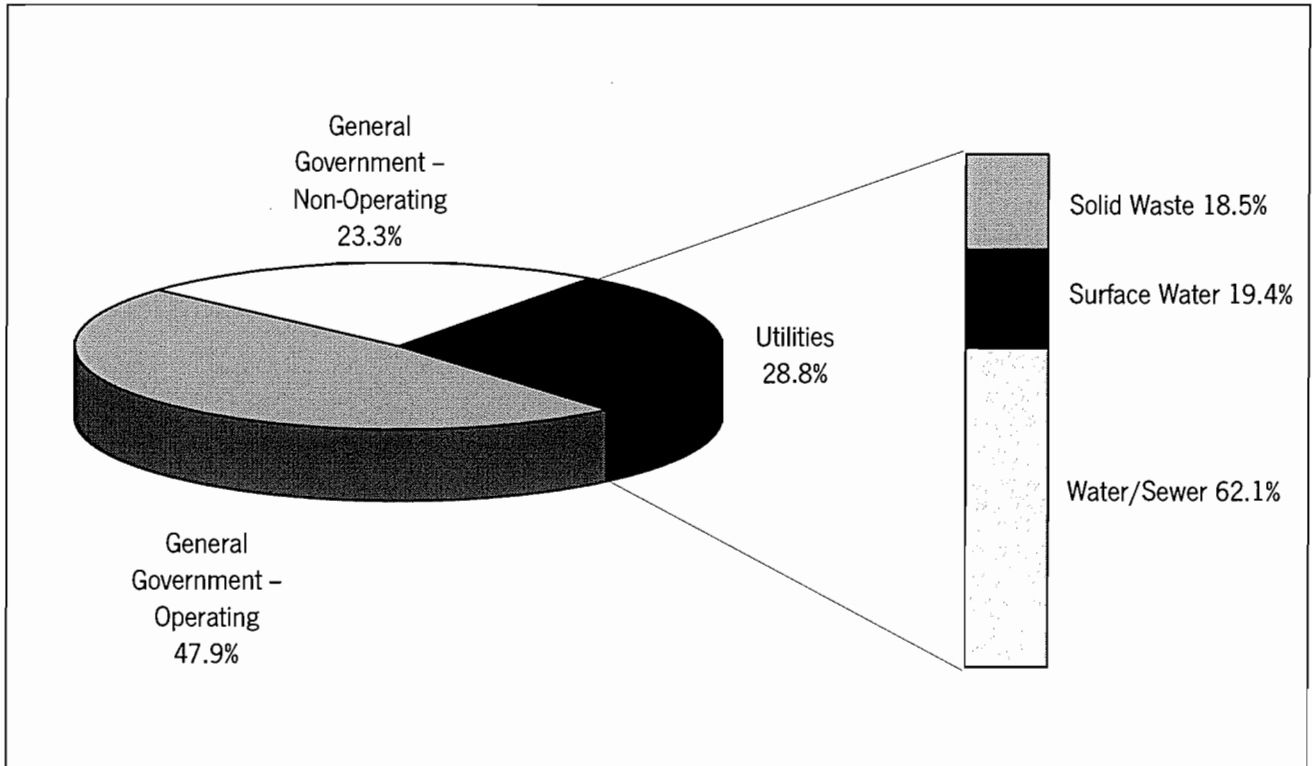


**CITY OF KIRKLAND
2007-2008 BUDGET
\$318,347,331**

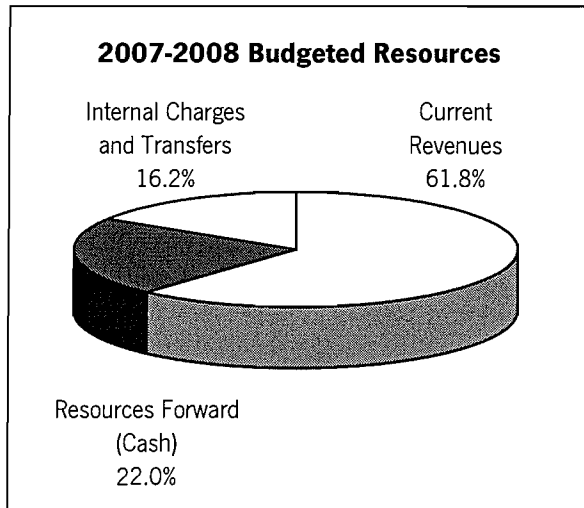


The City Budget is composed of General Government functions and the City's three Utilities which are operated as separate enterprises. Both the General Government and Utilities budgets have operating and non-operating components. The operating portion of the budget represents services to the public and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

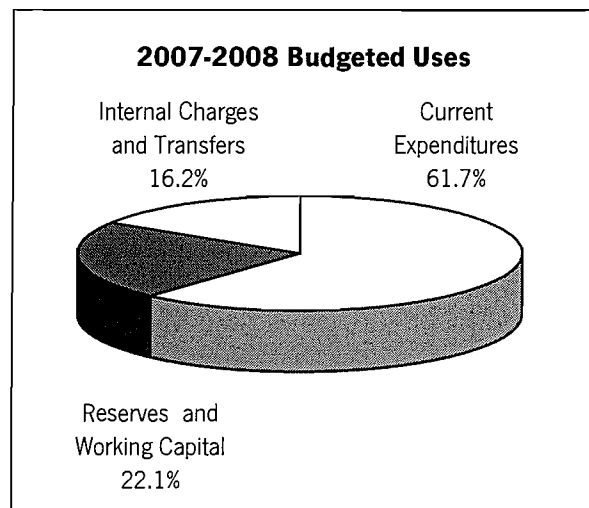


TOTAL RESOURCES AND USES

Where the Money Comes From



Where the Money Goes



Total Budgeted Resources	\$318,347,331
Less Resources Forward (Cash)	(70,145,897)
Less Internal Charges/Transfers	<u>(51,682,875)</u>
Current Revenues	<u>\$196,518,559</u>

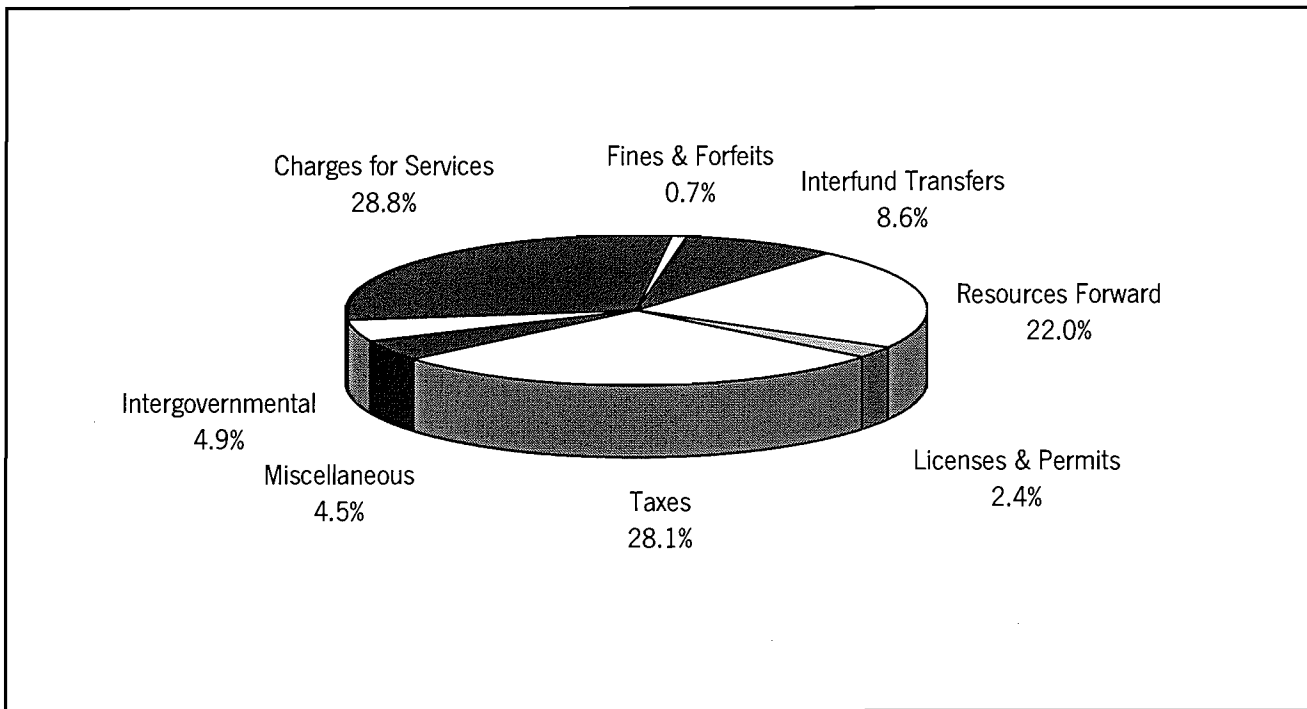
Total Budgeted Uses	\$318,347,331
Less Reserves & Working Capital	(68,888,783)
Less Internal Charges/Transfers	<u>(51,682,875)</u>
Current Expenditures	<u>\$197,775,673</u>

The total budget of \$318.3 million encompasses all resources and uses, including reserves, unreserved working capital, and internal transactions involving payments or transfers from one fund to another. Including these transactions in the budget provides a full accounting of the activities in each fund. However, they also have the effect of "grossing up" the total budget.

Current revenues reflect what the City expects to receive from external sources. Across all functions, about \$196.5 million is projected to be received during the next biennium, which is equivalent to the City's biennial income.

Current expenditures correspond to what the City plans to actually spend in terms of payments to employees, vendors, outside agencies, and other governments. About \$197.8 million is projected to be spent during the next biennium citywide. The \$1.26 million difference (current expenditures in excess of current revenues) represents the planned expenditure of accumulated cash resources for one-time purchases and capital projects. All ongoing expenditures are supported by ongoing revenue sources.

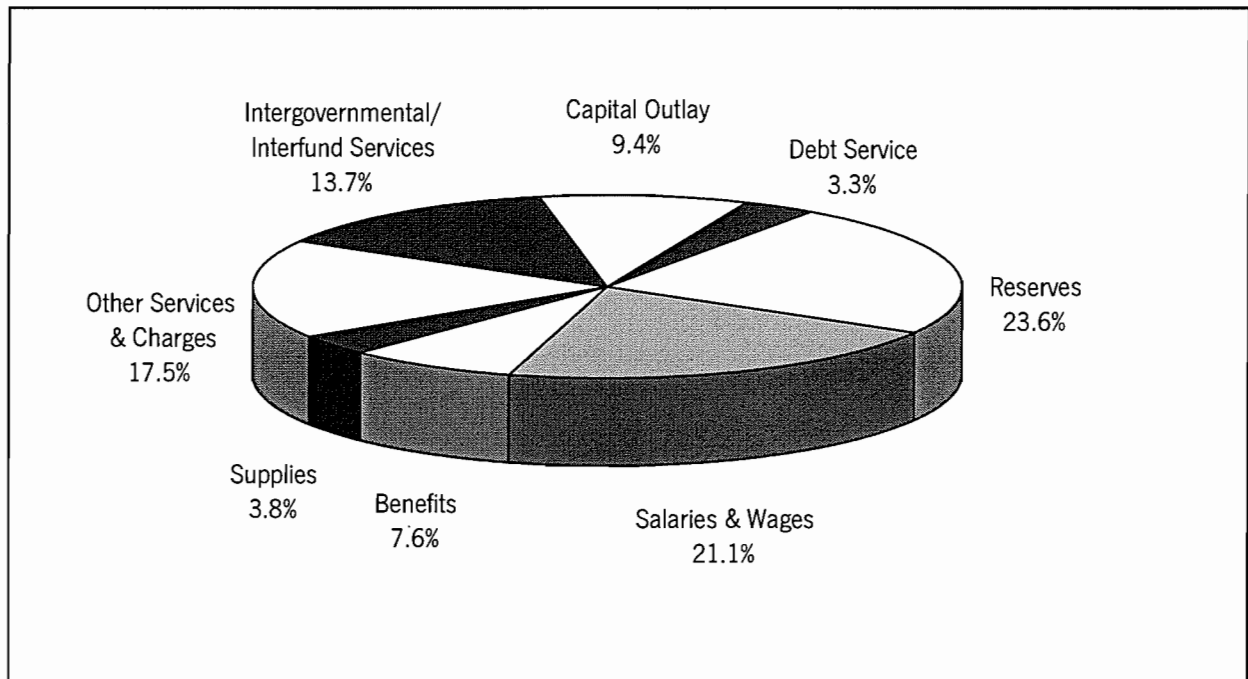
**CITY OF KIRKLAND
TOTAL BUDGET
2007-2008 REVENUE SUMMARY: BY REVENUE TYPE**



Analysis of Change

Revenue Sources	2003-04 Actual	2005-06 Budget	2007-08 Budget	Percent Change
Taxes	75,020,549	76,614,403	89,384,104	16.67%
Licenses and Permits	5,698,802	6,276,733	7,585,100	20.84%
Intergovernmental	14,559,850	20,086,387	15,452,332	-23.07%
Charges for Services	78,898,983	83,421,740	91,831,600	10.08%
Fines and Forfeits	2,410,420	2,249,700	2,289,750	1.78%
Miscellaneous	5,243,958	8,962,330	14,417,209	60.86%
Interfund Transfers	30,156,274	34,269,618	27,241,339	-20.51%
Resources Forward	75,180,190	64,065,401	70,145,897	9.49%
Total	287,169,026	295,946,312	318,347,331	7.57%

**CITY OF KIRKLAND
TOTAL BUDGET
2007-2008 EXPENDITURE SUMMARY: BY CATEGORY**



Analysis of Change

Category	2003-2004 Actual*	2005-2006 Budget	2007-2008 Budget	Percent Change
Salaries & Wages	54,043,474	62,539,393	67,584,124	8.07%
Benefits	14,981,241	20,319,632	24,095,618	18.58%
Supplies	11,365,723	10,925,634	11,945,378	9.33%
Other Services & Charges	47,954,100	53,395,397	55,739,461	4.39%
Intergovernmental/Interfund Services	40,361,017	43,336,050	43,498,604	0.38%
Capital Outlay	29,974,732	42,285,808	29,799,819	-29.53%
Debt Service	10,053,115	8,935,631	10,621,717	18.87%
Reserves	0	54,208,767	75,062,610	38.47%
Category Total	208,733,402	295,946,312	318,347,331	7.57%

*2003-2004 actual does not include reserves.

CITY OF KIRKLAND
2007-2008 BUDGET OVERVIEW: BY FUND TYPE/FUND

General Government Operating Funds

Fund	2005-2006 Budget	2007-2008 Budget	Percent Change
<i>General Fund</i>			
010 General	95,337,701	107,829,861	13.10%
<i>Special Revenue Funds</i>			
112 Lodging Tax	377,463	390,814	3.54%
117 Street Operating	8,233,243	8,867,461	7.70%
122 Cemetery Operating	311,728	337,514	8.27%
125 Parks Maintenance	1,784,151	1,959,973	9.85%
126 Recreation Revolving	1,927,875	2,141,701	11.09%
127 Facilities Maintenance	8,435,301	8,900,070	5.51%
Total Special Revenue Funds	21,069,761	22,597,533	7.25%
<i>Internal Service Funds</i>			
521 Equipment Rental	12,247,352	12,262,223	0.12%
522 Information Technology	8,598,001	9,841,040	14.46%
Total Internal Service Funds	20,845,353	22,103,263	6.03%
Total General Government Operating Funds	137,252,815	152,530,657	11.13%

General Government Non-Operating Funds

Fund	2005-2006 Budget	2007-2008 Budget	Percent Change
<i>Special Revenue Funds</i>			
152 Contingency	2,357,321	3,193,826	35.49%
154 Cemetery Improvement	493,195	550,473	11.61%
156 Impact Fees	3,456,512	4,002,831	15.81%
157 Park & Municipal Reserve	10,862,759	11,426,772	5.19%
158 Off-Street Parking Reserve	84,564	69,564	-17.74%
159 Tour Dock	210,913	93,211	-55.81%
170 Street Improvement	3,091,247	2,600,998	-15.86%
188 Grant Control Fund	437,001	285,873	-34.58%
190 Excise Tax Capital Improvement	14,018,435	21,888,649	56.14%
Total Special Revenue Funds	35,011,947	44,112,197	25.99%

**CITY OF KIRKLAND
2007-2008 BUDGET OVERVIEW: BY FUND TYPE/FUND**

General Government Non-Operating Funds (Continued)

Fund	2005-2006 Budget	2007-2008 Budget	Percent Change
<i>Debt Service Funds</i>			
210 LTGO Debt Service	3,287,354	4,966,356	51.07%
220 UTGO Debt Service	3,236,949	3,256,779	0.61%
230 LID Control	16,221	7,361	-54.62%
Total Debt Service Funds	6,540,524	8,230,496	25.84%
<i>Capital Projects Funds</i>			
310 General Capital Projects	19,756,924	16,332,109	-17.33%
320 Grant Capital Projects	13,859,335	3,968,636	-71.36%
Total Capital Projects Funds	33,616,259	20,300,745	-39.61%
<i>Trust Funds</i>			
620 Firefighter's Pension	1,146,129	1,381,860	20.57%
Total Trust Funds	1,146,129	1,381,860	20.57%
Total General Government Non-Op Funds	76,314,859	74,025,298	-3.00%

Water/Sewer Utility Funds

Fund	2005-2006 Budget	2007-2008 Budget	Percent Change
<i>Operating Fund</i>			
411 Water/Sewer Operating	35,331,607	38,218,307	8.17%
Total Operating Fund	35,331,607	38,218,307	8.17%
<i>Non-Operating Funds</i>			
412 Water/Sewer Debt Service	3,728,096	3,756,868	0.77%
413 Utility Capital Projects	14,449,916	13,129,385	-9.14%
Total Non-Operating Funds	18,178,012	16,886,253	-7.11%
Total Water/Sewer Utility Funds	53,509,619	55,104,560	2.98%

CITY OF KIRKLAND
2007-2008 BUDGET OVERVIEW: BY FUND TYPE/FUND

Surface Water Utility Funds

Fund	2005-2006 Budget	2007-2008 Budget	Percent Change
<i>Operating Fund</i>			
421 Surface Water Management	9,710,508	11,636,958	19.84%
Total Operating Fund	9,710,508	11,636,958	19.84%
<i>Non-Operating Fund</i>			
423 Surface Water Capital Projects	3,608,588	7,986,988	121.33%
Total Non-Operating Funds	3,608,588	7,986,988	121.33%
Total Surface Water Utility Funds	13,319,096	19,623,946	47.34%

Solid Waste Utility Fund

Fund	2005-2006 Budget	2007-2008 Budget	Percent Change
<i>Operating Fund</i>			
431 Solid Waste Utility	15,549,923	17,062,870	9.73%
Total Operating Fund	15,549,923	17,062,870	9.73%
Total Solid Waste Utility Fund	15,549,923	17,062,870	9.73%

TOTAL ALL FUNDS	295,946,312	318,347,331	7.57%
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REVENUE

A guide to major revenue sources and trends



REVENUE SOURCES

TAXES

SALES TAX

Sales tax is the City's primary source of funding for general City services. It is the single largest revenue source in the General Fund. In addition, sales tax is a dedicated funding source for transportation-related capital projects (\$540,000), technology capital projects (\$1,050,000) and neighborhood capital improvement projects (\$200,000) during the biennium.

Sales tax is levied on the sale of consumer goods (except most food products and services) and construction. In Kirkland, retail businesses are the largest generator of sales tax, followed by contracting, wholesale, and service businesses. The amount of revenue generated by sales tax fluctuates from year to year due to changes in the economy, buying habits of consumers, and the level of construction taking place in the City.

The general sales tax rate within the City of Kirkland is 8.8 percent. Of the 8.8 percent, one percent (less 0.15 percent that goes to King County) is returned to the City of Kirkland, and the remainder is distributed to the State and other public agencies.

In 1995, the State Legislature granted King County the authority to impose an additional 0.5 percent sales tax (effective 1/1/96) on food and beverages sold by restaurants, taverns, and bars (bringing the current total sales tax rate for these establishments to 9.3 percent). This additional tax revenue is distributed to a Baseball Stadium Fund to pay the debt service on a professional baseball stadium.

As of July 1, 2003, an additional 0.3 percent sales tax was imposed by the state legislature on vehicle sales and leases to fund transportation improvements. The distribution of the sales tax is as follows:

Jurisdiction	Rate (%)
State of Washington	6.50
King County/METRO	0.80
King County Criminal Justice Levy	0.10
City of Kirkland (1.0 with .15 remitted to King County)	
City Portion	0.85
County Portion	0.15
Regional Transit Authority	<u>0.40</u>
Total General Sales Tax Rate	8.80
Additional 0.3% for automobile sales/leases (to fund transportation)	
Total Sales Tax Rate for Automobile Sales and Leases Only	9.10
Additional 0.5% Food and Beverage Tax (for Baseball Stadium Fund)	
Total Sales Tax Rate for Restaurant Food and Beverages Only	9.30

As of April 1, 2007, an additional 0.1 percent sales tax approved by voters for transit services will be added to the rate for King County/METRO bringing the total General Sales Tax rate to 8.9 percent. The additional 0.1 percent does not affect Kirkland's share of the sales tax rate.

Budget

2005-2006: \$25,848,673
 (\$24,183,673 General Fund,
 \$540,000 Street Improvement Fund
 and \$1,125,000 General Capital
 Projects Fund)

2007-2008: \$32,569,685
 (\$30,779,685 General Fund,
 \$540,000 Street Improvement Fund
 and \$1,250,000 General Capital
 Projects Fund)

Trends and Assumptions

Methodology

- The City's fiscal policy is to budget in the coming year an amount equivalent to the total

actual sales tax revenue collected in the prior year. Because of the strong results expected in 2006, the adopted budget reflects an adjustment to the one-year “lag” budget strategy. Given the strength in the volatile construction sector, an estimate of the revenue in excess of projected on-going sales tax growth was held out of the projected 2007-2008 on-going revenues in the basic budget (approximately \$1.9 million for the biennium). A part of this revenue was used to fund on-going service packages (\$408,000) and the remainder will be used to fund recommended annexation service packages (\$1.2 million) if the decision is made to proceed and/or to replenish reserves closer to target levels.

Trends

- Annual sales tax change for the past six years:

2001	-7.12%
2002	-5.21%
2003	12.94%
2004	0.25%
2005	12.64%
2006	14.80%
- 2006 revenue increased 14.8 percent compared to 2005 primarily due to strong construction-related activity.

Key Assumptions

- City sales tax rate of .85 percent (one percent less 0.15 percent remitted to King County).
- 2007 budgeted sales tax is based on 2006 estimated receipts adjusted for estimated one-time construction-related receipts (approximately \$1,000,000), and 2008 budgeted sales tax is based on 2007 budgeted receipts plus 6 percent growth.

KING COUNTY CRIMINAL JUSTICE LEVY

Under the authority granted by the State and approved by the voters, King County levies an additional 0.1 percent sales tax to support criminal justice programs. The State collects this optional tax and retains 1.5 percent for administration. Of the amount remaining, 10 percent is distributed to the county and 90 percent is distributed to cities. This revenue must be used exclusively for criminal justice

purposes and cannot replace existing funds designated for these purposes.

Budget

2005-2006: \$1,765,000 (General Fund)
 2007-2008: \$ 2,075,000 (General Fund)

Trends and Assumptions

Methodology

- Distributed on the basis of population.

Trends

- 2005 revenue experienced moderate growth compared to 2004 (up 7.8 percent).
- 2006 revenue increased 7.4 percent compared to 2005.

Key Assumptions

- King County levy rate of 0.1 percent.
- 2007-2008 budget is based on recent historical growth.

PROPERTY TAX

In Kirkland, property taxes fund services in the General, Street Operating, and Parks Maintenance Funds. The Parks Maintenance Fund was created in 2003 as a result of a levy lid lift approved by voters in November 2002 to fund maintenance and operations for new parks. Property taxes are the second largest source of revenue in the General Fund, the largest source of revenue in the Street Operating Fund, and the primary source of revenue in the Parks Maintenance Fund. All real and personal property (except where exempt by law) is assessed by the King County Assessor at 100 percent of the property’s fair market value. Assessed values are adjusted each year based on market value changes.

Although property taxes represent a major source of funding for City services, the portion of each property owner’s total tax bill allocated to the City is relatively small. In 2007, the total property tax rate in Kirkland is \$8.99 per \$1,000 of assessed valuation. Of that total, about 15.6 percent, or \$1.40 per \$1,000 assessed valuation, goes to the City. This includes the levy lid lift for parks maintenance.

Initiative 747, which passed in November 2001, limits the annual increase in the regular property tax levy to the lesser of one percent or the Implicit Price Deflator. Previously, the cap was six percent. In 2006, Initiative 747 was ruled unconstitutional by the King County Superior Court. The state has appealed the decision to the State Supreme Court, but the case is not expected to be heard until early 2007.

The budget assumes the one percent limit, but to preserve flexibility if that limit is removed, the Council took action to “bank” the capacity available up to the prior cap.

The City can exceed the limitation with the approval of voters or by using levy capacity from prior years that was “banked” for future specified purposes. The City used \$0.91 million in banked capacity for the 2006 levy and about \$0.16 million in 2007 to fund additional public safety staffing. The City has about \$0.19 million in remaining banked levy capacity as of 2007.

The City is also provided an allowance for new construction, which entitles the City to the property tax revenue generated by newly constructed businesses and homes. The new construction levy does not increase the overall tax rate paid by property owners. The City’s total rate cannot be more than \$3.10 per \$1,000 of assessed valuation.

The annual tax impact on a property owner is usually different than the percent increase of the levy, since it depends on several factors such as changes in the assessed valuation of the property, growth in the City’s overall assessed valuation, and levy increases by other taxing districts. The property tax rate is determined by dividing the levy amount by the assessed valuation per \$1,000.

Budget (Regular Levy/Voter-approved debt)

2005-2006: \$24,733,057
 (\$15,105,396 General Fund,
 \$5,271,494 Street Operating Fund,
 \$1,457,482 Parks Maintenance Fund
 and \$2,898,685 voter-approved UTGO
 Debt Service Fund)

2007-2008: \$27,957,713

(\$17,820,566 General Fund,
 \$5,687,326 Street Operating Fund,
 \$1,531,306 Parks Maintenance Fund
 and \$2,918,515 voter-approved UTGO
 Debt Service Fund)

Trends and Assumptions

Methodology

- Based on prior year’s levy plus new construction and any additional levy increase up to one percent.

Trends

- New construction growth has ranged from 1.36 to 3.69 percent over the last five years.
- 2006 new construction growth, which was added to the 2007 levy, was 3.94 percent. This is significantly above the normal range of growth for Kirkland.

Key Assumptions

- 3.69 percent growth in new construction in 2007 and 2.0 percent in 2008.
- One percent optional levy increase in 2007 and 2008.
- Use of \$162,000 banked capacity to fund additional corrections officers in 2007.

UTILITY TAXES

Utility taxes are levied on the gross operating revenues that public and private utilities earn from operations within the boundaries of the City. This applies to electric, natural gas, water, sewer, surface water, solid waste, telephone, and cable TV utilities. Legislation passed in 1982 limits the tax rate on electric, gas, steam, and telephone utilities to six percent. Currently, a six percent tax rate applies to both residential and commercial customers of these utilities. There are no restrictions on the tax rates for water, sewer, surface water, and solid waste utilities. Currently, a 7.5 percent tax rate applies to both residential and commercial customers of these utilities. The Cable Communication Policy Act of 1984 states that cable tax rates should not be higher than tax rates on other utilities. The cable tax rate in Kirkland is six percent.

Budget

2005-2006: \$15,395,911
(\$14,075,911 General Fund and
\$1,545,000 Facilities Maintenance
Fund)
2007-2008: \$17,680,856
(\$16,095,856 General Fund and
\$1,585,000 Facilities Maintenance
Fund)

Trends and Assumptions

Methodology

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

Trends

- 2006 revenues increased 11.9 percent compared to 2005.
- Taxes from all utilities increased between 2005 and 2006.
- Increased natural gas, electric and surface water rates have contributed the largest share of increased revenue between 2005 and 2006.

Key Assumptions

- 6.0 percent tax rate on telephone, natural gas, electricity, and cable utilities and 7.5 percent tax rate on water, sewer, garbage, and surface water utilities.
- 2007-2008 budget is based on 2006 estimated revenue plus assumptions for expected rate changes on each utility.

ADMISSIONS TAX

All cities may levy an admissions tax in an amount no greater than five percent of the admissions charge. This tax can be levied on admission charges to theaters, dance halls, private clubs, observation towers, stadiums (public elementary and secondary schools are exempt), swimming pools, golf courses, amusement parks, rides, and any other activity where an admission charge is collected at the door. The admissions tax also applies to season tickets, cover charges, and rental of facilities and equipment for recreational purposes.

Budget

2005-2006: \$225,000 (Facilities Maintenance Fund)
2007-2008: \$230,000 (Facilities Maintenance Fund)

Trends and Assumptions

Methodology

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

Trends

- 2006 revenue was 7.5 percent less than 2005.

Key Assumptions

- 2007-2008 budget is based on 2006 estimated revenue with moderate growth in 2007 and no growth in 2008.
- The amount generated by the Kirkland Performance Center is rebated back to that organization as an operating subsidy.

GAMBLING TAX

Gambling tax revenues are primarily used for gambling enforcement purposes. The maximum tax rates allowed by RCW 9.46.113 are five percent for bingo and raffles, two percent for amusement games, and five percent for punchboards and pulltabs. The City Council amended the Kirkland Municipal Code (KMC) to prohibit card rooms beginning in 1999.

Budget

2005-2006: \$723,450 (General Fund)
2007-2008: \$573,000 (General Fund)

Trends and Assumptions

Methodology

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

Trends

- 2006 revenue was less than budgeted and 9.4 percent less than 2005 revenue.
- Trends are based on the number of gambling establishments and volume, which fluctuate from year to year.

Key Assumptions

- Current establishments will continue to operate.
- 2007-2008 budget is based on 2006 estimated revenue with moderate growth for 2007-2008.

REAL ESTATE EXCISE TAX (REET)

The Real Estate Excise Tax is levied on all sales of real estate, measured by the full selling price, including the amount of any liens, mortgages, and other debts given to secure the purchase. The State levies this tax at the rate of 1.28 percent. Cities are also authorized to impose a local tax of 0.50 percent. The first 0.25 percent tax must be used primarily for local capital improvements identified under the capital facilities plan element of the City's Comprehensive Plan. The second 0.25 percent, which is optional, must be used to fund transportation capital projects according to City ordinance.

Budget

2005-2006: \$5,600,000 (Excise Tax Capital Improvement Fund)

2007-2008: \$5,600,000 (Excise Tax Capital Improvement Fund)

Trends and Assumptions

Methodology

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

Trends

- 2006 revenue increased 8.1 percent compared to 2005.

Key Assumptions

- Real Estate Excise Tax of 0.5 percent.
- Current allocation:

<u>REET 1 -</u>	
McAuliffe Debt	\$ 460,000
Parks	\$1,400,000
Transportation	\$1,000,000
<u>REET 2 -</u>	
Transportation	\$2,400,000
Unallocated	\$ 340,000

LODGING EXCISE TAX

On the recommendation of the Lodging Tax Advisory Committee, a lodging excise tax was approved by the City Council in 2001. The rate is one percent and became effective January 1, 2002. The tax applies to most short-term accommodations, such as hotels and motels. This revenue is limited to funding tourism promotion and the operation of tourism-related facilities.

Budget

2005-2006: \$215,000 (Lodging Tax Fund)

2007-2008: \$285,000 (Lodging Tax Fund)

Trends and Assumptions

Methodology

- Based on current year receipts, factoring in new hotels.

Trends

- 2006 revenue increased 13.6 percent compared to 2005.

Key Assumptions

- New hotel opens in early 2007.

LICENSES AND PERMITS

BUILDING RELATED PERMITS

This category consists of revenue collected by the Building Division and the Public Works Department. Included in this category are building permits, plumbing permits, clear/grade permits, side-sewer permits, mechanical permits, electrical permits, and sign permits. Fees imposed for permits are subject to a base charge determined by the type of permit, plus additional fees determined by either the dollar value or size (square foot or number of units) of the project.

Budget

2005-2006: \$3,691,143 (General Fund)

2007-2008: \$4,366,900 (General Fund)

Trends and Assumptions

Methodology

- Based on historical trends, the number of permits pending in the planning process, and

the Building Division's projections of upcoming construction projects.

Trends

- 2006 revenue decreased 18.1 percent compared to 2005, because of the number of large projects that were permitted in 2005.

Key Assumptions

- 2007 budget is based on 2006 estimated revenue less a small percent reduction to account for an expected slight decline in construction project activity and no growth in 2008.

BUSINESS LICENSES AND PERMITS

This category includes the issuance of business licenses and licenses for certain activities such as cabaret (live music/dancing), massage parlors, pawnbrokers or devices such as cigarette machines and amusement devices. The fee structure for business permits is typically an annual fee or one-time charge depending on the particular type of license or permit.

In 2003, the City instituted a new business license fee program with two components – a base fee of \$100 per business plus a surcharge based on number of employees. The base fee is considered a license revenue and the surcharge is considered a “revenue generating regulatory license” or tax for accounting purposes. The new program also requires businesses with no physical presence in Kirkland that are doing business in the city (e.g. contractors) to obtain a business license.

Budget

Business Licenses and Permits

2005-2006: \$749,500 (General Fund)

2007-2008: \$847,900 (General Fund)

Revenue Generating Regulatory License Fee

2005-2006: \$1,800,000 (General Fund)

2007-2008: \$1,965,000 (General Fund)

Trends and Assumptions

Methodology

- Based on current year receipts.

Trends

- This revenue source is not expected to fluctuate significantly.
- 2006 revenue increased 5.3 percent compared to 2005.

Key Assumptions

- Existing businesses are stable.
- 2007-2008 budget is based on 2006 estimated revenue with growth of about 1.5 percent projected in 2007 and 2008.

FRANCHISE FEES

Franchise fees, which were first collected in 1995, are charges levied on private utilities for the right to use city streets, alleys and other public properties. Charges on light, natural gas, and telephone utilities are limited to the actual administrative expenses incurred by the City. Cable TV franchise fees are governed by federal rather than state law and may be levied at a rate of five percent of gross revenues, regardless of the cost of managing the franchise process. Franchise fees are also collected from the Northshore Utility District in lieu of utility taxes.

Budget

2005-2006: \$1,587,000 (General Fund)

2007-2008: \$2,000,000 (General Fund)

Trends and Assumptions

Methodology

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

Trends

- 2006 revenue increased 13.2 percent compared to 2005.
- 2006 cable franchise revenue decreased about 3.7 percent compared to 2005.

Key Assumptions

- 2007-2008 budget is based on 2006 estimated revenue with no growth in 2007 and 2.0 percent growth in 2008.
- The Federal Communications Commission ruled in 2002 that cable companies do not have to pay franchise fees on cable modem services.

INTERGOVERNMENTAL

EMERGENCY MEDICAL SERVICES LEVY (EMS)

This is a voter approved levy that is collected by King County and distributed to cities based on a formula. The current levy expires at the end of 2007. A six-year levy will be on the ballot in November 2007.

Budget

2005-2006: \$965,107 (General Fund)
2007-2008: \$1,023,883 (General Fund)

Trends and Assumptions

Methodology

- Distribution is based on a formula that considers population, the number of calls for service, and total assessed valuation.

Trends

- A regional effort is underway to seek a more permanent funding solution for EMS services

Key Assumptions

- Estimate provided by King County.
- Levy continues through 2007 and the new levy commencing in 2008 is approved by voters.

LIQUOR BOARD PROFITS AND EXCISE TAX

In Washington State, liquor sales are controlled by a State-operated monopoly. Cities and towns receive 40 percent of the profits generated by the Washington State Liquor Control Board and 28 percent of the liquor excise tax receipts. The purpose of allocating these funds back to the cities is to help defray the costs for the policing of liquor establishments located within the city limits. Cities are required to appropriate at least two percent of these revenues to support approved alcohol and drug addiction programs.

Budget

2005-2006: \$1,042,880 (General Fund)
2007-2008: \$1,114,558 (General Fund)

Trends and Assumptions

Methodology

- Estimate based on forecast provided by Association of Washington Cities.

Trends

- 2006 revenue decreased 3.8 percent compared to 2005.

Key Assumptions

- Estimated per capita amount of \$7.44 in 2007 and 2008 from liquor board profits.
- Estimated per capita amount of \$4.27 in 2007 and 2008 from liquor tax.

MOTOR VEHICLE FUEL TAX ("GAS TAX")

In Washington State, cities receive a portion of the State-collected gasoline tax. The State distributes 10.6961 percent of the base amount of 23 cents to cities (less some small deductions). Beginning July 1, 2003, the state fuel tax increased to 28 cents per gallon from 23 cents as part of the "Nickel Funding Transportation Package" enacted by the state legislature. In the 2005 session, the Legislature approved a transportation bill that includes a 9.5 cent gas tax increase phased in from 2005 to 2008. Cities get a small portion of this additional gas tax (0.25 cents in 2005 and 0.25 cents in 2006).

In the past, a set portion of this revenue had to be deposited in an Arterial Street Fund for the construction, improvement, chip sealing, seal-coating, and repair of arterial highways and city streets. This restriction ended with the passage of new legislation. The City has chosen to follow the previous restriction by policy to fund arterial street fund projects.

Budget

2005-2006: \$2,004,866
(\$1,301,066 Street Operating Fund and
\$703,800 Street Improvement Fund)
2007-2008: \$2,353,206
(\$1,317,206 Street Operating Fund and
\$1,036,000 Street Improvement Fund)

Trends and Assumptions

Methodology

- Estimate based on forecast provided by Association of Washington Cities. Gas tax is imposed as a fixed amount per gallon of gas purchased (i.e. fluctuations in the price of gas will effect gas tax revenues only if consumption changes).

Trends

- This revenue base has increased due to the gas tax rate and despite a decline in consumer gas consumption because of higher prices.

Key Assumptions

- Estimated per capita amount of \$23.46 in 2007 and \$24.95 in 2008.

FIRE DISTRICT #41

These are fees collected from King County Fire District #41 for fire protection and emergency medical services provided by the Kirkland Fire Department to the district.

Budget

2005-2006: \$6,324,220
(\$6,011,261 General Fund,
\$125,280 Equipment Rental Fund and
\$187,679 General Capital Projects
Fund)

2007-2008: \$6,945,320
(\$6,687,620 General Fund and
\$257,700 General Capital Projects
Fund)

Trends and Assumptions

Methodology

- A pro rata share (based on the Fire District's assessed valuation as a percentage of total City and district assessed valuation) of the City's fire services budget, net of other fire revenues such as the EMS levy.

Trends

- Typically, an increase in the fire services budget results in an increase in the service contract. This revenue source is also affected by the relative change in the City's assessed

valuation compared to the Fire District's. However, the valuation proportion has remained relatively consistent over the last 3 years.

Key Assumptions

- Pro rata share distribution assumes the same assessed valuations used in the 2006 fire services contract with Fire District #41. The distribution ratio will be finalized once updated assessed valuations for the City and Fire District are received from King County.

CHARGES FOR SERVICES

UTILITIES

The City operates three separate utilities, which are managed like a business with customer charges fully supporting all costs. Revenue is collected for water/sewer services, surface water management, and garbage and recycling services.

Budget

2005-2006: \$52,188,864
(\$29,137,256 Water/Sewer
Operating Fund,
\$8,796,678 Surface Water
Management Fund
and \$14,254,930 Solid Waste Fund)

2007-2008: \$57,012,364
(\$31,496,570 Water/Sewer
Operating Fund,
\$10,041,039 Surface Water
Management Fund
and \$15,474,755 Solid Waste Fund)

Trends and Assumptions

Methodology

- Annual rate changes are needed to acknowledge the general cost of operations, any new debt obligations and "pass-through" increases from other agencies.

Trends

- 2006 water/sewer revenue increased 8.6 percent compared to 2005 primarily due to weather conditions.

- 2006 surface water fee revenue increased 31.6 percent compared to 2005 due to a rate increase in 2006 funding capital projects.
- 2006 solid waste collection fee revenue increased 2.8 percent compared to 2005 due to changes in usage patterns.

Key Assumptions

- Water rate increases include 9.5 percent increase in 2007 and 9.5 percent increase in 2008 primarily due to increased water purchase costs and infrastructure re-investment.
- Sewer rate increases include 7.0 percent increase in 2007 and 6.0 percent increase in 2008 primarily due to higher disposal costs paid to King County and infrastructure re-investment.
- No increase in surface water fees.
- Solid waste rate increases include 4.0 percent increase in 2007 due to increased disposal contract costs, and other program changes. No rate increase proposed for 2008, pending decision from King County on 2008 disposal rates.

PLANNING FEES AND PLAN CHECK FEES

These fees are collected for development-related services involving the issuance of permits and the review of plans for compliance with the City's codes. Fees are generally collected at a level estimated to recover the cost of the service provided. This category also includes expedited plan review fees.

Budget

2005-2006: \$3,917,597 (General Fund)
 2007-2008: \$3,654,200 (General Fund)

Trends and Assumptions

Methodology

- Based on historical trends, the number of development plans pending in the planning process, and the Building Division's projections of upcoming construction projects.

Trends

- 2006 revenues decreased 6.3 percent compared to 2005.
- Approximately \$277,000 of revenue was received in 2006 from the expedited plan review program.

Key Assumptions

- Across all planning-related fees, the 2007-2008 budget assumes a small percent reduction to account for an expected slight decline in construction project activity in 2007 and no growth in 2008.
- The rate of use for the expedited plan review is expected to increase in 2007 and 2008.

ENGINEERING DEVELOPMENT FEES

These fees are collected from developers for the inspection of public improvements associated with private developments under construction.

Budget

2005-2006: \$800,000 (General Fund)
 2007-2008: \$1,210,000 (General Fund)

Trends and Assumptions

Methodology

- Based on estimates from Public Works staff regarding upcoming development.

Trends

- 2006 revenue increased 23.6 percent compared to 2005 due to increased construction activity.

Key Assumptions

- Fee is based on 8.0 percent of the value of developer installed improvements.
- 2007-2008 budget is based on 2006 estimated revenue with moderate growth projected in 2007 and a slight decline in 2008.

INTERFUND CHARGES

ENGINEERING CHARGES

These fees are collected in the General Fund from other City funds for in-house, engineering services

provided on a variety of projects (including major capital projects).

Budget

2005-2006: \$2,470,000 (General Fund)

2007-2008: \$2,090,000 (General Fund)

Trends and Assumptions

Methodology

- Projected capital improvement project (CIP) engineering charges are based on the prior year's actual labor distribution, the number of projected capital improvement projects, and the current year's budgeted engineering costs.
- Projected Non-CIP engineering charges are based on the prior year's actual labor distribution and the current year's budgeted engineering costs.
- Actual charges are assessed quarterly using current wage and benefit rates, a fully loaded cost factor, and actual hours spent on a project.

Trends

- Changes in both the CIP and the Non-CIP engineering charges result from the change in the nature of work performed from year to year.
- 2006 CIP engineering charges decreased 20.4 percent compared to 2005.
- 2006 Non-CIP engineering charges increased 10.7 percent compared to 2005.

Key Assumptions

- Based on Public Works and Parks estimates.
- Fully staffed (no vacancies).

ACCOUNTING SERVICES

These are charges paid by the Solid Waste and Water/Sewer Operating Funds for billing services provided by the General Fund.

Budget

2005-2006: \$847,895 (General Fund)

2007-2008: \$1,052,100 (General Fund)

Trends and Assumptions

Methodology

- 2007-2008 charges are based on the 2006 basic budget for the Customer Accounts section of the Finance and Administration Department, and include an approved new 1.0 FTE Customer Accounts Associate starting in 2007 and an inflationary factor applied to 2008.

Trends

- 2006 revenue increased 4.4 percent compared to 2005.
- 2007 revenue will increase 18.5 percent compared to 2006 primarily due to the additional recommended staff.

Key Assumptions

- Not applicable

CITYWIDE OVERHEAD

These internal charges are collected from other City funds for centrally provided services including human resources, general administration, legal, payroll, purchasing, budget, and accounts payable.

Budget

2005-2006: \$3,483,028
(\$3,288,101 General Fund and
\$194,927 Information Technology
Fund)

2007-2008: \$3,772,190
(\$3,407,945 General Fund and
\$364,245 Information Technology
Fund)

Trends and Assumptions

Methodology

- 2007 charges are based on the 2006 basic budget for these central services and include an inflationary factor applied for 2008.

Trends

- 2006 revenue increased 5.0 percent compared to 2005 due to an inflationary factor applied to 2005 for 2006.

- 2007 revenue will increase 3.2 percent compared to 2006.

Key Assumptions

- Multimedia Services moved from General Fund to Information Technology Fund as of 2006.

FINES AND FORFEITS

The City of Kirkland and the State of Washington share revenue that is collected from fines, forfeitures, fees, costs, and penalties associated with the enforcement of ordinances and statutes. The type of statute violated determines the percentage of each payment that is retained by the City.

Budget

2005-2006: \$2,249,700 (General Fund)
 2007-2008: \$2,284,750 (General Fund)

Trends and Assumptions

Methodology

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

Trends

- 2006 revenue increased only 1.5 percent compared to 2005 due to a reduction in traffic receipts resulting from a court decision impacting Driving While License Suspended (DWLS) cases
- 2007 revenue is expected to increase 16.0 percent since the DWLS case decision resolved the issue that had impacted 2006 revenue.

Key Assumptions

- Police enforcement remains the same.

MISCELLANEOUS REVENUE

INVESTMENT INCOME

In the City of Kirkland, available cash (called Treasurer's Cash) is invested for the benefit of the General Fund. The amount of interest received will vary with interest rates and the amount of cash available for investments during any particular budget year. After satisfying the interest income obligations to the utility funds and for the debt service and capital project commitments made by the Council, the

remaining interest income is allocated to other City funds according to average cash balance.

Budget

2005-2006: \$3,880,500 (All Operating and Non-Operating Funds)
 2007-2008: \$7,925,000 (All Operating and Non-Operating Funds)

Trends and Assumptions

Methodology

- Interest earnings are estimated based on the current portfolio and expected interest rate trends.

Trends

- Interest rates have increased significantly, which has significantly improved expected interest revenue income.

Key Assumptions

- A moderate increase in interest rates is expected between 2006 and 2007 and no additional increase in 2008.

RESOURCES FORWARD

Resources Forward represents the beginning fund balance and is comprised of the following: capital reserve, operating reserve, and working capital. A capital reserve is dedicated for the replacement of vehicles and computers and for funding major capital improvement projects. An operating reserve is an appropriated contingency account set aside for unanticipated expenditures. Working capital consists of excess net operating resources brought forward from the prior year to fund one-time "service packages" and equipment costs and to provide an operating cash flow buffer against seasonal fluctuations in revenues and expenditures. At the end of each year, it is the City's practice to transfer net resources in excess of designated working capital from the General Fund to one or more of the City's reserve funds.

Budget

2005-2006: \$80,253,561 (All Operating and Non-Operating Funds)

2007-2008: \$70,145,897 (All Operating and Non-Operating Funds)

Trends and Assumptions

Methodology

- Amount budgeted must cover one-time service packages approved in the budget, any designated working capital, and operating or capital reserves.

Trends

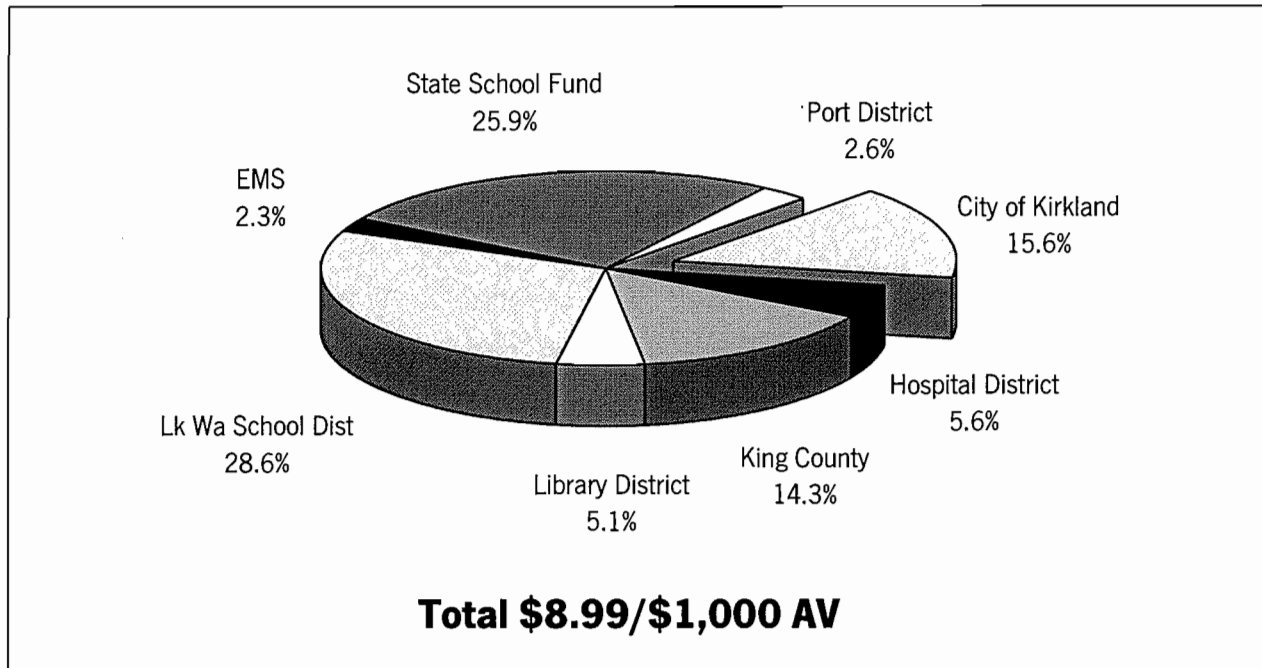
- Not applicable.

Key Assumptions

- Not applicable.

CITY OF KIRKLAND

2007 PROPERTY TAX DISTRIBUTION



The City is currently operating under the rules of Initiative 747, which was approved by voters in November 2001. The City is limited to an annual increase on its regular property tax levy of the lesser of 1% or the Implicit Price Deflator, plus an allowance for new construction. However, unused levy capacity from prior years that was "banked" for future specified purposes can be utilized regardless of the limits established by Initiative 747. Prior to 2007, the City had \$0.35 million in banked levy capacity. The Council approved the use of approximately \$0.16 million of banked capacity in 2007 to fund the new Communications Coordinator position, which leaves a banked capacity balance of \$0.19 million. In addition to the use of banked capacity, the Council opted to increase the regular property tax levy by 1% for 2007.

The actual impact on an individual's property tax bill is not necessarily the same as the change in the levy. Other factors, such as the assessed valuation of the property, growth in the City's overall assessed valuation, or levy increases (or decreases) of other governments will determine the final tax bill.

Although property taxes represent a major source of funding for City services, the portion of each property owner's total tax bill that goes to the City is relatively small. In 2007, the total property tax rate in Kirkland is \$8.99 per \$1,000 of assessed valuation. Of that total, 15.6%, or \$1.40 per \$1,000 assessed valuation, goes to the City.

**CITY OF KIRKLAND
2007 PROPERTY TAX DISTRIBUTION (FINAL LEVY)**

Taxable Assessed Valuation For 2007 Levy		\$9,862,547,464
REGULAR LEVY		
<u>Operating Fund</u>	<u>Levy</u>	<u>Rate per \$1,000 AV</u>
General Fund	\$8,803,457	\$0.893
Street Operating Fund	\$2,790,985	\$0.283
Parks Maintenance Fund	\$754,338	\$0.076
<i>Total 2007 Regular Levy</i>	<i>\$12,348,780</i>	<i>\$1.252</i>
EXCESS LEVY		
<u>Unlimited General Obligation Bond Issue</u>	<u>Levy</u>	<u>Rate per \$1,000 AV</u>
1993 Unlimited G.O. Refunding (Parks)	\$548,530	\$0.056
1995 Unlimited G.O. (Public Safety)	\$91,188	\$0.009
2001 Unlimited G.O. Refunding (Public Safety)	\$192,475	\$0.020
2003 Unlimited G.O. (Parks)	\$633,485	\$0.064
<i>Total 2007 Excess Levy</i>	<i>\$1,465,678</i>	<i>\$0.149</i>
TOTAL LEVY		
	<u>Levy</u>	<u>Rate per \$1,000 AV</u>
<i>Total 2007 Levy</i>	<i>\$13,814,458</i>	<i>\$1.401</i>

CITY OF KIRKLAND
2007-2008 DISTRIBUTION OF INVESTMENT INCOME

Total Estimated Earnings		\$ 7,925,000
Allocated to Utility Funds		
Water/Sewer	1,010,000	
Surface Water Management	333,300	
Solid Waste	<u>101,000</u>	
Subtotal to Utility Funds		1,444,300
Allocated to Impact Fee Fund		262,600
Allocated to REET Fund		1,111,000
Allocated to Parks Bond Reserve		30,000
Allocated to the Firefighter's Pension Fund		<u>101,000</u>
Net to Allocate		4,976,100
Dedicated Proceeds:		
Capital Improvement Program		1,280,000
Capital Improvement Program - Technology Initiative		600,000
Audit and Fiscal Services		111,400
Councilmanic Debt for Facilities		<u>1,065,945</u>
Net to Distribute		<u><u>\$ 1,918,755</u></u>

2007-2008 BUDGETED DISTRIBUTION

<u>Fund</u>	<u>Amount</u>	<u>Fund</u>	<u>Amount</u>
General	\$ -	Cemetery Improvement	\$ -
Lodging Tax	-	Park and Municipal Reserve	500,000
Street Operating	490,830	Off Street Parking Reserve	-
Cemetery Operating	5,000	Tour Dock	-
Parks Maintenance	-	Street Improvement	-
Recreation Revolving	-	General Capital Projects	394,174
Facilities Maintenance	-	Equipment Rental	75,000
Contingency	125,000	Information Technology	328,751
		Total All Funds	<u><u>\$ 1,918,755</u></u>



BUDGET FOCUS

Selected schedules and charts focusing on key facts,
issues and processes reflected in the 2007-2008 Budget



FUND BALANCE AND RESERVES

Reserves and fund balance are two important indicators of the City's fiscal health. Reserves represent "savings accounts" that are held to meet unforeseen budgetary needs ("general purpose reserves"). Some specialized reserves are dedicated by purpose and are held until an appropriate expenditure is needed ("special purpose reserves"). Fund balance includes both reserves and working capital. Working capital is needed within each fund to meet its cash flow needs.

The charts following this narrative summarize the changes in fund balance across all funds and the estimated balance in each reserve at the end of 2008. An analysis of the changes in fund balance is included with each section of the budget (i.e. General Government Operating, Water/Sewer Utility, etc.) in addition to the summary provided here. The analysis shows the 2008 delineation between reserved fund balance and working capital. The following narrative highlights the major reserve policy components as they are incorporated in the 2007-2008 Budget.

FUND BALANCE

Each fund begins the year with a beginning fund balance which may be comprised of: capital reserves, operating reserves, and unreserved working capital. As the year progresses the expenditures made from the fund and revenues received will change the fund balance. A minimum amount of fund balance should be maintained in each operating fund to meet cash flow needs and, if needed, as a means of meeting commitments when a revenue shortfall occurs. A reduction in fund balance during the biennium (unless it is planned) can be seen as a sign of fiscal stress – revenues are not adequate to meet expenses. Fund balance in excess of the amount needed for minimum cash flow purposes can be used to fund one-time expenses or to replenish or enhance reserves. Budgeted fund balances recognize all cash resources estimated to be available as of the end of the biennium.

GENERAL PURPOSE RESERVES

General purpose reserves are available to meet a wide variety of contingencies. They are funded by excess general purpose revenues, which have no restrictions on the public purpose for which they are spent. The utility funds have a companion set of reserves distinct from those in the General Government category.

General Operating Reserve

For the City's "Rainy Day" fund, the target is established by fiscal policy at five percent of the operating budget (excluding utility and internal service funds). Each biennium, the target amount will change proportional to the change in the operating budget. To maintain full funding, the increment between five percent of the second year of the prior biennium budget and the second year of the current biennium budget would be added or subtracted utilizing interest income and year-end transfers from the General Fund. It is a reserve to be used for unforeseen revenue losses and other temporary events. If the reserve is utilized by the City Council, the authorization should be accompanied by a plan for replenishing the reserve within a two to three year period.

Revenue Stabilization Reserve

The Revenue Stabilization Reserve was approved by Council in 2003 and was created by segregating a portion of the General Operating Reserve. The purpose of this reserve is to provide an easy mechanism to tap reserves to address temporary revenue shortfalls resulting from temporary circumstances (e.g. economic cycles, weather-related fluctuations in revenue). Council set the target at ten percent of selected General Fund revenue sources which are subject to volatility (e.g. sales tax, and utility taxes). The Revenue Stabilization Reserve may be used in its entirety; however, replenishing the reserve will constitute the first priority for use of year-end transfers from the General Fund.

Contingency Fund

The Contingency Fund was established pursuant to RCW 35A.33.145 to “provide monies with which to meet any municipal expense, the necessity or extent of which could not have been foreseen or reasonably evaluated at the time of adopting the annual {biennial} budget.” State law sets the maximum balance in the fund at \$.375 per \$1,000 of assessed valuation. This reserve would be used to address unforeseen expenditures (as opposed to revenue shortfalls addressed by the Revenue Stabilization Reserve). The fund can be replenished through interest earnings up to the maximum balance or through the year-end transfer if needed.

General Capital Contingency

This reserve is available to fund general capital projects when the scope or cost of the project exceeds the budgeted amount. The target established by fiscal policy is ten percent of the funded six-year Capital Improvement Program (CIP) less utility projects. Funding is received from the General Fund year-end transfer and interest income. Use of the General Capital Contingency is secured through a request to Council. Typically, this reserve has covered changes in project scope or unanticipated costs that arose out of the bid process or unavoidable change orders. Council granted limited administrative authority to the City Manager to fund small project overruns (e.g. up to \$100,000 per year each for the general and utility capital reserves and up to \$25,000 for any single project).

Building and Property Reserve

This reserve is used for property purchases, building improvements and other property-related transactions. It has also been used as a general purpose reserve to fund Council-approved unanticipated expenditures.

Council Special Project Reserve

This reserve is available to the City Council to fund special one-time projects that were unforeseen at the time the budget was prepared. When the reserve is used, it is replenished from the General Fund year-end transfer.

SPECIAL PURPOSE RESERVES

Special purpose reserves are dedicated either by Council policy or by state or local laws that govern their use. Following are descriptions of a few of the larger and more important special purpose reserves.

Excise Tax Capital Improvement Reserve

There are two reserves in the Real Estate Excise Tax Capital Improvement Fund – one for the first quarter percent real estate excise tax (REET 1) and one for the second quarter percent real estate excise tax (REET 2). These cash balances must be kept separate due to the dedication of REET 2 to transportation capital projects. The REET 1 reserve is used primarily as a general CIP grant match reserve and/or for significant project scope changes. The target should be reviewed periodically against potential grants.

Equipment Rental Fund

The Equipment Rental Fund is one of two internal service funds. There are two capital reserves maintained in this fund. One relates to the replacement of vehicles and the other is for the replacement of 800 MHz radios. Vehicle replacement rates, based on the estimated useful life and replacement cost of each vehicle, are assessed monthly to each user department. The radio replacement reserve was funded previously via the year-end transfer from the General Fund; however, future funding will come from radio replacement rates which will be assessed in the year after a radio is replaced.

Information Technology Fund

The Information Technology Fund is the second internal service fund. There are two reserves within this fund. The Personal Computer (PC) replacement reserve in this fund is for the replacement of personal computers. PC replacement rates, based on the estimated useful life and replacement cost of each type of PC, are assessed monthly to each user department. The Technology Major Systems Replacement Reserve was initiated by Council in 2003 by reallocating a portion of the General Capital Contingency. The reserve will be used to fund

projected major system replacements that cannot be covered through the current CIP funding allocations. An initial amount of \$1 million was reallocated from the General Capital Contingency to start the reserve which will be funded in future years by replacement charges to department users.

Facilities Maintenance Fund

The Facilities Maintenance Fund accounts for the costs of maintaining and repairing City buildings. The fund operates much like an internal service fund whereby revenue to the fund is derived primarily from user charges to other funds. Two types of reserves are budgeted in this fund – an operating reserve and a sinking fund reserve. The operating reserve is set at \$550,000 (\$50,000 for each of the City's eleven facilities), and is used to pay for major, unanticipated repairs. It is replenished, if necessary, from the General Fund year-end transfer.

The sinking fund reserve is used to pay for each City facility's twenty-year life cycle costs related to the repair or replacement of major architectural, mechanical, and electrical components. A facilities sinking fund charge is assessed to each operating fund and is in addition to the annual facilities rental charge, which covers the basic annual maintenance costs for each facility. In 2001, a 20-year facilities life cycle analysis was completed to determine what the annual sinking fund charges should be for each facility. A significant gap was identified, which the Council decided to bridge over five years from 2002 through 2006 by implementing an "additional sinking fund charge" in 20% increments, supplemented by the General Fund year-end transfer. The 2007-2008 Budget realizes the completion of the phased-in plan with full sinking fund charges being assessed to each operating fund.



CITY OF KIRKLAND
CHANGE IN FUND BALANCE (Beginning 2005 to Ending 2008)
SUMMARY OF ALL FUNDS

	General Government		Utility			All Funds
	Operating Funds	Non-Operating Funds	Water/Sewer Utility	Surface Water Utility	Solid Waste Utility	
2005 Actual Beginning Fund Balance	17,180,944	45,253,063	14,882,843	2,170,798	765,913	80,253,561
<i>Reserved</i>	<i>10,244,934</i>	<i>26,294,608</i>	<i>3,739,969</i>	<i>526,441</i>	0	<i>40,805,952</i>
<i>Unreserved Working Capital</i>	<i>6,936,010</i>	<i>18,958,455</i>	<i>11,142,874</i>	<i>1,644,357</i>	765,913	<i>39,447,609</i>
Plus: 2005-06 Estimated Revenues	127,966,350	45,525,819	41,269,226	13,735,171	14,680,928	243,177,494
Less: 2005-06 Estimated Expenditures	123,973,511	38,651,331	41,124,787	10,613,935	14,614,141	228,977,705
Less: 2005-06 Amount Avail. for Year-End Transfer	532,545	0	0	0	0	532,545
2005-06 Estimated Ending Fund Balance	20,641,238	52,127,551	15,027,282	5,292,034	832,700	93,920,805
Less: Funding for Carryovers to 2007	3,183,478	13,825,568	3,653,506	1,268,427	0	21,930,979
Less: Funding for 2007-08 Service Packages	1,843,930	0	0	0	0	1,843,930
2007 Budgeted Beginning Fund Balance	15,613,830	38,301,983	11,373,776	4,023,607	832,700	70,145,896
Plus: 2007-08 Budgeted Revenues	136,916,827	35,723,314	43,730,784	15,600,339	16,230,170	248,201,434
Less: 2007-08 Budgeted Expenditures	139,625,385	36,724,273	42,518,906	14,565,612	16,024,372	249,458,548
2008 Budgeted Ending Fund Balance	12,905,272	37,301,024	12,585,654	5,058,334	1,038,498	68,888,782
<i>Reserved</i>	<i>10,104,415</i>	<i>33,642,615</i>	<i>4,035,040</i>	<i>1,197,059</i>	0	<i>48,979,129</i>
<i>Unreserved Working Capital</i>	<i>2,800,857</i>	<i>3,658,409</i>	<i>8,550,614</i>	<i>3,861,275</i>	<i>1,038,498</i>	<i>19,909,653</i>
Change in Fund Balance: Beginning 2005 to Ending 2008	(4,275,672)	(7,952,039)	(2,297,189)	2,887,536	272,585	(11,364,779)

Notes:

Change in Fund Balance depicts the effects of the current and coming year's financial transactions on available resources. A minimum level of fund balance must be maintained in each fund to assure adequate cash flow. In all cases, fund balance is at or above the minimum level. A negative change in fund balance is not necessarily a reflection of a problem. Rather, it typically reflects the use of accumulated resources for planned expenditures (e.g. use of bond proceeds for capital projects).

Greater detail regarding the change in fund balances can be found in the following sections: General Government Operating Funds, General Government Non-Operating Funds, Water/Sewer Utility Funds, Surface Water Utility Funds and Solid Waste Utility Fund.



**CITY OF KIRKLAND
ESTIMATED FUND BALANCE / RESERVES
2007-2008 BUDGET WITH TARGETS**

General Purpose Reserves

Fund/Reserve	2008 Est. Ending Bal	Current Target	Restriction Type	Allowable Uses	Source of Funds
Contingency	3,193,826	3,698,455	Legal	Reserve for unforeseen expenditures	Interest income and year-end transfer from General Fund
General Capital Contingency	3,312,834	5,822,280	Policy	Reserve for unforeseen changes in project cost or scope	Year-end transfer from General Fund
Park and Municipal Reserve					
General Operating Reserve (Rainy Day Reserve)	2,712,836	3,134,779	Policy	Reserve for unforeseen revenue losses and other temporary events	Interest income and year-end transfer from General Fund
Revenue Stabilization Reserve	2,082,380	2,143,422	Policy	Revenue Stabilization Reserve to smooth revenue receipts through economic cycles	Initial funding from General Operating Reserve; future funding from General Fund contributions
Building and Property Reserve	1,816,124	TBD*	Legal	Reserve for building improvements and property related transactions	Street vacations, property sale proceeds and year-end transfer from General Fund
Council Special Projects	309,960	250,000	Policy	Reserve for unanticipated Council special projects	Year-end transfer from General Fund
Total General Purpose Reserves	13,427,960				

Restricted Fund Balance

Fund/Reserve	2008 Est. Ending Bal	Current Target	Restriction Type	Allowable Uses	Source of Funds
Excise Tax Capital Improvement					
REET 1	6,673,678	1,435,000	Legal	Parks projects, Park debt service, & Transportation projects	1st quarter percent Real Estate Excise Tax (REET 1)
REET 2	6,067,898	4,959,200	Legal	Transportation projects and CIP Transp. grant match	2nd quarter percent Real Estate Excise Tax (REET 2)
Equipment Rental					
Vehicle Reserve	5,907,138	5,907,138	Policy	Vehicle replacement reserve	User charges to other funds
Radio Reserve	36,000	TBD*	Policy	Radio replacement reserve	User charges to other funds
Information Technology					
PC Replacement Reserve	453,670	453,670	Policy	PC equipment replacement reserve	User charges to other funds
Major Systems Replacement Reserve	666,500	1,025,000	Policy	Reserve for replacement of major technology systems	Initial funding from General Capital Contingency; future funding from user charges to other funds
Facilities Maintenance					
Operating Reserve	550,000	550,000	Policy	Reserve for maintenance and repair of City buildings	Year-end transfer from General Fund
Sinking Fund	1,439,951	1,439,951	Policy	20 year Facilities Life Cycle costs	User charges to other funds
Impact Fees					
Roads	1,984,145	N/A	Legal	Transportation capacity projects	Road impact fees and interest income
Parks	920,086	N/A	Legal	Park capacity projects	Park impact fees and interest income
Park Bond Reserve	502,916	N/A	Legal	Park projects identified with Park bond issue	Park bond funds reserved for future park projects
Cemetery Improvement	476,401	N/A	Legal	Reserve for cemetery improvements and debt service	75% of cemetery lot sales

*To Be Determined (TBD) - the targets for these reserves are under review.

**CITY OF KIRKLAND
ESTIMATED FUND BALANCE / RESERVES
2007-2008 BUDGET WITH TARGETS**

Restricted Fund Balance (Continued)

Fund/Reserve	2008 Est. Ending Bal	Current Target	Restriction Type	Allowable Uses	Source of Funds
Off-Street Parking	29,564	N/A	Legal	Reserve for parking improvements in the Central Business Dist.	Fees collected in lieu of parking
Tour Dock	73,211	N/A	Legal	Dock repairs	Tour dock fees
Street Improvement	1,121,498	N/A	Legal	Street improvements	Gas tax, sales tax and transfers from the surface water utility
Firefighter's Pension					
Pension Benefits	535,000	535,000	Legal	Pre-LEOFF 1 firefighters' pension benefits	Fire insurance premium tax
Long-Term Care Benefits	824,860	568,000	Legal	Pre-LEOFF 1 firefighters' long-term care benefits	Fire insurance premium tax
Park and Municipal Reserve					
Litigation Reserve	20,004	50,000	Policy	Anticipated litigation expense for outside counsel	Year-end transfer from General Fund
Labor Relations Reserve	51,255	N/A	Policy	Anticipated labor negotiation expenses	Year-end transfer from General Fund
Police Equipment Reserve	26,519	N/A	Legal	Narcotics investigations	Seized property
LEOFF 1 Police Reserve	625,754	855,000	Policy	Police long-term care benefits	Year-end transfer from General Fund
Facilities Expansion Reserve	2,000,000	N/A	Policy	Public Safety building	Interest income and year-end transfer from General Fund
Development Services Reserve	1,290,831	1,290,831	Policy	Revenue and staffing stabilization through economic cycles	Development services revenues
Tree Ordinance	13,750	N/A	Legal	Replacement trees program	Tree planting fee-in-lieu and tree removal fines
Donation Accounts	143,859	N/A	Legal	Purpose donation was given	Donations
Revolving Accounts	148,606	N/A	Policy	Purpose which the fee or reimbursement was collected	Fees and reimbursements
Total Restricted Fund Balance	32,583,095				

Water/Sewer Utility

Fund/Reserve	2008 Est. Ending Bal	Current Target	Restriction Type	Allowable Uses	Source of Funds
Operating Fund					
W/S General Operating Reserve	1,511,245	1,511,245	Legal	Rate stabilization reserve	Utility rates
Non-Operating Funds					
Debt Service Reserve	820,155	820,155	Legal	Reserve for debt service	Utility rates
Water/Sewer CIP Contingency	1,703,640	1,703,640	Legal	Reserve for unanticipated changes in Water/Sewer CIP project cost or scope	Available cash transfers and connection fees
Construction Reserve	8,738,358	N/A	Policy	Utility capital projects	Connection fees and interest
Total Water/Sewer Utility	12,773,398				

**CITY OF KIRKLAND
ESTIMATED FUND BALANCE / RESERVES
2007-2008 BUDGET WITH TARGETS**

Surface Water Utility

Fund/Reserve	2008 Est. Ending Bal	Current Target	Restriction Type	Allowable Uses	Source of Funds
<i>Operating Fund</i>					
Surface Water General Operating Reserve	320,299	320,299	Legal	Available fund balance for operating reserve	Surface Water fees
<i>Non-Operating Funds</i>					
Surface Water CIP Contingency	876,760	876,760	Legal	Reserve for unanticipated changes in Surface Water CIP project cost or scope	Available cash transfers
Surface Water Capital Reserve Transportation Project Related	1,417,365	N/A	Policy	Surface Water capital projects	Interest income & depreciation transfers
Surface Water Capital Reserve Surface Water Project Related	1,240,563	N/A	Policy	Surface Water capital projects	Interest income & depreciation transfers
Total Surface Water Utility	3,854,987				
TOTAL ALL FUNDS	62,639,440				

CITY OF KIRKLAND POSITION SUMMARY

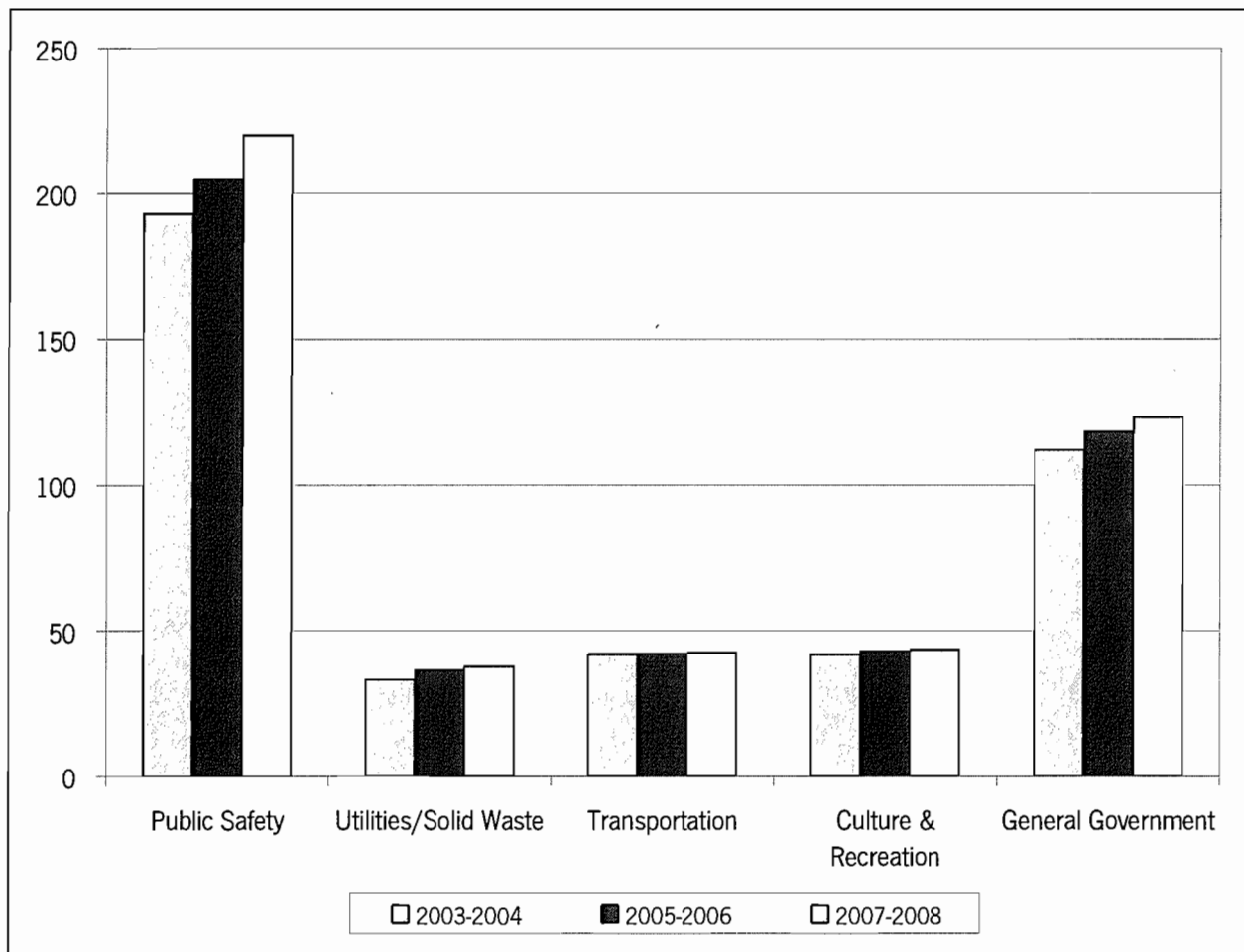
By Fund

Fund/Department	2003-2004	2005-2006	2007-2008
<i>General Fund:</i>			
City Council	7.00	7.00	7.00
City Manager's Office	17.63	19.48	21.24
Human Resources	5.56	7.10	7.10
City Attorney's Office	3.00	4.00	4.00
Parks and Community Services	32.15	32.28	32.78
Public Works	26.39	26.65	26.95
Finance and Administration	28.42	28.45	29.50
Planning & Community Development	21.62	22.56	23.56
Police	96.50	105.50	110.50
Fire and Building	96.53	99.53	109.53
Total General Fund	334.80	352.55	372.16
<i>Other General Gov't Operating Funds:</i>			
Lodging Tax Fund	0.11	0.11	0.25
Street Operating	15.45	15.40	15.40
Parks Maintenance	6.50	7.50	7.50
Recreation Revolving	3.25	3.25	3.25
Facilities Maintenance	5.90	5.90	5.90
Equipment Rental	5.50	5.50	6.00
Information Technology	17.25	18.25	18.75
Total Other General Gov't Operating Funds	53.96	55.91	57.05
<i>Utility Funds:</i>			
Water/Sewer Operating	20.10	20.31	20.71
Surface Water Management	13.16	15.19	15.39
Solid Waste	0.00	1.05	1.65
Total Utility Funds	33.26	36.55	37.75
Total Positions	422.02	445.01	466.96

CITY OF KIRKLAND POSITION SUMMARY

By Program

Program	2003-2004	2005-2006	2007-2008
Public Safety	193.03	205.03	220.03
Utilities/Sanitation	33.26	36.55	37.75
Transportation	41.84	42.05	42.35
Culture & Recreation	41.90	43.03	43.53
General Government	111.99	118.35	123.30
Total Positions	422.02	445.01	466.96



CITY OF KIRKLAND PAYMENTS TO OTHER AGENCIES

Approximately \$21.4 million, or 10.8 percent, of the City's total 2007-2008 budget for general government operations, water/sewer operations, surface water management operations, and solid waste operations is paid to other governmental agencies or other outside vendors. The City either absorbs annual increases in payments to other agencies through growth in general revenue sources (e.g. Air Pollution Control) or passes them along to users through charges for service (e.g. Sewage Treatment and Water Purchases).

Service	Agency	2005-2006 Budget	2007-2008 Budget
Sewage Treatment ¹	King County	8,678,173	9,615,400
Alcohol Treatment ¹	King County	20,922	21,562
Air Pollution Control ¹	King County	50,034	56,261
Prisoner Expense ¹	King County, Yakima County, & Cities of Enumclaw and Issaquah	945,434	1,017,591
Marine Patrol	King County	78,000	91,400
Hazardous Waste Fee ¹	King County	340,000	459,200
Solid Waste "Tipping" Fees ¹	King County	3,702,896	4,038,319
Election Costs ¹	King County	227,125	247,245
Subtotal King County		14,042,584	15,546,978
Water Purchase ¹	Cascade Water Alliance	5,159,507	5,743,564
State Purchasing Contract ¹	State of Washington	4,000	4,000
Financial Audits ¹	State of Washington	103,000	103,000
Total Payments to Other Agencies		19,309,091	21,397,542
Percent Increase (Decrease) from Prior Biennium			10.82%

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

CITY OF KIRKLAND

HUMAN SERVICES FUNDING

Funding for Human Services is incorporated into a variety of operating and non-operating budgets. Housing & Community Development Block Grant funding is now allocated through the King County Cities Consortium program. **It is important to note that a number of changes in program structure between 2005-2006 and 2007-2008 make direct comparison difficult.** The following summary provides an overview of Human Services funding recommended for 2007-2008.

Program/Funding Source	2005-2006 Budget	2007-2008 Budget
Housing & Community Development Block Grant (CDBG) ¹	227,279	0
Human Services Program (includes per capita allocation)	861,504	1,019,906
Human Services Roundtable and Other Programs	46,000	26,750
Human Services Coordination	103,125	130,041
Senior Center Operations	817,490	855,843
King County Alcohol Treatment Programs	20,922	21,562
A Regional Coalition for Housing (ARCH)-Operations ²	483,500	274,000
Community Youth Services Program/Teen Center	644,276	676,398
Teen Activity Grants	20,000	20,000
Domestic Violence Programs	508,096	531,333
Police School Resource Program	364,365	203,470
Senior Discounts for Utility and Garbage Services	73,362	73,629
Kirkland Cares (assistance with utility bills from utilities customer donations)	10,000	10,000
Specialized Recreation Program	20,000	20,404
Recreation Class Discounts	1,750	2,000
Hopelink Rent Subsidy ³	229,008	18,000
Total Human Services Funding	4,430,677	3,883,336

TOTAL SPENDING PER CAPITA 2005-2006: \$96.80

TOTAL SPENDING PER CAPITA 2007-2008: \$82.31^{1,2,3}

¹ CDBG revenue has been used by the City to fund a variety of programs in the past. King County is now allocating these funds directly to human services agencies.

² The ARCH funding for 2005-2006 reflects the basic budget amount of \$99,500 and one-time service packages totaling \$384,000. The ARCH amount for 2007-2008 reflects the base budget amount of \$108,000 and one-time service package funding of \$166,000 for **2007 only**. The 2008 annual parity allocation will be considered at the mid-biennial review.

³ The 2007-2008 amount for the Hopelink rent reflects only a 6 month assistance assumption based on the relocation to the Rose Hill Utility Facility.

CITY OF KIRKLAND

SUMMARY OF LEGAL SERVICES

General legal counsel is provided by the in-house City Attorney's Office. By contract, a special legal counsel provides legal advice on selected land use and other matters to the City Council. Prosecution and public defender services are provided by outside attorneys through contracts with the City. In certain specialized matters, the City is represented by other outside counsel.

Legal Service	Budgeted Fund/Department	2005-2006 Budget	2007-2008 Budget	Percent Change
<i>General Legal Services</i>	General Fund/City Attorney	1,154,224	1,260,872	9.24%
<i>Litigation</i>	Non-Operating Funds (Outside Counsel for Litigation)	100,000	100,000	0.00%
Subtotal General Legal Services and Litigation		1,254,224	1,360,872	8.50%
<i>Public Safety Legal Services:</i>				
Prosecution	General Fund/City Attorney	363,000	366,000	0.83%
Public Defender	General Fund/City Attorney	256,200	260,000	1.48%
Subtotal Public Safety Legal Services		619,200	626,000	1.10%
Total All Legal Services		1,873,424	1,986,872	6.06%

CAPITAL IMPROVEMENT PROGRAM (CIP)

CIP POLICIES AND PROCESS

The City will establish and implement a Comprehensive Six-Year Capital Improvement Program that will be prepared and formally adopted by the Council biennially during an odd-numbered year. In the "off" years, however, the CIP can be modified as needed by Council based on changing priorities or new funding source opportunities.

A capital improvement is defined as the construction of new facilities; the expansion, large scale renovation, or replacement of existing facilities; the acquisition of land; or the purchase of major pieces of equipment, including major replacements funded by the Equipment Rental Fund or those that are associated with newly-acquired facilities.

A capital improvement must meet all of the following criteria:

- It is an expenditure that can be classified as a fixed asset.
- It has an estimated cost of \$50,000 or more (with the exception of land).
- It has a useful life of ten years or more, with the exception of certain equipment that may have a shorter life span.

PROCESS FOR DEVELOPING THE CIP

All capital improvement projects are subject to a biennial review and revision based upon community needs, priorities, and the availability of funding. The process reflects the need to periodically re-assess and re-prioritize the City's capital needs and includes the following steps:

- Each department is responsible for planning and prioritizing all capital project proposals within their scope of operational responsibility. Departments are provided broad funding guidelines and prepare descriptions of new projects to be considered, revisions to existing

projects, and a progress report for current year projects.

- The City Manager reviews each department's requests and a recommended Preliminary Capital Improvement Program is prepared for consideration by the City Council.
- The City Council holds a public hearing to gather citizen comment and revises and/or adopts the CIP recommendation.
- The capital improvement budget for the first and second year of the adopted CIP are again formally adopted by the City Council as part of the mid-biennial budget review process.
- During the first year of the adopted CIP (an even-numbered year) an update is prepared by the departments and adopted by the Council to recognize any project modifications resulting from new funding opportunities, changing priorities and project timing changes. The second and third year of the revised capital improvement budget are incorporated into and adopted with the coming biennial budget.
- The City Manager and City departments implement the first two years of the CIP, providing periodic progress reports and updates to the City Council.

FUNDING

There are four major categories of funding for CIP projects: current revenue, reserves, debt and external sources.

Current Revenue is the estimate of annual new revenue that will be received from existing, authorized revenue sources. Certain revenue streams historically have been dedicated to funding the CIP either through legal mandate or Council policy. The funded projects in the CIP acknowledge those funding sources and also utilize reserves to some extent.

Legal restrictions apply to some revenue sources. Gas tax is dedicated to transportation purposes. Utility connection charges and utility rates are restricted to utility projects. The first quarter percent real estate excise tax is restricted to capital purposes, but can be utilized for almost any category of capital projects (except computer equipment). The second quarter percent real estate excise tax is designated for transportation capital improvements. Road impact fees are dedicated to transportation capital improvements that provide new capacity. Park impact fees are likewise dedicated to park purposes.

Reserves are cash resources that accumulate from prior years and are derived from a variety of revenue sources. The CIP utilizes reserves to a limited extent to fund projects. Although use of reserves is always an option to supplement annual revenue streams, it is a one-time solution using a finite resource. Reserves should be used to address short term or time-limited funding deficits.

Debt represents a commitment to repay over a long period of time. Debt can take a number of forms including voter-approved general obligation bonds, councilmanic (non-voted) bonds, and utility revenue

bonds. The City also has been awarded low interest loans from the State's Public Works Trust Fund that have an interest rate of one to three percent, depending on the amount of the City's matching funds.

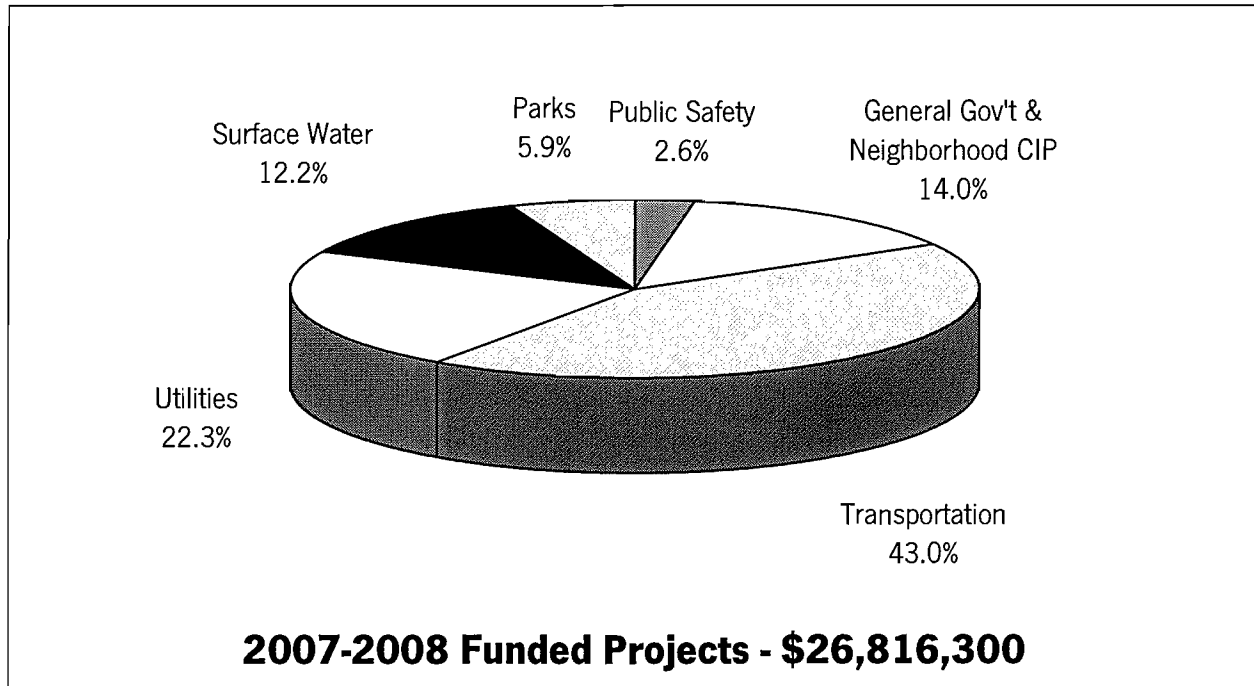
External Sources are primarily grants, but could include contributions from the private sector or other governmental agencies.

Some capital projects generate future operating costs that are considered when the Council reviews the CIP. Operating costs are listed in the detailed project summaries of the CIP. New operating costs for 2007-2008 that are related to completed CIP projects are highlighted in each department's summary. Projects approved for 2007-2008 are included in the General Government and Utilities non-operating sections of this document. Estimated operating impacts are also included in the summary of 2007-2008 projects.

The following table summarizes the annual funding sources for the six project categories as adopted in the Revised 2006-2011 CIP:

Annual Current Revenue (in 1,000s of dollars)								
Revenue Source	Transportation	Surface Water/Transp.	Surface Water	Utilities	Parks	Public Safety	General Gov't*	Total
Gas Tax**	511							511
Sales Tax	270						500	770
Utility Connection Charges***				770				770
Utility Rates***		1,050	1,388	1,615			134	4,187
Real Estate Excise Tax 1**	500				700			1,200
Real Estate Excise Tax 2**	1,200							1,200
Interest Income						250	550	800
Impact Fees**	600				75			675
Total	3,081	1,050	1,388	2,385	775	250	1,184	10,113
* General Government section includes the Technology and Facilities categories and the Neighborhood Connection program.								
** Indicates revenue sources that are legally restricted for capital purposes.								
*** For utility capital purposes only; utility reserve funding in General Government category is for utility portion of GIS project.								

**CITY OF KIRKLAND
CAPITAL IMPROVEMENT PROGRAM
2007-2008 Expenditures**



The City of Kirkland Capital Improvement Program (CIP) is a six-year plan that addresses construction, repair, maintenance, and acquisition of major capital facilities and equipment. It reflects the collective efforts of the City to plan for capital improvements for transportation, utilities, parks, buildings, and equipment. The goals of this planning process are to protect the City's investment in infrastructure and to build new capacity to meet the needs of a growing community. The City's CIP is organized into six project areas:

TRANSPORTATION includes improvements to streets, sidewalks, intersections, and non-motorized facilities.

SURFACE WATER MANAGEMENT includes improvements to the City's surface water management system.

UTILITIES includes maintenance, replacement, and new capacity improvements for the City's water and sanitary sewer systems.

PARKS includes projects for the acquisition, development, repair, and replacement of park facilities and equipment and improvements to the Kirkland Cemetery.

PUBLIC SAFETY includes buildings and equipment to support the City's police, fire, and emergency management functions.

GENERAL GOVERNMENT includes improvements that are not specific to the other areas and benefit all (or several) functions. This section also includes the Neighborhood Connection CIP program which includes small capital projects requested by Kirkland citizens to meet a specific need in their neighborhood.