



Financial Management Report as of September 30, 2008

AT A GLANCE:

General Fund revenues are behind last year by 1.2 percent. Sales tax revenue performance continues negative trend for third quarter 2008 (see page 5)

Development revenue down; plan check fees holding steady (see page 3)

Budget Open Houses
See sidebar story on page 2

Eastside home sales fall 16.6 percent; prices down 9.8 percent (see page 8)

Inside this issue:

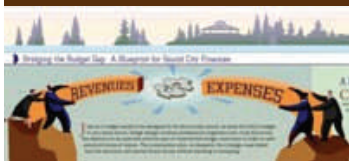
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Summary of All Operating Funds: *Revenue*

- General Fund** actual 2008 revenue is **1.2 percent behind** the same period last year largely due to disappointing sales tax revenue and a significant decline in building permit and planning fee revenue. 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 2008 revenue is **1.8 percent ahead** of the same period last year due to higher internal service rates, recreation fee revenue, and hotel tax revenue, as well as a significant insurance recovery for park property damage and despite a 10.5 percent decline in motor vehicle fuel tax revenue and variability in timing of cable tax revenue. Motor vehicle fuel tax is collected as a flat rate per gallon and distributed by the State based on population. Increased fuel costs that decrease consumption (fewer gallons sold) have a negative impact on this revenue.
- Water Sewer Operating Fund** actual 2008 revenue is **4.9 percent** ahead of last year due primarily to water and sewer revenue and a refund for prior year excise tax payments and despite a decline in regional connection fee revenue. Revenue was budgeted to increase 8 percent over 2007 due to higher rates.
- Surface Water Management Fund** Surface Water fees are paid through property tax collection, which are primarily received in April and October. Actual 2008 revenue is **1.0 percent ahead** of the same period last year, which is within a normal range of variability.
- Solid Waste Fund** revenue collection was budgeted to increase in 2008 over 2007 due to higher rates and normal growth. Actual 2008 revenue is **9.0 percent ahead** of the same period last year, which is higher than planned due to variability in billing collections.

Resources by Fund	Year-to-Date Actual			Budget			% of Budget	
	9/30/2007	9/30/2008	% Change	2007	2008	% Change	2007	2008
General Gov't Operating:								
General Fund	37,095,642	36,656,038	-1.2%	54,543,885	53,226,984	-2.4%	68.0%	68.9%
Other General Gov't Operating Funds	11,484,313	11,687,498	1.8%	16,736,577	17,027,124	1.7%	68.6%	68.6%
Total General Gov't Operating	48,579,955	48,343,536	-0.5%	71,280,462	70,254,108	-1.4%	68.2%	68.8%
Utilities:								
Water/Sewer Operating Fund	12,204,338	12,798,353	4.9%	16,494,804	17,821,208	8.0%	74.0%	71.8%
Surface Water Management Fund	2,943,672	2,972,695	1.0%	5,233,189	5,274,145	0.8%	56.3%	56.4%
Solid Waste Fund	5,784,336	6,304,258	9.0%	7,909,347	8,365,262	5.8%	73.1%	75.4%
Total Utilities	20,932,346	22,075,306	5.5%	29,637,340	31,460,615	6.2%	70.6%	70.2%
Total All Operating Funds	69,512,301	70,418,842	1.3%	100,917,802	101,714,723	0.8%	68.9%	69.2%

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



The City of Kirkland hosted two Budget Open Houses to share the City's current and future financial condition, explain the challenges it faces for the upcoming biennium budget, and to discuss the proposed strategies that, if implemented, will balance the 2009-2010 Budget. Kirkland citizens and businesses were encouraged to attend the open houses.

In May, a revenue shortfall of over \$13 million was projected for the 2009-2010 Budget. The shortfall represents more than 12 percent of the General Fund Budget which supports essential services such as police, fire, emergency medical, transportation and parks services. The General Fund is primarily supported by sales tax, which has declined over the past several months. Limited property taxes, the current economic downturn, and increased costs for basic goods and services are also negatively impacting the City's financial picture. The City has the ability to reduce costs, raise revenue and use reserves as ways to balance the budget.

Kirkland residents and businesses received a special edition of City Update, the City's newsletter, which addresses how property taxes support general fund services and what sources of revenue the City receives to support those services. The publication also explains why there is a revenue shortfall in the upcoming budget and what strategies the City Council is considering to overcome the shortfall.

The City Council will be meeting starting October 30th and through November regarding the proposed 2009-10 Budget. A public hearing is scheduled for November 18th. The budget will be adopted in December.

Budget updates are available at the 2009-2010 Budget webpage at www.ci.kirkland.wa.us/budget.

Summary of All Operating Funds: *Expenditures*

- **General Fund** expenditures were budgeted to increase in 2008 over 2007 largely due to increased personnel costs. Actual expenditures are **9.1 percent ahead** of the same period last year primarily due to higher employee salary and benefit costs (including the settlement of labor contracts with back payments for 2007).
- **Other Operating Funds** expenditures were budgeted to decrease in 2008 over 2007 primarily due to the timing of vehicle purchases and one-time costs budgeted in 2007, and despite higher personnel costs. Actual expenditures are **3.2 percent ahead** of the same period last year primarily due to higher personnel and fuel costs, as well as timing of vehicle and computer purchases.
- **Water/Sewer Operating Fund** 2008 expenditures were budgeted to increase slightly over 2007 primarily due to one-time costs budgeted in 2007 and despite expected higher personnel, water purchase, and sewer processing costs in 2008. Actual 2008 expenditures are **4.3 percent ahead** of the same period last year primarily due to higher personnel, water purchase, and METRO sewer costs and despite a significant decline in regional water connection charges.
- **Surface Water Management Fund** expenditures were budgeted to decrease in 2008 over 2007 primarily due to the timing of one-time projects and despite higher personnel costs. Actual 2008 expenditures are **4.4 percent ahead** of the same period last year due to higher personnel costs and the progress made in 2008 on plans that were budgeted in 2007.
- **Solid Waste Fund** expenditures were budgeted to increase in 2008 over 2007 due primarily to higher solid waste contract rates. Actual 2008 expenditures are **18.9 percent ahead** of the same period last year due to the timing of monthly disposal contract billing payments.

Expenditures by Fund	Year-to-Date Actual			Budget			% of Budget	
	9/30/2007	9/30/2008	% Change	2007	2008	% Change	2007	2008
General Gov't Operating:								
General Fund	38,137,965	41,599,767	9.1%	54,678,073	56,620,925	3.6%	69.8%	73.5%
Other General Gov't Operating Funds	11,537,670	11,903,587	3.2%	17,318,967	16,843,501	-2.7%	66.6%	70.7%
Total General Gov't Operating	49,675,635	53,503,354	7.7%	71,997,040	73,464,426	2.0%	69.0%	72.8%
Utilities:								
Water/Sewer Operating Fund	12,219,624	12,744,562	4.3%	16,920,331	16,951,605	0.2%	72.2%	75.2%
Surface Water Management Fund	3,244,665	3,388,965	4.4%	5,646,269	5,520,982	-2.2%	57.5%	61.4%
Solid Waste Fund	5,201,114	6,186,373	18.9%	7,860,424	8,221,762	4.6%	66.2%	75.2%
Total Utilities	20,665,403	22,319,900	8.0%	30,427,024	30,694,349	0.9%	67.9%	72.7%
Total All Operating Funds	70,341,038	75,823,254	7.8%	102,424,064	104,158,775	1.7%	68.7%	72.8%

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

General Fund Revenue

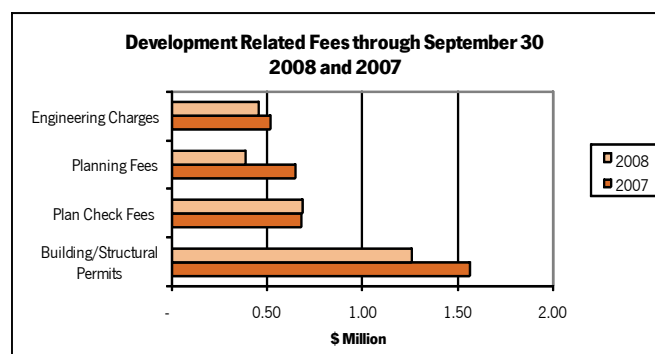
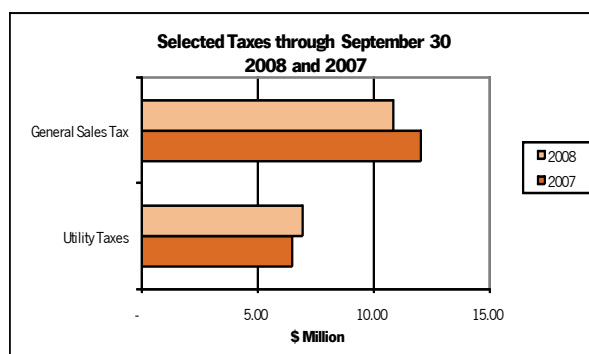
- **Sales tax** revenue for 2008 was originally planned to increase slightly over 2007. The budget was adjusted downward in March because of disappointing performance early in the year. However, actual 2008, General Fund sales tax revenue is continuing an even steeper decline, **down 9.7 percent** compared to the same period last year. A detailed analysis of **sales tax** revenue can be found starting on page 5.
- **Utility tax** actual revenue collection is **6.9 percent ahead** of the same period last year primarily due to growth in electricity and telephone tax revenue.
- **Other taxes** actual revenue is **19.4 percent ahead** of the same period last year primarily due to the one-time receipt of E-911 tax revenue for reimbursement of dispatch equipment and overtime.
- **Business licenses and franchise fees** actual revenue is **6.0 percent ahead** of the same period last year due to franchise fee revenue. The **revenue generating regulatory license** fee is **4.7 percent ahead** of the same period last year, in part due to collection of delinquent accounts. Variability of the timing of renewals from larger businesses can skew year-to-year comparisons.
- **Other licenses and permits** are **28.9 percent ahead** of the same period last year due to one-time revenue received for the Verizon fiber project inspections and alarm registrations.
- **Development-related fee** revenues remain a mixed bag. Collectively, actual 2008 revenue is **down 18.4 percent** compared to the same period last year. **Building/structural permits** actual 2008 revenue is **19.5 percent lower** than the same period in 2007. **Plan check** fees actual revenue is **1.0 percent ahead** compared to the same period in 2007. **Planning fees** are **down 40.8 percent** compared to the same period last year, and **engineering services** revenue is **down 12.4 percent** over the same period last year. The trends for development-related revenue in 2008 reflect the volatility that is inherent in development activity and also are reflected in sales tax revenue performance (see page 5).
- **Other charges for service** are **down 25.1 percent** compared to the same period last year due to lower probation revenue and one-time revenue received in 2007 for a temporary inspector for the Verizon fiber project.

General Fund 2008 revenues are \$0.44 million lower than the same period in 2007 largely due to slumping sales tax and development-related revenue and despite strong utility taxes revenues.

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.

General Fund Resource Category	Year-to-Date Actual			Budget			% of Budget	
	9/30/2007	9/30/2008	% Change	2007	2008	% Change	2007	2008
Taxes:								
Retail Sales Tax: General	12,022,001	10,854,713	-9.7%	15,918,981	15,756,800	-1.0%	75.5%	68.9%
Retail Sales Tax: Criminal Justice	851,707	860,505	1.0%	1,114,253	1,050,000	-5.8%	76.4%	82.0%
Property Tax	4,719,810	5,037,932	6.7%	8,790,086	9,037,710	2.8%	53.7%	55.7%
Utility Taxes	6,495,073	6,945,425	6.9%	8,723,683	8,145,822	-6.6%	74.5%	85.3%
Rev Generating Regulatory License	771,034	807,631	4.7%	936,671	990,000	5.7%	82.3%	81.6%
Other Taxes	343,650	410,343	19.4%	462,597	334,654	-27.7%	74.3%	122.6%
Total Taxes	25,203,275	24,916,549	-1.1%	35,946,271	35,314,986	-1.8%	70.1%	70.6%
Licenses & Permits:								
Building, Structural & Equipment Permits	1,562,497	1,258,548	-19.5%	2,078,436	2,163,450	4.1%	75.2%	58.2%
Business Licenses/Franchise Fees	1,092,343	1,157,481	6.0%	1,421,435	1,449,450	2.0%	76.8%	79.9%
Other Licenses & Permits	144,530	186,248	28.9%	188,749	193,900	2.7%	76.6%	96.1%
Total Licenses & Permits	2,799,370	2,602,277	-7.0%	3,688,620	3,806,800	3.2%	75.9%	68.4%
Intergovernmental:								
Grants	163,860	169,380	3.4%	182,160	36,784	-79.8%	90.0%	460.5%
State Shared Revenues & Entitlements	472,666	468,059	-1.0%	623,230	645,318	3.5%	75.8%	72.5%
Fire District #41	1,647,208	1,735,286	5.3%	3,184,310	3,487,428	N/A	51.7%	49.8%
EMS	-	396,512	N/A	504,376	793,023	N/A	N/A	50.0%
Other Intergovernmental Services	424,619	466,428	9.8%	589,478	439,609	-25.4%	72.0%	106.1%
Total Intergovernmental	2,708,353	3,235,665	19.5%	5,083,554	5,402,162	6.3%	53.3%	59.9%
Charges for Services:								
Internal Charges	2,531,279	2,393,244	-5.5%	3,443,777	3,511,012	2.0%	73.5%	68.2%
Engineering Services	516,753	452,585	-12.4%	635,000	610,000	-3.9%	81.4%	74.2%
Plan Check Fee	680,415	686,970	1.0%	958,760	900,000	-6.1%	71.0%	76.3%
Planning Fees	650,431	384,753	-40.8%	968,900	1,194,637	23.3%	67.1%	32.2%
Recreation	81,932	81,779	-0.2%	79,516	83,000	4.4%	103.0%	98.5%
Other Charges for Services	665,085	498,057	-25.1%	880,191	677,323	-23.0%	75.6%	73.5%
Total Charges for Services	5,125,895	4,497,388	-12.3%	6,966,144	6,975,972	0.1%	73.6%	64.5%
Fines & Forfeits	903,205	962,474	6.6%	1,317,860	1,132,000	-14.1%	68.5%	85.0%
Miscellaneous	355,544	412,847	16.1%	553,002	404,150	-26.9%	64.3%	102.2%
Total Revenues	37,095,642	36,627,200	-1.3%	53,555,451	53,036,070	-1.0%	69.3%	69.1%
Other Financing Sources:								
Interfund Transfers	-	28,838	N/A	988,434	190,914	N/A	N/A	15.1%
Total Other Financing Sources	-	28,838	N/A	988,434	190,914	N/A	N/A	15.1%
Total Resources	37,095,642	36,656,038	-1.2%	54,543,885	53,226,984	-2.4%	68.0%	68.9%

* 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	
	9/30/2007	9/30/2008	% Change	2007	2008	% Change	2007	2008
Non-Departmental	722,353	982,951	36.1%	1,126,152	1,141,474	1.4%	64.1%	86.1%
City Council	235,517	294,319	25.0%	316,392	362,034	14.4%	74.4%	81.3%
City Manager's Office	2,156,454	2,623,422	21.7%	3,419,542	3,739,425	9.4%	63.1%	70.2%
Human Resources	730,029	769,934	5.5%	1,039,649	1,122,706	8.0%	70.2%	68.6%
City Attorney's Office	650,598	703,130	8.1%	957,460	991,985	3.6%	68.0%	70.9%
Parks & Community Services	4,134,206	4,405,893	6.6%	5,889,784	6,048,645	2.7%	70.2%	72.8%
Public Works (Engineering)	2,624,936	2,532,648	-3.5%	3,643,248	3,578,878	-1.8%	72.0%	70.8%
Finance and Administration	2,367,335	2,540,434	7.3%	3,420,487	3,536,915	3.4%	69.2%	71.8%
Planning & Community Development	2,386,928	2,523,009	5.7%	4,105,866	3,381,197	-17.6%	58.1%	74.6%
Police	9,842,041	11,449,757	16.3%	14,236,955	14,689,726	3.2%	69.1%	77.9%
Fire & Building	11,912,338	12,429,176	4.3%	15,817,178	16,846,282	6.5%	75.3%	73.8%
Total Expenditures	37,762,735	41,254,673	9.2%	53,972,713	55,439,267	2.7%	70.0%	74.4%
Other Financing Uses:								
Interfund Transfers	375,230	345,094	-8.0%	705,360	1,181,658	67.5%	53.2%	29.2%
Total Other Financing Uses	375,230	345,094	-8.0%	705,360	1,181,658	67.5%	53.2%	29.2%
Total Expenditures & Other Uses	38,137,965	41,599,767	1.2%	54,678,073	56,620,925	3.6%	69.8%	73.5%

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

2008 expenditure budgets were higher than 2007 for most departments primarily due to higher personnel costs, including an unsettled labor contract from 2007 that settled in 2008. In addition to this general trend, specific highlights and budget to actual comparisons by selected departments are listed below:

- Actual 2008 expenditures for the **City Council** are **25.0 percent ahead** of the same period last year primarily due to the cost of a one-time citizen survey and changes to Council salaries and benefits.
- Actual 2008 expenditures for the **City Manager's Office** are **21.7 percent ahead** of the same period last year primarily due to the payment of NORCOM regional dispatch transition costs and higher personnel salaries and benefit costs.
- Actual 2008 expenditures for the **City Attorney's Office** are **8.1 percent ahead** of the same period last year primarily due to higher legal services contract expenses from an increased number of court calendars as well as higher personnel salaries and benefit costs.
- Actual 2008 expenditures for the **Parks & Community Services Department** are **6.6 percent ahead** of the same period last year primarily due to the timing of human service agency contract payments and higher personnel costs.

Compared to 2007, 2008 General Fund actual expenditures are tracking ahead of last year primarily due to higher personnel costs, settlement of a labor contract that included back-pay for 2007 in 2008, and timing of major projects.

(Continued on page 5)

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- Actual 2008 expenditures for the **Public Works Department** are **3.5 percent behind** the same period last year primarily due to position vacancies and the completion of the one-time Verizon fiber project inspection.
- Actual 2008 expenditures for the **Finance & Administration Department** are **7.3 percent ahead** of the same time last year primarily due to position vacancies in 2007 and higher personnel costs in 2008.
- Actual 2008 expenditures for the **Planning Department** are **5.7 percent ahead** of the same time last year primarily due to the timing of payments to ARCH (A Regional Coalition for Housing), an environmental impact review for a downtown shopping center, and despite position vacancies.
- Actual 2008 expenditures for the **Police Department** are **16.3 percent ahead** of the same period last year due primarily to higher personnel costs, back payment of 2007 wages as a result of a labor contract settlement, staffing vacancies in 2007, and higher jail costs.
- Actual 2008 expenditures for the **Fire & Building Department** are **4.3 percent ahead** of the same period last year largely due to the timing of Fire dispatch contract costs. While down slightly from the same period last year, fire operations overtime costs remain a concern.

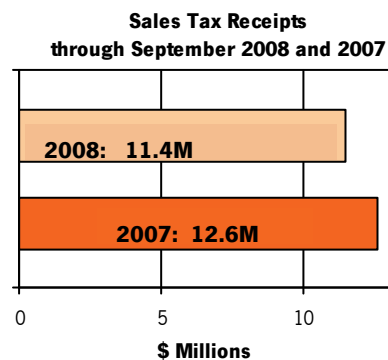


Kirkland Kid's Triathlon at Houghton Beach Park

Sales Tax Revenue Analysis 2008 actual revenue is down 9.3 percent compared to the same period last year primarily due to significant softening in contracting revenue, as well as declining revenue in key retail sectors. All business sectors except one are experiencing negative performance and revenue is almost \$1.2 million behind the same period in 2007. (See table on page 6).

Review by business sectors:

- The **contracting** sector is **down 14.7 percent** compared to the same period last year due to the completion of major projects and a general weakening in development activity. Although several large projects are currently underway, including the Google office complex, this activity hasn't replaced the level of activity occurring last year. An additional concern is whether any new projects are on the horizon to sustain the current level of activity.
- The **miscellaneous** sector is **down 29.3 percent** compared to last year primarily due to one-time revenue from an airplane lease received last year. Factoring out identified one-time events, this sector is about 5.4 percent behind the same period last year.
- The **auto/gas retail** sector is **down 6.9 percent** compared to the same period last year due to disappointing performance of key retailers and the loss of one retailer. In contrast, as of September 2007, this sector was more than \$290,000 ahead of the prior year.
- General merchandise/miscellaneous retail** is **down 7.0 percent** compared to the same period last year due to disappointing performance by key retailers.
- Wholesale** is **down 12.1 percent** compared to the same period last year primarily due to the difference in development-related purchases in 2008 compared to 2007.
- The **communications** sector is **down 20.1 percent** over the same period last year due to significant development activity in this sector last year and despite moderate growth in cellular phone services this year.
- Other retail declined 3.3 percent** compared to the same period last year due to the closure of two major retailers.
- The **services** sector performance is **down 2.3 percent** compared to the same period last year due to significant one-time development activity in 2007, the departure of a major bio-tech pharmaceutical research company, and despite the strength of the accommodations subsector. It should be noted that this sector is still experiencing development-related activity, just not consistently at the same level as last year.
- Retail eating/drinking** is the only sector with positive (although flat) performance, **up 0.3 percent** compared to the same period last year due to relatively stable results from several larger businesses as well as the collection of a past-due account from prior years.



Auto/ gas retail growth helped balance declines in development revenue in 2007, but is lagging throughout 2008.

Statewide, sales tax revenue is down largely due to slowing development and slumping automobile sales.

