



# Financial Management Report as of December 31, 2011

## AT A GLANCE:

City of Kirkland to Purchase "Kirkland Segment" of Rail Corridor (page 2 sidebar)

2011 revenues ended the year below expectations (page 3)

2011 Sales tax revenue ended the year ahead of 2010 (page 5)

Economy remains uncertain (pages 7-8)

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*The Financial Management Report was a challenge to interpret in 2011 due to annexation, which impacted expenditures and revenues at different times throughout the year. In particular, the City incurred increasing expenses month-by-month to gear up for annexation, but no revenue from the annexation area was collected until July and the bulk of the revenue was not received until the fourth quarter. Additionally, certain one-time revenues received in 2011 as a result of annexation are budgeted for use in 2012 to balance the budget. As a result, instead of discussing the comparison of 2011 actual revenues and expenditures to the prior year, this quarter's FMR will compare the 2011 actual results to the 2011 budget and highlight revenues received in 2011 that will be used to offset expenditures budgeted in 2012.*

## Summary of All Operating Funds: *Revenue*

- General Fund** actual 2011 revenue ended the year at **96.9 percent** of budget (excluding asset transfers from Fire District 41 and Woodinville Fire & Rescue and inter-fund transfers totaling \$3.6 million, of which \$2.4 million is budgeted for use in 2012 and the remaining is set aside for the construction of the consolidated fire station). The 2011 budget included revenues projected for the annexation area, which came in lower than projected. A more detailed analysis of General Fund revenue can be found on page 3, and sales tax revenue performance can be found beginning on page 5.
- Other General Government Funds** actual 2011 revenue ended the year at **109.2 percent** of budget. This included all of the one-time County Road Levy revenue received as a result of annexation. \$1.1 million of the Road levy is budgeted in 2012 to offset authorized expenditures. Excluding the additional road tax, Other General Government Funds actual 2011 revenue to budget would be at 101.4 percent.
- Water/Sewer Operating Fund** actual 2011 revenue ended the year at **97.8 percent** of budget. Water service revenues ended under budget by 2.2 percent due to lower consumption as a result of the unusually cool and damp summer months in 2011.
- Surface Water Management Fund** actual 2011 revenue ended the year at **98.4 percent** of budget. Surface Water charges are paid at the same time as property taxes, which are primarily received in April and October.
- Solid Waste Fund** actual 2011 revenue ended the year at **93.7 percent** of budget, \$650,000 below budget. This is primarily due to the larger than anticipated number of customers migrating to smaller container sizes. The finance committee will be evaluating the current rate policies during the first quarter of 2012.

Resources by Fund	Year-to-Date Actual			Budget			% of Budget	
	12/31/2010	12/31/2011	% Change	2010	2011	% Change	2010	2011
<b>General Gov't Operating:</b>								
General Fund <sup>1</sup>	54,300,280	66,520,145	22.5%	54,706,544	68,664,728	25.5%	99.3%	96.9%
Other General Gov't Operating Funds	16,181,806	18,208,455	12.5%	15,798,095	16,672,780	5.5%	102.4%	109.2%
<b>Total General Gov't Operating</b>	<b>70,482,086</b>	<b>84,728,600</b>	<b>20.2%</b>	<b>70,504,639</b>	<b>85,337,508</b>	<b>21.0%</b>	<b>100.0%</b>	<b>99.3%</b>
<b>Utilities:</b>								
Water/Sewer Operating Fund	18,462,427	19,363,705	4.9%	20,660,066	19,807,418	-4.1%	89.4%	97.8%
Surface Water Management Fund	5,207,766	6,739,100	29.4%	5,270,500	6,847,891	29.9%	98.8%	98.4%
Solid Waste Fund	8,312,328	9,408,767	13.2%	8,627,630	10,040,676	16.4%	96.3%	93.7%
<b>Total Utilities</b>	<b>31,982,521</b>	<b>35,511,572</b>	<b>11.0%</b>	<b>34,558,196</b>	<b>36,695,985</b>	<b>6.2%</b>	<b>92.5%</b>	<b>96.8%</b>
<b>Total All Operating Funds</b>	<b>102,464,607</b>	<b>120,240,172</b>	<b>17.3%</b>	<b>105,062,835</b>	<b>122,033,493</b>	<b>16.2%</b>	<b>97.5%</b>	<b>98.5%</b>

<sup>1</sup> Budgeted and actual revenues exclude resources forward and interfund transfers.

<sup>1</sup> Excludes asset transfers from Fire District 41 and Woodinville Fire & Rescue and interfund transfers totaling \$3.6 million, of which \$2.4 million is budgeted for use in 2012 and the remainder is set aside for the construction of the consolidated fire station.



### City Council Unanimously Votes to Purchase "Kirkland Segment" of Rail Corridor from Port of Seattle for \$5 Million

Kirkland's vision for multi-modal transportation, pedestrian connectivity to parks and schools, and bicycle pathways has come closer to reality thanks to the Kirkland City Council unanimously voting to enter into a purchase and sale agreement with the Port of Seattle for 5.75 miles of the Eastside Rail Corridor that lie within Kirkland city limits. On December 12, 2011, after receiving a comprehensive overview presented at the study session, public comment at the regular meeting, and discussing the proposed purchase and sale agreement, the City Council authorized the City Manager to enter into an acquisition agreement with the Port of Seattle, initiating a 60-day due diligence period.

The City Council was presented with possible funding sources to purchase and to develop the segment. Interim acquisition funding, in the form of an Interfund Loan, was approved by the adoption of Ordinance No. 4341 in the amount of \$4 million from the Water/Sewer and Surface Water Utilities. Plus, \$1 million in Surface Water Capital funds in exchange for an easement. The loan will be repaid by reprioritizing other capital projects or issuing long-term debt supported by general purpose revenues. Funds to eventually develop the Kirkland Segment could include voted debt, corporate sponsorship, and/or state and federal grants.

For background information on the City's interest in the Eastside Rail Corridor and to subscribe to receive updates via email, visit [www.kirklandwa.gov/eastsiderailcorridor](http://www.kirklandwa.gov/eastsiderailcorridor).

## Summary of All Operating Funds: *Expenditures*

- **General Fund** actual expenditures ended the year at **93.3 percent** of budget. Savings are largely due to delays in annexation hiring, position vacancies and jail contract savings. A more detailed analysis of General Fund expenditures by department is found on page 4.
- **Other Operating Funds** actual expenditures ended the year at **81.6 percent** of budget largely due to delays in vehicle purchases from extending the planned replacement cycle by another year for many vehicles, savings in computer hardware and lower facility utility costs. Vehicle and computer hardware costs vary year-to-year depending on the planned replacement cycle. Facility utility costs are down, partially due to milder winter weather, but also from staff conservation efforts and the pay-off from past investments in updated controls and equipment at various locations. Other Operating funds have also seen some savings in personnel costs due to position vacancies, primarily for annexation.
- **Water/Sewer Operating Fund** actual expenditures ended the year at **95.5 percent** of budget despite higher water costs. The City pays Cascade Water Alliance (CWA) a set rate for water each month based on average demands over three years (currently 2007-2009). The City will begin to see the impact of reduced usage in 2010 and 2011 in 2012's calculation. Regional water connection charges (RCFCs) are coming in more than triple the budget of \$150,000, due to more new connections than expected (which is offset by RCFC revenues).
- **Surface Water Management Fund** actual expenditures ended the year at **85.0 percent** of budget due to delays in hiring annexation positions resulting in significant savings in the personnel and supplies categories.
- **Solid Waste Fund** actual expenditures ended the year at **96.2 percent** of budget due to savings in personnel costs as a result of delays in hiring annexation positions. In addition, excise taxes are under budget about 20.0 percent or \$167,000 due to reduced revenues, and a state excise tax assessment of \$160,000 currently under appeal. The King County Hazardous Waste Fees in 2011 came in at about 68.0 percent of the budget or about \$120,000 less than budget due to the timing of adding new customer accounts from the new neighborhoods.

Expenditures by Fund	Year-to-Date Actual			Budget			% of Budget	
	12/31/2010	12/31/2011	% Change	2010	2011	% Change	2010	2011
<b>General Gov't Operating:</b>								
General Fund	57,120,660	63,324,125	10.9%	58,149,798	67,878,459	16.7%	98.2%	93.3%
Other General Gov't Operating Funds	12,989,485	13,959,291	7.5%	13,326,213	17,106,576	28.4%	97.5%	81.6%
<b>Total General Gov't Operating</b>	<b>70,110,145</b>	<b>77,283,416</b>	<b>10.2%</b>	<b>71,476,011</b>	<b>84,985,035</b>	<b>18.9%</b>	<b>98.1%</b>	<b>90.9%</b>
<b>Utilities:</b>								
Water/Sewer Operating Fund	14,531,796	16,010,448	10.2%	15,903,927	16,765,372	5.4%	91.4%	95.5%
Surface Water Management Fund	3,262,338	3,689,202	13.1%	3,387,458	4,338,938	28.1%	96.3%	85.0%
Solid Waste Fund	8,225,753	9,687,603	17.8%	8,596,408	10,070,151	17.1%	95.7%	96.2%
<b>Total Utilities</b>	<b>26,019,887</b>	<b>29,387,253</b>	<b>12.9%</b>	<b>27,887,793</b>	<b>31,174,461</b>	<b>11.8%</b>	<b>93.3%</b>	<b>94.3%</b>
<b>Total All Operating Funds</b>	<b>96,130,032</b>	<b>106,670,669</b>	<b>11.0%</b>	<b>99,363,804</b>	<b>116,159,496</b>	<b>16.9%</b>	<b>96.7%</b>	<b>91.8%</b>

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

General Fund Revenue

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

- **Sales tax** revenue allocated to the General Fund for 2011 was slightly ahead of budget expectations at **100.3 percent**. A detailed analysis of total **sales tax** revenue compared to 2010 can be found starting on page 5.
- **Utility tax** receipts, including projected annexation area revenues, ended the year below budget expectations at **95.4 percent** (\$575,488). The largest shortfall was in telecommunication utility tax revenues, which were short more than 25 percent or \$900,000. The shortfall is partially offset by higher gas and cable utility taxes.
- **Other taxes** actual revenue exceeded budget by **41.0 percent** due to receipt of the initial gambling revenue from the newly annexed area and a substantial increase in Leasehold Excise tax payments from one payee, which is currently being reviewed.
- The **business licenses (base fee) and franchise fees** actual revenue ended the year at **90.2 percent** of budget primarily due to timing of franchise payments. Business license base fee revenue ended ahead of budget.
- The **revenue generating regulatory license** fee met budget expectations and ended the year at **100.1 percent** of budget.
- The **development-related fee** revenues, collectively ended the year below budget expectations at **92.9 percent** of budget. **Building permits** and **plan check revenue** collectively ended

the year at **76.9 percent** of budget and **engineering services** revenue ended the year at **163.6 percent** of budget due to receipt of large school permit revenues. A portion of these revenues will be set aside for work that will occur in future years. **Planning fees** revenue ended the year at **102.3 percent** of budget primarily due to major Process IIB permit revenues.

- **Fines and Forfeitures** ended the year below budget expectations at **75.7 percent** primarily because of lower than expected parking infraction penalty revenues. This is due to and offset in part by salary savings from a parking enforcement officer vacancy. Also, revenues from the new neighborhoods are only beginning to be reflected in the actuals.
- **Other financing sources** include the transfer of Fire District 41 balances due to the assumption of the District as a result of annexation, most of which is set aside for the station consolidation project. It also includes the asset transfer from Woodinville Fire & Rescue that was budgeted in 2012. The Interfund Transfers budget is significantly lower than 2010 due to fund restructuring, including combining of the recreation fund with the General Fund. \$175,000 in Interfund Transfers budgeted for the purchase of public safety radios in 2011 will not occur until 2012.

General Fund 2011 revenues ended the year at 96.9 percent of budget, (excluding asset transfers from Fire District 41 and Woodinville Fire & Rescue and interfund transfers).

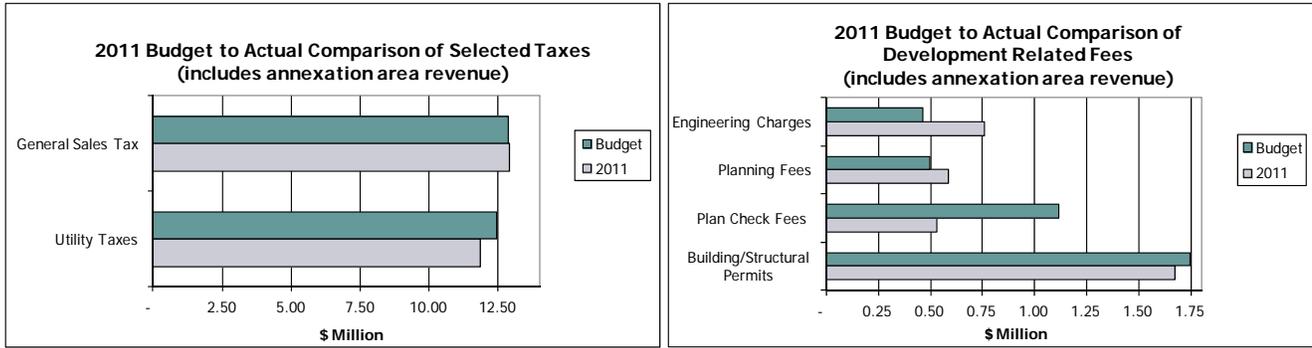
The General Fund is the largest of the General Government Operating funds. It is primarily tax supported and accounts for basic services such as public safety, parks and recreation, and community development.

In 2011, about 412 of the City's 521 regular employees are budgeted within this fund.

General Fund Resource Category	Year-to-Date Actual			Budget			% of Budget	
	12/31/2010	12/31/2011	% Change	2010	2011	% Change	2010	2011
<b>Taxes:</b>								
Retail Sales Tax: General	12,336,886	12,918,182	4.7%	11,464,179	12,885,899	12.4%	107.6%	100.3%
Retail Sales Tax Credit: Annexation	-	1,088,061	N/A	-	1,129,866	N/A	N/A	96.3%
Retail Sales Tax: Criminal Justice	941,944	1,141,768	21.2%	1,129,140	1,149,997	1.8%	83.4%	99.3%
Property Tax	10,009,911	13,074,048	30.6%	9,904,815	13,261,709	33.9%	101.1%	98.6%
Utility Taxes	10,363,718	11,861,208	14.4%	10,965,526	12,436,696	13.4%	94.5%	95.4%
Rev Generating Regulatory License	2,024,640	2,345,779	15.9%	2,567,468	2,344,069	-8.7%	78.9%	100.1%
Other Taxes	328,968	440,259	33.8%	466,129	312,250	-33.0%	70.6%	141.0%
<b>Total Taxes</b>	<b>36,006,067</b>	<b>42,869,305</b>	<b>19.1%</b>	<b>36,497,257</b>	<b>43,520,486</b>	<b>19.2%</b>	<b>98.7%</b>	<b>98.5%</b>
<b>Licenses &amp; Permits:</b>								
Building, Structural & Equipment Permits	1,081,952	1,675,118	54.8%	1,436,990	1,748,605	21.7%	75.3%	95.8%
Business Licenses/Franchise Fees	1,828,607	2,720,228	48.8%	1,720,921	3,014,279	75.2%	106.3%	90.2%
Other Licenses & Permits	181,666	207,444	14.2%	175,460	217,579	24.0%	103.5%	95.3%
<b>Total Licenses &amp; Permits</b>	<b>3,092,225</b>	<b>4,602,790</b>	<b>48.9%</b>	<b>3,333,371</b>	<b>4,980,463</b>	<b>49.4%</b>	<b>92.8%</b>	<b>92.4%</b>
<b>Intergovernmental:</b>								
Grants and Federal Entitlements	426,125	487,838	14.5%	503,699	548,052	8.8%	84.6%	89.0%
State Shared Revenues & Entitlements	842,585	871,865	3.5%	809,010	947,385	17.1%	104.2%	92.0%
Property Tax - Fire District	-	2,313,161	N/A	-	-	N/A	N/A	N/A
Fire District #41	3,580,280	1,586,765	N/A	3,598,238	3,684,071	N/A	99.5%	43.1%
EMS	831,434	840,146	N/A	866,231	868,678	N/A	96.0%	96.7%
Other Intergovernmental Services	546,222	266,132	-51.3%	547,394	533,087	-2.6%	99.8%	49.9%
<b>Total Intergovernmental</b>	<b>6,226,646</b>	<b>6,365,907</b>	<b>2.2%</b>	<b>6,324,572</b>	<b>6,581,273</b>	<b>4.1%</b>	<b>98.5%</b>	<b>96.7%</b>
<b>Charges for Services:</b>								
Internal Charges	5,070,809	5,393,203	6.4%	4,707,822	5,558,328	18.1%	107.7%	97.0%
Engineering Services	269,722	759,300	181.5%	225,000	464,146	106.3%	119.9%	163.6%
Plan Check Fee	547,562	528,411	-3.5%	408,252	1,115,779	173.3%	134.1%	47.4%
Planning Fees	436,740	588,546	34.8%	245,420	495,044	101.7%	178.0%	118.9%
Recreation	-	1,082,755	N/A	-	1,162,406	N/A	N/A	93.1%
Other Charges for Services	849,612	1,534,336	80.6%	770,890	1,709,373	121.7%	110.2%	89.8%
<b>Total Charges for Services</b>	<b>7,174,445</b>	<b>9,886,551</b>	<b>37.8%</b>	<b>6,357,384</b>	<b>10,505,076</b>	<b>65.2%</b>	<b>112.9%</b>	<b>94.1%</b>
<b>Fines &amp; Forfeits</b>	<b>1,651,358</b>	<b>1,843,298</b>	<b>11.6%</b>	<b>1,539,268</b>	<b>2,435,490</b>	<b>58.2%</b>	<b>107.3%</b>	<b>75.7%</b>
<b>Miscellaneous</b>	<b>149,539</b>	<b>952,294</b>	<b>536.8%</b>	<b>654,692</b>	<b>641,940</b>	<b>-1.9%</b>	<b>22.8%</b>	<b>148.3%</b>
<b>Total Revenues</b>	<b>54,300,280</b>	<b>66,520,145</b>	<b>22.5%</b>	<b>54,706,544</b>	<b>68,664,728</b>	<b>25.5%</b>	<b>99.3%</b>	<b>96.9%</b>
<b>Other Financing Sources:</b>								
Transfer of FD 41 & WFR Balances	-	3,467,255	N/A	-	1,722,725	N/A	N/A	201.3%
Interfund Transfers	2,275,530	100,726	N/A	2,275,530	275,028	N/A	100.0%	36.6%
<b>Total Other Financing Sources</b>	<b>2,275,530</b>	<b>3,567,981</b>	<b>N/A</b>	<b>2,275,530</b>	<b>1,997,753</b>	<b>N/A</b>	<b>100.0%</b>	<b>178.6%</b>
<b>Total Resources</b>	<b>56,575,810</b>	<b>70,088,126</b>	<b>23.9%</b>	<b>56,982,074</b>	<b>70,662,481</b>	<b>24.0%</b>	<b>99.3%</b>	<b>99.2%</b>

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	
	12/31/2010	12/31/2011	% Change	2010	2011	% Change	2010	2011
Non-Departmental	1,447,339	1,480,722	2.3%	1,525,820	1,480,669	-3.0%	94.9%	100.0%
City Council	345,605	310,496	-10.2%	353,130	321,477	-9.0%	97.9%	96.6%
City Manager's Office	2,947,807	3,380,736	14.7%	3,115,861	3,556,701	14.1%	94.6%	95.1%
Human Resources	1,006,757	1,223,115	21.5%	1,124,972	1,267,998	12.7%	89.5%	96.5%
City Attorney's Office	983,611	1,120,377	13.9%	984,121	1,162,037	18.1%	99.9%	96.4%
Parks & Community Services	6,605,981	6,702,191	1.5%	6,722,519	7,108,434	5.7%	98.3%	94.3%
Public Works (Engineering)	3,123,823	3,365,232	7.7%	3,340,832	3,771,045	12.9%	93.5%	89.2%
Finance and Administration	3,529,461	3,822,892	8.3%	3,743,652	4,097,765	9.5%	94.3%	93.3%
Planning & Community Development	2,610,736	2,880,397	10.3%	2,730,557	2,932,820	7.4%	95.6%	98.2%
Police	16,988,616	19,880,596	17.0%	17,188,807	22,201,553	29.2%	98.8%	89.5%
Fire & Building	17,530,924	19,157,371	9.3%	17,319,527	19,977,960	15.3%	101.2%	95.9%
<b>Total Expenditures</b>	<b>57,120,660</b>	<b>63,324,125</b>	<b>10.9%</b>	<b>58,149,798</b>	<b>67,878,459</b>	<b>16.7%</b>	<b>98.2%</b>	<b>93.3%</b>
<b>Other Financing Uses:</b>								
Interfund Transfers	1,103,912	2,827,754	156.2%	1,024,920	3,286,374	220.6%	107.7%	86.0%
<b>Total Other Financing Uses</b>	<b>1,103,912</b>	<b>2,827,754</b>	<b>156.2%</b>	<b>1,024,920</b>	<b>3,286,374</b>	<b>220.6%</b>	<b>107.7%</b>	<b>86.0%</b>
<b>Total Expenditures &amp; Other Uses</b>	<b>58,224,572</b>	<b>66,151,879</b>	<b>13.6%</b>	<b>59,174,718</b>	<b>71,164,833</b>	<b>20.3%</b>	<b>98.4%</b>	<b>93.0%</b>

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

The 2011 Budget incorporates budget reductions in response to the economic downturn, additions as a result of annexation, the move to medical self-insurance, the restoration of 3.4 percent salary and benefit reductions taken in 2010, and fund restructuring to comply with accounting rule changes. These changes make comparisons to the 2010 budget challenging, therefore, expenditures will only be compared to the 2011 budget. The actual expenditures summarized below reflect a full year of data.

**Comparing 2011 actual expenditures to the 2011 budget:**

Overall, General Fund expenditures trailed the budget ending the year at 93.3 percent of budget, excluding interfund transfers. About half of the under expenditures are a result of salary and benefit savings partially due to delayed hiring for annexation, this savings is not expected to continue at this level in 2012. The remaining under expenditures are primarily due to savings in intergovernmental and professional services.

- Actual 2011 expenditures for the **City Council** ended the year on target at **96.6 percent** of budget.
- The **City Manager's Office** actuals ended the year at **95.1 percent** of budget due to savings in personnel costs and professional services.
- Actual 2011 expenditures for **Human Resources** ended the year at **96.5 percent** of budget due to savings in professional services, advertising and training. Over the past few years advertising costs in Human Resources have significantly decreased due to changes in position advertising and the increased use of online postings.
- The **City Attorney's Office** expenditures ended at **96.4 percent** of budget due to savings in legal fees.
- Actual 2011 expenditures for the **Parks & Community Services Department** ended the year at **94.3 percent** of budget due to unfilled positions, operating supplies and human services contract payments, the

2011 General Fund actual expenditures (excluding "other financing sources") ended the year at 93.3 percent of budget, primarily due to delayed annexation hiring and position vacancies in multiple departments and savings in jail costs.

(Continued on page 5)

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majority of which will occur in 2012.

- Actual expenditures for the **Public Works Department** ended at **89.2 percent** of budget due to position vacancies and savings from professional services.
- The **Finance and Administration Department** expenditures ended the year at **93.3 percent** of budget due to personnel savings mainly from the reclassification of positions that resulted in lower salary costs and some savings in professional services.
- Actual 2011 expenditures for the **Planning and Community Development Department** ended at **98.2 percent** of budget due to savings in professional services.
- Actual 2011 expenditures for the **Police Department** ended the year at **89.5 percent** of budget due to savings from delayed annexation staffing and increased hiring of laterals (and related expenses) along with position vacancies. In addition, jail costs came in under budget about \$830,000 due to contracts with other agencies for lower rates than those charged by King County and an increase in the use of electronic home detention and other sentencing measures besides jail time.
- Actual 2011 expenditures for the **Fire & Building Department** ended the year at **95.9 percent** of budget due to savings in fire suppression overtime and delayed hiring of annexation positions in the Building Division. A summary of the funds received from the assumption of Fire District 41 appears to the right.

### Summary of Fire District 41 Funds: Revenues & Expenditures

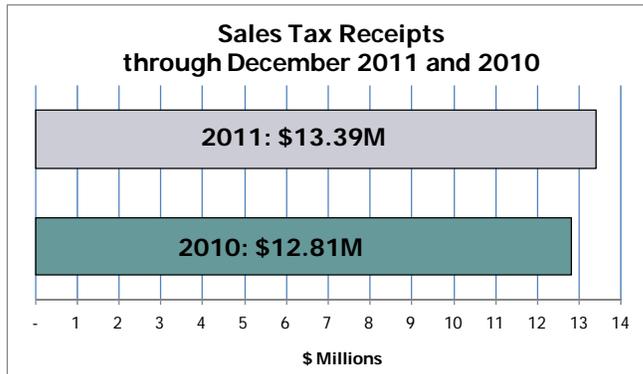
	Capital	General Government
<b>Revenues:</b>		
Beginning Balance	4,000,000	1,724,497
Fire District Revenues	-	1,872,041
Interest and Other Revenues	22,507	2,697
<b>Total Revenues</b>	<b>4,022,507</b>	<b>3,599,235</b>
<b>Expenditures:</b>		
Operating Costs (per ILA)*	-	163,840
Fire District 2011 Contract	-	2,209,496
Station Consolidation Project	27,939	-
<b>Total Expenditures</b>	<b>27,939</b>	<b>2,373,336</b>
<b>Ending Balance</b>	<b>3,994,568</b>	<b>1,225,899</b>

\*Includes 2012 obligations

**Sales Tax Revenue Analysis** 2011 sales tax revenue through December was **up 4.5 percent** compared to the same period in 2010. All business sectors except for Wholesale saw increases for 2011. Factoring out one-time revenues and revenues from the new neighborhoods, the sales tax figures would be up 2.8 percent for the year compared to 2010.

#### Review by business sectors:

- The **general merchandise/miscellaneous retail** sector was **up 3.3 percent** compared to 2010 largely due to a large one-time receipt received in early 2011.
- The **auto/gas retail** sector was **up 4.1 percent** compared to 2010. This category had the second largest dollar increase in 2011.
- The **retail eating/drinking** sector performance was **up 7.6 percent** compared to 2010. The opening of a few new restaurants in early 2011 and revenue from the new neighborhoods impacted the comparison.
- Other retail** in 2011 was **up 5.0 percent** compared to 2010, primarily due to positive performance in the food and beverage and building and garden categories.
- The **miscellaneous** sector was **up 15.1 percent** compared to 2010, due to one-time amnesty program revenue and a distribution of pooled sales tax revenue related to some large audits. Factoring out one-time revenues, this category would be up 0.5 percent.
- The **communications** sector was **up 8.3 percent** compared to 2010, due to the significant development related activity from telecommunications companies in early 2011.
- The **services** sector was **up 5.1 percent** compared to 2010, largely due to one-time corrections to the repairs and maintenance category. The accommodations category was up 4.2 percent or about \$11,200.
- The **contracting** sector was **up 0.5 percent** compared to 2010. The construction of buildings category continued to be down due to the completion of several large projects that generated significant tax revenues in 2010. Significant increases in 2011 in the specialty trade category helped this sector recover.
- Wholesale** was **down 2.1 percent** compared to 2010, this is the only category that ended with negative a performance for the year.



#### Streamlined Sales Tax

Washington State implemented new local coding sales tax rules as of July 1, 2008 as a result of joining the national Streamlined Sales Tax Agreement. Negative impacts from this change are mitigated by the State of Washington. In 2011, a little more than \$105,000 was received, almost \$10,000 less than budget.

#### Neighboring Cities

Bellevue and Redmond 2011 sales tax revenue through December was up 5.5 percent and 36.4 percent respectively compared to the same period in 2010. Redmond was much higher due to \$4.6 million in field recoveries received in February and March. Excluding field recoveries Redmond was up 9.9 percent.

**City of Kirkland Actual Sales Tax Receipts**

Business Sector Group	January-December		Dollar Change	Percent Change	Percent of Total	
	2010	2011			2010	2011
Services	1,609,846	1,692,708	82,862	5.1%	12.6%	12.6%
Contracting	1,739,823	1,748,813	8,990	0.5%	13.6%	13.1%
Communications	439,692	476,189	36,497	8.3%	3.4%	3.6%
Auto/Gas Retail	3,038,615	3,161,851	123,236	4.1%	23.7%	23.6%
Gen Merch/Misc Retail	1,745,038	1,802,876	57,838	3.3%	13.6%	13.5%
Retail Eating/Drinking	1,063,913	1,145,123	81,210	7.6%	8.3%	8.6%
Other Retail	1,614,016	1,694,262	80,246	5.0%	12.6%	12.7%
Wholesale	725,093	709,686	(15,407)	-2.1%	5.7%	5.3%
Miscellaneous	830,820	956,682	125,862	15.1%	6.5%	7.1%
<b>Total</b>	<b>12,806,856</b>	<b>13,388,190</b>	<b>581,334</b>	<b>4.5%</b>	<b>100.0%</b>	<b>100.0%</b>

*Kirkland's sales tax base is comprised of a variety of businesses which are grouped and analyzed by business sector (according to NAICS, or "North American Industry Classification System"). Nine business sector groupings are used to compare 2010 and 2011 year-to-date sales tax receipts in the table to the left.*

**City of Kirkland Actual Monthly Sales Tax Receipts**

Month	Sales Tax Receipts		Dollar Change	Percent Change
	2010	2011		
January	945,992	1,082,225	136,233	14.4%
February	1,364,023	1,366,850	2,827	0.2%
March	937,460	942,887	5,427	0.6%
April	953,914	899,425	(54,489)	-5.7%
May	1,094,845	1,154,252	59,407	5.4%
June	1,009,111	1,046,570	37,459	3.7%
July	1,035,279	1,047,452	12,173	1.2%
August	1,136,223	1,181,633	45,410	4.0%
September	1,142,588	1,144,307	1,719	0.2%
October	1,053,781	1,148,556	94,775	9.0%
November	1,089,394	1,236,264	146,870	13.5%
December	1,044,246	1,137,769	93,523	9.0%
<b>Total</b>	<b>12,806,856</b>	<b>13,388,190</b>	<b>581,334</b>	<b>4.5%</b>

- Monthly revenue performance in 2011 maintained the improvements seen in 2010 after the mostly double digit declines experienced throughout 2009.
- January 2011 was substantially ahead of January 2010. However, a significant portion of the gain was one-time. Field recoveries and large one-time receipts accounted for almost half of the gain. The increase was 7.8 percent after factoring out these one-time events.
- Receipts for April were skewed by a large field recovery received in April 2010. Excluding the field recovery would result in April 2011 being down 2.3 percent.
- May, June and July were skewed due to one-time amnesty revenues. Excluding these revenues would result in May being down 1.0 and June and July being up 0.4 and 7.6 percent respectively.
- August was skewed by a one-time distribution resulting from certain audits being completed. Excluding this distribution would result in August being up 0.8 percent.
- October, November and December revenues include revenues from the new neighborhoods.
- 2011 sales tax revenue (excluding the new neighborhoods) was higher than budgeted and offset the shortfall in sales tax revenues in the new neighborhoods. Staff is undertaking further analysis to determine whether there are revenues that King County identified that the City has yet to receive.

When analyzing monthly sales tax receipts, there are two items of special note: First, most businesses remit their sales tax collections to the Washington State Department of Revenue on a monthly basis. Small businesses only have to remit their sales tax collections either quarterly or annually, which can create anomalies when comparing the same month between two years. Second, for those businesses which remit sales tax monthly, there is a two month lag from the time that sales tax is collected to the time it is distributed to the City. For example, sales tax received by the City in December is for sales activity in October. Monthly sales tax receipts through December 2010 and 2011 are compared in the table above.

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

**Comparing to the same period last year:**

**Totem Lake**, which accounts for about 29 percent of the total sales tax receipts, is **down 2.4 percent** in 2011 primarily due to negative performance in several of the retail sales categories. About 68

percent of this business district's revenue comes from the auto/gas retail sector.

**NE 85<sup>th</sup> Street**, which accounts for over 15 percent of the total sales tax receipts, is **down 2.1 percent** primarily due to declines in the retail eating and drinking category and slow performance in the automotive/gas retail sales. The automotive/gas retail sector contributes almost 39 percent of this business district's revenue.

**Downtown**, which accounts for over 7 percent of the total sales tax receipts, is **up 11.1 percent** due to positive performance in the retail apparel/general merchandise category and retail eating/drinking category. The retail eating/drinking sector, accommodations and other retail provide almost 73 percent of this business district's revenue.

**Carillon Point & Yarrow Bay**, which account for more than 3

percent of the total sales tax receipts, are **up 26.8 percent** compared to last year primarily due to other retail and the accommodations sectors. About 60 percent of this business district's revenue comes from business services, retail eating/drinking and accommodations.

**Houghton & Bridle Trails**, which account for more than 2 percent of the total sales tax receipts, are **up 11.8 percent** collectively due to strong performance in the retail food stores and misc retail categories. The retail sectors provide about 74 percent of these business districts' revenue.

**Juanita**, which accounts for about 2 percent of the total sales tax receipts, is flat with no change from 2010. Increases in the sporting goods/misc. retail and retail eating/drinking are offset by poor performance in the business services category. These sectors provide almost 76 percent of this business district's revenue.

**North Juanita, Kingsgate, & Finn Hill** account for less than 1 percent of the total sales tax receipts. Sales tax receipts for these business districts finished the year at 29 percent of the 2011 annexation sales tax budget. Retail eating/drinking and food retail sectors provide about 70 percent of these business districts sales tax revenues.

*Year-to-date sales tax receipts by business district for 2010 and 2011 are compared in the table on the next page.*

When reviewing sales tax receipts by business district, it's important to point out that more than 42 percent of the revenue received in 2011 is 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.

City of Kirkland Sales Tax by Business District

Business District	Jan-Dec Receipts		Dollar Change	Percent Change	Percent of Total	
	2010	2011			2010	2011
Totem Lake	3,957,271	3,863,496	(93,775)	-2.4%	30.9%	28.9%
NE 85th St	2,061,166	2,016,877	(44,289)	-2.1%	16.1%	15.1%
Downtown	886,127	984,079	97,952	11.1%	6.9%	7.4%
Carillon Pt/Yarrow Bay	356,531	452,195	95,664	26.8%	2.8%	3.4%
Houghton & Bridle Trails	312,417	349,375	36,958	11.8%	2.4%	2.6%
Juanita	257,714	257,754	40	0.0%	2.0%	1.9%
Kingsgate	-	40,016	40,016	N/A	0.0%	0.3%
North Juanita	-	43,892	43,892	N/A	0.0%	0.3%
Finn Hill	-	20,814	20,814	N/A	0.0%	0.2%
Unassigned or No District:						
Contracting	1,739,819	1,749,111	9,292	0.5%	13.6%	13.1%
Other	3,235,811	3,610,582	374,771	11.6%	27.3%	29.5%
<b>Total</b>	<b>12,806,856</b>	<b>13,388,190</b>	<b>581,334</b>	<b>4.5%</b>	<b>100.0%</b>	<b>100.0%</b>

**Sales Tax Revenue Outlook** Sales tax receipts were mostly positive for 2011 compared to 2010, as illustrated in the monthly chart on the previous page and exceeded budget expectations. The services, general merchandise/miscellaneous retail, automotive/gas retail and miscellaneous sectors contributed the largest amount of gain, but these sectors are very sensitive to economic conditions. Communications and contracting sectors have shown small signs of recovery. The impact from streamlined sales tax sourcing rule changes has negatively impacted some sectors, but is offset by gains in others. The shaky economic recovery poses significant risk to the City's ability to maintain services, since sales tax is one of the primary sources of general fund revenue. As noted earlier, staff is working with the Department of Revenue and King county to determine whether the City is receiving all of the revenues generated from the newly annexed areas.

**OFFICE VACANCIES:**

According to CB Richard Ellis Real Estate Services, the Eastside office vacancy rate was 15.5 percent for the fourth quarter of 2011 compared to 18.0 percent for the fourth quarter of 2010. Kirkland's 2011 vacancy rate is 7.9 percent, significantly lower than the 2010 rate of 24.2 percent.

The Puget Sound regional market recovery has been one of the strongest in the country with 1,876,754 square feet of positive absorption in 2011, 44 percent occurring on the Eastside. This is the seventh straight quarter of positive absorption. Positive absorption occurs when the total amount of available office space decreases during a set period.

Looking ahead to 2012 it is expected that vacancy rates will continue decreasing, but at varying rates around the Puget Sound.

**LODGING TAX REVENUE:**

Lodging tax 2011 revenue ended the year at 111.1 percent of the budget and 8.9 percent more than 2010.

**Economic Environment Update** Washington State's economy performed close to expectations in 2011 and is expected to continue marginally outperforming the United States in recovery. Washington is not immune to uncertainty in the global economy. The greatest risks to continued growth are the lack of progress in the European debt crisis, continued uncertainty with U.S. fiscal policies, the slowdown of growth in Asia and slow job growth. All of these factors are contributors to the projected prolonged period of slow growth according to the latest update from the Washington State Economic and Revenue Forecast Council. Employment rose slightly from August to November 2011 with 7,900 net new jobs in Washington, mostly in the private sector. Even with some gains in employment the state remained down more than 130,000 jobs from the start of the recession. The State Legislature continues to struggle to finalize a balanced state budget creating some uncertainties for 2012 and beyond. The projected state budget shortfall is \$1.05 billion for the 2012 supplemental operating budget. The State's challenge to close its own budget deficit and some options presented could negatively impact cities, such as changes in the liquor profits/tax apportionments or cost shifting for programs such as the basic law enforcement academy. *The side bar on page 9 presents information on the national forecast based on a survey done by the Federal Reserve Bank of Philadelphia.*

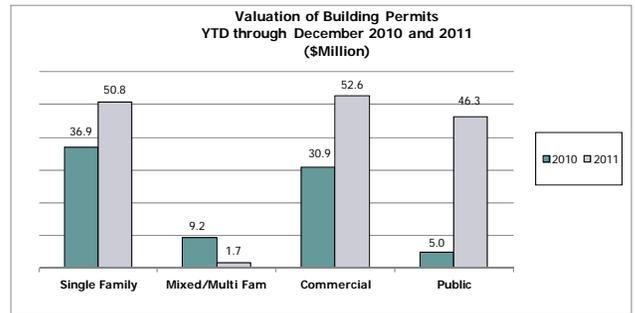
The U.S. **consumer confidence index** improved considerably (nearly 25 points) the last three months of 2011, bringing levels in December back up to those not seen since April 2011. The Index now stands at **64.5** up from 55.2 in November. Lynn Franco, Director of The Conference Board Consumer Research Center, said "Looking ahead, consumers are more optimistic that business conditions, employment prospects, and their financial situations will continue to get better. While consumers are ending the year in a somewhat more upbeat mood, it is too soon to tell if this is a rebound from earlier declines or a sustainable shift in attitudes." Even with recent improvements, the index has been volatile and has not reached, or maintained, levels which indicate a stable economy since 2007. An index of 90 indicates a stable economy and one at or above 100 indicates growth.

*(Continued on page 8)*

King County's **unemployment rate** was **7.2 percent** in December 2011 compared to 8.4 percent in December 2010, the lowest since January 2009. King County's unemployment rate is lower than the Washington State and national rates, which were 8.6 and 8.5 percent.

The Institute for Supply Management-**Western Washington Index** saw a decline in December to 70.3, from 71.4 in November. While the national survey index increased to 53.9 in December from 52.7 in November. An index reading greater than 50 indicates a growing economy, while scores below 50 suggest a shrinking economy.

Local **development activity** through December comparing 2010 to 2011 as measured by the valuation of City of Kirkland building permits is illustrated in the chart to the right. Activity has improved in the single family, commercial and public sectors. However, activity in the mixed use/multifamily sectors has been slow in 2011. Through December 2011, building permit valuation was up 84.7 percent compared to December 2010. This increase is largely due to Lake Washington School District permits for school renovations.



Closed sales of **new and existing single-family homes** on the Eastside were down 0.4 percent in December 2011 compared to December 2010. The median price of a single family home decreased 13.2 percent (\$460,000 from \$530,000). Closed sales for condominiums were down 4.2 percent and the median price dropped 3.6 percent (to \$239,500 from \$248,500). Countywide, closed sales for single-family homes increased 0.5 percent compared to December 2010. The countywide median home price fell 13.5 percent year-over-year.

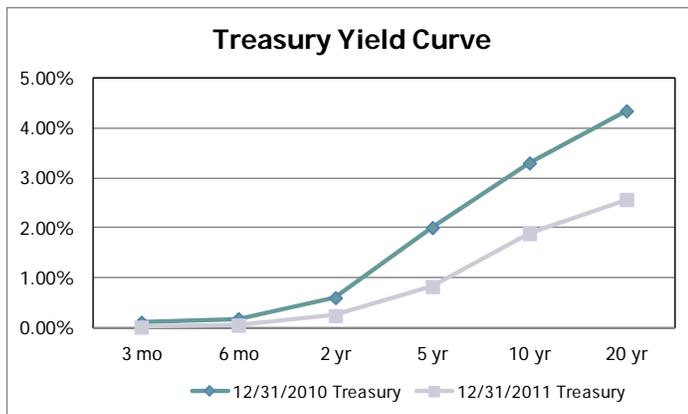
**Seattle metro consumer price index (CPI)** in December was at 3.8 percent, the Seattle metro CPI fluctuated throughout the year averaging 3.2 percent. The Seattle index is calculated on a bi-monthly basis. The national index ended the year at 3.9 percent in December and averaged 3.6 percent in 2011. Both indexes increased more than 1.5 percent from 2010 to 2011. This increase was impacted largely by higher prices for energy, including gasoline and food. The CPI in Seattle and nationally remain the highest since October 2008.

## Investment Report

### MARKET OVERVIEW

Throughout 2011 investment earning opportunities declined even further from historical lows in 2010. The Fed Funds rate remained in the range of 0.00 percent to 0.25 percent for all of 2011. As can be seen in the accompanying graph, the Treasury yield curve dropped along all points of the curve to nearly zero on the short end of the curve and dropped nearly two percent at the long end of the curve.

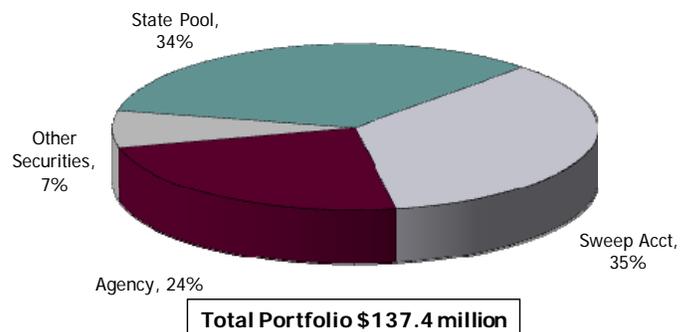
### CITY PORTFOLIO



It is the policy of the City of Kirkland to invest public funds in a manner which provides the highest investment return with maximum security while meeting the City's daily cash flow requirements and conforming to all Washington state statutes governing the investment of public funds.

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.

### Investments by Category



The City's portfolio totaled \$137.4 million at the end of 2011. The following are some of the factors contributing to the portfolio increasing about \$19 million since the beginning of the year: annexation resulted in a transfer of \$5.7 million from Fire District 41, including \$4 million in debt proceeds for the construction of the consolidated fire station; \$1.9 million increase in the Street fund balance reflecting the receipt in 2011 of \$1.3 million in County Road levy revenues budgeted in 2012; annexation-related asset transfer of \$1.7 million from Woodinville Fire & Life, also budgeted in 2012; a \$3.6 million increase in utility fund balances; \$1.5 million increase in the Health Benefits Reserve fund balance; \$2 million increase in the internal services funds balance; and \$2.2 million in General Fund balance, net of 2011 revenue shortfall and under expenditures, \$1.2 million of which will be used for 2011 costs that will occur in 2012. Note that the balance includes \$20.9 million in bond proceeds for the Public Safety Building and \$25 million in funded capital project balances.

**2012 ECONOMIC OUTLOOK and INVESTMENT STRATEGY**

The professional forecasters of the Federal Reserve Bank of Philadelphia expect economic growth of 2.3 percent in 2012 and that CPI inflation for 2012 will be 2.0 percent. The unemployment rate in 2012 is expected to average 8.3 percent. The Fed Funds rate, currently 0.00 to 0.25 percent is expected to stay at this level through the end of 2014.

Investment opportunities which provide greater yield are limited during this period of very low interest rates. The goal for 2012 will be to watch the movement of the interest rates and determine the best time to begin increasing the duration of the portfolio by purchasing longer term, higher yielding securities. Total investment income for 2012 is estimated to be \$653,000, about half of the interest income for 2011 which was \$1,262,918.

**Investment Report *continued***

**Diversification**

The City's current investment portfolio is composed of Government Sponsored Enterprises (GSEs) bonds, State and Local Government bonds, the State Investment Pool and an overnight bank sweep account. Kirkland's investment policy allows up to 100 percent of the portfolio to be invested in U.S. Treasury or U.S. Government Sponsored Enterprises (GSEs) securities with a limit of 30 percent of the portfolio invested in any one agency.

**Liquidity**

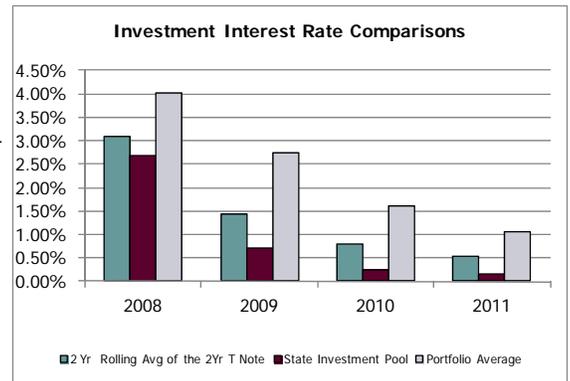
During 2011, the average maturity of the City's investment portfolio decreased from 1.07 years to 0.79 years. This was a result of securities with higher interest rates maturing or being called. A shorter duration in times of low interest is preferable so that the portfolio is positioned to invest as rates increase.

Benchmark Comparison	December 31, 2010	December 31, 2011
City Yield to Maturity (YTM)	1.00%	0.79%
City Average YTM	1.61%	1.05%
City Year to Date Cash Yield	1.75%	1.02%
State Pool Average Yield	0.26%	0.17%
2 yr T Note 2 Yr Avg YTM	0.80%	0.54%

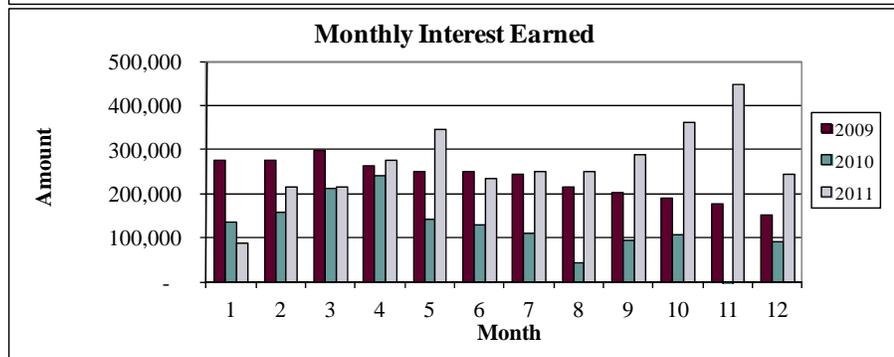
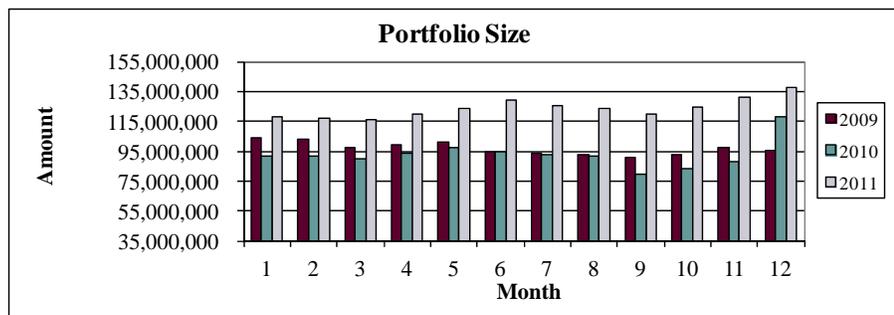
**Yield**

The City Portfolio yield to maturity decreased from 1.00 percent on December 31, 2010 to 0.79 percent on December 31, 2011. Through December 31, 2011, the City's annual average yield to maturity was 1.05 percent, which significantly outperformed the State Investment Pool annual average yield at 0.17 percent as well as the 2 Year Treasury Note 2 year rolling average at December 31 which was 0.54 percent.

The City's practice of investing further out on the yield curve than the State Investment Pool results in earnings higher than the State Pool during declining interest rates and lower earnings than the State Pool during periods of rising interest rates. This can be seen in the above graph.



The charts below compare the monthly portfolio size and interest earnings for 2009 through December 2011.



**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. The reserves are listed with their revised estimated balances at the end of the biennium as of December 31, 2011.

## Reserve Analysis

### General Purpose Reserves

- The **Revenue Stabilization Reserve** was used almost in its entirety during the 2009-10 biennium as part of the budget balancing strategy to address the severe economic downturn, which allowed the City to mitigate some negative impacts to services. General Fund 2010 year-end cash was used to replenish this reserve in the amount of \$600,000 in 2011 and an additional \$500,000 replenishment was made as part of the Mid-Biennial budget process. Further replenishment will remain a high priority.
- The **Building and Property Reserve** has been identified as an available funding source for facility expansion and renovation projects, which include the new Public Safety Building, and possibly the Eastside Rail Corridor purchase.

### General Capital Reserves

- The downturn in real estate transactions over the last few years has significantly impacted **Real Estate Excise Tax (REET)** collections resulting in adjustments to capital project planning to reflect available funding. REET ended the year 18.4 percent ahead of 2010 and exceeded budget 71.3 percent or about \$1.4 million in 2011. However, it is less than half of the revenue received in 2007.
- **Impact fees** have also been significantly reduced as a result of the severe downturn in development activity, resulting in adjustments to capital projects plans. 2011 revenue ended the year 59 percent ahead of the same period in 2010 with increases in both transportation and park impact fees. However, transportation fees ended the year at 38.5 percent of the 2011 budget, or about \$520,000 under budget. Whereas, park fees came in over budget 126 percent or about \$126,000. There is no planned use for capital projects in the current budget cycle, since these revenue sources are expected to remain extremely low compared to historical trends until development activity improves.

### General Government & Utility Reserves Targets Summary

Reserves	2011 Beginning Balance	Adopted 2012 Ending Balance	Revised 2012 Ending Balance	2011-12 Target	Revised Over (Under) Target
<b>GENERAL PURPOSE RESERVES WITH TARGETS</b>					
General Fund Reserves:					
General Fund Contingency	50,000	50,000	50,000	50,000	0
General Oper. Reserve (Rainy Day)	2,806,513	2,806,513	2,806,513	4,127,496	(1,320,983)
Revenue Stabilization Reserve	131,431	731,431	1,231,431	2,279,251	(1,047,820)
Council Special Projects Reserve	201,534	251,534	196,534	250,000	(53,466)
Contingency	2,051,870	2,201,870	2,201,870	4,016,232	(1,814,362)
General Capital Contingency:	4,844,957	4,669,463	3,919,463	6,766,320	(2,846,857)
<b>General Purpose Reserves with Targets</b>	<b>10,086,305</b>	<b>10,710,811</b>	<b>10,405,811</b>	<b>17,489,299</b>	<b>(7,083,488)</b>
<b>ALL OTHER RESERVES WITH TARGETS</b>					
General Fund Reserves:					
Litigation Reserve	70,000	70,000	55,000	50,000	5,000
Firefighter's Pension Reserve	1,595,017	1,734,215	1,734,215	1,568,207	166,008
Health Benefits Fund:					
Claims Reserve	0	1,424,472	1,424,472	1,424,472	0
Rate Stabilization Reserve	0	500,000	500,000	500,000	0
Excise Tax Capital Improvement:					
REET 1	1,530,280	1,019,907	870,520	1,035,000	(164,480)
REET 2	7,121,695	4,975,718	4,692,465	11,484,000	(6,791,535)
Water/Sewer Operating Reserve:	1,979,380	1,979,380	1,939,380	1,979,380	(40,000)
Water/Sewer Debt Service Reserve:	822,274	508,717	508,717	508,717	0
Water/Sewer Capital Contingency:	1,793,630	1,793,630	1,793,630	250,000	1,543,630
Surface Water Operating Reserve:	412,875	412,875	412,875	412,875	0
Surface Water Capital Contingency:	858,400	858,400	858,400	758,400	100,000
<b>Other Reserves with Targets</b>	<b>16,183,551</b>	<b>15,277,314</b>	<b>14,789,674</b>	<b>19,971,051</b>	<b>(5,181,377)</b>
<b>Reserves without Targets</b>	<b>30,815,305</b>	<b>36,462,059</b>	<b>36,241,927</b>	<b>n/a</b>	<b>n/a</b>
<b>Total Reserves</b>	<b>57,085,161</b>	<b>62,450,184</b>	<b>61,437,412</b>	<b>n/a</b>	<b>n/a</b>

*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 through the end of 2011.*

### USES AND ADDITIONS HIGHLIGHTS

RESERVE	AMOUNT	DESCRIPTION
<b>2011 Council Authorized Uses</b>		
2011 First Quarter Total Uses	\$248,253	
2011 Second Quarter Total Uses	\$13,000	
2011 Third Quarter Total Uses	\$342,352	
Litigation Reserve	\$15,000	Outside Counsel
REET 1	\$54,853	Parks Operating and Maintenance
REET 2	\$100,000	Street Operating and Maintenance
General Capital Contingency	\$750,000	Juanita Beach Park
<b>2011 Council Authorized Additions</b>		
Council Special Projects Reserve	\$3,000	CDBG Funding Request Withdrawn
Revenue Stabilization Reserve	\$500,000	Replenishing Revenue Stabilization Reserve
Radio Reserve	\$7,686	Reimbursement from NORCOM

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

*Note: Fund structure changes required by new accounting standards moved many of the General Purpose reserves out of the Parks & Municipal Reserve Fund (which was closed) and to the General Fund.*

*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	2011 Beginning Balance	Adopted 2012 Ending Balance	Additional Authorized Uses/Additions	Revised 2012 Ending Balance
<b>GENERAL FUND/CONTINGENCY</b>					
General Fund Reserves:					
General Fund Contingency	Unexpected General Fund expenditures	50,000	50,000	0	50,000
General Oper. Reserve (Rainy Day)	Unforeseen revenues/temporary events	2,806,513	2,806,513	0	2,806,513
Revenue Stabilization Reserve	Temporary revenue shortfalls	131,431	731,431	500,000	1,231,431
Building & Property Reserve	Property-related transactions	2,137,598	2,137,598	0	2,137,598
Council Special Projects Reserve	One-time special projects	201,534	251,534	(55,000)	196,534
Contingency	Unforeseen expenditures	2,051,870	2,201,870	0	2,201,870
<b>Total General Fund/Contingency</b>		<b>7,378,946</b>	<b>8,178,946</b>	<b>445,000</b>	<b>8,623,946</b>
<b>SPECIAL PURPOSE RESERVES</b>					
General Fund Reserves:					
Litigation Reserve	Outside counsel costs contingency	70,000	70,000	(15,000)	55,000
Labor Relations Reserve	Labor negotiation costs contingency	70,606	70,606	0	70,606
Police Equipment Reserve	Equipment funded from seized property	50,086	50,086	0	50,086
LEOFF 1 Police Reserve	Police long-term care benefits	618,079	618,079	0	618,079
Facilities Expansion Reserve	Special facilities expansions reserve	800,000	800,000	0	800,000
Development Services Reserve	Revenue and staffing stabilization	486,564	636,564	(57,000)	579,564
Tour Dock	Dock repairs	81,745	81,745	0	81,745
Tree Ordinance	Replacement trees program	29,117	29,117	(10,000)	19,117
Donation Accounts	Donations for specific purposes	185,026	185,026	0	185,026
Revolving Accounts	Fee/reimbursement for specific purposes	436,386	436,386	(2,318)	434,068
Lodging Tax Fund	Tourism program and facilities	146,384	123,566	(15,000)	108,566
Cemetery Improvement	Cemetery improvements/debt service	439,415	439,415	0	439,415
Off-Street Parking	Downtown parking improvements	10,776	10,776	(1,500)	9,276
Firefighter's Pension	Long-term care/pension benefits	1,595,017	1,734,215	0	1,734,215
<b>Total Special Purpose Reserves</b>		<b>5,019,201</b>	<b>5,285,581</b>	<b>(100,818)</b>	<b>5,184,763</b>
<b>GENERAL CAPITAL RESERVES</b>					
Excise Tax Capital Improvement:					
REET 1	Parks/transportation/facilities projects, parks debt service	1,530,280	1,019,907	(149,387)	870,520
REET 2	Transportation capital projects	7,121,695	4,975,718	(283,253)	4,692,465
Impact Fees					
Roads	Transportation capacity projects	525,095	1,112,245	0	1,112,245
Parks	Parks capacity projects	2,033	3,038	0	3,038
Street Improvement	Street improvements	1,092,258	1,092,258	(42,000)	1,050,258
General Capital Contingency	Changes to General capital projects	4,844,957	4,669,463	(750,000)	3,919,463
<b>Total General Capital Reserves</b>		<b>15,116,318</b>	<b>12,872,629</b>	<b>(1,224,640)</b>	<b>11,647,989</b>
<b>UTILITY RESERVES</b>					
Water/Sewer Utility:					
Water/Sewer Operating Reserve	Operating contingency	1,979,380	1,979,380	(40,000)	1,939,380
Water/Sewer Debt Service Reserve	Debt service reserve	822,274	508,717	0	508,717
Water/Sewer Capital Contingency	Changes to Water/Sewer capital projects	1,793,630	1,793,630	0	1,793,630
Water/Sewer Construction Reserve	Replacement/re-prioritized/new projects	7,870,665	9,871,542	(100,000)	9,771,542
Surface Water Utility:					
Surface Water Operating Reserve	Operating contingency	412,875	412,875	0	412,875
Surface Water Capital Contingency	Changes to Surface Water capital projects	858,400	858,400	0	858,400
Surface Water-Transp. Related Rsv	Replacement/re-prioritized/new projects	2,483,250	3,666,250	0	3,666,250
Surface Water Construction Reserve	Trans. related surface water projects	2,848,125	3,376,431	0	3,376,431
<b>Total Utility Reserves</b>		<b>19,068,599</b>	<b>22,467,225</b>	<b>(140,000)</b>	<b>22,327,225</b>
<b>INTERNAL SERVICE FUND RESERVES</b>					
Health Benefits:					
Claims Reserve	Health benefits self insurance claims	0	1,424,472	0	1,424,472
Rate Stabilization Reserve	Rate stabilization	0	500,000	0	500,000
Equipment Rental:					
Vehicle Reserve	Vehicle replacements	7,718,221	8,047,063	0	8,047,063
Radio Reserve	Radio replacements	0	0	7,686	7,686
Information Technology:					
PC Replacement Reserve	PC equipment replacements	258,311	318,646	0	318,646
Technology Initiative Reserve	Technology projects	690,207	690,207	0	690,207
Major Systems Replacement Reserve	Major technology systems replacement	245,500	84,900	0	84,900
Facilities Maintenance:					
Operating Reserve	Unforeseen operating costs	550,000	550,000	0	550,000
Facilities Sinking Fund	20-year facility life cycle costs	1,039,858	2,030,515	0	2,030,515
<b>Total Internal Service Fund Reserves</b>		<b>10,502,097</b>	<b>11,721,331</b>	<b>7,686</b>	<b>11,729,017</b>
<b>Grand Total</b>		<b>57,085,161</b>	<b>62,450,184</b>	<b>(1,012,772)</b>	<b>61,437,412</b>



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

- It provides a **summary budget to actual comparison** for year-to-date revenues and expenditures for all operating funds.
- The **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.

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- Washington State Department of Revenue
- Washington State Department of Labor & Industries
- City of Kirkland Building Division
- City of Kirkland Finance & Administration Department