



CITY OF KIRKLAND
Department of Finance & Administration
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MEMORANDUM

To: Kurt Triplett, City Manager

From: Michael Olson, Director of Finance and Administration
Tom Mikesell, Financial Planning Manager

Date: May 17, 2018

Subject: CITY COUNCIL RETREAT – FINANCIAL UPDATE

The purpose of this memo is to provide information in preparation for the 2019-2020 budget process, including: a recap of the year-to-date 2018 financial results; a brief overview of known mid-year budget adjustments on the June 19 regular meeting agenda; an update to the "Price of Government"; the 2019-2024 financial forecast; and an update to the "Kirkland Quad".

FINANCIAL STATUS

The Financial Management Report (FMR) provides a review of revenue and expenditure performance for the quarter ending March 31, 2018 (**Attachment A**) and provides more detailed information on economic conditions and financial performance. Overall, financial conditions in the first quarter of 2018 were positive, with revenue growth particularly in areas related to development, including development fees and contracting sales taxes and expenditures are below budget expectations. The second quarter report should be available in mid-August.

The April dashboard report provides high level monitoring of the General Fund revenues and expenditures status and a few key revenue and expenditure indicators that are especially important to watch. The following are a few highlights from the April dashboard report (**Attachment B**):

- Total **General Fund revenues** were at 38.6 percent of the budget through the end of April, one third of the way through the year. Key revenues, including sales tax, property taxes, and development fees are all ahead of last year and budget projections. This growth more than offset poor performance in Utility Taxes, which lagged the same period last year by 3 percent due to a number of factors including warmer winter weather depressing electric and gas usage, and continuing downward trends in Telephone and Cable Utility tax collections.
- Overall, **General Fund expenditures** are consistent with budget projections with 33.1 percent of budget spent through April. This is largely because salaries and benefits make up a large portion of general fund expenditures and these costs were slightly below budget through the first third of 2018.

The April sales tax memo (**Attachment B**) includes an analysis of sales tax revenue trends by business sectors and compares monthly and year-to-date data to last year. Year-to-date revenue is up 5.3 percent compared to the same period in 2017, with positive growth led in dollar and percentage terms by the Contracting sector, which grew 14.7 percent. Year-to-date results show that the multi-year strength in contracting continues, but at a lower pace. General Merchandise/Miscellaneous was the second largest contributor to growth, due partially to easier comparisons with the prior year, now that displaced business activity during construction at the Village at Totem Lake and Kirkland Urban projects shows in both 2017 and 2018.

MID-YEAR BUDGET ADJUSTMENTS

At the June 19 City Council meeting, the Council will be considering mid-year budget adjustments to adjust appropriations to reflect unanticipated revenues that have been identified that may be expended, recognize positions, projects, or programs authorized since the mid-biennial budget amendment, and incorporate housekeeping adjustments.

Notable mid-year adjustments are summarized as follows (further detail on each adjustment will be included in the June 19 Council meeting packet; final dollar amounts for the adjustments are still under review):

Council Directed/Other Requests and Previously Approved Adjustments – This category includes any additional recommended appropriation changes or uses of reserves subsequent to the December mid-biennial budget adjustments, including formal adoption of previously approved Council actions (fiscal notes, etc.) in the budget ordinance. These potential adjustments include:

- Recognize a state grant for modernization work at the Kirkland Performance Center;
- Use additional monies from the Major Systems Reserve to fund enhancements to the Customer Relationship Management System project;
- Use monies from the Off-Street Parking Reserve to make needed structural repairs at the Library Parking Garage based on the recent building assessment;
- Use of reserves to fund the Parks Manager Position;
- Increased backfill support for Project 12, the Finance/Human Resources System implementation;
- Recently approved Transportation program staffing increases, including:
 - Temporary increase in in the Engineering Program assistant staffing level due to increased regional demands for transportation planning efforts, funding with increased parking fee revenues;
 - Addition of Transportation Strategic Advisor position, lasting through May 2021, to manage high profile transportation projects, funded from General Fund balances;
 - Temporary Transportation Program Coordinator to support the Community Van project, demand management, and commute trip reduction programs, split funded with contributions from King County Metro and development reserves;
 - Temporary Transportation Engineer, to assist in planning, implementation and operation of Kirkland’s traffic signal system, funded with development reserves and General Fund balances;
- Capital budget adjustments, including:
 - Funding to purchase the Office Max building for the Parks Maintenance Center;

- Acceptance of work adjustments for Surface Water, Utility and Transportation projects;
- Reimbursements from external agencies for Public Safety overtime expenses.

There may be additional requests that are not identified at this time. This will represent the third adjustment to the 2017-2018 operating budget. The final opportunity for budget adjustments will occur at the end of 2018.

PRICE OF GOVERNMENT UPDATE

One of the strategic anchors used in the 2017-2018 budget process was affordability, as indicated by the "Price of Government". The "Price of Government" concept is defined in the book of the same name by David Osborne & Peter Hutchinson. It is measured as revenues from taxes and fees to the government compared to the aggregate personal income level of the City's constituents, with the 'price' expressed in percentage terms. In general terms, the calculation is used to help define a band in which residents are willing to pay for government services and to provide a comparison over time. The typical range for local governments is between 5 percent and 6 percent.

Kirkland's Price of Government graph in the 2017-18 Budget Message reflected actual revenue data for 2007-2015, 2016 estimates, and the 2017-2018 adopted budget. The personal income data reflected actuals published by the U.S. Census Bureau (American Community Survey) for 2007-2015 and projections based on the Washington State Economic and Revenue Forecast Council personal income growth forecast.

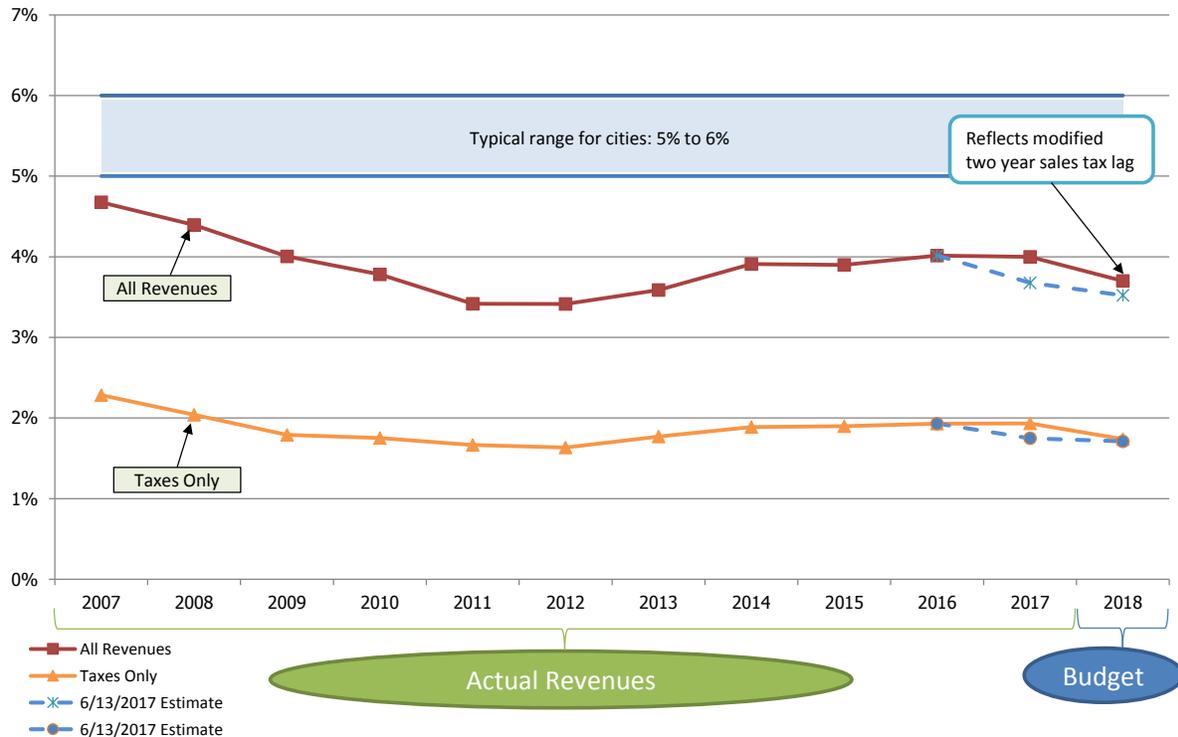
Staff has updated the Price of Government graph to include 2017 actual revenues and amended 2018 budgeted revenues. The update also relies on a new personal income growth forecasts from the State Economic and Revenue Forecast Council and new population growth forecasts from the Puget Sound Regional Council. The revised graph is provided on the following page.

Since the last update (shown in purple on the graph), the Price of Government in Kirkland has risen in 2017 and 2018 based on new revenues from improved economic performance, although the total revenues are still approximately 4 percent and "taxes-only" are below 2 percent of Aggregate Personal Income. This outcome is similar to the two previous budget cycles where the price of government increased modestly as actual revenue data was added to the model and as personal income estimates were revised.

The majority of the rise between the previous and current update is due to actual revenues exceeding the budgeted levels, particularly development fees, Real Estate Excise Tax (REET), and sales taxes. These increases are directly related to the high level of development activity over the past several years, however this can fluctuate significantly with economic cycles.

Personal income estimates for 2017 and 2018 declined due to slight downward revisions to population by the Puget Sound Regional Council and slight downward revision to per capita income forecasts by the revised projection of income growth from the Washington State Economic Revenue Forecast Council of 3.0 percent (previously 2.5 percent). This adjusted the denominator of the calculation downward, which also added to the upward revision in the trend lines.

The Price of Government
City of Kirkland, Washington
(Revenue as a percent of Aggregate Personal Income)



The change in the Price of Government over the past twelve months has happened without action on the part of the City, due to external forecast revisions and robust development revenue activity, which highlights that this broad metric should be viewed as a trend indicator taken in context with other measures, such as the quadrant chart and the forecast, both of which are updated below, rather than a single measure of financial stability in Kirkland.

According to Osborne and Hutchinson, when the Price of Government is significantly below 5%, residents of the community may be interested in investing in more services through higher taxes or fees. Kirkland’s Price of Government remains below 4%. The community’s willingness to invest in enhanced services seems to be supported by the 2018 Community Survey results. Staff will be discussing with the Council whether to consider higher fees or potential new taxes for additional public safety service levels in the second part of the budget retreat.

FINANCIAL FORECAST

Since the preliminary forecast provided in February, the baseline financial forecast has been updated to reflect actual revenues and expenditures in 2017 and to account for all budgeted on-going expenditures in 2018. As it is impossible to differentiate between ongoing and one-time expenditures in actuals, there is a clear drop in the expenditure and revenues trend lines moving from 2017 to 2018. The forecast ends in 2024, allowing for analysis of the impact of the expiration of the annexation sales tax credit in 2021.

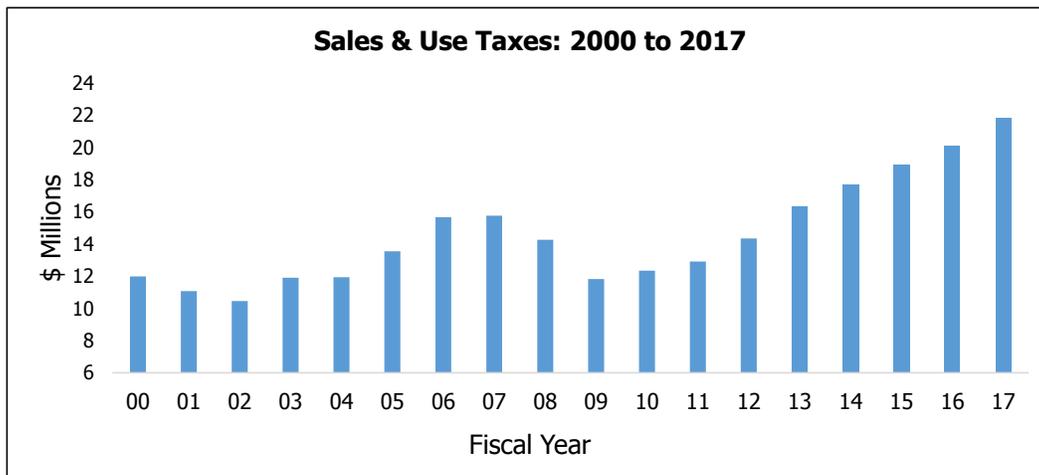
Annual revenues to the General Fund come from a large variety of sources, though four main categories represent the majority of collections, including Sales Taxes, Property Taxes, Utility

Taxes and Development Fees. The following discussion describes the share of total revenues for major categories, recent growth trends, and projections for the out-years of the forecast.

Revenues

Revenue projections in the forecast are based on 2017 actuals and 2018 ongoing revenue estimates. The following discussion provides background information for each major category in order of percentage of total General Fund ongoing revenue.

Sales taxes represented 21 percent of total General Fund revenues in 2017 and are the General Fund’s largest revenue category. As they are directly related to business activity, they are also the most sensitive to economic trends, as demonstrated by the following familiar graph.



The relatively mild national recession of 2001 was characterized by a peak-to-trough drop in sales taxes of 13 percent, with recovery of prior peak collection levels by 2003; the ‘Great Recession’ that began in December 2007 led to a more severe peak-to-trough drop of 25 percent, with revenues only reaching their prior peak six years later. The following chart displays what these drops would mean in terms of 2017 collection levels, and in relation to General Fund ongoing totals in 2018:

Recession	Peak-to-Trough	@ 2017 Collection Levels	Percent of General Fund
2001	13%	2,840,834	3.1%
2007-2009	25%	5,463,141	6.0%

Sales taxes are collected from a number of different business sectors, as demonstrated by the following table showing FY 2016 and FY 2017 collections through December.

City of Kirkland Actual Sales Tax Receipts

Business Sector Group	YTD		Dollar Change	Percent Change	Percent of Total	
	2016	2017			2016	2017
Services	2,688,805	2,855,163	166,359	6.2%	13.4%	13.1%
Contracting	3,443,988	4,574,948	1,130,960	32.8%	17.2%	20.9%
Communications	537,934	592,699	54,765	10.2%	2.7%	2.7%
Retail:						
Auto/Gas Retail	4,757,711	5,040,398	282,687	5.9%	23.7%	23.1%
Gen Merch/Misc Retail	2,078,161	1,905,109	(173,052)	-8.3%	10.4%	8.7%
Retail Eating/Drinking	1,595,199	1,656,619	61,419	3.9%	7.9%	7.6%
Other Retail	2,753,838	2,928,538	174,699	6.3%	13.7%	13.4%
Wholesale	957,368	1,018,484	61,116	6.4%	4.8%	4.7%
Miscellaneous	1,260,127	1,280,607	20,480	1.6%	6.3%	5.9%
Total	20,073,131	21,852,565	1,779,434	8.9%	100%	100%

The most volatile sales tax sector is contracting, which is dependent on a number of factors, including interest rates, buyer creditworthiness, labor and materials costs, growth, and availability of land. Since 2000, contracting year-over-year growth has ranged from a 45 percent year-over-year increase to a 36 percent decrease; this is in contrast to all other categories combined, which vary along a much narrower range of 13 percent increase to 15 percent decrease.



As shown in the previous table, in 2017 contracting taxes represented 64 percent of sales tax growth and 20.9 percent of total sales tax collections. This is Contracting's highest share of total collections since 2000, slightly above the level recorded in 2006, as demonstrated in the following graph.



Forecasting sales taxes is always challenging given inherent volatility. This is compounded when you are on the leading edge of the second longest economic expansion in history, with strong economic fundamentals set against a backdrop by regional and national political uncertainty. The fact that the most volatile sector comprises such a high portion of the recent collections base adds to the complexity.

The average growth rate for sales taxes from 2000 to 2017 was approximately 4 percent per year; since the 2007 peak, the average growth rate has been 3 percent. In light of the previously discussed uncertainty, while acknowledging that an economic recession is not assumed, the forecast for 2021 through 2024 uses 3 percent growth per year.

As recent Council policy has relied on a modified two-year lag, whereby the next two years budget amounts are based on the most recent estimate, the forecast assumes 0 percent growth in 2019 and 2020. An alternate assumption to grow 2019 and 2020 at 3 percent adds approximately \$7.9 million to 2019-2024 in the forecast, including increasing the 2019-2020 surplus by \$2 million and decreasing the projected 2023-2024 deficit by \$3 million.

Property Taxes represented 18.2 percent of total General Fund revenues in 2017 and are the General Fund's second largest revenue category. Annual growth in Property Taxes is limited by state law to the lesser of 1 percent or the value of inflation as measured by the Implicit Price Deflator plus the percentage growth in new construction in the prior year. This first portion of allowable growth is an optional increase that is subject to affirmation by the City Council.

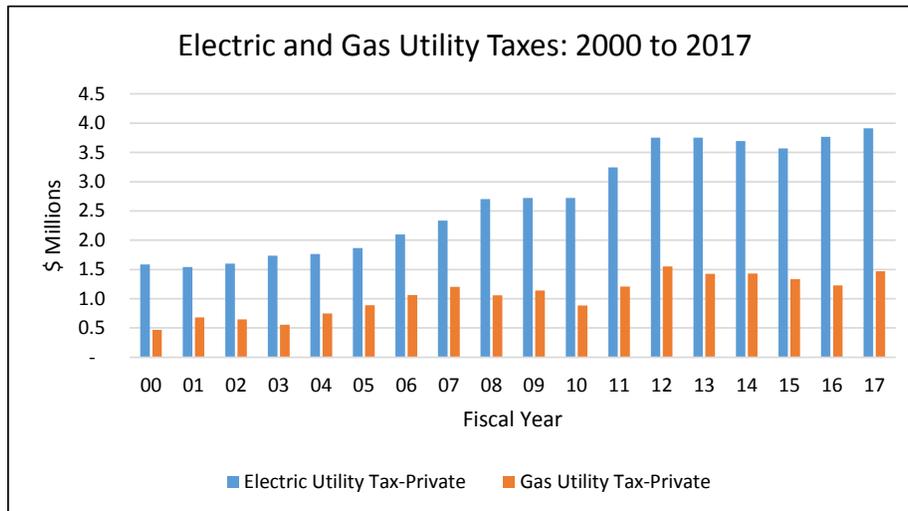
Since 2012, the new construction percentage has ranged from 0.62 percent in 2013 to 1.9 percent for 2018 taxes, with an average growth of 1.39 percent.

While Property Tax lacks the downside volatility of Sales Taxes, given limits on growth it also lacks significant natural upside growth potential, absent voter approval. Given these growth fundamentals, the forecast for 2019-2024 uses a growth rate of 2 percent per year; 1 percent for the optional percentage allowed by state law, and 1 percent for new construction growth, which is slightly more conservative than the recent average.

Utility taxes represented 14.7 percent of total General Fund revenues in 2017 and are the Fund's third largest revenue category. They are comprised of taxes on private utility revenues (gas, electric, cable, and telephone, representing roughly two-thirds of collections) and public utility revenues (water, sewer, surface water and solid waste, representing roughly a third of collections). Public Utility Taxes are generally stable as they rely on customer growth and Council-approved rate increases, with minor external market disruptions. Forecast growth is based on revenue amounts from the City's rate models, which are being developed this

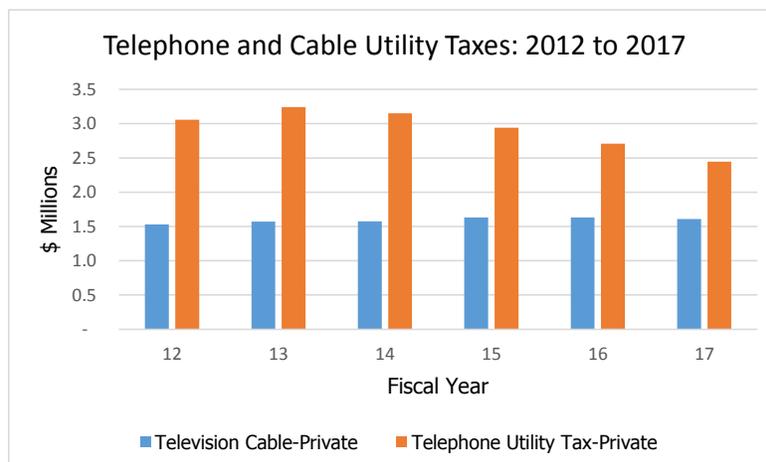
summer. Based on information currently available, Public Utility taxes are escalated by 2 percent per year in 2019-2024. These rates will be updated during biennial budget development when the underlying utility rate models are completed this summer.

Private Utility taxes, in contrast, are historically more volatile and subject to broader market influences. For example, Gas and Electric utility taxes are influenced by weather conditions, as well as natural resource supplies and prices. As shown in the graph, since 2012, the first full-year of data after annexation, Electric Utility Tax collections have ranged from \$3.6 million to \$3.9 million, with a slight upward trend developing over the last three years. Gas Utility Tax collections have ranged from \$1.55 million to \$1.46 million, with a gradual negative trend ending in an uptick in 2017.



For the forecast, Electric Utility taxes are escalated 2 percent per year and Gas Utility taxes are kept flat.

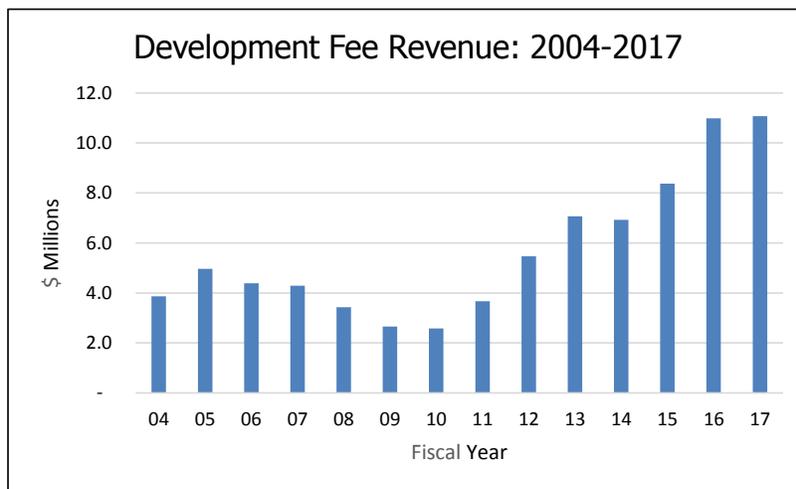
Finally, Telephone Utility taxes and Cable Utility Taxes are distinct in that they are subject to market competition that can be disruptive. For example, Telephone Utility tax collections have been decreasing since 2013, likely as a result of subscribers dropping their land lines in-lieu of cell phone-only services. Cable Utility taxes, while not decreasing, have remained flat in recent years. This category is at risk of downside pressure from 'cord-cutter' activity, as subscribers move from cable television packages to internet streaming services, which are not taxed. Trends since 2012 are shown in the following graph.



In light of these factors, in the forecast, Telephone Utility taxes are decreased by 10 percent per year from 2019 through 2024, and Cable Utility Taxes are decreased by 2 percent per year from 2019 through 2024.

Development Fees represented 11.7 percent of General Fund revenues in 2017, and in aggregate are the fourth largest category. They are unique among General Fund revenues in that they are restricted to cover costs supporting development permitting, review and inspection services. Any revenues in excess of expenditures are set aside in reserve to support future development services work.

Development fees have experienced rapid growth since the last recession, and are at historically high levels, as shown in the following graph.



In light of the clear volatility of this revenue stream, as well as the legal restrictions on use, the projected ongoing component is budgeted to support regular staffing in the Planning and Building and Public Works departments, and excess amounts in reserves are used on a one-time basis to support temporary staffing levels. As the forecast is designed to project ongoing resources and expenses, the forecast relies on the 2018 ongoing budgeted amount as the base, with a 2 percent per year growth projection for 2019-2024. Using this approach, it is not necessary to remove restricted resources from the annual surplus/deficit calculations in the out-years.

Internal Charges represented 7.2 percent of General Fund revenues in 2017, and represent the fifth largest revenue category. These revenues are charges to other City funds, including the Utilities, Parks and Street Funds, to pay for services provided by the General Fund, including Finance, City Management, Human Resources and Legal expenditures. As these charges are related to growth in General Fund expenditures, the underlying growth trend in General Fund expenditures, which ranges from 3 percent to 4 percent per year from 2019-2024, is used for the annual growth forecast.

Business Fee revenues include Business License Fees, the Revenue Generating Regulatory License (RGRL), and Franchise Fees, and in aggregate provided 7.6 percent of General Fund revenues in 2017. Average growth since 2012 has been 3.6 percent, however, this includes the impact of enhanced collection activity in the RGRL in 2016 and 2017, as well as the impact of the increase of the per FTE charge from \$100 to \$105 in 2017. For the 2019-2024 forecast, a more conservative rate of 1 percent per year is used, which is slightly higher than the Puget Sound Economic Forecaster projected annual job growth rate of 0.9 percent per year.

The **Annexation Sales Tax Credit (ASTC)** represented approximately 4 percent of General Fund revenues in 2017. The amount of the credit is based on an annual request to the

Department of Revenue (DOR) for revenues to cover the gap between revenues and expenses through State Fiscal Year 2021. The latest request, submitted to DOR in March of this year, was for \$3.935 million in State Fiscal year 2019. The forecast uses this figure in each year through 2020; for Fiscal year 2021 \$1,967,000 is used reflecting the end of the 10th year of the ASTC on June 30, 2021. It is important to keep in mind that the state sales tax credit is only available to fund any actual shortfalls between annexation revenues and expenses, so actual revenue and expenditure variance in the annexation area may ultimately reduce the amount of the credit in future years.

All Other Revenues include State and County Shared Revenues, Fines, Fees and Forfeitures, Recreation Revenues, Other Transfers-in and Miscellaneous Revenues. In aggregate, these have grown approximately 3-4 percent on average over the last five years, with growth in Criminal Justice Sales Taxes shared by King County, Recreation Revenues and Interest Earnings outpacing declines in Fines, Fees and Forfeitures. For the purposes of the forecast from 2019-2024, these are escalated by 2 percent per year, slightly lower than the recent trend.

General Fund Revenues

Category	2017 Actual	2018 Estimate
Retail Sales Tax	21,852,566	22,508,143
Property Taxes	18,341,690	18,762,395
Utility Taxes	14,833,295	13,925,306
Development Fees	11,782,160	6,354,976
Internal Charges	7,235,557	6,897,609
Business Fees	7,619,153	7,643,054
Annexation Sales Tax Credit	4,153,965	3,935,000
All Other Revenues	14,920,967	13,485,121
Total	100,739,354	93,511,604

Reserves are not used in 2019-2024.

The following table shows the impact to the forecast from a 1 percent change to the growth assumption in each of the above described categories in 2019. In subsequent years, the impact would be slightly higher, due to baseline growth.

Category	1% in 2019
Sales Taxes	225,081
Property Taxes	191,376
Utility Taxes	139,253
Development Fees	64,821
Internal Charges	71,542
Business Fees	84,628
Other	129,344

Village at Totem Lake and Kirkland Urban Incremental Revenues

Forecast figures shared at the February retreat included estimates of the potential revenue impacts from the Village at Totem Lake and Kirkland Urban developments, which are both currently underway and scheduled for opening prior to the expiration of the ASTC. This forecast includes those preliminary estimates, which are best viewed as rough preliminary estimates as neither project is complete.

Expenditures

Based on 2017 actuals and 2018 amended on-going budget, including all adjustments made as of December 2017.

Wages and Salaries represented 47 percent of total General Fund expenditures in 2017, net of significant one-time transfers, and are the largest category. Actual annual growth in wages since 2012 has averaged 5 percent, though that figure includes the impacts of staffing increases largely related to staffing-up for development activity, as well as other one-time position increases. One-time expenditures are excluded from the 2018 base year; going forward, the forecast assumes 3 percent growth in 2019 and 2020, and 4 percent growth in 2021 through 2024. The growth trend does not include new positions, but does include cost escalation increase, step progression, longevity amounts, and market adjustments.

Benefit expenses represented 19 percent of total expenditures in 2017. These costs consist of payments for health and other insurance contributions, state pension system contributions and contribution to the Municipal Employees Benefit Trust (MEBT).

- **Health, Dental, Life** insurance costs have undergone significant changes in the period from 2012 through 2017, including transition to the CDMH plan for a large subset of employees, the transition to the LEOFF Trust plan for IAFF members. As such, it is difficult to derive a reliable trend from past performance. The most recent long-term rate advice from our health plan actuary pointed to an escalator of 6.1 percent, which is used for the forecast. It is worth noting that renewal discussions are underway, the results of which may have an impact on this escalator assumption in the biennial budget process.
- **Pension system** contributions as a percent of salary have steadily increased from 6 percent in 2012 to 8 percent in 2017. City employees participate in either the Law Enforcement Officers and Fire Fighters plan (LEOFF), the Public Safety Employees Retirement System (PSERS) or the Public Employees Retirement System (PERS) depending on job type. The forecast continues the steady upward trend since 2017, adding an additional 0.4 percent per year to the rate as a proportion of salaries through 2024.
- **MEBT** expenditures have been consistently 5.5 percent of salary since 2012; this rate is continued through 2024.

Supplies, services & capital represented 19 percent of total expenditures in 2017; these amounts are grown at the projected rate of inflation in 2019-2024, which ranges from 2.5 percent in 2019 to 2.2 percent in 2024.

The table below shows the impact in 2019 to the forecast from a 1 percent change to the growth assumption in each of the above described categories. In subsequent years, the impact would be slightly higher, due to baseline growth.

Category	1% in 2019
Wages and Salaries	464,438
Benefits	201,874
Supplies Services and Capital	225,457

Operating Transfers include debt service payments, contributions to City sinking funds and capital projects, and scheduled reserve replenishments. Combined they represented 12.7 percent of General Fund expenditures in 2017, though this is skewed upwards due to significant one-time transfers, including a \$3 million transfer to the Fire Station 27 project in the capital

budget and a transfer of approximately \$1.5 million to the City Hall renovation project from the sales proceeds of the 505 Market St. building. In ongoing terms, transfers represent approximately 5.5 percent of the budgeted expenditures. The table below shows scheduled transfers from 2019 through 2024.

Transfers to Debt Service	2019	2020	2021	2022	2023	2024
Estimated Totem Lake Infrastructure Debt		487,886	487,886	487,886	487,886	487,886
City Hall Debt	469,894	471,179	467,215	468,126	468,789	469,202
PSB Debt (Facilities Expansion)	2,645,430	2,730,305	2,292,505	2,453,505	2,453,505	2,453,505
Build America Bonds (BABs) Credit	(511,700)	(498,667)	(483,142)	(472,160)	(472,160)	(472,160)
REET Offset	-	-	-	(180,250)	(180,250)	(180,250)
Subtotal Debt Service Transfers	\$ 2,603,625	\$ 3,190,703	\$ 2,764,464	\$ 2,757,107	\$ 2,757,770	\$ 2,758,183
Capital/Operating Transfers Out						
IT Sinking Fund	450,000	450,000	450,000	450,000	450,000	450,000
Fire Sinking Fund	375,000	375,000	375,000	375,000	375,000	375,000
Police Sinking Fund	125,000	125,000	125,000	125,000	125,000	125,000
Reserve Replenishment	928,143					
Retired Garage Debt/Walkable Kirkland	391,252	391,252				
Annexation Street Light Funding	285,000	285,000	285,000	285,000	285,001	285,002
CIT 0200 Geographic Information Systems	114,000	114,000	114,000	114,000	114,000	114,000
Emergency Generator CIP		60,000				
Subtotal Capital/Operating Transfers Out	\$ 2,668,395	\$ 1,800,252	\$ 1,349,000	\$ 1,349,000	\$ 1,349,001	\$ 1,349,002
Total Ongoing Transfers Out	\$ 5,272,019	\$ 4,990,955	\$ 4,113,464	\$ 4,106,107	\$ 4,106,771	\$ 4,107,185

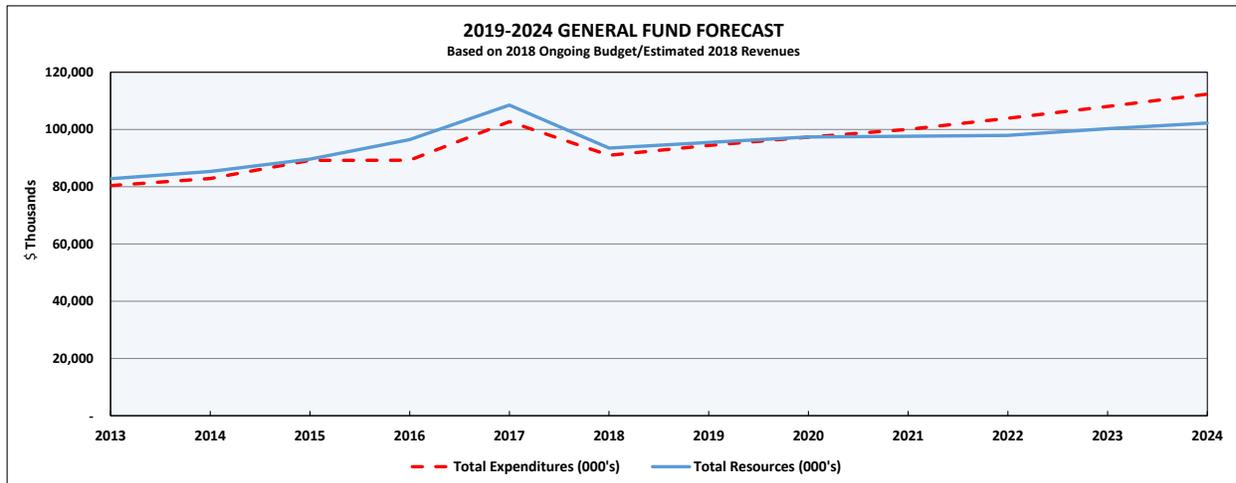
It is worth noting that this includes the 1 percent planned reserve replenishment in 2019, after which reserves will be at target. Also, an estimate of potential debt service related to Totem Lake infrastructure improvements is included; the actual timing of this debt issuance is dependent on completion of milestones in the development agreement. This assumes that the full obligation will be funded with debt proceeds.

The Village at Totem Lake and Kirkland Urban Incremental Expenditures

While the forecast includes preliminary estimates of the potential revenue impacts from the Village at Totem Lake and Kirkland Urban developments, it does not include any incremental expenditure impacts beyond the debt financing costs for infrastructure investments as previously described.

Updated General Fund Forecast

The graph on the following page shows the forecast through 2024 using the previously discussed assumptions.



	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Expenditures (000's)	80,419	82,884	89,203	89,251	102,740	90,988	94,449	97,302	100,006	103,938	108,056	112,361
Total Resources (000's)	82,804	85,338	89,662	96,451	108,527	93,494	95,478	97,405	97,636	97,921	100,266	102,272
Net Resources (000's)	2,385	2,454	459	7,200	5,787	2,506	1,029	103	(2,370)	(6,017)	(7,790)	(10,089)
Less Development Rev>Budget					(1,600)	-	-	-	-	-	-	-
Adjustment to Reserves/NY RF		(4,838)		(7,659)	-	-	-	-	-	-	-	-
Biennium Total (000's)	0	0	0	0	6,693	1,132	(8,387)	(17,879)				

As shown in the graph and table, in 2017 there is \$5.79 million one-time surplus, due to salary savings and revenues above budget, largely sales taxes and development fees. Of this amount, \$1.6 million is from restricted development fees that will be reserved for future development services work, leaving a net amount of approximately \$4.18 million. For 2018, approximately \$2.78 million in one-time resources is available, due predominantly to the impact of the two-year sales tax lag. This brings the biennial total of one-time resources to \$6.96 million.

A first call on these excess resources is the recently adopted temporary positions supporting regional transportation projects, as approved by Council on March 20, 2018. These positions relied on \$565,000 from the General Fund in 2019-2021. There are several critical capital items on the 2017-2018 City Work Plan (**Attachment D**) that will be discussed at the retreat that could be candidates for this funding. The top two priorities are full capital funding of New Station 24 at the Rite Aid site, and approximately \$1.75 million in tenant improvements to convert the recently purchased Office Depot building into the new Parks Maintenance Center.

In terms of forward looking projections portrayed in the graph, the drop in expenditures and revenues going from FY 2017 to FY 2018 is the impact of transitioning from 2017 actual amounts, which include one-time revenues and expenditures, to a 2018 ongoing baseline. Significant one-time revenues in 2017 included use of prior year cash from the two-year sales tax lag, higher-than-budgeted development revenues, and significant affordable housing in-lieu fees that are received from developers. One-time expenditures included capital transfers, ARCH payments, and one-time service package expenses. One-time expenditures and revenues are excluded from the 2018 baseline to allow for future projections using escalators without significant technical adjustments.

For the 2019-2020 Biennial Budget period, the two-year surplus is projected to be \$1.1 million. Due to the expiration of the ASTC in June 2021, beyond 2020 the projection becomes negative, with a \$17.9 million deficit projected for the 2023-2024 Biennium.

As mentioned at Council retreats in February and May of this year, there are a number of positions and expenditures that are perennially included in the budget, funded with excess prior year unobligated resources generated from salary savings and the two-year sales tax lag policy. The current list is included below.

Recurring Policy Issues	2017 OT	2018 OT
2018 Community Survey	-	30,000
4Culture Arts Sustained Support	8,000	8,000
ARCH Housing Trust Fund Addition	415,000	415,000
AWC Membership Dues Increase	-	1,531
CIP Outreach Outreach Coordinator	67,090	67,509
Communications Staffing	45,613	46,881
Community Programs and Events	64,000	48,000
Commute Trip Reduction Enhancements-ORCA	43,125	86,250
Commute Trip Reduction Incentives - Outside Businesses	-	60,000
Constituent Relationship Management (CRM)	-	55,000
Contract Jail Costs	-	250,000
Council work program - Emergency Prep Coordinator	-	44,422
Court Security	111,768	108,441
Eastside Timebank Operating Support	3,000	3,000
Employee Bus Pass Adjustment	5,750	11,500
Engineering Program Assistant	49,223	49,508
Grant Support for Capital Engineering	30,000	30,000
Human Services Commission	4,164	6,199
Human Services Option 3	85,430	87,139
Innovation Internships	-	65,887
Jail Administration	85,719	82,999
Jail Administration Electronic Home Detention	10,000	10,000
Kirkland Performance Center (KPC) Operating Support	50,000	50,000
Leadership Eastside Leadership Enrichment Program	12,000	12,000
Learning Management System LMS	13,011	13,011
Monetary Recovery - Pilot Program	5,000	5,000
Neighborhood Services Matching Grant -One-time 30 percent Increase	5,101	5,101
Neighborhood Traffic Control Coordinator	67,090	67,509
Police Officer Over Hire	-	68,613
State Legislative Advocacy Services	60,000	60,000
Supplemental Human Services Grant Funding	84,865	84,865
Temporary Code Enforcement Officer	-	124,766
Temporary HR Analyst	34,439	35,053
Temporary Police Support Associate	83,674	81,859
Transportation Planner	128,603	135,055
WCIA Training for Fire Department Supervisors	-	13,000
Wildland Equipment and Training	-	39,755
Senior Applications Analyst (IT Fund)	178,923	159,466
GIS Analyst for Lucity Support (IT Fund)	103,758	140,025
Grand Total	1,854,346	2,662,344

These costs are not included in the baseline forecast, and if included as ongoing expenditures would shift the 2019-20 surplus projection to a \$3.5 million deficit, and would increase the 2023-2024 biennial deficit to approximately \$22.5 million.

The need to take specific action to balance the budget in the coming biennium has existed since the late 1990's due in part to the impacts of voter-approved initiatives and economic conditions.

The table on the following page summarizes the major actions that the City has taken in prior years to balance the budget.

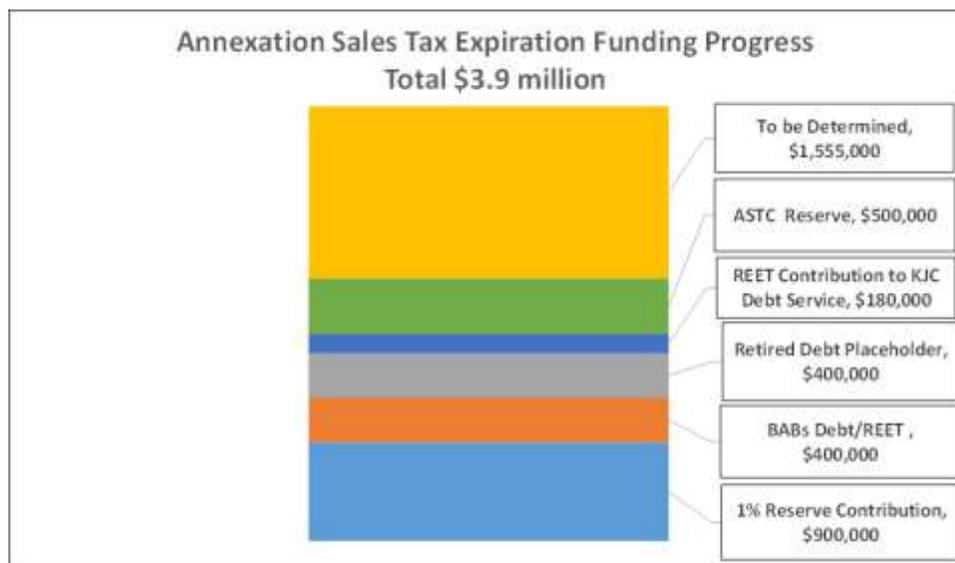
Summary of Budget Balancing Actions

Strategy	Annual Budgets							Biennial Budgets						
	<99	99	00	01	02	03	04	05-06	07-08	09-10	11-12	13-14	15-16	17-18
New Revenue Source														
Surface water management fee (w/increases)	✓							✓			✓		✓	✓
Revenue generating reg. license fee (w/incr.)						✓				✓				✓
Surface water utility tax					✓									
Cost of service interfund charge/updates	✓								✓	✓				
EMS Transport Fee											✓			
Levy Lid Lifts						✓						✓		
Increased Tax Rate or Fee														
Increased property tax rate	✓		✓			✓	✓	✓	✓	✓	✓	✓	✓	✓
Increased utility tax rate						✓		✓		✓				
Increased parking fines			✓		✓									
Increased development fees		✓	✓		✓				✓			✓	✓	✓
Increased other fees										✓	✓			✓
Change to Sales Tax Assumptions														
Reduced CIP allocation			✓							✓				
Reduced sales tax lag to 1 year*								✓	✓	✓	✓	✓		
Use of One-time/Time Limited Revenue Sources														
Sales tax audit proceeds							✓							
Interest income								✓						
Annexation Sales Tax Credit											✓	✓	✓	✓
Planned Use of Reserves														
Rainy Day Reserve					✓	✓	✓							
Rate Stabilization Reserve									✓					
Development Services Reserve									✓	✓	✓			
Expenditure Reductions														
Non-labor Expenditure Reductions					✓	✓	✓			✓	✓	✓		
Workforce/Positions Reductions										✓	✓	✓		
Furloughs										✓				
Fixed Rate or No Cost of Living Adjustment											✓	✓	✓	✓
Restructure Medical Benefits											✓		✓	
Other Strategies														
Reduced budgeted benefit rate to citywide avg					✓			✓						
Reduction in state retirement rates					✓					✓				
Efficiencies	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

* Restored use of a modified 2-year lag for sales tax in 2015-2016, a conservative approach to help with future budget balancing.

The impact of the expiration of the Annexation Sales Tax Credit (ASTC) in 2021 can be seen in the final four years of the projection. Measures that have been taken to help the City adjust to the revenue reduction include:

- The overall non-voted general fund debt service, including the bonds used to finance the Public Safety Building, decreased by \$450,000 in 2014 and by another \$450,000 in 2021. Funds freed up from these decreases are intended to offset the loss of the ASTC upon expiration and should not be re-appropriated to other on-going needs. However, funds from these sources have been set aside through 2019 toward the Walkable Kirkland project in the Capital Improvements Program. An additional \$180,000 of the debt service is planned to be funded from REET 1 beginning in 2022;
- The adopted budget assumes that 1 percent of revenues would go toward reserve replenishment until reserves reach their targets, which is projected in 2019. The satisfaction of this requirement reduces the operating budget by approximately \$960,000 a year, continuing through the expiration of the ASTC.
- A \$500,000 Annexation Sales Tax Reserve was created from ongoing revenue in 2018.
- As shown in the graph below, these measures combine to backfill approximately \$2.4 million of the future revenue loss, leaving the balance of \$1.6 million to be identified.



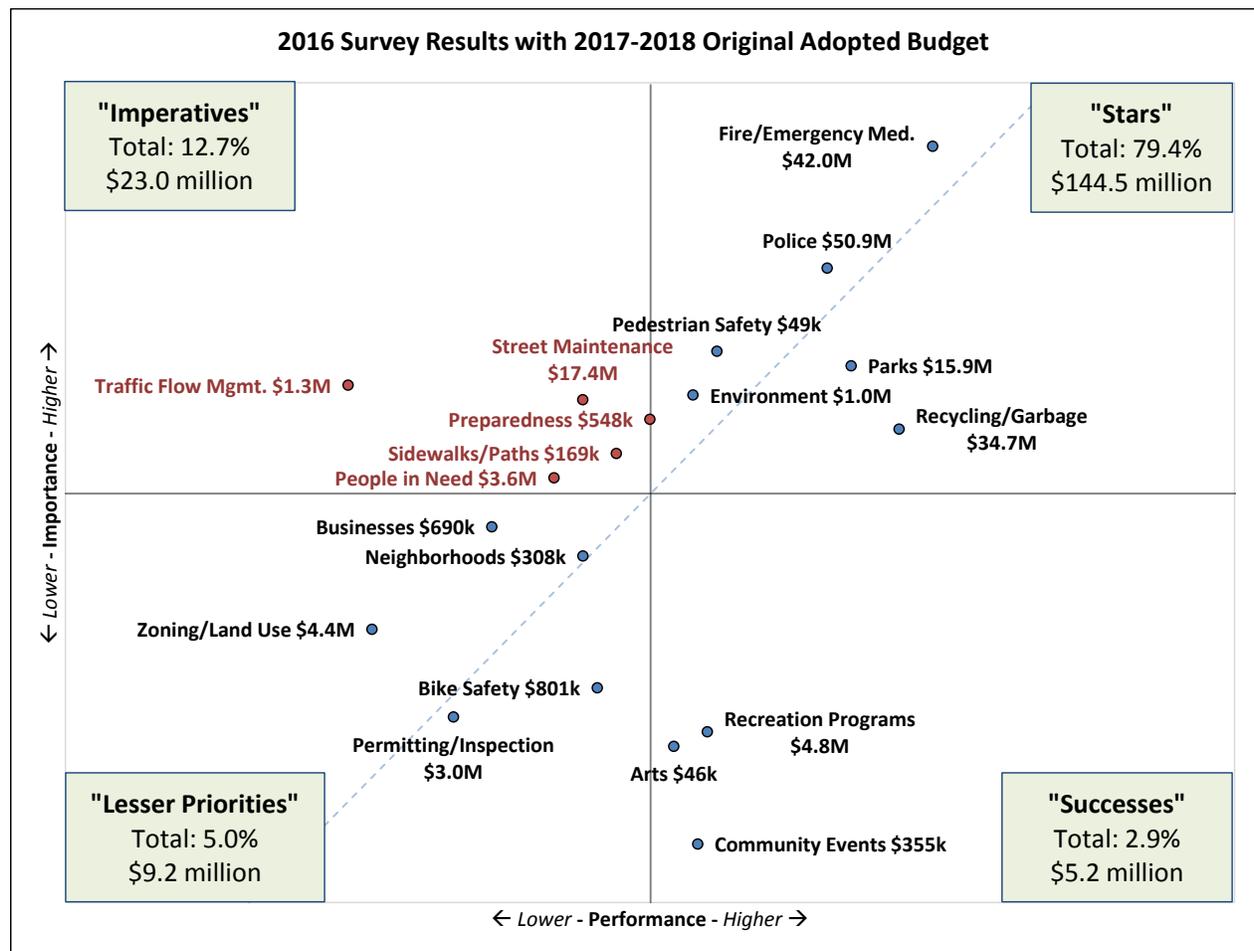
The forecast includes the impact of these measures.

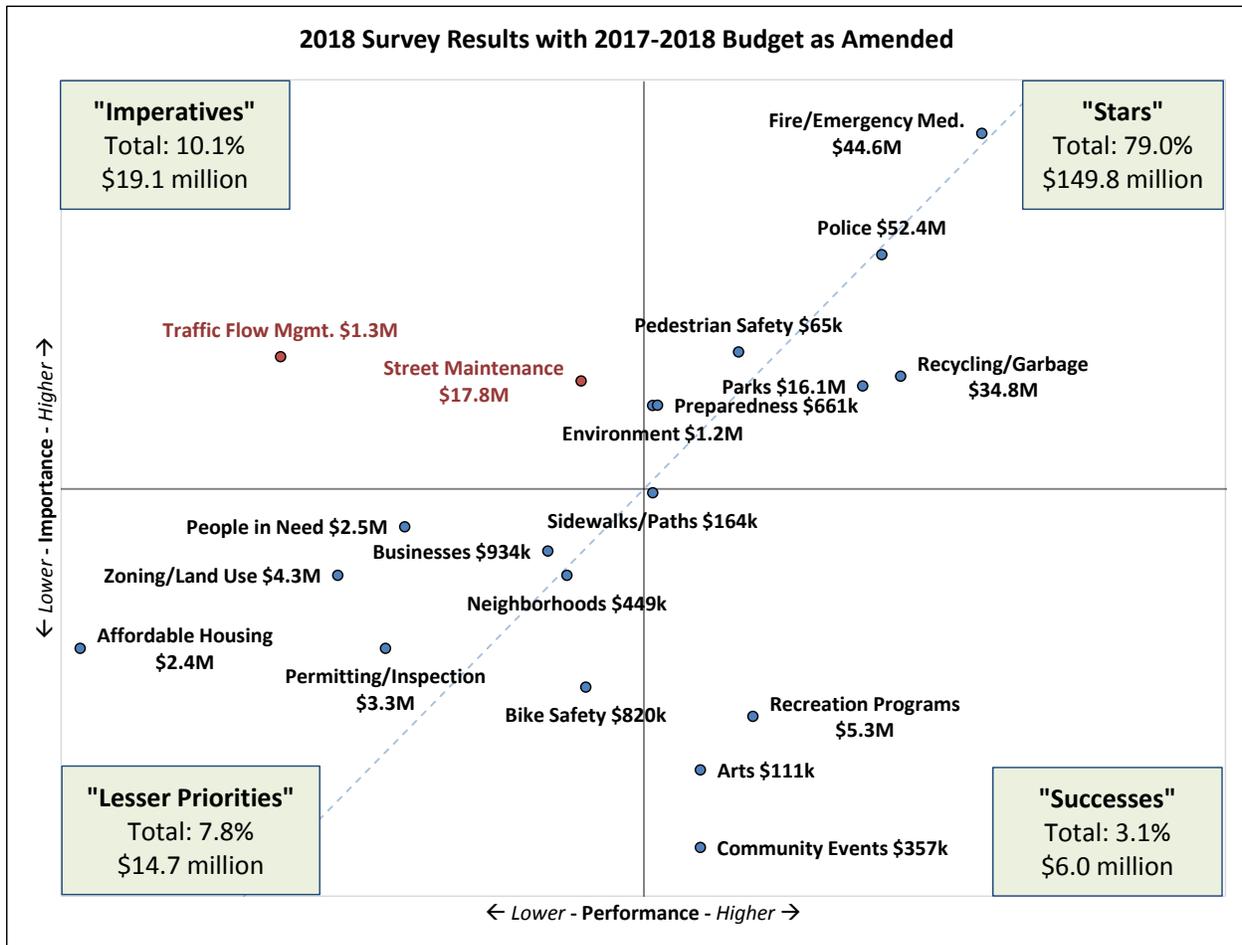
In terms of General Fund revenue alternatives for the 2019 -2020 Biennial Budget, the discussion provided at the February Council retreat is included as **Attachment E**. This document has been updated with three additional revenue options including:

- Transportation Benefit District Revenue to offset contributions of general revenues to the City's Street Operating Fund;
- Recreation and program fees to offset General Fund contributions to Parks;
- A potential Public Safety Sales Tax ballot measure authorized by RCW 82.14.45 for enhanced Police and Fire services.

KIRKLAND QUAD

Following the citizen survey every two years, staff compile the Kirkland Quadrant, by adding budget data to the high level look at how City services are perceived by the public, both in terms of importance and performance. The 2018 citizen survey took place during the first week of May. Citizens were asked to grade a number of services on a scale of 'A' to 'F', for performance, with 'A' being 'Excellent' and 'F' representing a failing grade. Citizens were also asked to rank services by their importance to them, with 5 being the highest and 1 being the lowest. Preliminary results are now available and are shown in the diagram on the following page. The 2016 survey is also shown for the purposes of comparison. Budgeted dollar amounts are shown next to the relevant data points to demonstrate resource allocations in each category.





Affordable Housing and People In Need

The Council added the provision of affordable housing to the 2018 Community Survey as a city service to be tested for importance and performance. Staff has therefore included affordable housing in the Kirkland Quad for the first time. To maintain consistency with the framework staff moved budget data related to the women’s shelter and ARCH funding from “People in Need” to the category of “Affordable housing.” As a result, the People in Need category fell from \$3.6 million in 2017 to \$2.5 million, and the Affordable Housing category was added at a funding level of \$2.4 million. The total investment in both categories rose from \$3.6 million in 2017 to \$4.9 million in 2018, demonstrating the Council’s strong commitment to these issues.

Between the FY 2017-2018 adopted budget and the budget including revisions adopted on December 12, 2017, the percentage of resources spent on “stars” and “imperatives”, those areas that citizens rate as highly important, declined from 92.1 percent of resources allocated to areas in the quadrant to 89.1 percent. This is largely due to the shift of items between quadrants, with the addition of a new category in the 2018 survey, “Affordable Housing” which received \$2.5 million of budgeted resources and was listed as a “lesser priorities” by survey respondents, as well as ‘People in Need’, which shifted from “imperatives” to “lesser priorities”.

Overall, the average performance ratings of City services decreased from 3.77 to 3.72, while the average importance of services remained essentially unchanged (3.93 to 3.92). The largest increases in performance were in 'Police' and 'Businesses', while the largest increases in importance were in 'Zoning/Land Use' and 'Permitting/Inspection'. For the first time the survey sought feedback on Affordable Housing; citizen responses placed this service in the "lesser priorities" quadrant. This plus the shift of 'People in Need' to "lesser priorities" more than accounts for the increase in spending on "lesser priorities" noticed when comparing the two charts.

A more in-depth discussion of the survey results will be provided separately at the retreat.

CONCLUSION

The City of Kirkland's near-term financial strength continues, as gauged by an analysis of recent data captured by the City's financial reporting tools, including the Financial Management Report, Financial Dashboard, and Monthly Sales Tax report. Growth in General Fund revenues continues, led by development-related revenues, including development fees and sales taxes from construction activity. A conservative forecast for future growth indicates a deficit for 2023-2024 after the expiration of the ASTC.

Future financial challenges posed by the expiration of the Annexation Sales Tax credit are being met through conservative financial planning and an economic development strategy that includes redevelopment of the City's economic cores. An alternate approach to the two-year lag policy would indicate a smaller deficit in future years. A review of the City's Strategic Anchors, including the Price of Government and the Kirkland Quad, demonstrates the City continues to provide the affordable, quality services that resident desire. If the Council and the community find the current services levels to be adequate and staffing levels remain somewhat constant, there will be no need for significant new revenues or budget reductions until at least 2022.



Financial Management Report as of March 31, 2018

AT A GLANCE:

Kirkland is scheduled to join the State's Business Service in 2018 (page 2)

2018 General Fund revenues decreased 7.0% over 2017 (pages 2-3)

Sales tax revenue grew 5.9% in the first quarter of 2018 (pages 5-6)

Unemployment remains low, Seattle inflation remains above the national average, and consumer confidence remains high (pages 7-8)

Inside this issue:

Revenue	1
Expenditure	2
General Fund	2-3
General Fund	4
Sales Tax	5-6
Economic	7-8
Investment	8-9
Reserve	9-11

Summary of All Operating Funds: *Revenue*

- **General Fund** revenue ended the first quarter **7.0 percent** below March 2017, a decrease of \$1.7 million. This decrease was driven by one-time proceeds from the sale of the 505 Market Building (\$2.4 million), that occurred in 2017. Excluding this property sale, general fund revenue would be 3.4 percent higher for year to date 2018, driven by higher building permit fees and sales tax revenues. For the quarter, general fund revenues are at **24.0 percent** of budget. More detailed analyses of General Fund revenue can be found on pages 2-3, and of sales tax revenue on pages 5-6.
- **Other General Government Funds** finished the quarter **3.4 percent** higher than March 2017, up **\$170,389**. The **Street Operating Fund** revenues were **\$136,165** higher than March 2017 due to revenues received for street cut permits, higher state entitlement revenue and higher parking meter revenues. The **Information Technology Fund** contributed **\$20,456** to the year over year increase, and the Equipment Rental Fund contributed **\$14,715**, both due to charges received for service packages in the 2017-2018 budget.
- Combined, the **Other General Government Operating Funds** are only at **18.0 percent** of budget year to date, but this is due to several funds receiving revenue from property taxes, the bulk of which are received in the second and fourth quarters of the year.
- Revenues in **Utility Funds** in total were up **0.8 percent** compared to 2017, 20.4 percent of budget after the first quarter.
- **Water/Sewer Operating Fund** revenue was down **0.9 percent** from 2017, at **22.6 percent** of budget.
- **Surface Water Management Fund** revenues were **11.9 percent** higher than they were in 2017, primarily due to the higher level of building permit activity. Through March revenues were at **5.8 percent** of budget because storm drainage fees are collected alongside property tax payments which are due twice yearly at the end of April and October.
- The **Solid Waste Fund** revenues were **1.8 percent** higher than 2017 for the first quarter and at **25.6 percent** of the annual budget.

Resources by Fund	Year-to-Date Actual			Budget			% of Budget	
	3/31/2017	3/31/2018	% Change	2017	2018	% Change	2017	2018
General Gov't Operating:								
General Fund	23,994,508	22,312,319	-7.0%	98,896,719	93,114,109	-5.8%	24.3%	24.0%
Other General Gov't Operating Funds	5,022,835	5,193,223	3.4%	28,340,588	28,873,426	1.9%	17.7%	18.0%
Total General Gov't Operating	29,017,342	27,505,542	-5.2%	127,237,307	121,987,535	-4.1%	22.8%	22.5%
Utilities:								
Water/Sewer Operating Fund	6,607,431	6,549,646	-0.9%	28,419,059	29,008,658	2.1%	23.2%	22.6%
Surface Water Management Fund	544,053	608,941	11.9%	10,701,307	10,589,088	-1.0%	5.1%	5.8%
Solid Waste Fund	4,424,797	4,505,499	1.8%	17,354,535	17,590,939	1.4%	25.5%	25.6%
Total Utilities	11,576,281	11,664,086	0.8%	56,474,901	57,188,685	1.3%	20.5%	20.4%
Total All Operating Funds	40,593,622	39,169,628	-3.5%	183,712,208	179,176,220	-2.5%	22.1%	21.9%

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

Kirkland to join the State's Business Licensing Service

The City currently manages our business licensing application process internally and is looking to switch to the State of Washington Business Licensing Service (BLS) that is operated by the Department of Revenue. The goal is to increase the ease and convenience for businesses, which are able to apply for State and multiple local business licenses simultaneously.

The State's online portal will allow businesses to apply for multiple city licenses when they apply or renew their State license.

With the State BLS, the State mails out all renewals, accepts new applications and payments online, and mails out all approved licenses. It also handles customer service phone calls and e-mails. All local business license due dates coincide with the issuance of the State business license, therefore pro-rating of City license fees will be required. There will be no city budgetary impact of the fees being pro-rated.

The City is switching to the State BLS in the fall of 2018.

Summary of All Operating Funds: *Expenditures*

- **General Fund** expenditures finished March 2018, **0.3 percent**, or **\$78,533** higher than the first quarter of 2017, at **24.7 percent** of budget. Personnel services led the growth with **\$50,054**, or **0.3 percent** increase over last year, with salary expenditures below last year and benefit expenditures above. Through the first quarter of 2018 Intergovernmental Professional Services and Supplies expenditures were higher than 2017 levels and Professional Services were lower. An analysis of General Fund expenditures by department can be found on pages 4 and 5.
- **Other General Government Operating Funds** actual expenditures were **6.5 percent**, or **\$376,966**, lower than 2017. Expenditures in the **Equipment Rental Fund** were **31.8 percent** lower due to a large number of vehicles purchased in the first quarter of 2017 and expenditures in the **Information Technology Fund** were **11.7 percent** lower due to additional computer hardware purchased in 2017. Offsetting these decreases, the **Facilities Maintenance Fund's** expenditures were higher by **\$98,750** due to the timing of the storm water utility fee payment occurring in the first quarter of 2018 and the second quarter of 2017 and the **Street Operating Fund** expenditures were higher due to additional work related to more street cutting for utilities than in 2017.
- **Water/Sewer Operating Fund** actual expenditures were **2.6 percent** lower than in 2017, due to the timing of journal entries related to debt service payments, and at **24.6 percent** of budget after the first quarter.
- **Surface Water Management Fund** expenditures for the first quarter of 2018 were **8.7 percent higher** than 2017. Costs for both labor and professional services continued to grow in order to implement provisions of the Critical Areas Ordinance and Surface Water Design Manual adopted in late 2016. Additionally, there were a few vacancies in 2017 that were filled, contributing to this increase. Expenditures through the first quarter were at **23.0 percent** of budget.
- **Solid Waste Fund** expenditures were **4.5 percent** higher in the first quarter of 2018 than in 2017. An increase in the waste disposal contract, based on annual consumer price index growth, was the main cause of the overall increase. Expenditures in the fund were at 25.1 percent of budget at the end of the first quarter.

Expenditures by Fund	Year-to-Date Actual			Budget			% of Budget	
	3/31/2017	3/31/2018	% Change	2017	2018	% Change	2017	2018
General Gov't Operating:								
General Fund	22,505,499	22,584,031	0.3%	91,619,081	91,258,869	-0.4%	24.6%	24.7%
Other General Gov't Operating Funds	5,829,486	5,452,521	-6.5%	25,552,249	25,555,022	0.0%	22.8%	21.3%
Total General Gov't Operating	28,334,985	28,036,552	-1.1%	117,171,330	116,813,891	-0.3%	24.2%	24.0%
Utilities:								
Water/Sewer Operating Fund	6,010,324	5,854,235	-2.6%	23,834,895	23,835,037	0.0%	25.2%	24.6%
Surface Water Management Fund	1,738,724	1,889,381	8.7%	8,684,484	8,231,895	-5.2%	20.0%	23.0%
Solid Waste Fund	4,144,297	4,330,137	4.5%	16,968,641	17,222,338	1.5%	24.4%	25.1%
Total Utilities	11,893,345	12,073,752	1.5%	49,488,020	49,289,270	-0.4%	24.0%	24.5%
Total All Operating Funds	40,228,329	40,110,304	-0.3%	166,659,350	166,103,161	-0.3%	24.1%	24.1%

*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 2018 was **5.9 percent** higher than it was in 2017. A detailed analysis of total sales tax revenue can be found on page 5.
- **Property taxes** received in the first quarter of 2018 were **2.0 percent** lower than 2017, at **5.8 percent** of budget. Since the majority of property taxes are collected in April and October, these variances will be more meaningful in the second quarter report.
- **Utility tax** collections for the first quarter were **5.5 percent** lower compared to results from 2017, **25.7 percent** of budget. Warmer winter weather and reduced consumer spending on telephone and cable have led to this year over year decline.
- **Revenue generating regulatory license (RGRL)** collections for the first quarter were **8.7 percent** higher than 2017. Revenues were at **38.5 percent** of budget. This year-over-year increase is due to an increase in the number of employees working for Kirkland businesses, as the local unemployment continues to decline.
- Compared to the first quarter of 2017, **Building, Structural and Equipment Permit** revenues were up **43.9 percent**. The bulk of the increase is due to large development projects in the City.
- **Grants and Federal Entitlements** were up **17.1 percent** compared to the first quarter of 2017, with more direct and indirect federal grants.
- **State Shared Revenues & Entitlements** were up **26.5 percent** due to higher marijuana excise taxes as a result of the one-time impact of a legislative provision which reversed an earlier reduction in shared revenues.
- **Planning Fee revenues** were down **31.0 percent**, at **33.0 percent** of budget. The year over year decrease is primarily due to an extraordinarily high January 2017 prompted by a Design Board Review of mixed-use development for The Village at Totem Lake.
- **Engineering Services** revenues were up **12.7 percent** versus the first quarter of 2017. The increase is primarily due to fees collected for The Village at Totem Lake.
- **Recreation** fees are **35.3 percent** higher due to greater demand for programs, a new Afterschool Program and a new recreation registration system.
- **Miscellaneous** revenue was down **88.4 percent** compared to the first quarter of 2017 due to the proceeds from 505 Market in the first quarter of 2017.

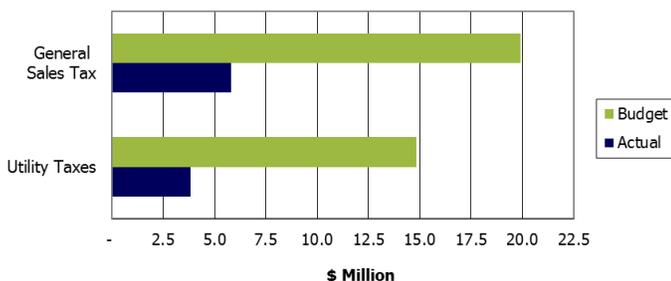
The General Fund is the City's largest Operating fund. It is primarily tax supported and accounts for basic services such as public safety, parks and recreation, and community development. Many significant General Fund revenue sources are economically sensitive, such as sales tax and development-related fees. About 463 of the City's 605 regular employees are budgeted within the General Fund.

General Fund Resource Category	Year-to-Date Actual			Budget			% of Budget	
	3/31/2017	3/31/2018	% Change	2017	2018	% Change	2017	2018
Taxes:								
Retail Sales Tax: General	5,468,321	5,791,906	5.9%	20,872,134	19,925,537	-4.5%	26.2%	29.1%
Retail Sales Tax Credit: Annexation	1,294,448	1,263,380	-2.4%	3,935,000	3,935,000	0.0%	32.9%	32.1%
Retail Sales Tax: Criminal Justice	578,034	629,727	8.9%	2,305,000	2,363,000	2.5%	25.1%	26.6%
Property Tax	1,105,651	1,083,382	-2.0%	18,384,976	18,762,395	2.1%	6.0%	5.8%
Utility Taxes	4,047,833	3,824,751	-5.5%	14,661,582	14,857,345	1.3%	27.6%	25.7%
Rev Generating Regulatory License	896,992	975,459	8.7%	2,509,268	2,536,004	1.1%	35.7%	38.5%
Other Taxes	393,973	395,903	0.5%	1,377,458	1,378,208	0.1%	28.6%	28.7%
Total Taxes	13,785,252	13,964,508	1.3%	64,045,418	63,757,489	-0.4%	21.5%	21.9%
Licenses & Permits:								
Building, Structural & Equipment Permits	839,006	1,206,984	43.9%	3,445,600	2,854,703	-17.1%	24.4%	42.3%
Business Licenses/Franchise Fees	1,202,797	1,205,469	0.2%	4,691,013	4,745,631	1.2%	25.6%	25.4%
Other Licenses & Permits	245,416	243,967	-0.6%	539,101	735,972	36.5%	45.5%	33.1%
Total Licenses & Permits	2,287,219	2,656,421	16.1%	8,675,714	8,336,306	-3.9%	26.4%	31.9%
Intergovernmental:								
Grants and Federal Entitlements	165,104	193,332	17.1%	155,136	142,000	-8.5%	106.4%	136.1%
State Shared Revenues & Entitlements	340,555	430,959	26.5%	1,366,446	1,428,072	4.5%	24.9%	30.2%
EMS	0	0	N/A	939,657	958,450	2.0%	N/A	N/A
Total Intergovernmental	505,660	624,290	23.5%	2,461,239	2,528,522	2.7%	20.5%	24.7%
Charges for Services:								
Internal Charges	1,862,920	1,780,176	-4.4%	7,239,090	7,158,327	-1.1%	25.7%	24.9%
Engineering Services	308,466	347,523	12.7%	2,055,548	1,577,310	-23.3%	15.0%	22.0%
Plan Check Fee	608,817	607,388	-0.2%	2,000,000	1,600,000	-20.0%	30.4%	38.0%
Planning Fees	667,885	461,142	-31.0%	2,724,083	1,396,842	-48.7%	24.5%	33.0%
Recreation	600,406	812,372	35.3%	1,390,471	1,391,323	0.1%	43.2%	58.4%
Other Charges for Services	397,516	465,375	17.1%	2,157,027	2,309,431	7.1%	18.4%	20.2%
Total Charges for Services	4,446,010	4,473,977	0.6%	17,566,219	15,433,233	-12.1%	25.3%	29.0%
Fines & Forfeits	282,560	280,031	-0.9%	1,886,030	1,887,540	0.1%	15.0%	14.8%
Miscellaneous	2,687,808	313,092	-88.4%	4,262,099	1,171,019	-72.5%	63.1%	26.7%
Total Revenues	23,994,508	22,312,319	-7.0%	98,896,719	93,114,109	-5.8%	24.3%	24.0%
Other Financing Sources:								
Interfund Transfers	0	50,595	N/A	379,515	316,021	-16.7%	N/A	16.0%
Total Other Financing Sources	0	50,595	N/A	379,515	316,021	-16.7%	N/A	16.0%
Total Resources	23,994,508	22,362,914	-6.8%	99,276,234	93,430,130	-5.9%	24.2%	23.9%

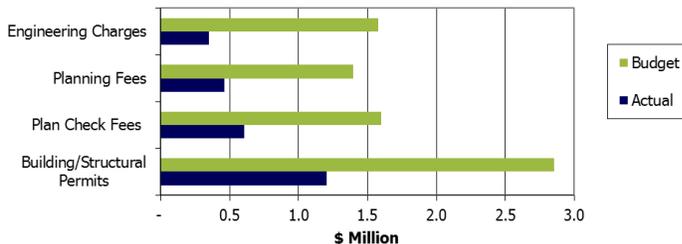
*Budgeted and actual revenues exclude resources forward.

General Fund Revenue *continued*

2018 Budget to Actual Comparison of Selected Taxes



2018 Budget to Actual Comparison of Development Related Fees



General Fund Expenditures

General Fund Department Expenditures	Year-to-Date Actual			Budget			% of Budget	
	3/31/2017	3/31/2018	% Change	2017	2018	% Change	2017	2018
Non-Departmental	656,746	766,946	16.8%	2,845,912	2,447,495	-14.0%	23.1%	31.3%
City Council	238,495	247,340	3.7%	558,224	556,242	-0.4%	42.7%	44.5%
City Manager's Office	516,549	619,879	20.0%	2,841,373	2,800,355	-1.4%	18.2%	22.1%
Municipal Court	601,597	647,494	7.6%	2,493,411	2,547,622	2.2%	24.1%	25.4%
Human Resources	381,285	392,274	2.9%	1,583,237	1,574,201	-0.6%	24.1%	24.9%
City Attorney's Office	308,301	283,475	-8.1%	1,224,232	1,249,420	2.1%	25.2%	22.7%
Parks & Community Services	1,820,693	1,727,448	-5.1%	8,655,553	8,658,413	0.0%	21.0%	20.0%
Public Works (Engineering)	1,648,218	1,806,269	9.6%	7,258,615	7,576,443	4.4%	22.7%	23.8%
Finance and Administration	1,257,518	1,308,217	4.0%	5,098,737	5,169,108	1.4%	24.7%	25.3%
Planning & Building	2,204,869	2,345,683	6.4%	10,756,124	9,653,941	-10.2%	20.5%	24.3%
Police	6,431,452	6,639,284	3.2%	25,786,439	26,350,797	2.2%	24.9%	25.2%
Fire	6,439,775	5,799,723	-9.9%	22,517,224	22,674,832	0.7%	28.6%	25.6%
Total Expenditures	22,505,499	22,584,031	0.3%	91,619,081	91,258,869	-0.4%	24.6%	24.7%
Other Financing Uses:								
Interfund Transfers	639,742	643,553	0.6%	12,780,572	6,920,864	-45.8%	5.0%	9.3%
Total Other Financing Uses	639,742	643,553	0.6%	12,780,572	6,920,864	-45.8%	5.0%	9.3%
Total Expenditures & Other Uses	23,145,240	23,227,584	0.4%	104,399,653	98,179,733	-6.0%	22.2%	23.7%

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

Comparing 2018 and 2017 General Fund expenditures:

In 2018, excluding interfund transfers, General Fund expenditures were **0.3 percent** higher than in the first quarter of 2017, and finished at **24.7 percent** of budget. Specific reasons for variances with expenditures are highlighted below:

- **Non-Departmental** expenditures were up **16.8 percent** primarily due to costs related to election expenses that occurred in 2017 but were paid in 2018.
- **The City Manager's Office (CMO)** finished March 2018 up **20.0 percent**, or **\$103,330**, from March 2017. The majority of this was due to reorganization within the department leading to higher personnel costs.
- **Municipal Court** expenditures for the first quarter of 2018 were **7.6 percent** higher than 2017 levels. Personnel vacancies in 2017 were the main reason expenditures in 2018 were higher, and increased supplies and professional services costs also contributed to the variance.
- **Parks & Community Services** expenditures for the first quarter of 2018 were \$93,245 lower than 2017 due to the timing of paying professional services expenses in 2017 incurred in the fourth quarter of 2016. This timing variance was partially offset by higher personnel costs in the first quarter of 2018.
- **Public Works - General Fund** expenditures were **9.6 percent** above first quarter 2017 due to expenditures

Actual first quarter General Fund expenditures (excluding "other financing uses") were 0.3 percent higher than they were in 2017.

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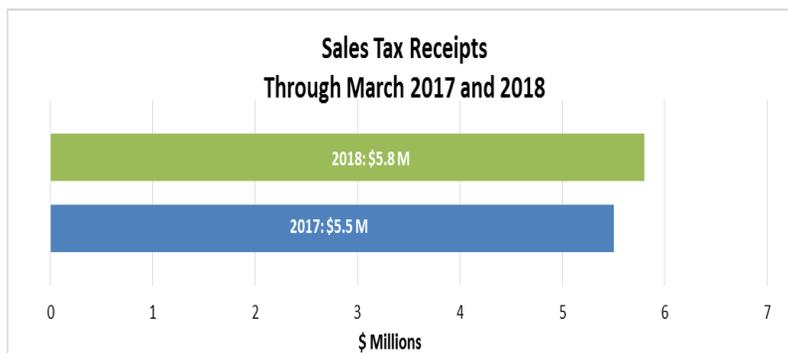
Financial Management Report as of March 31, 2018

related to service packages for Kirkland Green Trips and the Bellevue, Kirkland Redmond (BKR) Transportation Forecast Model.

- **Planning & Building** expenditures in the first quarter of 2018 increased **6.4 percent** from the prior year, **24.3 percent** of budget. This growth is due to one-time personnel additions made to meet the demand for development services created by the continuing high levels of construction activity throughout the City.
- Expenditures for the **Fire Department** through March 2018 were **9.9 percent** below March 2017, at **25.6 percent** of budget. This decrease was caused by over \$680,000 in retro pay that was received in the first quarter of 2017. Without this retro pay, the Fire Department's spending in the first quarter of 2018 would have been 0.6 percent higher in 2018.

Sales Tax Revenue Analysis & Outlook

Year-to-date sales tax revenue was **5.9 percent** higher in the first quarter of 2018 compared to 2017. Increased activity in contracting was the primary driver of this increase and was responsible for 56.8 percent of growth over the prior year. However, most other sectors continue to experience steady growth. Even when excluding the contracting sector, 2018 sales tax receipts grew by **3.1 percent** over 2017, for the first quarter.



Review by business sector:

- **Contracting** was up **17.5 percent** compared to 2017. Construction collections continue to be strong and led overall sales tax growth.
- Sales tax from the retail sectors was collectively up **5.9 percent** compared to 2017.
 - ◇ The City's largest retail sector—**Auto/gas retail**—was up **1.6 percent**.
 - ◇ The **General merchandise/miscellaneous retail** sector was up **8.1 percent** compared to the first quarter of 2017.
 - ◇ **Retail eating/drinking** sector performance was up **1.2 percent** compared to 2017.
 - ◇ **Other retail** was the main reason that the total retail sector was up over first quarter of 2017, **13.6 percent** compared to 2017. Clothing, Electronics, Building & Garden and Furniture subcategories, led growth. Some of this increase is related to a new state tax law that requires retailers to collect sales tax on behalf of third party sellers.
- Revenues from **Communications** were down **29.0 percent** over the prior year due to back taxes paid by a single company in March 2017.
- **Wholesale Services and Miscellaneous** revenues for the first quarter of 2018 were slightly higher than 2017 collections.

"Other Retail " includes a broad range of retailers that include Furniture, Electronics & Appliances, Building Material & Garden Equipment/Supplies, Food & Beverages, Health & Personal Care items, Clothing, and Sporting Goods/Hobby/Music/Book stores.

City of Kirkland Actual Sales Tax Receipts

Business Sector Group	YTD		Dollar Change	Percent Change	Percent of Total	
	2017	2018			2017	2018
Services	725,703	734,953	9,251	1.3%	13.3%	12.7%
Contracting	1,039,185	1,222,445	183,260	17.6%	19.0%	21.1%
Communications	200,607	142,416	(58,191)	-29.0%	3.7%	2.5%
Retail:						
Auto/Gas Retail	1,269,663	1,290,365	20,702	1.6%	23.2%	22.3%
Gen Merch/Misc Retail	540,314	583,997	43,683	8.1%	9.9%	10.1%
Retail Eating/Drinking	395,178	399,883	4,705	1.2%	7.2%	6.9%
Other Retail	755,266	862,218	106,952	14.2%	13.8%	14.9%
Wholesale	236,615	246,228	9,613	4.1%	4.3%	4.3%
Miscellaneous	305,790	309,400	3,610	1.2%	5.6%	5.3%
Total	5,468,321	5,791,906	323,585	5.9%	100.0%	100.0%

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 2017 and 2018 sales tax receipts in the table to the left.

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.

City of Kirkland Actual Monthly Sales Tax Receipts

Month	Sales Tax Receipts		Dollar Change	Percent Change
	2017	2018		
Jan	1,660,299	1,808,241	147,941	8.9%
Feb	2,080,553	2,239,701	159,149	7.6%
Mar	1,727,469	1,743,964	16,495	1.0%
Total	5,468,321	5,791,906	323,585	5.9%

- Sales tax revenue for each of the first three months of 2018 exceeded the same month in 2017. The 1.0 percent increase shown from March of 2018 compared to March of 2017 was the smallest increase since September 2016 when there was a 1.8 percent decrease.

Review by business district:

An analysis by geographic business district is performed to show growth and decline within districts and can be further analyzed by sector with each district. Highlights from the City's larger business districts can be found below:

Totem Lake, which accounted for **27.2 percent** of total sales tax receipts for the first quarter of 2018, was down **2.1 percent, \$33,042** from 2017. The district experienced the largest dollar declines in the Services, Retail Eating/Drinking and Gen Merch/Misc Retail sectors.

NE 85th Street, which made up **8.7 percent** of the total sales tax receipts through March 2018, was down **0.1 percent** compared to 2017. Decreases in both General Merch/Misc Retail and Services were offset slightly by increases in Auto/Gas Retail sector.

Downtown, which accounted for **3.8 percent** of sales tax receipts for the first quarter of 2018, was down **10.9 percent**. The majority of this decline was

in the Retail Eating/Drinking and the Services sectors.

When reviewing sales tax receipts by business district, it is important to be aware that **53.4 percent** of the revenues received in the first quarter of 2018 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 and new businesses have been created that need to be classified to a district. For the Unassigned revenues, Contracting was up 17.6 percent over the first quarter of 2017 and Other was up 11.5 percent.

It should also be noted that businesses with a physical presence within the City commonly conduct online sales activity alongside their traditional storefront activity within the same business registration, but that available data does not contain sufficient detail to distinguish between origin and destination based sales.

Financial Management Report as of March 31, 2018

OFFICE VACANCIES:

According to the latest report from CB Richard Ellis Real Estate Services, Kirkland's office vacancy rate dropped to 2.9 percent in the first quarter of 2018, down from 3.2 percent for the fourth quarter of 2017.

This vacancy rate is the second lowest in the Puget Sound area and considerably below most of the area. The Eastside and the Puget Sound as a whole, have office vacancy rates of 10.2 percent and 9.3 percent, respectively.

The Eastside continued to see an increase in asking rates and a drop in overall vacancy. CBRE reports that the Kirkland Urban development at 428,000 square feet, is the lone new large office project currently under construction.

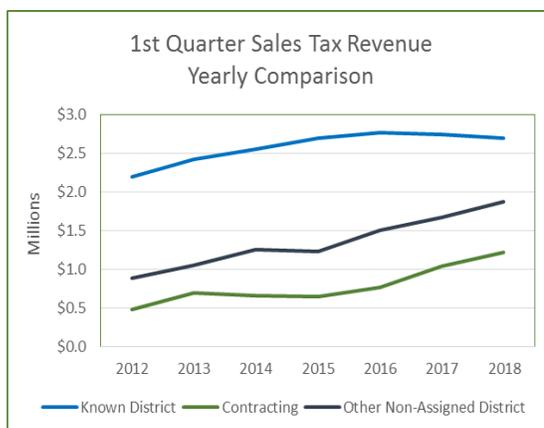
With vacancy dipping and asking rates continuing to rise, tenants will continue to look for prime office space in a consistently popular Eastside market.

LODGING TAX REVENUE:

Lodging tax revenue fell by \$3,367, 5.8 percent in the first quarter of 2018 compared to 2017. Revenues for the quarter were 18.5 percent of budget.

Review by business district *continued*

Business District	YTD		Dollar Change	Percent Change	Percent of Total	
	2017	2018			2017	2018
Totem Lake	1,609,070	1,576,029	(33,042)	-2.1%	29.4%	27.2%
NE 85th St	502,838	502,213	(625)	-0.1%	9.2%	8.7%
Downtown	248,409	221,359	(27,050)	-10.9%	4.5%	3.8%
Carillon Pt/Yarrow Bay	87,426	96,003	8,577	9.8%	1.6%	1.7%
Houghton & Bridle Trails	100,664	98,575	(2,089)	-2.1%	1.8%	1.7%
Juanita	63,220	64,174	954	1.5%	1.2%	1.1%
Kingsgate	49,028	49,305	277	0.6%	0.9%	0.9%
North Juanita	56,715	56,370	(345)	-0.6%	1.0%	1.0%
Finn Hill	33,365	33,665	300	0.9%	0.6%	0.6%
Unassigned or No District:						
Contracting	1,039,185	1,222,445	183,260	17.6%	19.0%	21.1%
Other	1,678,400	1,871,768	193,368	11.5%	30.7%	32.3%
Total	5,468,321	5,791,906	323,585	5.9%	100.0%	100.0%



In addition to this breakdown by business district (according to geographic area), Kirkland's sales tax base includes many businesses which are "unassigned or no district." This applies for small businesses and companies with no physical presence in Kirkland.

In addition, construction contracting companies perform work throughout the city, so their revenue cannot be classified to a specific district.

Economic Environment Update

The **Washington State Economic & Revenue Council** monthly update reports total nonfarm payroll employment rose 20,700 for the first quarter. This increase represents a 2.2 percent increase in total nonfarm payroll employment over the first quarter of 2017, consistent with the economic forecast for Washington which projects 2.2 percent growth for the year. It also forecasts this rate to decline to 2.1 in 2019, 1.7 in 2020 and fall to a growth rate of 0.9 percent by 2023.

The Conference Board's **Consumer Confidence Index** decreased to 127.7 in March, down from 130.0 in February, its highest level since 2000. Despite the modest retreat in confidence, index levels remain historically high. A rating of 100 equals the 1985 consumer confidence level.

Unemployment Rates in March held at 4.1 percent at the national level, and for February, the most current data available for the state, fell slightly from 5.4 percent to 5.3 percent. King County continued to have lower unemployment than the state with King County unemployment decreasing from 4.1 to 3.7 percent and Kirkland unemployment decreasing from 4.0 to 3.7 percent.

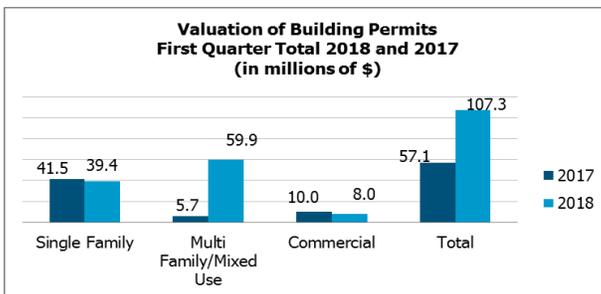
Economic Environment Update *continued*

The **Western Washington Purchasing Manager Index** remains very strong. The index decreased slightly from a four-year high 68.3 in February to 68.0 in March. Index numbers less than 50 indicate a shrinking economy, while those over 50 signal an economic expansion.

Inflation in the Seattle area is high relative to the national rate. In February 2018, the Seattle core CPI increased 3.5 percent compared to the previous year, down from 4.0 percent in December. The national CPI experienced 2.3 percent year-to-year growth through February and a 2.4 percent growth through March, creeping up slightly from the 2.2 percent rate in December.

Seattle area home prices across the metro area grew 12.7 percent in February over the previous year and this continues to be the biggest increase in the nation for the 18th month in a row. According to the S&P/Case-Shiller Home Price Index, Seattle home prices are now up 85 percent over the last 6 years. New housing permits in Washington averaged 42,700 in January and February, slightly higher than the same two months in 2017.

The valuation of local **building permitting activity** has increased 87.8 percent compared to 2017, primarily due to mixed use permits with a valuation of \$57.5 million in the first quarter for Kirkland Urban and The Village at Totem Lake. Single family use permitting activity are lagging 2017 levels by 5.1 percent. Commercial development is also lagging last year's numbers by 19.4 percent. The net effect is an increase of \$50.2 million in new development valuation.

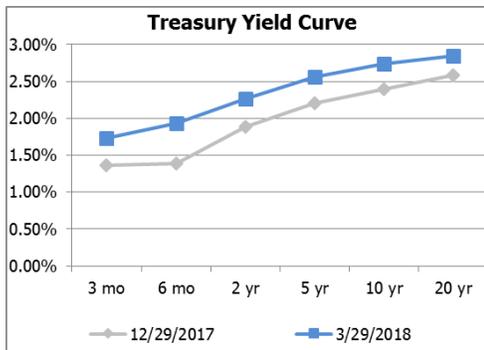


Investment Report

As of March 31, 2018

MARKET OVERVIEW

The economic growth continued positive in the first quarter of 2018. The Fed Funds rate is now at 1.50 to 1.75 percent from the in-



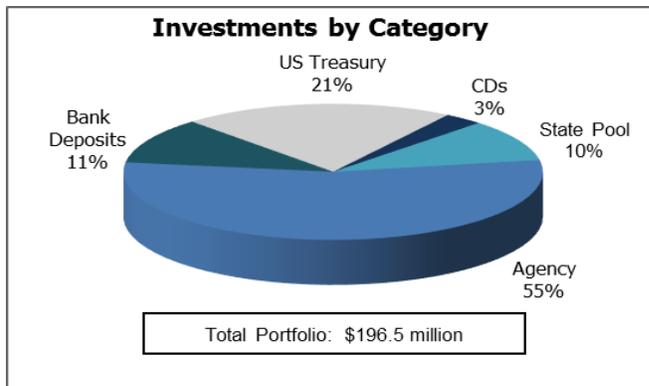
crease on March 21, 2018 and is expected to be increased two more times in 2018, a total of 0.75 percent increase for the year. The yield curve rose on all maturities and flattened slightly in the first quarter with short term rates rising greater than long term rates.

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 \$6.1 million in the first quarter of 2018, moving from \$202.6 million on December 31, 2017 to \$196.5 million on March 31, 2018. The decrease in the

portfolio is related to the normal cash flows of the first quarter as the first half of property tax payments are received at the end of April and early May.



Diversification

The City's current investment portfolio is composed of Government Sponsored Enterprises (GSEs) bonds, US Government Obligations, a Bank CD, Bank Deposits 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.

Liquidity

The target duration for the City's portfolio is based on the 0-5 year U.S. Treasury. The duration of the City's investment portfolio decreased to 1.38 years on March 31, 2018 compared to 1.41 years on December 31, 2017. The current benchmark duration is 1.66 years. The weighted average maturity of the portfolio was 1.44 years on March 31, 2018.

Financial Management Report as of March 31, 2018

2018 ECONOMIC OUTLOOK and INVESTMENT STRATEGY

The economic outlook is suggesting that the expansion continues, but at perhaps a slightly slower pace. The U.S. economy is expected to grow at an annual rate of 2.7 percent in 2018 and 2.4 percent in 2019. CPI inflation is expected to average 2.4 percent in 2018 and 1.8 percent in 2019. The unemployment rate is expected to average 4.0 percent in 2018 and 3.7 percent in 2019. The Fed Funds rate, currently at 1.50 percent to 1.75 percent as of March 31, 2018 is expected to be raised two more times in 2018 to reach the range of 2.0 percent to 2.25 percent by the end of 2018.

The City's investment advisor, Government Portfolio Advisors (GPA) is currently recommending that the duration of the portfolio remain short in relation to the benchmark. A bias to remain short will provide more protection in market value if rates continue to rise.

The State Pool is currently at 1.49%, slowly increasing each month as short term rates rise with the increase in the Fed Funds rate. Rates will continue to rise if the Fed Funds rate increases in 2018 occur as projected, 2 more rate increases of 0.25 percent each during the remainder of the year.

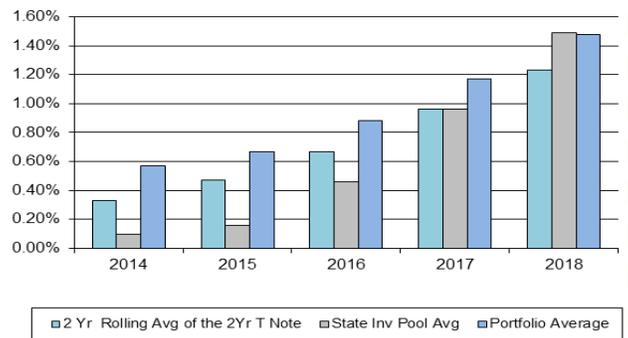
Investment Report *continued*

Yield

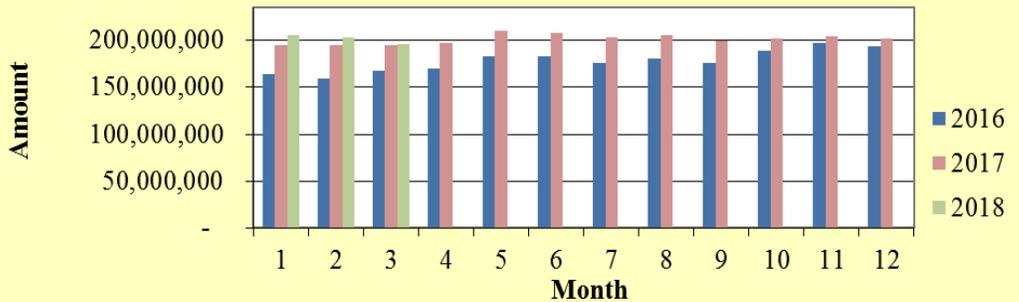
The City Portfolio yield to maturity increased from 1.42 percent on December 31, 2017 to 1.53 percent on March 31, 2018. Through March 31, 2018, the City's annual average yield to maturity increased to 1.48 percent. The City's portfolio benchmark is the range between the 90 day Treasury Bill and the 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 the 2 year rolling average of the 2 year Treasury note, which was 1.3 percent on March 31, 2018. 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 graph above.

Benchmark Comparison	December 31, 2017	March 31, 2018
City Yield to Maturity (YTM)	1.42%	1.53%
City Average (YTM)	1.17%	1.48%
City Year to Date Yield	1.07%	1.36%
90 Day Treasury Bill	1.39%	1.73%
2 yr Rolling Avg 2 yr T Note	1.11%	1.30%

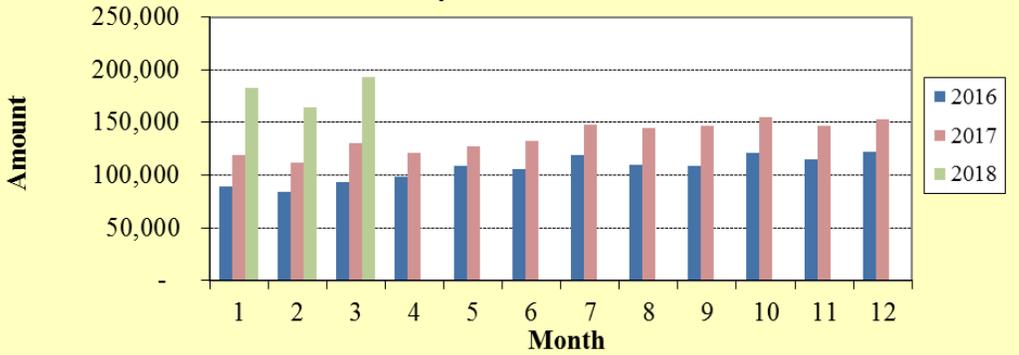
Investment Interest Rate Comparisons



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

- Contributions to reserves in 2015-2016 and planned contributions in 2017-2018 have allowed the City to replenish many of the general purpose reserves to target levels, as indicated in the table on the next page. 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). Additional fund balance in 2016 enabled the City to create a reserve to protect against future revenue losses from the Annexation Sales Tax Credit expiration in 2021. Adequate fund balance and reserve levels are a necessary component of financial management strategy and a key factor in external agencies' measurement of the City's financial strength (Standard and Poor's AAA and Moody's Aa1).

USES AND ADDITIONS HIGHLIGHTS		
RESERVE	AMOUNT	DESCRIPTION
2017-18 Council Authorized Uses		
Prior Uses	\$17,338,949	
Development Services Reserve - PW	(32,859)	Temporary Program Coordinator
Development Services Reserve - PW	(8,351)	Temporary Transportation Engineer
Council Special Projects Reserve	(13,100)	Downtown flower pot purchase
Litigation Reserve	(128,250)	Recognizing ongoing uses throughout biennium
REET 1 Reserves	(\$54,000)	Wu Property Land Acquisition
Surface Water Construction Reserve	(\$165,000)	6th Street Signals
Off-Street Parking Reserve	(\$66,300)	Downtown Parking Garage Improvements
2017-18 Council Authorized Additions		
Prior Additions	\$11,166,527	
REET 2 Reserves	\$37,179	2017 Annual Striping Program
Street Improvement Reserve	\$12,058	98th Avenue NE Completion
Net Additions / (Uses)	(\$5,655,325)	

The summary above details all Council authorized uses and additions in the 2017-18 biennium.

GENERAL CAPITAL RESERVES

- Real estate prices have appreciated rapidly in recent years and **Real Estate Excise Tax (REET)** collections in 2016 and 2017 reached \$10m, which were record amounts. This provided additional funding for the City's Capital Improvement Plan, and the table below represents both the additional funding and expenses provided by this revenue.
- Impact fees (Parks and Transportation) reflect fees paid for development that creates additional demands on the City's Parks and Transportation systems. 2018 first quarter **Parks Impact Fee** revenue is **332 percent** above 2017, and over 50% of budget. **Transportation Impact Fees** are also significantly above first quarter 2017, but are only 15% of budget 25% of the way through the year.

General Government & Utility Reserves Targets Summary

Reserves	Est. 2017 Beginning Balance	Adopted 2018 Ending Balance*	Revised 2018 Ending Balance	2017-18 Target	Revised Over (Under) Target
GENERAL PURPOSE RESERVES WITH TARGETS					
General Fund Reserves:					
General Fund Contingency	50,000	50,000	50,000	50,000	0
General Oper. Reserve (Rainy Day)	4,803,388	4,829,865	4,829,865	4,829,865	0
Revenue Stabilization Reserve	2,848,220	3,029,951	3,029,951	3,029,951	0
Building & Property Reserve	3,600,000	600,000	1,547,099	600,000	947,099
Council Special Projects Reserve	250,000	381,927	237,827	250,000	(12,173)
Contingency	4,036,425	5,675,121	5,675,121	6,076,030	(400,909)
General Capital Contingency	4,993,407	5,767,606	5,825,444	6,317,430	(491,986)
General Purpose Reserves with Targets	20,581,440	20,334,470	21,195,307	21,153,276	42,031
ALL OTHER RESERVES WITH TARGETS					
General Fund Reserves:					
Litigation Reserve	93,871	150,000	21,750	150,000	(128,250)
Firefighter's Pension Reserve	1,225,835	976,955	1,371,611	933,405	438,206
Health Benefits Fund:					
Claims Reserve	2,058,311	2,022,685	2,022,685	2,022,685	0
Rate Stabilization Reserve	1,000,000	0	0	0	0
Excise Tax Capital Improvement:					
REET 1	5,213,854	3,834,466	3,656,114	1,585,000	2,071,114
REET 2	6,000,344	8,457,722	2,796,779	6,731,000	(3,934,221)
Water/Sewer Operating Reserve	2,659,932	2,659,932	2,659,932	2,659,932	0
Water/Sewer Capital Contingency	613,300	1,216,400	1,216,400	1,216,400	0
Surface Water Operating Reserve	893,306	983,035	983,035	983,035	0
Surface Water Capital Contingency	391,380	740,492	740,492	740,492	0
Other Reserves with Targets	20,150,133	21,041,687	15,468,798	17,021,949	(1,553,151)
Reserves without Targets	70,430,209	68,370,962	69,283,823	n/a	n/a
Total Reserves	90,580,342	89,412,649	84,752,621	n/a	n/a

*Adjusted for estimated cash balances through December 2018

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 target comparison reflects revised ending balances to the targets established in the budget process for those reserves with targets.

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		Est. 2017 Beginning Balance	Adopted 2018 Ending Balance	Additional Authorized Uses/Additions	Revised 2018 Ending Balance
GENERAL FUND/CONTINGENCY					
General Fund Reserves:					
General Fund Contingency	Unexpected General Fund expenditures	50,000	50,000	0	50,000
General Oper. Reserve (Rainy Day)	Unforeseen revenues/temporary events	4,803,388	4,829,865	0	4,829,865
Revenue Stabilization Reserve	Temporary revenue shortfalls	2,848,220	3,029,951	0	3,029,951
Building & Property Reserve	Property-related transactions	3,600,000	600,000	947,099	1,547,099
Council Special Projects Reserve	One-time special projects	250,000	381,927	(144,100)	237,827
Annexation Sales Tax Reserve	Preparation for credit expiring in 2021	0	500,000	0	500,000
Contingency	Unforeseen expenditures	4,036,425	5,675,121	0	5,675,121
Total General Fund/Contingency		15,588,033	15,066,864	802,999	15,869,863
SPECIAL PURPOSE RESERVES					
Litigation Reserve	Outside counsel costs contingency	93,871	150,000	(128,250)	21,750
Labor Relations Reserve	Labor negotiation costs contingency	74,342	71,757	0	71,757
Police Equipment Reserve	Equipment funded from seized property	81,687	91,695	0	91,695
Fire OT & Equipment Reserve	Contingency for overtime and equipment	190,704	200,000	0	200,000
LEOFF 1 Police Reserve	Police long-term care benefits	618,079	618,079	0	618,079
Facilities Expansion Reserve	Special facilities expansions reserve	50,663	50,663	(30,000)	20,663
Development Services Reserve	Revenue and staffing stabilization	5,782,995	6,607,183	(1,230,515)	5,376,668
Development Svcs. Technology Reserve	Permit system replacement	1,425,872	1,501,512	(34,007)	1,467,505
Tour Dock	Dock repairs	281,408	327,408	(25,500)	301,908
Park Rental Sinking Fund	20 year facility life cycle costs	0	150,000	0	150,000
Tree Ordinance	Replacement trees program	74,585	118,610	0	118,610
Revolving/Donation Accounts	Fees/Donations for specific purposes	444,696	683,905	(15,954)	667,951
Lodging Tax Fund	Tourism program and facilities	220,068	156,500	0	156,500
Street Fund Operating Reserve	Unforeseen expenditures	100,000	100,000	12,058	112,058
Cemetery Improvement	Cemetery improvements/debt service	727,390	751,435	0	751,435
Off-Street Parking	Downtown parking improvements	217,695	380,978	(62,300)	318,678
Fire Equipment Life Cycle	20-year fire equipment costs	750,804	1,364,204	7,407	1,371,611
Parks Facilities Sinking Fund	20-year parks facilities costs	0	186,000	0	186,000
Police Equipment Life Cycle	20-year police equipment costs	980,914	979,114	183,494	1,162,608
Technology Equipment Life Cycle	20-year technology equipment costs	1,315,713	730,013	0	730,013
Firefighter's Pension	Long-term care/pension benefits	1,225,835	976,955	0	976,955
Total Special Purpose Reserves		14,657,321	16,196,011	(1,323,567)	14,872,444
GENERAL CAPITAL RESERVES					
Excise Tax Capital Improvement:					
REET 1	Parks/transportation/facilities projects, parks	5,213,854	3,834,466	(178,352)	3,656,114
REET 2	Transportation and other capital projects	6,000,344	8,457,722	(5,660,943)	2,796,779
Impact Fees					
Transportation	Transportation capacity projects	1,926,771	3,635,208	6,822	3,642,030
Parks	Parks capacity projects	1,523,337	3,116,107	0	3,116,107
General Capital Contingency	Changes to General capital projects	4,993,407	5,767,606	57,838	5,825,444
Total General Capital Reserves		19,657,713	24,811,109	(5,774,635)	19,036,474
UTILITY RESERVES					
Water/Sewer Utility:					
Water/Sewer Operating Reserve	Operating contingency	2,659,932	2,659,932	0	2,659,932
Water/Sewer Debt Service Reserve	Debt service reserve	501,024	62,022	0	62,022
Water/Sewer Capital Contingency	Changes to Water/Sewer capital projects	613,300	1,216,400	0	1,216,400
Water/Sewer Construction Reserve	Replacement/re-prioritized/new projects	10,591,907	6,915,455	2,084,479	8,999,934
Surface Water Utility:					
Surface Water Operating Reserve	Operating contingency	893,306	983,035	0	983,035
Surface Water Capital Contingency	Changes to Surface Water capital projects	391,380	740,492	0	740,492
Surface Water Construction Reserve	Replacement/re-prioritized/new projects	7,828,203	2,658,105	(1,004,461)	1,653,644
Total Utility Reserves		23,479,052	15,235,441	1,080,018	16,315,459
INTERNAL SERVICE FUND RESERVES					
Health Benefits:					
Claims Reserve	Health benefits self insurance claims	2,058,311	2,022,685	0	2,022,685
Rate Stabilization Reserve	Rate stabilization	1,000,000	0	0	0
Equipment Rental:					
Vehicle Reserve	Vehicle replacements	8,570,163	9,666,346	0	9,666,346
Radio Reserve	Radio replacements	8,463	17,950	0	17,950
Information Technology:					
PC Replacement Reserve	PC equipment replacements	308,453	196,587	0	196,587
Major Systems Replacement Reserve	Major technology systems replacement	1,300,289	0	500,000	500,000
Facilities Maintenance:					
Operating Reserve	Unforeseen operating costs	800,000	800,000	0	800,000
Facilities Sinking Fund	20-year facility life cycle costs	3,152,544	5,399,656	55,157	5,454,813
Total Internal Service Fund Reserves		17,198,223	18,103,224	555,157	18,658,381
Grand Total		90,580,342	89,412,649	(4,660,028)	84,752,621



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
- George Dugdale, Senior Financial Analyst
- Elijah Panci, Senior Financial Analyst
- Doug Honma-Crane, Budget Analyst
- Lori Wile, Budget Analyst

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Economic Environment Update References:

- The Conference Board Consumer Confidence Index Press Release, March 2018
- Carol A. Kujawa, MA, A.P.P., *ISM-Western Washington, Inc. Report On Business*, Institute for Supply Management-Western Washington, March 2018
- Washington State Economic & Revenue Forecast Council, *April Economic & Revenue Update, February Economic Forecast*
- CB Richard Ellis Real Estate Services, Market View Puget Sound, First Quarter 2018
- S&P/Case-Shiller Seattle Home Price Index
- United States Bureau of Labor Statistics
- Washington State Department of Revenue
- City of Kirkland Planning & Building Department
- City of Kirkland Finance & Administration Department

April 2018 Financial Dashboard Highlights

May 17, 2018

The dashboard report reflects the 2018 share of the biennial budget adopted by the City Council on December 13, 2016 and amended on June 20, 2017 and December 12, 2017. The actual revenues and expenditures summarized reflect results through April 30, 2018.

Total General Fund revenues received through April were \$36 million, 38.6 percent of budget, and 8.5 percent higher than 2017 if we exclude the sale of 505 Market for \$2.4 million in 2017. The total revenues in April 2018 outpaced April 2017 despite the lower March 2018 revenues compared to March 2017. Property tax revenues are collected in April-May, and is the major contributor to the total revenues. Property tax for year-to-date April 2018 was already 41.5 percent of its budget, and 24.7 percent higher than in April 2017. Without the increase in property tax this year, revenues through April would be 3.9 percent lower than in 2017.

- Sales tax revenues through April are up 5.3 percent compared to 2017, at 37.2 percent of budget. In terms of dollar growth, Contracting had the highest growth and contributed \$202,688 or 14.7 percent more than last year. Contracting by itself contributed 54 percent of total sales tax revenue growth through April 2018. Other Retail was the second largest growth category, contributing \$107,509 to year-to-date growth, with increasing revenues predominantly in Clothing, Electronics, and Building & Garden. Finally, General Merchandise/Miscellaneous Retail was the third highest contributor, with \$72,104 or 10.8 percent more than April 2017 due largely to the impact of the Marketplace Fairness Act. These figures reflect business activity through February 2018 due to the two-month lag in the receipt of funds from the Department of Revenue.
- Utility tax receipts were \$5.3 million at the end of April 2018, 35.7 percent of the annual budget. This is roughly 3 percent less than 2017. The drop was mainly caused by the warmer winter weather this year and lower telephone and cable taxes as more consumers continue to no longer use the landline and opt for internet-based alternatives.
- Business license revenues through April are \$1,466,944; which represents 45.2 percent of budget. They are above April 2017 receipts by \$99,931, or 7.3 percent.
- Development fee revenues through the end of April were \$4,104,309 and are at 50.3 percent of budget. This is 20 percent above April 2017.
 - Building revenues through April 2018 were \$3,036,699, 59.7 percent of the annual budget and 46.2 percent above April 2017. The increase is driven by large development projects in the City, including Kirkland Urban, The Village at Totem Lake, Juanita High School, and a number of multifamily residential developments.
 - Engineering revenues through April 2018 were \$635,177, 32.8 percent of the annual budget and 18.3 percent below the 2017 year-to-date. The decline is due to revenues from two large street and curb permits and engineering development related to multifamily housing developments received in March and April 2017.
 - Year-to-date Planning revenues were \$311,908, 35.3 percent of the annual budget, and 27.3 percent less than in 2017 due to high revenues from Design Board and Process Reviews in January and April 2017 in regards to the development at The Village at Totem Lake.
- Gas tax revenues through April were \$573,680, which is 30.4 percent of the annual budget and 5.2 percent higher than 2017.

Total General Fund expenditures were 33.1 percent of budget through the end of April.

- General Fund salaries and benefits were \$21.3 million, which is 32.1 percent of the annual budget, just 1.2 percent higher than the first four months of 2017. The increase is due to cost-of-living adjustments and increased health benefit costs, partially offset by two years of retroactive pay for fire employees that was recorded in February 2017.
- Fire suppression overtime charges were \$351,825 through April, 44.1 percent of the annual budget and 5.3 percent less than last year. The decrease is due to temporary vacancies in 2017 that caused more overtime for minimum staffing in February and March 2017.
- Contract jail expenditures through April were \$148,047 in 2018, 9.8 percent higher than in 2017. Despite the decrease in number of days inmates were at SCORE, the daily rates at SCORE have increased 10.3 percent since January 2018 and this somewhat offsets the savings from the reduced number of days.
- Fuel costs through April were at \$152,890, 27.6 percent of budget and \$37,637, or 32.6 percent higher than through April 2017. This increase is both due to increasing usage as well as cost of fuel since January 2018.

Attachments: April Dashboard

City of Kirkland Budget Dashboard for: **April**
 Annual Budget Status as of **4/30/2018** (Note 1) update
 Percent of Year Complete **33.33%**

Date Completed 5/17/2018

	2018 Budget	Year-to-Date Actual	% Received/ % Expended	Status		Notes
				Current Month	Last Month	
General Fund						
Total Revenues	93,430,130	36,044,997	38.6%			
Total Expenditures	98,179,733	32,509,808	33.1%			

Key Indicators (All Funds)

<i>Revenues</i>						
Sales Tax	19,925,537	7,412,038	37.2%			
Utility Taxes	14,857,345	5,300,454	35.7%			
Business License Fees	3,244,927	1,466,944	45.2%			
Development Fees	8,163,190	4,104,309	50.3%			
Gas Tax	1,890,142	573,680	30.4%			
<i>Expenditures</i>						
GF Salaries/Benefits	66,363,555	21,282,301	32.1%			Excludes Fire Suppression Overtime
Fire Suppression Overtime	798,049	351,825	44.1%			Primary driver of suppression overtime is backfill to maintain daily minimum staffing levels
Contract Jail Costs	494,425	148,047	29.9%			
Fuel Costs	553,261	152,890	27.6%			

Status Key

Revenue is at least 5% higher than expected or expenditure is at least 5% lower than expected
 Revenue/expenditure is within expected range (5% buffer)
 WATCH - Revenue/expenditure outside expected range (5% lower Revenue) (5% higher Expenditure)



Note 1 - Report shows annual values during the second year of the biennium (2018).



CITY OF KIRKLAND
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MEMORANDUM

To: Kurt Triplett, City Manager

From: Michael Olson, Director of Finance & Administration
 Tom Mikesell, Financial Planning Manager
 Ellen Sumargo, Accountant

Date: May 15, 2018

Subject: April Sales Tax Revenue

April results reflect sales activity in February, due to the two month lag in reporting sales tax data. Monthly sales tax revenue is **up 3.3 percent** compared to April 2017. Some sector groups exhibited growth, particularly Miscellaneous and General Merchandise/Miscellaneous Retail, while Retail Eating/Drinking showed a substantial drop due to a one-time receipt in the prior year. The following sections discuss the highlights by business sector of the month-over-month results, as well as key economic variables that impact sales taxes.

Comparing April 2018 to April 2017

Comparing collections from the month of April this year and last year provides insight into business sector performance, controlling for seasonal cycles in sales.

2018 Sales Tax Receipts by Business Sector-Monthly Actuals

Business Sector Group	April		Dollar Change	Percent Change	Percent of Total	
	2017	2018			2017	2018
Services	201,250	210,020	8,769	4.4%	12.8%	13.0%
Contracting	340,603	359,974	19,371	5.7%	21.7%	22.2%
Communications	42,610	40,135	(2,475)	-5.8%	2.7%	2.5%
Retail:						
Auto/Gas Retail	367,434	360,638	(6,796)	-1.8%	23.4%	22.3%
Gen Merch/Misc Retail	128,559	156,978	28,419	22.1%	8.2%	9.7%
Retail Eating/Drinking	140,600	115,021	(25,579)	-18.2%	9.0%	7.1%
Other Retail	200,284	200,939	655	0.3%	12.8%	12.4%
Wholesale	73,175	74,536	1,362	1.9%	4.7%	4.6%
Miscellaneous	73,926	101,892	27,965	37.8%	4.7%	6.3%
Total	1,568,441	1,620,132	51,691	3.3%	100%	100%

Comparing month-over-month, April tax collections this year are **\$51,691 (3.3 percent)** higher than in April 2017. In terms of dollar growth, **General Merchandise/Miscellaneous Retail** had the highest growth compared to April 2017, increasing by **\$28,419 (22.1 percent)**. This is due to a new sales tax law in Washington State effective January 2018, called the Marketplace Fairness Act, which requires retailers to collect sales tax on behalf of third party sellers, bringing in more revenue to this sector.

Miscellaneous followed right behind, increasing by **\$27,965 (37.8 percent)**. This is mainly due to a large payment that had no NAICS code, which caused the revenue to fall under unknown category momentarily. In future months, it is anticipated that revenue from unknown category will be coded into specific categories. Other growth sectors were **Contracting** and **Services**, which were up for **\$19,371 (5.7 percent)** and **\$8,769 (4.4 percent)** respectively.

Three sectors showed declines, led by **Retail Eating/Drinking**, decreasing by **\$25,579 (18.2 percent)**. This decline was mainly due to audited back-taxes paid by a single company last year. Controlling for this audited back-taxes, the decline in this category would have been 6 percent. Other declining sectors were **Auto/Gas Retail** and **Communications**, decreasing by **\$6,796 (1.8 percent)** and **\$2,475 (5.8 percent)** respectively.

Year-to-Date Review

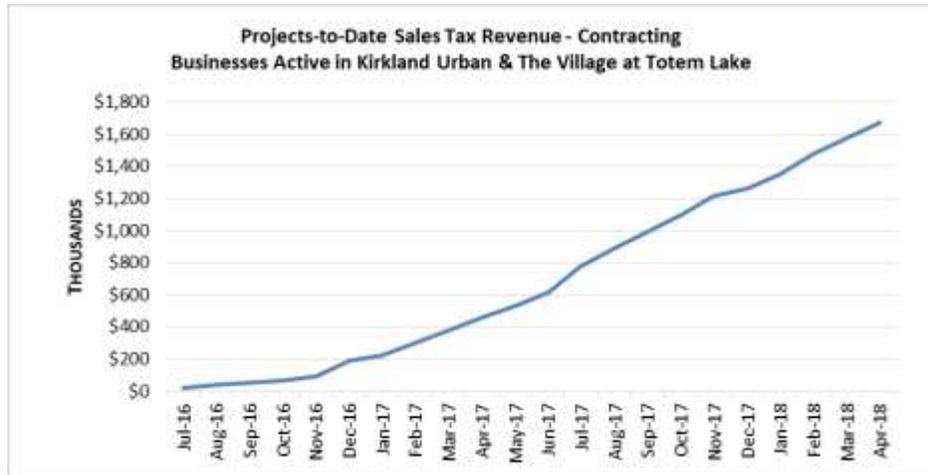
City of Kirkland Actual Sales Tax Receipts

Business Sector Group	YTD		Dollar Change	Percent Change	Percent of Total	
	2017	2018			2017	2018
Services	926,256	945,778	19,522	2.1%	13.2%	12.8%
Contracting	1,379,820	1,582,508	202,688	14.7%	19.6%	21.4%
Communications	243,217	182,551	(60,666)	-24.9%	3.5%	2.5%
Retail:						
Auto/Gas Retail	1,637,097	1,651,003	13,906	0.8%	23.3%	22.3%
Gen Merch/Misc Retail	668,870	740,974	72,104	10.8%	9.5%	10.0%
Retail Eating/Drinking	535,778	514,904	(20,874)	-3.9%	7.6%	6.9%
Other Retail	955,558	1,063,067	107,509	11.3%	13.6%	14.3%
Wholesale	309,748	319,959	10,212	3.3%	4.4%	4.3%
Miscellaneous	380,418	411,294	30,876	8.1%	5.4%	5.5%
Total	7,036,762	7,412,038	375,276	5.3%	100%	100%

Year-to-date sales tax revenues are up **5.3 percent**. **Contracting** is the main contributor to the overall growth, with an increase of **\$202,688 (14.7 percent)** compared to the year-to-date amount from last year. This surge in Contracting itself has accounted for more than half of the total dollar growth. **Other Retail** comes in second, with a **\$107,509 increase (11.3 percent)** that was derived from increasing revenues predominantly in Clothing, Electronics, and Building & Garden. **Communications** and **Retail Eating/Drinking** are the only two sector groups that have negative changes for the year-to-date. Both changes were caused by the back-taxes paid in 2017.

Estimated Revenue Impact of Kirkland Urban and Village at Totem Lake Redevelopment

Since July 2016, Financial Planning has been monitoring revenues from Contracting businesses known to be working on the redevelopment projects at Kirkland Urban and the Village at Totem Lake. Sales tax revenues from these projects, as shown by the chart on the following page, have been a significant component of overall sales tax revenue growth.



Since July 2016, the City has received over **\$1,650,000** from companies known to be working on these redevelopment projects. This represents 21% of total collections from contracting over that period; however, this should be considered an *approximation* rather than a precise number, as this amount includes all the activity from some contractors, even though some of their contributions may be from other locations within Kirkland, and it does not include sales tax from contracting firms that are only small contributors to these locations that are doing other work in Kirkland. In addition, this chart does not take into consideration lost revenue from closed businesses that would have generated sales during this time period if redevelopment did not occur.

National and Regional Economic Context

Information about wider trends in the economy provides a mechanism to help understand current results in Kirkland, as well as predict future performance. The combination of consumer confidence, unemployment levels, housing data and auto sales provides a broader economic context for key factors in sales tax revenues. The table on the following page includes the most recently available data and prior month's readings, for some of the most relevant indicators.

The Conference Board **Consumer Confidence Index** increased to 128.7 in April 2018 from 127.7 in March 2018.

The **Unemployment Rate** went down to 3.9 percent on a national level in April 2018 after remaining stable at 4.1 percent for 5 consecutive months since October 2017. Washington State unemployment dropped to 4.9 percent in March from 5.3 percent in February. The unemployment rate in King County dropped to 3.4 from 3.7 and the unemployment rate in City of Kirkland also dropped to 3.3 from 3.8.

2018 Wider Economic Indicators

Indicator	Most Recent Month of Data	Unit	Month			Yearly Average	
			Current	Previous	Change	2018	2017
Consumer Confidence							
Consumer Confidence Index	April	Index	128.7	127.7	1.0	128.2	120.5
Unemployment Rate							
National	March	%	3.9	4.1	(0.2)	4.0	4.4
Washington State	March	%	4.9	5.3	(0.4)	5.2	4.6
King County	March	%	3.4	3.7	(0.3)	3.7	3.5
Kirkland	March	%	3.3	3.8	(0.5)	3.7	3.5
Housing							
New House Permits	February	Thousands	46.4	39.1	7.3	42.8	45.2
Seattle Area Home Prices	February	Index	238.2	234.2	4.1	236.2	225.2
Inflation (CPI-W)							
National	April	% Change	2.6	2.4	0.2	2.4	2.1
Seattle	April	% Change	3.5	3.5	0.0	3.5	3.4
Car Sales							
New Vehicle Registrations	March	Thousands	25.7	25.0	0.7	25.3	25.5

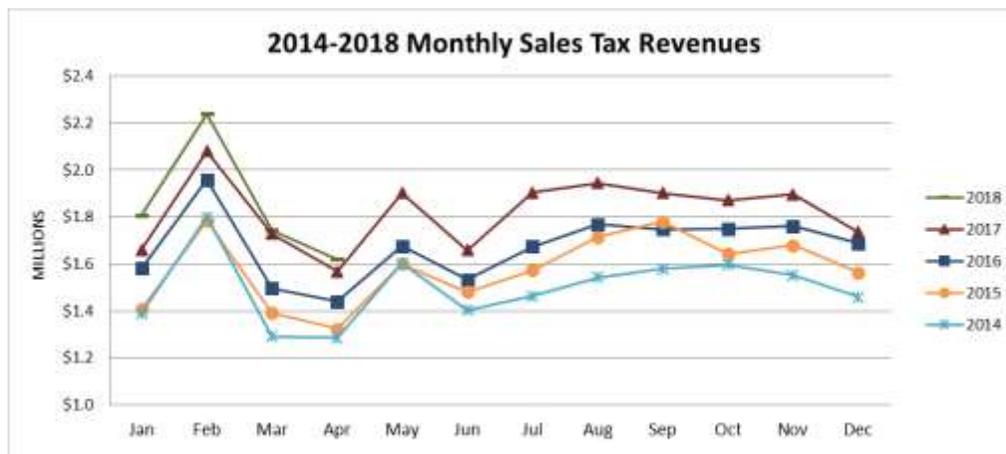
New House Permits showed 46,400 permits issued in February, a 7,300 permit increase from January. This is consistent with the raise that also occurred in the prior year. The **Case-Shiller Home Price Index** is 238.2, up from 234.2 in January. The housing market in Seattle remains strong, and home prices have risen continuously since 2012. The current index in February 2018 stands at 12.6% higher than in February 2017.

Inflation in Seattle, for Seattle-Tacoma-Bellevue, as measured by the CPI-W, is stable at 3.5 in April.

New Vehicle Registrations totaled 25,700 in March, rising from February after declining since December 2017 based on data published by Washington State Economic and Revenue Update.

Conclusion

The chart below shows Kirkland’s monthly sales tax revenues through April 2018 compared to four prior years.



Contracting, Other Retail, and General Merchandise/Miscellaneous Retail have both the highest dollar and percentage growths for the year-to-date. Contracting is undoubtedly leading growth, representing more than half of the total dollar growth year-to-date. Kirkland Urban and the Village at Totem Lake redevelopment projects represent 21 percent of the growth in Contracting so far this year. All sectors combined, 2018 year-to-date revenues are **5.3 percent** above those seen at the same time last year.

Adjusting for Contracting, and for the impact of one-time payments in Communications and Retail Eating/Drinking in 2017, year to date growth would have been 3.5 percent.

Item	Status as of May 2018	Additional Funding Needed
<p>Renovate Fire Station 25, construct new Station 24, and site new Station 27. <i>Goal: Public Safety and Dependable Infrastructure</i></p>	<p>FS25 renovations are underway and are expected to be completed by September 2018. The eminent domain process to acquire the property for new FS24 is in progress and a hearing is scheduled on June 11. Design of the station has commenced. Given the anticipated cost of the FS24 property, the funding to purchase a new FS27 site was reallocated to that project. The property owner of the target FS27 location declined a right-of-first refusal but is considering putting the property up for sale in the next few months.</p>	<p>The cost estimates to purchase the property and construct new FS24 will require \$3.5-4.5 million in additional funds as well as on-going funds for any new staffing. Potential purchase of a new site for FS27 may need to be included as part of a future ballot measure, however, if the target site is listed for sale, existing leases might cover costs in the near-term if debt is structured appropriately.</p>
<p>Explore potential ballot measures for Fire Station modernization and public safety operations. <i>Goal: Public Safety, Dependable Infrastructure and Financial Stability</i></p>	<p>On December 12, 2017, the City Council approved deferral of a potential ballot measure recognizing the delay in Fire Station 24 construction due to the eminent domain proceedings related to the site and other jurisdiction tax increases. At the May 24 Retreat, Council will receive information on the potential for placing a voted sales tax measure on the November 2018 ballot for Public Safety operations in Police and Fire.</p>	<p>If a voted sales tax measure is put on the November ballot, additional funds will be needed toward election costs (initial estimates in the \$100,000-200,000 range).</p>
<p>Facilitate Community Policing through implementation of Police Strategic Plan. <i>Goal: Public Safety and Neighborhoods</i></p>	<p>The Police Department continues to pursue actions to facilitate Community Policing, including establishing the Animal Services Program, Coplogic on-line reporting, enhanced Public Information Officer (PIO) capacity, Coffee with a Cop, and additional community training that included focus group and change agent training by the Change & Innovation Agency to further define actions and measures of success.</p>	<p>Major recommendations from the Strategic Plan may require new funding. For example, addition of 11 new positions plus completing the ProAct unit is estimated to have an annual cost of over \$2 million.</p>
<p>Fund capital investments to support growth in Totem Lake Urban Center. <i>Goal: Economic Development, Balanced Transportation, Parks, Open Spaces and Recreational Services</i></p>	<p>The Capital Improvement Program includes a variety of investments to support growth in the Urban Center including a series of transportation-related projects and development of Totem Lake Park. The City continues to pursue grants that are assumed in the project funding and has success in securing grant funds to date.</p>	<p>The 2017-22 CIP identified \$20 million in funded projects supporting the Urban Center (some of which are grant dependent) and over \$100 million in unfunded projects.</p>
<p>Partner with Sound Transit, the State Department of Transportation and King County Metro Transit to ensure that investments along I-405 serve Kirkland's mobility needs. <i>Goal: Balanced Transportation and Economic Development</i></p>	<p>Sound Transit, Metro and WSDOT are planning significant investments in Totem Lake area and along the I-405 corridor. Staff is carefully monitoring and actively participating in regional discussions. Additional temporary resources were approved by the City Council in March 2018 and new Kirkland capital needs may emerge from these processes.</p>	<p>Additional capital and operating funding needs may emerge depending on the effectiveness of the approved resources.</p>
<p>Partner with ARCH, churches and non-profits to construct a permanent women and family shelter in Kirkland. <i>Goal: Human Services and Housing</i></p>	<p>The City purchase of the property for the shelter closed in late April 2018. Funding for the project has been approved by ARCH, the City of Kirkland, and the State, a funding application is pending with King County, and fundraising efforts are underway. If County funding is approved, the project could break ground in early 2019.</p>	<p>No additional capital funding needs are identified at this time, however the construction climate is challenging. Additional operating funds will be needed based on full-time staff, expanded wraparound services, 24/7 operation and additional capacity.</p>
<p>Implement the Cross Kirkland Corridor Master Plan focused on the Totem Lake Connector and South Kirkland Park and Ride connection. <i>Goal: Balanced Transportation, Parks, Open Spaces and Recreational Services, Economic Development and Neighborhoods</i></p>	<p>The design of the Totem Lake Connector is funded and underway. Grants are being pursued to fund construction. Permitting of the South Kirkland Park and Ride connection is almost complete, but currently funding falls well short of projected costs.</p>	<p>Additional funding of \$3-3.5 million is required to complete the SKPR connection. If grants are not secured for construction of the TL Connector, additional City funds will be required and could be in the \$10-11 million range.</p>
<p>Expand Maintenance Center capacity to meet the service needs of the larger City. <i>Goal: Dependable Infrastructure, Parks, Open Spaces and Recreational Services</i></p>	<p>In March 2018, the City acquired the Office Max property in Totem Lake for Parks Maintenance needs and completed the transaction to take ownership of the King County Housing Authority building for Public Works capacity. Design and estimating of tenant improvements to both facilities is underway.</p>	<p>Current estimates for tenant improvements of \$1.5 million for Parks maintenance and \$0.25 million for Public Works are unfunded and will be addressed in the preliminary CIP.</p>
<p>Procure a new solid waste contract and engage King County and Kirkland residents to determine the future of the Houghton Transfer Station and Houghton Landfill. <i>Goal: Environment, Operational Values of Efficiency and Accountability</i></p>	<p>Staff is expecting to recommend extension of the Waste Management contract for two years and is actively participating in King County efforts related to the Houghton facilities.</p>	<p>No additional funding needs anticipated at this time.</p>
<p>Replace the City's core financial and human resources software. <i>Goal: Financial Stability</i></p>	<p>The implementation of Iyler Munis software is well underway, with Phase 1 Core Financials are on track to go-live in August 2018 and Phase 2 HR/Payroll scheduled for January 2019.</p>	<p>No additional funding needs anticipated at this time.</p>
<p>Enhance resident and business engagement in Kirkland through community-based initiatives that foster a safe, inclusive and welcoming City and a love of Kirkland. <i>Goal: Public Safety, Neighborhoods and Economic Development</i></p>	<p>Staff has convened the Inclusion network and provided support materials to outreach efforts. Applications for the first round of Spark grants are under review and additional events are in the planning stages.</p>	<p>No additional funding needs anticipated at this time.</p>