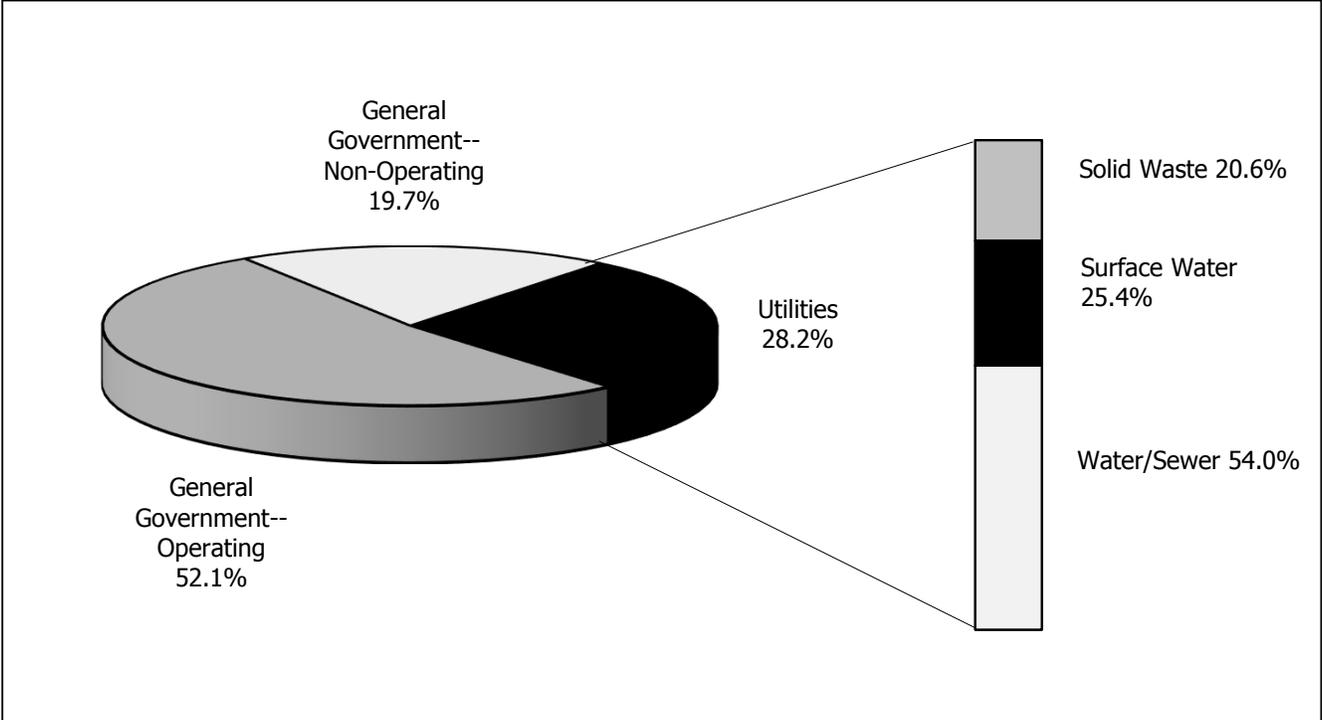


**CITY OF KIRKLAND
 2015-16 BUDGET
 \$584,061,831**



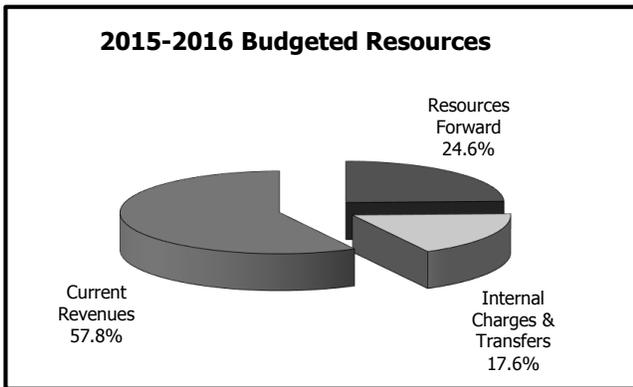
The City Budget is composed of General Government functions and the City's three Utilities which are operated as separate enterprises. Both the General Government and Utilities budgets have operating and non-operating components. The operating portion of the budget represents services to the public and support services within the organization. Non-operating budgets account for debt service, capital projects and reserves.



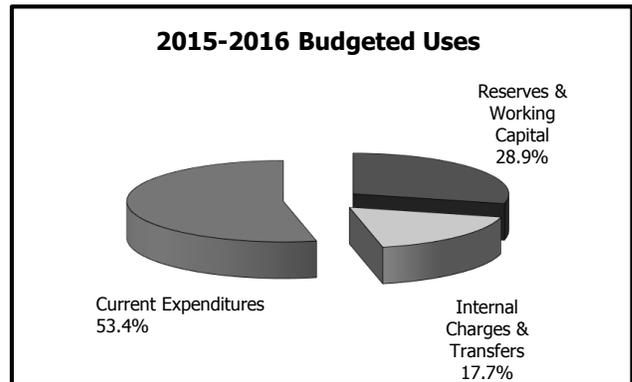
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**CITY OF KIRKLAND
2015-2016 TOTAL RESOURCES AND USES**

WHERE THE MONEY COMES FROM



WHERE THE MONEY GOES



Total Budgeted Resources	\$584,061,831
Less Resources Forward (Cash)	(143,171,171)
Less Internal Charges & Transfers	<u>(103,320,266)</u>
Current Revenues	<u>\$337,570,394</u>

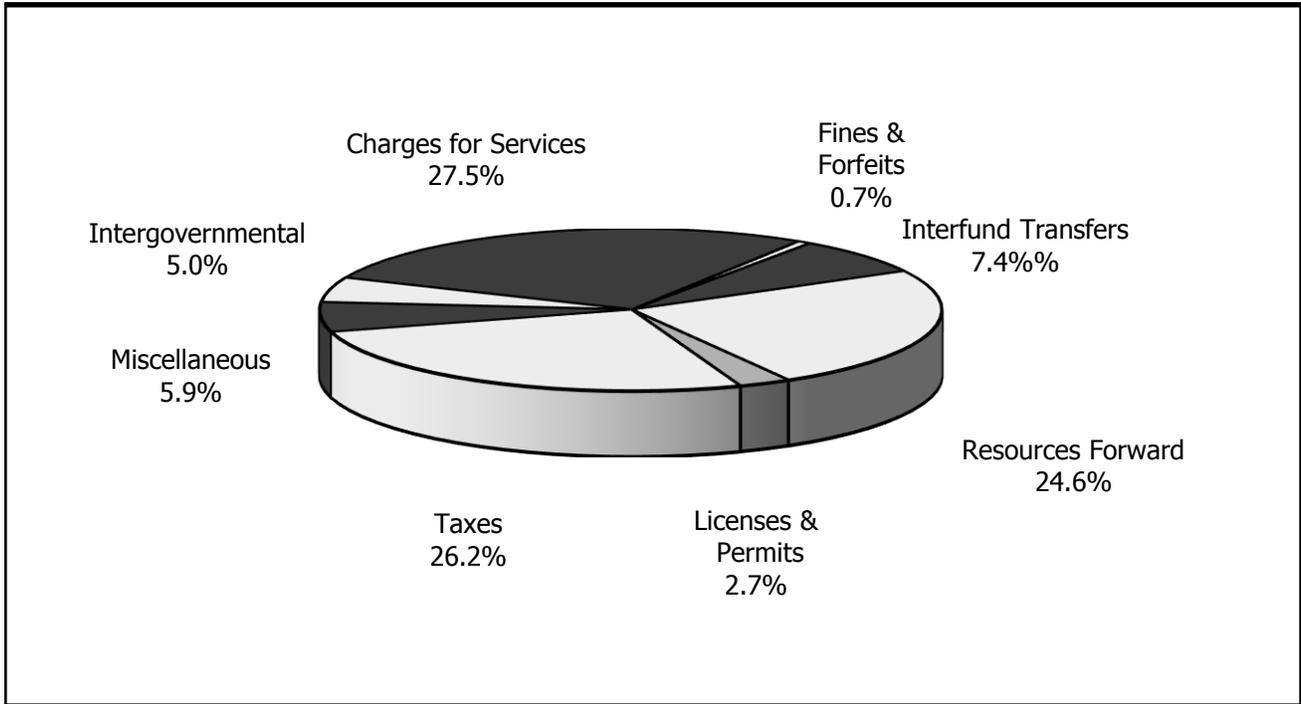
Total Budgeted Uses	\$584,061,831
Less Reserves & Working Capital	(168,772,679)
Less Internal Charges & Transfers	<u>(103,320,266)</u>
Current Expenditures	<u>\$311,968,886</u>

The total budget of \$584 million encompasses all resources and uses, including reserves, unreserved working capital, and internal transactions involving payments or transfers from one fund to another. Including these transactions in the budget provides a full accounting of the activities in each fund. However, they also have the effect of "grossing up" the total budget.

Current revenues reflect what the City expects to receive from external sources. Across all functions, about \$337.6 million is projected to be received during the next biennium, which is equivalent to the City's biennial income.

Current expenditures correspond to what the City plans to actually spend in terms of payments to employees, vendors, outside agencies, and other governments. About \$312 million is projected to be spent during the next biennium citywide. The \$25.6 million difference (current revenues in excess of current expenditures) primarily represents growth in reserves for future uses that are in the planning stages, including reserves for a fire station (\$3 million) and master plan projects that will be funded by impact fees (\$5.9 million) and Real Estate Excise Tax (\$14.99 million). Other various changes in reserves levels across funds account for the balance of the difference.

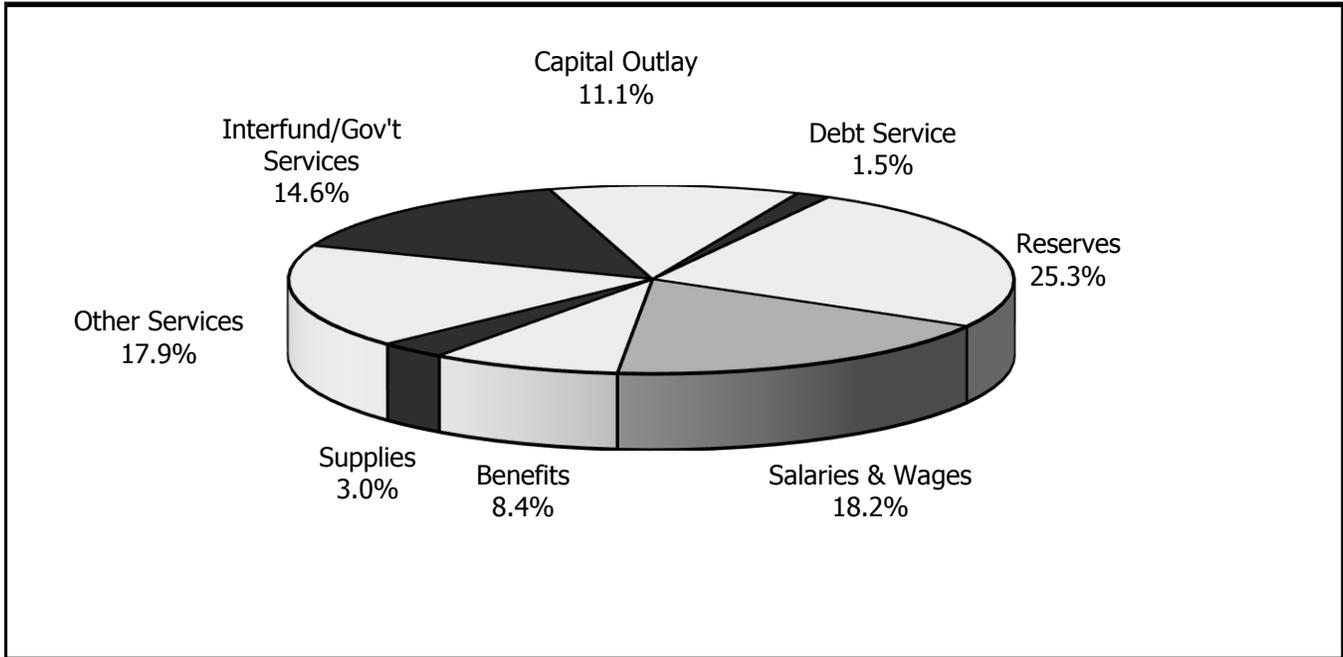
**CITY OF KIRKLAND
TOTAL BUDGET
2015-2016 REVENUE SUMMARY: BY REVENUE TYPE**



Analysis of Change

Revenue Sources	2011-12 Actual	2013-14 Budget	2015-16 Budget	Percent Change
Taxes	120,324,770	138,962,634	153,117,931	10.19%
Licenses and Permits	11,654,343	13,448,882	15,821,608	17.64%
Intergovernmental	16,292,052	37,841,486	29,468,850	-22.13%
Charges for Services	122,388,322	147,537,539	160,532,043	8.81%
Fines and Forfeits	3,951,553	3,858,924	4,380,426	13.51%
Miscellaneous	38,087,309	36,984,084	34,602,779	-6.44%
Interfund Transfers	48,711,883	55,213,706	42,967,023	-22.18%
Resources Forward	122,281,861	147,920,055	143,171,171	-3.21%
Total	483,692,093	581,767,310	584,061,831	0.39%

**CITY OF KIRKLAND
TOTAL BUDGET
2015-2016 EXPENDITURE SUMMARY: BY CATEGORY**



Analysis of Change

Category	2011-12 Actual*	2013-14 Budget	2015-16 Budget	Percent Change
Salaries & Wages	82,497,957	96,698,475	105,724,291	9.33%
Benefits	32,359,351	42,018,149	49,302,173	17.34%
Supplies	15,152,941	17,863,814	17,755,280	-0.61%
Other Services & Charges	87,024,316	103,664,228	104,438,450	0.75%
Intergovernmental/Interfund Services	67,507,659	87,646,222	85,082,075	-2.93%
Capital Outlay	31,829,075	132,017,774	64,960,823	-50.79%
Debt Service	11,173,045	10,843,493	8,802,159	-18.83%
Reserves	81,697,824	91,015,155	147,996,580	62.61%
Category Total	409,242,168	581,767,310	584,061,831	0.39%

*2011-12 reserves are budgeted, but not spent

CITY OF KIRKLAND
2015-2016 BUDGET OVERVIEW: BY FUND TYPE/FUND
General Government Operating Funds

Fund		2013-14 Budget	2015-16 Budget	Percent Change
<i>General Fund</i>				
010	General	178,638,538	194,798,557	9.05%
<i>Special Revenue Funds</i>				
112	Lodging Tax	707,327	834,672	18.00%
117	Street Operating	20,734,134	21,063,040	1.59%
122	Cemetery Operating	837,747	856,334	2.22%
125	Parks Maintenance	3,097,227	3,080,209	-0.55%
128	Parks Levy Fund	5,023,064	5,550,296	10.50%
Total Special Revenue Funds		30,399,499	31,384,551	3.24%
<i>Internal Service Funds</i>				
511	Health Benefits Fund	24,381,271	26,577,496	9.01%
521	Equipment Rental	19,112,149	21,842,793	14.29%
522	Information Technology	12,951,105	14,351,934	10.82%
527	Facilities Maintenance	13,082,995	15,114,669	15.53%
Total Internal Service Funds		69,527,520	77,886,892	12.02%
Total General Government Operating Funds		278,565,557	304,070,000	9.16%

General Government Non-Operating Funds

Fund		2013-14 Budget	2015-16 Budget	Percent Change
<i>Special Revenue Funds</i>				
152	Contingency	2,426,425	4,036,425	66.35%
156	Impact Fees	3,953,397	7,062,824	78.65%
190	Excise Tax Capital Improvement	12,846,786	20,864,944	62.41%
Total Special Revenue Funds		19,226,608	31,964,193	66.25%
<i>Debt Service Funds</i>				
210	LTGO Debt Service	7,721,892	6,837,479	-11.45%
220	UTGO Debt Service	6,364,593	1,453,331	-77.17%
Total Debt Service Funds		14,086,485	8,290,810	-41.14%
<i>Capital Projects Funds</i>				
310	General Capital Projects	60,789,680	37,855,498	-37.73%
320	Transportation Capital Projects	50,632,075	35,121,922	-30.63%
Total Capital Projects Funds		111,421,755	72,977,420	-34.50%

CITY OF KIRKLAND
2015-2016 BUDGET OVERVIEW: BY FUND TYPE/FUND
General Government Non-Operating Funds (Continued)

Fund	2013-14 Budget	2015-16 Budget	Percent Change
<i>Trust Funds</i>			
620 Firefighter's Pension	1,922,607	1,716,572	-10.72%
Total Trust Funds	1,922,607	1,716,572	-10.72%
Total General Government Non-Op Funds	146,657,455	114,948,995	-21.62%

Water/Sewer Utility Funds

Fund	2013-14 Budget	2015-16 Budget	Percent Change
<i>Operating Fund</i>			
411 Water/Sewer Operating	54,516,992	59,759,516	9.62%
Total Operating Fund	54,516,992	59,759,516	9.62%
<i>Non-Operating Funds</i>			
412 Water/Sewer Debt Service	2,225,742	1,368,834	-38.50%
413 Utility Capital Projects	23,349,803	28,019,650	20.00%
Total Non-Operating Funds	25,575,545	29,388,484	14.91%
Total Water/Sewer Utility Funds	80,092,537	89,148,000	11.31%

**CITY OF KIRKLAND
2015-2016 BUDGET OVERVIEW: BY FUND TYPE/FUND**

Surface Water Utility Funds

Fund		2013-14 Budget	2015-16 Budget	Percent Change
<i>Operating Fund</i>				
421	Surface Water Management	22,912,385	23,888,452	4.26%
Total Operating Fund		22,912,385	23,888,452	4.26%
<i>Non-Operating Fund</i>				
423	Surface Water Capital Projects	21,200,255	18,078,039	-14.73%
Total Non-Operating Funds		21,200,255	18,078,039	-14.73%
Total Surface Water Utility Funds		44,112,640	41,966,491	-4.87%

Solid Waste Utility Fund

Fund		2013-14 Budget	2015-16 Budget	Percent Change
<i>Operating Fund</i>				
431	Solid Waste Utility	32,339,121	33,928,345	4.91%
Total Operating Fund		32,339,121	33,928,345	4.91%
Total Solid Waste Utility Fund		32,339,121	33,928,345	4.91%

TOTAL ALL FUNDS		581,767,310	584,061,831	0.39%
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REVENUE

A guide to major revenue sources and trends



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REVENUE TRENDS & ASSUMPTIONS

TAXES

PROPERTY TAX

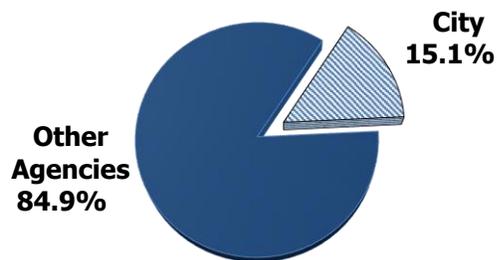
In Kirkland, property taxes fund services in the General, Street Operating, Parks Maintenance, and Parks Levy Funds. The Parks Maintenance Fund was created in 2003 as a result of a levy lid lift approved by voters in November 2002 to fund maintenance and operations for new parks. Another parks levy lid lift was approved by voters in November 2012 and it funds parks maintenance, some recreation programming (accounted for in the Parks Levy Fund), and provides funding for parks capital projects. Voters also approved a street maintenance and pedestrian safety levy in November 2012, which funds street preservation and maintenance projects in the Street Operating and Transportation Capital Projects funds.

Property taxes are the single largest revenue source for the City and the second largest source of revenue in the General Fund behind sales taxes. They are the largest revenue source for the Street Operating Fund, and the primary source of revenue in the Parks Maintenance and Parks Levy Funds.

All real and personal property (except where exempt by law) is assessed by the King County Assessor at 100 percent of the property's fair market value. Assessed values are adjusted each year based on market value changes.

Although property taxes represent a major source of funding for City services, the portion of each property owner's total tax bill allocated to the City is relatively small. Due to annexation, the City's rate varies depending on specific neighborhood. In 2015, the total typical property tax rate in Kirkland is \$9.97 per \$1,000 of assessed valuation. Of that total, about 15.1 percent, or \$1.50 per \$1,000 assessed valuation, goes to the City. This rate includes the 2002 and 2012 levy lid lifts for parks maintenance and the 2012 levy lid lift for street preservation and pedestrian safety.

2015 Property Tax Distribution



State statute limits the annual increase in the regular property tax levy to the lesser of one percent or the Implicit Price Deflator (an inflation factor published by the Bureau of Economic Analysis). The City can exceed the limitation with the approval of voters or by using levy capacity from prior years that was "banked" for future specified purposes. The City has used all of the banked levy.

The City is also provided an allowance for new construction, which entitles the City to the property tax revenue generated by newly constructed businesses and homes. The new construction levy does not increase the overall tax rate paid by property owners. The City's total rate cannot be more than \$3.15 per \$1,000 of assessed valuation.

The annual tax impact on a property owner is usually different than the percent increase of the levy, since it depends on several factors such as changes in the assessed valuation of the property, growth or decline in the City's overall assessed valuation, and levy increases by other taxing districts. The actual levy rate also

changes based on these variables. The property tax rate is determined by dividing the levy amount by the assessed valuation per \$1,000.

Budget

Property Tax	2015-16	2013-14
	\$56,625,255	\$54,128,548
General Fund	\$35,343,807	\$33,573,159
Street Operating Fund	\$5,546,681	\$5,271,499
Street Maintenance/Pedestrian Safety Levy (Street Operating Fund)	\$6,182,047	\$5,872,746
Parks Maintenance	\$2,598,920	\$2,474,910
Parks Levy Fund	\$2,348,669	\$2,106,077
Parks Levy allocated to Capital Projects	\$2,500,000	\$2,500,000
Fire District Debt Service	\$961,076	\$941,144
Voted Debt Service (UTGO Fund)	\$1,144,055	\$1,389,013

Trends and Assumptions

Methodology

- Based on prior year’s levy plus new construction and any additional levy increase up to one percent unless otherwise approved by voters.

Trends

- New construction as a percentage of each year’s total base regular levy has ranged between 0.34 percent and 3.94 percent over the last ten years.
- The 2014 new construction levy of \$352,187 added 1.35 percent to the total base regular levy for 2014.
- 2015-2016 Property Tax based on final property tax data received from King County.

Key Assumptions

- 1.65 percent growth in new construction in both 2015 and 2016.
- One percent optional levy increase in 2015 and 2016.

SALES TAX

Sales tax is one of the primary sources of funding for general City services, and is budgeted to be the largest single source of General Fund revenue in the 2015-16 biennium.

Sales tax is levied on the sale of consumer goods (except most food products and some services) and construction. In Kirkland, retail businesses are the largest generator of sales tax, followed by contracting, services, and wholesale businesses. The amount of revenue generated by sales tax fluctuates from year to year due to changes in the economy, buying habits of consumers, and the level of construction taking place in the City.

The general sales tax rate within the City of Kirkland is 9.5 percent. Of the 9.5 percent, 0.85 percent is returned to the City of Kirkland, and the remainder is distributed to the State, King County, and other public agencies. An additional 0.3 percent sales tax is collected by Washington State on vehicle sales and leases to fund transportation improvements. The distribution of the sales tax is displayed in the table to the right.

Jurisdiction	Rate (%)
State of Washington	6.50
King County/METRO	1.00
King County Criminal Justice Levy	0.10
City of Kirkland (1.0 with 0.15 remitted to King County for administrative costs)	
City Portion	0.85
County Portion	0.15
Regional Transit Authority	0.90
Total General Sales Tax Rate	9.50
Additional Auto Sales/Lease Rate	0.30
Total Auto/Sales Lease Rate	9.80

Budget

Sales Tax	2015-16	2013-14
	\$36,460,794	\$30,861,475
General Fund	\$36,460,794	\$30,321,475
Street Operating Fund*	\$0	\$540,000

*Funding for Transportation Capital Projects - paid from business license revenue in 2015-16

Trends and Assumptions

Methodology

- The City’s fiscal policy is to budget in the coming year an amount equivalent to the total expected sales tax revenue collected in the prior year. The 2014 revenue estimate projects revenues to be 9.9 percent higher than 2013. The 2015 and 2016 budget amounts are equal to the 2014 estimated revenue.

Trends

Annual sales tax over the last 6 years:

	2009	2010	2011	2012	2013	2014 Est.
Revenue (\$ millions)	12.24	12.81	13.39	14.34	16.34	17.96
% Change from Previous Year	-18.6%	4.7%	4.5%	7.1%	13.9%	9.9%

- Sales taxes have been recovering steadily since the “great recession” low in 2009, with particularly strong growth in 2013 and 2014.
- The City started receiving revenue from the annexation area in September 2011, which contributed about 1 percent of the gain for that year.

- Revenues over the past three years (2012-2014) have increased due to very large increases in automobile sales, strong improvement in development related activity and solid growth in the retail sectors.

Key Assumptions

- City sales tax rate of 0.85 percent (one percent less 0.15 percent remitted to King County for administrative costs).
- 2015 and 2016 budgeted sales taxes are based on 2014 estimated receipts.

STATE SALES TAX CREDIT

The City is eligible to receive a state sales tax credit for providing services in the annexation area and first imposed the tax in 2011 since annexation occurred in June of that year. The tax is a credit against the state sales tax, so it is not an additional tax to the consumer.

The purpose of the tax is to provide financial assistance to cities that annex an area where revenues received from the annexed area do not offset the costs of providing services to the area. For annexations greater than 20,000, a City can impose a rate of 0.2 percent. The tax is limited to no more than ten years from the date it is first imposed and must be used to provide services for the annexation area. If revenues do exceed the amount needed to provide services, the tax must be suspended for the remainder of the year. Prior to March 1 of each year, the City must notify the Department of Revenue of the maximum amount of distributions it is allowed to receive for the upcoming fiscal year.

Budget

Sales Tax Credit	2015-16	2013-14
	\$7,727,500	\$6,831,252
General Fund	\$7,727,500	\$6,831,252

Trends and Assumptions

Methodology

- Based on the difference of the amount the City deems necessary to provide services for the annexation area and the general revenue received from the annexation area.
- By state statute, the City must adopt a resolution each year and notify the Department of Revenue prior to March 1st of the estimated sales tax credit required to provide municipal services to the annexation area for the state fiscal year starting on July 1st.

Trends

- State sales tax credit is linked to regular sales tax and follows the same trends.

Key Assumptions

- 0.2 percent sales tax credit against the state sales tax.
- Based on estimated shortfall of revenue supporting municipal services in the neighborhoods in the annexation area.
- The amount of the credit is based on retail sales for the entire City of Kirkland, including the annexation area.

KING COUNTY CRIMINAL JUSTICE LEVY

Under the authority granted by the State and approved by the voters, King County levies an additional 0.1 percent sales tax to support criminal justice programs. The State collects this optional tax and retains 1.5 percent for administration. Of the amount remaining, 10 percent is distributed to the county and 90 percent is distributed to cities. This revenue must be used exclusively for criminal justice purposes and cannot replace existing funds designated for these purposes.

Budget

Criminal Justice Levy	2015-16	2013-14
General Fund	\$4,133,831	\$3,301,260

Trends and Assumptions

Methodology

- Distributed on the basis of population.

Trends

- 2014 revenue increased over 2013 by 2.3 percent.

Key Assumptions

- 2015-16 budget based on 2014 estimate plus 4 percent in 2015 and 3 percent in 2016.

UTILITY TAXES

Utility taxes are levied on the gross operating revenues that public and private utilities earn from operations within the boundaries of the City. This applies to electric, natural gas, water, sewer, surface water, solid waste, telephone, and cable TV utilities. Legislation passed in 1982 limits the tax rate on electric, gas, steam, and telephone utilities to six percent. The Cable Communication Policy Act of 1984 states that cable tax rates should not be higher than tax rates on other utilities. Currently, a six percent tax rate applies to both residential and commercial customers of these utilities.

There are no restrictions on the tax rates for water, sewer, surface water, and solid waste utilities. A Washington State Supreme Court decision ruled that fire hydrant maintenance must be paid from taxes rather than water utility rates. As a result, water rates were reduced to remove the costs of the protection and the water utility tax rate was increased as of 2011 to pay for hydrant maintenance from the General Fund.

The current effective tax rates for both residential and commercial customers for City utilities are as follows:

- Surface water utility: 7.5 percent
- Sewer and Solid Waste: 10.5 percent
- Water: 13.38 percent (reflects the impact of hydrant charges mentioned above)

Budget

Utility Taxes (General Fund)	2015-16 \$30,071,556	2013-14 \$29,398,309
Electric Utility (Private)	\$7,727,244	\$8,019,140
Gas Utility (Private)	\$3,054,376	\$3,324,982
Television Cable (Private)	\$3,223,700	\$3,128,271
Telephone Utility (Private)	\$6,426,862	\$5,806,793
Water Utility (City-owned)	\$2,773,878	\$2,524,566
Sewer Utility (City-owned)	\$2,566,069	\$2,422,103
Solid Waste Utility (City-contracted)	\$3,018,155	\$2,908,321
Surface Water Utility (City-owned)	\$1,281,272	\$1,264,133

Trends and Assumptions

Methodology

- Based on historical trends with greater emphasis on current year receipts.

Trends

- Telephone utility tax revenue declining due to changes in consumer behavior.
- Electricity, gas, and water utility tax revenues are sensitive to weather conditions that impact consumer demand for services.

Key Assumptions

- 2015-16 budget based on 2014 estimates plus one percent growth assumptions each year for private utilities and growth in public utilities based on approved changes in public utility rates.

REAL ESTATE EXCISE TAX

The Real Estate Excise Tax is levied on all sales of real estate, measured by the full selling price, including the amount of any liens, mortgages, and other debts given to secure the purchase. The State levies this tax at the rate of 1.28 percent. Cities are also authorized to impose a local tax of 0.50 percent. The first 0.25 percent tax must be used primarily for local capital improvements identified under the capital facilities plan element of the City’s Comprehensive Plan. The second 0.25 percent, which is optional, must be used to fund transportation capital projects according to City ordinance. State legislation temporarily allows for the use of a portion this revenue with restrictions for operations and maintenance of capital facilities as of 2011 through 2016. As a result, the City Council has approved one-time funding for park and street maintenance and operations, which continues through the 2015-2016 biennium.

Budget

Real Estate Excise Tax	2015-16	2013-14
	\$10,000,000	\$7,000,000
Excise Tax Capital Improvement Fund	\$10,000,000	\$7,000,000

Trends and Assumptions

Methodology

- Real estate excise tax collections are primarily a function of the real estate market and mortgage rates.

Trends

- 2013 revenues were significantly higher than expected, with actual revenues collected at 191 percent of budget. Revenue is expected to decrease about 18 percent in 2014 from 2013, but is still expected to finish the year at 158 percent of budget.
- 2013-14 revenue is expected to be 143 percent higher than 2011-2012 actual revenues, reflecting an increase in real estate sales activity.

Key Assumptions

- Real Estate Excise Tax of 0.5 percent.
- Current allocation for 2015-16 budget:
 - REET 1 -
 - Parks CIP \$1,547,000
 - Transportation CIP \$ 761,000
 - Teen Center Debt \$ 25,323
 - Parks Operations \$ 217,515
 - REET 2 -
 - Transportation CIP \$3,136,900
 - Streets Maintenance \$ 186,192

GAMBLING TAX

Gambling tax revenues are primarily used for gambling enforcement purposes. The maximum tax rates allowed by state statute are five percent for bingo, raffles, punchboards, and pull tabs and two percent for amusement games. The City Council amended the Kirkland Municipal Code (KMC) to prohibit card rooms beginning in 1999. On July 7, 2009, City Council adopted non-binding legislation (Resolution 4766), which expressed the City Council’s intent to allow the continued operation of existing card rooms in the annexation area if any such license exists. State legislation adopted in 2011 allows for the continued operation of existing card rooms without requiring the City to license card rooms. There is currently one establishment that meets this “grandfathered” requirement. The current tax rate on card rooms is 11 percent.

Budget

Gambling Tax	2015-16	2013-14
	\$1,754,627	\$1,673,878
Card Games (General Fund)	\$1,478,624	\$1,426,214
Other Revenue (General Fund)	\$276,003	\$247,664

Trends and Assumptions

Methodology

- Based on historical trends with greater emphasis on current year’s receipts.

Trends

- Gambling revenue expected to remain relatively constant between 2013 and 2014..

Key Assumptions

- Current establishments will continue to operate with stable activity.

LODGING TAX

A lodging excise tax of one percent is imposed on most short-term accommodations, such as hotels and motels. This revenue is limited to funding tourism promotion and the operation of tourism-related facilities.

Budget

Lodging Tax	2015-16	2013-14
	\$520,000	\$464,704
Lodging Tax Fund	\$520,000	\$464,704

Trends and Assumptions

Methodology

- Based on current year receipts.

Trends

- 2014 revenue expected to increase about 1.6 percent over 2013.

Key Assumptions

- Current establishments will continue to operate.

LICENSES AND PERMITS

BUILDING RELATED PERMITS

This category consists of revenue collected by the Building Division and the Public Works Department. Included in this category are building permits, plumbing permits, land surface modification permits, side-sewer permits, mechanical permits, electrical permits, and sign permits. Fees imposed for permits are subject to a base charge determined by the type of permit, plus additional fees determined by either the dollar value or size (square foot or number of units) of the project.

Budget

Building Permits	2015-16	2013-14
	\$5,555,118	\$4,043,050
General Fund	\$5,555,118	\$4,043,050

Trends and Assumptions

Methodology

- Based on historical trends, the number of permits pending in the planning process, and the Building Division's projections of upcoming construction projects.

Trends

- Development-related activity has improved dramatically in recent years, but trends have indicated that the rapid growth has leveled off to a sustained high level of activity; reflecting this trend, 2014 revenue is expected to be 1.6 percent higher than 2013.

Key Assumptions

- 2015-16 budget based on 2014 estimates, with current levels expected to continue.
- Potential impacts of redevelopment of two major shopping centers (Parkplace and Totem Lake) are not included in 2015-16 budget revenues.

BUSINESS LICENSES AND PERMITS

This category includes the issuance of business licenses and licenses for certain activities such as cabaret (live music/dancing), massage parlors, pawnbrokers or devices such as cigarette machines and amusement devices. The fee structure for business permits is typically an annual fee or one-time charge depending on the particular type of license or permit.

The business license fee structure has a \$100 base fee for annual renewals and an annual charge of \$100 per full time equivalent (FTE) for all employees of non-exempt businesses. This program also requires businesses with no physical presence in Kirkland that are doing business in the City (e.g. contractors) to obtain a business license. The base fee is considered a license revenue and the per FTE charge is considered a "revenue generating regulatory license."

Business license revenue is a dedicated funding source for transportation-related capital projects (\$540,000) during the biennium.

Budget

Business Licenses & Permits	2015-16	2013-14
	\$6,484,609	\$5,680,766
Revenue Generating Regulatory Fee	\$4,702,714	\$4,679,290
Business License Fee & Permits	\$1,241,895	\$1,001,476
Street Operating Fund (RGRL)*	\$540,000	\$0

*Funding for Transportation Capital Projects - paid from sales tax revenue in 2013-14

Trends and Assumptions

Methodology

- Based on current year receipts.

Trends

- The 2014 Revenue Generating Regulatory fee revenues are estimated to be about 4 percent higher than 2013.
- Economic improvements that have led to new businesses and employment growth have accounted for a strong increase in business license fees; 2014 is expected to increase 8.6% over 2013.

Key Assumptions

- 2015-16 budget based on 2014 estimates, with 2015 revenues budgeted one percent higher than 2014 and 2016 revenues budgeted at one percent above 2015.

FRANCHISE FEES

Franchise fees are charges levied on utilities for the right to use city streets, alleys and other public properties. Charges on light, natural gas, and telephone utilities are limited to the actual administrative expenses incurred by the City. Cable TV franchise fees are governed by federal rather than state law and may be levied at a rate of five percent of gross revenues, regardless of the cost of managing the franchise process. Franchise fees are also collected from the Northshore Utility District, Olympic Pipeline and Woodinville Water District.

Budget

Franchise Fees	2015-16	2013-14
	\$7,872,086	\$7,489,714
General Fund	\$7,872,086	\$7,489,714

Trends and Assumptions

Methodology

- Based on historical trends and rate increases approved at the time estimates are prepared.

Trends

- 2014 revenue is estimated to increase 2 percent over 2013 due to contractual increases.

Key Assumptions

- 2015-16 budget based on 2014 estimates plus the impact of utility rate increases and contractual increases.

INTERGOVERNMENTAL

EMERGENCY MEDICAL SERVICES (EMS) LEVY

This is a voter approved levy that is collected by King County and distributed to cities based on a formula. A six-year levy was approved by voters in November 2013.

Budget

EMS Levy	2015-16	2013-14
	\$1,822,723	\$1,769,290
General Fund	\$1,822,723	\$1,769,290

Trends and Assumptions

Methodology

- The current levy is set at a rate \$0.335 per \$1,000 of assessed valuation.
- Distribution is based on a formula that considers the number of calls for service, total assessed valuation, and the consumer price index (CPI-U).

Trends

- 2014 revenue is estimated to be equal to 2013
- Voters renewed the levy in 2013 to continue for 2014-2019.

Key Assumptions

- Estimate provided by King County.
- Growth of one percent from the optional property increase plus one percent new construction in each year.

LIQUOR BOARD PROFITS AND EXCISE TAX

A voter initiative approved in November 2011 eliminated the state monopoly on liquor sales and allows liquor sales in privately owned retail stores as of June 1, 2012. Profits from the state-owned liquor stores and liquor excise taxes have historically been shared with local governments to help defray the costs for policing of liquor establishments located within city limits.

The liquor board profits have been replaced with licensing fees charged to retailers as a result of the initiative (although the State is still calling them profits). Liquor taxes also continue to be collected on liquor sales. Under the law, profit distributions to local governments have been reduced by \$10 million per year but the law does require that local governments receive liquor board profits of no less than was received in the four quarters prior to passage of the initiative. In addition, \$10 million will be distributed to local governments statewide to enhance public safety programs due to the increased number of retailers.

Budget

Liquor Board Profits & Excise Tax	2015-16	2013-14
	\$1,768,501	\$1,813,911
Liquor Board Profits (Licensing Fees)	\$1,452,224	\$1,469,645
Liquor Excise Tax	\$316,277	\$344,266

Trends and Assumptions

Methodology

- Based on forecast provided by Municipal Research and Services Center (MRSC).

Trends

- 2014 revenue is estimated to be 15 percent higher than 2013.

Key Assumptions

- Per capita calculation from the MRSC (pessimistic forecast):
 - Liquor Excise Tax: \$1.91 per capita
 - Liquor Board Profits: \$8.77 per capita
- The pessimistic forecast for liquor excise tax assumes that diversions of liquor excise tax revenues in the State's current budget will continue into 2015-16.

MOTOR VEHICLE FUEL TAX ("GAS TAX")

In Washington State, cities receive a portion of the State-collected gasoline tax. The City allocates a set portion for capital construction and street preservation projects and the balance for street operations.

Budget

Motor Vehicle Fuel Tax (Street Operating Fund)	2015-16	2013-14
MVFT-Street Operations	\$2,157,821	\$2,255,658
MVFT-Capital	\$1,202,000	\$1,133,000

Trends and Assumptions

Methodology

- Estimate based on forecast provided by MRSC. Gas tax is imposed as a fixed amount per gallon of gas purchased (i.e. fluctuations in the price of gas will effect gas tax revenues only if consumption changes).

Trends

- 2014 revenue is estimated to be less than one percent higher than 2013, indicating a steady level of consumption.
- Statewide, the revenue base is decreasing as consumer gas consumption declines in response to higher gas prices and more efficient vehicles.

Key Assumptions

- Estimated annual per capita amount of \$20.29 in 2015 and 2016.

CHARGES FOR SERVICES

PLANNING FEES AND PLAN CHECK FEES

These fees are collected for development-related services involving the issuance of permits and the review of plans for compliance with the City's codes. Fees are generally collected at a level estimated to recover the cost of the service provided.

Budget

Planning Fees & Plan Check Fees	2015-16	2013-14
	\$3,767,944	\$3,599,072
General Fund	\$3,767,944	\$3,599,072

Trends and Assumptions

Methodology

- Based on historical trends, the number of development plans pending in the planning process, and the Building Division's projections of upcoming construction projects.

Trends

- 2014 revenue is expected to be 14 percent lower than 2013 due to several large development projects in 2013. However, the level of development activity remains high and is expected to remain at this level in the near term.

Key Assumptions

- 2015-16 budget based on 2014 estimates, with development activity expected to continue at 2014 levels.

EMERGENCY TRANSPORT FEE

The Kirkland Fire Department began its Basic Life Support (BLS) Transport User Fee Program in March 2011. The Program was established to create a sustainable revenue source to support essential emergency medical services. Fees from the BLS transport user fee help cover the cost of providing emergency medical service.

Budget

Emergency Transport Fee	2015-16	2013-14
	\$1,782,785	\$1,787,136
General Fund	\$1,782,785	\$1,787,136

Trends and Assumptions

Methodology

- Based on historical trends.

Trends

- 2014 revenue is expected to be 3.7 percent lower than 2013.

Key Assumptions

- 2015 budget based on 2014 estimates and 2016 is assumed to increase by 2 percent over 2015.

ENGINEERING DEVELOPMENT FEES

These fees are collected from developers for the inspection of public improvements associated with private developments under construction.

Budget

Engineering Development Fees	2015-16	2013-14
	\$2,370,000	\$1,657,300
General Fund	\$2,370,000	\$1,657,300

Trends and Assumptions

Methodology

- Based on historical trends.

Trends

- 2014 revenue is estimated to exceed budget, but is expected to be 21 percent lower than 2013 due to several large projects in 2013. The current level of development activity is expected to continue in 2015-16.

Key Assumptions

- 2015-16 budget based on estimated development activity continuing at 2014 levels.

TRANSPORTATION AND PARK IMPACT FEES

The City collects impact fees for transportation and parks. As authorized under the Growth Management Act, applicants of new development are charged for a change in use to pay for the cost of new public facilities that provide future capacity needed to accommodate new growth and development. The fees cannot pay for existing deficiencies in level of service for the public facilities or normal maintenance and repairs. The fee charged to each development is based on a proportionate share of the new facilities.

Budget

Impact Fees	2015-16	2013-14
	\$1,600,000	\$1,200,000
Road Impact Fees	\$1,000,000	\$700,000
Park Impact Fees	\$600,000	\$500,000

Trends and Assumptions

Methodology

- Based on historical trends.

Trends

- Increased development activity has improved this revenue significantly; 2013 revenues exceeded \$2 million due to several large projects. 2014 is estimated to finish the year with about 11 percent less revenue than 2013 due to fewer large projects, though collections remain robust.

Key Assumptions

- 2015-16 budget based on conservative projections using recent historical trends.

FINES AND FORFEITS / ENFORCEMENT FEES

The City of Kirkland and the State of Washington share revenue that is collected from fines, forfeitures, fees, costs, and penalties associated with the enforcement of ordinances and statutes. The type of statute violated determines the percentage of each payment that is retained by the City.

Budget

General Fund	2015-16	2013-14
	\$5,875,426	\$5,382,924
Fines and Forfeits	\$4,380,426	\$3,858,924
Probation Fees	\$1,230,000	\$1,290,000
Electronic Home Detention Fees	\$265,000	\$234,000

Trends and Assumptions

Methodology

- Based on the number of cases filed with the court and their disposition.

Trends

- 2014 fine revenues are expected to be less than one percent higher than 2013 revenues. Actual revenues in Fines and Forfeits have been higher than budget in 2013-14 due the filling of a vacant parking enforcement position.

Key Assumptions

- 2015-16 budget based 2014 estimates.

MISCELLANEOUS REVENUE

INVESTMENT INCOME

Available cash is pooled and invested for the benefit of designated funds and the General Fund. The amount of interest received will vary with interest rates and the amount of cash available for investments during any particular budget year. After satisfying the interest income obligations to funds required by the State to receive their own interest earnings and for the debt service and capital project commitments made by the Council, any remaining interest income is allocated to the General Fund.

Budget

Investment Income	2015-16	2013-14
	\$1,672,453	\$1,141,758
Various Funds	\$1,672,453	\$1,141,758

Trends and Assumptions

Methodology

- Interest earnings are estimated based on the current portfolio and expected interest rate trends.

Trends

- Interest rates are expected to grow compared to last biennium's historically low rates, which will increase interest revenue income. Economic conditions are improving and the bond market is generating higher yields for the City's investments reflected in the 2015-16 revenue estimates.

Key Assumptions

- Rates are expected to improve in 2015-16 when compared to the historically low rates in 2013-14.

RESOURCES FORWARD

Resources Forward represents the beginning fund balance and is comprised of the following: capital reserve, operating reserve, and working capital. A capital reserve is dedicated for the replacement of vehicles and computers and for funding major capital improvement projects. It also includes unspent bond proceeds related to the facilities expansion bond and Consolidated Fire Station projects. An operating reserve is an appropriated contingency account set aside for unanticipated expenditures. Working capital consists of excess net operating resources brought forward from the prior year to fund one-time “service packages” and equipment costs and to provide an operating cash flow buffer against seasonal fluctuations in revenues and expenditures. At the end of each year, it is the City’s practice to transfer net resources in excess of designated working capital from the General Fund to one or more of the City’s reserve funds.

Budget

Resources Forward	2015-16	2013-14
	\$143,171,171	\$147,920,055
All Funds	\$143,171,171	\$147,920,055

Trends and Assumptions

Methodology

- Amount budgeted must cover one-time service packages approved in the budget, any designated working capital, and operating or capital reserves.

Trends

- Not applicable.

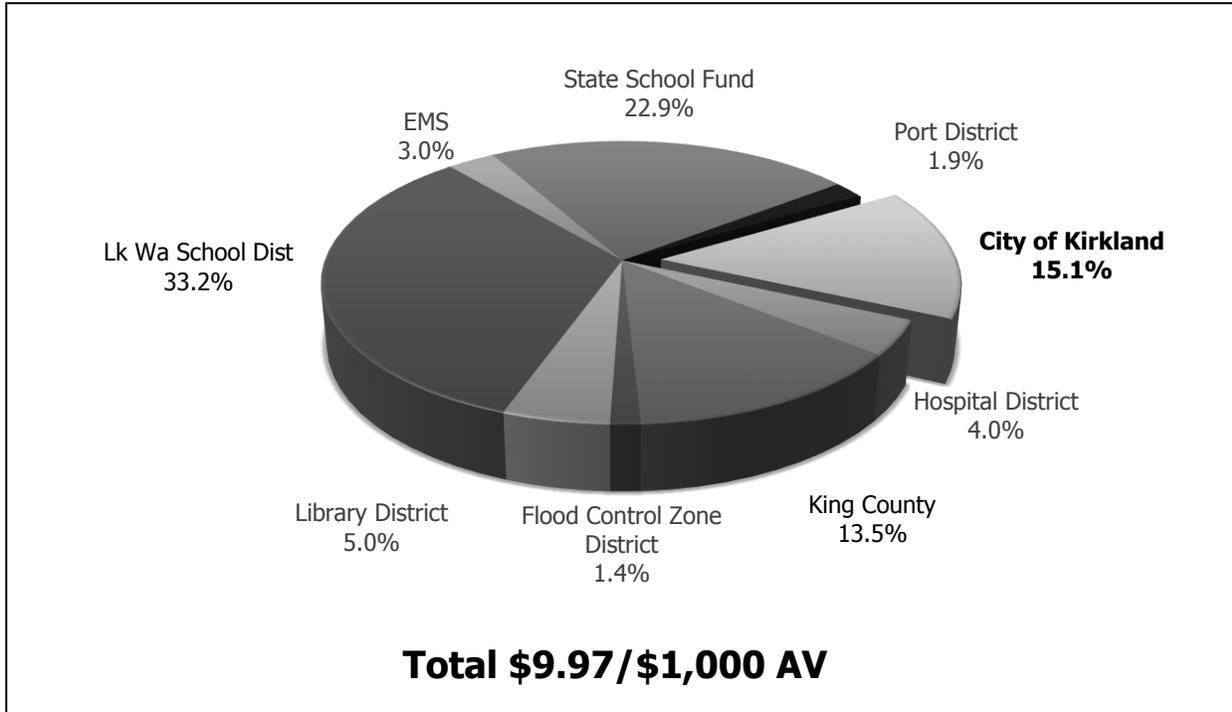
Key Assumptions

- Not applicable.



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CITY OF KIRKLAND 2015 PROPERTY TAX DISTRIBUTION



The City is limited to an annual increase on its regular property tax levy of the lesser of 1% or the Implicit Price Deflator, plus an allowance for new construction. The actual impact on an individual's property tax bill is not necessarily the same as the change in the levy. Other factors, such as the assessed valuation of the property, growth or decline in the City's overall assessed valuation, or levy increases (or decreases) of other governments will determine the final tax bill.

Although property taxes represent a major source of funding for City services, the portion of each property owner's total tax bill that goes to the City is relatively small. In 2015, the total typical property tax rate in Kirkland is \$9.97 per \$1,000 of assessed valuation. Of that total, about 15.1%, or \$1.50 per \$1,000 assessed valuation, goes to the City, of which \$0.04 is for voter-approved debt service (where applicable).

The graphic and narrative depict the most common tax distribution for Kirkland residents. Due to annexation, the City's rate varies from \$1.46 to \$1.57 depending on the specific neighborhood. Residents in the new neighborhoods do not pay for voter-approved debt prior to annexation. However, residents located within the former boundaries of Fire District #41 pay for bonds issued for the construction of a new fire station. In addition, there are variations in the taxing district boundaries within the city limits, so total tax rates vary as well.

CITY OF KIRKLAND

2015-2016 DISTRIBUTION OF INVESTMENT INCOME

Total Estimated Earnings		\$ 1,685,000
Earned Interest Allocated to Utility Funds		
Water/Sewer	341,037	
Surface Water Management	211,752	
Solid Waste	10,598	
Subtotal to Utility Funds		563,387
Earned Interest Allocated to Public Safety Building Bonds		-
Earned Interest Allocated to Consolidated Fire Station Bonds		54,196
Earned Interest Allocated to Self Insurance Fund		71,891
Earned Interest Allocated to Cemetery Improvement/Operating Fund		10,119
Earned Interest Allocated to Lodging Tax Fund		4,252
Earned Interest Allocated to Impact Fee Fund		71,239
Earned Interest Allocated to REET Fund		132,280
Earned Interest Allocated to Equipment Rental Fund		150,618
Earned Interest Allocated to the Firefighter's Pension Fund		22,437
Net to Allocate		604,581
Dedicated Proceeds (General Fund):		
Public Safety and Information Technology Equipment Replacement Sinking Fund		604,581
Net to Distribute		\$ -

BUDGET FOCUS

Selected schedules and charts focusing on key facts,
issues and processes reflected in the 2015-2016 Budget



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CITY OF KIRKLAND

FUND BALANCE AND RESERVES

Reserves and fund balance are two important indicators of the City’s fiscal health. Reserves represent “savings accounts” that are held to meet unforeseen budgetary needs (“general purpose reserves”). Some specialized reserves are dedicated by purpose and are held until an appropriate expenditure is needed (“special purpose reserves”). Fund balance includes both reserves and working capital. Working capital is needed within each fund to meet its cash flow needs.

The chart following this narrative summarizes the changes in fund balance across all funds. An analysis of the changes in fund balance is included with each section of the budget (i.e. General Government Operating, Water/Sewer Utility, etc.) in addition to the summary provided here. The analysis shows the 2016 delineation between reserved fund balance and working capital. The following narrative highlights the major reserve policy components as they are incorporated in the 2015-2016 Budget.

FUND BALANCE

Each fund begins the year with a beginning fund balance which may be comprised of: capital reserves, operating reserves, and unreserved working capital. As the year progresses, the expenditures made from the fund and revenues received will change the fund balance. A minimum amount of fund balance should be maintained in each operating fund to meet cash flow needs and, if needed, as a means of meeting commitments when a revenue shortfall occurs. A reduction in fund balance during the biennium (unless it is planned) can be seen as a potential sign of fiscal stress – current revenues are not adequate to meet current expenses. Fund balance in excess of the amount needed for minimum cash flow purposes can be used to fund one-time expenses or to replenish or enhance reserves. Budgeted fund balances recognize all cash resources estimated to be available as of the end of the biennium.

GENERAL PURPOSE RESERVES

General purpose reserves are available to meet a wide variety of contingencies. They are funded by general purpose revenues, which have no restrictions on the public purpose for which they are spent. The utility funds have a companion set of reserves distinct from those in the General Government category.

General Purpose Reserves are described in the City Fiscal Policies. The table below shows how the balance is expected to change during the biennium.

Reserves	Description	Estimated 2014 Ending Balance	Projected Changes	Estimated 2016 Ending Balance
GENERAL PURPOSE				
Contingency	Unforeseen expenditures	2,426,425	1,610,000	4,036,425
General Capital Contingency	Changes to general capital projects	3,729,946	1,193,843	4,923,789
General Oper. Reserve (Rainy Day)	Unforeseen revenues/temporary events	2,806,513	1,997,875	4,804,388
Revenue Stabilization Reserve	Temporary revenue shortfalls	2,570,090	278,130	2,848,220
Council Special Projects Reserve	One-time special projects	29,072	220,928	250,000
Building & Property Reserve	Property-related transactions	572,579	3,027,421	
	<i>Expected Use for Northside Fire Station</i>		<i>(3,000,000)</i>	600,000
Total General Purpose		12,134,625	5,328,197	17,462,822

SPECIAL PURPOSE RESERVES

Special purpose reserves are set by Council policy, management practice, or by state or local laws that govern their use. The following table shows how the balance is expected to change during the biennium.

Reserves	Description	Estimated 2014 Ending Balance	Projected Changes	Estimated 2016 Ending Balance
SPECIAL PURPOSE RESERVES				
General Fund Reserves:				
Litigation Reserve	Outside counsel costs contingency	(150,255)	300,255	150,000
Labor Relations Reserve	Labor negotiation costs contingency	74,928	(10,320)	64,608
Police Equipment Reserve	Equipment funded from seized property	50,284	10,000	60,284
LEOFF 1 Police Reserve	Police long-term care benefits	618,079	-	618,079
Development Services Reserve	Revenue and staffing stabilization	2,572,520	(84,683)	2,487,837
Development Services Technology Rsv.	Permit system replacement	1,040,324	(108,738)	931,586
Tour Dock	Dock repairs	206,271	65,850	272,121
Tree Ordinance	Replacement trees program	56,267	10,000	66,267
Donation Accounts	Donations for specific purposes	296,523	(40,184)	256,339
Revolving Accounts	Fee/reimbursement for specific purposes	843,808	136,494	980,302
Lodging Tax Fund	Tourism program and facilities	310,420	(154,732)	155,688
Cemetery Improvement	Cemetery improvements/debt service	736,215	(1,487)	734,728
Off-Street Parking	Downtown parking improvements	259,161	130,650	389,811
Firefighter's Pension	Long-term care/pension benefits	1,493,687	(266,615)	1,227,072
Total Special Purpose Reserves		8,408,232	(13,510)	8,394,722

GENERAL CAPITAL RESERVES

In addition to the General Capital Contingency shown under General Purpose Reserves, there are other capital reserves dedicated either by Council policy or by state or local laws that govern their use. The following table shows how the balance is expected to change during the biennium.

Reserves	Description	Estimated 2014 Ending Balance	Projected Changes	Estimated 2016 Ending Balance
GENERAL CAPITAL RESERVES				
Excise Tax Capital Improvement:				
REET 1	Parks/transportation/facilities projects, parks debt service	5,843,876	2,517,874	8,361,750
REET 2	Transportation capital projects	4,888,788	1,740,476	6,629,264
Impact Fees				
Roads	Transportation capacity projects	3,663,839	354,146	4,017,985
Parks	Parks capacity projects	1,727,746	154,316	1,882,062
Street Improvement	Street improvements	995,958	-	995,958
Total General Capital Reserves		17,120,207	4,766,812	21,887,019

UTILITY RESERVES

Utility reserves are available to meet a wide variety of contingencies, either by Council policy, management practice, or by state or local laws that govern their use. However, they can only be used in the utility. Following is a table with the preliminary 2016 estimated ending balance in these accounts.

Reserves	Description	Estimated 2014 Ending Balance	Projected Changes	Estimated 2016 Ending Balance
UTILITY RESERVES				
Water/Sewer Utility:				
Water/Sewer Operating Reserve	Operating contingency	2,414,471	245,461	2,659,932
Water/Sewer Debt Service Reserve	Debt service reserve	498,591	2,433	501,024
Water/Sewer Capital Contingency	Changes to Water/Sewer capital projects	1,107,600	(494,300)	613,300
Water/Sewer Construction Reserve	Replacement/re-prioritized/new projects	10,051,937	539,970	10,591,907
Surface Water Utility:				
Surface Water Operating Reserve	Operating contingency	706,364	186,942	893,306
Surface Water Capital Contingency	Changes to Surface Water capital projects	845,163	(453,783)	391,380
Surface Water Construction Reserve	Replacement/re-prioritized/new projects	5,656,579	2,171,624	7,828,203
Total Utility Reserves		21,280,705	2,198,347	23,479,052

INTERNAL SERVICE FUND RESERVES

There are four internal service funds with reserves dedicated either by Council policy or by state or local laws that govern their use. These funds include the Health Benefits, Equipment Rental, Information Technology and Facilities Maintenance funds. Revenue to these funds is derived primarily from user charges to other funds. Following is a table with the preliminary 2016 estimated ending balance in these accounts.

Reserves	Description	Estimated 2014 Ending Balance	Projected Changes	Estimated 2016 Ending Balance
INTERNAL SERVICE FUND RESERVES				
Health Benefits:				
Claims Reserve	Health benefits self insurance claims	2,376,642	(318,331)	2,058,311
Rate Stabilization Reserve	Rate stabilization	1,000,000	-	1,000,000
Equipment Rental:				
Operating Reserve	Unforeseen operating costs	268,494	22,321	290,815
Vehicle Reserve	Vehicle replacements	10,068,738	(1,613,004)	8,455,734
Radio Reserve	Radio replacements	59,463	15,301	74,764
Information Technology:				
Operating Reserve	Unforeseen operating costs	413,663	88,412	502,075
PC Replacement Reserve	PC equipment replacements	459,063	162,402	621,465
Technology Initiative Reserve	Technology projects	207,517	(207,517)	-
Major Systems Replacement Reserve	Major technology systems replacement	656,200	215,800	872,000
Facilities Maintenance:				
Operating Reserve	Unforeseen operating costs	550,000	-	550,000
Facilities Sinking Fund	20-year facility life cycle costs	1,897,262	1,196,782	3,094,044
Total Internal Service Fund Reserves		17,957,042	(437,834)	17,519,208

RESERVES WITH TARGETS

There are some reserves listed above for which the City of Kirkland City Council has adopted reserve targets as described in the City Fiscal Policies. The table below compares the estimated ending 2016 balance to the 2015-16 reserve target.

Reserves	Estimated 2014 Ending Balance	Estimated 2016 Ending Balance	2015-16 Target	Revised Over (Under) Target
GENERAL PURPOSE RESERVES WITH TARGETS				
Contingency	2,426,425	4,036,425	5,536,076	(1,499,651)
General Capital Contingency	3,729,946	4,923,789	5,701,001	(777,212)
General Oper. Reserve (Rainy Day)	2,806,513	4,804,388	4,771,993	32,395
Revenue Stabilization Reserve	2,570,090	2,848,220	2,848,220	-
Council Special Projects Reserve	29,072	250,000	250,000	-
Building & Property Reserve	571,579	600,000	600,000	-
General Purpose Reserves with Targets	12,133,625	17,462,822	19,707,290	(2,244,468)
ALL OTHER RESERVES WITH TARGETS				
Excise Tax Capital Improvement:				
REET 1	5,843,876	8,361,750	1,732,329	6,629,421
REET 2	4,888,788	6,629,264	2,436,255	4,193,009
Other Reserves with Targets	10,732,664	14,991,014	4,168,584	10,822,430
Total Reserves with Targets	22,866,289	32,453,836	23,875,874	8,577,962

CITY OF KIRKLAND
CHANGE IN FUND BALANCE (Beginning 2013 to Ending 2016)
SUMMARY OF ALL FUNDS

	General Government		Utility			All Funds
	Operating Funds	Non-Operating Funds	Water/Sewer Utility	Surface Water Utility	Solid Waste Utility	
2013 Actual Beginning Fund Balance	49,501,858	60,202,814	21,538,939	15,917,614	508,830	147,670,055
<i>Reserved</i>	<i>28,231,930</i>	<i>19,716,172</i>	<i>9,525,977</i>	<i>6,002,901</i>	-	<i>63,476,980</i>
<i>Unreserved Working Capital</i>	<i>21,269,928</i>	<i>40,486,642</i>	<i>12,012,962</i>	<i>9,914,713</i>	508,830	<i>84,193,075</i>
Plus: 2013-14 Estimated Revenues	239,762,531	73,073,159	61,061,364	26,767,181	31,977,520	432,641,755
Less: 2013-14 Estimated Expenditures	233,715,289	87,672,468	57,164,982	26,730,692	31,857,208	437,140,639
2014 Estimated Ending/2015 Budgeted Beginning Fund Balance	55,549,100	45,603,505	25,435,321	15,954,103	629,142	143,171,171
Plus: 2015-16 Budgeted Revenues	248,520,900	69,345,490	63,712,679	26,012,388	33,299,203	440,890,660
Less: 2015-16 Budgeted Expenditures	254,568,092	79,482,764	71,627,268	30,262,145	32,765,202	468,705,471
2016 Budgeted Ending Fund Balance	49,501,908	35,466,231	17,520,732	11,704,346	1,163,143	115,356,360
<i>Reserved</i>	<i>37,389,667</i>	<i>35,109,770</i>	<i>14,366,163</i>	<i>9,112,889</i>	-	<i>95,978,489</i>
<i>Unreserved Working Capital</i>	<i>12,112,241</i>	<i>356,461</i>	<i>3,154,569</i>	<i>2,591,457</i>	<i>1,163,143</i>	<i>19,377,871</i>
Change in Fund Balance: Beginning 2013 to Ending 2016	50	(24,736,583)	(4,018,207)	(4,213,268)	654,313	(32,313,695)

Notes:

Change in Fund Balance depicts the effects of the current and coming year's financial transactions on available resources. A minimum level of fund balance must be maintained in each fund to assure adequate cash flow. In all cases, fund balance is at or above the minimum level. A negative change in fund balance is not necessarily a reflection of a problem. Rather, it typically reflects the use of accumulated resources for planned expenditures (e.g. use of bond proceeds for capital projects). The significant decline in non-operating funds is partially due to the planned expenditure of bond proceeds on capital projects during the biennium.

Greater detail regarding the change in fund balances can be found in the following sections: General Government Operating Funds, General Government Non-Operating Funds, Water/Sewer Utility Funds, Surface Water Utility Funds and Solid Waste Utility Fund.

CITY OF KIRKLAND POSITION SUMMARY

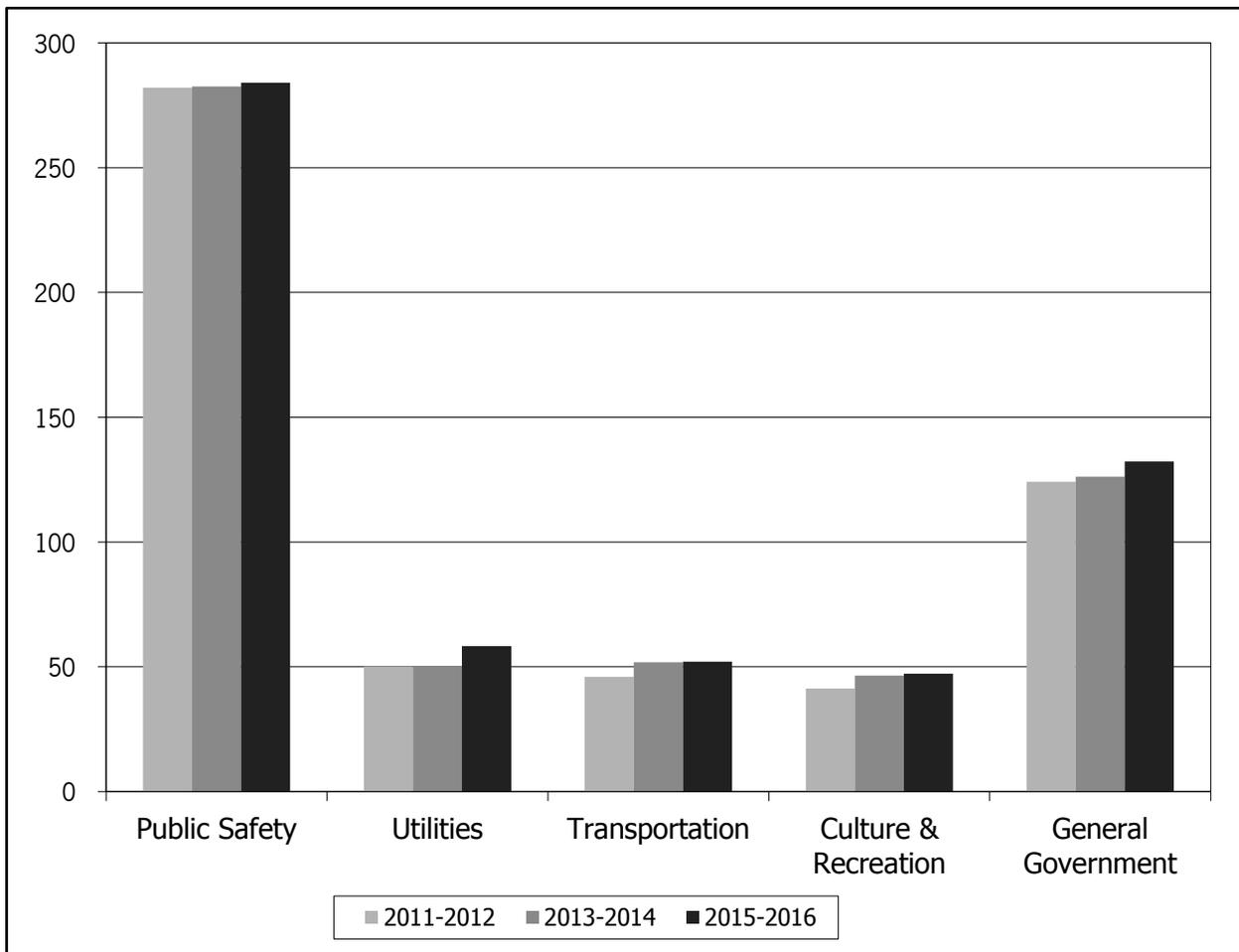
By Fund

Fund/Department	2011-2012	2013-2014	2015-2016
<i>General Fund:</i>			
City Council	7.00	7.00	7.00
City Manager's Office	8.65	8.54	9.94
Human Resources	8.70	8.70	8.90
City Attorney's Office	4.00	4.00	4.00
Municipal Court	22.25	18.75	18.75
Parks and Community Services	31.00	30.00	31.00
Public Works	25.35	30.95	31.20
Finance and Administration	32.80	33.80	35.30
Planning & Community Development	24.25	23.45	24.45
Police	137.50	135.50	136.00
Fire and Building	122.28	128.28	129.28
Total General Fund	423.78	428.97	435.82
<i>Other General Gov't Operating Funds:</i>			
Lodging Tax	0.60	0.66	0.66
Street Operating	20.65	20.90	20.90
Parks Maintenance	10.25	9.25	8.50
2012 Parks Levy	0.00	7.25	7.75
Facilities Maintenance	6.35	7.95	7.95
Equipment Rental	7.30	7.40	7.40
Information Technology	24.50	24.70	26.70
Total Other General Gov't Operating Funds	69.65	78.11	79.86
<i>Utility Funds:</i>			
Water/Sewer Operating	19.81	19.76	21.26
Surface Water Management	27.59	27.69	34.19
Solid Waste	2.80	2.80	2.80
Total Utility Funds	50.20	50.25	58.25
Total Positions	543.63	557.33	573.93

CITY OF KIRKLAND POSITION SUMMARY

By Program

Program	2011-2012	2013-2014	2015-2016
Public Safety	282.03	282.53	284.03
Utilities	50.20	50.25	58.25
Transportation	46.00	51.85	52.10
Culture & Recreation	41.25	46.50	47.25
General Government	124.15	126.20	132.30
Total Positions	543.63	557.33	573.93



CITY OF KIRKLAND PAYMENTS TO OTHER GOVERNMENT AGENCIES

Approximately \$43.4 million, or 7.43 percent, of the City's total 2015-2016 budget for general government operations, water/sewer operations, surface water management operations, and solid waste operations is paid to other governmental agencies. The City either absorbs annual increases in payments to other agencies through growth in general revenue sources (e.g. Air Pollution Control) or passes them along to users through charges for service (e.g. Sewage Treatment and Water Purchases).

Service	Agency	2013-2014 Budget	2015-2016 Budget
Sewage Treatment ¹	King County	14,540,725	15,644,234
Alcohol Treatment ¹	King County	6,885	35,370
Air Pollution Control ¹	King County	89,395	159,954
Prisoner Expense ¹	Various ²	2,428,991	871,597
Marine Patrol ¹	King County	155,600	134,000
Hazardous Waste Fee ¹	King County	915,000	1,002,000
Solid Waste "Tipping" Fees ¹	King County	6,397,945	6,444,181
Surface Water Billing Charge ¹	King County	200,000	275,000
Animal Control ¹	King County	61,400	24,600
Election Costs ¹	King County	643,600	536,800
Other Permits and Services ^{1,3}	King County	41,800	33,600
Subtotal King County		25,481,341	25,161,336
Water Purchase ¹	Cascade Water Alliance	8,576,884	9,413,295
Water Connection Charges ¹	Cascade Water Alliance	1,020,000	1,300,000
Police and Fire Dispatch ¹	NORCOM	4,678,657	5,454,242
Housing Trust Fund ¹	ARCH	671,817	790,000
ARCH Dues ¹	ARCH	175,000	209,200
State Purchasing Contract ¹	State of Washington	2,500	4,000
Financial Audits ¹	State of Washington	157,000	157,000
800 MHz Radios (Public Safety) ¹	EPSCA	240,163	238,465
On-Line Services ¹	eCity Gov Alliance	283,114	402,745
SWAT Membership ¹	Northsound Regional SWAT	-	16,000
WACIC, NCIC, ACCESS Service Lines ¹	Washington State Patrol	5,280	4,200
Community Connectivity Consortium ¹	Community Connectivity Consortium	7,140	7,140
Hazardous Materials Unit ¹	Regional Haz Mat Agreement	15,104	19,078
Healthcare Assessments ¹	U.S. Government	2,000	192,654
Other Permits and Services ^{1,3}	Various Gov't Agencies	54,480	16,700
Total Payments to Other Agencies		41,370,480	43,386,055
Percent Increase (Decrease) from Prior Biennium			4.87%

¹ These services are mandatory contractual obligations with other governments. The rates are established by the contractor agency. 2013-2014 includes budgeted amount subsequently used to fund firing range construction.

² King, Snohomish, Yakima and Okanagan Counties; and Cities of Enumclaw and Issaquah. Utilization of these facilities is expected to decrease due to the completion of the jail at the Kirkland Justice Center.

³ Includes fees such as: health permits, recording fees, Crimestoppers membership, and other miscellaneous fees

CITY OF KIRKLAND

HUMAN SERVICES FUNDING

Funding for Human Services is incorporated into a variety of operating and non-operating budgets. The following summary provides funding for 2015-2016.

Program/Funding Source	2013-2014 Budget	2015-2016 Budget
Human Services Program (includes per capita allocation)	1,428,516	1,559,742
Human Services Forum and Other Regional Programs	27,450	27,450
Social Worker at John Muir Elementary	-	23,504
Human Services Coordination	306,383	316,225
Senior Center Operations	1,069,672	1,107,224
King County Alcohol Treatment Programs	6,885	35,370
A Regional Coalition for Housing (ARCH)--Operations ^{1,2}	846,817	999,200
Community Youth Services Program/Teen Center	621,395	629,008
Teen Mini Grants	17,000	17,000
Domestic Violence Programs	754,835	796,847
Police School Resource Program	259,205	519,753
Senior Discounts for Utility and Garbage Services	78,967	79,996
Kirkland Cares (assistance with utility bills from utilities customer donations)	8,000	8,000
Specialized Recreation Program	14,000	14,000
Recreation Class Discounts	2,000	6,000
Total Human Services Funding	5,441,125	6,139,319

TOTAL SPENDING PER CAPITA 2013-2014: \$ 66.78

TOTAL SPENDING PER CAPITA 2015-2016: \$ 74.33

¹ 2013-14 ARCH funding reflects the base budget amount of \$175,000, one-time service package funding of \$600,000 and one-time

² 2015-16 ARCH funding reflects the base budget amount of \$ 209,200, ongoing service package funding of \$160,000 from Community one-time service package funding of \$630,000

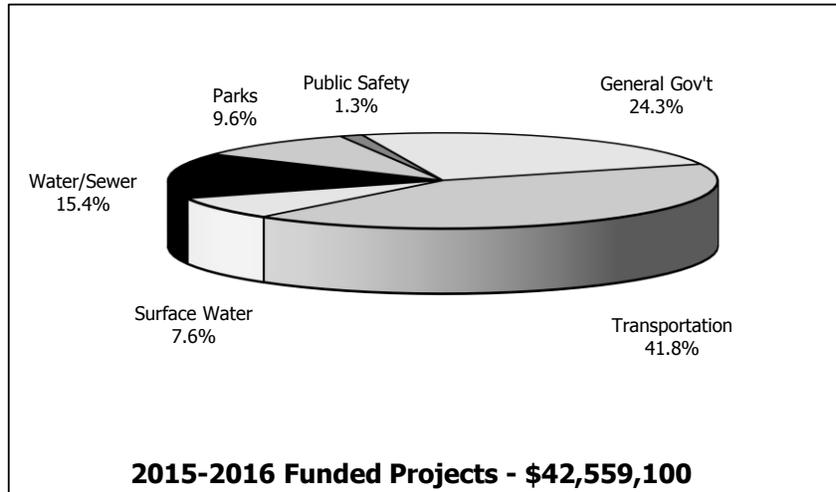
CITY OF KIRKLAND SUMMARY OF LEGAL SERVICES

General legal counsel is provided by the in-house City Attorney's Office. Prosecution and public defender services are provided by outside attorneys through contracts with the City. The 2015-2016 budget includes a decrease in Prosecution and an increase in Public Defender Legal Services. In certain specialized matters, the City is represented by other outside counsel. The Litigation Reserve budget for 2015-2016 reflects setting aside funds for outside counsel in the event they were needed to resolve a potential legal matter. The higher amount in 2013-2014 reflects activity associated with acquisition of the Cross Kirkland Corridor.

Legal Service	Budgeted Fund	2013-2014 Budget	2015-2016 Budget	Percent Change
<i>General Legal Services</i>	General Fund	1,473,768	1,618,046	9.79%
<i>Litigation Reserve</i>	General Fund	450,000	150,000	-66.67%
Subtotal General Legal Services and Litigation		1,923,768	1,768,046	-8.09%
<i>Public Safety Legal Services</i>				
Prosecution	General Fund	773,400	716,000	-7.42%
Public Defender	General Fund	508,800	510,000	0.24%
Subtotal Public Safety Legal Services		1,282,200	1,226,000	-4.38%
Total All Legal Services		3,205,968	2,994,046	-6.61%

CAPITAL IMPROVEMENT PROGRAM (CIP)

CIP AT A GLANCE



- **TRANSPORTATION** includes improvements to streets, sidewalks, intersections, and non-motorized facilities.
- **SURFACE WATER** includes improvements to the City's surface water management system.
- **UTILITIES** includes maintenance, replacement, and new capacity improvements for the City's water and sanitary sewer systems.
- **PARKS** includes projects for acquisition, development, repair, and replacement of park facilities and equipment and improvements to the Kirkland Cemetery.
- **PUBLIC SAFETY** includes buildings and equipment to support the City's police, fire, and emergency management functions.
- **GENERAL GOVERNMENT** includes improvements that are not specific to other areas and benefit all (or several) functions.

More information regarding capital projects is provided in this document in the Capital Project Funds, Water/Sewer and Surface Water Utility sections. Project details are available electronically with an interactive map on the City's website

http://www.kirklandwa.gov/depart/Public_Works/Construction_Projects/Capital_Improvements.htm

CIP POLICIES AND PROCESS

The City will establish and implement a Comprehensive Six-Year Capital Improvement Program that will be prepared and formally adopted by the Council biennially during an odd-numbered year. In the "off" years, however, the CIP can be modified as needed by Council based on changing priorities or new funding source opportunities.

A full update of the City's Capital Improvement Program (CIP) has been delayed until 2015 to coincide with the culmination of various citywide planning efforts that are part of the Kirkland 2035 plan, including:

- Parks and Recreation and Open Space Plan;
- Transportation Master Plan;
- Surface Water Master Plan; and,
- Water and Sewer Comprehensive Plan.

As such, project funding tables in the 2015-16 Budget document represent projects adopted in the 2013 - 2018 CIP, as modified by interim processes including the 2014 mid-biennial budget update.

A capital improvement is defined as the construction of new facilities; the expansion, large scale renovation, or replacement of existing facilities; the acquisition of land; or the purchase of major pieces of equipment, including major replacements funded by the Equipment Rental Fund or those that are associated with newly-acquired facilities.

A capital improvement must meet all of the following criteria:

- It is an expenditure that can be classified as a fixed asset.
- It has an estimated cost of \$50,000 or more (with the exception of land).
- It has a useful life of ten years or more, with the exception of certain equipment that may have a shorter life span.

The six-year CIP includes projects that replace or maintain existing assets, provide required capacity needed to meet growth projections and the adopted level of service, and projects that enhance capacity or services to the public.

PROCESS FOR DEVELOPING THE CIP

All capital improvement projects are subject to a biennial review and revision based upon community needs, priorities, and the availability of funding. The process reflects the need to periodically re-assess and re-prioritize the City's capital needs and includes the following steps:

- Each department is responsible for planning and prioritizing all capital project proposals within their scope of operational responsibility. Departments are provided broad funding guidelines and prepare descriptions of new projects to be considered, revisions to existing projects, and a progress report for current year projects.
- The City Manager reviews each department's requests and a recommended Preliminary Capital Improvement Program is prepared for consideration by the City Council.
- The City Council holds a public hearing to gather citizen comment and revises and/or adopts the CIP recommendation.
- The capital improvement budget for the first and second year of the adopted CIP are formally adopted by the City Council as part of the biennial budget process.
- During the first year of the adopted CIP (an odd-numbered year) an update is prepared by the departments and adopted by the Council to recognize any project modifications resulting from new funding opportunities, changing priorities and project timing changes. The second year of the revised capital improvement budget is incorporated into and adopted with the mid-biennial budget update.
- The City Manager and City departments implement the first two years of the CIP, providing periodic progress reports and updates to the City Council.

FUNDING

There are four major categories of funding for CIP projects: current revenue, reserves, debt and external sources.

Current Revenue is the estimate of annual new revenue that will be received from existing, authorized revenue sources. Certain revenue streams historically have been dedicated to funding the CIP either through legal mandate or Council policy. The funded projects in the CIP acknowledge those funding sources and also utilize reserves to some extent.

Legal restrictions apply to some revenue sources. Gas tax is dedicated to transportation purposes. Utility connection charges and utility rates are restricted to utility projects. The first quarter percent real estate excise tax (REET 1) is restricted to capital purposes, but can be utilized for almost any category of capital projects (except computer equipment). The second quarter percent real estate excise tax (REET 2) is designated for transportation capital improvements. Road impact fees are dedicated to transportation capital improvements that provide new capacity. Park impact fees are likewise dedicated to park

purposes. Recently voter-approved property tax levy lid lifts provide funding for transportation and park projects.

Reserves are cash resources that accumulate from prior years and are derived from a variety of revenue sources. The CIP utilizes reserves to a limited extent to fund projects. Although use of reserves is always an option to supplement annual revenue streams, it is a one-time solution using a finite resource. Reserves are used to address short term or time-limited funding deficits.

The 2015-2016 Budget also includes sinking funds for public safety and information technology equipment replacements that are funded by transfers-in of current revenues.

Debt represents a commitment to repay over a long period of time. Debt can take a number of forms including voter-approved general obligation bonds, councilmanic (non-voted) bonds, and utility revenue bonds. The City also has been awarded low interest loans from the State's Public Works Trust Fund that have an interest rate of one to three percent, depending on the amount of the City's matching funds.

External Sources are primarily grants, but could include contributions from the private sector or other governmental agencies.

Some capital projects generate future operating costs that are considered when the Council reviews the CIP. Operating costs are listed in the detailed project summaries of the CIP. New operating costs for 2015-2016 that are related to completed CIP projects are highlighted in each department's summary. Projects approved for 2015-2016 are included in the General Government and Utilities non-operating sections of this document. Estimated operating impacts are also included in the summary of 2015-2016 projects.

The table below summarizes annual funding sources as presented in the 2013-2018 CIP.

**2014 Update to 2013-2018 Capital Improvement Program
Revenue Projections (in thousands)**

Dedicated Revenue	2013	2014	2015	2016	2017	2018	6-Year Total
Transportation							
Gas Tax	567	575	592	610	628	647	3,619
Business License Fee/Sales Tax ¹	270	270	270	270	270	270	1,620
Utility Rates	950	1,200	500	500	500	500	4,150
REET 1	353	364	375	386	398	410	2,286
REET 2	1,071	1,103	1,071	1,170	1,205	1,242	6,862
Impact Fees	350	1,551	350	350	350	350	3,301
Street & Pedestrian Safety Levy	2,559	2,574	2,600	2,600	2,600	2,600	15,533
Parks Levy ²	500	-	-	-	-	-	500
Solid Waste Street Preservation	300	300	300	300	300	300	1,800
REET 2 Reserve	1,315	1,268	480	416	416	416	4,311
External Sources	4,444	16,265	4,974	-	-	-	25,683
Subtotal Transportation	12,679	25,470	11,512	6,602	6,667	6,735	69,665
Parks							
REET 1	718	740	762	785	809	833	4,647
Impact Fees	-	-	-	-	-	-	-
Parks Levy ²	725	1,250	1,250	1,250	1,250	1,250	6,975
REET 1 Reserve	385	764	-	-	-	-	1,149
King County Park Levy ³	200	200	200	200	200	200	1,200
External Sources	-	90	-	-	-	500	590
Subtotal Parks	2,028	3,044	2,212	2,235	2,259	2,783	14,561
General Government: Technology, Facilities & Public Safety							
General Fund Contributions for:							
Public Sfty. Equip. Sinking Fund	1,700	500	1,150	500	500	500	4,850
Technology Equip. Sinking Fund	950	450	950	450	450	450	3,700
Utility Rates	150	203	150	150	150	150	953
IT Fund Operating Cash	75	-	193	-	-	-	268
Tech Initiative Reserve	1,694	386	259	178	-	-	2,517
Maj Sys Replacement Rsv	746	59	78	207	-	-	1,090
Facilities Life Cycle Reserve	102	490	364	191	617	921	2,685
General Capital Reserves	434	8,021	95	-	-	-	8,550
Debt	20,907	4,978	5,805	-	-	-	31,690
External Sources	846	2,564	2,050	-	-	-	5,460
Subtotal General Government	27,604	17,651	11,094	1,676	1,717	2,021	61,763
Utilities							
Utility Connection Charges	865	865	865	865	865	865	5,190
Utility Rates - Surface Water	1,588	1,608	1,685	1,685	1,685	1,685	9,936
Utility Rates - Water/Sewer	2,656	2,950	3,387	3,612	3,612	3,612	19,829
Debt	886	3,152	-	-	-	-	4,038
Reserves	4,009	1,069	50	-	50	-	5,178
External Sources	224	1,183	-	-	-	-	1,407
Subtotal Utilities	10,228	10,827	5,987	6,162	6,212	6,162	45,578

¹ Allocation from Sales Tax 2013-2014; from Regulatory Business License Fee 2015-2018

² \$500,000 of Park Levy funding in 2013 is allocated for Cross Kirkland Corridor projects in the Transportation CIP

³ King County Park Levy funding 2014-2018 allocated for replenishment of General Capital Contingency for purchase of Yuppee Pawn Shop Property

POLICY ISSUES

Funding for capital projects continues to be a major issue facing the City. While progress has been made over the year in some areas (e.g. Parks), funding for transportation improvements has been below the level needed to meet many of the projects identified in the master planning processes. Two property tax levy lid lifts were approved by Kirkland voters in 2012 that provide additional funding for street preservation, pedestrian safety, and park projects, which are included in the current CIP.

Some specific funding sources for capital projects have been positively impacted by the recent economic upturn in development (impact fees) and real estate sales activities (REET). The allocation of these two revenues in the current CIP has been conservative pending the completion of the Transportation Master Plan and the Parks, Recreation & Open Space Plan. Excess revenues from these and other sources will be available to meet needs identified during the next CIP process in 2015.

Investment interest revenue was historically a source of funding for some general government projects. This revenue has remained very low due to the current interest rate environment, which created a funding deficit related to these needs. To address this issue, the City Council approved a sinking fund concept to provide stable funding for replacement of major public safety and technology infrastructure equipment that are included in general government projects. The sinking fund is funded from General Fund revenues, so this obligation has been incorporated in the operating budget in 2015-2016. The City has already established sinking funds for capital projects related to vehicle replacements and maintenance and repair of City-owned facilities.

Assessing capital needs in neighborhoods added during the 2011 annexation is a continuing process and an important component of the update to the various master plans. The full update of the CIP in 2015-2016 will provide an opportunity to prioritize needs and identify funding sources. Also, under Council direction, efforts are currently underway to study community support, design and siting of a large aquatics and recreational facility, which most likely require voter-approved debt for funding. This project is an unfunded project in the current CIP.

PROJECT HIGHLIGHTS

Notable project highlights for 2015-2016 include:

Parks — The property tax levy lid lift approved by voters in 2012 provides additional funding for projects, which for 2015-2016 include the Juanita Beach bathhouse and shelter replacement, dock and shoreline renovations, and Edith Moulton Park renovations.

Facilities — The City took advantage of an opportunity to issue debt at historically low interest rates toward the end of 2010 to address a significant facility issue facing the City—space. The Kirkland Justice Center was completed in 2014, which houses the Police Department, Jail and Municipal Court. Major projects addressing the space issue in 2015-2016 include a major renovation of City Hall and a fire station consolidation project. The fire station project is currently in review and may change depending on the outcome of coverage needs for response time in the area, which could result in building a new station and renovating an existing station. A project to renovate/expand the Maintenance Center was funded in a previous CIP, but the project is currently on hold until sizing and siting options are finalized.



Transportation — The property tax levy lid lift approved by voters in 2012 provides additional funding for street preservation, which supports the goal of dependable infrastructure. The levy will also provide funding for pedestrian safety projects, including safe school walk routes. The City acquired the 5.75 mile segment of rail corridor running through the middle of the city from the Port of Seattle in 2011. The corridor passes through several neighborhoods and connects two important transportation hubs. A master planning process started for the “Cross Kirkland Corridor” in 2013-2014, as well as construction of an interim trail. More information can be found on the City’s website http://www.kirklandwa.gov/Residents/Community/Cross_Kirkland_Corridor.htm.



Other significant projects currently underway include the implementation of an intelligent transportation system to address traffic congestion, Park Lane pedestrian improvements, 85th Corridor intersection and pedestrian improvements, and the extension of NE 120th Street, a key component for economic development of an important business district—the Totem Lake area. A significant project in 2015-2016 includes the construction of a pedestrian bridge, connecting the Cross Kirkland Corridor and South Kirkland Park and Ride. Infrastructure improvements around the Google campus, which has a major expansion under construction, include traffic signals and sidewalks primarily funded by the developer.

Utilities (Water and Sewer) — In 2015-2016, the City is investing in water and sewer main replacements around the new Google Campus expansion in the Houghton neighborhood. Significant projects in 2013-2014 include replacements along two important business districts, the 85th Corridor and Park Lane.

Surface Water — Surface water enhancements along Lake Washington Boulevard are highlighted in 2015-2016, along with replacements of other aging surface water infrastructure throughout the City. In 2013-2014, flooding issues in Totem Lake were remedied through the construction of culverts and other flood control measures. A project to construct a decant facility to handle material removed from surface water facilities during cleaning was budgeted in 2014 and is currently in development.