



Financial Management Report as of June 30, 2016

AT A GLANCE:

Solarize Kirkland program encourages community buying power (page 2)

2016 second quarter general fund revenues increased 8.2% over 2015 (page 3)

Sales tax revenue grew 7.8% in the second quarter (page 5)

Unemployment is static, Seattle inflation grows, and the housing market continues to improve (pages 7-8)

The City's portfolio outperformed both the 90 day T Bill and the 2 year rolling average of the 2 year Treasury note (page 8)

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Summary of All Operating Funds: *Revenue*

- General Fund** revenue ended June **8.2 percent ahead** of 2015, an increase of \$3,610,349. The increase is largely the result of higher Planning Check Fees, Sales Taxes and Revenue Generating Regulatory Licenses. Actual revenues finished the quarter at 53.7 percent of budget, 50 percent of the way through the year. A more detailed analysis of General Fund revenue can be found on page 3, and details on sales tax revenue begin on page 5.
- Other General Government Funds** revenue finished the quarter **5.2 percent higher** than 2015, up \$695,164. **The Information Technology Fund and Street Operating Fund** accounted for the majority of the growth, up **7.2 and 5.4 percent** respectively. Information Technology Fund revenue grew largely due to charges received for temporary GIS services provided in support of the Lucity Enterprise Asset Management project, while the Street operating Fund revenue grew largely due to two factors, including higher gas tax revenue as a result of state legislative increases in fall 2015 and an insurance recovery for a traffic signal that was knocked down on Willows Road.
- Actual revenue for total Other Government revenues, excluding interfund transfers, was at 52.2 percent of budget. All funds, with the exception of Lodging Tax, were at or above 50%; Lodging tax was 40% of budget due to seasonality of Hotel and Motel Tax receipts, the majority of which are collected in the late summer and early fall.
- Water/Sewer Operating Fund** second quarter revenue is **up 1.4 percent** from 2015. Actual revenue for the quarter was **45.3 percent of budget**. Growth over 2015 is largely due to higher collections from commercial and residential sewer usage charges.
- Surface Water Management Fund** revenues finished June at **53.9 percent of budget**. Revenues through the second quarter of 2016 were **2.1 percent lower** than they were during the same period in 2015. The decrease is due to lower grant revenue in 2016. In 2015, the City received grant revenue from the Department of Ecology for local source control and the Environmental Protection Agency for Totem Lake/Juanita Creek Basin storm water control design. Excluding the impacts of these grants, revenue would otherwise be 1.8 percent higher than in 2015, led by growth in Storm drainage fees.
- Solid Waste Fund** finished the first half of the year with **49.5 percent of budgeted revenues**. Actual revenues were 1.8 percent higher than in 2015. Commercial collection led the way, with 4.2 percent higher collections in 2016.
- Overall, utility fund revenues through the second quarter were **up 0.8 percent** compared to 2015, and finished the first half of 2016 at **48.2 percent of budget**.

| Resources by Fund | Year-to-Date Actual | | | Budget | | | % of Budget | |
|--------------------------------------|---------------------|-------------------|-------------|--------------------|--------------------|-------------|--------------|--------------|
| | 6/30/2015 | 6/30/2016 | % Change | 2015 | 2016 | % Change | 2015 | 2016 |
| General Gov't Operating: | | | | | | | | |
| General Fund | 43,965,832 | 47,576,181 | 8.2% | 86,443,318 | 88,658,144 | 2.6% | 50.9% | 53.7% |
| Other General Gov't Operating Funds | 13,421,895 | 14,117,059 | 5.2% | 26,531,966 | 27,050,873 | 2.0% | 50.6% | 52.2% |
| Total General Gov't Operating | 57,387,727 | 61,693,240 | 7.5% | 112,975,284 | 115,709,017 | 2.4% | 50.8% | 53.3% |
| Utilities: | | | | | | | | |
| Water/Sewer Operating Fund | 12,018,020 | 12,185,914 | 1.4% | 26,451,995 | 26,905,563 | 1.7% | 45.4% | 45.3% |
| Surface Water Management Fund | 5,530,845 | 5,414,122 | -2.1% | 9,939,650 | 10,047,501 | 1.1% | 55.6% | 53.9% |
| Solid Waste Fund | 8,149,159 | 8,318,464 | 2.1% | 16,445,443 | 16,853,760 | 2.5% | 49.6% | 49.4% |
| Total Utilities | 25,698,024 | 25,918,500 | 0.9% | 52,837,088 | 53,806,824 | 1.8% | 48.6% | 48.2% |
| Total All Operating Funds | 83,085,751 | 87,611,740 | 5.4% | 165,812,372 | 169,515,841 | 2.2% | 50.1% | 51.7% |

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

Kirkland Paves the Way for Online Commerce

Thanks to a grant awarded by the Washington State Department of Commerce, the City of Kirkland, in partnership with Pacific Northwest Pollution Prevention Resource Center (PPRC), will be conducting outreach to neighborhoods and businesses about a solar purchasing program. Solarize Kirkland is designed to encourage a group purchase, or "bulk buy," of solar arrays and the campaign aims to help Kirkland residents and businesses achieve an affordable and successful solar installation. The program provides a reduced cost and easy installation of solar panels on homes, businesses, and multi-family units. The City will host two informational workshops for home and business owners and property managers: July 16 and August 11, from 7 to 9 p.m., at Kirkland City Hall, Council Chambers, 123 Fifth Avenue. Two other workshops will be held in September, but are not yet scheduled.

This type of program has been widely successful in many locations including Seattle, Snohomish County, and more broadly on a national scale, from Portland to New York – with savings as much as 20% on average when compared to acquiring solar systems independently.

Summary of All Operating Funds: *Expenditures*

- **General Fund** expenditures (excluding transfers) finished the second quarter of 2016 **up 3.5 percent** from the year before. Actual expenditures finished at **48.9 percent of budget**. Intergovernmental Professional Services led the growth with a \$656,278, or 40 percent, increase over last year. This is because of a one-time pass through payment made to Bellevue related to the 'A Regional Coalition for Housing' project. Personnel services grew 2.8 percent above last year, due to movement through salary steps and collective bargaining contract increases. An analysis of General Fund expenditures by department can be found on pages 4 and 5.

Other General Government Operating Funds actual expenditures were **9.5 percent higher** than 2015, largely due to increases in the Street Operating Fund. Street Operating Fund expenditures **increased 35.7 percent** due to the hiring of temp employees, increased Utility Services charges for a full year of street light funding in the annexed area, and Capital Outlays. Capital Outlays expenditures in 2016 were for median landscaping improvements, originally budgeted in 2015. The Parks Levy Fund spent less than in 2015, **falling 10.7 percent**, due to the Green Kirkland program. In aggregate, other general government operating funds finished the first half of 2016 at **44.2 percent** of budgeted funds.

- **Water/Sewer Operating Fund** actual expenditures through the first half of the year were **4.1 percent higher** than in 2015. This was largely because of an increase in the Metro Sewer Charge, as well as expenditures on Other Services. Increases in Other Services were mostly for Professional Services related to the update of the Sewer Master Plan, which was originally budgeted for 2015. In total, the Water/Sewer fund finished June at **48.6 percent of budget**.

- **Surface Water Management Fund** expenditures at the end of the first quarter were **4.3 percent higher** than 2015. This increase is from salaries and benefits. Expenditures for labor were up through the second quarter due to acceleration of the work load for the Cochran Springs project. Surface Water Management's non personnel services spending was lower by comparison, due largely to higher one-time professional services spending in 2015 on grant funded work, including the Totem Lake/Juanita Creek basin design project and the Local Source Control program. Expenditures through the end of June were **lower than budgeted, at 45.6 percent** of budget.

- **Solid Waste Fund** expenditures through June were **1.4 percent higher** in 2016 than in 2015. Small increases in expenditures for the waste disposal contract (which was planned), personnel, and external taxes were the cause of the overall increase. Expenditures in the fund finished the second quarter at **49.9 percent of budget** which is in line with expected budget expenditures.

| Expenditures by Fund | Year-to-Date Actual | | | Budget | | | % of Budget | |
|--------------------------------------|---------------------|-------------------|-------------|--------------------|--------------------|--------------|--------------|--------------|
| | 6/30/2015 | 6/30/2016 | % Change | 2015 | 2016 | % Change | 2015 | 2016 |
| General Gov't Operating: | | | | | | | | |
| General Fund | 39,323,443 | 40,706,873 | 3.5% | 83,534,621 | 83,209,548 | -0.4% | 47.1% | 48.9% |
| Other General Gov't Operating Funds | 9,509,722 | 10,412,748 | 9.5% | 25,071,855 | 23,561,956 | -6.0% | 37.9% | 44.2% |
| Total General Gov't Operating | 48,833,164 | 51,119,621 | 4.7% | 108,606,476 | 106,771,504 | -1.7% | 45.0% | 47.9% |
| Utilities: | | | | | | | | |
| Water/Sewer Operating Fund | 10,698,547 | 11,132,137 | 4.1% | 22,929,938 | 22,912,557 | -0.1% | 46.7% | 48.6% |
| Surface Water Management Fund | 3,194,984 | 3,333,006 | 4.3% | 7,877,204 | 7,305,840 | -7.3% | 40.6% | 45.6% |
| Solid Waste Fund | 7,975,613 | 8,084,646 | 1.4% | 16,065,707 | 16,210,048 | 0.9% | 49.6% | 49.9% |
| Total Utilities | 21,869,144 | 22,549,789 | 3.1% | 46,872,849 | 46,428,445 | -0.9% | 46.7% | 48.6% |
| Total All Operating Funds | 70,702,308 | 73,669,409 | 4.2% | 155,479,325 | 153,199,949 | -1.5% | 45.5% | 48.1% |

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

General Fund Revenue

- **Sales tax** revenue allocated to the General Fund through the second quarter of 2016 was **7.8 percent higher** than it was in 2015. The bulk of this increase is in the Contracting, Other Retail, and Miscellaneous sectors. A detailed analysis of total sales tax revenue can be found starting on page 5.
- **Property taxes** through June were **2.9 percent higher** than 2015, **at 53.2 percent of budget**. This increase is slightly higher than budgeted growth expectations for the year, though this difference is likely due to the timing of payments.
- **Utility tax** collections finished June **flat** compared to results through June 2015. Growth in electric utility taxes were offset by declines in gas and telecommunications. Collections through June were at **49.6 percent** of budget.
- **Other taxes** actual revenues were **6.6 percent higher** than in 2015, and finished at **69.3 percent of budget**. This increase is the result of higher revenues from Punch Board, Pull Tabs, and Card Games.
- The **business licenses (base fee) and franchise fees** were **4.4 percent** higher than in 2015 and finished June **at 52.5 percent** of budget.
- Collections from the **revenue generating regulatory license fee** were **35.8 percent higher** than in 2015. Revenues were at **70.8 percent of budget**. A portion of this growth is one-time revenue, as the City identified businesses operating without licenses, some of them owing up to three years of back payments.
- **Plan check fees and planning fees** finished the quarter **up 86 percent** and **81.5 percent** respectively. **Building, Structural and Equipment permits** were **up 5.7 percent** and **Engineering Services charges** were **down 5.6 percent** compared to 2015. Much of the Planning Fee increases are due to activity at Totem Lake and Kirkland Urban, while the Building permit increase stems from a rush in activity in advance of a building code change in July. The drop in Engineering Services is related to abnormally high revenues in 2015 from Google Campus Phase 2 Expansion.
- **Fines and Forfeitures** were **down 15.8 percent from 2015** due to a decrease in both Traffic and Parking Infraction Penalties. However, an increase in Business License Penalties offset much of the lost revenue elsewhere. This revenue source finished June **at 34.5 percent of budget**. Traffic infraction penalties are not receipted in January, so the budget is collected in 11 months from February to December. Therefore, this category will be closer to budget by year end if past trends hold for the current year.
- **Miscellaneous** revenue finished March **15.7 percent up** from 2015 due to higher interest earnings and increased revenue from rental properties, most notably from the Yuppie Pawn Shop property. This category was **above budget projections at 87.9 percent of budget**.

General Fund revenues ended the second quarter \$3,610,348 higher than in 2015 largely due to growth in taxes and charges for services.

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

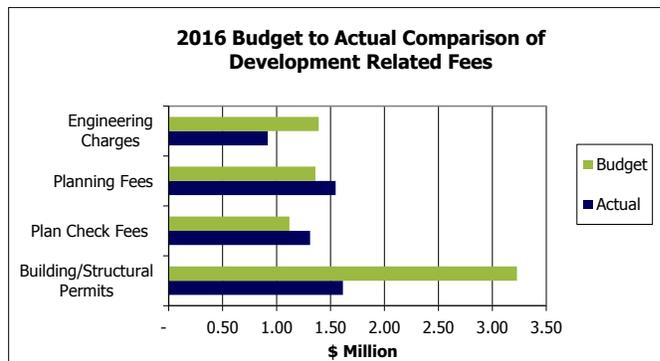
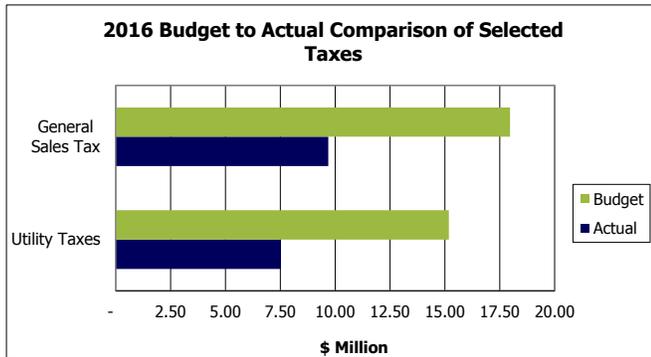
Many significant General Fund revenue sources are economically sensitive, such as sales tax and development-related fees.

About 441 of the City's 580 regular employees are budgeted within the general fund this year.

| General Fund Resource Category | Year-to-Date Actual | | | Budget | | | % of Budget | |
|--|---------------------|-------------------|---------------|-------------------|-------------------|---------------|--------------|--------------|
| | 6/30/2015 | 6/30/2016 | % Change | 2015 | 2016 | % Change | 2015 | 2016 |
| Taxes: | | | | | | | | |
| Retail Sales Tax: General | 8,986,333 | 9,684,732 | 7.8% | 17,963,747 | 17,963,747 | 0.0% | 50.0% | 53.9% |
| Retail Sales Tax Credit: Annexation | 1,503,302 | 1,574,244 | 4.7% | 3,792,500 | 3,935,000 | 3.8% | 39.6% | 40.0% |
| Retail Sales Tax: Criminal Justice | 1,001,583 | 1,099,881 | 9.8% | 2,036,370 | 2,097,461 | 3.0% | 49.2% | 52.4% |
| Property Tax | 9,243,806 | 9,515,458 | 2.9% | 17,456,855 | 17,886,952 | 2.5% | 53.0% | 53.2% |
| Utility Taxes | 7,526,842 | 7,525,779 | 0.0% | 15,015,081 | 15,175,950 | 1.1% | 50.1% | 49.6% |
| Rev Generating Regulatory License | 1,233,338 | 1,674,558 | 35.8% | 2,338,315 | 2,364,399 | 1.1% | 52.7% | 70.8% |
| Other Taxes | 697,199 | 742,893 | 6.6% | 1,063,075 | 1,072,758 | 0.9% | 65.6% | 69.3% |
| Total Taxes | 30,192,403 | 31,817,546 | 5.4% | 59,665,943 | 60,496,267 | 1.4% | 50.6% | 52.6% |
| Licenses & Permits: | | | | | | | | |
| Building, Structural & Equipment Permits | 1,528,627 | 1,615,401 | 5.7% | 3,219,731 | 3,227,201 | 0.2% | 47.5% | 50.1% |
| Business Licenses/Franchise Fees | 2,300,740 | 2,402,699 | 4.4% | 4,532,649 | 4,580,520 | 1.1% | 50.8% | 52.5% |
| Other Licenses & Permits | 301,407 | 306,677 | 1.7% | 444,563 | 519,801 | 16.9% | 67.8% | 59.0% |
| Total Licenses & Permits | 4,130,774 | 4,324,777 | 4.7% | 8,196,943 | 8,327,522 | 1.6% | 50.4% | 51.9% |
| Intergovernmental: | | | | | | | | |
| Grants and Federal Entitlements | 103,993 | 90,229 | -13.2% | 162,125 | 132,000 | -18.6% | 64.1% | 68.4% |
| State Shared Revenues & Entitlements | 569,308 | 671,527 | 18.0% | 1,098,514 | 1,339,360 | 21.9% | 51.8% | 50.1% |
| EMS | 0 | 0 | N/A | 902,338 | 920,385 | 2.0% | N/A | N/A |
| Total Intergovernmental | 673,301 | 761,756 | 13.1% | 2,162,977 | 2,391,745 | 10.6% | 31.1% | 31.8% |
| Charges for Services: | | | | | | | | |
| Internal Charges | 2,924,575 | 3,397,643 | 16.2% | 6,159,409 | 7,116,620 | 15.5% | 47.5% | 47.7% |
| Engineering Services | 972,401 | 917,678 | -5.6% | 1,400,887 | 1,391,146 | -0.7% | 69.4% | 66.0% |
| Plan Check Fee | 704,823 | 1,311,062 | 86.0% | 951,346 | 1,118,880 | 17.6% | 74.1% | 117.2% |
| Planning Fees | 851,957 | 1,546,363 | 81.5% | 1,457,383 | 1,359,493 | -6.7% | 58.5% | 113.7% |
| Recreation | 931,978 | 954,786 | 2.4% | 1,215,100 | 1,215,200 | 0.0% | 76.7% | 78.6% |
| Other Charges for Services | 958,846 | 948,049 | -1.1% | 1,980,204 | 2,093,739 | 5.7% | 48.4% | 45.3% |
| Total Charges for Services | 7,344,579 | 9,075,580 | 23.6% | 13,164,329 | 14,295,078 | 8.6% | 55.8% | 63.5% |
| Fines & Forfeits | 898,008 | 755,977 | -15.8% | 2,189,359 | 2,191,067 | 0.1% | 41.0% | 34.5% |
| Miscellaneous | 726,768 | 840,543 | 15.7% | 1,063,767 | 956,465 | -10.1% | 68.3% | 87.9% |
| Total Revenues | 43,965,832 | 47,576,181 | 8.2% | 86,443,318 | 88,658,144 | 2.6% | 50.9% | 53.7% |
| Other Financing Sources: | | | | | | | | |
| Interfund Transfers | 0 | 0 | N/A | 437,228 | 334,266 | -23.5% | N/A | N/A |
| Total Other Financing Sources | 0 | 0 | N/A | 437,228 | 334,266 | -23.5% | N/A | N/A |
| Total Resources | 43,965,832 | 47,576,181 | 8.2% | 86,880,546 | 88,992,410 | 2.4% | 50.6% | 53.5% |

*Budgeted and actual revenues exclude resources forward.

General Fund Revenue *continued*



General Fund Expenditures

| General Fund Department Expenditures | Year-to-Date Actual | | | Budget | | | % of Budget | |
|--|---------------------|-------------------|--------------|-------------------|-------------------|---------------|--------------|--------------|
| | 6/30/2015 | 6/30/2016 | % Change | 2015 | 2016 | % Change | 2015 | 2016 |
| Non-Departmental | 1,052,974 | 919,054 | -12.7% | 2,943,258 | 2,372,324 | -19.4% | 35.8% | 38.7% |
| City Council | 288,481 | 319,729 | 10.8% | 473,818 | 497,615 | 5.0% | 60.9% | 64.3% |
| City Manager's Office | 855,295 | 1,170,405 | 36.8% | 2,438,154 | 2,172,715 | -10.9% | 35.1% | 53.9% |
| Municipal Court | 1,187,391 | 1,224,459 | 3.1% | 2,445,952 | 2,456,641 | 0.4% | 48.5% | 49.8% |
| Human Resources | 706,357 | 730,527 | 3.4% | 1,492,619 | 1,541,006 | 3.2% | 47.3% | 47.4% |
| City Attorney's Office | 673,491 | 623,066 | -7.5% | 1,246,620 | 1,173,872 | -5.8% | 54.0% | 53.1% |
| Parks & Community Services | 3,473,586 | 3,442,923 | -0.9% | 8,423,620 | 7,973,050 | -5.3% | 41.2% | 43.2% |
| Public Works (Engineering) | 2,479,240 | 2,635,893 | 6.3% | 5,421,184 | 5,770,952 | 6.5% | 45.7% | 45.7% |
| Finance and Administration | 2,301,712 | 2,278,706 | -1.0% | 4,715,638 | 4,725,388 | 0.2% | 48.8% | 48.2% |
| Planning & Building | 3,837,719 | 4,670,842 | 21.7% | 8,492,888 | 8,477,058 | -0.2% | 45.2% | 55.1% |
| Police | 12,048,871 | 11,989,487 | -0.5% | 25,154,856 | 25,115,979 | -0.2% | 47.9% | 47.7% |
| Fire | 10,418,327 | 10,701,781 | 2.7% | 20,286,014 | 20,932,948 | 3.2% | 51.4% | 51.1% |
| Total Expenditures | 39,323,443 | 40,706,873 | 3.5% | 83,534,621 | 83,209,548 | -0.4% | 47.1% | 48.9% |
| Other Financing Uses: | | | | | | | | |
| Interfund Transfers | 2,039,391 | 2,024,568 | -0.7% | 8,480,717 | 5,430,801 | -36.0% | 24.0% | 37.3% |
| Total Other Financing Uses | 2,039,391 | 2,024,568 | -0.7% | 8,480,717 | 5,430,801 | -36.0% | 24.0% | 37.3% |
| Total Expenditures & Other Uses | 41,362,834 | 42,731,441 | 3.3% | 92,015,338 | 88,640,349 | -3.7% | 45.0% | 48.2% |

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

Comparing 2016 and 2015 expenditures:

In 2016, excluding interfund transfers, General Fund expenditures were **3.5 percent higher** than 2015, and finished the second quarter at **48.9 percent of budget**. Specific reasons for increased expenditures are highlighted below:

- Expenditures for **Non-departmental** were **down 12.7 percent** due to the AT&T Mobility legal settlement payment early in 2015. Public Defender expenditures, which are newly charged to Non-departmental, offset a portion of the decrease. Non-departmental finished the second quarter at **38.7 percent of budget** spent.
- Actual 2016 expenditures for the **City Council increased 10.8 percent** from 2015. The increase is due to expenditures for the Community Survey, which is conducted in even-numbered years. City Council finished the quarter at **64.3 percent of budget**, which is normal as Membership Dues paid at the beginning of the year comprise a large portion of the overall budget.
- The **City Manager's Office** finished the second quarter **up 36.8 percent** from 2015 with **53.9 percent of budget** expended. The increase reflects the Deputy City Manager Reorganization, which occurred after the 1st quarter of 2015, and expenditures for the Police Strategic Plan.
- Second quarter expenditures for the **Parks & Community Services Department** were **down 0.9 percent** from 2015 due to an invoice for the Human Service Pooled Program, usually paid to Bellevue in the first quarter, which was paid early at the very end of 2015. Parks and Community Services finished the second quarter at **43.2 percent of budget**.

2016 General Fund actual expenditures (excluding "other financing uses") were 3.5 percent higher than they were in 2015.

Continued on page 5

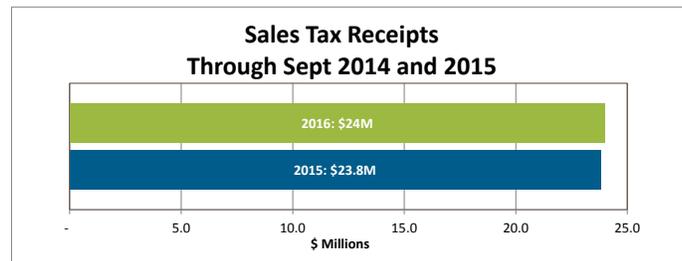
Financial Management Report as of June 30, 2016

- **Public Works - General Fund** expenditures were **6.3 percent above 2015**. Growth in expenditures in Wages and Benefits due to the addition of 4 positions for Capital Project Engineering was partially offset by decreased spending on Professional Services. Overall, Public Works - General Fund finished the first half of the year at **45.7 percent of budget**.
- **Planning and Building** finished the quarter **21.7 percent above 2015**, with **55.1 percent of the budget** expended. This is largely due to the addition of one-time and ongoing resources to meet workload demands associated with the high levels of development activity in Kirkland.
- **Police** expenditures ended the quarter **0.5 percent below 2015**, at **47.7 percent of budget**. This is consistent with performance in 2015.
- Expenditures for the **Fire Department** finished the first quarter **2.7 percent above 2015**. Fire finished the first half of 2016 at **51.1 percent of budget**. Expenses are within expected ranges, and similar to 2015 budget to actual performance. A greater proportion of fire overtime expenses come early in the year, as overtime expenditures to maintain minimum staffing over the winter holidays inflates these costs in January.
- Actual **Interfund Transfers** finished the second quarter **down 0.7 percent** from 2015 due to the offsetting impacts of a one time transfer from the Building and Property Reserve in 2015 more than offsetting the transfers for city hall construction debt service, which began in 2016.

| Summary of Fire District 41 Funds | |
|-----------------------------------|---------------------|
| Revenues & Expenditures | |
| Beginning Balance | 5,230,000 |
| Investment Interest | 90,970 |
| Expenditures: | 114,893 |
| Current Balance | \$ 5,206,077 |

Sales Tax Revenue Analysis

Sales tax revenue through the second quarter was **7.8 percent** higher in 2016 than 2015. This represents a slight deceleration in the growth rate from the 9.9 mark set in the first quarter. Increased activity in contracting, other retail, and services composed the bulk of the revenue gains. Sales tax revenue received through June is from sales activity between November 2015 and April 2016.



Review by business sectors:

- **Contracting** was **up 14.7 percent** through June compared to 2015. Construction collections continue to be strong this year, and lead overall sales tax growth. However, this is a very volatile revenue category.
- Sales tax from the retail sectors was collectively **up 4.6 percent** compared to 2015.
- **Auto/gas retail** sector was **up 3.6 percent** compared to 2015.
- **General merchandise/miscellaneous retail** sector was **down 3.0 percent** in 2016 compared to 2015 due to reduced revenue from major retailers.
- **Retail eating/drinking** sector performance was **up 4.5 percent** compared to 2015.
- **Other retail** was **up 13.3 percent** compared to 2015. Non store retail, which is the largest subcategory of this group, lead the growth in the first half of the year.
- The **services** sector was **up 6.8 percent** compared to 2015, largely due to growth in administrative support, health care and other services
- **Wholesale** revenues were **up 11.6 percent** in the first half of 2016. This sector is broken into durable and non-durable goods, both of which grew substantially.
- The **Miscellaneous** sector was **up 10.5 percent** through the first half of the year 2016, largely due to real estate and manufacturing growth.
- **Communications** grew 35.7 percent on the year. This is due to a one time refund that was paid to selected taxpayers in May of 2015.

Regional Sales Tax

Bellevue was up 8.7 percent, Redmond was up 51.2 percent through June 2016 compared to June 2015.

King County

King County's sales tax receipts were up 11.8 percent through the end of the quarter compared to 2015.

| Business Sector Group | YTD | | Dollar Change | Percent Change | Percent of Total | |
|------------------------|------------------|------------------|----------------|----------------|------------------|-------------|
| | 2015 | 2016 | | | 2015 | 2016 |
| Services | 1,225,077 | 1,308,548 | 83,471 | 6.8% | 13.6% | 13.5% |
| Contracting | 1,333,581 | 1,529,295 | 195,714 | 14.7% | 14.8% | 15.8% |
| Communications | 194,659 | 264,085 | 69,426 | 35.7% | 2.2% | 2.7% |
| Auto/Gas Retail | 2,257,986 | 2,338,500 | 80,514 | 3.6% | 25.1% | 24.1% |
| Gen Merch/Misc Retail | 1,060,691 | 1,029,243 | (31,448) | -3.0% | 11.8% | 10.6% |
| Retail Eating/Drinking | 731,752 | 764,561 | 32,809 | 4.5% | 8.1% | 7.9% |
| Other Retail | 1,202,614 | 1,363,003 | 160,389 | 13.3% | 13.4% | 14.1% |
| Wholesale | 458,127 | 511,243 | 53,116 | 11.6% | 5.1% | 5.3% |
| Miscellaneous | 521,848 | 576,614 | 54,766 | 10.5% | 5.8% | 6.0% |
| Total | 8,986,333 | 9,685,091 | 698,758 | 7.8% | 100% | 100% |

Kirkland's sales tax base is comprised of a variety of businesses which are grouped and analyzed by business sector (according to "North American Industry Classification System" or NAICS).

Nine business sector groupings are used to compare 2015 and 2016 sales tax receipts in the table to the left.

| Month | Sales Tax Receipts | | Dollar Change | Percent Change |
|--------------|--------------------|------------------|----------------|----------------|
| | 2015 | 2016 | | |
| Jan | 1,406,663 | 1,580,669 | 174,006 | 12.4% |
| Feb | 1,783,689 | 1,958,877 | 175,188 | 9.8% |
| Apr | 1,323,936 | 1,440,078 | 116,142 | 8.8% |
| May | 1,599,980 | 1,675,944 | 75,964 | 4.7% |
| Jun | 1,480,647 | 1,533,895 | 53,248 | 3.6% |
| Total | 8,986,333 | 9,685,091 | 698,758 | 7.8% |

When analyzing monthly sales tax receipts, there are two items of special note: First, most businesses remit their sales tax collections to the Washington State Department of Revenue on a monthly basis. Small businesses only have to remit their sales tax collections either quarterly or annually, which can create anomalies when comparing the same month between two years. Second, for those businesses which remit sales tax monthly, there is a two month lag from the time that sales tax is collected to the time it is distributed to the City.

- Sales tax revenues through the second quarter of 2016 were 7.8 percent higher than the secondquarter of 2015.
- Growth has slowed as the year has progressed. The first quarter was up 9.9 percent over 2015; April was up 9.6 percent, May was up 8.6 percent and June was up 7.8 percent. Though growth has slowed the outlook is still positive going forward.
- Aside from General Merchandise/Miscellaneous Retail, every sector grew in the second quarter. Contracting performed particularly well, followed by Other Retail and Services. These growth sectors, particularly Contracting, tend to be volatile and will fluctuate with changing economic conditions.
- General Merchandise is down 3.0 percent after the second quarter. General Merchandise decreased slightly from last year, though it is generally less volatile than other categories. This category is the most likely to contain impacts from the ongoing construction at Totem Lake and Kirkland Urban.

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

Comparing to the same period last year:

Totem Lake, which accounted for 28.7 percent of the total sales tax receipts in the second quarter, was **up 4.3 percent** from 2015 due to the continued sales growth in the automotive/gas retail sector and repairs & maintenance with mostly positive results in other sectors. Sixty percent of this business district's revenue comes from the auto/gas retail sector.

NE 85th Street, which made up 13.2 percent of the total sales tax receipts in 2016, was **up 3.8 percent** compared to 2015. This area's sales grew due to improving auto retail and retail eating/drinking sales. General retail, which is the second largest sector, fell 0.5 percent on the year. Auto and general retail contribute 81.7 percent of this business district's revenue.

Downtown, which accounted for 5.3 percent sales tax receipts through the second quarter, was **down 12.5 percent**. This is due to abnormally high revenues from the information category in 2015. If it wasn't for that anomaly, downtown revenues

would have fallen just 2.3 percent.

Carillon Point & Yarrow Bay, which account for 1.7 percent of the total sales tax receipts, were **up 0.2 percent** compared to 2015. About 62.1 percent of this business district's revenue came from retail eating/drinking and accommodations.

Houghton & Bridle Trails, which has produced 2.3 percent of the total sales tax receipts in 2016, were **up 3.8 percent** due to an increase in retail food stores and other retail, which offset a decrease in several other categories.

Juanita, which generated 1.4 percent of the total 2016 sales tax receipts, was **up 1.9 percent** compared to 2015. Increases in retail eating/drinking offset declines in several other sectors.

North Juanita, Kingsgate, & Finn Hill accounted for 2.6 percent of the total sales tax receipts in 2016 and were **up 1.1 percent** from 2015, with growth in North Juanita and Kingsgate offsetting a decline in Finn Hill. The former two grew by 1.9 and 3.6 percent, respectively, while the latter one declined by 5.3 percent. Finn Hill revenues declined across several sectors, however, the percentage decline only represents \$2,556.

Year-to-date tax receipts by business district for 2015 and 2016 are compared in the table on the next page.

When reviewing sales tax receipts by business district, it's important to be aware that 48.8 percent of the revenues received in the second half of 2016 were in the "unassigned or no district" category largely due to contracting and other revenue, which includes revenue from internet, catalog sales and other businesses located outside of the City. This percentage has grown in recent years as internet sales have grown in volume.

| Business District | YTD | | Dollar Change | Percent Change | Percent of Total | |
|----------------------------|------------------|------------------|----------------|----------------|------------------|---------------|
| | 2015 | 2016 | | | 2015 | 2016 |
| Totem Lake | 2,665,021 | 2,778,558 | 113,537 | 4.3% | 29.7% | 28.7% |
| NE 85th St | 1,227,260 | 1,274,378 | 47,118 | 3.8% | 13.7% | 13.2% |
| Downtown | 582,775 | 509,721 | (73,054) | -12.5% | 6.5% | 5.3% |
| Carillon Pt/Yarrow Bay | 166,926 | 167,253 | 327 | 0.2% | 1.9% | 1.7% |
| Houghton & Bridle Trails | 212,468 | 220,610 | 8,142 | 3.8% | 2.4% | 2.3% |
| Juanita | 128,363 | 130,858 | 2,495 | 1.9% | 1.4% | 1.4% |
| Kingsgate | 78,360 | 81,215 | 2,855 | 3.6% | 0.9% | 0.8% |
| North Juanita | 123,905 | 126,240 | 2,335 | 1.9% | 1.4% | 1.3% |
| Finn Hill | 48,244 | 45,688 | (2,556) | -5.3% | 0.5% | 0.5% |
| Unassigned or No District: | | | | | | |
| Contracting | 1,321,493 | 1,517,379 | 195,886 | 14.8% | 14.7% | 15.7% |
| Other | 2,431,518 | 2,833,191 | 401,673 | 16.5% | 31.1% | 33.1% |
| Total | 8,986,333 | 9,685,091 | 698,758 | 7.8% | 100.0% | 100.0% |

Sales Tax Revenue Outlook After a fast start to 2016, revenue growth has steadily slowed through the second quarter. Year to date growth over the first half of the year has downshifted from a 9.9 percent pace in January to a 7.9 percent rate in June. The first quarter of 2015 was weak, so this is at least partially due to comparatively stronger prior year comparisons in the second quarter last year. Staff will continue to monitor and report on emerging trends in the monthly Sales Tax Report.

OFFICE VACANCIES:

According to the latest report from CB Richard Ellis Real Estate Services, Kirkland's office vacancy rate in the second quarter of 2016 was 3.6 percent, significantly lower than the Puget Sound total vacancy rate of 11.3 percent, though slightly higher than the first quarter's vacancy rate of 1.5 percent. Overall the Eastside is one of the stronger office markets in the Puget Sound region, with an office vacancy rate of 10.7 percent, just above downtown Seattle's vacancy rate of 9.5 percent.

The region currently has 6.5 million square feet of office space under construction, over 3.5 times more than this time last year. This includes projects on the Eastside, with over 1 million square feet planned in Bellevue.

LODGING TAX REVENUE:

Lodging tax revenue grew compared to 2015, finishing the quarter up 2.3 percent, an increase of \$2,653. This meant revenues finished the first quarter at 39.85 percent of budget.

Economic Environment Update The Washington State economy continued to expand, adding 20,200 nonfarm jobs since the February 2016 update, according to the Washington State Economic and Revenue Forecast Council. This was 2,8000 more than expected, lead by growth in the Construction sector.

The Conference Board's **Consumer Confidence Index** increased from 92.6 in May to 98.0 in June. A rating of 100 equals the 1985 consumer confidence level. This change was due to fewer negative feelings about current conditions relative to the past couple months, and a cautiously optimistic outlook for the near-term.

Unemployment Rates increased at the National level, up to 4.9 percent in June, from 4.7 percent in May. The unemployment rate in King County decreased from 4.4 percent in May to 4.3 percent in June, which is the latest available data point. King County unemployment rates fell from 5.1 percent in January and have remained between 4.1 and 4.6 percent since March.

The Western Washington Purchasing Manager Index indicated stalled growth in economic activity in June 2016. The index was at 49.2 in June; an index reading greater than 50 signals an expanding economy. While the index shows stagnation, it is an improvement of 1.1 points over May's reading.

(Continued on page 8)

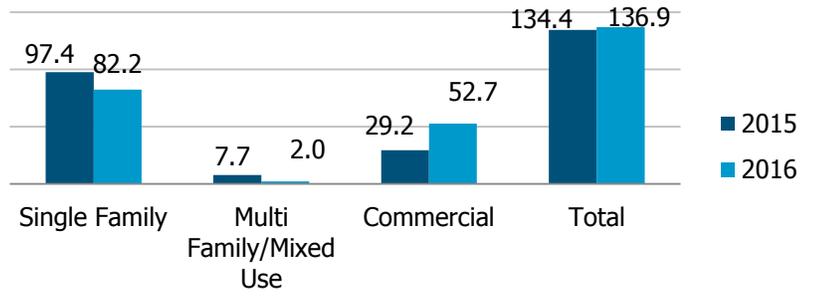
Economic Environment Update *continued*

Local **building permitting activity** has increased 1.8 percent compared to June 2015. The increase is due entirely to commercial development, which is up 80.2 percent from this time last year. Totem Lake and Kirkland Urban development are driving this increase. For as much as commercial development increased, single family and multi-family/mixed use development fell almost as much, declining 15.7 and 74.2 percent respectively. The net effect is a year-to-date growth of just \$2.5 million in development valuation.

Prices in the **housing market** continued to increase in the second quarter of 2016 with the Case-Shiller housing index for the Seattle metro area up to 202.58, increasing the gap above the pre-recession peak index score of 192.3 set in July 2007. There were 42,600 new housing permits issued in the second quarter of 2016 according to the Washington State Economic and Revenue Council.

Inflation in the Seattle area is high relative to the national rate. In June 2016, the Seattle core CPI increased 2.0 percent compared to the previous year, while the national CPI was at 0.6 percent year-to-year growth.

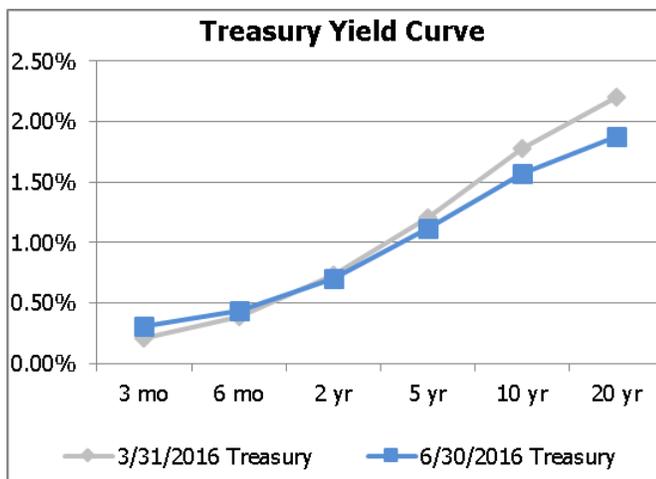
**Valuation of Building Permits
Second Quarter Total 2015 and 2016
(in millions \$)**



Investment Report

MARKET OVERVIEW

The mild economic growth continued to slow down into the 2nd quarter of 2016. The Fed Funds rate increase expectations which started the year with four expected ¼ percent increases are now at one expected ¼ percent increase in 2016. The more likely scenario is that there will be no rate increases for the remainder of this year. The yield curve rose on the short end of the curve and fell at the long end, flattening the curve slightly, as seen in the graph below.

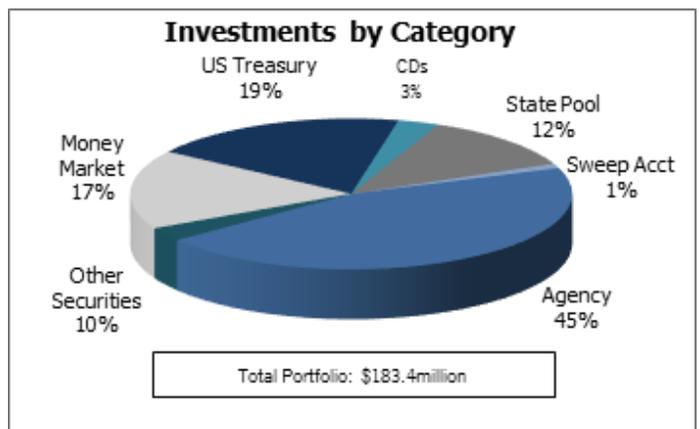


CITY PORTFOLIO

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

place an undue financial burden on the City.

The City's portfolio increased \$15.8 million in the 2nd quarter of 2016, moving from \$167.6 million on March 31, 2016 to \$183.4 million on June 30, 2016. The increase in the portfolio is related, in part, to the normal cash flows of the 2nd quarter, as the first half of property taxes is received at the end of April and early May.



Diversification

The City's current investment portfolio is composed of Government Sponsored Enterprises (GSEs) bonds, US Government Obligations, State and Local Government bonds, Bank CDs, Money Market Account and the State Investment Pool. City investment procedures allow for 100% of the portfolio to be invested in U.S. Treasury or Federal Government obligations.

2016 ECONOMIC

OUTLOOK and

INVESTMENT STRATEGY

While the outlook for growth in the U.S. economy looks weaker now than it did three months ago, it is projected to continue growing at the slower pace. The U.S. economy is expected to grow at an annual rate of 1.5 percent in 2016 and 2.3 percent in 2017. CPI inflation is expected to average 1.6 percent in 2016 and 2.3 percent in 2017. The unemployment rate is expected to average 4.8 percent in 2016 and fall to 4.6 percent in 2017. The Fed Funds rate, currently at 0.50%, is expected to rise one time in late 2016 to 0.75%.

The City's investment advisor, Government Portfolio Advisors (GPA) is currently recommending that the duration of the portfolio be increased slightly in relation to the benchmark. They believe that the Fed may be slow to raise Fed Funds and will recommend security purchases when opportunities to capture higher returns are available.

The State Pool is currently at 0.51%, slowly rising each month as shorter term rates increase. However, rates will continue to remain low as the Fed Funds rate remains at 0.25 to 0.50 percent. Total estimated investment income for 2016 is \$1,200,000.

Investment Report *continued*

Liquidity

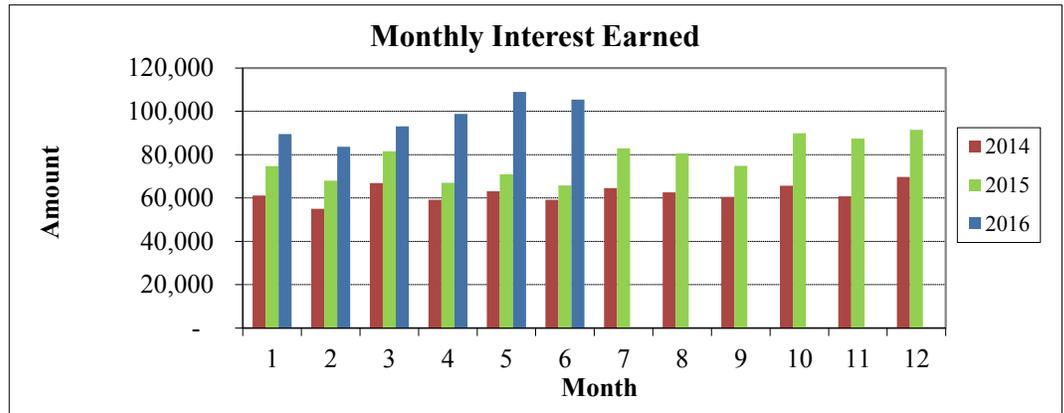
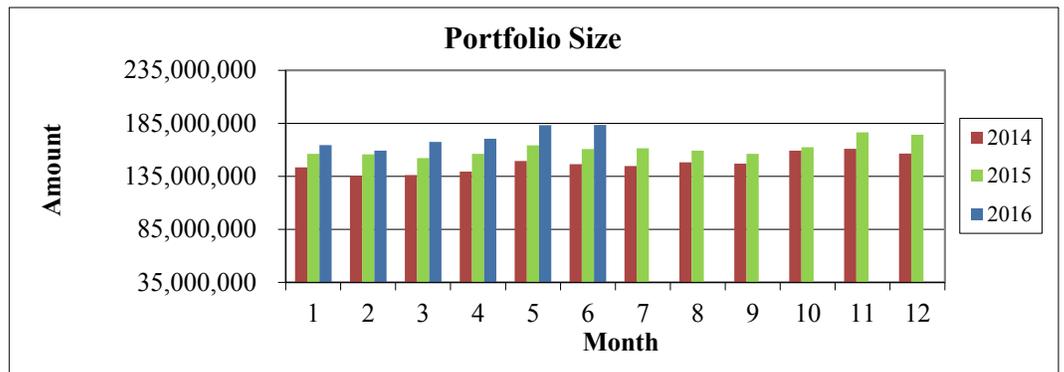
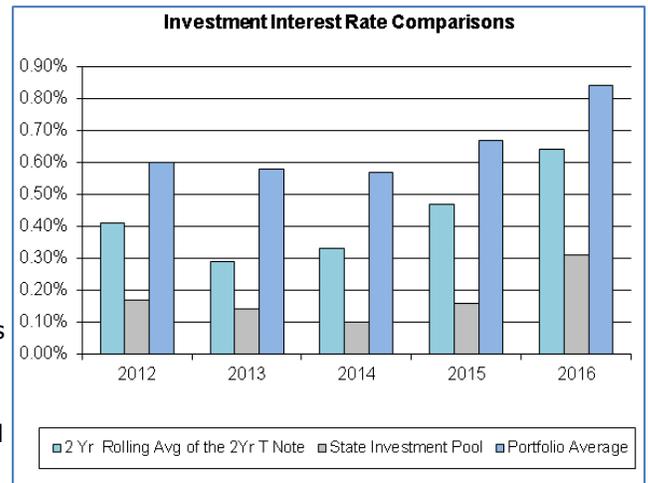
The target duration for the City's portfolio is based on the 0-5 year U.S. Treasury. The average maturity of the City's investment portfolio decreased from 1.42 years on March 31, 2016 to 1.38 years on June 30, 2016 as securities were called.

Yield

The City Portfolio yield to maturity increased from 0.85 percent on March 31, 2016 to 0.91 percent on June 30, 2016. Through June 30, 2016, the City's annual average yield to maturity also increased to 0.84 percent. The City's portfolio benchmark is the range between the 90 day Treasury Bill and the 2 year rolling average of the 2 year Treasury Note. This benchmark is used as it is reflective of the maturity guidelines required in the Investment Policy adopted by City Council.

The City's portfolio outperformed both the 90 day T Bill and the 2 year rolling average of the 2 year Treasury note, which was 0.67 percent on June 30, 2016.

The City's implementation of a more active investment strategy due to contracting with an investment advisor has resulted in increasing portfolio yields. The City's portfolio's rate of return is rising with the rise in interest rates and is keeping ahead of the benchmark rates as seen in the adjacent graph.



Reserves are an important indicator of the City's fiscal health and effectively represent "savings accounts" that are established to meet unforeseen budgetary needs (general purpose reserves) or are dedicated to a specific purpose. Ending balances in the table below are based on budget. Actual balances in some reserves may vary based on revenue performance (e.g., Excise Tax and Impact Fees).

Reserve Analysis

- Positive General Fund performance in 2013-2014, along with planned contributions to reserves in 2015-2016 has allowed the City to plan to replenish many of the general purpose reserves to target levels by the end of 2016 as indicated in the table below. The City's fiscal policy is to set at least 1 percent of the General Fund adopted budget toward reserve replenishment toward 80 percent of the target level (100 percent for the Revenue Stabilization Reserve). Unplanned amounts available at the end of a biennium should help replenish to target faster, which is what happened at the end of 2014. Adequate fund balance and reserve levels are a necessary component of financial management strategy and a key factor in the external agencies' measurement of the City's financial strength (Standard and Poor's: AAA and Moody's Aa2).

General Capital Reserves

- Real estate activity has been growing significantly over the last few years and 2015 reached an all-time high in **Real Estate Excise Tax (REET)** collections. However, **2016 is 19.2 percent ahead of second quarter 2015**. The current ending balances do not reflect this revenue performance, however they do incorporate 2015-2016 uses in the 2015-2020 Capital Improvement Plan as adopted in December 2015.
- Impact fees (Parks and Transportation)** are a reflection of development activity, which remains strong. However, 2016 Park revenue is 55.8% behind 2015 due to revenue received from a single large development in the first quarter of 2015. Normalizing for this event, revenue is only slightly down from last year. Transportation is 3.1 percent ahead. There are large developments underway which are expected to generate significant fees in 2016 that likely will bring these revenues in line with last year. The balances below were adjusted during the 2015-2020 CIP adoption in December to fund capital projects that are budgeted during this biennium.
- The City adopted a new Capital Improvement Program (CIP) for 2015-2020, which made significant uses of REET and Impact Fees in the current budget period, as well as future years in response to projects identified in several long-range master plans that were adopted in 2015.

General Government & Utility Reserves Targets Summary

| Reserves | Actual 2015 Beginning Balance | Adopted 2016 Ending Balance | Revised 2016 Ending Balance | 2015-16 Target | Revised Over (Under) Target |
|--|-------------------------------|-----------------------------|-----------------------------|-------------------|-----------------------------|
| GENERAL PURPOSE RESERVES WITH TARGETS | | | | | |
| General Fund Reserves: | | | | | |
| General Fund Contingency | 50,000 | 50,000 | 50,000 | 50,000 | - |
| General Oper. Reserve (Rainy Day) | 2,806,513 | 4,803,388 | 4,803,388 | 4,803,388 | - |
| Revenue Stabilization Reserve | 2,570,090 | 2,848,220 | 2,848,220 | 2,848,220 | - |
| Building & Property Reserve | 571,579 | 600,000 | 533,000 | 600,000 | (67,000) |
| Council Special Projects Reserve | 250,000 | 250,000 | 134,000 | 250,000 | (116,000) |
| Contingency | 2,426,425 | 4,036,425 | 4,036,425 | 5,512,218 | (1,475,793) |
| General Capital Contingency | 3,768,012 | 4,961,855 | 4,961,855 | 5,701,001 | (739,146) |
| General Purpose Reserves with Targets | 12,442,619 | 17,549,888 | 17,366,888 | 19,764,827 | (2,397,939) |
| ALL OTHER RESERVES WITH TARGETS | | | | | |
| General Fund Reserves: | | | | | |
| Litigation Reserve | 150,000 | 150,000 | 150,000 | 150,000 | - |
| Firefighter's Pension Reserve | 1,493,687 | 1,225,835 | 1,225,835 | 933,405 | 292,430 |
| Health Benefits Fund: | | | | | |
| Claims Reserve | 2,058,311 | 2,058,311 | 2,058,311 | 2,058,311 | - |
| Rate Stabilization Reserve | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | - |
| Excise Tax Capital Improvement: | | | | | |
| REET 1 | 5,843,876 | 8,697,813 | 5,213,854 | 1,732,329 | 3,481,525 |
| REET 2 | 4,888,788 | 7,146,044 | 6,000,344 | 2,436,255 | 3,564,089 |
| Water/Sewer Operating Reserve: | | | | | |
| Water/Sewer Operating Reserve: | 2,414,471 | 2,659,932 | 2,659,932 | 2,659,932 | - |
| Water/Sewer Capital Contingency: | 1,107,600 | 613,300 | 613,300 | 613,300 | - |
| Surface Water Operating Reserve: | 706,364 | 893,306 | 893,306 | 893,306 | - |
| Surface Water Capital Contingency: | 845,163 | 391,380 | 391,380 | 391,380 | - |
| Other Reserves with Targets | 20,508,260 | 24,835,921 | 20,206,262 | 12,868,218 | 7,338,044 |
| Reserves without Targets | 44,926,198 | 58,197,292 | 48,308,247 | n/a | n/a |
| Total Reserves | 77,877,077 | 100,583,101 | 85,881,397 | n/a | n/a |

The target comparison reflects revised ending balances to the targets established in the budget process for those reserves with targets.

General Purpose reserves are funded from general revenue and may be used for any general government function.

All Other Reserves with Targets have restrictions for use either from the funding source or by Council-directed policy (such as the Litigation Reserve).

The summary to the right details all Council authorized uses and additions in the 2015-16 biennium.

USES AND ADDITIONS HIGHLIGHTS

| RESERVE | AMOUNT | DESCRIPTION |
|---------|--------|-------------|
|---------|--------|-------------|

2015-16 Council Authorized Uses

| | | |
|-----------------------------|--------------|--|
| Prior 2015-2016 Uses | \$14,679,281 | |
| Building & Property Reserve | \$67,000 | CKC Property Acquisition from BNSF |
| Council Special Projects | \$30,000 | Kirkland Community Foundation |
| Tour Dock Reserve | \$21,500 | Port of Seattle Economic Development Partnership |

2015-16 Council Authorized Additions

| | | |
|----------------------|----------|--|
| Prior 2015 Additions | \$96,077 | |
|----------------------|----------|--|

Financial Management Report as of June 30, 2016

General Fund and Contingency reserves are funded from general purpose revenue and are governed by Council-adopted policies.

Special Purpose reserves reflect both restricted and dedicated revenue for specific purpose, as well as general revenue set aside for specific purposes.

General Capital Reserves provide the City the ability to respond to unexpected changes in costs and accumulate funds for future projects. It is funded from both general revenue and restricted revenue.

Utility reserves are funded from utility rates and provide the utilities with the ability to respond to unexpected costs and accumulate funds for future replacement projects.

Internal service funds are funded by charges to operating departments. They provide for the accumulation of funds for replacement of equipment, as well as the ability to respond to unexpected costs.

| Reserves | Description | Est. 2015 | Adopted | Additional | Revised |
|---|--|-------------------|----------------------|---------------------------|---------------------|
| | | Beginning Balance | 2016 Ending Balance* | Authorized Uses/Additions | 2016 Ending Balance |
| GENERAL FUND/CONTINGENCY | | | | | |
| General Fund Reserves: | | | | | |
| General Fund Contingency | Unexpected General Fund expenditures | 50,000 | 50,000 | | 50,000 |
| General Oper. (Rainy Day) | Unforeseen revenues/temporary events | 2,806,513 | 4,803,388 | | 4,803,388 |
| Revenue Stabilization | Temporary revenue shortfalls | 2,570,090 | 2,848,220 | | 2,848,220 |
| Building & Property | Property-related transactions | 571,579 | 600,000 | (67,000) | 533,000 |
| Council Special Projects | One-time special projects | 250,000 | 250,000 | (116,000) | 134,000 |
| Contingency | Unforeseen expenditures | 2,426,425 | 4,036,425 | | 4,036,425 |
| Total General Fund/Contingency | | 8,674,607 | 12,588,033 | (183,000) | 12,405,033 |
| SPECIAL PURPOSE RESERVES | | | | | |
| General Fund Reserves: | | | | | |
| Litigation | Outside counsel costs contingency | 150,000 | 150,000 | | 150,000 |
| Labor Relations | Labor negotiation costs contingency | 74,928 | 55,312 | | 55,312 |
| Police Equipment | Equipment funded from seized property | 50,284 | 75,969 | | 75,969 |
| Fire OT & Equipment | Contingency for overtime and equipment | 200,000 | 200,000 | | 200,000 |
| LEOFF 1 Police | Police long-term care benefits | 618,079 | 618,079 | | 618,079 |
| Facilities Expansion | Special facilities expansions | 150,982 | 50,663 | | 50,663 |
| Development Services | Revenue and staffing stabilization | 2,572,520 | 2,612,670 | | 2,612,670 |
| Development Svcs. Technology | Permit system replacement | 1,040,324 | 1,356,175 | | 1,356,175 |
| Tour Dock | Dock repairs | 206,271 | 273,095 | (21,500) | 251,595 |
| Tree Ordinance | Replacement trees program | 56,267 | 65,488 | | 65,488 |
| Revolving/Donation Accounts | Fees/Donations for specific purposes | 940,331 | 943,300 | (25,000) | 918,300 |
| Lodging Tax Fund | Tourism program and facilities | 310,420 | 190,548 | (119,549) | 70,999 |
| Cemetery Improvement | Cemetery improvements/debt service | 736,215 | 767,040 | 2,568 | 769,608 |
| Off-Street Parking | Downtown parking improvements | 259,161 | 391,613 | (285,500) | 106,113 |
| Fire Equipment Life Cycle | 20-year fire equipment costs | 418,326 | 896,704 | | 896,704 |
| Police Equipment Life Cycle | 20-year police equipment costs | 343,114 | 806,243 | | 806,243 |
| Technology Equipment Life Cycle | 20-year technology equipment costs | 663,600 | 1,265,117 | | 1,265,117 |
| Firefighter's Pension | Long-term care/pension benefits | 1,493,687 | 1,225,835 | | 1,225,835 |
| Total Special Purpose Reserves | | 10,284,509 | 11,943,851 | (448,981) | 11,494,870 |
| GENERAL CAPITAL RESERVES | | | | | |
| Excise Tax Capital Improvement: | | | | | |
| REET 1 | Parks/transportation/facilities projects, parks debt service | 5,843,876 | 8,697,813 | (3,483,959) | 5,213,854 |
| REET 2 | Transportation and other capital projects | 4,888,788 | 7,146,044 | (1,145,700) | 6,000,344 |
| Impact Fees | | | | | |
| Transportation | Transportation capacity projects | 3,663,839 | 4,227,671 | (2,300,900) | 1,926,771 |
| Parks | Parks capacity projects | 1,727,746 | 2,007,936 | (484,599) | 1,523,337 |
| Street Improvement | Street improvements | 995,958 | 995,958 | (995,958) | 0 |
| General Capital Contingency | Changes to General capital projects | 3,768,012 | 4,961,855 | | 4,961,855 |
| Total General Capital Reserves | | 20,888,219 | 28,037,277 | (8,411,116) | 19,626,161 |
| UTILITY RESERVES | | | | | |
| Water/Sewer Utility: | | | | | |
| Water/Sewer Operating | Operating contingency | 2,414,471 | 2,659,932 | | 2,659,932 |
| Water/Sewer Debt Service | Debt service | 498,591 | 495,390 | (460,000) | 35,390 |
| Water/Sewer Capital Contingency | Changes to Water/Sewer capital projects | 1,107,600 | 613,300 | | 613,300 |
| Water/Sewer Construction | Replacement/re-prioritized/new projects | 10,051,937 | 17,664,869 | (4,127,036) | 13,537,833 |
| Surface Water Utility: | | | | | |
| Surface Water Operating | Operating contingency | 706,364 | 893,306 | | 893,306 |
| Surface Water Capital Contingency | Changes to Surface Water capital projects | 845,163 | 391,380 | | 391,380 |
| Surface Water Construction | Trans. related surface water projects | 5,656,579 | 7,597,175 | (759,300) | 6,837,875 |
| Total Utility Reserves | | 21,280,705 | 30,315,352 | (5,346,336) | 24,969,016 |
| INTERNAL SERVICE FUND RESERVES | | | | | |
| Health Benefits: | | | | | |
| Claims | Health benefits self insurance claims | 2,058,311 | 2,058,311 | | 2,058,311 |
| Rate Stabilization | Rate stabilization | 1,000,000 | 1,000,000 | | 1,000,000 |
| Equipment Rental: | | | | | |
| Vehicle | Vehicle replacements | 10,068,738 | 8,583,511 | 22,829 | 8,606,340 |
| Radio | Radio replacements | 59,463 | 74,764 | | 74,764 |
| Information Technology: | | | | | |
| PC Replacement | PC equipment replacements | 459,063 | 518,292 | | 518,292 |
| Major Systems Replacement | Major technology systems replacement | 656,200 | 1,165,089 | 135,200 | 1,300,289 |
| Facilities Maintenance: | | | | | |
| Operating | Unforeseen operating costs | 550,000 | 550,000 | | 550,000 |
| Facilities Sinking Fund | 20-year facility life cycle costs | 1,897,262 | 3,748,621 | (470,300) | 3,278,321 |
| Total Internal Service Fund Reserves | | 16,749,037 | 17,698,588 | (312,271) | 17,386,317 |
| Grand Total | | 77,877,077 | 100,583,101 | (14,701,704) | 85,881,397 |

*Adjusted for actual cash balances in April



The Financial Management Report (FMR) is a high-level status report on the City's financial condition that is produced quarterly.

- It provides a **summary budget to actual and year over year comparisons** for year-to-date revenues and expenditures for all operating funds.
 - The **Sales Tax Revenue Analysis** report takes a closer look at one of the City's larger and most economically sensitive revenue sources.
 - **Economic environment** information provides a brief outlook at the key economic indicators for the Eastside and Kirkland such as office vacancies, residential housing prices/sales, development activity, inflation and unemployment.
 - The **Investment Summary** report includes a brief market overview, a snapshot of the City's investment portfolio, and the City's year-to-date investment performance.
 - The **Reserve Summary** report highlights the uses of and additions to the City's reserves in the current year as well as the projected ending reserve balance relative to each reserve's target amount.
- Tracey Dunlap, Deputy City Manager
 - Michael Olson, Director of Finance & Administration
 - Tom Mikesell, Financial Planning Manager
 - Neil Kruse, Senior Financial Analyst
 - George Dugdale, Senior Financial Analyst
 - Kyle Butler, Budget Analyst
 - Elijah Panci, Budget Analyst



City of Kirkland
123 5th Avenue
Kirkland, WA 98033
Ph. 425-587-3146

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