



# Financial Management Report as of March 31, 2016

## AT A GLANCE:

Kirkland receives Google eCity Award for Washington (page 2 sidebar)

2016 first quarter general fund revenues increased 9.7% over 2015 (page 3)

Sales tax revenue grew 9.9% in the first quarter (page 5)

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

## Inside this issue:

Expenditure Summary	2
General Fund Revenue	3
General Fund Expenditures	4
Sales Tax Revenue	5-6
Economic Environment	7-8
Investment Report	8-9
Reserve Summary	10-11

## Summary of All Operating Funds: *Revenue*

- General Fund** revenue ended March **9.7 percent ahead** of 2015, an increase of \$1,848,478. Much of this increase came from Taxes and Charges for Services. Sales Tax and Revenue Generating Regulatory Licenses played a significant role, collectively accounting for nearly half of the increase. Actual revenues finished the quarter at 23.5 percent of revenues, 25 percent of the way through the year. This is expected because of the seasonal nature of property tax payments which are received largely in April and October. A more detailed analysis of General Fund revenue can be found on page 3, and details on sales tax revenue begin on page 5.
  - Water/Sewer Operating Fund** first quarter revenue is **down 2.8 percent** from 2015. Actual revenue for the quarter was **22.5 percent of budget**, 1.0 percent less than 2015. The majority of this decrease is due to a reduction in Water and Sewer use by the Commercial sector. Additionally, the Regional Water Connection Charges are down 13.4 percent on the year because of one-time development revenue in the first quarter of 2015.
  - Surface Water Management Fund** revenues finished March at **6.7 percent of budget**. Revenues in the first quarter of 2016 were **11.5 percent lower** than they were in 2015. The decrease is due to a late payment in 2015 that artificially inflated first quarter revenues as well as reduced grant revenue in 2016. Both residential and commercial surface water fees are collected with property tax payments, and will therefore be primarily received in the second and fourth quarters.
  - Solid Waste Fund** finished the quarter with **24.4 percent of budgeted revenues**. This is **1.6 percent lower** than 2015. Billing is higher than in 2015, but there is increase of \$113,000 in accounts receivable so far in 2016.
- Overall, first quarter utility fund revenues were **down 2.9 percent** compared to 2015, and finished March at **20.1 percent of budget**.

Resources by Fund	Year-to-Date Actual			Budget			% of Budget	
	3/31/2015	3/31/2016	% Change	2015	2016	% Change	2015	2016
<b>General Gov't Operating:</b>								
General Fund	18,970,620	20,819,097	9.7%	86,443,318	88,591,256	2.5%	21.9%	23.5%
Other General Gov't Operating Funds	4,554,742	4,836,387	6.2%	26,485,966	27,122,539	2.4%	17.2%	17.8%
<b>Total General Gov't Operating</b>	<b>23,525,361</b>	<b>25,655,484</b>	<b>9.1%</b>	<b>112,929,284</b>	<b>115,713,795</b>	<b>2.5%</b>	<b>20.8%</b>	<b>22.2%</b>
<b>Utilities:</b>								
Water/Sewer Operating Fund	6,222,260	6,048,253	-2.8%	26,451,995	26,905,563	1.7%	23.5%	22.5%
Surface Water Management Fund	756,565	669,239	-11.5%	9,939,650	10,047,501	1.1%	7.6%	6.7%
Solid Waste Fund	4,187,387	4,119,569	-1.6%	16,445,443	16,853,760	2.5%	25.5%	24.4%
<b>Total Utilities</b>	<b>11,166,211</b>	<b>10,837,061</b>	<b>-2.9%</b>	<b>52,837,088</b>	<b>53,806,824</b>	<b>1.8%</b>	<b>21.1%</b>	<b>20.1%</b>
<b>Total All Operating Funds</b>	<b>34,691,573</b>	<b>36,492,545</b>	<b>5.2%</b>	<b>165,766,372</b>	<b>169,520,619</b>	<b>2.3%</b>	<b>20.9%</b>	<b>21.5%</b>

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

## Kirkland Paves the Way for Online Commerce

Google's eCity Award recognizes the strongest online business community in each state. The cities that receive this award have businesses that are innovative in their use of the internet to identify new customers, improve relations and services to existing clients, and fuel their local economies.

"Kirkland is fortunate to be the community of choice for tech savvy businesses who are making good use of online marketing to grow," notes Kirkland Mayor Amy Walen. "Just as significant is the presence of Google Kirkland, which continues to provide the tools that help our businesses to prosper."

Google's analysis showed that the online strength of local small businesses in Kirkland is among the leading cities nationwide in the digital economy.

"We're proud to recognize this growing entrepreneurial spirit and the role that it plays in both creating jobs and sustaining local economies," said Darcy Nothnagle, Google's Head of External Affairs in the Northwest. Google recognizes that many internet-users are consumers in one way or another, and rewards cities that develop an online business presence. In 2015, Kirkland was one of these leaders.



Kirkland Mayor Amy Walen Accepts Google's eCity award on behalf of Kirkland from Darcy Nothnagle, Google's Head of External Affairs in the Northwest.

## Summary of All Operating Funds: *Expenditures*

- General Fund** expenditures (excluding transfers) finished the first quarter of 2016 **up 3.3 percent** from the year before. Actual expenditures finished at **25.2 percent of budget**. Highlights include Services spending falling 7.1 percent from 2015, largely due to the AT&T Mobility settlement in 2015. Intergovernmental Professional Services offset the decrease in Services expenditures by growing 75.2 percent from 2015, largely because of a one-time pass through payment made to Bellevue related to A Regional Coalition for Housing project. A more detailed analysis of General Fund expenditures by department can be found on page 4 and 5.
- Other General Government Operating Funds** actual expenditures were **15.8 percent higher** than 2015, largely due to increases in the Street Operating Fund. Street Operating Fund expenditures increased **47.1 percent** due to the hiring of temp employees, increased Utility Services charges, and Capital Outlays. Capital Outlays expenditures in 2016 were for median landscaping improvements, originally budgeted in 2015. The Parks Levy Fund and the Parks Maintenance Fund were the only funds to spend less than in 2015, falling 16.4 and 8.0 percent respectively. The Parks Levy Fund spent more in 2015 due to the Green Kirkland program, while the Parks Maintenance Fund received a \$13,000 credit this quarter for supplies purchased in 2015.
 

In aggregate, other general government operating funds finished March at **25.0 percent** of budgeted funds.
- Water/Sewer Operating Fund** actual expenditures were **5.1 percent higher** than in 2015. This was largely because of an increase in the Metro Sewer Charge, as well as expenditures on Other Services. Increases in Other Services were mostly for Professional Services related to the update of the Sewer Master Plan, which was originally budgeted for 2015. In total, the Water/Sewer fund finished March at **24.7 percent of budget**.
- Surface Water Management Fund** expenditures at the end of the first quarter were **6.4 percent higher** than 2015. The majority of this increase is from salaries and benefits. Expenditures for labor were up in the first quarter due to acceleration of the work load for the Cochran Springs project. Overall Surface Water Management's budget decreased due to carry overs and one-time projects scheduled in 2015, though expenditures for these projects did not happen in the first quarter of 2015. Thus, project timing drives incongruence of higher expenditures in 2016 despite a lower budget. Expenditures at the end of March were **lower than budgeted, at 20.7 percent of budget**.
- Solid Waste Fund** expenditures were **1.1 percent higher** in 2016 than in 2015. Small increases in expenditures for the waste disposal contract (which was planned), personnel, and external taxes were the cause of the overall increase. Expenditures in the fund finished the first quarter at **24.8 percent of budget** which is in line with expected budget expenditures.

Expenditures by Fund	Year-to-Date Actual			Budget			% of Budget	
	3/31/2015	3/31/2016	% Change	2015	2016	% Change	2015	2016
<b>General Gov't Operating:</b>								
General Fund	20,230,105	20,902,619	3.3%	83,500,121	82,962,015	-0.6%	24.2%	25.2%
Other General Gov't Operating Funds	4,789,883	5,548,665	15.8%	25,063,321	22,853,038	-8.8%	19.1%	24.3%
<b>Total General Gov't Operating</b>	<b>25,019,988</b>	<b>26,451,284</b>	<b>5.7%</b>	<b>108,563,442</b>	<b>105,815,053</b>	<b>-2.5%</b>	<b>23.0%</b>	<b>25.0%</b>
<b>Utilities:</b>								
Water/Sewer Operating Fund	5,382,950	5,655,677	5.1%	22,929,938	22,922,214	0.0%	23.5%	24.7%
Surface Water Management Fund	1,436,537	1,528,945	6.4%	7,877,204	7,374,048	-6.4%	18.2%	20.7%
Solid Waste Fund	3,978,400	4,023,226	1.1%	16,065,707	16,210,048	0.9%	24.8%	24.8%
<b>Total Utilities</b>	<b>10,797,887</b>	<b>11,207,848</b>	<b>3.8%</b>	<b>46,872,849</b>	<b>46,506,310</b>	<b>-0.8%</b>	<b>23.0%</b>	<b>24.1%</b>
<b>Total All Operating Funds</b>	<b>35,817,876</b>	<b>37,659,132</b>	<b>5.1%</b>	<b>155,436,291</b>	<b>152,321,363</b>	<b>-2.0%</b>	<b>23.0%</b>	<b>24.7%</b>

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

## General Fund Revenue

- **Sales tax** revenue allocated to the General Fund in the first quarter of 2016 was **9.9 percent higher** than it was in 2015. The increase is due to improved sales across the board, but particularly in the Contracting, Other Retail, and Miscellaneous sectors. A detailed analysis of total sales tax revenue can be found starting on page 5.
- **Property tax** finished March **8.9 percent higher** than 2015, **at 5.9 percent of budget**. Most property tax payments are received to the City in April and October, therefore this number will likely normalize during the second quarter of 2015.
- **Utility tax** collections finished March **0.5 percent higher** than March 2015 at **25.7 percent** of budget.
- **Other taxes** actual revenues were **2.1 percent higher** than in 2015, and finished at **33.8 percent of budget**. This increase is the result of higher revenues from Punch Board, Pull Tabs, and Card Games.
- The **business licenses (base fee) and franchise fees** were **4.9 percent** higher than in 2015 and finished March **at 25.9 percent** of budget. A portion of this growth is one-time revenue, as the City identified businesses operating without licenses, some of them owing up to three years of back-payments.
- Collections from the **revenue generating regulatory license fee** were **32.5 percent higher** than in 2015. Revenues were **at 39.3 percent of budget**. The difference is mostly due to a timing of payment issue, as a large payment received last year in April, arrived in March this year. This fee is charged to employers on a per-employee basis, and it can fluctuate based on the timing of when businesses submit their payments.
- **Plan check fees and planning fees** finished the quarter **up 95.3 percent** and **89.4 percent** respectively. **Building, Structural and Equipment permits** and **Engineering Services** were **down 13.6 percent** and **29.0 percent** compared to 2015. Much of the Planning Fee increases are due to activity at Totem Lake and Kirkland Urban, while decreases in Building and Structural Equipment as well as engineering services are related to abnormally high revenues in 2015 from Google Campus Phase 2 Expansion.
- **Fines and Forfeitures** were **down 4.2 percent from 2015** due to a decrease in both Traffic and Parking Infraction Penalties. However, an increase in Business License Penalties offset much of the lost revenue elsewhere. This revenue source finished March **at 15.0 percent of budget**. Traffic infraction penalties are not received in January, so the budget is collected in 11 months from February to December. Therefore, this category will be close to budget by year end if past trends hold for the current year.
- **Miscellaneous** revenue finished March **25.7 percent up** from 2015 due to increased Rental and Lease revenue from both dock rentals as well as rent now received from purchasing the pawn shop property in 2015. This category was **above budget projections at 31.0 percent of budget**.

General Fund revenues ended the first quarter \$1,848,477 higher than in 2015 largely due to growth in taxes and charges for services.

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

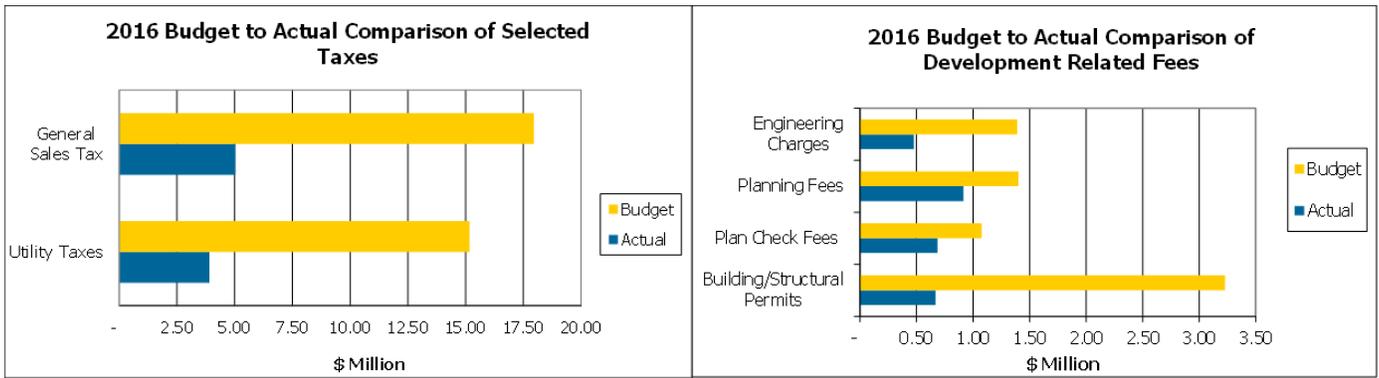
Many significant General Fund revenue sources are economically sensitive, such as sales tax and development-related fees.

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

General Fund Resource Category	Year-to-Date Actual			Budget			% of Budget	
	3/31/2015	3/31/2016	% Change	2015	2016	% Change	2015	2016
<b>Taxes:</b>								
Retail Sales Tax: General	4,581,769	5,034,815	9.9%	17,963,747	17,963,747	0.0%	25.5%	28.0%
Retail Sales Tax Credit: Annexation	1,081,700	1,189,982	10.0%	3,792,500	3,935,000	3.8%	28.5%	30.2%
Retail Sales Tax: Criminal Justice	517,827	563,957	8.9%	2,036,370	2,097,461	3.0%	25.4%	26.9%
Property Tax	969,224	1,055,561	8.9%	17,456,855	17,886,952	2.5%	5.6%	5.9%
Utility Taxes	3,877,205	3,897,886	0.5%	15,015,081	15,175,950	1.1%	25.8%	25.7%
Rev Generating Regulatory License	701,424	929,288	32.5%	2,338,315	2,364,399	1.1%	30.0%	39.3%
Other Taxes	355,358	362,667	2.1%	1,063,075	1,072,758	0.9%	33.4%	33.8%
<b>Total Taxes</b>	<b>12,084,506</b>	<b>13,034,155</b>	<b>7.9%</b>	<b>59,665,943</b>	<b>60,496,267</b>	<b>1.4%</b>	<b>20.3%</b>	<b>21.5%</b>
<b>Licenses &amp; Permits:</b>								
Building, Structural & Equipment Permits	774,041	668,658	-13.6%	3,219,731	3,227,201	0.2%	24.0%	20.7%
Business Licenses/Franchise Fees	1,129,482	1,184,622	4.9%	4,532,649	4,580,520	1.1%	24.9%	25.9%
Other Licenses & Permits	176,043	188,392	7.0%	444,563	519,801	16.9%	39.6%	36.2%
<b>Total Licenses &amp; Permits</b>	<b>2,079,567</b>	<b>2,041,671</b>	<b>-1.8%</b>	<b>8,196,943</b>	<b>8,327,522</b>	<b>1.6%</b>	<b>25.4%</b>	<b>24.5%</b>
<b>Intergovernmental:</b>								
Grants and Federal Entitlements	75,074	73,328	-2.3%	162,125	132,000	-18.6%	46.3%	55.6%
State Shared Revenues & Entitlements	279,502	328,413	17.5%	1,098,514	1,339,360	21.9%	25.4%	24.5%
BMS	-	-	N/A	902,338	920,385	2.0%	N/A	N/A
<b>Total Intergovernmental</b>	<b>354,576</b>	<b>401,741</b>	<b>13.3%</b>	<b>2,162,977</b>	<b>2,391,745</b>	<b>10.6%</b>	<b>16.4%</b>	<b>16.8%</b>
<b>Charges for Services:</b>								
Internal Charges	1,441,417	1,611,202	11.8%	6,159,409	7,100,764	15.3%	23.4%	22.7%
Engineering Services	671,540	476,966	-29.0%	1,400,887	1,391,146	-0.7%	47.9%	34.3%
Plan Check Fee	350,410	684,274	95.3%	951,346	1,077,458	13.3%	36.8%	63.5%
Planning Fees	482,682	914,275	89.4%	1,457,383	1,400,915	-3.9%	33.1%	65.3%
Recreation	475,681	563,840	18.5%	1,215,100	1,215,200	0.0%	39.1%	46.4%
Other Charges for Services	450,614	464,962	3.2%	1,980,204	2,042,707	3.2%	22.8%	22.8%
<b>Total Charges for Services</b>	<b>3,872,342</b>	<b>4,715,520</b>	<b>21.8%</b>	<b>13,164,329</b>	<b>14,228,190</b>	<b>8.1%</b>	<b>29.4%</b>	<b>33.1%</b>
<b>Fines &amp; Forfeits</b>	<b>343,446</b>	<b>329,029</b>	<b>-4.2%</b>	<b>2,189,359</b>	<b>2,191,067</b>	<b>0.1%</b>	<b>15.7%</b>	<b>15.0%</b>
<b>Miscellaneous</b>	<b>236,184</b>	<b>296,982</b>	<b>25.7%</b>	<b>1,063,767</b>	<b>956,465</b>	<b>-10.1%</b>	<b>22.2%</b>	<b>31.0%</b>
<b>Total Revenues</b>	<b>18,970,620</b>	<b>20,819,097</b>	<b>9.7%</b>	<b>86,443,318</b>	<b>88,591,256</b>	<b>2.5%</b>	<b>21.9%</b>	<b>23.5%</b>
<b>Other Financing Sources:</b>								
Interfund Transfers	-	-	N/A	437,228	334,266	-23.5%	N/A	N/A
<b>Total Other Financing Sources</b>	<b>-</b>	<b>-</b>	<b>N/A</b>	<b>437,228</b>	<b>334,266</b>	<b>-23.5%</b>	<b>N/A</b>	<b>N/A</b>
<b>Total Resources</b>	<b>18,970,620</b>	<b>20,819,097</b>	<b>9.7%</b>	<b>86,880,546</b>	<b>88,925,522</b>	<b>2.4%</b>	<b>21.8%</b>	<b>23.4%</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	
	3/31/2015	3/31/2016	% Change	2015	2016	% Change	2015	2016
Non-Departmental	558,983	502,927	-10.0%	2,911,258	2,606,504	-10.5%	19.2%	19.3%
City Council	198,670	217,969	9.7%	471,318	493,971	4.8%	42.2%	44.1%
City Manager's Office	430,510	583,123	35.4%	2,438,154	2,169,570	-11.0%	17.7%	26.9%
Municipal Court	603,751	620,524	2.8%	2,445,952	2,451,500	0.2%	24.7%	25.3%
Human Resources	364,995	379,909	4.1%	1,492,619	1,538,791	3.1%	24.5%	24.7%
City Attorney's Office	337,596	298,613	-11.5%	1,246,620	1,171,071	-6.1%	27.1%	25.5%
Parks & Community Services	1,832,467	1,724,225	-5.9%	8,423,620	7,928,882	-5.9%	21.8%	21.7%
Public Works (Engineering)	1,270,884	1,290,749	1.6%	5,421,184	5,866,373	8.2%	23.4%	22.0%
Finance and Administration	1,127,345	1,128,084	0.1%	4,715,638	4,692,308	-0.5%	23.9%	24.0%
Planning & Building	1,117,946	2,573,684	130.2%	8,492,888	8,325,580	-2.0%	13.2%	30.9%
Police	6,086,378	6,137,741	0.8%	25,154,856	25,065,894	-0.4%	24.2%	24.5%
Fire	6,300,580	5,445,071	-13.6%	20,286,014	20,651,571	1.8%	31.1%	26.4%
<b>Total Expenditures</b>	<b>20,230,105</b>	<b>20,902,619</b>	<b>3.3%</b>	<b>83,500,121</b>	<b>82,962,015</b>	<b>-0.6%</b>	<b>24.2%</b>	<b>25.2%</b>
<b>Other Financing Uses:</b>								
Interfund Transfers	533,011	639,784	20.0%	8,480,717	5,430,801	-36.0%	6.3%	11.8%
<b>Total Other Financing Uses</b>	<b>533,011</b>	<b>639,784</b>	<b>20.0%</b>	<b>8,480,717</b>	<b>5,430,801</b>	<b>-36.0%</b>	<b>6.3%</b>	<b>11.8%</b>
<b>Total Expenditures &amp; Other Uses</b>	<b>20,763,116</b>	<b>21,542,403</b>	<b>3.8%</b>	<b>91,980,838</b>	<b>88,392,816</b>	<b>-3.9%</b>	<b>22.6%</b>	<b>24.4%</b>

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

### Comparing 2016 and 2015 expenditures:

In 2016, excluding interfund transfers, General Fund expenditures were **3.3 percent higher** than 2015, and finished the first quarter at **25.2 percent of budget**. Specific reasons for increased expenditures are highlighted below:

- Expenditures for **Non-departmental** were **down 10.0 percent** due to the AT&T Mobility legal settlement payment early in 2015. Public Defender expenditures, which are newly charged to Non-departmental, partially offset these decreases. Non-departmental finished the first quarter **at 19.3 percent** of budget spent, similar to 2015.
- Actual 2016 expenditures for the **City Council increased 9.7 percent** from 2015. The increase is due to the Interfund IT Rental charge that mistakenly was not paid for the first 3 months of 2015, but was later corrected. City Council finished the quarter at **44.1 percent of budget**, which is normal as Membership Dues paid at the beginning of the year comprise a large portion of the overall budget.
- The **City Manager's Office** finished the first quarter **up 35.4 percent** from 2015 with **26.9 percent of budget** expended. The increase reflects the Deputy City Manager Reorganization, which occurred after the 1st quarter of 2015.
- Actual **Interfund Transfers** finished the first quarter **up 20.0 percent** from 2015 as the City is now making transfers for city hall construction debt service.
- First quarter expenditures for the **Parks & Community Services Department** were **down 5.9 percent** from 2015 due to an invoice for the Human Service Pooled Program, usually paid to Bellevue in the first quarter, which was paid early at the very end of 2015. Parks and Community Services finished the first quarter below

2016 General Fund actual expenditures (excluding "other financing uses") were 3.3 percent higher than they were in 2015.

Continued on page 5

## Financial Management Report as of March 31, 2016

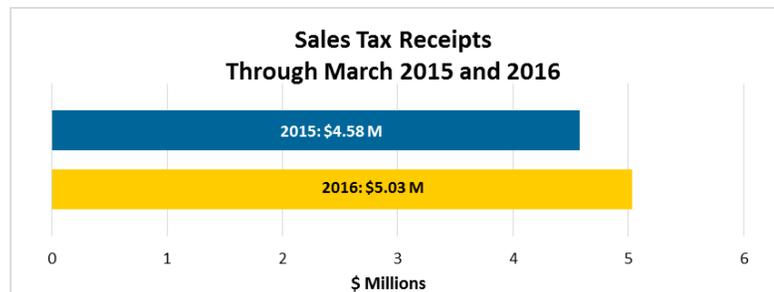
expected expenditures at **21.7 percent of budget**.

- **Public Works - General Fund** expenditures were **1.6 percent above 2015**. There was moderate growth in expenditures in Wages and Benefits that were mostly offset by decreased spending on Professional Services. Overall, Public Works - General Fund finished the quarter at **22.0 percent of budget**.
- **Planning and Building** finished the quarter **130.2 percent above 2015**, with **30.9 percent of the budget** expended. The difference stems from the merger of the Planning Department with the Building Division, which took place in June of 2015. The percent of budget expended is much higher in 2016 as changes in budgeted expenditures took place before changes to the actual expenditures, which artificially deflates expenditures as a percentage of budget in 2015. Future tables will account for this reorganization.
- **Police** expenditures ended the quarter **0.8 percent above 2015**, at **24.5 percent of budget**. This is consistent with performance in 2015.
- Expenditures for the **Fire Department** finished the first quarter **13.6 percent below 2015**. The Building division is no longer merged with Fire, which accounts for the drop in expenditures. Fire finished the quarter at **26.4 percent of budget**. Expenses are slightly above budget, but within expected ranges. A greater proportion of fire overtime expenses come early in the year, as overtime expenditures to maintain minimum staffing over the winter holidays inflates these costs in January.

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

### Sales Tax Revenue Analysis

First quarter sales tax revenue was **9.9 percent** higher in 2016 than 2015. Increased activity in contracting, other retail, and miscellaneous composed the bulk of the revenue gains. Sales tax revenue received through March is from sales activity between November 2015 and January 2016.



### Review by business sectors:

- **Contracting ended up 18.7 percent** through March compared to 2015. Construction is strong to start the year, though this is a volatile sector, and revenues may not remain this high through the year.
- Sales tax from the retail sectors was collectively **up 6.1 percent** compared to 2015.
- **Auto/gas retail** sector was **up 5.8 percent** compared to 2015.
- **General merchandise/miscellaneous retail** sector was **down 2.9 percent** in 2016 compared to 2015 due to reduced revenue from major retailers.
- **Retail eating/drinking** sector performance was **up 1.3 percent** compared to 2015.
- **Other retail** was **up 17.7 percent** compared to 2015 due to significant growth in Electronics and Non-store retailers. All categories with the exception of Sporting Goods grew from 2015.
- The **services** sector was **up 7.1 percent** compared to 2015. This growth came in spite of significant losses from the Other Info category, which fell 80 percent on the year due to abnormally high revenues in 2015. Other Services and Administrative Support each grew more than 20 percent, which more than made up for the decrease in other services.
- **Wholesale** revenues were **up 25.3 percent** in 2016. This sector is broken into durable and non-durable goods, both of which grew substantially.
- The **Miscellaneous** sector was **up 32.6 percent** in 2016, largely due to real estate revenue, which is up 70 percent on the year.
- **Communications** fell 8.9 percent on the year. Although the year over year comparison indicates falling revenues, in dollar terms, Communications revenue has been stagnant for several months, hovering around \$40,000 monthly.

#### Regional Sales Tax

Bellevue was up 8.3 percent, Redmond was up 61.3 percent through March 2016 compared to March 2015.

#### King County

King County's sales tax receipts were up 10.0 percent through the end of the quarter compared to 2015.

Business Sector Group	YTD		Dollar Change	Percent Change	Percent of Total		Percent of \$ Change
	2015	2016			2015	2016	
Services	603,927	646,574	42,647	7.1%	13.2%	12.8%	9.4%
Contracting	645,482	766,332	120,850	18.7%	14.1%	15.2%	26.7%
Communications	126,960	115,714	(11,246)	-8.9%	2.8%	2.3%	-2.5%
Auto/Gas Retail	1,156,481	1,223,691	67,210	5.8%	25.2%	24.3%	14.8%
Gen Merch/Misc Retail	593,799	576,485	(17,314)	-2.9%	13.0%	11.4%	-3.8%
Retail Eating/Drinking	366,141	371,382	5,241	1.4%	8.0%	7.4%	1.2%
Other Retail	631,666	743,496	111,830	17.7%	13.8%	14.8%	24.7%
Wholesale	205,518	257,507	51,989	25.3%	4.5%	5.1%	11.5%
Miscellaneous	251,795	333,993	82,198	32.6%	5.5%	6.6%	18.1%
<b>Total</b>	<b>4,581,769</b>	<b>5,035,174</b>	<b>453,405</b>	<b>9.9%</b>	<b>100.0%</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 "North American Industry Classification System" or NAICS). Nine business sector groupings are used to compare 2015 and 2016 sales tax receipts in the table to the left.

Month	Sales Tax Receipts		Dollar Change	Percent Change
	2015	2016		
January	1,406,662	1,580,669	174,007	12.4%
February	1,783,689	1,958,877	175,188	9.8%
March	1,391,418	1,495,628	104,210	7.5%
<b>Total</b>	<b>4,581,769</b>	<b>5,035,174</b>	<b>453,405</b>	<b>9.9%</b>

- Sales tax revenues for the first quarter of 2016 were 9.9 percent higher than the first quarter of 2015.
- Growth has been strong to start 2016. January and February were up 12.4 and 9.8 percent, while March came in at 7.5 percent. Though growth slowed as the first quarter progressed, the outlook is still positive going forward.
- Aside from Communications and General Merchandise/Miscellaneous Retail, every sector grew in the first quarter. Contracting performed particularly well, followed by Other Retail and Miscellaneous. These growth sectors, particularly Contracting, tend to be volatile and will fluctuate with changing economic conditions.
- Communications and General Merchandise are down 8.9 and 2.9 percent respectively after the first quarter. Communications revenue has remained flat for the past several months. General Merchandise decreased slightly from last year, though it is generally less volatile than other categories.

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.

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

Comparing to the same period last year:

**Totem Lake**, which accounted for 28.7 percent of the total sales tax receipts in the first quarter, was **up 4.8 percent** from 2015 due to the continued sales growth in the automotive/gas retail sector and repairs & maintenance with mostly positive results in other sectors. Sixty percent of this business district's revenue comes from the auto/gas retail sector.

**NE 85<sup>th</sup> Street**, which made up 13.4 percent of the total sales tax receipts in 2016, was **up 5.0 percent** compared to 2015. This area's sales grew due to improving auto retail and retail eating/drinking sales. General retail, which is the second largest sector, fell 0.9 percent on the year. Auto and general retail contribute 82.5 percent of this business district's revenue.

**Downtown**, which accounted for 5.0 percent of first quarter sales tax receipts, was **down 18.5 percent**. This is due to abnormally high revenues from the information category in 2015. If it wasn't for that anomaly, downtown revenues would

have fallen just 2.5 percent.

**Carillon Point & Yarrow Bay**, which account for 1.6 percent of the total sales tax receipts, were **up 4.4 percent** compared to 2015. About 61.8 percent of this business district's revenue came from retail eating/drinking and accommodations.

**Houghton & Bridle Trails**, which has produced 2.2 percent of the total sales tax receipts in 2016, were **up 2.4 percent** due to an increase in retail food stores and other retail, which offset a decrease in several other categories.

**Juanita**, which generated 1.4 percent of the total 2016 sales tax receipts, was **down 0.2 percent** compared to 2015. Revenues were up for retail eating/drinking, but down for several other sectors.

**North Juanita, Kingsgate, & Finn Hill** accounted for 2.6 percent of the total sales tax receipts in 2016 and were **down 0.5 percent** from 2015, with growth in North Juanita being offset by a decline in Finn Hill and Kingsgate. The former grew 1.9 percent, while the latter two fell a combined 2.6 percent. Finn Hill revenues were particularly poor, falling 5.7 percent spread across a few sectors.

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

When reviewing sales tax receipts by business district, it's important to be aware that 49.1 percent of the revenues received in the first quarter of 2016 were in the "unassigned or no district" category largely due to contracting and other revenue, which includes revenue from internet, catalog sales and other businesses located outside of the City. This percentage has grown in recent years as internet sales have grown in volume.

Business District	YTD		Dollar Change	Percent Change	Percent of Total	
	2015	2016			2013	2014
Totem Lake	1,381,098	1,447,433	66,335	4.8%	30.1%	28.7%
NE 85th St	642,615	674,654	32,039	5.0%	14.0%	13.4%
Downtown	306,096	249,535	(56,561)	-18.5%	6.7%	5.0%
Carillon Pt/Yarrow Bay	76,785	80,154	3,369	4.4%	1.7%	1.6%
Houghton & Bridle Trails	108,546	111,146	2,600	2.4%	2.4%	2.2%
Juanita	68,248	68,099	(149)	-0.2%	1.5%	1.4%
Kingsgate	40,977	41,088	111	0.3%	0.9%	0.8%
North Juanita	62,523	63,695	1,172	1.9%	1.4%	1.3%
Finn Hill	27,220	25,671	(1,549)	-5.7%	0.6%	0.5%
Unassigned or No District:						
Contracting	639,240	759,559	120,319	18.8%	14.0%	15.1%
Other	1,228,421	1,514,140	285,719	23.3%	26.8%	30.1%
<b>Total</b>	<b>4,581,769</b>	<b>5,035,174</b>	<b>453,405</b>	<b>9.9%</b>	<b>100.0%</b>	<b>100.0%</b>

**Sales Tax Revenue Outlook** After a slow start to 2015, revenues picked up in the third quarter and that growth has continued into the first quarter of 2016. Growth slowed in March, but remains above average for the quarter as a whole. It is expected that growth patterns are due to weaker receipts in the first quarter of 2015, and that the slowing in the month over month comparisons represents a reversion to a moderate growth trend. Staff will continue to monitor trends.

**OFFICE VACANCIES:**

According to the latest report from CB Richard Ellis Real Estate Services, Kirkland's office vacancy rate in the first quarter of 2016 was 1.5 percent, significantly lower than the Puget Sound total vacancy rate of 12.0 percent, and an improvement from 2015's vacancy rate of 2.2 percent. Overall the Eastside is one of the stronger office markets in the Puget Sound region, with an office vacancy rate of 11.0 percent, just above downtown Seattle's vacancy rate of 10.3 percent.

The region currently has 6.4 million square feet of office space under construction, over 3.5 times more than this time last year. This includes projects on the Eastside, with over 1 million square feet planned in Bellevue.

**LODGING TAX REVENUE:**

Lodging tax revenue grew compared to 2015, finishing the quarter up 3.0 percent, an increase of \$1,601. This meant revenues finished the first quarter at 20.7 percent of budget.

**Economic Environment Update** The Washington State economy continued to expand, adding 23,900 nonfarm jobs in the first quarter of 2016, according to the February 2016 update from the Washington State Economic and Revenue Forecast Council. Migration into Washington remains strong, and is projected to outperform 2015's high level of migration.

The Conference Board's **Consumer Confidence Index** decreased from 98.1 in January to 92.2 in February but rebounded slightly to 96.4 in March. A rating of 100 equals the 1985 consumer confidence level. Consumer confidence is expected to remain flat in upcoming months as consumers observe the soft labor market with caution. The Confidence Board found that there were mixed perceptions of the labor market, but consumers viewed the short-term more favorably as turmoil in the financial market calmed.

The Bureau of Labor Statistics **unemployment data** from March show the seasonally adjusted national rate remained steady at 4.9 percent. Washington State unemployment ended the quarter at 6.3 percent, decreasing from 6.5 percent in February 2016. Local unemployment rates declined for King County, moving from 4.9 percent in February 2016 to 4.1 percent in March 2016. Kirkland's unemployment rate increased slightly from 4.1 percent in January 2016 to 4.2 percent in February 2016. March numbers are not yet available as unemployment data is reported on a one month lag at the national and state levels and on a two month lag at the county and city levels.

The Western Washington Purchasing Manager Index indicated continued growth in economic activity in March 2016. The index was at 54.5 in March, which is positive; an index reading greater than 50 signals an expanding economy. While the index shows growth, it is worth noting that the March index was 3.5 points lower than forecasted.

(Continued on page 8)

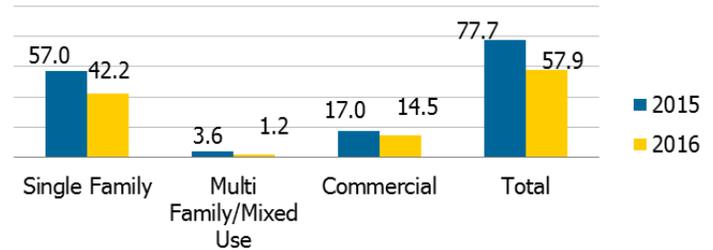
## Economic Environment Update *continued*

Local **building permitting activity** has dropped 25.5 percent compared to March 2015. The impact was across the board, with single family, mixed use, and commercial all falling substantially. There was a particularly large drop in Single Family valuations, which goes against the recent trend of strong growth in single family valuations over 2015. A drop in Commercial valuations is unsurprising, as Google Phase II took place in the first quarter of 2015, and permitting activity for Kirkland Urban and Totem Lake will not start up for several months yet. However, once those two projects begin, permit activity will increase substantially.

The **housing market** continued to increase in the first quarter of 2016 with the Case-Shiller housing index for the Seattle metro area up to 188.94. The pre-recession peak index score was 192.3 in July 2007. There were 113,000 new housing permits issued in the first quarter of 2016 according to the Washington State Economic and Revenue Council.

**Inflation** in the Seattle area is high relative to the national rate. In February 2016, the Seattle core CPI increased 2.4 percent compared to the previous February, while the national CPI was at 0.7 percent year-to-year growth.

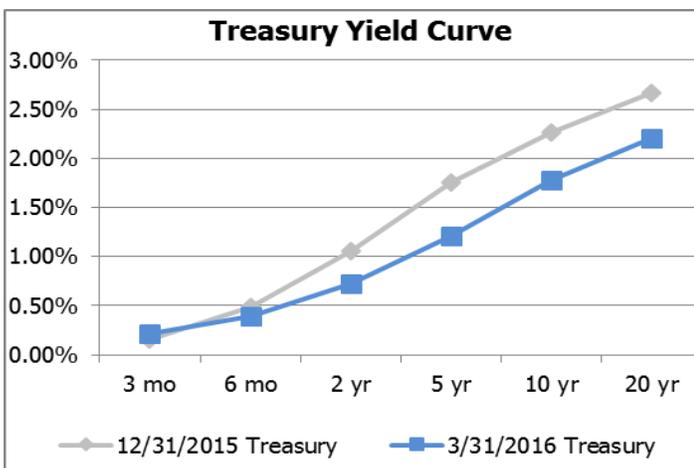
**Valuation of Building Permits  
First Quarter Total 2015 and 2016  
(in millions \$)**



## Investment Report

### MARKET OVERVIEW

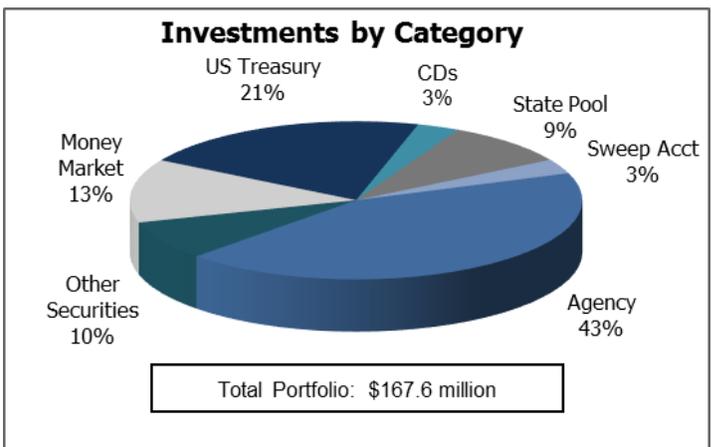
The mild economic growth continued into the 1<sup>st</sup> quarter of 2016. The Fed Funds rate increased in December 2015 to the range 0.25 to 0.50 percent and was initially thought to increase up to three more times in 2016. It is now expected that there will be only one increase in late 2016. The yield curve rose at the end of 2015 due to the increase in the Fed Funds rate and then fell in the longer end of the curve by the end of the first quarter 2016 as seen in the graph below.



### CITY PORTFOLIO

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

The City's portfolio decreased \$6.6 million in the 1<sup>st</sup> quarter of 2016, moving from \$174.2 million on December 31, 2015 to \$167.6 million on March 31, 2016. The decrease in the portfolio is related, in part, to the normal cash flows of the 1<sup>st</sup> quarter, as the first half of property taxes is not received until the end of April and early May. The change in financial institutions is another factor for the reduction of the portfolio as more cash is being held in the banks during the transition between the old and new banks.



### Diversification

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

2016 ECONOMIC

OUTLOOK and

INVESTMENT STRATEGY

The outlook for growth in the U.S. economy looks weaker now than it did three months ago, according to 40 forecasters surveyed by the Federal Reserve Bank of Philadelphia. The U.S. economy is expected to grow at an annual rate of 2.1 percent in 2016 and 2.4 percent in 2017. CPI inflation is expected to average 1.5 percent in 2016 and 2.2 percent in 2017. The unemployment rate is expected to average 4.8 percent in 2016 and fall to 4.6 percent in 2017. The Fed Funds rate, currently at 0.50%, is expected to rise one time in late 2016 to 0.75%.

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

The State Pool is currently at 0.43% and will continue to remain low as the Fed Funds rate remains at 0.25 to 0.50 percent. Total estimated investment income for 2016 is \$942,000.

Investment Report *continued*

**Liquidity**

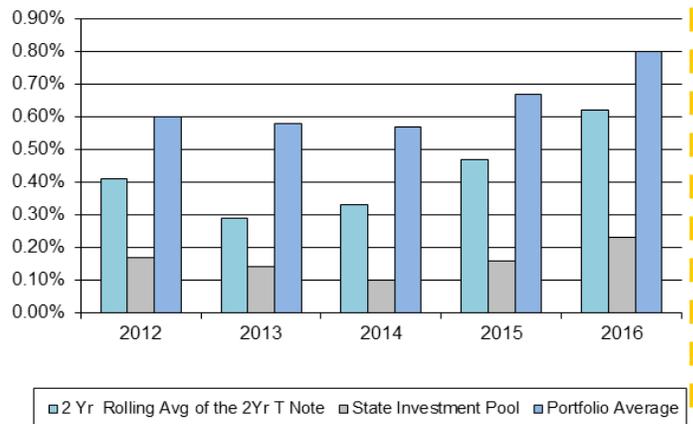
The target duration for the City's portfolio is based on the 0-5 year U.S. Treasury. The average maturity of the City's investment portfolio increased from 1.15 years on December 31, 2015 to 1.42 years on March 31, 2016 as securities with longer duration were purchased to realize greater yields.

**Yield**

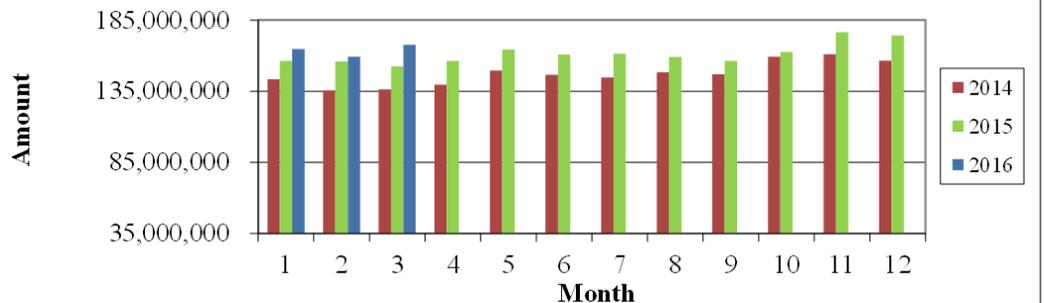
The City Portfolio yield to maturity increased from 0.69 percent on December 31, 2015 to 0.85 percent on March 31, 2016. Through March 31, 2016, the City's annual average yield to maturity also increased to 0.80 percent. The City's portfolio benchmark is the range between the 90 day Treasury Bill and the 2 year rolling average of the 2 year Treasury Note. This benchmark is used as it is reflective of the maturity guidelines required in the Investment Policy adopted by City Council. The City's portfolio outperformed both the 90 day T Bill and the 2 year rolling average of the 2 year Treasury Note, which was 0.63 percent on March 31, 2016.

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

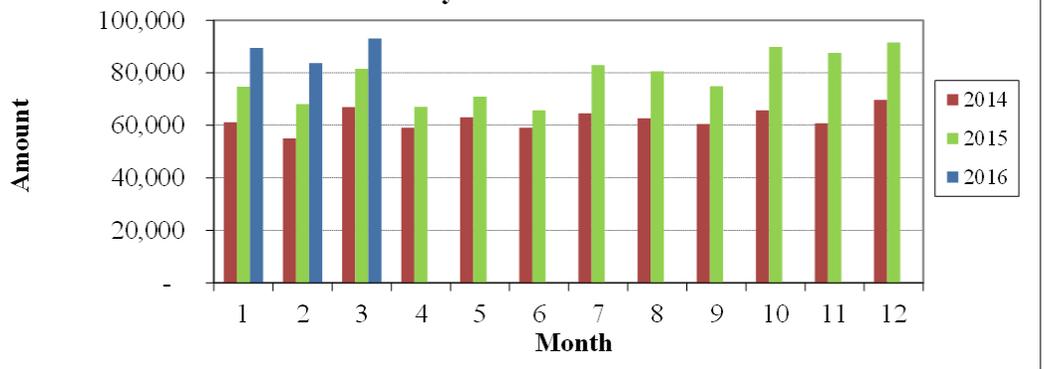
Investment Interest Rate Comparisons



Portfolio Size



Monthly Interest Earned



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

### Reserve Analysis

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

### General Capital Reserves

- Real estate activity has been growing significantly over the last few years and 2015 reached an all time high in **Real Estate Excise Tax (REET)** collections. However, **2016 is already 72.7 percent ahead of first quarter 2015**. The current ending balances do not reflect this revenue performance, however they do incorporate 2015-2016 uses in the 2015-2020 Capital Improvement Plan as adopted in December 2015.
- Impact fees (Parks and Transportation)** are a reflection of development activity, which remains strong. However, 2016 revenues are significantly behind 2015 (Parks **down 74 percent** and Transportation **down 71 percent**) due to revenue received from a single large development in the first quarter of 2015. Normalizing for this event, revenue is only slightly down from last year. There are large developments underway which are expected to generate significant fees in 2016 that likely will bring these revenues in line with last year. The balances below were adjusted during the 2015-2020 CIP adoption in December to fund capital projects that are budgeted during this biennium.
- The City adopted a new Capital Improvement Program (CIP) for 2015-2020, which made significant uses of REET and Impact Fees in the current budget period, as well as future years in response to projects identified in several long-range master plans that were adopted in 2015.

#### General Government & Utility Reserves Targets Summary

Reserves	Actual 2015 Beginning Balance	Adopted 2016 Ending Balance	Revised 2016 Ending Balance	2015-16 Target	Revised Over (Under) Target
<b>GENERAL PURPOSE RESERVES WITH TARGETS</b>					
General Fund Reserves:					
General Fund Contingency	50,000	50,000	50,000	50,000	-
General Oper. Reserve (Rainy Day)	2,806,513	4,803,388	4,803,388	4,803,388	-
Revenue Stabilization Reserve	2,570,090	2,848,220	2,848,220	2,848,220	-
Building & Property Reserve	571,579	600,000	600,000	600,000	-
Council Special Projects Reserve	250,000	250,000	164,000	250,000	(86,000)
Contingency	2,426,425	4,036,425	4,036,425	5,512,218	(1,475,793)
General Capital Contingency	3,768,012	4,961,855	4,961,855	5,701,001	(739,146)
<b>General Purpose Reserves with Targets</b>	<b>12,442,619</b>	<b>17,549,888</b>	<b>17,463,888</b>	<b>19,764,827</b>	<b>(2,300,939)</b>
<b>ALL OTHER RESERVES WITH TARGETS</b>					
General Fund Reserves:					
Litigation Reserve	150,000	150,000	150,000	150,000	-
Firefighter's Pension Reserve	1,493,687	1,225,835	1,225,835	933,405	292,430
Health Benefits Fund:					
Claims Reserve	2,058,311	2,058,311	2,058,311	2,058,311	-
Rate Stabilization Reserve	1,000,000	1,000,000	1,000,000	1,000,000	-
Excise Tax Capital Improvement:					
REET 1	5,843,876	8,697,813	5,213,854	1,732,329	3,481,525
REET 2	4,888,788	7,146,044	6,000,344	2,436,255	3,924,089
Water/Sewer Operating Reserve:	2,414,471	2,659,932	2,659,932	2,659,932	-
Water/Sewer Capital Contingency:	1,107,600	613,300	613,300	613,300	-
Surface Water Operating Reserve:	706,364	893,306	893,306	893,306	-
Surface Water Capital Contingency:	845,163	391,380	391,380	391,380	-
<b>Other Reserves with Targets</b>	<b>20,508,260</b>	<b>24,835,921</b>	<b>20,206,262</b>	<b>12,868,218</b>	<b>7,698,044</b>
<b>Reserves without Targets</b>	<b>44,926,198</b>	<b>58,197,292</b>	<b>48,329,747</b>	<b>n/a</b>	<b>n/a</b>
<b>Total Reserves</b>	<b>77,877,077</b>	<b>100,583,101</b>	<b>85,999,897</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 in the 2015-16 biennium.

#### USES AND ADDITIONS HIGHLIGHTS

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

#### 2015-16 Council Authorized Uses

Prior 2015 Uses	\$14,019,287	
Lodging Tax Reserve	\$100,000	Kirkland Performance Center Technical Equipment
Real Estate Excise Tax 2 (REET 2)	\$360,000	Kirkland Intelligent Transportation System Phase 2
Street Improvement Reserve	\$95,958	Street Pavement Milling Machine
Water/Sewer Construction Reserve	\$104,036	3rd Street Watermain Upgrade

#### 2015-16 Council Authorized Additions

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

# Financial Management Report as of March 31, 2016

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

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

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

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

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

Reserves	Description	Est. 2015 Beginning Balance	Adopted 2016 Ending Balance*	Additional Authorized Uses/Additions	Revised 2016 Ending Balance
<b>GENERAL FUND/CONTINGENCY</b>					
General Fund Reserves:					
General Fund Contingency	Unexpected General Fund expenditures	50,000	50,000		50,000
General Oper. (Rainy Day)	Unforeseen revenues/temporary events	2,806,513	4,803,388		4,803,388
Revenue Stabilization	Temporary revenue shortfalls	2,570,090	2,848,220		2,848,220
Building & Property	Property-related transactions	571,579	600,000		600,000
Council Special Projects	One-time special projects	250,000	250,000	(86,000)	164,000
Contingency	Unforeseen expenditures	2,426,425	4,036,425		4,036,425
<b>Total General Fund/Contingency</b>		<b>8,674,607</b>	<b>12,588,033</b>	<b>(86,000)</b>	<b>12,502,033</b>
<b>SPECIAL PURPOSE RESERVES</b>					
General Fund Reserves:					
Litigation	Outside counsel costs contingency	150,000	150,000		150,000
Labor Relations	Labor negotiation costs contingency	74,928	55,312		55,312
Police Equipment	Equipment funded from seized property	50,284	75,969		75,969
Fire OT & Equipment	Contingency for overtime and equipment	200,000	200,000		200,000
LEOFF 1 Police	Police long-term care benefits	618,079	618,079		618,079
Facilities Expansion	Special facilities expansions	150,982	50,663		50,663
Development Services	Revenue and staffing stabilization	2,572,520	2,612,670		2,612,670
Development Svcs. Technology	Permit system replacement	1,040,324	1,356,175		1,356,175
Tour Dock	Dock repairs	206,271	273,095		273,095
Tree Ordinance	Replacement trees program	56,267	65,488		65,488
Revolving/Donation Accounts	Fees/Donations for specific purposes	940,331	943,300	(25,000)	918,300
Lodging Tax Fund	Tourism program and facilities	310,420	190,548	(119,549)	70,999
Cemetery Improvement	Cemetery improvements/debt service	736,215	767,040	2,568	769,608
Off-Street Parking	Downtown parking improvements	259,161	391,613	(285,500)	106,113
Fire Equipment Life Cycle	20-year fire equipment costs	418,326	896,704		896,704
Police Equipment Life Cycle	20-year police equipment costs	343,114	806,243		806,243
Technology Equipment Life Cycle	20-year technology equipment costs	663,600	1,265,117		1,265,117
Firefighter's Pension	Long-term care/pension benefits	1,493,687	1,225,835		1,225,835
<b>Total Special Purpose Reserves</b>		<b>10,284,509</b>	<b>11,943,851</b>	<b>(427,481)</b>	<b>11,516,370</b>
<b>GENERAL CAPITAL RESERVES</b>					
Excise Tax Capital Improvement:					
REET 1	Parks/transportation/facilities projects, parks debt service	5,843,876	8,697,813	(3,483,959)	5,213,854
REET 2	Transportation and other capital projects	4,888,788	7,146,044	(1,145,700)	6,000,344
Impact Fees					
Transportation	Transportation capacity projects	3,663,839	4,227,671	(2,300,900)	1,926,771
Parks	Parks capacity projects	1,727,746	2,007,936	(484,599)	1,523,337
Street Improvement	Street improvements	995,958	995,958	(995,958)	0
General Capital Contingency	Changes to General capital projects	3,768,012	4,961,855		4,961,855
<b>Total General Capital Reserves</b>		<b>20,888,219</b>	<b>28,037,277</b>	<b>(8,411,116)</b>	<b>19,626,161</b>
<b>UTILITY RESERVES</b>					
Water/Sewer Utility:					
Water/Sewer Operating	Operating contingency	2,414,471	2,659,932		2,659,932
Water/Sewer Debt Service	Debt service	498,591	495,390	(460,000)	35,390
Water/Sewer Capital Contingency	Changes to Water/Sewer capital projects	1,107,600	613,300		613,300
Water/Sewer Construction	Replacement/re-prioritized/new projects	10,051,937	17,664,869	(4,127,036)	13,537,833
Surface Water Utility:					
Surface Water Operating	Operating contingency	706,364	893,306		893,306
Surface Water Capital Contingency	Changes to Surface Water capital projects	845,163	391,380		391,380
Surface Water Construction	Trans. related surface water projects	5,656,579	7,597,175	(759,300)	6,837,875
<b>Total Utility Reserves</b>		<b>21,280,705</b>	<b>30,315,352</b>	<b>(5,346,336)</b>	<b>24,969,016</b>
<b>INTERNAL SERVICE FUND RESERVES</b>					
Health Benefits:					
Claims	Health benefits self insurance claims	2,058,311	2,058,311		2,058,311
Rate Stabilization	Rate stabilization	1,000,000	1,000,000		1,000,000
Equipment Rental:					
Vehicle	Vehicle replacements	10,068,738	8,583,511	22,829	8,606,340
Radio	Radio replacements	59,463	74,764		74,764
Information Technology:					
PC Replacement	PC equipment replacements	459,063	518,292		518,292
Major Systems Replacement	Major technology systems replacement	656,200	1,165,089	135,200	1,300,289
Facilities Maintenance:					
Operating	Unforeseen operating costs	550,000	550,000		550,000
Facilities Sinking Fund	20-year facility life cycle costs	1,897,262	3,748,621	(470,300)	3,278,321
<b>Total Internal Service Fund Reserves</b>		<b>16,749,037</b>	<b>17,698,588</b>	<b>(312,271)</b>	<b>17,386,317</b>
<b>Grand Total</b>		<b>77,877,077</b>	<b>100,583,101</b>	<b>(14,583,204)</b>	<b>85,999,897</b>

\*Adjusted for actual cash balances in April



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

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



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

---

***Economic Environment Update References:***

- The Conference Board Consumer Confidence Index Press Release April 26, 2016
- Carol A. Kujawa, MA, A.P.P., *ISM-Western Washington, Inc. Report On Business*, Institute for Supply Management-Western Washington, March, 2016
- Quarterly Economic & Revenue Forecast, February 2016—Washington State Economic & Revenue Forecast Council
- Monthly Economic and Revenue Publication, March 2016—Washington State Economic & Revenue Forecast Council
- CB Richard Ellis Real Estate Services, Market View Puget Sound, First Quarter 2015
- S&P/Case-Shiller Seattle Home Price Index
- U.S. Bureau of Labor Statistics
- Washington State Employment Security Department
- Washington State Department of Revenue
- Washington State Department of Labor & Industries
- City of Kirkland Building Division
- City of Kirkland Finance & Administration Department