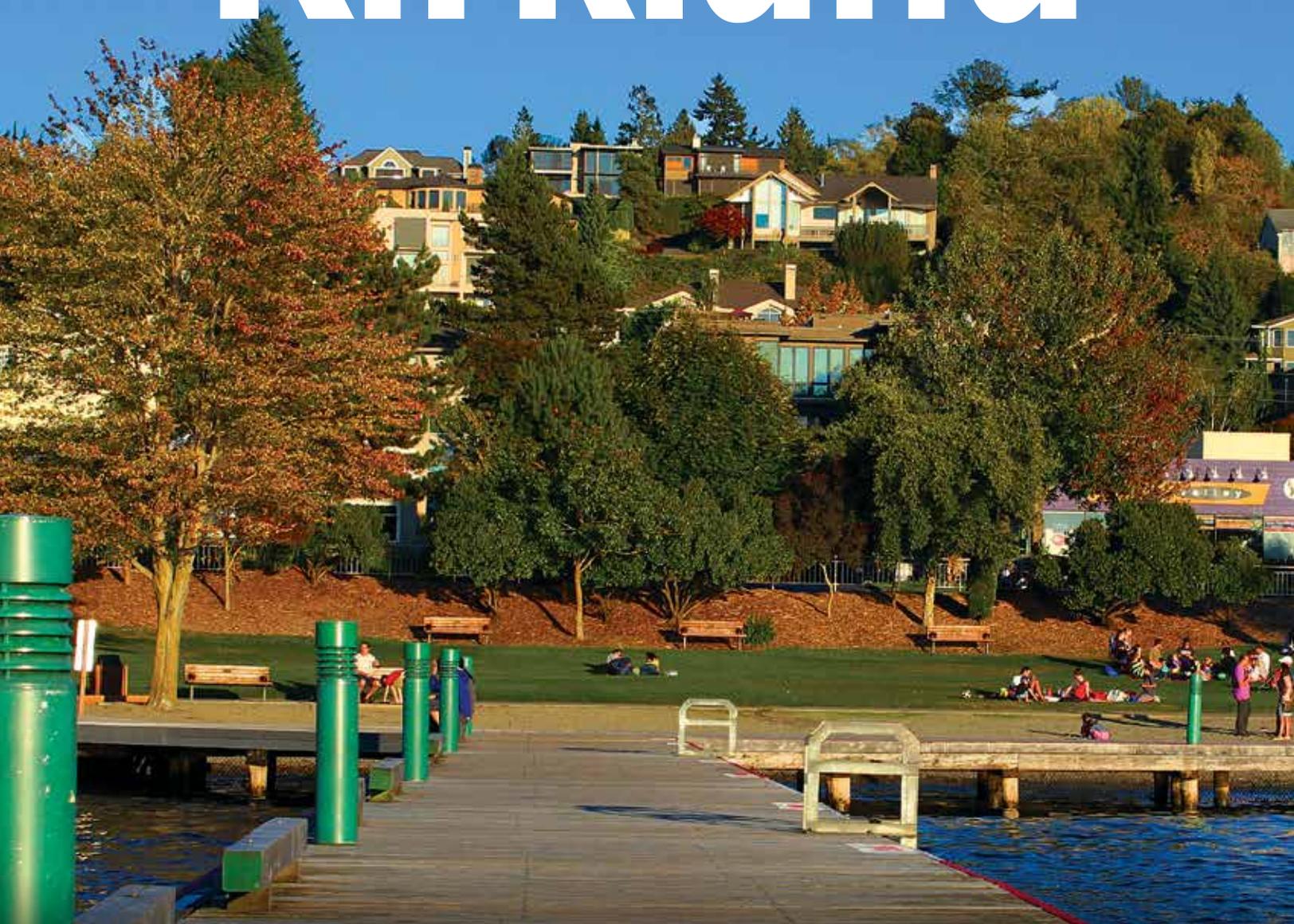


2013-2014 BUDGET

Kirkland



CITY COUNCIL GOALS



ENVIRONMENT



HUMAN SERVICES



PARKS, OPEN SPACES AND RECREATIONAL SERVICES



FINANCIAL STABILITY



ECONOMIC DEVELOPMENT



BALANCED TRANSPORTATION



HOUSING



NEIGHBORHOODS



PUBLIC SAFETY



DEPENDABLE INFRASTRUCTURE



Kirkland at a Glance

Founded	1888
Incorporated	1905
Population	81,480
Elevation	14 to 500 feet
Land Area	18 square miles
Average Temperature	46.8 degrees
Average Annual Precipitation	38.6 inches
Miles of City Streets	254
Miles of City Sewers	116
Miles of Water Lines	173
Residential Dwellings	37,135
City Retail Sales Tax	9.5%
Fire Department Rating Class	4
City Employees (Full-Time Equivalents)	546.08
General Obligation Bond Rating:	
Moody's	Aa2
Standard and Poor's	AAA

City Council

Mayor, Joan McBride ♦ Deputy Mayor, Doreen Marchione ♦ Dave Asher ♦ Toby Nixon
 ♦ Penny Sweet ♦ Bob Sternoff ♦ Amy Walen

Administrative Staff

City Manager
Kurt Triplett

Deputy City Manager
Marilynne Beard

Municipal Court Judge
Michael Lambo

City Attorney
Robin Jenkinson

Director of Finance & Administration
Tracey Dunlap

Director of Fire & Building
Kevin Nalder

Director of Human Resources & Performance Management
James Lopez

Chief Information Officer
Brenda Cooper

Director of Parks & Community Services
Jennifer Schroder

Director of Planning & Community Development
Eric Shields

Chief of Police
Eric Olsen

Director of Public Works
Ray Steiger

The City of Kirkland is located on the eastern shore of Lake Washington. It is a suburban city, surrounded by other suburban cities and pockets of unincorporated King County. The City is near several major transportation routes including Interstate 405, State Route 520, and Interstate 5. These routes connect the City economically and socially to the greater Seattle area.

At the time of incorporation in 1905, the City of Kirkland's population was approximately 530. The current estimated population is 81,480. Kirkland is the twelfth largest city in the State of Washington and the sixth largest in King County.

Since its incorporation, Kirkland has grown in geographic size to eighteen square miles -approximately twenty times its original size. This growth occurred primarily through the consolidation of the cities of Houghton and Kirkland in 1968, the annexations of Rose Hill and Juanita in 1988 and the annexation of North Juanita, Finn Hill, and Kingsgate areas (JFK area) in 2011.

Kirkland operates under a Council-Manager form of government. The City Council is the policy-making branch of Kirkland's government and consists of seven members elected at large to staggered, four-year terms. The Mayor is elected from within the Council. The City Council is supported by several advisory boards and commissions and the City Manager. The City Manager is appointed by the City Council and serves as the professional administrator of the organization, coordinating its day-to-day activities.

The City government offers a full range of municipal services which are provided by eleven operating departments. The City boasts forty-five parks, including eleven that are located on the waterfront, as well as two community centers, a swimming pool, and a teen center. The broad range of recreational facilities provides year-round services for citizens of all ages.

For more information about Kirkland, see the Community Profile on page 477.

*Cover photo taken at Houghton Beach Park, Kirkland, WA

2013 - 2014 Budget

KIRKLAND

WASHINGTON



Tracey Dunlap, P.E.
Director of Finance and Administration

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With special thanks to the following for their extra efforts in producing this document:
Kyle Butler, Christian Knight, Chris Lynch, Michael Olson, Nancy Otterholt, Lindsay Talbott, & Carol Wade.



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CITY OF KIRKLAND

2013-2014 BUDGET

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2013-2014 BUDGET
BUDGET MESSAGE

Dear Council Members and Citizens of Kirkland,

We are proud to present to you the City Manager's proposed 2013-2014 budget. Despite the continued economic challenges faced by the City, the proposed budget is balanced, financially sound and all financial elements necessary to retain our AAA credit rating are funded. All basic government operations are backed with on-going, predictable revenues, significant contributions are made to our reserves, and prudent sinking funds for public safety and technology equipment are established. This budget funds the priorities and vision of our citizens as identified by our community survey and achieves progress on the Goals adopted by the City Council. The City Manager's proposal enhances core public safety programs by funding the construction and operation of our new Public Safety Building for Police and Court services, as well as making significant initial investments in our Fire Strategic Plan. The budget protects our quality of life and the environment while also investing in job creation and economic development. The City Manager's proposal also identifies the street, park, sidewalk and pedestrian safety investments that will be made if the citizens of Kirkland approve Propositions 1 and 2 on November 6th.

These accomplishments are detailed in the budget for every department and program, but we have also organized the summary information much differently than in past budgets. We have done so to respond to requests from the Council to ensure the documents identify how the budget implements community priorities and Council Goals, and also to provide the Council with better information to make trade-offs between program budgets. In the introduction that follows we highlight revenues and expenditures (both reductions and increases), and then categorize all notable investments under the appropriate Council Goal. We also show how the proposed budget addresses the "improvement opportunities" identified in the 2012 community survey. We believe this new structure helps demonstrate to the Council and the public that this budget is responsive, sustainable and moves the City towards achieving the community's vision of Kirkland as an "attractive, vibrant, and inviting place to live, work and visit".

INTRODUCTION

The 2011-2012 biennium represented a time of unprecedented change at the City of Kirkland. Foremost among those changes was the annexation of the Juanita, Finn Hill, and Kingsgate neighborhoods, which increased the City's population and the geographic area served by over 60%. In addition, the 2011-2012 budget reflected continued service level reductions in response to economic conditions, implementation of a number of fund consolidations required by changes in government accounting standards, and included the City's decision to become self-insured for medical benefits. All of these changes render comparisons with past budgets of limited use. Instead, the 2013-2014 budget will set a new baseline for the City of Kirkland looking into the future.

This budget provides the opportunity to recalibrate the projected revenues and service needs, now that the City has been operating in the new neighborhoods since June 1, 2011. In addition, during the upcoming biennium, the City will update a number of strategic planning documents to incorporate the new neighborhoods and set a path for the new, larger City.



This budget was developed under the broad guidance of the 2012 City Work Program item:
Adoption of a 2013-2014 budget that demonstrates efficient, cost effective services.

This item links directly to the Council's goal of **Financial Stability**:
Provide a sustainable level of core services that are funded from predictable revenue.

There are three elements of the proposed budget that reflect policy implementation to further the objective of financial stability and sustainability during this time of slow economic recovery:

- The proposed 2013-2014 budget further implements the 2011 City Work Program item: *Explore **new revenue options** authorized by the state or requiring voter approval.* As part of the pursuit of more reliable revenue sources to support core services and based on community priorities and feedback, the City Council has placed two property tax levy lid lift propositions on the November 2012 ballot: Proposition 1 – Levy for City Street Maintenance and Pedestrian Safety and Proposition 2 – Levy for City Parks Maintenance, Restoration, and Enhancement. The preliminary budget has been constructed assuming that those levies pass, to provide a detailed look at how the funds would be spent.
- In late 2011, the City Council adopted Resolution R-4900 regarding **reserve replenishment** to provide a framework for replacing reserve funds that were used to help mitigate the impacts of the recession. This policy calls for 1% of the General Fund operating budget to be set aside toward reserve replenishments until reserves reach 80% of target (100% for revenue stabilization), which was projected at that time to take at least 7 years to accomplish. The on-going contribution helps make progress on the replenishment, taking the revenue stabilization reserve to 100% of target and the overall General Purpose Reserves to 71.6% of target. Staff is recommending that the reserve fiscal policies be amended to exclude the proposed levies from the reserve target calculation. The basis for this recommendation is that the levies are not intended to burden the General Fund and would be expected to absorb capital over-runs or unexpected operating expenses from levy proceeds.

Staff is also recommending that the Council pass a resolution to suspend the replenishment element restricting the use of unplanned funds until 80% of all targets are met due to the following special conditions:

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

The Finance Committee supports both of these recommendations.

One of the benefits of building reserve replenishment into the operating budget is that it provides a hedge against the eventual expiration of the 10-year annexation sales tax credit in 2021. Assuming reserves will be at target by that time, the operating component of reserve replenishment can be discontinued. This action, taken with the drop in debt service requirements scheduled to occur at that time, should help the City continue current operations, despite the loss of a revenue source that currently generates over \$3.4 million per year.

- A need recognized during the 2011-2012 budget process was the establishment of **sinking funds** for the periodic replacement of public safety and information technology infrastructure equipment. In the past, this need has been met using one-time funds and capital improvement program funds, however, it had competed with other priorities even though it represents a predictable and on-going need. **The preliminary budget reflects the establishment of a sinking fund for these needs, which is described further in an issue paper.**

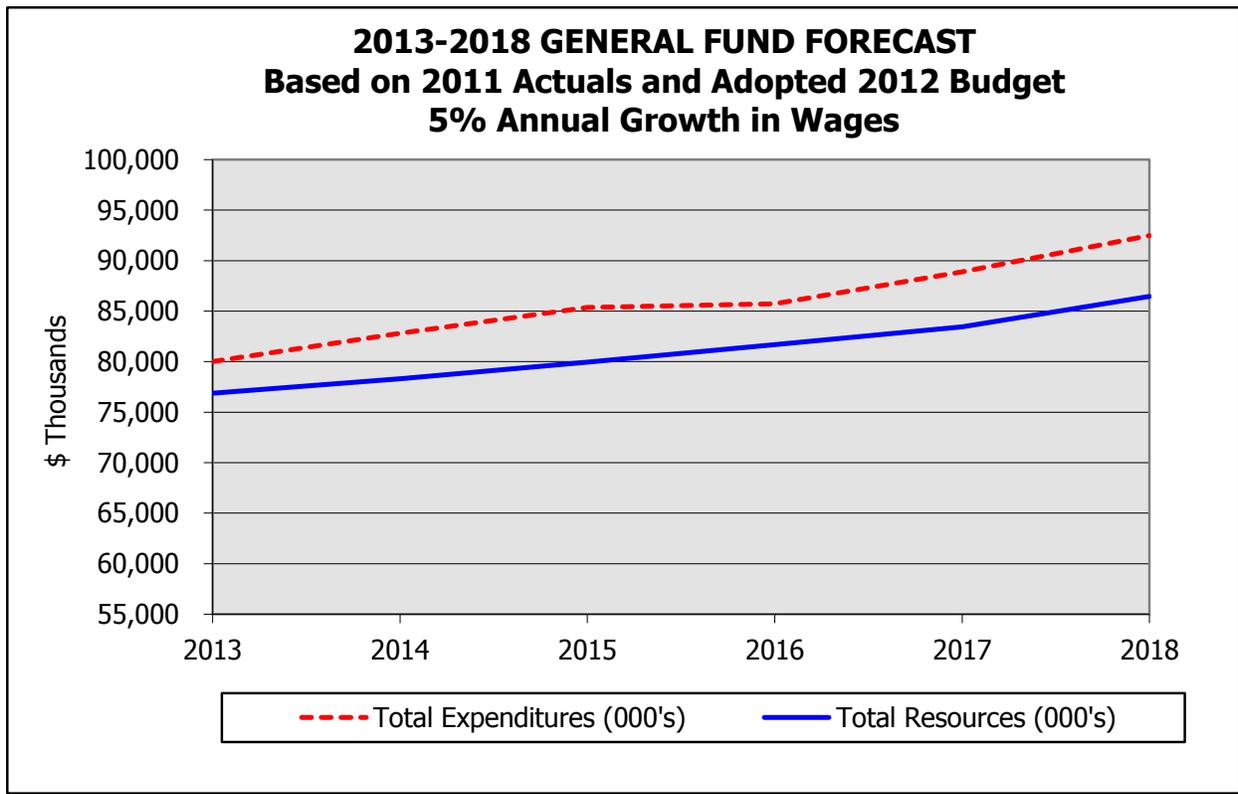
This budget also provides the opportunity to present recommendations in the context of the City Council goals, originally established in late 2009 and updated and reaffirmed in October 2011. The structure of the budget decision-making process and the document itself has been modified to better integrate the

goals and performance measures, with the end result being a suggested preliminary City Work Plan for the upcoming biennium.

Despite these steps to help ensure financial stability, there are always unknowns and uncertainties in any financial projection. The major risk to the sustainability of the proposed budget is the overall health of the U.S. and local economy. On the downside, the City's economic health would be jeopardized if the U.S. economy is thrown back into recession by the impacts resulting from the expiration of tax rate reductions and extended unemployment benefits at the end of 2012, along with the impacts of the looming Federal sequestration. The sequestration is a series of automatic across-the-board spending cuts to certain elements of the Federal budget, scheduled to take effect on January 2, 2013. Potential impacts from these actions on the City may include the reduction of the Build America Bond subsidy by 7.6% (about \$45,000 per year), reduced Federal grant programs including Community Development Block Grants and other public safety and environmental programs, and potential shifts in service provision due to reductions in State funding that would trickle down to local governments. On the positive side, the City's financial outlook could be positively impacted by proposed major developments, such as Park Place and Totem Lake Mall, and decisions of major employers to increase their local presence.

GENERAL FUND TRENDS

The General Fund forecast presented at the City Council Retreat in March 2012 projected a \$7.7 million shortfall for the 2013-2014 biennium.



	2013	2014	2015	2016	2017	2018
Total Resources (000's)	76,882	78,302	79,964	81,677	83,441	86,453
Total Expenditures (000's)	80,026	82,814	85,376	85,742	88,900	92,481
Net Resources (000's)	(3,144)	(4,512)	(5,412)	(4,065)	(5,459)	(6,027)
Biennium Total (000's)	(7,656)		(9,477)		(11,486)	

The 2013-2014 shortfall projected at that time was driven by the following major assumptions:

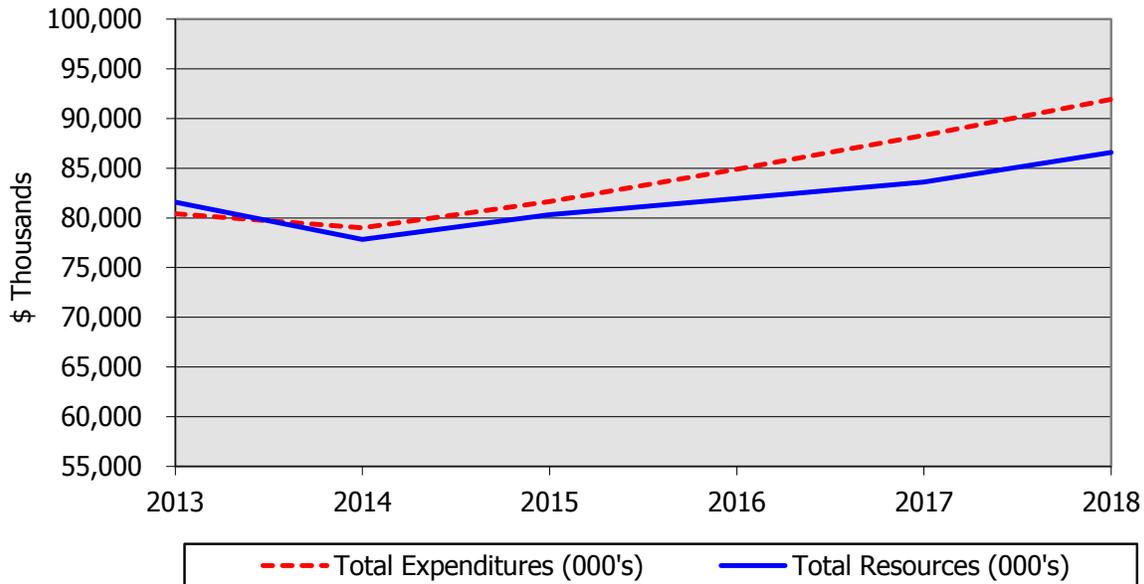
- Revenue collections from the new neighborhoods falling significantly below projections, especially in the area of sales taxes, where actual receipts were approximately one-third of the estimated amount that King County had provided during the annexation process.
- Telecommunications utility taxes falling below expectations, both in revenues from the new neighborhoods and the continuing decline due to changes in usage patterns and exemptions of certain services legislated by the Federal government.
- Assumed growth in salaries at 5% (2.5% for raises, 1.5% for steps/longevity, and 1% for market/other adjustments) and benefit cost growth of 7%. These assumptions were reduced from past forecasts to recognize the City's focus on controlling wage and benefit cost growth.
- Reserve replenishment at 1% of the General Fund budget, consistent with the City's fiscal policies.
- All vacant positions approved for annexation would be filled.

In developing this proposed budget, a number of actions were taken to address the projected shortfall and present a balanced budget for 2013-2014:

- Revise revenue projections, which closes the gap by approximately \$2.4 million, reflecting improvements in economic activity,
- Recalibrate new neighborhood public safety service level requirements based on actual experience, a reduction of \$1.9 million and 6.5 vacant FTEs,
- Reprioritize service levels in selected areas, with a focus on maintaining as much direct service to the public as possible, resulting in a reduction of \$1.6 million and 7.1 FTEs (5.6 vacant positions and 1.5 filled positions),
- Identify efficiencies, process improvements, and other refinements within the existing budget, resulting in a savings of \$1.0 million,
- Move away from inflation-based salary increases in selected labor contracts, resulting in slower cost growth, reducing the projection by approximately \$0.5 million,
- Recognize funds available from savings in 2011-2012, primarily due to positions held vacant throughout the City and lower than projected jail contract costs for inmate housing.

The revised forecast on the following page reflects a balanced budget for 2013-2014, although there is still a structural imbalance in subsequent years due to the underlying mismatch between predictable growth in revenues and the rate of cost increase to provide City services. The gap is smaller than it was in the prior forecast, due to actions taken to balance this budget and the City's continued focus on "bending the cost growth curve" to a more sustainable level.

**2013-2018 GENERAL FUND FORECAST
Based on Preliminary 2013-2014 Budget
5% Annual Growth in Wages**



	2013	2014	2015	2016	2017	2018
Total Resources (000's)	81,572	77,842	80,323	81,950	83,625	86,584
Total Expenditures (000's)	80,420	78,994	81,640	84,889	88,320	91,940
Net Resources (000's)	1,152	(1,152)	(1,317)	(2,938)	(4,694)	(5,356)
Biennium Total (000's)	0		(4,255)		(10,050)	

BUDGET SUMMARY

In keeping with the biennial budget format, most of the descriptions and comparisons presented in the budget reflect two-year totals. In some cases, annual changes are shown to illustrate trends.

The total biennial budget for 2013-2014 is \$540.4 million which is a 13.5% increase from the 2011-2012 budget of \$476.1 million. Factors contributing to the change include:

- The full two-year cost of providing services in the new neighborhoods,
- Increases in health benefit costs, which appear both in the operating funds and the medical self insurance internal service fund,
- The assumed program enhancements that would be funded by the proposed Street and Park voted levy lid lifts, if successful, which are budgeted in both the operating and capital funds and account for the large percentage increase in "Other Operating",
- Construction of the Public Safety Building and occupancy in mid-2014,
- Costs associated with setting up sinking funds for Public Safety and Information Technology equipment, which appear in both the General Fund and the Non-Operating capital fund,
- Increases in expected revenues from Real Estate Excise Tax (REET), impact fees, and lodging tax due to the improving economy,

- Water, sewer, and solid waste rate increases and a full year of revenues from the new neighborhoods in the surface water and solid waste utilities,
- An accounting change that results in the City utility tax appearing in both the utility funds and the General Fund, which duplicated the revenues in the budget but did not increase costs to ratepayers.

The following table shows the relative change in the budget's major components:

	2011-12 Budget	2013-14 Budget	% Change
GENERAL GOV'T			
General Fund	161,231,911	171,895,906	6.6
Other Operating	18,604,602	27,609,860	48.4
Internal Service Funds	57,181,149	68,510,621	19.8
Non-Operating Funds	113,823,171	121,974,625	7.2
UTILITIES			
Water/Sewer	66,961,952	77,839,643	16.2
Surface Water	33,193,878	39,895,988	20.2
Solid Waste	25,102,501	32,634,724	30.0
TOTAL BUDGET	476,099,164	540,361,367	13.5

The general fund budget totals \$171.9 million, which represents a two-year increase of 6.6% over the previous two-year period. Much of the increase in the General Fund is driven by the full two-year cost of serving the new neighborhoods, growth in wage and benefit costs, establishing equipment sinking fund reserves for public safety and information technology, and funding service packages.

The typical focus for the Council's budget discussion relates to the operating budget which accounts for basic services to the public. The most important (and largest) component of the operating budget is the General Fund which accounts for the majority of general government services and most of the City's general purpose revenue sources. The following sections describe overall revenue and expenditure trends that influenced this budget recommendation and provide a context for understanding this budget and for future financial planning decisions.

REVENUE TRENDS

The revenue trends in 2011-2012 reflected two dynamics:

- The stabilizing of base revenues after the steep decline during the "Great Recession", albeit at a considerably lower level than the peak in 2007, and
- The addition of the revenues from the new neighborhoods, which began slowly after the effective date in June 2011, with the majority of revenue sources not reaching predictable levels until the early part of 2012.

The addition of those revenues made property taxes the largest General Fund revenue source. Given uncertainties in the economy, the assumptions for revenue growth reflect caution, but assume a return to moderate growth after several years of decline.

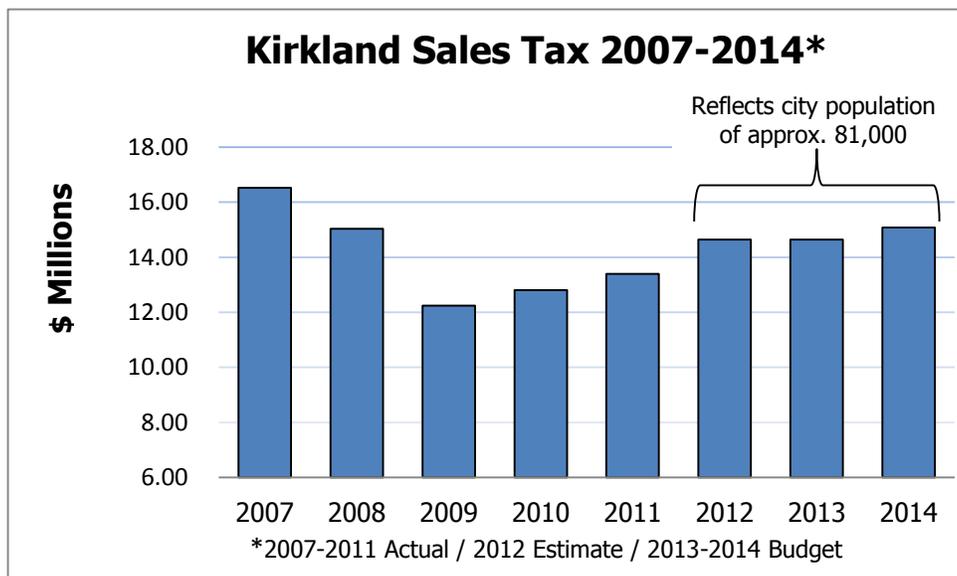
No increases in tax rates are reflected in the preliminary budget, except for the 1% optional increase in property tax and the voted levy lid lifts described below. Selected fee increases recommended by staff are highlighted later in this section. The budget also reflects proposals to extend the suspension of impact fees for changes in use and to provide some level of relief from the City's revenue generating regulatory license fee for new small businesses, as discussed further below. Implementation would require action by the full City Council.

Property tax is currently the largest source of revenue for the operating budget and supports services in the General Fund, Street Operating Fund (117) and the Parks Maintenance Fund (125). A one percent increase in new construction is assumed along with a one percent optional increase in the levy, consistent with the assumptions used in the long-term forecasting model. Note that with the annexation, three City property tax rates apply to different areas of the City, with the pre-annexation City paying for existing voted debt, those previously served by Fire District 41 paying a tax component toward the District's remaining debt, and those previously served by Woodinville Fire and Rescue paying only the base rate.

For the Parks Maintenance Fund, property tax is the sole source of income which is legally restricted to new construction growth plus one percent. Historically, the growth in revenues has not been sufficient to offset the growth in costs, resulting in service level adjustments and/or some level of general fund subsidy. The maintenance of parks in the new neighborhoods is budgeted in this fund in recognition that the existing base levy paid throughout the City includes this component.

In addition, the preliminary budget assumes that the two ballot propositions on the November General Election ballot are successful. Passage of the measures would add \$0.204 per \$1,000 of assessed valuation to the property tax rate for street maintenance and pedestrian safety and \$0.16 per \$1,000 of assessed valuation for parks maintenance, restoration, and enhancement. If the levies pass, the street levy revenues will be accounted for in the City's existing Street Operating Fund (117) and a new 2012 Parks Levy Fund (128) will be created to account for the new parks operations and maintenance revenues. The capital projects funded with the Parks Levy are shown in the capital funds (310/320) in the preliminary budget; however, the final budget may change to reflect the revenues passing through Fund 128 for ease of reporting. Note that the Parks Levy includes funding to allow the Finn Hill Park District to cease operations, which would eliminate that component or portion of property tax in that area of the City. In the event that the levies do not pass, the assumed revenues and program costs would be removed in the final budget adopted by the Council.

Sales tax revenue has been volatile over the past few years, but appears to be stabilizing and shows signs of improvement. The following chart shows a comparison of sales tax revenue from the high point in 2007 through the budget projections for 2014. Note that the decrease in revenues from the 2007 peak of \$16 million to the 2010 trough of \$12 million represents a \$4 million dollar decline. The increase in 2012 and subsequent projections is due in part to the addition of revenues from the new neighborhoods.



The 2013 budgeted revenues reflect the City's one-year "lag" budget strategy, which sets 2013 sales tax revenues equal to expected 2012 revenues. For 2014, we are projecting a modest increase of 3% from 2013. While this is lower than the State's sales tax forecast that is projecting growth in the 4-5% range, the sustainable budget strategy would argue for caution in assuming such a significant turnaround during these uncertain economic times. At one point in time, the City employed a two-year lag strategy, which represents an even more conservative approach. Returning to the two-year lag would result in removing \$440,000 from the revenue assumptions for 2014. This strategy would be challenging given the changes in revenues during 2011-2012 related to annexation and might be best considered if revenues significantly stabilize and once the overall financial picture improves.

Utility taxes represent another large General Fund revenue source. Changes in budget estimates from one year to the next reflect anticipated changes in utility rates and potential variations in consumption. Revenue changes in this category vary by sector. In general, electric and gas revenues have been relatively stable to growing, while telecommunications revenues have been declining. Electric, gas, and water utility taxes are also significantly impacted by weather conditions. The telecommunications and cable sectors continue to be worth watching as the regulatory environment (and potentially taxing authority) changes to reflect current technology and consumer usage patterns respond to economic conditions.

Business license fees consist of a base fee of \$100 that is shown in the license and permit category and the revenue generating regulatory license fee of \$100 per full time equivalent employee (FTEs), which is shown in the tax category. The revenue for 2013 and 2014 assumes a 2% annual increase in FTEs over 2012 estimated revenues, which is consistent with recent experience. The recommendation of the Finance and Economic Development Committees to provide some level of relief from the City's revenue generating regulatory license fee for new small businesses (10 FTEs or less) for the first year after they open in Kirkland is also reflected in the preliminary budget, effective January 1, 2013. The one-year revenue impact of the change is assumed to be offset by year-end 2012 cash. If the full Council concurs with this recommendation, ordinances will be brought forward to implement this program and to extend the suspension of impact fees for changes in use through 2014.

Development fee revenues in the second half of 2012 have shown significant signs of improvement. The 2012 projections are expected to exceed the 2012 budget, despite the fact that the permits for redevelopment of Park Place did not occur as planned. At the end of 2005, the City established the Development Services reserve to recognize that development revenues associated with building and other activities are often collected in advance of the time that the work is conducted (for example, required inspections may occur in a subsequent budget period). In periods where revenues are reduced, the reserve has been used to help maintain staff to get the work completed and to help retain critical skills. The reserve has been used to backfill shortfalls in 2008 (\$400,000) and 2009 (\$425,000). The preliminary budget assumes that approximately \$1 million in revenues received in 2012 will be set aside for work to be done in 2013 and beyond. The current budget assumes that about \$600,000 of that amount will be expended in 2013-2014 as needed. The reserve has also been augmented with General Fund cash to fund the upcoming development fee and impact fee studies in the next biennium.

Interest income is expected to decline in the next biennium due to the continuation of historically low interest earnings rates. Interest earnings in the 2007-2008 biennium totaled \$9.4 million. Since that time, earnings have declined due to declining interest rates, with 2009-2010 earnings totaling \$4.6 million, and 2011-2012 earning projected at \$2.1 million. Given the Federal Reserve's recent announcement that they expect interest rates to remain at historic lows through 2015, the 2013-2014 budget assumes that interest rates will be between 0.50% and 0.42% for 2013-2014, which is still well above the rate earned in the State Investment Pool (currently 0.18%). Interest income is estimated at \$0.56 million in 2013 and \$0.43 million in 2014, for a total of \$0.99 million for the biennium.

Revenues from **user fees** were evaluated in developing the proposed budget. Consistent with adopted policies, the budget assumes that development and impact fees are increased with inflation. In addition, an inflation-related adjustment to the City's EMS transport fees was approved in October 2012. A new

right-of-way construction inspector position is funded through the extension of the right-of-way use fees through the inspection process of road cuts and repairs made by utility companies and new development. This change is part of the overall City effort to protect the road pavement condition index, which can be negatively impacted by inadequately restored road cuts, which are not currently inspected on a routine basis. **Further discussion of this topic is contained in an issue paper.**

Real Estate Excise Tax (REET) is generated by the sale of real property. During the economic downturn, the State Legislature provided for the use of REET funds for the operations and maintenance of facilities constructed with REET funds for a period of six years. The budget reflects using REET revenues to support some street and parks maintenance during the upcoming biennium.

THE KIRKLAND "PRICE OF GOVERNMENT"

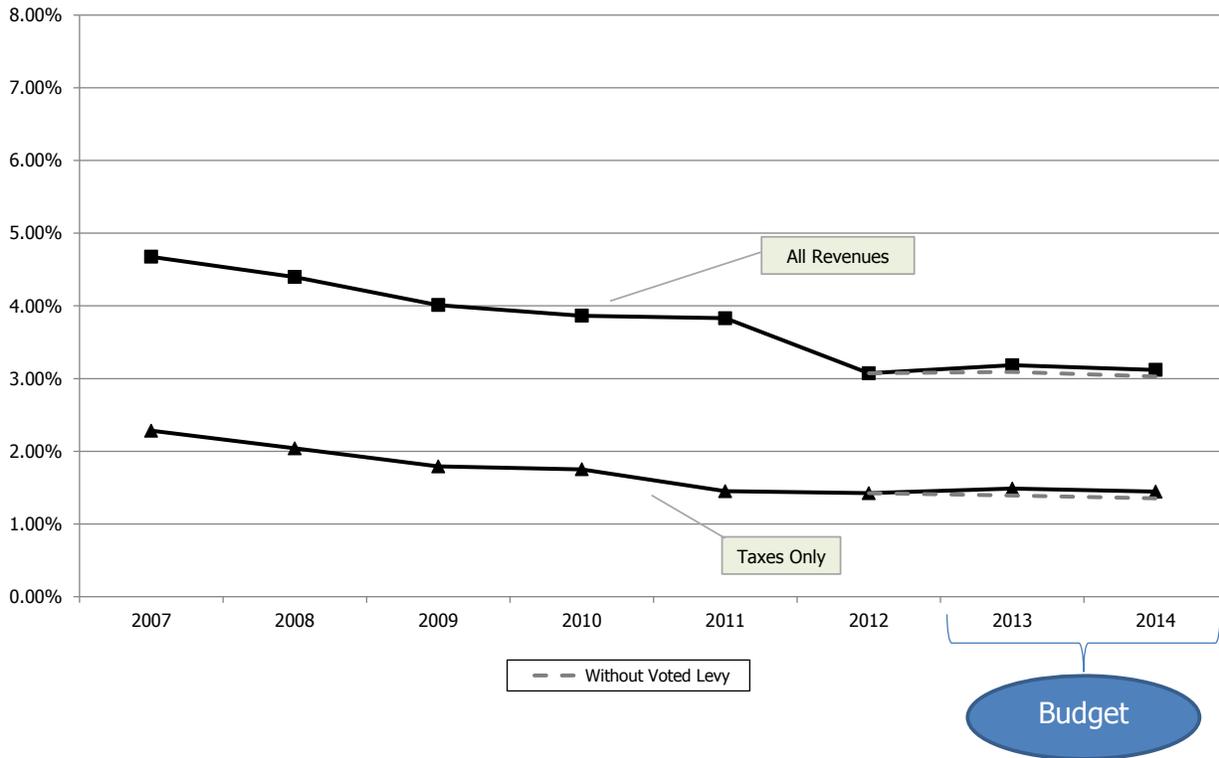
In evaluating these revenue assumptions, one question raised by taxpayers is "how affordable is government"? The "Price of Government" is a measure of this concept used by some jurisdictions as a comparison of the revenues from taxes and fees of the government to the aggregate personal income level of the City's constituents. In general terms, the calculation is used to help define a band in which residents are willing to pay for government services.

The graph that follows shows Kirkland's Price of Government over the past 6 years and the projection for the proposed budget. Over that period, total revenues as a percentage of personal income has slowly decreased from over 4% to approximately 3% in the proposed budget, including the proposed voted levies. The steeper decline in 2011 reflects that the tax and fee revenues that resulted from the annexation did not increase in proportion to the total personal income added.

To provide some context, since this is Kirkland's first time evaluating this measure, the City of Redmond has been tracking its Price of Government and provided the following observations.

"The City of Redmond's total "price of government" has consistently been between 5% and 6%, which is typical for local governments. This approach also illustrates that there can be a deliberate choice about how a community pays for service from the city. If user fees become too large, taxes should be reduced to retain the total target price. Likewise if taxes become too high, there may be resistance by the community to further increases in user fees. This approach does not provide a tool for universal evaluation across cities (even similar cities) as to the "correct" price. Differences in service delivery approaches and expectations make cross city comparisons virtually impossible. The value of this approach is largely with respect to the city's own history."

The Price of Government City of Kirkland, Washington



EXPENDITURE TRENDS

Salary and benefit costs comprise over 64% of the General Fund budget. **Salary cost** increases for two of the City's collective bargaining units, AFSCME and Teamsters, are set for the biennium at 2.5% in 2013 and 0% in 2014. The Police Guild contract is closed in 2013 but open in 2014; all other collective bargaining agreements are open for the biennium. Funds have been set aside in the Nondepartmental budget to be distributed for personnel increases on closed contracts and management & confidential employee (MAC) and in anticipated settlement of the open contracts. The City Manager recommends that the MAC increases be implemented consistent with the AFSCME and Teamsters contracts and the budget reflects that assumption.

Benefit cost increases have grown well in excess of inflation for a number of years. In 2011, the City transitioned to a self-insured medical program to gain more direct control over health benefit costs through proactive health promotion activities and to do so at an affordable price. The City experienced a one-time decrease in cost at the outset of the program, which allowed a separate rate stabilization reserve to be established for the Health Benefits Fund of \$1 million. In 2011, the City's experience resulted in an increase in "per employee per month" costs of 7%, below the former program's increase of 11%. However, in 2012, the program has experienced a higher than average claims pattern, which requires that an additional 13% be set aside toward potential claims liability. This experience is driven in part by a larger number of births to City employees than in prior years, which in turn reflects the hiring of many younger employees to serve the newly larger City. If claims return to a more expected level, the additional funds set aside could add to the rate stabilization reserve. However, if claims continue at an elevated level, some use of the rate stabilization reserve may be required. Now that the City has over 18 months of claims history, an Employee Health Benefits Committee will be convened to help with evaluating patterns and recommending program changes to help manage costs. **More information about this topic is contained in an issue paper.**

One of the objectives of this budget process was to ensure that the City provides efficient, cost effective services supported by predictable revenues. As described earlier, a number of actions were taken to address the projected shortfall and present a balanced budget for 2013-2014, consisting of recalibrations based on actual experience in the new neighborhoods, program reductions in lower priority areas, and efficiencies and process improvements within the base budget. **Specific reductions** are summarized as follows:

- Recalibrate new neighborhood public safety service level requirements based on actual experience, a reduction of \$1.9 million and 6.5 vacant FTEs. The Court and Police Department budgets were based on the assumption that the new neighborhoods would generate an additional 26,000 dispatched calls for service, which would generate a proportionate increase in court cases. In reality, the calls for service increased about 10,500. The following recalibrations are recommended as a result:
 - Reduce second Judicial position (1.0 FTE) and 2.5 FTE Judicial Support Associates and related costs at the Municipal Court (\$723,035)
 - Reconcile projected NORCOM expenses with actual call volumes (\$382,000)
 - Eliminate the additional Narcotics Task Force detective (1.0 FTE), K-9 Officer (1.0 FTE), and Administrative Support Associate (1.0 FTE) (\$812,257)
- Reprioritize service levels in selected areas, with a focus on maintaining as much direct service to the public as possible, resulting in a reduction of \$1.6 million and 7.1 FTEs (5.6 vacant positions and 1.5 filled positions):
 - Reduce additional vacant Neighborhood Outreach Coordinator from 0.5 FTE to 0.1 FTE (0.4 FTE reduction) - \$95,045
 - Reprioritize Economic Development resources to higher priority tasks by changing the Kirkland First model to function as a listserv and discontinue the quarterly dashboard report for the Business Roundtable (\$32,000)
 - Eliminate the Parks Business Services Manager position (1.0 FTE) and redistribute responsibilities (\$257,421)
 - Eliminate vacant 0.5 FTE Urban Forester in Planning and Community Development (\$112,805)
 - Eliminate 0.3 FTE Senior Planner (\$72,888)
 - Sunset the Parking Advisory Board and eliminate the 0.5 FTE Parking Coordinator position (\$126,043)
 - Reduce 2.0 FTE unfilled Police ProAct unit positions on hold from the 2011-2012 budget (\$516,266)
 - Eliminate Fire Wildland Response specialized training (\$23,142)
 - Eliminate the Field Arborist (1.0 FTE) in Parks Maintenance and fund one-time with REET flexibility funds (\$190,040)
 - Eliminate 0.9 FTE Grounds Technician position and the 0.5 FTE Locator positions in the Street Fund (\$215,722) – note that a Laborer position is recommended to be added one-time using REET flexibility revenues
- Identify efficiencies, process improvements, and other refinements within the existing budget, resulting in a savings of \$1.0 million:
 - Rearrange workload and reclassifying positions to lower classifications as circumstances allow, resulting in savings in Finance and Administration of \$50,189 and \$51,503 in Human Resources,
 - Line item expense reductions to reflect efficiencies, changes in business practices, or line item reconciliation:
 - City Council - \$32,610

- Public Works - \$65,015
- Finance and Administration - \$28,816
- Police - \$83,187
- Streets - \$182,250
- Information Technology - \$169,636
- Facilities - \$237,024
- Ensure the Cemetery fund administrative costs are charged to that fund - \$39,120,
- Additional Planning fee revenues due to the assumed increase in fees of 2.7% based on CPI - \$35,995.

As part of the budget process, the City Manager requested that each General Fund department identify ongoing reductions or new ongoing revenues equivalent to 2% and 5% of their normalized budget (excludes internal service charges). The internal service departments and other operating funds, excluding utilities, identified reductions as well. The reductions recommended by the City Manager were taken from this list to present the City Council with a sustainable budget. The recommended reductions total approximately 3.2% of the amount identified on the lists. The full lists are presented in the budget document, to provide a tool for evaluating options and trade-offs based on the Council's deliberations. The City Manager will continue to evaluate each position that becomes vacant to ensure that it is necessary to provide efficient, cost effective services.

Departments also developed 2% and 5% additions (or service packages), so that the City Manager and the Council could evaluate the best use of resources to achieve the City's goals in the short and long-term. The City Manager's recommendations regarding these service packages are summarized in the following sections, including a limited number of one-time funded service packages. The full list and recommendations are summarized later in the budget document.

COMMUNITY AND COUNCIL PRIORITIES

One of the main tools used to assess the **community's priorities** is through the Citizen Survey that the City conducts every two years. The results of the most recent survey (January 2012) were presented to the City Council at the March retreat. The overall results indicated that 85% of those surveyed rated Kirkland as a "very good" or "excellent" place to live. An additional 12% rated the City as "satisfactory". One of the key graphics from that survey is the "Quadrant" analysis, which provides an important basis for prioritizing the proposed budget recommendations. The survey report describes the Quadrant analysis as follows:

"Plotting the importance and performance on a quadrant chart allows items to be categorized in the following ways:

1) High Importance & Performance (top-right quadrant) – *These are the services that residents view as very important and that the City is doing best with. Items in this category should be considered Kirkland's most valued strengths.*

2) High Importance, Low Performance (top-left quadrant) – *Services falling into this category should be viewed as opportunities for improvement. These are the items that residents feel are very important but the City could be doing better with. Improving the services in this quadrant will have the greatest effect in improving citizens' overall favorability of the City.*

3) Low Importance & Performance (bottom-left quadrant) – *Services in this category are low priority items for residents and so lower performance here is not a critical issue for them. Some of these items may be raised by a vocal minority of residents but, for the most part, focusing too much on them will have a minimal impact on improving overall attitudes about the City.*

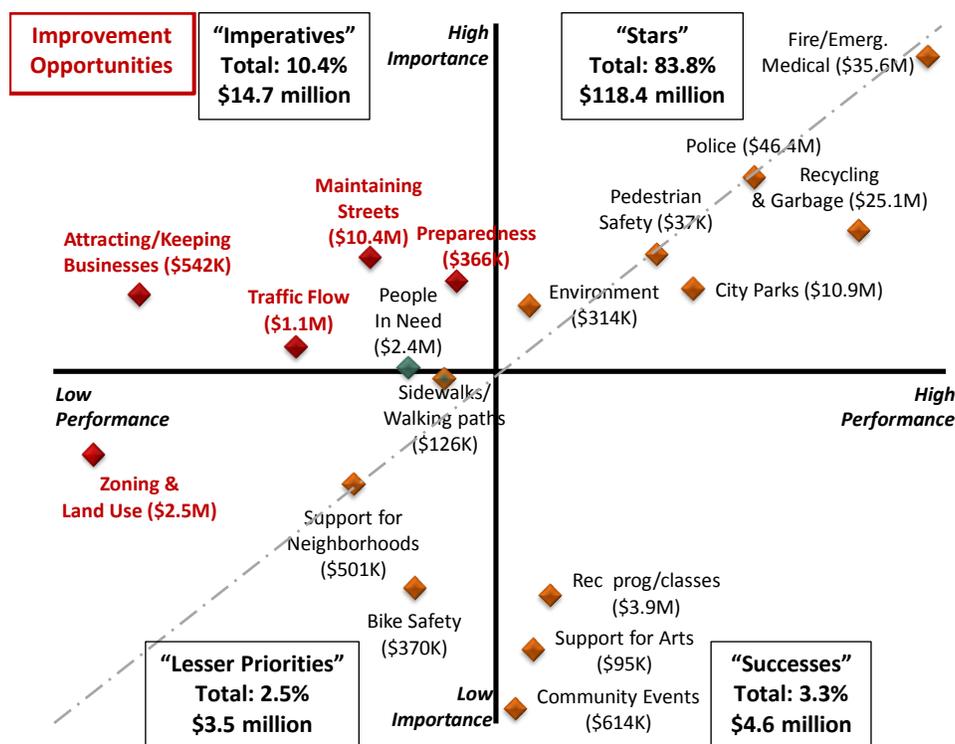
4) Low Importance, High Performance (bottom-right quadrant) – This quadrant represents services that citizens think the City is doing well with but are believed to be less important. While items in this quadrant can be considered successes with certain niche groups, for most citizens, they are not major drivers of the City’s favorability.

The diagonal line overlaying the chart represents where the ideal performance should be relative to the level of importance. Services falling on or near this line are performing optimally compared to how citizens value them. Items significantly left of the line may be potentially valuable improvement opportunities (even if they appear in quadrants 1 or 3) while items far right of the line may result in wasted resources if given too much focus.

This view shows that, overall, many items are exactly where they should be, with appropriate performance levels for their importance. Further, it once again shows that the City is doing well with most of the higher importance items – fire/emergency, police, pedestrian safety, recycling/garbage. **However, this analysis again highlights the critical areas for improvement opportunities -- attracting/keeping businesses, maintaining streets, and managing traffic flow. Zoning and land use is also significantly underperforming but it is less important overall to residents than the other issues.**

These four quadrants can also be referred to as “Stars”, “Imperatives”, “Lesser Priorities”, and “Successes”. The Quadrant chart from the 2012 survey is shown below, augmented by the estimated expenditures on the surveyed services in the 2011-2012 budget.

2012 Survey with 2011-12 Budget



This Quadrant chart provided key guidance on the areas that were opportunities for improvement identified by the community. Many of the recommendations that are summarized below focus directly on those priorities, for example:

<i>High Importance/Low Performance Quadrant</i>	
Attracting and Keeping Businesses	<ul style="list-style-type: none"> • Totem Lake Action Plan items, including further capital investments • Continued review of the tax and regulatory environment to remove barriers to new businesses, for example, the continued suspension of impact fee for change of use and waiver of the RGRL in the first year for small start-up businesses, and zoning changes • Continued investment in the economic development program and in capital projects in the City's business districts
Managing Traffic Flow	<ul style="list-style-type: none"> • Adding resources to focus on implementation of the City's Intelligent Transportation System (ITS) to help improve traffic flow • Additional investments in neighborhood traffic control and pedestrian safety through the proposed Proposition 1 Street Levy
Human Services/People in Need	<ul style="list-style-type: none"> • No reduction to Human Services funding levels • Increased ARCH funding
Emergency Preparedness	<ul style="list-style-type: none"> • Funding of an on-going Emergency Preparedness Manager position
Street Maintenance	<ul style="list-style-type: none"> • Additional investments in street maintenance through the proposed Proposition 1 Street Levy • Addition of the ROW inspector position • Continuation of REET funded maintenance activities, including median upkeep
<i>Low Importance/Low Performance Quadrant</i>	
Zoning and Land Use	<ul style="list-style-type: none"> • Growth Management GMA/EIS Comprehensive Plan update

Another important element of the budget process has been **educating the public and providing opportunities for public feedback**. Earlier in 2012, the City offered a five part Civics Academy to provide information and an interactive forum for participants to ask questions and provide input. In addition, the City is in the process of rolling out a series of videos on City services entitled "KirklandWorks". The most recent video addresses Financial Stability, reflecting how the community's values are reflected in the City's financial management. A new feature on the budget webpage, Budget Bylines, has been introduced to provide easy-to-read summaries of budget-related information and deliberations in a newspaper article style after each Council meeting where the budget is discussed. The City Update newsletter continues to be a resource for addressing frequently asked questions and provide educational information. Public Hearings provide a formal time for the public to provide the City Council with input on the budget. A series of hearings are scheduled, with the first already completed in September and two further opportunities at the November City Council meetings.

KEY RECOMMENDATIONS BY GOAL AREA

The City Manager's recommendations were crafted to address the community and City Council priorities within the context of the City Council goals. The funded service packages, key policy recommendations, and major capital investments are presented within the goal area they primarily support, although many of the recommendations support multiple goals.



NEIGHBORHOODS

The citizens of Kirkland experience a high quality of life in their neighborhoods.

Goal: Achieve active neighborhood participation and a high degree of satisfaction with neighborhood character, services and infrastructure.

- Ongoing funding for Neighborhood Traffic Control program through the Proposition 1 Streets Levy (if passed) - \$300,000
- Filling the additional 0.5 FTE CIP outreach position to enhance communication about projects
- Updating Growth Management Act (GMA) Comprehensive Plan and Environmental Impact Statement (EIS), \$326,000, which includes neighborhood planning
- Establishing opportunity funds for improvements in the new neighborhoods for sidewalks and pedestrian safety



PUBLIC SAFETY

Ensure that all those who live, work and play in Kirkland are safe.

Goal: Provide for public safety through a community-based approach that focuses on prevention of problems and a timely response.

- Completing the Public Safety Building CIP project (\$27.4 million in 2013-2014)
- Commencing operation of the Public Safety Building (One-time and Ongoing)
 - Jail Operations, 3.00 FTE, \$787,102
 - Public Safety Building operations and maintenance (O&M), 1.0 FTE, \$719,583
 - Help Desk Staffing for the Public Safety Building and Network Support, 0.20 FTE, \$51,349
 - **See issue paper for further discussion of the on-going costs for full year operations commencing in 2015**
- Police Strategic Plan, \$100,000
- Establish Police equipment sinking fund, \$250,000 one-time and \$250,000 ongoing
- Municipal Court Security, \$86,076
- Fire Strategic Plan implementation actions:
 - Finn Hill Fire Station Staffing (50% of 12-hour aid car coverage), \$649,130 one-time *[This funding is an opportunity fund to create an initial partnership with Northshore Fire District. The staffing is not likely to be financially sustainable beyond 2014 without a strong economic recovery or some sort of voter approved revenue.]*
 - Policy & Procedure Manual, \$17,000 one-time
 - City Emergency Manager, 1.0 FTE, \$322,814 - Ongoing
 - Senior Financial Analyst to help meet budgeting, financial analysis, and administrative needs in the Fire & Building Department, \$235,781 - One-time
 - Administrative Assistant Reclassification to Administrative Supervisor to help to meet the administrative and supervisory needs of the Fire & Building Department, \$12,089 - Ongoing
- Fire Records Specialist, 0.25 FTE one-time in 2013 to support the EMS transport fee program, \$24,716
- Consolidated Fire Station CIP Project (\$3.9 million in 2013-2014)
- Fire equipment CIP projects (\$431,200 on 2013-2014)
- Establish Fire equipment sinking fund, \$750,000 one-time and \$750,000 ongoing
- Increase EMS Transport Fee with inflation



Kirkland is a diverse and inclusive community that respects and welcomes everyone and is concerned for the welfare of all.

Goal: To support a regional coordinated system of human services designed to meet the special basic needs of our community and remove barriers to opportunity.

- Maintained on-going funding levels for human service agencies at \$1.3 million
- Continued staffing for participation in regional human services initiatives



**BALANCED
TRANSPORTATION**

Kirkland values an integrated multi-modal system of transportation choices.

Goal: To reduce reliance on single occupancy vehicles and improve connectivity and multimodal mobility in Kirkland in ways that maintain and enhance travel times, safety, health and transportation choices.

- Non-motorized Transportation CIP projects totaling \$5.2 million for 2013-2014, including \$3.9 million for the Cross Kirkland Corridor interim trail and Master Plan, sidewalks, and pedestrian safety
- Transportation Engineer, 0.85 FTE, \$186,620 – Funded ongoing from permit revenues and expenditure offsets
- Transportation Engineer - Traffic Signal Operations, 0.75 FTE, \$178,074 to provide ongoing resources to maximize the investment in intelligent transportation system (ITS) technology to improve traffic flow
- Intelligent Transportation System (ITS) Software Support, \$50,000 – Ongoing cost of ITS system,
- Transportation CIP projects totaling \$1.2 million in 2013-2014
- Ongoing funding for Pedestrian Safety improvements through the Proposition 1 Streets Levy (if passed) - \$300,000



**PARKS, OPEN SPACES AND
RECREATIONAL SERVICES**

Kirkland values an exceptional park, natural areas and recreation system that provides a wide variety of opportunities aimed at promoting the community's health and enjoyment.

Goal: To provide and maintain natural areas and recreational facilities and opportunities that enhance the health and well being of the community.

- Parks CIP projects totaling \$3.6 million in 2013-2014, including \$2 million from the Proposition 2 Parks Levy (if passed)
- Boat Launch Pay Station, \$19,500 (\$3,000 – Ongoing)
- Parks Operations and Maintenance (REET Funded) - \$299,928
 - Add a Senior Groundsperson position one-time funded with REET
 - Open restrooms at neighborhood parks
 - Provide seasonal labor to care for the City Cemetery and parks amenities
- Kirkland Performance Center one-time funding, \$68,000
- Ongoing Parks Operations & Maintenance service levels funded from the Proposition 2 Parks Levy (if passed)
 - Restore Maintenance and Operations, 2.5 FTE, \$1,111,575
 - Lifeguards, \$203,182
 - Forest Restoration, 3.0 FTE, \$712,484
 - OO Denny Park Maintenance, 1.0 FTE, \$261,181
 - Edith Moulton Park Renovation, \$5,660 (O&M only)
 - City-School Partnership Projects, \$5,960 (O&M only)
 - Cross Kirkland Corridor Trail Maintenance, 0.75 FTE, \$197,669



The City's housing stock meets the needs of a diverse community by providing a wide range of types, styles, size and affordability.

Goal: To ensure the construction and preservation of housing stock that meets a diverse range of incomes and needs.

- Increasing ARCH Housing Trust Fund contribution from \$432,000 to \$630,000
- Continued support of affordable housing projects in the City, specifically the Transit-Oriented Development at the South Kirkland Park & Ride



Citizens of Kirkland enjoy high quality services that meet the community's priorities.

Goal: Provide a sustainable level of core services that are funded from predictable revenue.

- No basic operations funded by one-time revenues
- Incorporating a component into the on-going budget for replenishment based on 1% of the General Fund budget
- Restoring the revenue stabilization reserve to 100% of target. The table below summarizes the recommended replenishments and target status:

2013-2014 General Purpose Reserves with Targets						
Reserve	Preliminary 2013-2014 Budget Target	2012 Estimated Ending Balance	Planned Additions to/(Use of) Reserves	2014 Estimated Ending Balance	(Under)/Over Target	2014 Ending Balance as % of Target
Contingency	4,401,617	2,201,870	224,555	2,426,425	(1,975,192)	55.1%
General Capital Contingency	5,318,355	3,919,463	-	3,919,463	(1,398,892)	73.7%
General Operating Reserve (Rainy Day Reserve)	4,333,295	2,806,513	-	2,806,513	(1,526,782)	64.8%
Revenue Stabilization Reserve	2,468,068	1,231,431	1,236,637	2,468,068	-	100.0%
Council Special Projects	250,000	189,534	60,466	250,000	-	100.0%
Building and Property Reserve	600,000	2,137,598	(1,566,019)	571,579	(28,421)	95.3%
TOTAL	17,371,335	12,486,409	(44,361)	12,442,048	(4,929,287)	71.6%

Note: Excluding the planned use of the Building and Property Reserve toward the Public Safety Building project would result in the 2014 Ending Balance for General Purpose Reserves being at 80.6% of Target.

- Establishing sinking funds for Public Safety and Information Technology equipment (\$1.5 million one-time and \$950,000 per year on-going), plus setting aside funding for major IT systems replacement (\$500,000 one-time)
- Pursuing new on-going revenue sources to stabilize support of on-going programs, through placement of the levy propositions on the November 2012 ballot for Streets and Parks
- Investing in development of a Performance Management System, \$50,000



We are committed to the protection of the natural environment through an integrated natural resource management system.

Goal: To protect and enhance our natural environment for current residents and future generations.

- Establish adequate rates to support the needs of the Sewer, Surface Water, and Solid Waste utilities, resulting in:
 - 6.82% rate increase in 2013 and no increase in 2014 for Sewer
 - No rate increase for Surface Water
 - 12.89% rate increase for 2013 and no increase in 2014 for Solid Waste
- Financing Sewer utility CIP projects totaling \$5.0 million for 2013-2014
- Financing Surface Water utility CIP projects totaling \$7.1 million for 2013-2014, including a \$5.7 million investment in Totem Lake

- Rain Garden Program (offset with hourly reductions), \$60,000 - Ongoing
- Maintenance Center Office Specialist (offset with reduction), 0.50 FTE, \$88,538 - Ongoing
- Surface Water Equipment, \$79,966 (\$18,880 – Ongoing)
- Ongoing funding for the Green Kirkland program through the Proposition 2 Parks Levy (if passed)



Kirkland has a diverse, business-friendly economy that supports the community's needs.

Goal: To attract, retain and grow a diverse and stable economic base that supports city revenues, needed goods and services and jobs for residents.

- Continued implementation of the Totem Lake Action Plan, including:
 - Market Study of Totem Lake – Comprehensive Plan Update, \$25,000
 - Totem Lake Surface Water capital projects (\$5.2 million in 2013-2014)
 - An additional \$2.9 million in 2013-2014 toward the 120th Avenue road improvement CIP project
- Ongoing Cultural Arts Commission support - \$30,000
- As part of the tax and regulatory review to remove barriers to new businesses:
 - Continued suspension of impact fee for change of use
 - Waiver of the per FTE revenue generating regulatory license fee for new small businesses (less than 10 FTEs) during their first year of operation in Kirkland
- Continued 85th Street Corridor capital investments (\$2.4 million in 2013-2014)
- Setting funds aside to conduct development fee and impact fee studies to reflect the results of the Development Services Organizational Study and the Comprehensive Plan update
- Continued funding of programs with business and development interests, including the Kirkland Business Roundtable and the business retention program
- Lodging tax funding for special events, \$50,000 for 2013



Kirkland has a well-maintained and sustainable infrastructure that meets the functional needs of the community.

Goal: To maintain levels of service commensurate with growing community requirements at optimum life-cycle costs.

- Establishing adequate rates to support the needs of the Water utility, resulting in a 3.37% rate increase in 2013 and 4.87% increase in 2014
- Financing Water utility CIP projects totaling \$5.5 million for 2013-2014
- Financing Street CIP projects totaling \$14.6 million for 2013-2014, including \$6 million from the proposed Roads Levy
- Right-of-way Construction Inspector, 1.0 FTE, \$236,566 – Ongoing from ROW permit fees
- Temporary Laborer (REET Funded), \$200,116 to continue maintenance activities
- Median Maintenance (REET Funded), \$120,000
- Ongoing funding for increased Street Overlay through the Proposition 1 Streets Levy (if passed) - \$5.4 million (includes 1.0 FTE CIP Engineer to manage programs)

In addition to recommendations directly related to the Goal areas, the following service packages are recommended:

Council/City Manager

- State Legislative Advocacy Services, \$96,000 - One-time
- Council Training, Travel & Subsistence, \$26,610 - Ongoing
- Administrative Transition City Manager's Office, \$8,684 - One-time
- Financing initial activities for the City Hall Renovation project totaling \$2.1 million for 2013-2014

Information Technology

- Temporary Service Desk Analyst, \$144,441 - One-time

- Copier & Plotter Replacements, \$131,000 - One-time
- Senior Applications Analyst, \$267,033 - One-time
- IT Network Security staff, \$265,598 - One-time
- Financing Information Technology CIP projects totaling \$2.3 million for 2013-2014
- Establish IT equipment sinking fund, \$500,000 one-time and \$900,000 ongoing

PRELIMINARY WORK PLAN

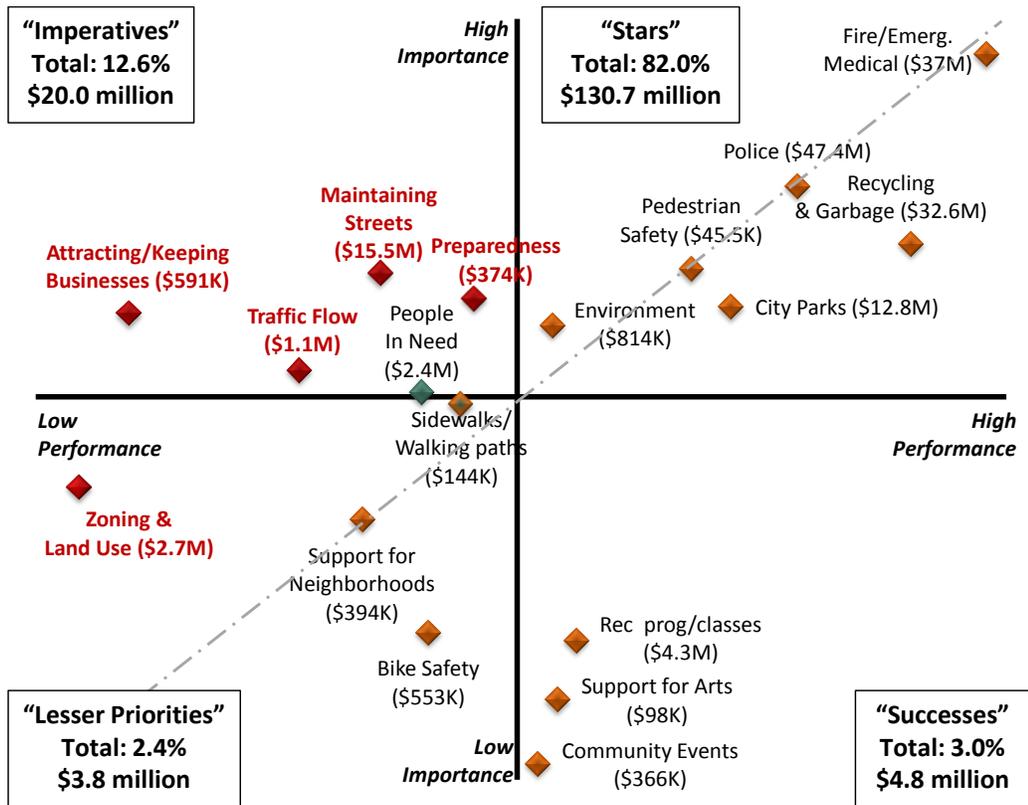
The recommendations suggest the following draft City work plan for the 2013-2014 biennium:

- Complete Master Plan and interim trail on Cross Kirkland Corridor (Council Goals: Balanced Transportation, Parks and Recreation, Economic Development, Neighborhoods).
- Complete construction of the Public Safety Building and bring to full operating capacity (Council Goals: Public Safety).
- Continue implementation of the Fire Strategic Plan recommendations, particularly those related to opportunities for regional cooperation (Council Goals: Public Safety).
- Update City planning documents to incorporate the new neighborhoods and set a course for the new, larger City (Council Goals: Neighborhoods, Balanced Transportation, Parks and Recreation, Diverse Housing, Economic Development, Dependable Infrastructure).
- Develop a City-wide multimodal Transportation Master Plan that defines and prioritizes investments in intelligent transportation systems (ITS), roads, sidewalks, and bicycle paths and redefines traffic concurrency (Council Goals: Balanced Transportation, Infrastructure, Economic Development, Neighborhoods).
- Begin implementation of the results of the Development Services Organizational study and evaluate the impact on development fees (Council Goals: Economic Development).
- Continue partnership initiatives with employees to achieve sustainability of wages and benefits (Council Goals: Financial Stability).
- Continue emphasis on Totem Lake revitalization through the Totem Lake Action Plan (Council Goals: Economic Development, Financial Stability).

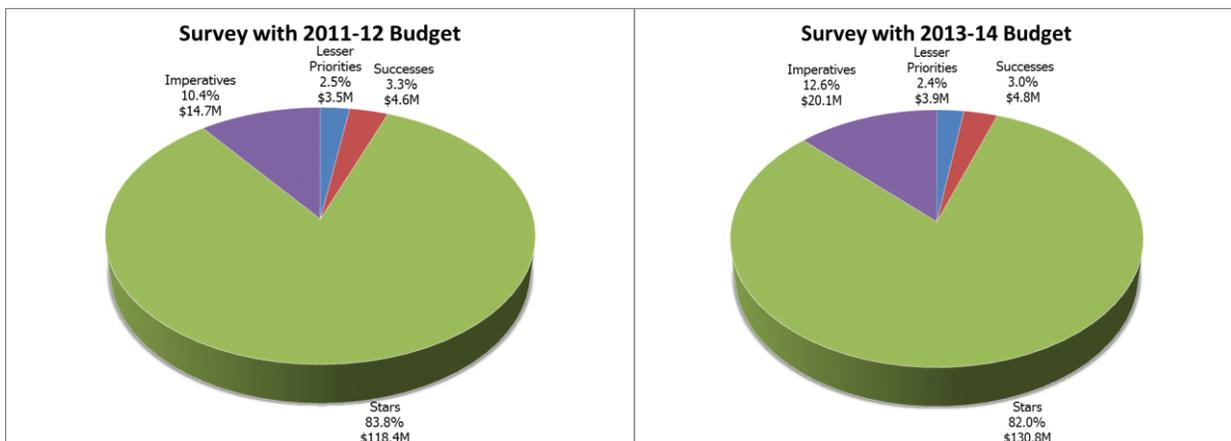
CONCLUSION

The proposed budget is focused on the City Council goals and community priorities. The recommended decisions result in proposed 2013-2014 investments in the services on the "Quadrant" analysis as summarized below.

2012 Survey with 2013-14 Budget



The pie charts on the below show the investments in each quadrant in the 2011-2012 budget versus the proposed 2013-2014 budget. The comparison shows that we have made progress in addressing the “imperatives” in the upper left quadrant, with the share of funding for the surveyed items in this quadrant increasing from 10.4% to 12.6%, or \$14.7 million to \$20.1 million. Although the percentage invested in “stars” decreased from 83.8% to 82.0%, the total dollars invested increased from \$118.4 million to \$130.8 million.



The budget reflects the service levels that will be provided if Proposition 1 – Levy for City Street Maintenance and Pedestrian Safety and Proposition 2 – Levy for City Parks Maintenance, Restoration, and Enhancement pass in the November 6, 2012 election. If those levy lid lifts are unsuccessful, the final budget will be adjusted to remove those revenues and expenditures.

Balancing the 2013-2014 budget required recalibrating the service needs and revenues from the new neighborhoods and prioritizing services to best meet the community's needs within financial constraints. In addition, continuing to replenish reserves that were used during the "Great Recession" and establishing sinking funds for periodic replacement of public safety and IT equipment are measures that help place the City on a more sustainable budget footing. The reductions and service packages identified during the process provide a basis for contingency planning if results are better or worse than projected.

As always, we expect that we will be discussing the budget with the City Council frequently during the biennium and making adjustments as conditions warrant. At a minimum, we expect to provide an update at the Council Retreat in March, with the mid-year budget report in June, and with the mid-biennium budget update in November 2013.

The development of the preliminary budget requires an enormous commitment by the City staff, especially the Financial Planning staff. We have every reason to be proud of the work done day in and day out by all City staff. With the support of the City Council, it is their efforts that make the City work for our citizens and make Kirkland an exceptional place to live.

Respectfully Submitted,



Kurt Triplett
City Manager



Tracey Dunlap
Director of Finance and Administration

POSTSCRIPT

Between October and December 2012, the City Council held a series of study sessions and public hearings to review the 2013-2014 Preliminary Budget proposed by the City Manager. The City Council adopted the 2013-2014 Final Budget on December 11, 2012. Overall, the 2013-2014 Final Budget totals \$543.71 million, which represents a 13.2 percent increase compared to the 2011-2012 Amended Budget. The 2013-2014 Final Budget is summarized in the following table by fund type:

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

The City Council directed the following changes to the preliminary 2013-2014 Budget at the meetings on November 7 and November 20:

- Funding Human Services at the Option #2 level, the Time Bank, and CERT classes on a one-time basis in 2013-2014. The one-time needs identified amount to \$50,814 per year, funded by the use of Council Contingency along with reducing the proposed level of funding for ARCH.
- One-time sales tax revenue resulting from receipts in excess of budgeted levels in October 2012 to be used to replenish reserves as part of the budget adjustment during the first quarter of 2013.

In addition to the Council-directed adjustments to the General Fund discussed above, the Final Budget includes the following adjustments:

- **General Fund** – A series of housekeeping adjustments resulted in a net reduction of \$269,068.
- **Street Operating** – Reflecting the revised revenue estimate from the passage of Proposition 1, a reduction in budget of \$127,254.
- **Park Levy** – Receipting all revenues from the passage of Proposition 2 in the Park Levy Fund and then transferring it to the Capital Improvement Funds to provide a clear segregation of the levy funds for accountability purposes increases the budget by \$2.26 million. This results in the revenues appearing in both the levy fund and the Capital fund.
- **Equipment Rental** – Recognizing a transfer in to fund the purchase of a vehicle as approved in a service package, an increase in appropriation of \$31,000.
- **Excise Tax Capital Improvement** – Recognizing revised revenue estimates, repayment of the interfund loan to purchase the Cross Kirkland Corridor (CKC) in 2012

and the funding of the NE 120th Roadway Extension project (ST 0057) reduces the beginning balance of this fund. The total change is a reduction of \$2.78 million.

- **General Capital Projects** – Recognizing the CIP changes as discussed at the November 20th Council meeting and the adjustments to the Park Levy (Proposition 2) funded project as discussed in the 2013-2018 CIP adoption memo – net addition of \$80,329 in 2013-2014.
- **Transportation Capital Projects** – Recognizing the CIP changes as discussed at the November 20th Council meeting and the adjustments to the Street Levy (Proposition 1) funded project (Street Maintenance and Pedestrian Safety – ST 0006 003) – net addition of \$4.3 million in 2013-2014.
- Reducing interest revenue in 2013-2014 from early repayment of the interfund loan to purchase the CKC:
 - **Utility Capital Projects** – Reduce budget by \$27,743
 - **Surface Water Capital Projects** – Reduce budget by \$27,328
- **Surface Water Management** – Reducing the budget by \$109,000 because the anticipated grant from the Department of Ecology is already included in the 2011-2012 budget.

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

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

One additional action was approved with the Final Budget:

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

In addition to adoption of the Final 2013-2014 Budget by ordinance, Council approved the following actions to implement the budget decisions on December 11, 2012:

- Resolutions suspending the reserve replenishment requirements to recognize special conditions and adopting the updated fiscal policies,
- An ordinance to extend the suspension of impact fees for change of use, and
- An ordinance exempting businesses located within the city limits with 10 or fewer FTEs from the revenue generating regulatory license fees for the first year of business operation.



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**City of Kirkland
2013-2014 Budget
Summary of Expenditure Reductions & Revenue Enhancements by Department**

Department	Reduction Basis ¹	Recommended Expenditure Reductions		Recommended Revenue Enhancements		Total Recommended Expenditure Reductions & Revenue Enhancements		FTEs
		Dollars	%	Dollars	%	Dollars	%	
General Fund								
City Council	602,888	32,610	5.4%	-	0.0%	32,610	5.4%	-
City Manager	3,019,938	127,045	4.2%	-	0.0%	127,045	4.2%	(0.4)
Human Resources	2,258,864	51,503	2.3%	-	0.0%	51,503	2.3%	-
City Attorney	2,571,806	0	0.0%	-	0.0%	-	0.0%	-
Municipal Court	4,480,970	723,035	16.1%	-	0.0%	723,035	16.1%	(3.5)
Parks (incl. Parks Maint.)	13,405,900	447,461	3.3%	-	0.0%	447,461	3.3%	(2.0)
Public Works ²	2,076,586	65,015	3.1%	-	0.0%	65,015	3.1%	-
Finance and Administration ³	6,419,190	79,005	1.2%	39,120	0.6%	118,125	1.8%	-
Planning	6,013,562	185,693	3.1%	35,995	0.6%	221,688	3.7%	(0.8)
Police	40,927,152	1,793,710	4.4%	-	0.0%	1,793,710	4.4%	(5.0)
Fire	30,113,182	23,142	0.1%	-	0.0%	23,142	0.1%	-
Building	4,393,636	-	0.0%	-	0.0%	-	0.0%	-
Subtotal⁴	116,283,674	3,528,219	3.0%	75,115	0.1%	3,603,334	3.1%	(11.7)
Other Funds								
Streets	8,494,592	524,015	6.2%	-	0.0%	524,015	6.2%	(1.9)
Fleet	3,915,580	0	0.0%	-	0.0%	-	0.0%	-
Information Technology	7,920,652	169,636	2.1%	-	0.0%	169,636	2.1%	-
Facilities	4,740,490	237,024	5.0%	-	0.0%	237,024	5.0%	-
Subtotal Other Funds	25,071,314	930,675	3.7%	-	0.0%	930,675	3.7%	(1.9)
TOTAL	141,354,988	4,458,894	3.2%	75,115	0.1%	4,534,009	3.2%	(13.6)

¹ The reduction basis reflects the 2012 ongoing budget adjusted to biennial basis excluding utilities

² Excludes CIP/utility/fee - supported costs

³ Excludes functions that are 100% utility funded

⁴ Excludes Non-Dept. as most costs are fixed: debt service, retiree medical, intergovernmental professional services, interfund transfers, etc.; includes Parks Maintenance fund



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**City of Kirkland
2013-2014 Budget
Ongoing Reduction Packages**

Pkg. #	Reduction Basis %	2013-14 Department Submittals				2013-14 City Manager Recommended				
		FTE	2013	2014	Total	FTE	2013	2014	Total	
GENERAL FUND										
City Council										
BR001	602,888	-	6,000	6,000	12,000	-	6,000	6,000	12,000	2.0%
BR002	2.0%	-	10,305	10,305	20,610	-	10,305	10,305	20,610	3.4%
BR003	3.4%	-	1,500	4,500	6,000	-	-	-	-	0.0%
Subtotal City Council	1.0%	-	17,805	20,805	38,610	-	16,305	16,305	32,610	5.4%
City Manager										
BR004	3,019,938	-	12,000	12,000	24,000	-	12,000	12,000	24,000	0.8%
BR005	0.8%	0.25	29,435	29,968	59,403	0.25	29,435	29,968	59,403	2.0%
BR006	2.0%	0.25	29,435	29,968	59,403	0.15	17,661	17,981	35,642	1.2%
BR007	0.3%	-	4,000	4,000	8,000	-	4,000	4,000	8,000	0.3%
Subtotal City Manager	5.0%	0.50	74,870	75,936	150,806	0.40	63,096	63,949	127,045	4.2%
Human Resources										
BR008	2,258,864	-	26,556	24,947	51,503	-	26,556	24,947	51,503	2.3%
BR009	2.3%	0.35	29,267	30,553	59,820	-	-	-	-	0.0%
Subtotal Human Resources	4.9%	0.35	55,823	55,500	111,323	-	26,556	24,947	51,503	2.3%
City Attorney										
BR010	2,571,806	-	25,720	25,720	51,440	-	-	-	-	0.0%
BR011	2.0%	-	38,605	38,605	77,210	-	-	-	-	0.0%
Subtotal City Attorney	5.0%	-	64,325	64,325	128,650	-	-	-	-	0.0%
Municipal Court										
BR012	4,480,970	1.00	175,162	177,827	352,989	1.00	175,162	177,827	352,989	7.9%
BR013	7.9%	2.50	168,867	178,160	347,027	2.50	168,867	178,160	347,027	7.7%
BR014	0.5%	-	11,461	11,558	23,019	-	11,461	11,558	23,019	0.5%
Subtotal Municipal Court	16.1%	3.50	355,490	367,545	723,035	3.50	355,490	367,545	723,035	16.1%
Parks & Community Services & Parks Maintenance										
BR015	13,405,900	-	9,950	9,950	19,900	-	-	-	-	0.0%
BR016	0.1%	-	18,300	18,300	36,600	-	-	-	-	0.0%
BR017	0.3%	1.00	92,409	97,631	190,040	1.00	92,409	97,631	190,040	1.4%
BR018	1.4%	1.00	127,620	129,801	257,421	1.00	127,620	129,801	257,421	1.9%
BR019	1.9%	-	32,847	32,847	65,694	-	-	-	-	0.0%
BR020	0.5%	0.75	53,976	57,401	111,377	-	-	-	-	0.0%
Subtotal Parks & Community Services & Parks Maint.	5.1%	2.75	335,102	345,930	681,032	2.00	220,029	227,432	447,461	3.3%
Public Works (net of revenue supported)										
BR021	2,076,586	-	26,804	26,811	53,615	-	26,804	26,811	53,615	2.6%
BR022	2.6%	-	5,700	5,700	11,400	-	5,700	5,700	11,400	0.5%
BR023	0.5%	-	7,326	7,326	14,655	-	-	-	-	0.0%
BR024	0.7%	1.00	28,877	29,349	58,226	-	-	-	-	0.0%
Subtotal Public Works	2.8%	1.00	68,710	69,186	137,896	-	32,504	32,511	65,015	3.1%

**City of Kirkland
2013-2014 Budget
Ongoing Reduction Packages**

Pkg. #	Reduction Basis %	2013-14 Department Submittals				2013-14 City Manager Recommended				
		FTE	2013	2014	Total	FTE	2013	2014	Total	%
Finance & Administration										
6,419,190										
BR025	1.2%	-	43,188	35,817	79,005	-	43,188	35,817	79,005	1.2%
BR026	0.6%	-	19,041	20,079	39,120	-	19,041	20,079	39,120	0.6%
BR027	0.2%	-	5,000	5,000	10,000	-	-	-	-	0.0%
BR028	3.0%	1.00	95,046	96,979	192,025	-	-	-	-	0.0%
Subtotal Finance & Administration	5.0%	1.00	162,275	157,875	320,150	-	62,229	55,896	118,125	1.8%
Planning & Community Development										
6,013,562										
BR029	1.9%	0.50	55,884	56,921	112,805	0.50	55,884	56,921	112,805	1.9%
BR030	1.2%	0.30	36,120	36,768	72,888	0.30	36,120	36,768	72,888	1.2%
BR031	1.0%	0.20	29,278	29,753	59,031	-	-	-	-	0.0%
BR032	0.5%	0.20	15,867	16,227	32,094	-	-	-	-	0.0%
BR033	0.6%	-	17,873	18,122	35,995	-	17,873	18,122	35,995	0.6%
Subtotal Planning & Community Development	5.2%	1.20	155,022	157,791	312,813	0.80	109,877	111,811	221,688	3.7%
Police										
40,927,152										
BR034	0.9%	-	245,000	137,000	382,000	-	245,000	137,000	382,000	0.9%
BR035	1.3%	2.00	256,840	259,426	516,266	2.00	256,840	259,426	516,266	1.3%
BR036	0.1%	-	24,000	24,000	48,000	-	24,000	24,000	48,000	0.1%
BR037	0.4%	1.00	80,830	85,578	166,408	1.00	80,830	85,578	166,408	0.4%
BR038	0.1%	-	29,000	6,187	35,187	-	29,000	6,187	35,187	0.1%
BR039	0.1%	-	26,000	26,000	52,000	-	-	-	-	0.0%
BR040	0.6%	1.00	130,400	131,693	262,093	1.00	130,400	131,693	262,093	0.6%
BR041	0.9%	1.00	239,799	143,957	383,756	1.00	239,799	143,957	383,756	0.9%
BR042	0.2%	-	91,301	-	91,301	-	-	-	-	0.0%
BR043	0.3%	1.00	-	127,170	127,170	-	-	-	-	0.0%
Subtotal Police	5.0%	6.00	1,123,170	941,011	2,064,181	5.00	1,005,869	787,841	1,793,710	4.4%
Fire										
30,113,182										
BR044	0.9%	1.00	140,338	140,338	280,676	-	-	-	-	0.0%
BR045	0.1%	-	11,571	11,571	23,142	-	11,571	11,571	23,142	0.1%
BR046	0.4%	1.00	52,245	55,586	107,831	-	-	-	-	0.0%
BR047	2.3%	3.00	341,550	351,576	693,126	-	-	-	-	0.0%
BR048	2.3%	3.00	341,550	351,576	693,126	-	-	-	-	0.0%
Subtotal Fire	6.0%	8.00	887,254	910,647	1,797,901	-	11,571	11,571	23,142	0.1%
Building										
4,393,636										
BR049	0.3%	-	14,655	-	14,655	-	-	-	-	0.0%
BR050	1.7%	0.50	35,468	37,750	73,218	-	-	-	-	0.0%
BR051	5.1%	1.00	110,125	112,188	222,313	-	-	-	-	0.0%
Subtotal Building	7.1%	1.50	160,248	149,938	310,186	-	-	-	-	0.0%
GENERAL FUND TOTAL (Includes Parks Maintenance)	5.8%	25.80	3,460,094	3,316,489	6,776,583	11.70	1,903,526	1,699,808	3,603,334	3.1%

City of Kirkland
2013-2014 Budget
Ongoing Reduction Packages

Pkg. #	Reduction Basis %	2013-14 Department Submittals			2013-14 City Manager Recommended					
		FTE	2013	2014	Total	FTE	2013	2014	Total	%
OTHER FUNDS										
Street Operating Fund										
	8,494,592									
BR052	1.5%	0.90	63,345	67,933	131,278	0.90	63,345	67,933	131,278	1.5%
BR053	1.0%	0.50	41,120	43,324	84,444	0.50	41,120	43,324	84,444	1.0%
BR054	0.5%	-	21,750	21,750	43,500	-	21,750	21,750	43,500	0.5%
BR055	1.6%	-	69,750	69,000	138,750	-	69,750	69,000	138,750	1.6%
BR056	1.5%	0.50	62,372	63,671	126,043	0.50	62,372	63,671	126,043	1.5%
Subtotal Street Operating Fund	6.2%	1.90	258,337	265,678	524,015	1.90	258,337	265,678	524,015	6.2%
Equipment Rental Fund										
	3,915,580									
BR057	5.1%	-	100,000	100,000	200,000	-	-	-	-	0.0%
Subtotal Equipment Rental Fund	5.1%	-	100,000	100,000	200,000	-	-	-	-	0.0%
Information Technology Fund										
	7,920,652									
BR058	1.8%	-	73,018	73,018	146,036	-	73,018	73,018	146,036	1.8%
BR059	0.2%	-	6,800	6,800	13,600	-	6,800	6,800	13,600	0.2%
BR060	0.1%	-	5,000	5,000	10,000	-	5,000	5,000	10,000	0.1%
BR061	0.3%	-	13,750	13,750	27,500	-	13,750	13,750	27,500	0.3%
BR062	1.3%	0.50	51,471	51,471	102,942	-	51,471	51,471	102,942	1.3%
BR063	1.5%	0.50	58,781	61,072	119,853	-	58,781	61,072	119,853	1.5%
Subtotal Information Technology Fund	5.3%	1.00	208,820	211,111	419,931	-	208,820	211,111	419,931	5.3%
Facilities Maintenance Fund										
	4,740,490									
BR064	5.0%	-	118,512	118,512	237,024	-	118,512	118,512	237,024	5.0%
Subtotal Facilities Maintenance Fund	5.0%	-	118,512	118,512	237,024	-	118,512	118,512	237,024	5.0%
TOTAL OTHER FUNDS	5.5%	2.90	685,669	695,301	1,380,970	1.90	461,667	469,008	930,675	3.7%
TOTAL ALL FUNDS	5.8%	28.70	4,145,763	4,011,790	8,157,553	13.60	2,365,193	2,168,816	4,534,009	3.2%

	2013-14 Department Submittals		2013-14 City Manager Recommended	
	2013	2014	2013	2014
Internal Service Fund Impact to General Fund				
Information Technology Fund	95,000	95,000	95,000	95,000
Equipment Rental Fund	-	-	-	-
Facilities Maintenance Fund	106,000	106,000	106,000	106,000
Total Impact to General Fund	201,000	201,000	201,000	201,000
Total	190,000	190,000	190,000	190,000
Total	212,000	212,000	212,000	212,000
Total Impact to General Fund	402,000	402,000	402,000	402,000



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**City of Kirkland
2013-2014 Budget
Summary of Service Packages by Department/Function**

2% & 5% Service Package Requests

Department	Requested Service Packages		Recommended Service Packages	
	FTEs	Dollars	FTEs	Dollars
General Fund				
City Council	-	32,910	-	26,610
City Manager	0.50	117,077	-	30,000
Municipal Court	-	11,840	-	-
Human Resources	-	115,000	-	50,000
City Attorney	-	31,773	-	-
Parks & Community Services (includes Parks Maint. Fund ¹)	1.00	795,228	-	-
Public Works	1.85	424,018	1.60	364,694
Finance and Administration	1.70	344,541	-	-
Planning	0.10	292,139	-	-
Police	7.00	2,067,104	-	-
Fire	3.25	1,844,292	1.00	1,261,530
Building	-	97,012	-	-
Subtotal General Fund²	15.40	6,172,934	2.60	1,732,834
Other Funds				
Street Operating	2.45	832,826	-	50,000
Equipment Rental	-	144,136	-	-
Information Technology	2.00	532,631	-	532,631
Facilities	-	234,204	-	-
Subtotal Other Funds	4.45	1,743,797	-	582,631
Total 2% & 5% Requests 19.85 7,916,731 2.60 2,315,465				

Other Service Package Requests

Department	Requested Service Packages		Recommended Service Packages	
	FTEs	Dollars	FTEs	Dollars
General Fund				
City Council	-	30,000	-	30,000
City Manager	-	229,684	-	229,684
Municipal Court	-	86,076	-	86,076
Parks & Community Services	-	477,056	-	387,428
Public Works	1.00	236,566	1.00	236,566
Planning	-	956,000	-	956,000
Subtotal General Fund²	1.00	2,015,382	1.00	1,925,754
Other Funds				
Street Operating	-	320,116	-	320,116
Surface Water	2.50	864,339	0.50	228,504
Solid Waste	0.50	116,189	-	0
Information Technology	-	275,441	-	275,441
Subtotal Other Funds	3.00	1,576,085	0.50	824,061
Public Safety Building and Levy's				
Public Safety Building	4.20	1,558,034	4.20	1,558,034
Street Levy	3.00	6,237,838	3.00	6,237,838
Parks O&M Levy	7.25	2,497,711	7.25	2,497,711
Subtotal Public Safety Building and Levy's	14.45	10,293,583	14.45	10,293,583
Total Other Service Package Requests 18.45 13,885,050 15.95 13,043,398				
Grand Total Service Package Requests 38.30 21,801,781 18.55 15,358,863				

¹ Combination of General Fund Parks & Community Services costs and Parks Maintenance Fund 125

² Excludes Nondepartmental



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**City of Kirkland
2013-2014 Budget
2% & 5% Service Package Requests**

Pkg. #	2013-14 Department Request				2013-14 City Manager Recommended			
	FTE	Ongoing	One-time	Total	FTE	Ongoing	One-time	Total
GENERAL FUND								
City Council								
SP001	-	26,610	-	26,610	-	26,610	-	26,610
SP002	-	6,300	-	6,300	-	-	-	-
Subtotal City Council	-	32,910	-	32,910	-	26,610	-	26,610
City Manager								
SP003	-	30,000	-	30,000	-	30,000	-	30,000
SP004	0.50	87,077	-	87,077	-	-	-	-
Subtotal City Manager	0.50	117,077	-	117,077	-	30,000	-	30,000
Municipal Court								
SP005	-	11,840	-	11,840	-	-	-	-
Subtotal Municipal Court	-	11,840	-	11,840	-	-	-	-
Human Resources								
SP006	-	50,000	-	50,000	-	50,000	-	50,000
SP007	-	65,000	-	65,000	-	-	-	-
Subtotal Human Resources	-	115,000	-	115,000	-	50,000	-	50,000
City Attorney's Office								
SP008	-	31,773	-	31,773	-	-	-	-
Subtotal City Attorney's Office	-	31,773	-	31,773	-	-	-	-
Public Works								
SP009	0.85	186,620	-	186,620	0.85	186,620	-	186,620
SP010	1.00	237,398	-	237,398	0.75	178,074	-	178,074
Subtotal Public Works	1.85	424,018	-	424,018	1.60	364,694	-	364,694
Finance & Administration								
SP011	0.50	85,602	-	85,602	-	-	-	-
SP012	0.50	74,572	-	74,572	-	-	-	-
SP013	0.50	94,161	-	94,161	-	-	-	-
SP014	0.20	45,206	-	45,206	-	-	-	-
SP015	-	-	45,000	45,000	-	-	-	-
Subtotal Finance & Administration	1.70	299,541	45,000	344,541	-	-	-	-

**City of Kirkland
2013-2014 Budget
2% & 5% Service Package Requests**

Pkg. #	2013-14 Department Request			2013-14 City Manager Recommended				
	FTE	Ongoing	One-time	Total	FTE	Ongoing	One-time	Total
Planning & Community Development								
SP016	0.10	25,685	-	25,685	-	-	-	-
SP017	-	-	120,000	120,000	-	-	-	-
SP018	-	-	50,000	50,000	-	-	-	-
SP019	-	-	60,000	60,000	-	-	-	-
SP020	-	16,000	-	16,000	-	-	-	-
SP021	-	20,454	-	20,454	-	-	-	-
Subtotal Planning & Community Development	0.10	62,139	230,000	292,139	-	-	-	-
Police								
SP022	1.00	263,736	9,275	273,011	-	-	-	-
SP023	1.00	322,346	77,104	399,450	-	-	-	-
SP024	5.00	1,280,280	114,363	1,394,643	-	-	-	-
Subtotal Police	7.00	1,866,362	200,742	2,067,104	-	-	-	-
Fire & Building								
SP025	-	649,130	-	649,130	-	-	649,130	649,130
SP026	-	17,000	8,500	25,500	-	-	17,000	17,000
SP027	1.00	319,891	2,923	322,814	1.00	319,891	2,923	322,814
SP028	1.00	247,328	35,027	282,355	-	-	-	-
SP029	0.25	45,850	-	45,850	-	-	24,716	24,716
SP030	-	-	270,773	270,773	-	-	-	-
SP031	1.00	230,858	4,923	235,781	-	-	235,781	235,781
SP032	-	12,089	-	12,089	-	12,089	-	12,089
SP033	-	97,012	-	97,012	-	-	-	-
Subtotal Fire & Building	3.25	1,619,158	322,146	1,941,304	1.00	331,980	929,550	1,261,530
GENERAL FUND TOTAL	14.40	4,579,818	797,888	5,377,706	2.60	803,284	929,550	1,732,834

**City of Kirkland
2013-2014 Budget
2% & 5% Service Package Requests**

Pkg. #	2013-14 Department Request				2013-14 City Manager Recommended			
	FTE	Ongoing	One-time	Total	FTE	Ongoing	One-time	Total
OTHER FUNDS								
Street Operating Fund								
SP034	0.45	85,442	-	85,442	-	-	-	-
SP035	-	10,869	-	10,869	-	-	-	-
SP036	-	13,201	-	13,201	-	-	-	-
SP037	2.00	436,777	236,537	673,314	-	-	-	-
SP038	-	50,000	-	50,000	-	50,000	-	50,000
Subtotal Street Operating Fund	2.45	596,289	236,537	832,826	-	50,000	-	50,000
Equipment Rental Fund								
SP039	-	10,896	33,000	43,896	-	-	-	-
SP040	-	-	100,240	100,240	-	-	-	-
Subtotal Equipment Rental Fund	-	10,896	133,240	144,136	-	-	-	-
Information Technology Fund								
SP041	1.00	261,815	5,218	267,033	-	-	267,033	267,033
SP042	1.00	260,380	5,218	265,598	-	-	265,598	265,598
Subtotal Information Technology Fund	2.00	522,195	10,436	532,631	-	-	532,631	532,631
Facilities Maintenance Fund								
SP043	-	234,204	-	234,204	-	-	-	-
Subtotal Facilities Maintenance Fund	-	234,204	-	234,204	-	-	-	-
TOTAL OTHER FUNDS	4.45	1,363,584	380,213	1,743,797	-	50,000	532,631	582,631
TOTAL ALL FUNDS	18.85	5,943,402	1,178,101	7,121,503	2.60	853,284	1,462,181	2,315,465



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**City of Kirkland
2013-2014 Budget
Other Service Package Requests**

Pkg. #	2013-14 Department Request				2013-14 City Manager Recommended			
	FTE	Ongoing	One-time	Total	FTE	Ongoing	One-time	Total
GENERAL FUND								
City Council								
SP044	-	-	30,000	30,000	-	-	30,000	30,000
Subtotal City Council				30,000	-	-	30,000	30,000
City Manager								
SP045	-	-	96,000	96,000	-	-	96,000	96,000
SP046	-	-	8,684	8,684	-	-	8,684	8,684
SP047	-	-	25,000	25,000	-	-	25,000	25,000
SP048	-	-	100,000	100,000	-	-	100,000	100,000
Subtotal City Manager				229,684	-	-	229,684	229,684
Municipal Court								
SP049	-	86,076	-	86,076	-	-	86,076	86,076
Subtotal Municipal Court				86,076	-	-	86,076	86,076
Parks & Community Services								
SP050	-	-	68,000	68,000	-	-	68,000	68,000
SP051	-	3,000	16,500	19,500	-	3,000	16,500	19,500
SP052	-	-	299,928	299,928	-	-	299,928	299,928
SP053	-	89,628	-	89,628	-	-	-	-
Subtotal Parks & Community Services				384,428	-	3,000	384,428	387,428
Public Works								
SP054	1.00	228,926	7,640	236,566	1.00	228,926	7,640	236,566
Subtotal Public Works				236,566	1.00	228,926	7,640	236,566
Planning & Community Development								
SP055	-	-	326,000	326,000	-	-	326,000	326,000
SP056	-	-	630,000	630,000	-	-	630,000	630,000
Subtotal Planning & Community Development				956,000	-	-	956,000	956,000
GENERAL FUND TOTAL				2,015,382	1.00	231,926	1,693,828	1,925,754

**City of Kirkland
2013-2014 Budget
Other Service Package Requests**

Pkg. #	2013-14 Department Request				2013-14 City Manager Recommended			
	FTE	Ongoing	One-time	Total	FTE	Ongoing	One-time	Total
OTHER FUNDS								
Street Operating Fund								
SP057	-	-	200,116	200,116	-	-	200,116	200,116
SP058	-	-	120,000	120,000	-	-	120,000	120,000
Subtotal Street Operating Fund	-	-	320,116	320,116	-	-	320,116	320,116
Surface Water Management Fund								
SP059	-	60,000	-	60,000	-	60,000	-	60,000
SP060	0.50	83,113	5,425	88,538	0.50	83,113	5,425	88,538
SP061	-	18,880	61,086	79,966	-	18,880	61,086	79,966
SP062	2.00	358,410	277,425	635,835	-	-	-	-
Subtotal Surface Water Management Fund	2.50	520,403	343,936	864,339	0.50	161,993	66,511	228,504
Solid Waste Operating Fund								
SP063	0.50	116,189	-	116,189	-	-	-	-
Subtotal Solid Waste Operating Fund	0.50	116,189	-	116,189	-	-	-	-
Information Technology Fund								
SP064	-	144,441	-	144,441	-	-	144,441	144,441
SP065	-	-	131,000	131,000	-	-	131,000	131,000
Subtotal Information Technology Fund	-	144,441	131,000	275,441	-	-	275,441	275,441
TOTAL OTHER FUNDS	3.00	781,033	795,052	1,576,085	0.50	161,993	662,068	824,061
TOTAL ALL FUNDS	4.00	1,188,663	2,402,804	3,591,467	1.50	393,919	2,355,896	2,749,815

**City of Kirkland
2013-2014 Budget
Other Service Package Requests**

Pkg. #	2013-14 Department Request			2013-14 City Manager Recommended				
	FTE	Ongoing	One-time	Total	FTE	Ongoing	One-time	Total
Public Safety Building								
SP066	0.20	51,349	-	51,349	0.20	51,349	-	51,349
SP067	3.00	625,949	161,153	787,102	3.00	625,949	161,153	787,102
SP068	1.00	660,663	58,920	719,583	1.00	660,663	58,920	719,583
Subtotal Public Safety Building	4.20	1,337,961	220,073	1,558,034	4.20	1,337,961	220,073	1,558,034

2012 Levy Service Packages								
Street Levy								
SP069	1.00	237,838	-	237,838	1.00	237,838	-	237,838
SP070	2.00	5,730,836	269,164	6,000,000	2.00	5,730,836	269,164	6,000,000
Subtotal Street Levy	3.00	5,968,674	269,164	6,237,838	3.00	5,968,674	269,164	6,237,838

Parks O&M Levy								
SP071	2.50	1,111,575	-	1,111,575	2.50	1,111,575	-	1,111,575
SP072	-	200,142	3,040	203,182	-	200,142	3,040	203,182
SP073	3.00	712,484	-	712,484	3.00	712,484	-	712,484
SP074	1.00	256,681	4,500	261,181	1.00	256,681	4,500	261,181
SP075	-	5,660	-	5,660	-	5,660	-	5,660
SP076	-	5,960	-	5,960	-	5,960	-	5,960
SP077	0.75	197,669	-	197,669	0.75	197,669	-	197,669
Subtotal Parks O&M Levy	7.25	2,490,171	7,540	2,497,711	7.25	2,490,171	7,540	2,497,711

Parks & Community Services Ongoing (if Levy fails)								
SP078	-	65,872	-	65,872	-	-	-	-
SP079	1.00	314,279	-	314,279	-	-	-	-
SP080	-	415,077	-	415,077	-	-	-	-
Subtotal Parks & Community Services	1.00	795,228	-	795,228	-	-	-	-



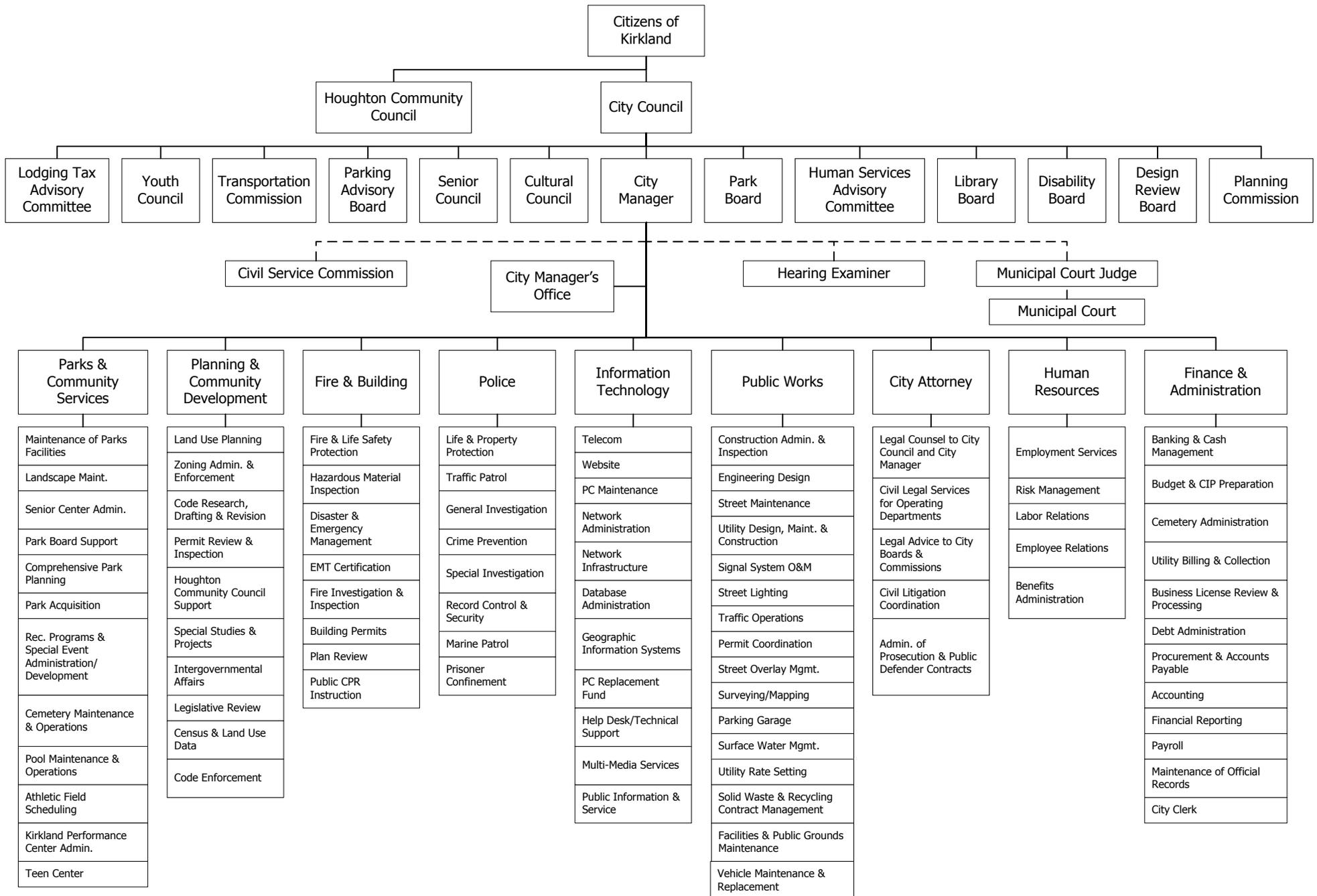
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KIRKLAND PROFILE



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CITY OF KIRKLAND





CITY OF KIRKLAND CITY COUNCIL GOALS

The purpose of the City Council Goals is to articulate key policy and service priorities for Kirkland. Council goals guide the allocation of resources through the budget and capital improvement program to assure that organizational work plans and projects are developed that incrementally move the community towards the stated goals. Council goals are long term in nature. The City's ability to make progress towards their achievement is based on the availability of resources at any given time. Implicit in the allocation of resources is the need to balance levels of taxation and community impacts with service demands and the achievement of goals.

In addition to the Council goal statements, there are operational values that guide how the City organization works toward goal achievement:

- **Regional Partnerships** – Kirkland encourages and participates in regional approaches to service delivery to the extent that a regional model produces efficiencies and cost savings, improves customer service and furthers Kirkland's interests beyond our boundaries.
- **Efficiency** – Kirkland is committed to providing public services in the most efficient manner possible and maximizing the public's return on their investment. We believe that a culture of continuous improvement is fundamental to our responsibility as good stewards of public funds.
- **Accountability** – The City of Kirkland is accountable to the community for the achievement of goals. To that end, meaningful performance measures will be developed for each goal area to track our progress toward the stated goals. Performance measures will be both quantitative and qualitative with a focus on outcomes. The City will continue to conduct a statistically valid citizen survey every two years to gather qualitative data about the citizen's level of satisfaction. An annual Performance Measure Report will be prepared for the public to report on our progress.
- **Community** – The City of Kirkland is one community composed of multiple neighborhoods. Achievement of Council goals will be respectful of neighborhood identity while supporting the needs and values of the community as a whole.

The City Council Goals are dynamic. They should be reviewed on an annual basis and updated or amended as needed to reflect citizen input as well as changes in the external environment and community demographics.

Kirkland is an attractive, vibrant and inviting place to live, work and visit. Our lakefront community is a destination for residents, employees and visitors. Kirkland is a community with a small-town feel, retaining its sense of history, while adjusting gracefully to changes in the twenty-first century.

NEIGHBORHOODS

The citizens of Kirkland experience a high quality of life in their neighborhoods.

Council Goal: Achieve active neighborhood participation and a high degree of satisfaction with neighborhood character, services and infrastructure.

PUBLIC SAFETY

Ensure that all those who live, work and play in Kirkland are safe.

Council Goal: Provide for public safety through a community-based approach that focuses on prevention of problems and a timely response.

HUMAN SERVICES

Kirkland is a diverse and inclusive community that respects and welcomes everyone and is concerned for the welfare of all.

Council Goal: To support a regional coordinated system of human services designed to meet the basic needs of our community and remove barriers to opportunity.

BALANCED TRANSPORTATION

Kirkland values an integrated multi-modal system of transportation choices.

Council Goal: To reduce reliance on single occupancy vehicles and improve connectivity and multi-modal mobility in Kirkland in ways that maintain and enhance travel times, safety, health and transportation choices.

PARKS, OPEN SPACES AND RECREATIONAL SERVICES

Kirkland values an exceptional park, natural areas and recreation system that provides a wide variety of opportunities aimed at promoting the community's health and enjoyment.

Council Goal: To provide and maintain natural areas and recreational facilities and opportunities that enhance the health and well being of the community.

HOUSING

The City's housing stock meets the needs of a diverse community by providing a wide range of types, styles, sizes and affordability.

Council Goal: To ensure the construction and preservation of housing stock that meet a diverse range of incomes and needs.

FINANCIAL STABILITY

Citizens of Kirkland enjoy high-quality services that meet the community's priorities.

Council Goal: Provide a sustainable level of core services that are funded from predictable revenue.

ENVIRONMENT

We are committed to the protection of the natural environment through an integrated natural resource management system.

Council Goal: To protect and enhance our natural environment for current residents and future generations.

ECONOMIC DEVELOPMENT

Kirkland has a diverse, business-friendly economy that supports the community's needs.

Council Goal: To attract, retain and grow a diverse and stable economic base that supports city revenues, needed goods and services and jobs for residents.

DEPENDABLE INFRASTRUCTURE

Kirkland has a well-maintained and sustainable infrastructure that meets the functional needs of the community.

Council Goal: To maintain levels of service commensurate with growing community requirements at optimum life-cycle costs.

KIRKLAND'S CITY MANAGEMENT

City departments are involved in a number of long-range planning efforts to assure that community growth supports the balance of livability and prosperity. Financial planning occurs as an integral part of operating department initiatives. Examples of some of the more important planning tools that contribute to the City's financial strength are:

- **Fiscal Policies** which are adopted by the City Council and provide guidance in the areas of budgeting, capital improvements, reserves, debt, cash management and investments and financial reporting.
- **Investment Policies** that dictate the manner in which excess funds will be invested.
- The **Six-Year Capital Improvement Program (CIP)** which provides a long-term plan for building, enhancing, and maintaining the City's infrastructure. The CIP, which includes a financing plan and is adopted biennially, reflects other major capital plans including the Six-Year Transportation Improvement Plan, the Comprehensive Sanitary Sewer Plan, the Surface Water Management Master Plan, and the Water Distribution Master Plan.

Kirkland's Comprehensive Plan is updated annually. As required by the Growth Management Act (GMA), the 10 year major update process was completed in 2002 and 2003 to update Kirkland's vision statement and Comprehensive Plan. The next update is planned for 2013.

Among the several elements included in the Comprehensive Plan as required by the GMA, a **Capital Facilities Element** is completed in coordination with the Six-Year CIP. A **Transportation Element** identifies needed transportation improvements, and an **Economic Development Element** was completed in 1998 that links community economic health with land use and growth policies.

Other master planning efforts, such as the **Fire Strategic Plan, Police Strategic Plan, Neighborhood Plans, and Kirkland's Comprehensive Park, Open Space and Recreation Plan** provide further examples of Kirkland's efforts to respond to the changing needs of the community through careful planning and community involvement.

The City's mission statement and basic values summarize the qualities that are an integral part of its management efforts:

We are committed to the enhancement of Kirkland as a community for living, working, and leisure with an excellent quality of life, which preserves the City's existing charm and natural amenities.

Basic Values

Integrity

Excellence

Respect for the Individual

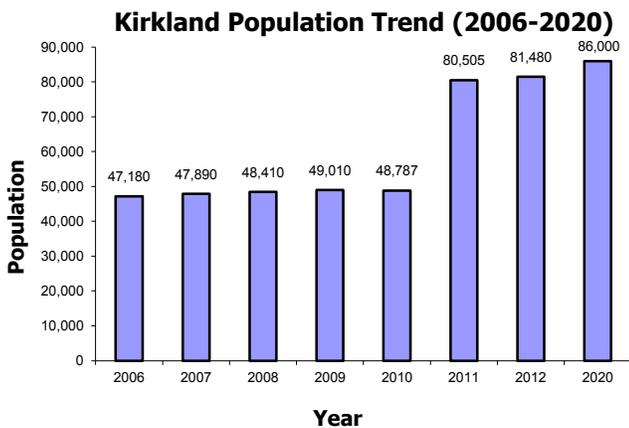
Responsiveness

CITY OF KIRKLAND

ECONOMIC ENVIRONMENT

POPULATION

Following the annexation of South Juanita, North Rose Hill and South Rose Hill in 1988, population growth has generally been modest, but steady. In 2011, the City annexed Finn Hill, Kingsgate, and Juanita increasing the population by 31,816. The following chart presents actual population data for the past seven years and projection for 2020.



EMPLOYMENT BASE

A diverse range of businesses comprise Kirkland’s employment base. Key factors contributing to Kirkland’s attraction include the following:

- High quality of life, housing, and local amenities.
- Availability of high quality human resources.
- Proximity to other major business centers.
- Availability of high quality office space.

Approximately 31,250 individuals are employed within the City limits. The following table presents the City’s top 10 employers as of fourth quarter 2012.

Kirkland’s Major Employers

Employer	# Persons Employed
Evergreen Healthcare	2,603
Lake Washington School District	976
Google, Inc	658
City of Kirkland	575
Kenworth Truck Company	439
Costco Wholesale	302
Evergreen Pharmaceutical, LLC	269
Isoftstone Inc	265
IBM Corporation	256
Waste Management of Washington Inc	250

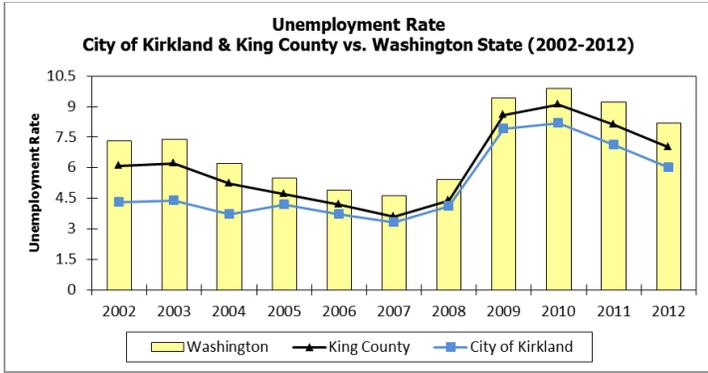
UNEMPLOYMENT RATE

Unemployment rates in King County generally run parallel to state and national rates but at a lower level. Since 2004, King County’s unemployment rate has been consistently below the national rate. The City of Kirkland unemployment rate consistently runs below the national, Washington State, and King County rates. The following table and chart provide comparative unemployment rate data for the past 11 years.

Unemployment Rates¹

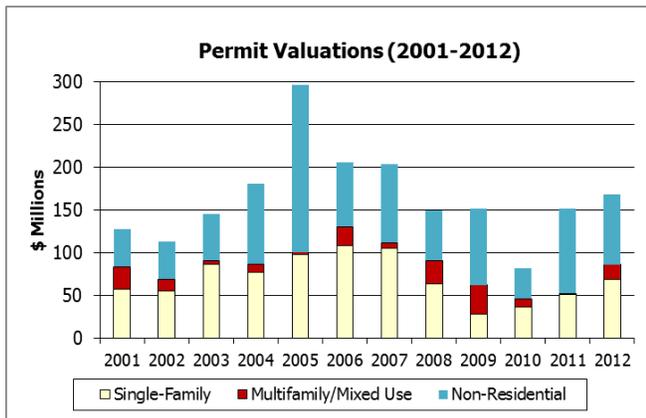
Year	Kirkland	King County	Washington State	United States
2002	4.3	6.1	7.3	5.8
2003	4.4	6.2	7.4	6
2004	3.7	5.2	6.2	5.5
2005	4.2	4.7	5.5	5.1
2006	3.7	4.2	4.9	4.6
2007	3.3	3.6	4.6	4.6
2008	4.1	4.4	5.4	5.8
2009	7.9	8.6	9.4	9.3
2010	8.2	9.1	9.9	9.6
2011	7.1	8.1	9.2	8.9
2012	6.0	7.0	8.2	8.1

¹ Per the U.S. Bureau of Labor Statistics.



BUILDING ACTIVITY

Kirkland's building activity has mirrored regional and national building trends over the past decade plus. The following chart illustrates Kirkland's trends since 2001. Construction activity ballooned in 2005 and remained strong during the building boom of the pre-recession 2000's. Single-family building permits dropped sharply after the housing bubble burst in 2007, and overall development fell to pre-2004 levels for 2008-09. In 2010 Kirkland saw another sharp drop in overall building valuations. In 2011, Kirkland recorded rising permit valuations the non-residential and single-family sectors and 2012 data show a continued post-recession rebound with increases in single family and multifamily/mixed use permits.



Permit Valuation in 000's of Dollars

Year	Single Family	Multi-Family / Mixed Use	Non Residential	Total
2001	57,922	25,917	44,090	127,929
2002	55,190	14,095	44,238	113,523
2003	87,048	4,240	54,541	145,829
2004	77,401	9,774	94,527	181,702
2005	98,192	2,858	195,805	296,855
2006	108,539	22,001	75,375	205,915
2007	105,031	7,229	92,033	204,293
2008	63,229	27,793	58,843	149,865
2009	28,546	33,906	89,241	151,693
2010	36,883	9,200	35,900	81,983
2011	50,812	1,738	98,872	151,422
2012	68,682	17,902	81,558	168,142

* Based on building permits issued by the City of Kirkland Building Division.

OTHER ECONOMIC INDICATORS

Office Vacancies

- According to CB Richard Ellis Real Estate Services, the Eastside office vacancy rate dropped to a four year low of 15.4 percent in the fourth quarter of 2012, compared to 15.5 percent for the fourth quarter in 2011. Kirkland's office vacancy rate did increase from 2011 to 2012, but the city has outperformed the Eastside average in both 2011 and 2012, with 2011 vacancy of 7.9 percent and 2012 vacancy of 8.2 percent.

Housing Values

- Kirkland home values trended up in 2012, rising 13.6 percent from December 2011 to December 2012 according to Zillow.com.

Inflation

- The Seattle metro Consumer Price Index (CPI), a measure of price inflation for goods and services, fluctuated throughout the year, averaging 2.66 percent. Seattle area inflation slowed down toward the end of the year, with the December 2012 CPI at 1.4 percent. The national CPI was 1.7 percent in December 2012 and averaged 2.12 percent for the year.



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BUDGET GUIDE

A user's guide to understanding Kirkland's budget document



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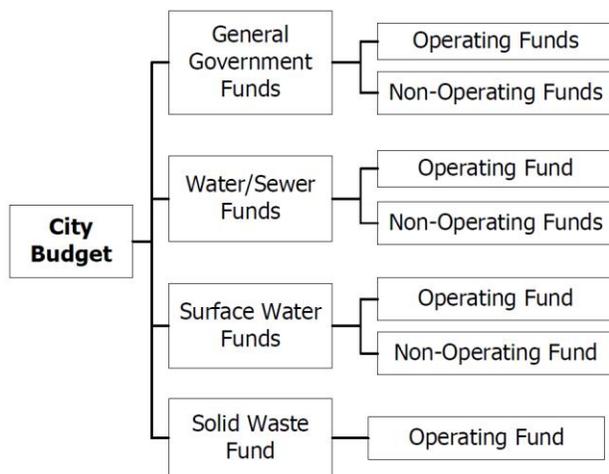
GUIDE TO BUDGET FUND STRUCTURE

The City Budget is composed of 24* separate funds that are each balanced independently – revenues equal expenditures. The City’s budget is divided into four primary sections – General Government, Water/Sewer Utility, Surface Water Utility and Solid Waste Utility. Within each of these primary sections there are operating and non-operating funds, with the exception of the Solid Waste Utility which is comprised of an operating fund only.

The general government operating funds include the General Fund, five special revenue funds, and four internal service funds. General government operating funds account for services to the public including public safety, street maintenance, land use, parks and administrative functions. Taxes, fees and charges, and contributions from other governments are the primary finance sources for general government functions. The general government non-operating funds account for debt service, capital improvements and reserves related to these operating funds.

Like the general government funds, the Water/Sewer Utility and the Surface Water Utility both have operating and non-operating components. The Solid Waste Utility consists of only an operating fund. All utility operating funds account for the cost of providing and maintaining services to its customers. Distinct from the general government funds, each of the utilities operate much the same as a business (enterprise), with customer charges (rates) supporting all costs. Resources of the utilities cannot be used to subsidize general government functions.

The budget document is presented in a manner that acknowledges these components as shown on the following chart.

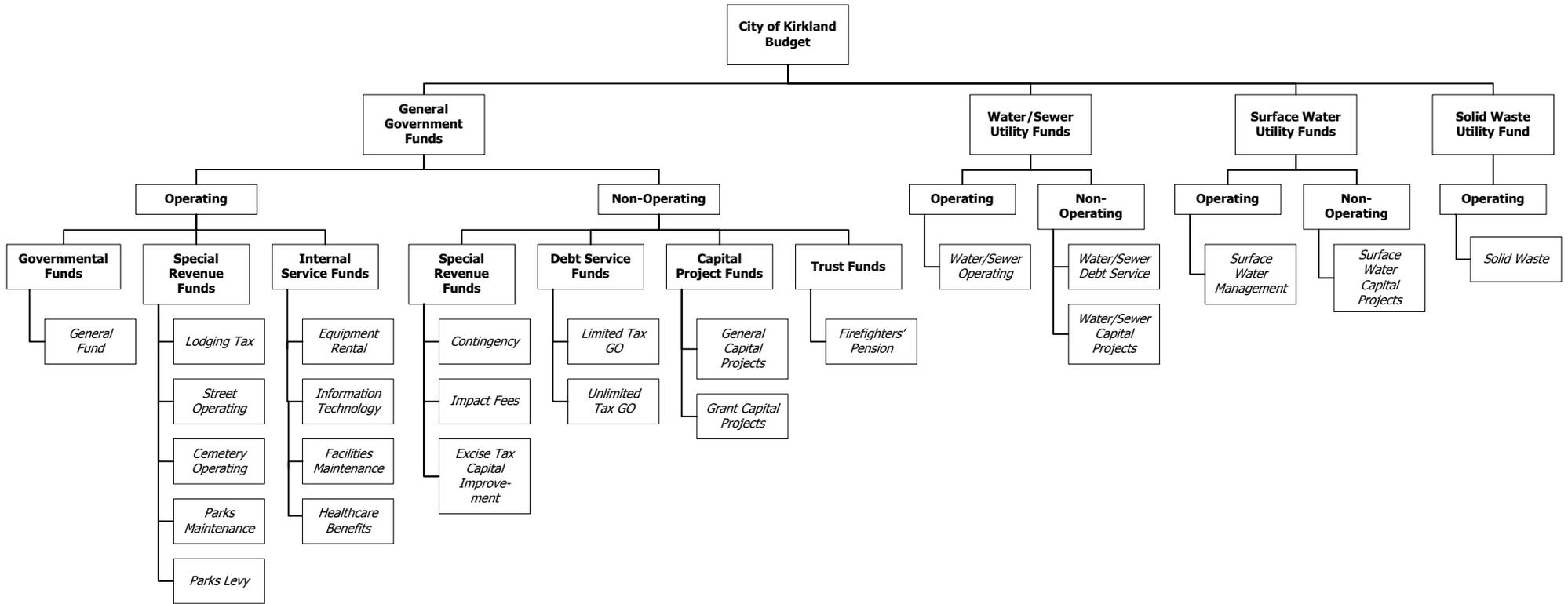


The chart on the following page illustrates the organization of funds in greater detail.

*The following funds were closed as of December 31, 2010 to be in compliance with the Governmental Accounting Standards Boards new guidelines (GASB Statement 54) and to simplify the fund structure:

- Recreation Revolving Fund 126
- Park and Municipal Reserve Fund 157
- Tour Dock Fund 159
- Street Improvement Fund 170
- Off-Street Parking Reserve Fund 158
- Cemetery Improvement Fund 154
- Grant Control Fund 188

CITY OF KIRKLAND Organization of Funds



BUDGETING, ACCOUNTING AND REPORTING BASIS

The City's financial structure is consistent with Washington State's required Budgeting, Accounting, and Reporting System (BARS). This system provides for a uniform chart of accounts and procedures for all Washington local governments. While each agency has minor differences, this system provides useful comparative data to the state regarding local spending.

BUDGETARY BASIS

Budget projections for revenues and expenditures are prepared on a cash basis. Cash basis of accounting means that transactions are recognized at the point when cash is received or paid. This method matches the cash projected to be available to the cash projected for necessary payments.

Revenues are prepared at the "line-item" or source-of-revenue level (e.g., gas utility tax, amusement license, plumbing permit, etc.). General government operating revenues are summarized by revenue type (e.g., taxes, licenses and permits, charges for services, etc.) and across funds. Major revenue sources and trends are highlighted in the Budget Summary section.

Expenditure budgets, like revenues, are prepared at the "line-item" or object-of-expense level (e.g., regular wages, uniforms and clothing, office supplies, professional services, etc.). Summary totals are provided for "object groups" (e.g., wages, benefits, supplies, capital outlay etc.). Subtotals are provided by organizational units (divisions) within each department which represent costs by function. The financial overview page contained within each department section provides summary level financial data with data for comparative bienniums.

Non-operating fund expenditures are presented at the "by purpose" level (reserve, debt service, capital improvement and other).

ACCOUNTING AND REPORTING BASIS

The financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. Generally Accepted Accounting Principles are minimum standards and guidelines for financial accounting and reporting. Reporting in accordance with GAAP assures that financial reports of all state and local governments contain the same types of financial statements and disclosures, for the same categories and types of funds and account groups, based on the same measurement and classification criteria.

Governmental funds use the modified-accrual basis of accounting. Under this basis, revenues are recognized when they become both measurable and available. "Measurable" means the amount of the transaction can be reasonably determined. "Available" means collectible within the current fiscal year or soon thereafter to pay for expenditures incurred during the fiscal year. Expenditures are recognized when the related obligations (goods have been purchased or services have been received) are incurred (two exceptions are employee leave benefits and long-term debt which are recognized when due).

Proprietary operations of the City - enterprise and internal service functions - use the accrual basis of accounting. Under this method, revenues are recorded when earned (e.g., revenues for water/sewer utility services are recognized when the services are provided) and expenses are recorded at the time obligations are incurred. This method is similar to private business enterprises.

BUDGET PROCESS

BUDGET PREPARATION PROCESS

Kirkland follows a biennial budget process. State law requires that the first year of a biennial budget be an odd numbered year. Accordingly, the preparation of the biennial budget occurs during an even numbered year, beginning in June and continuing through the end of the year. The following are key steps that the City takes to prepare its budget. (See the next page for a diagram of this process.)

1. The City Council holds its mid-year budget review meeting in June and receives a status report on the current biennial budget and an updated six-year financial forecast, with an emphasis on the coming biennium. In addition, the City Manager requests input from the City Council about budget priorities and overall direction.
2. In July, the Finance & Administration (F&A) Director makes the official "budget call" to all department directors requesting expenditure and revenue estimates for the current year and the coming two years.
3. The F&A Department prepares all general purpose revenue estimates, which mostly consist of taxes, state shared revenues and entitlements, and intergovernmental service revenues, during the first half of August. In addition, the F&A Department receives and reviews all departmental revenue estimates during the same time period. All departmental expenditure estimates for the current year and "basic budget" requests for the coming biennium, which represent the estimated cost of maintaining the current service level, are received and reviewed by the F&A Department during the second half of August.
4. In late August, the F&A Director, City Manager and Deputy City Manager meet with each department to review their basic budget requests.
5. In early September, departments submit additional funding requests (called "service packages") for new positions, equipment, and projects which are over and above their basic budgets. The F&A Department reviews all service package requests by mid-September. In years when funding is limited, departments may also be asked to submit proposed expenditure reductions.
6. In mid-September, the City Manager meets with each department to review their basic budget and service package requests. In addition, the City holds a public hearing in mid-September to gather citizen input on proposed revenue sources for the coming biennium.
7. The City Manager finalizes the preliminary budget proposal, which includes recommended service packages and reductions (if any), by the end of September. In early October, the City Manager and F&A Director brief the Council Finance Committee on the preliminary budget proposal.
8. In October, the F&A Department prepares and prints the preliminary budget document for the coming biennium. By November 1st, the preliminary budget document is filed with the City Clerk, distributed to the City Council and the departments, and made available to the public.
9. The City Council meets in November for a series of budget study sessions to review the City Manager's proposed budget and to determine if there are any changes they wish to make.
10. The City holds a public hearing in mid-November to gather citizen input on the preliminary budget as well as on any changes made by the City Council during their budget deliberations.
11. In December, the City Council adopts the final property tax levy for the coming year and the final budget for the coming biennium each by ordinance via a simple majority of the members present. The appropriation approved by the City Council is at the individual fund level.

- The F&A Department publishes the final budget document during the first quarter of the following year, distributes the document to the City Council and the departments, and makes copies available to the public.

BUDGET ADJUSTMENT PROCESS

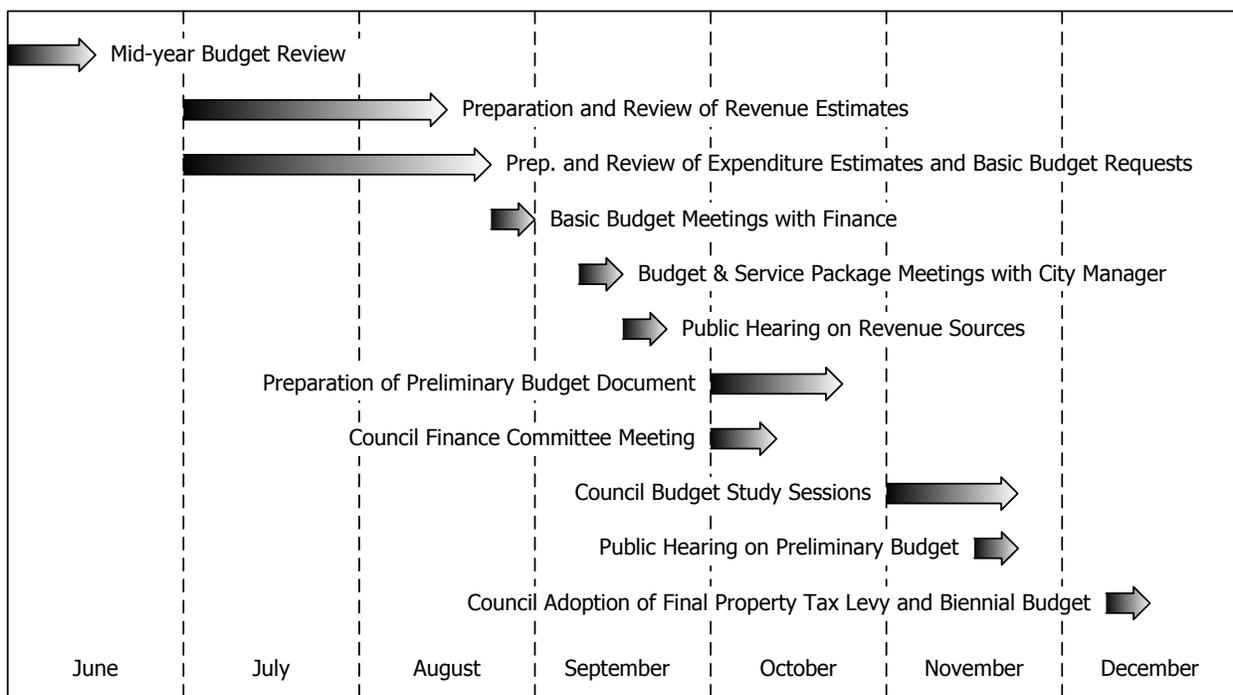
There are two types of adjustments related to the adopted budget: 1) transfers between line items or between departments within the same fund; and 2) changes to an individual fund’s total appropriation. The former is handled administratively when needed with the approval of the F&A Director. The latter can take place at various times during the biennium and requires Council approval by ordinance.

The first opportunity to adjust a fund’s total appropriation generally occurs in March of the first year of the biennium. Typically, this is when funding for projects and other significant purchases that were not completed during the prior biennium is “carried over” to the new biennium. The second opportunity takes place during the mid-biennial budget review which culminates in December of the first year of the biennium. This adjustment primarily relates to the following: 1) outside agency and new service package funding requests for the second year of the biennium; 2) any unanticipated needs, events, or revenue sources. The final opportunity to adjust a fund’s total appropriation occurs at the end of the biennium in December. This is the last time that adjustments for unanticipated needs, events, and revenue sources can be recognized and approved. Also, this is when the General Fund’s total appropriation is adjusted, if necessary, to provide the budgetary authority to transfer excess net resources to other funds in order to replenish or build-up reserves and to fund one-time service packages in the coming biennium. In addition to the three adjustment processes described above, other adjustments may occur during the biennium as needed.

The process for changing a fund’s total appropriation is as follows:

- Requests for budget adjustments are submitted in writing to the F&A Director.
- If approved, requests are consolidated in an ordinance and presented to the City Council at a regular meeting at one of the three times noted above.
- The City Council approves adjustments to a fund’s total appropriation for the biennium by a simple majority of the members present.
- Approved adjustments are incorporated into the existing biennial budget resulting in a revised appropriation for the current biennium.

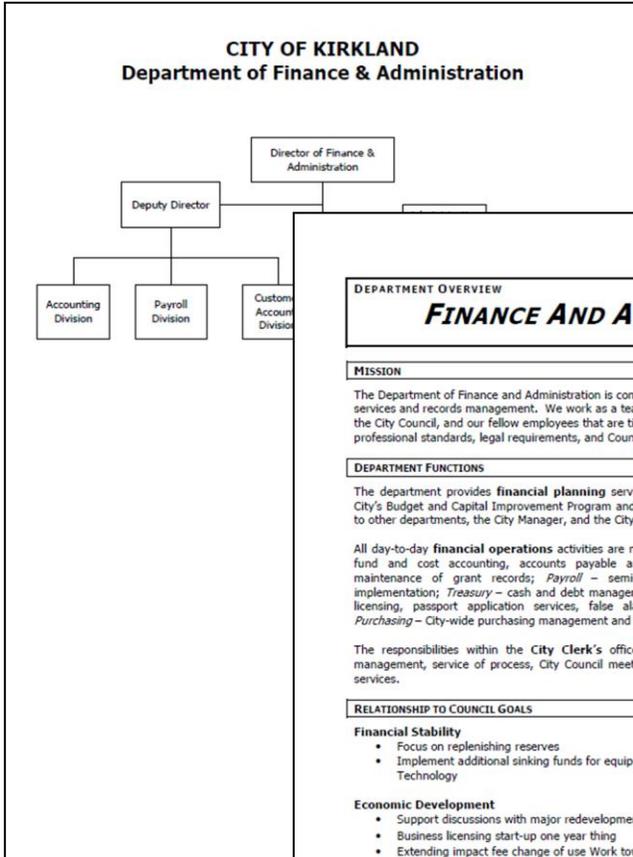
BIENNIAL BUDGET PREPARATION TIMELINE



GUIDE TO KIRKLAND'S BUDGET DOCUMENT

OPERATING FUND AND DEPARTMENT SECTIONS

The following sections are organized by fund and department. Within each fund, organization charts, department overviews, budget analyses and financial overviews are provided for each department as well as detailed schedules of revenues. Line item expenditure detail reports are provided in an ancillary document titled, "Budget Line Item Detail."



The reporting relationships are delineated in each department section. Positions that are funded by a different fund are indicated by a double-lined box.

The mission and functional areas are described in each department's overview along with the relationship of the department's activities to Council goals and budget highlights for the coming biennium.

DEPARTMENT OVERVIEW

FINANCE AND ADMINISTRATION

MISSION

The Department of Finance and Administration is committed to excellence in the provision of financial services and records management. We work as a team to provide services and information to the public, the City Council, and our fellow employees that are timely, impartial, supportive, and consistent with professional standards, legal requirements, and Council policy.

DEPARTMENT FUNCTIONS

The department provides **financial planning** services including coordination and preparation of the City's Budget and Capital Improvement Program and provision of financial planning and analysis support to other departments, the City Manager, and the City Council.

All day-to-day **financial operations** activities are in the form of fund and cost accounting, accounts payable and maintenance of grant records; *Payroll* – semi-implementation; *Treasury* – cash and debt management; *Licensing* – passport application services, false alarm; *Purchasing* – City-wide purchasing management and coordination.

The responsibilities within the **City Clerk's** office include: management, service of process, City Council meeting services.

RELATIONSHIP TO COUNCIL GOALS

Financial Stability

- Focus on replenishing reserves
- Implement additional sinking funds for equipment and Technology

Economic Development

- Support discussions with major redevelopment
- Business licensing start-up one year thing
- Extending impact fee change of use Work to

Infrastructure

- CIP development and financing
- Pursue external funds for development of East

BUDGET HIGHLIGHTS

2013-2014 Reductions and Efficiencies

- Rearrange workload and reclassifying positions resulting in savings in Finance and Administration - \$28,816
- Line item expense reductions to reflect efficiencies
- Administration - \$28,816
- Ensure the Cemetery fund administrative costs

2013-2014 FINANCIAL OVERVIEW

FINANCE & ADMINISTRATION

	2009-2010	2011-2012	2011-2012	2013-2014	Percent Change
	Actual	Estimate	Budget	Budget	
Salaries and Wages	4,103,151	4,411,101	4,627,303	4,532,802	-2.04%
Benefits	1,486,696	1,792,496	2,041,804	2,081,445	1.94%
Supplies	25,176	35,280	32,800	28,586	-13.06%
Other Services	1,065,779	1,371,034	1,401,288	1,486,102	6.05%
Government Services	358,252	494,430	562,260	839,100	49.24%
Capital Outlay	-	-	-	-	n/a
TOTAL	7,039,054	8,104,341	8,665,535	8,968,035	3.49%

	2009-2010	2011-2012	2011-2012	2013-2014	Percent Change
	Actual	Estimate	Budget	Budget	
Financial Planning & Admin.	2,273,792	2,474,905	2,664,037	2,524,517	-5.24%
Treasury/Customer Services	1,728,102	2,135,236	2,259,919	2,325,443	2.90%
Financial Operations	2,027,572	2,312,409	2,420,571	2,485,267	2.67%
City Clerk	1,009,588	1,181,791	1,321,008	1,632,808	23.60%
TOTAL	7,039,054	8,104,341	8,665,535	8,968,035	3.49%

	2009-2010	2011-2012		2013-2014	
	Actual	Adjustments	Budget	Adjustments	Budget
Financial Planning & Admin.	6.25	1.75	8.00	0.00	8.00
Treasury/Customer Services	11.75	-1.25	10.50	0.00	10.50
Financial Operations	8.60	1.90	10.50	0.00	10.50
City Clerk	3.80	0.00	3.80	0.00	3.80
TOTAL	30.40	2.40	32.80	0.00	32.80

The Financial Overview contains financial summaries by category of expense and program area.

GUIDE TO KIRKLAND'S BUDGET DOCUMENT

Revenue needed to support fund activities is presented in detail with summaries at the revenue category level. For each revenue item, data is presented for the prior biennium actual amount received, the total estimated for the current biennium, the current biennial budget, and the budgeted amount for the coming biennium.

City of Kirkland 2013 - 2014 Budget Revenues						
		2009 - 2010	2011 - 2012	2011 - 2012	2013 - 2014	Percent
		Actual	Estimate	Budget	Budget	Change
Fund:	General Fund (010)					
Department:	General					
Division:	Not Applicable					
Key:	General Fund (010000000)					
Taxes						
Property Tax-Real & Personal	3111001	19,406,680	29,139,092	29,311,574	33,573,159	14.53%
Property Tax-Fire Dist 41	3111003	0	1,872,041	0	0	0.00%
Property Tax-Fire Dist 34 36	3111004	0	441,120	0	0	0.00%
Retail* SalesUse Tax	3131001	24,161,815	27,087,143	26,857,909	0	0.00%
Retail Sales Use Tax	3131101	0	0	0	29,177,093	0.00%
Annexation Sales Tax	3131201	0	4,503,687	4,539,657	6,831,252	50.47%
Brokered* Nat Gas Use Tax	3136001	1,343	6,640	0	0	0.00%
Brokered Nat Gas Use Tax	3136101	0	0	0	6,400	0.00%
Crim Justice-Local Sales Tax	3137101	1,909,248	2,776,055	2,718,109	3,301,260	21.45%
Rev Generating Regulatory Lic	3161001	3,961,246	4,650,734	4,730,369	4,679,290	-1.07%
Admissions *Tax	3162001	219,263	239,670	216,000	0	0.00%
Electric Utility Tax-Private	3164101	5,446,852	7,082,800	7,303,604	8,019,140	9.79%
Gas Utility Tax-Private	3164301	2,024,170	2,798,711	2,365,263	3,324,982	40.57%
Television Cable-Private	3164601	1,834,263	2,749,418	2,314,257	3,128,271	35.17%
Telephone Utility Tax-Private	3164701	5,711,942	5,516,220	7,120,628	5,806,793	-18.45%
Water Customer Utility Tax	3164811	0	0	0	2,524,566	0.00%
Sewer Customer Utility Tax	3164812	0	0	0	2,422,103	0.00%
Solid Waste Customer Util Tax	3164813	0	0	0	2,908,321	0.00%
Surface Water Cust Util Tax	3164814	0	0	0	1,264,133	0.00%
Water *Customer Utility Tax	3167201	1,779,704	2,220,535	2,338,062	0	0.00%
Sewage* Customer Utility Tax	3167401	1,833,089	2,156,447	2,155,954	0	0.00%
Garb*Solid Waste Cust Util Tax	3167501	1,650,459	2,270,303	2,250,949	0	0.00%
Surface*Water Cust Utility Tax	3167801	755,952	1,111,913	1,056,312	0	0.00%
Punch Boards and Pull Tabs	3168101	0	0	0	242,233	0.00%
Bingo and Raffles	3168201	0	0	0	3,023	0.00%
Amusement Games	3168301	0	0	0	2,408	0.00%
Card Games	3168401	0	0	0	1,426,214	0.00%
Leasehold Excise Tax	3172001	125,676	246,065	120,000	236,000	96.66%
Enhanced *911 Access Lines	3174101	226,499	0	0	0	0.00%
Punch *Boards and Pull Tabs	3175101	348,214	223,527	280,000	0	0.00%
Bingo* and Raffles	3175201	5,259	6,458	4,000	0	0.00%
Amusement* Games	3175301	1,863	2,165	300	0	0.00%
Card *Games	3175401	0	775,035	693,238	0	0.00%
Admissions Tax	3181101	0	0	0	221,000	0.00%
Business *Tax Penalty Interest	3196001	9,470	12,589	4,200	0	0.00%



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FISCAL POLICIES



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FISCAL POLICIES

BACKGROUND AND PURPOSE

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

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

OPERATING BUDGET POLICIES

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

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

REVENUE AND EXPENDITURE POLICIES

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

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

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

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

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

- A request will not be approved at the same meeting at which it is introduced unless it is deemed an urgent community issue by a supermajority vote of the City Council. Requests made to Council outside of the formal budget adjustment process will be analyzed and presented to the Council for approval at the next regular Council meeting that allows sufficient time for staff to prepare an analysis and recommendation.

ENTERPRISE FUND POLICIES

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

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

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

CASH MANAGEMENT AND INVESTMENT POLICIES

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

- The City's idle cash will be invested on a continuous basis in accordance with the City's adopted investment policies.
- The City will maintain a formal investment policy which is reviewed and endorsed by state and/or national professional organizations. The complete policy can be found in the appendix of this document.
- The City will invest all funds (in excess of current requirements) based upon the following order of priority: 1) legality; 2) liquidity; 3) safety; and 4) yield.
- Investments with City funds shall not be made for purposes of speculation.
- The City is prohibited from investing in derivative financial instruments for the City's managed investment portfolio.
- Proper security measures will be taken to safeguard investments. The City's designated banking institution will provide adequate collateral to insure City funds.
- The City's investment portfolio will be reviewed every three years by a qualified portfolio valuation service to assess the portfolio's degree of risk and compliance with the adopted investment policies.
- An analysis of the City's cash position will be prepared at regular intervals throughout the fiscal year.

- The City Council will be provided with quarterly reports on the City's investment strategy and performance.
- Sufficient cash shall be maintained to provide adequate funds for current operating expenditures.
- Where permitted, the City will pool its cash resources from various funds ("Treasurer's Cash") for investment purposes.
- Net investment income from Treasurer's Cash will be allocated in accordance with KMC 5.24.060 considering 1) average cash balance of the participating fund and 2) the minimum cash balance needs of each fund as determined by the Director of Finance and Administration. Net investment income is the amount of annual investment proceeds after an allocation of earned interest is made to certain funds as required by the State and Council-directed obligations are met for General Fund purposes.
- The City of Kirkland will select its official banking institution through a formal bidding process in order to provide the City with the most comprehensive, flexible, and cost-effective banking services available.

ACCOUNTING, FINANCIAL REPORTING AND AUDITING POLICIES

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

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

RESERVE AND FUND BALANCE POLICIES

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

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

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

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

Reserve Purposes and Targets

- A Contingency Reserve Fund shall be maintained in accordance with RCW 35A.33.145 to meet any municipal expense, the necessity or extent of which could not have been reasonably foreseen at the time of adopting the biennial budget. The target balance will be set at 80 percent of the statutory maximum of \$0.375 per \$1,000 of assessed valuation.

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

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

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

Reserve Replenishment

- Reserve replenishments occur in two ways during periods of economic recovery:
 - Planned - A specific amount is included in the adopted budget, and
 - Unplanned - Ending fund balances are higher than budgeted, either due to higher than budgeted revenues or under-expenditures.
- Planned amounts are included as part of the adopted budget. Planned replenishments toward 80% of the target level shall be set to at least 1% of the General Fund adopted budget.

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

those funds should be applied to revenue stabilization reserve first.

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

DEBT MANAGEMENT POLICIES

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

- The City will maintain a formal Debt Management Policy which is reviewed and endorsed by state and/or national professional organizations. The complete policy can be found in the appendix of this document.
- City Council approval is required prior to the issuance of debt.

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

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

biennium review and update will take place during the first year of the biennium.

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

CAPITAL IMPROVEMENT POLICIES

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

- The City will establish and implement a comprehensive multi-year Capital Improvement Program.
- The Capital Improvement Program will be prepared biennially concurrent with the development of the biennial budget. A mid-



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