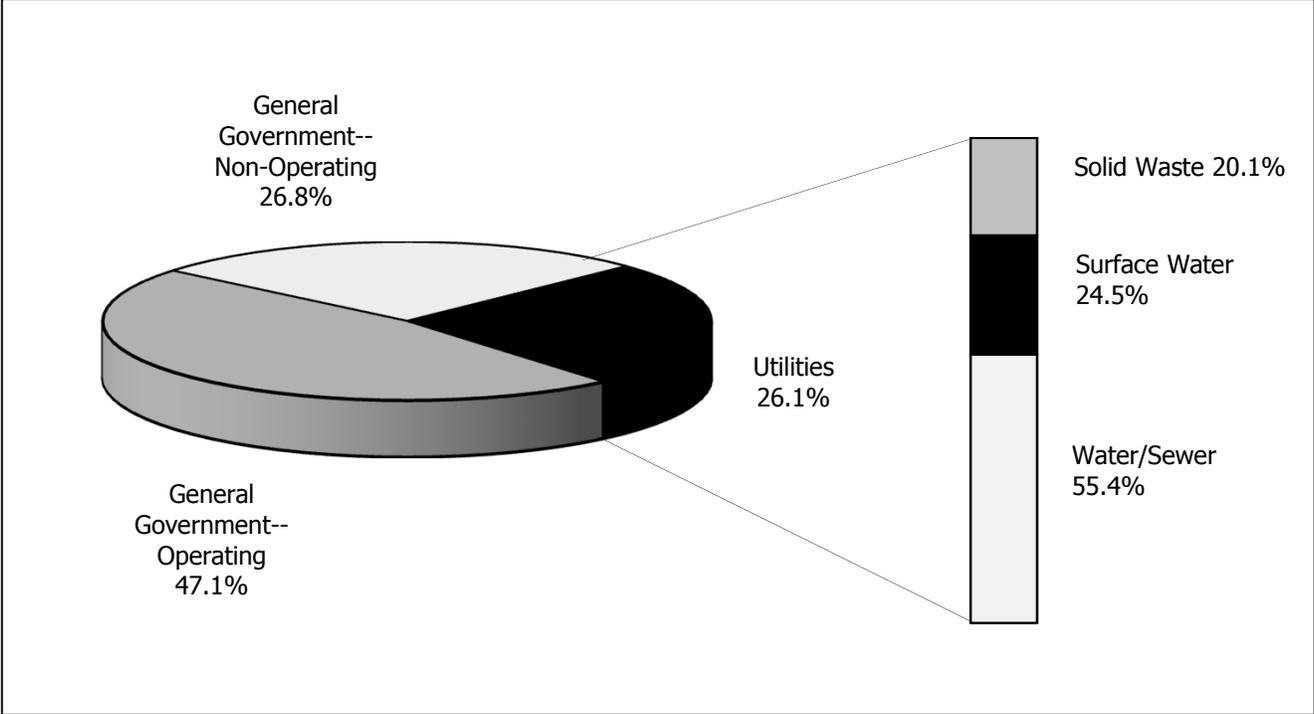


**CITY OF KIRKLAND
2017-18 BUDGET
\$694,368,439**



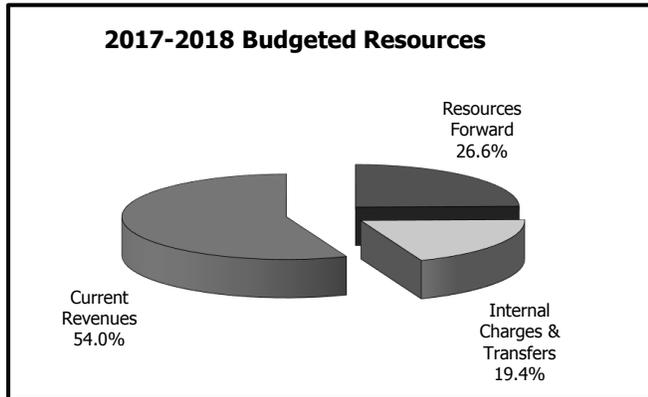
The City Budget is composed of General Government functions and the City's three Utilities which are operated as separate enterprises. Both the General Government and Utilities budgets have operating and non-operating components. The operating portion of the budget represents services to the public and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



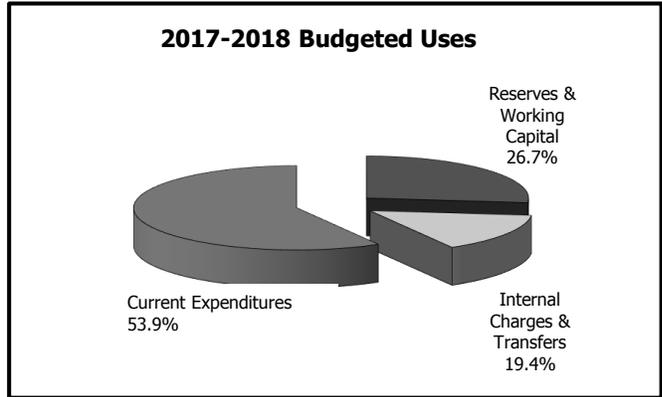
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CITY OF KIRKLAND 2017-2018 TOTAL RESOURCES AND USES

WHERE THE MONEY COMES FROM



WHERE THE MONEY GOES



Total Budgeted Resources	\$694,368,439
Less Resources Forward (Cash)	(185,111,689)
Less Internal Charges & Transfers	<u>(134,595,233)</u>
Current Revenues	<u><u>\$374,661,517</u></u>

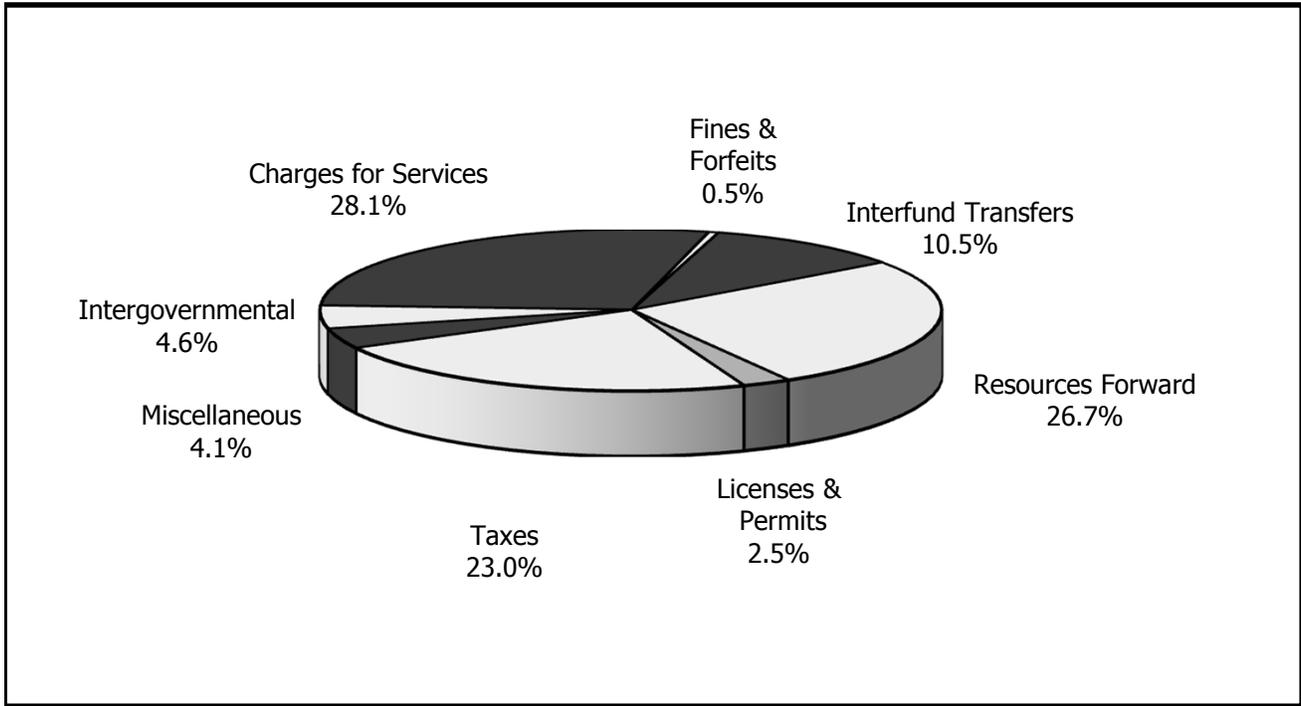
Total Budgeted Uses	\$694,368,439
Less Reserves & Working Capital	(185,795,352)
Less Internal Charges & Transfers	<u>(134,595,233)</u>
Current Expenditures	<u><u>\$373,977,854</u></u>

The total budget of \$694 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 \$374.6 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 \$373.9 million is projected to be spent during the next biennium citywide. The \$684,000 difference represents additional working capital above the programmed budgeted expenses.

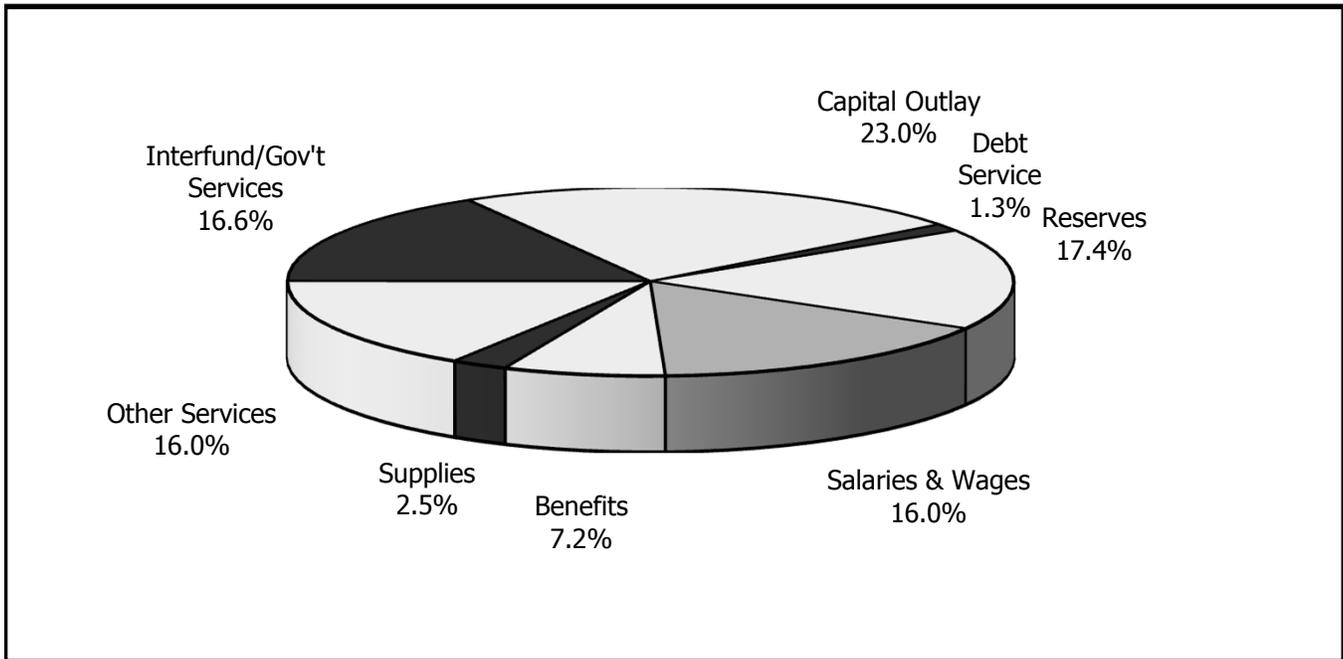
**CITY OF KIRKLAND
TOTAL BUDGET
2017-2018 REVENUE SUMMARY: BY REVENUE TYPE**



Analysis of Change

Revenue Sources	2013-14 Actual	2015-16 Budget	2017-2018 Budget	Percent Change
Taxes	151,213,889	152,780,106	159,968,255	4.70%
Licenses and Permits	16,219,460	16,904,465	17,241,573	1.99%
Intergovernmental	16,338,919	33,292,621	31,697,564	-4.79%
Charges for Services	155,579,630	176,205,808	195,110,505	10.73%
Fines and Forfeits	4,288,354	4,380,426	3,773,570	-13.85%
Miscellaneous	40,599,044	41,304,011	28,309,185	-31.46%
Interfund Transfers	56,721,855	64,094,854	73,156,098	14.14%
Resources Forward	140,910,477	156,874,306	185,111,689	18.00%
Total	581,871,628	645,836,597	694,368,439	7.51%

**CITY OF KIRKLAND
TOTAL BUDGET
2017-2018 EXPENDITURE SUMMARY: BY CATEGORY**



Analysis of Change

Category	2013-14 Actual*	2015-16 Budget	2017-18 Budget	Percent Change
Salaries & Wages	94,148,924	106,039,344	110,134,077	3.86%
Benefits	40,322,262	50,948,843	49,896,318	-2.07%
Supplies	15,206,421	18,725,761	17,573,449	-6.15%
Other Services & Charges	103,294,754	108,726,542	111,426,191	2.48%
Intergovernmental/Interfund Services	91,920,920	104,836,570	115,232,304	9.92%
Capital Outlay	67,343,434	135,586,822	160,014,022	18.02%
Debt Service	10,844,667	10,265,416	9,169,670	-10.67%
Reserves	86,907,916	110,707,299	120,922,408	9.23%
Category Total	509,989,298	645,836,597	694,368,439	7.51%

*2013-14 reserves are budgeted, but not spent

CITY OF KIRKLAND
2017-2018 BUDGET OVERVIEW: BY FUND TYPE/FUND
General Government Operating Funds

Fund	2015-16 Budget	2017-18 Budget	Percent Change
<i>General Fund</i>			
010 General	202,056,951	215,882,713	6.84%
<i>Special Revenue Funds</i>			
112 Lodging Tax	950,532	805,950	-15.21%
117 Street Operating	22,008,295	20,937,617	-4.86%
122 Cemetery Operating	888,646	939,616	5.74%
125 Parks Maintenance	3,230,970	3,320,412	2.77%
128 Parks Levy Fund	5,689,921	5,814,130	2.18%
Total Special Revenue Funds	32,768,364	31,817,725	-2.90%
<i>Internal Service Funds</i>			
511 Health Benefits Fund	26,872,580	25,300,741	-5.85%
521 Equipment Rental	22,787,047	24,266,810	6.49%
522 Information Technology	15,170,675	15,346,561	1.16%
527 Facilities Maintenance	16,487,428	14,477,144	-12.19%
Total Internal Service Funds	81,317,730	79,391,256	-2.37%
Total General Government Operating Funds	316,143,045	327,091,694	3.46%

General Government Non-Operating Funds

Fund	2015-16 Budget	2017-18 Budget	Percent Change
<i>Special Revenue Funds</i>			
152 Contingency	4,036,425	5,675,121	40.60%
156 Impact Fees	10,221,084	11,653,381	14.01%
190 Excise Tax Capital Improvement	22,192,787	30,149,192	35.85%
Total Special Revenue Funds	36,450,296	47,477,694	30.25%
<i>Debt Service Funds</i>			
210 LTGO Debt Service	8,297,431	7,176,915	-13.50%
220 UTGO Debt Service	1,449,743	1,506,576	3.92%
Total Debt Service Funds	9,747,174	8,683,491	-10.91%
<i>Capital Projects Funds</i>			
310 General Capital Projects	50,481,920	58,849,379	16.58%
320 Transportation Capital Projects	56,963,504	69,765,413	22.47%
Total Capital Projects Funds	107,445,424	128,614,792	19.70%

CITY OF KIRKLAND
2017-2018 BUDGET OVERVIEW: BY FUND TYPE/FUND
General Government Non-Operating Funds (Continued)

Fund	2015-16 Budget	2017-18 Budget	Percent Change
<i>Trust Funds</i>			
620 Firefighter's Pension	1,715,335	1,427,971	-16.75%
Total Trust Funds	1,715,335	1,427,971	-16.75%
Total General Government Non-Op Funds	155,358,229	186,203,948	19.85%

Water/Sewer Utility Funds

Fund	2015-16 Budget	2017-18 Budget	Percent Change
<i>Operating Fund</i>			
411 Water/Sewer Operating	60,816,693	67,459,821	10.92%
Total Operating Fund	60,816,693	67,459,821	10.92%
<i>Non-Operating Funds</i>			
412 Water/Sewer Debt Service	903,200	956,438	5.89%
413 Utility Capital Projects	33,690,972	31,814,745	-5.57%
Total Non-Operating Funds	34,594,172	32,771,183	-5.27%
Total Water/Sewer Utility Funds	95,410,865	100,231,004	5.05%

**CITY OF KIRKLAND
2017-2018 BUDGET OVERVIEW: BY FUND TYPE/FUND**

Surface Water Utility Funds

Fund	2015-16 Budget	2017-18 Budget	Percent Change
<i>Operating Fund</i>			
421 Surface Water Management	24,924,338	27,070,456	8.61%
Total Operating Fund	24,924,338	27,070,456	8.61%
<i>Non-Operating Fund</i>			
423 Surface Water Capital Projects	19,707,526	17,346,373	-11.98%
Total Non-Operating Funds	19,707,526	17,346,373	-11.98%
Total Surface Water Utility Funds	44,631,864	44,416,829	-0.48%

Solid Waste Utility Fund

Fund	2015-16 Budget	2017-18 Budget	Percent Change
<i>Operating Fund</i>			
431 Solid Waste Utility	34,292,594	36,424,964	6.22%
Total Operating Fund	34,292,594	36,424,964	6.22%
Total Solid Waste Utility Fund	34,292,594	36,424,964	6.22%

TOTAL ALL FUNDS	645,836,597	694,368,439	7.51%
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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.

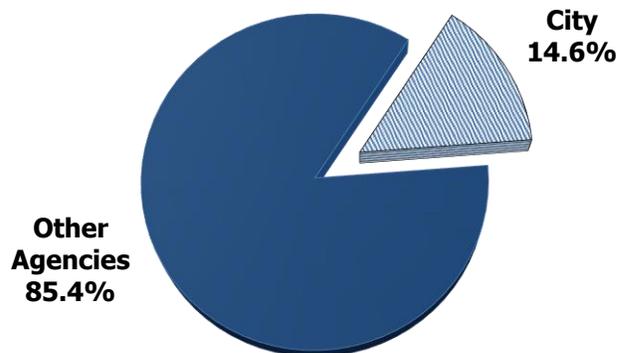
Although property taxes represent a major source of funding for City services, the portion of each property owner's total tax bill allocated to the City is relatively small. Due to annexation, the City's rate varies depending on specific neighborhood. In 2016, the total typical property tax rate in Kirkland is \$9.60 per \$1,000 of assessed valuation. Of that total, about 14.62 percent, or \$1.40 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.

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.

2016 Property Tax Distribution



Budget

Property Tax	2017-2018	2015-2016
	\$59,048,612	\$56,625,265
General Fund	\$36,902,400	\$35,343,807
Street Operating Fund	\$5,791,300	\$5,546,691
Street Maintenance/Pedestrian Safety Levy (Street Operating Fund)	\$6,454,700	\$6,182,047
Parks Maintenance	\$2,713,500	\$2,598,920
Parks Levy Fund	\$2,562,500	\$2,348,669
Parks Levy allocated to Capital Projects	\$2,500,000	\$2,500,000
Fire District Debt Service	\$960,352	\$961,076
Voted Debt Service (UTGO Fund)	\$1,163,860	\$1,144,055

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 2016 new construction levy of \$411,394 added 1.53 percent to the total base regular levy for 2016.
- The 2017-2018 Property Tax forecast assumes 1 percent growth in new construction; the final property tax levy will be adopted by Council in December once final numbers are received from King County.

Key Assumptions

- One percent growth in new construction in 2017 and 2018.
- One percent optional levy increase in 2017 and 2018.

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 2017-18 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	2017-2018	2015-2016
	\$39,782,000	\$35,927,494
General Fund	\$39,782,000	\$35,927,494

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 2016 revenue estimate projects revenues to be 5.0 percent higher than 2015. The 2017 and 2018 budget amounts are equal to the 2016 estimated revenue.

Trends

Annual sales tax over the last 6 years:

	2011	2012	2013	2014	2015	2016 est
Revenue (\$ millions)	13.39	14.34	16.34	17.96	18.94	19.89
% Change from Previous Year	4.5%	7.1%	13.9%	9.9%	5.5%	5.0%

- Sales taxes have been recovering strongly since the “great recession” 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 (2014-2016) 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).
- 2017 and 2018 budgeted sales taxes are based on 2016 estimated receipts.

STATE SALES TAX CREDIT

The City is eligible to levy a temporary sales tax 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 credited 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	2017-2018	2015-2016
	General Fund	\$7,870,000

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	2017-2018	2015-2016
	\$4,668,000	\$4,133,831
General Fund	\$4,668,000	\$4,133,831

Trends and Assumptions

Methodology

- Distributed on the basis of population.

Trends

- 2016 revenues are estimated to increase over 2015 by 5.5 percent.

Key Assumptions

- 2017-18 budget based on 2016 estimate plus 3.5 percent in 2017 and 2.5 percent in 2018.

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)	2017-2018	2015-2016
	\$29,476,871	\$30,191,031
Electric Utility (Private)	\$7,801,000	\$7,727,244
Gas Utility (Private)	\$2,428,000	\$3,054,376
Television Cable (Private)	\$3,280,000	\$3,223,700
Telephone Utility (Private)	\$5,636,000	\$6,546,337
Water Utility (City-owned)	\$2,948,116	\$2,773,878
Sewer Utility (City-owned)	\$2,802,319	\$2,566,069
Solid Waste Utility (City-contracted)	\$3,190,023	\$3,018,155
Surface Water Utility (City-owned)	\$1,391,413	\$1,281,272

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 as well as regional commodity prices.

Key Assumptions

- 2017-18 budget based on 2016 estimates plus no 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 allows for the use of a portion this revenue, with specific reporting requirements for maintenance of capital facilities. Given this new provision, the preliminary 2017-2018 budget includes funding for park maintenance purposes.

Budget

Real Estate Excise Tax	2017-2018	2015-2016
	\$10,000,000	\$10,000,000
Excise Tax Capital Improvement Fund	\$10,000,000	\$10,000,000

Trends and Assumptions

Methodology

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

Trends

- 2015 revenues were significantly higher than expected, with actual revenues collected at 176 percent of budget. Revenue is expected to increase about 11 percent in 2016 from 2015, and is expected to finish the year at 195 percent of budget.
- 2015-16 revenue is expected to be 143 percent higher than 2013-2014 actual revenues, reflecting an increase in real estate sales activity.

Key Assumptions

- Real Estate Excise Tax of 0.5 percent.
- Current allocation for 2017-18 budget:
 - REET 1 -

Parks CIP	\$1,183,000
Transportation CIP	\$ 908,000
Fire Facilities	\$8,672,153
Parks Maintenance	\$ 317,217
 - REET 2 -

Transportation CIP	\$7,183,900
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These allocations include amounts collected from prior years that are held in reserves.

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	2017-2018	2015-2016
	\$2,437,646	\$1,754,627
Card Games (General Fund)	\$1,713,088	\$1,478,624
Other Revenue (General Fund)	\$724,558	\$276,003

Trends and Assumptions

Methodology

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

Trends

- Gambling revenue expected to exceed budget and remain relatively constant between 2015 and 2016.

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	2017-2018	2015-2016
	\$585,818	\$520,000
Lodging Tax	\$585,818	\$520,000

Trends and Assumptions

Methodology

- Based on current year receipts.

Trends

- 2016 revenue expected to increase about 2.7 percent over 2015.

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	2017-2018	2015-2016
	\$6,067,856	\$6,446,932
General Fund	\$6,067,856	\$6,446,932

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 and remains high as significant activity, particularly at Totem Lake and Kirkland Urban, continues.

Key Assumptions

- The 2017 budget is based on 2016 estimates, with current levels expected to continue. The 2018 budget assumes a 20 percent decrease from 2017 levels.

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	2017-2018	2015-2016
	\$6,988,859	\$6,484,609
Revenue Generating Regulatory Fee	\$5,045,272	\$4,702,714
Business License Fee & Permits	\$1,403,587	\$1,241,895
Street Operating Fund (RGRL)	\$540,000	\$540,000

Trends and Assumptions

Methodology

- Based on current year receipts.

Trends

- The 2016 Revenue Generating Regulatory fee revenues are estimated to be about 11.4 percent higher than 2015. This is largely due to efforts to bring a number of expired business licenses into compliance.

Key Assumptions

- 2017-18 base budget is based on 2016 estimates, with 2017 revenues budgeted one percent higher than 2017 and 2018 revenues budgeted at one percent above 2017.
- The 2017-2018 Preliminary Budget includes a proposed \$5 per FTE increase in the license fee, from \$100 to \$105. This generates \$140,000 for public safety investments in 2017 and in 2018.

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	2017-2018	2015-2016
	\$8,033,307	\$7,872,086
General Fund	\$8,033,307	\$7,872,086

Trends and Assumptions

Methodology

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

Trends

- 2016 revenue is estimated to increase 1.2 percent over 2015 due to contractual increases.

Key Assumptions

- 2017-18 budget based on a 2 percent per year increase above 2016 budget.

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	2017-2018	2015-2016
	\$1,898,107	\$1,822,723
General Fund	\$1,898,107	\$1,822,723

Trends and Assumptions

Methodology

- The current levy is set at a rate \$0.28235 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

- 2016 revenue is estimated to be 2 percent higher than 2015
- 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	2017-2018	2015-2016
	\$2,235,679	\$2,009,501
Liquor Board Profits (Licensing Fees)	\$1,427,984	\$1,452,224
Liquor Excise Tax	\$807,695	\$557,277

Trends and Assumptions

Methodology

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

Trends

- 2016 revenue is estimated to be 4 percent higher than 2015.

Key Assumptions

- Per capita calculation from the MRSC:
 - Liquor Excise Tax: \$4.67 per capita
 - Liquor Board Profits: \$8.45 per capita

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)	2017-2018	2015-2016
	\$3,732,779	\$3,359,821
MVFT-Street Operations	\$2,500,779	\$2,157,821
MVFT-Capital	\$1,232,000	\$1,202,000

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

- 2016 revenue is estimated to be 3.1 percent higher than 2015, indicating an increasing level of consumption as gas prices have declined.
- Statewide, the revenue base is increasing as consumer gas consumption increases in response to lower gas prices and population increases.

Key Assumptions

- Estimated annual per capita amount of \$20.84 in 2017 and 2018.

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	2017-2018	2015-2016
	\$6,644,003	\$4,878,524
General Fund	\$6,644,003	\$4,878,524

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

- 2016 revenue is expected to be 31 percent higher than 2015 due to several large development projects. The level of development activity remains high and is expected to remain at this level in the near term and taper off into 2018.

Key Assumptions

- 2017 budget based on 2016 estimates, with revenue expected to decline nearly 20 percent in 2018 as large projects work through the development pipeline.

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, including ongoing funding for 5 firefighters that were added in 2016 with one time funds, and the administrative staff of the program.

Budget

Emergency Transport Fee	2017-2018	2015-2016
	\$1,923,658	\$1,782,785
General Fund	\$1,923,658	\$1,782,785

Trends and Assumptions

Methodology

- Based on historical trends.

Trends

- 2016 revenue is expected to be 5.8 percent higher than 2015.

Key Assumptions

- 2017 budget based on 2016 estimates plus 2 percent and 2018 is assumed to increase by 2 percent over 2017.

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	2017-2018	2015-2016
	\$2,968,402	\$2,900,033
General Fund	\$2,968,402	\$2,900,033

Trends and Assumptions

Methodology

- Based on historical trends.

Trends

- 2016 revenue is estimated to exceed budget and is expected to be 5 percent higher than 2015 due to high levels of development. The current level of development activity is expected to continue in 2017.

Key Assumptions

- 2017-18 budget based on estimated development activity continuing at 2016 levels in the first year and dropping 20 percent in the second.

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	2017-2018	2015-2016
	\$8,240,080	\$4,422,700
Road Impact Fees	\$5,740,080	\$2,174,000
Park Impact Fees	\$2,500,000	\$2,248,700

Trends and Assumptions

Methodology

- Based on expected development.

Trends

- Increased development activity has improved this revenue significantly; 2016 revenues exceeded \$2 million due to several large projects. 2016 is estimated to finish the year with about 25 percent less revenue than 2015 due to fewer large projects, though collections remain robust.

Key Assumptions

- 2017-18 budget assumes very high level of development as Totem Lake, Kirkland Urban and other projects begin, bringing new residential units and commercial space.

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	2017-2018	2015-2016
	\$5,057,570	\$5,875,426
Fines and Forfeits	\$3,773,570	\$4,380,426
Probation Fees	\$1,100,000	\$1,230,000
Electronic Home Detention Fees	\$184,000	\$265,000

Trends and Assumptions

Methodology

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

Trends

- 2016 fine revenues are expected to be 16.7 percent less than 2015 revenues. Actual revenues in Fines and Forfeits have been lower than budget in 2015-16 due to a lower number of parking and traffic infraction citations.

Key Assumptions

- 2017-18 budget based 2016 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	2017-2018	2015-2016
Various Funds	\$2,300,500	\$1,672,453

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 largely due to the addition of a contracted investment advisor, who is better able to increase earnings despite historically low rates. Economic conditions are improving and the bond market is generating higher yields for the City’s investments reflected in the 2017-18 revenue estimates.

Key Assumptions

- Rates are expected to improve in 2017-18 when compared to the historically low rates in 2015-16.

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	2017-2018	2015-2016
		\$109,887,990
All Funds	\$109,887,990	\$156,874,306

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

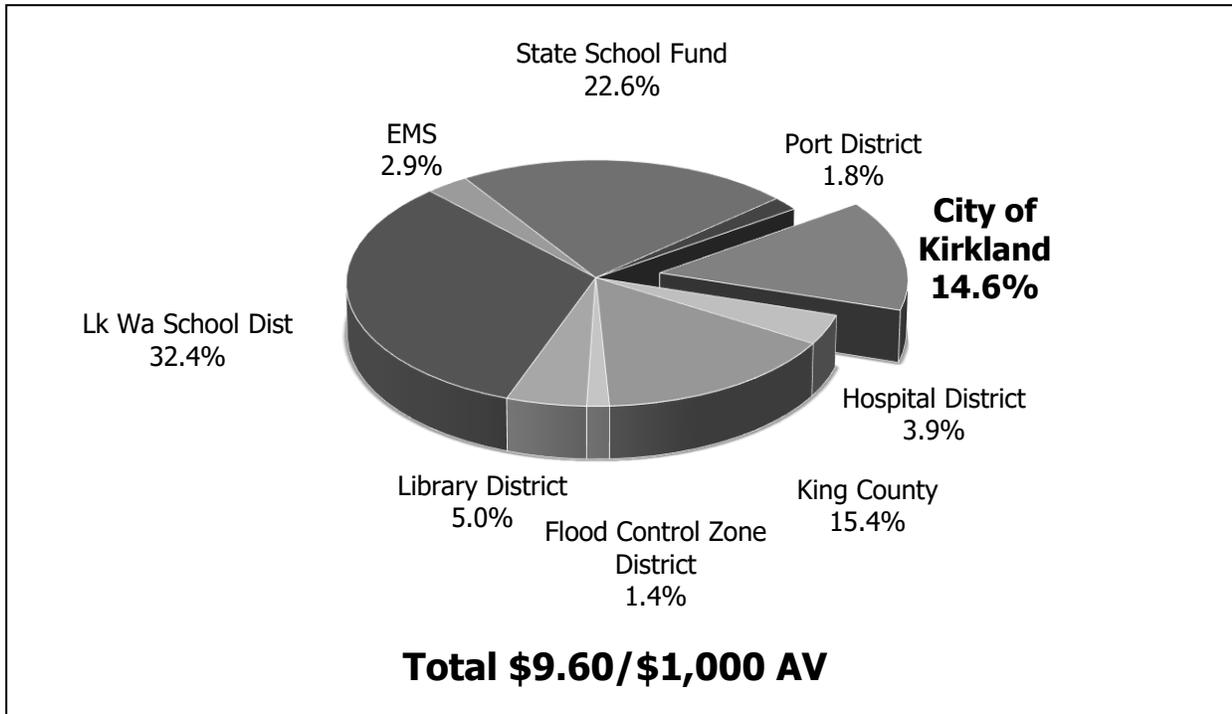
- Not applicable.

Key Assumptions

- Not applicable.

CITY OF KIRKLAND

2016 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 2016, the total typical property tax rate in Kirkland is \$9.60 per \$1,000 of assessed valuation. Of that total, about 14.6%, or \$1.40 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 \$1.36 to \$1.48 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 fire station property acquisition and construction. In addition, there are variations in the taxing district boundaries within the city limits, so total tax rates vary as well.

CITY OF KIRKLAND

2017-2018 DISTRIBUTION OF INVESTMENT INCOME

Total Estimated Earnings		\$ 2,300,000
Earned Interest Allocated to Utility Funds		
Water/Sewer	433,012	
Surface Water Management	267,307	
Solid Waste	20,933	
Subtotal to Utility Funds		721,252
Earned Interest Allocated to Consolidated Fire Station Bonds		62,710
Earned Interest Allocated to Lodging Tax Fund		6,039
Earned Interest Allocated to Cemetery Improvement/Operating Fund		12,849
Earned Interest Allocated to Park Maintenance Fund		10,001
Earned Interest Allocated to 2012 Park Levy Fund		17,011
Earned Interest Allocated to Impact Fee Fund		109,330
Earned Interest Allocated to REET Fund		291,145
Earned Interest Allocated to Self Insurance Fund		118,695
Earned Interest Allocated to Equipment Rental Fund		178,620
Earned Interest Allocated to Firefighter's Pension Fund		21,767
Net to Allocate		750,581
Dedicated Proceeds (General Fund):		
Financial Investment Advisor		78,000
Public Safety and Information Technology Equipment Replacement Sinking Funds		672,581
Net to Distribute		\$ -



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BUDGET FOCUS

Selected schedules and charts focusing on key facts, issues and processes reflected in the 2017-2018 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 2018 delineation between reserved fund balance and working capital. The following narrative highlights the major reserve policy components as they are incorporated in the 2017-2018 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. The City is making significant contributions to replenish these reserves in 2017-2018. However, the planned use of \$3 million set aside for fire stations from the Building & Property reserve gives the incorrect impression that these reserves are declining, although there are planned additions of almost \$2.6 million dollars in 2017-2018.

Reserves	Description	Estimated 2016 Ending Balance	Projected Changes	Estimated 2018 Ending Balance
GENERAL PURPOSE				
Contingency	Unforeseen expenditures	4,036,425	1,638,696	5,675,121
General Capital Contingency	Changes to general capital projects	4,993,407	716,361	5,709,768
General Oper. Reserve (Rainy Day)	Unforeseen revenues/temporary events	4,803,388	26,477	4,829,865
Revenue Stabilization Reserve	Temporary revenue shortfalls	2,848,220	181,731	3,029,951
Council Special Projects Reserve	One-time special projects	250,000	-	250,000
General Fund Contingency	Unforeseen expenditures	50,000	-	50,000
Building & Property Reserve	Property-related transactions	3,600,000	(3,000,000)	600,000
<i>Expected Use for Northside Fire Stations</i>				
Total General Purpose		20,581,440	(436,735)	20,144,705

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. Of particular note, the large balance in development services reserves reflects obligations for significant staffing resources required to complete future inspections. Also, sinking funds are being established for Park facilities and Park rental properties in 2017-2018.

Reserves	Description	Estimated 2016 Ending Balance	Projected Changes	Estimated 2018 Ending Balance
SPECIAL PURPOSE RESERVES				
General Fund Reserves:				
Litigation Reserve	Outside counsel costs contingency	93,871	56,129	150,000
Labor Relations Reserve	Labor negotiation costs contingency	74,342	2,000	76,342
Fire Overtime & Equipment Reserve	Overtime and Equipment Contingency	190,704	9,296	200,000
Police Equipment Reserve	Equipment funded from seized property	81,687	(12,500)	69,187
LEOFF 1 Police Reserve	Police long-term care benefits	618,079	-	618,079
Development Services Reserve*	Revenue and staffing stabilization	5,782,995	675,853	6,458,848
Development Services Technology Rsv.*	Permit system replacement	1,425,872	-	1,425,872
Tour Dock	Dock repairs	281,408	46,000	327,408
Park Facilities Sinking Fund	20-year facility life cycle costs	-	500,000	500,000
Park Rentals Sinking Fund	20-year facility life cycle costs	-	150,000	150,000
Tree Ordinance	Replacement trees program	74,585	15,000	89,585
Donation Accounts	Donations for specific purposes	428,594	1,600	430,194
Revolving Accounts	Fee/reimbursement for specific purposes	16,102	155,600	171,702
Lodging Tax Fund	Tourism program and facilities	220,068	(63,568)	156,500
Street Fund Operating Reserve	Unforeseen expenditures	100,000	-	100,000
Cemetery Improvement	Cemetery improvements/debt service	727,390	24,045	751,435
Off-Street Parking	Downtown parking improvements	217,695	165,900	383,595
Fire Equipment Sinking Fund	20-year equipment life cycle costs	750,804	613,400	1,364,204
Police Equipment Sinking Fund	20-year equipment life cycle costs	980,914	(1,800)	979,114
Technology Equipment Sinking Fund	20-year equipment life cycle costs	1,315,713	(585,700)	730,013
Firefighter's Pension	Long-term care/pension benefits	1,225,835	(248,880)	976,955
Total Special Purpose Reserves		14,606,658	1,502,375	16,109,033

*Balances pending final reconciliations

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 2016 Ending Balance	Projected Changes	Estimated 2018 Ending Balance
GENERAL CAPITAL RESERVES				
Excise Tax Capital Improvement:				
REET 1	Parks/transportation/facilities projects	5,213,854	(1,780,942)	3,432,912
REET 2	Transportation capital projects	6,000,344	2,324,666	8,325,010
Impact Fees				
Roads	Transportation capacity projects	1,926,771	246,469	2,173,240
Parks	Parks capacity projects	1,523,337	(283,276)	1,240,061
Total General Capital Reserves		14,664,306	506,917	15,171,223

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 2018 estimated ending balance in these accounts.

Reserves	Description	Estimated 2016 Ending Balance	Projected Changes	Estimated 2018 Ending Balance
UTILITY RESERVES				
Water/Sewer Utility:				
Water/Sewer Operating Reserve	Operating contingency	2,659,932	100,301	2,760,233
Water/Sewer Debt Service Reserve	Debt service reserve	501,024	(439,002)	62,022
Water/Sewer Capital Contingency	Changes to Water/Sewer capital projects	613,300	603,100	1,216,400
Water/Sewer Construction Reserve	Replacement/re-prioritized/new projects	10,591,907	(3,138,009)	7,453,898
Surface Water Utility:				
Surface Water Operating Reserve	Operating contingency	893,306	39,046	932,352
Surface Water Capital Contingency	Changes to Surface Water capital projects	391,380	384,112	775,492
Surface Water Construction Reserve	Replacement/re-prioritized/new projects	7,828,203	(3,737,779)	4,090,424
Total Utility Reserves		23,479,052	(6,188,231)	17,290,821

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. Note it has been determined the Health Benefits Rate Stabilization Reserve is no longer needed and will be used toward funding of the City's financial system software replacement. Following is a table with the preliminary 2018 estimated ending balance in these accounts.

Reserves	Description	Estimated 2016 Ending Balance	Projected Changes	Estimated 2018 Ending Balance
INTERNAL SERVICE FUND RESERVES				
Health Benefits:				
Claims Reserve	Health benefits self insurance claims	2,058,311	(35,626)	2,022,685
Rate Stabilization Reserve	Rate stabilization	1,000,000	(1,000,000)	0
Equipment Rental:				
Operating Reserve	Unforeseen operating costs	290,815	(12,899)	277,916
Vehicle Reserve	Vehicle replacements	8,570,163	968,406	9,538,569
Radio Reserve	Radio replacements	8,463	9,487	17,950
Information Technology:				
Operating Reserve	Unforeseen operating costs	502,075	50,513	552,588
PC Replacement Reserve	PC equipment replacements	308,543	(2,959)	305,584
Major Systems Replacement Reserve	Major technology systems replacement	656,200	(156,200)	500,000
Facilities Maintenance:				
Operating Reserve	Unforeseen operating costs	800,000	-	800,000
Facilities Sinking Fund	20-year facility life cycle costs	3,152,544	1,329,606	4,482,150
Total Internal Service Fund Reserves		17,347,114	1,150,328	18,497,442

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 2018 balance to the 2017-18 reserve target.

Reserves	Estimated 2016 Ending Balance	Estimated 2018 Ending Balance	2017-18 Target	Revised Over (Under) Target
GENERAL PURPOSE RESERVES WITH TARGETS				
Contingency	4,036,425	5,675,121	6,076,030	(400,909)
General Capital Contingency	4,993,407	5,709,768	6,317,430	(607,662)
General Oper. Reserve (Rainy Day)	4,803,388	4,829,865	4,829,865	-
Revenue Stabilization Reserve	2,848,220	3,029,951	3,029,951	-
Council Special Projects Reserve	250,000	250,000	250,000	-
Building & Property Reserve	3,600,000	600,000	600,000	-
General Purpose Reserves with Targets	20,531,440	20,094,705	21,103,276	(1,008,571)
ALL OTHER RESERVES WITH TARGETS				
Excise Tax Capital Improvement:				
REET 1	5,213,854	3,432,912	1,585,000	1,847,912
REET 2	6,000,344	8,325,010	6,731,000	1,594,010
Other Reserves with Targets	11,214,198	11,757,922	8,316,000	3,441,922
Total Reserves with Targets	31,745,638	31,852,627	29,419,276	2,433,351

**CITY OF KIRKLAND
CHANGE IN FUND BALANCE (Beginning 2015 to Ending 2018)
SUMMARY OF ALL FUNDS**

	General Government		Utility			All Funds
	Operating Funds	Non-Operating Funds	Water/Sewer Utility	Surface Water Utility	Solid Waste Utility	
2015 Actual Beginning Fund Balance	62,278,933	48,423,185	28,113,972	17,064,825	993,391	156,874,306
<i>Reserved</i>	<i>38,060,398</i>	<i>26,768,978</i>	<i>17,299,265</i>	<i>8,122,561</i>	<i>-</i>	<i>90,251,202</i>
<i>Unreserved Working Capital</i>	<i>24,218,535</i>	<i>21,654,207</i>	<i>10,814,707</i>	<i>8,942,264</i>	<i>993,391</i>	<i>66,623,104</i>
Plus: 2015-16 Estimated Revenues	260,920,749	102,652,142	69,834,648	27,594,052	33,357,441	494,359,032
Less: 2015-16 Estimated Expenditures	258,726,119	80,703,592	66,869,254	26,951,342	32,871,342	466,121,649
2016 Estimated Ending/2017 Budgeted Beginning Fund Balance	64,473,563	70,371,735	31,079,366	17,707,535	1,479,490	185,111,689
Plus: 2017-18 Budgeted Revenues	262,618,131	115,832,213	69,151,638	26,709,294	34,945,474	509,256,750
Less: 2017-18 Budgeted Expenditures	275,405,828	153,608,620	81,011,555	34,296,267	34,692,354	579,014,624
2018 Budgeted Ending Fund Balance	51,685,866	32,595,328	19,219,449	10,120,562	1,732,610	115,353,815
<i>Reserved</i>	<i>38,651,281</i>	<i>32,595,328</i>	<i>11,493,753</i>	<i>5,798,268</i>	<i>-</i>	<i>88,538,630</i>
<i>Unreserved Working Capital</i>	<i>13,034,585</i>	<i>-</i>	<i>7,725,696</i>	<i>4,322,294</i>	<i>1,732,610</i>	<i>26,815,185</i>
Change in Fund Balance: Beginning 2015 to Ending 2018	(10,593,067)	(15,827,857)	(8,894,523)	(6,944,263)	739,219	(41,520,491)

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

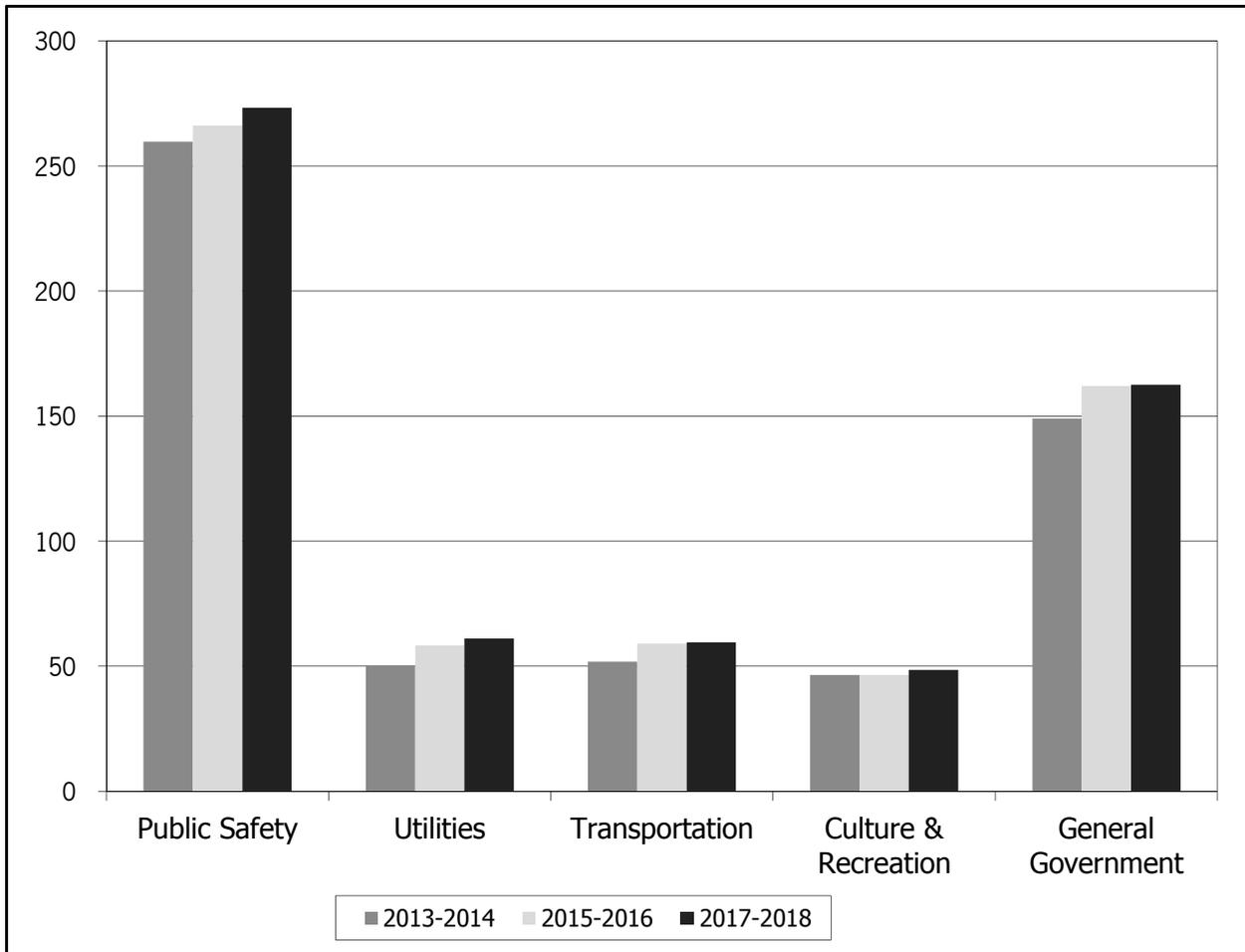
By Fund

Fund/Department	2013-2014	2015-2016	2017-2018
<i>General Fund:</i>			
City Council	7.00	7.00	7.00
City Manager's Office	8.54	10.94	10.44
Human Resources	8.70	9.20	9.20
City Attorney's Office	4.00	4.00	4.00
Municipal Court	18.75	18.75	18.75
Parks and Community Services	30.00	31.00	33.00
Public Works	30.95	37.25	37.55
Finance and Administration	33.80	35.30	35.30
Planning & Building	46.23	52.85	53.35
Police	135.50	136.00	140.00
Fire	105.50	111.50	114.50
Total General Fund	428.97	453.79	463.09
<i>Other General Gov't Operating Funds:</i>			
Lodging Tax	0.66	0.66	0.66
Street Operating	20.90	21.79	22.04
Parks Maintenance	9.25	8.50	8.50
2012 Parks Levy	7.25	7.00	7.00
Facilities Maintenance	7.95	7.95	7.95
Equipment Rental	7.40	7.45	7.45
Information Technology	24.70	26.70	27.20
Total Other General Gov't Operating Funds	78.11	80.05	80.80
<i>Utility Funds:</i>			
Water/Sewer Operating	19.76	21.51	21.51
Surface Water Management	27.69	33.95	36.70
Solid Waste	2.80	2.80	2.80
Total Utility Funds	50.25	58.26	61.01
Total Positions	557.33	592.10	604.90

CITY OF KIRKLAND POSITION SUMMARY

By Program

Program	2013-2014	2015-2016	2017-2018
Public Safety	259.75	266.25	273.25
Utilities	50.25	58.26	61.01
Transportation	51.85	59.04	59.59
Culture & Recreation	46.50	46.50	48.50
General Government	148.98	162.05	162.55
Total Positions	557.33	592.10	604.90



CITY OF KIRKLAND PAYMENTS TO OTHER GOVERNMENT AGENCIES

Approximately \$45.4 million, or 4.58 percent, of the City's total 2017-2018 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	2015-2016 Budget	2017-2018 Budget
Sewage Treatment ¹	King County	15,644,234	16,613,434
Alcohol Treatment ¹	King County	35,370	44,714
Air Pollution Control ¹	King County	159,954	170,684
Prisoner Expense ¹	Various ²	857,555	474,850
Marine Patrol ¹	King County	134,000	201,000
Hazardous Waste Fee ¹	King County	1,002,000	900,000
Solid Waste "Tipping" Fees ¹	King County	6,444,181	7,178,031
Surface Water Billing Charge ¹	King County	275,000	412,436
Animal Control ¹	King County	24,600	24,600
Elections and Records Costs ¹	King County	536,800	630,000
Other Permits and Services ^{1,3}	King County	33,600	30,200
Subtotal King County		25,147,294	26,679,949
Water Purchase ¹	Cascade Water Alliance	9,413,295	9,902,678
Water Connection Charges ¹	Cascade Water Alliance	1,300,000	1,400,000
Police and Fire Dispatch ¹	NORCOM	5,454,242	5,358,540
Housing Trust Fund ^{1,4}	ARCH	790,000	990,000
ARCH Dues ¹	ARCH	209,200	209,200
State Purchasing Contract ¹	State of Washington	4,000	5,600
Financial Audits ¹	State of Washington	175,220	200,000
Regional Surface Water Monitoring ¹	State of Washington	68,364	70,000
800 MHz Radios (Public Safety) ¹	EPSCA	210,343	199,374
On-Line Services ¹	eCityGov Alliance	402,745	325,779
SWAT Membership ¹	Northsound Regional SWAT	16,000	16,000
WACIC, NCIC, ACCESS Service Lines ¹	Washington State Patrol	4,200	4,200
Community Connectivity Consortium ¹	Community Connectivity Consortium	7,140	10,710
Hazardous Materials Unit ¹	Regional Haz Mat Agreement	19,078	25,000
Healthcare Assessments ¹	U.S. Government	192,654	5,000
Other Permits and Services ^{1,3}	Various Gov't Agencies	16,700	16,700
Total Payments to Other Agencies		43,430,475	45,418,730
Percent Increase (Decrease) from Prior Biennium			4.58%

¹ These services are mandatory contractual obligations with other governments. The rates are established by the contractor agency.

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

⁴ These totals include \$160,000 in each biennium directed to ARCH by King County at the City's direction.

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 an overview of Human Services funding for 2017-2018.

Program/Funding Source	2015-2016 Budget	2017-2018 Budget
Human Services Program grants (including CDBG)	1,612,608	1,633,246
Human Services Forum and Other Regional Programs	27,450	25,000
Human Services Coordination	317,172	344,108
Senior Center Operations	1,123,715	1,097,564
King County Alcohol Treatment Programs	35,370	44,714
A Regional Coalition for Housing (ARCH) ¹	999,200	1,199,200
Community Youth Services Program/Teen Center	731,911	725,286
Rent Subsidy for Youth Eastside Services ²	55,998	55,998
Domestic Violence Programs	796,260	833,391
Police School Resource Program (City-funded portion)	217,015	222,827
Senior Discounts for Utility and Garbage Services ³	80,934	65,108
Kirkland Cares (assistance with utility bills from utilities customer donations)	8,000	8,000
Specialized Recreation Program	14,000	14,000
Recreation Class Discounts	6,000	6,000
Total Human Services Funding	6,025,633	6,274,442

TOTAL SPENDING PER CAPITA 2015-2016: \$ 71.67
TOTAL SPENDING PER CAPITA 2017-2018: \$ 74.10

¹ 2015-16 ARCH funding reflects the base budget amount of \$209,200, ongoing funding of \$160,000 from Community Development Block Grants, and a one-time service package funding of \$630,000. In addition to these amounts, Affordable Housing in Lieu fees totaling \$478,640 have been remitted to ARCH in 2015-16 that are not reflected in the table above. The 2017-18 Preliminary Budget amount includes the same funding elements and an additional \$200,000 of one-time funding for the Trust fund.

² Current rent is \$1/year; figure represents a conservative market rent equivalent.

³ Reduction is a result of fewer senior accounts registered across all utilities.

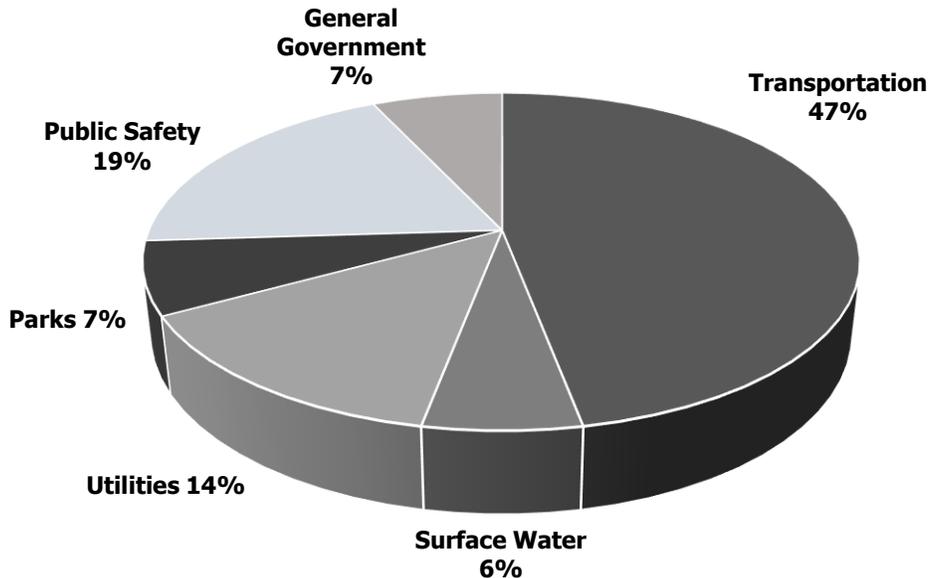
**CITY OF KIRKLAND
SUMMARY OF LEGAL SERVICES**

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 2017-2018 budget includes an increase in Prosecution and an increase in Public Defender Legal Services. Public Defender costs increased due to new public defense standards limiting the number of cases each attorney can take, necessitating increased attorney hours in the contract. In certain specialized matters, the City is represented by other outside counsel. The Litigation Reserve budget for 2017-2018 reflects setting aside funds for outside counsel in the event they were needed to resolve a potential legal matter.

Legal Service	Budgeted Fund	2015-2016 Budget	2017-2018 Budget	Percent Change
<i>General Legal Services</i>	General Fund	1,731,634	1,680,977	-2.93%
<i>Litigation Reserve</i>	General Fund	150,000	150,000	0.00%
Subtotal General Legal Services and Litigation		1,881,634	1,830,977	-2.69%
<i>Public Safety Legal Services</i>				
Prosecution	General Fund	716,000	730,000	1.96%
Public Defender	General Fund	510,000	572,900	12.33%
Subtotal Public Safety Legal Services		1,226,000	1,302,900	6.27%
Total All Legal Services		3,107,634	3,133,877	0.84%

CAPITAL IMPROVEMENT PROGRAM (CIP)

CIP AT A GLANCE



2017-2018 Funded Projects - \$89,039,100

- **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 concurrent with the development of the operating budget. 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) was delayed until 2015 to coincide with the culmination of various citywide planning efforts that were 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.

Since that was an off-year in the budget cycle, an additional full update took place in the summer of 2016, to realign the CIP development with operating budget development. As such, project funding tables in the 2017-18 Budget document represent the Preliminary 2017-2022 CIP as presented to the City Council on June 21, 2016.

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 capital improvement budget is then incorporated into and adopted with the biennial budget adoption in December of the even numbered year.
- 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 2017-2018 Budget also includes sinking funds for public safety and information technology equipment replacements that are funded by transfers-in of current revenues. In addition, monies reserved in the facilities fund in the operating budget, and park facilities reserves set aside in the General Fund, are available to fund facility repair projects in the General Government and Parks capital programs, respectively.

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 2017-2018 that are related to completed CIP projects are highlighted in each department's summary. Projects approved for 2017-2018 are included in the General Government and Utilities non-operating sections of this document. Estimated operating impacts are also included in the summary of 2017-2018 projects.

The following table summarizes revenue sources as used in the 2017-2022 CIP.

**2017-2022 Preliminary Capital Improvement Program
Revenue Sources (in thousands)**

Dedicated Revenue	2017	2018	2019	2020	2021	2022	6-Year Total
Transportation							
Gas Tax	610	622	634	647	660	673	3,846
Gas Tax (Transportation Package)	100	150	200	200	-	200	850
Business License Fees	270	270	270	270	270	270	1,620
Real Estate Excise Tax (REET) 1	398	410	422	435	448	461	2,574
Real Estate Excise Tax (REET) 2	1,205	1,242	1,279	1,318	1,233	1,274	7,551
Street & Pedestrian Safety Levy	2,626	2,652	2,679	2,706	2,733	2,760	16,156
Transportation Impact Fees	3,440	2,300	1,000	1,000	425	275	8,440
Park Impact Fees	-	1,110	750	-	-	-	1,860
King County Park Levy	-	300	300	-	-	-	600
Walkable Kirkland	520	400	400	400	-	-	1,720
Utility Rates	1,026	806	707	500	320	260	3,619
Solid Waste Street Preservation	300	300	300	300	300	300	1,800
REET 2 Reserve	3,158	1,579	480	480	480	480	6,657
REET 1 Reserve	100	-	-	-	-	-	100
External Sources	13,132	2,803	4,590	5,892	3,146	3,140	32,702
Subtotal Transportation	26,885	14,944	14,011	14,148	10,015	10,093	90,095
Parks							
Real Estate Excise Tax 1	215	868	1,438	885	160	160	3,726
Impact Fees	594	796	750	1,750	1,050	1,150	6,090
Parks Levy	1,250	1,250	1,150	973	250	250	5,123
King County Park Levy	-	-	-	-	-	-	-
REET 1 Reserve	100	-	-	-	-	-	100
Carryover PY Funds	-	-	-	-	-	-	-
External Sources	500	500	500	-	-	-	1,500
Subtotal Parks	2,659	3,414	3,838	3,608	1,460	1,560	16,539
General Government: Technology, Facilities & Public Safety							
General Fund Contributions for:							
Public Sfty. Equip. Sinking Fund	155	173	693	369	246	149	1,785
Technology Equip. Sinking Fund	289	1,197	209	1,051	545	180	3,471
Utility Rates	456	256	256	256	256	256	1,736
Health Fund Transfer	1,000	-	-	-	-	-	1,000
Facilities Life Cycle Reserve	425	554	529	606	279	190	2,583
Maj Sys Replacement Rsv	1,300	-	-	-	-	-	1,300
General Capital Reserves	-	-	-	-	-	-	-
REET 1 Reserves	772	3,700	-	-	-	-	4,472
General Fund Cash	3,360	1,937	114	174	114	174	5,873
Facilities Cash	-	-	-	-	-	-	-
Fire District 41 Reserves	2,656	-	-	-	-	-	2,656
Carryover PY Funds	150	-	-	-	-	-	150
REET 1	-	4,200	-	-	-	-	4,200
Land Sales Proceeds	-	470	-	-	-	-	470
Subtotal General Government	10,563	12,487	1,801	2,456	1,440	949	29,696
Utilities							
Utility Connection Charges	865	865	865	865	865	865	5,190
Utility Rates - Surface Water	1,801	1,872	1,916	2,120	2,139	2,204	12,052
Utility Rates - Water/Sewer	3,764	4,070	4,355	4,698	5,015	5,368	27,270
Debt	-	-	-	-	-	-	-
Reserves	4,450	50	1,500	50	1,450	50	7,550
External Sources	350	-	-	-	-	-	350
Subtotal Utilities	11,230	6,857	8,636	7,733	9,469	8,487	52,412
Total Revenues	51,337	37,702	28,286	27,945	22,384	21,089	188,742

POLICY ISSUES

The optimal locations for **fire and emergency medical service delivery** in Kirkland, particularly in the new neighborhoods, has been a key policy issue since annexation in 2011. This will include new assets, coupled with addressing the depreciation of existing fire stations. Capital funding was allocated in the 2015-2016 capital budget to purchase property for a new Station 24, and the 2017-2018 capital budget builds on this progress by adding resources to fund the construction of a new Station 24, acquire property for a new Station 27 and renovate the existing Station 25. Though substantial funding has been allocated to date, there is a total of approximately \$32.6 million of unfunded fire station replacement, expansion and remodel projects; funding of \$150,000 for a public process on how to best engage this unfunded need is included in the 2017-2018 Operating Budget.

The **Critical Areas Ordinance** and the **Surface Water Design Manual** represent regulatory frameworks required of the City by the Washington State Department of Ecology and other State and Federal regulators. Adoption of these regulations is required by Ecology and the intent is for adoption to occur no later than December 31, 2016. The proposed regulations strengthen the protection of the environment and sensitive areas and the mitigation of impacts from surface water run-off. However, they will, in some cases, increase the cost of City capital improvements and the maintenance of those improvements. Required environmental and surface water studies may also add to project design costs and extend the schedule for completing some projects.

While the full extent of the impacts cannot be known with certainty until the regulations are finalized and detailed estimating work can be completed at the project level, staff has developed an order of magnitude assessment of the impacts on funded projects in 2017-2018. At this time, impacts are likely to occur in the Transportation, Parks, and Surface Water and Water/Sewer capital programs. Funding for potential impacts is programmed as placeholder projects in the respective program areas, signified by the '7777' numbering convention in the summary tables later in this document. The intent is to create an administrative approval process to re-allocate funds from the placeholders to funded projects when impacts are known, to minimize schedule impacts.

PROJECT HIGHLIGHTS

Notable project highlights for 2017-2018 include:

Parks — Phases 1 and 2 of the Totem Lake Park Master Plan and Development will include a northern trail and boardwalk segment connecting the park's existing trail system to the Cross Kirkland Corridor. Additional project components will include wetland enhancements and environmental interpretive features, viewing decks, landscaping fencing and irrigation.

Public Safety — As discussed above, the 2017-2018 Capital Budget includes funding for Fire Station 25 Renovation, Fire Station 24 Replacement and Fire Station 27 Property Acquisition.

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 also provides 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. Significant projects for 2017-2018 include investments concurrent with the redevelopment in the Totem Lake area, including the NE 124th Street/124th Avenue NE Pedestrian Bridge Design and Construction and Totem Lake Intersection Improvements.

Utilities (Water and Sewer) — In 2017-2018, the City is investing in the 1st Street Sewer Main Replacement project, which will replace the 65 year old existing pipe that is deteriorating and exceeding its useful life. Additional smaller investments throughout the City will help extend the useful life of the water and sewer infrastructure.

Surface Water — Surface water drainage design and construction along the CKC at Crestwood Park is highlighted in the Surface Water program, as is the repair of the culvert at NE 141st Street/111th Avenue NE.

General Government — The current financial system was implemented in 1999 and will be unsupported at the end of 2016. As such, a major upgrade or replacement is required, since this system is critical to the operation of all departments in the City. The Financial System Replacement project (\$2.5 million, increased from \$1.3 million from the 2015-2020 Adopted CIP due to available cost estimates) in the Information Technology Program will support the one-time costs of replacing the system. Project funding includes approximately \$1.3 million in the Major Systems Replacement Reserve, a \$1 million transfer of the rate stabilization balance from the Health Fund, representing the initial \$1 million “seed money” deposited into the fund when the City transitioned to a self-insured health plan, that is no longer needed, and approximately \$200,000 from sales tax collections above projection in 2015. It is anticipated that the project will commence in 2017, with full implementation completed by 2019.