment	150,000	150,000				150,000	Community Oriented Policing Services Grant
General Capital Projects Fund Total			359,567	359,567	-	209,567	-	150,000	
Grant Capital Projects Fund									
Housekeeping	PW	100th Av. NE/99th Pl. NE Sidewalk CNM 0060-additional funding	23,000	23,000		23,000			Street Improvement Reserve
Grant Capital Projects Fund Total			23,000	23,000	-	23,000	-	-	
Facilities Maintenance Fund									
Other Adjustment	PW	Facilities Staffing	94,033	-					Facilities Expenditure Savings
Facilities Maintenance Fund Total			94,033	-	-	-	-	-	
TOTAL OTHER FUNDS			476,600	382,567	-	232,567	-	150,000	
TOTAL ALL FUNDS			748,911	654,878	26,077	246,317	-	382,484	