

2007 - 2008 Budget

KIRKLAND WASHINGTON



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CITY OF KIRKLAND

2007-2008 BUDGET

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2007-2008 BUDGET
BUDGET MESSAGE

INTRODUCTION

As the City's first biennial budget period draws to a close, we begin with a brief review of some of the major highlights of 2005-2006. Economic conditions continued to improve, evidenced by increases in sales and utility tax revenues and development activity. While these are positive developments, they also are occurring in some of the more volatile elements of the City's financial picture. Increased gasoline prices and utilities costs contributed to higher than planned inflation figures in mid-2006, which reinforces concerns related to the City's ability to keep pace with expenditure growth given statutory revenue limitations.

At the mid-biennium, the City Council acted to enhance public safety service levels by approving the addition of thirteen new Public Safety positions to meet critical needs. The City also dedicated the first phase of Heritage Park, celebrated its Centennial, increased its investment in street maintenance, entered into an agreement to redevelop Totem Lake Mall, and made a number of enhancements to technology and infrastructure serving the public.

There is reason to be optimistic looking forward to 2007-2008, while continuing to pursue a conservative fiscal strategy. Based on the stronger revenue results in 2006 and the prospect of higher interest earnings on City reserves in 2007-2008, the City can make significant progress in replenishing reserves to target levels. This action is consistent with the City's approach to prudent fiscal planning, where reserves provide a cushion in bad economic times (such as 2002-2003) and should be rebuilt when economic performance improves.

In addition, the recommended budget will make progress toward addressing the City Council's priorities of economic development, neighborhoods, housing, and environmental stewardship, while

continuing to focus on the long-term challenges facing the City. Major issues include:

- As in prior years, Public Safety needs are a prominent element of the 2007-2008 budget. The recommended addition of four **corrections officers** will ensure more consistent coverage and monitoring at the City's jail. Continuing issues related regional jail needs are being actively analyzed and options pursued with other impacted jurisdictions.
- **Fire station consolidation** is an on-going concern for the City. As part of the 2005-2006 budget, the City provided bridge funding to support staffing at the Forbes Creek station, while maintaining coverage at the North Finn Hill station. This bridge funding will expire on December 31, 2006, which anticipated that the new station would be completed in early 2007. Fire District #41 has not begun construction of the consolidated station at this point, but has recently reaffirmed its intent to proceed. Consideration of continuing the bridge funding, and how the City should best assist with accomplishing the project, are critical decisions impacting the 2007-2008 budget.
- The decision of whether to pursue a regional solution to dispatch needs through creation of a new entity, **NORCOM**, the North King County Regional Public Safety Communications Center, will be evaluated during 2007. If the decision is made to proceed, NORCOM implementation will be an active part of the work plan in 2008.
- An in-depth study of the potential impacts of annexation of the **City's Potential Annexation Area** is underway. Public outreach and financial planning studies are

in progress as part of a multi-phase process of arriving at a final decision on whether to pursue the annexation. At the end of 2006 or early in 2007, the first “go/no-go” decision point will be reached and, if the decision is to proceed further, additional studies and planning activities will need to take place. The service packages associated with annexation have not been funded as part of the preliminary budget, pending the first “go/no-go” decision. However, funds have been set aside in the event that the decision is made to proceed with the next phase, as discussed later.

- Another on-going discussion during the upcoming biennium will involve the City’s large unfunded capital needs. One of these needs is additional space in **City facilities**. This discussion is complicated by the fact that the specific nature of the space needs changes depending on the City’s decision regarding annexation. If annexation occurs, a new public safety facility is a critical need that will require significant resources to construct. In the absence of annexation, the existing public safety facilities require upgrading and additional space will be required for other City functions. Near-term options will be identified to maximize the use of existing space.
- In addition to space needs, the Capital Improvement Plan (CIP) identifies a number of **major investments in infrastructure** that cannot be funded from existing resources. The challenges posed in making progress on these capital needs remains, regardless of the annexation decision. As part of the 2007-2012 CIP budget process, a variety of approaches are expected to be discussed including the use of voted debt, increases in impact fees, and other funding mechanisms.

The City continues to have numerous plans, such as the strategic plans developed for Police and Fire and master plans in Parks, which it is unable to fully implement because of the ongoing financial resources and staff time that are both in short supply. In

addition,¹ new program mandates have been established without on-going funding sources, such as natural resources management, emergency preparedness, graffiti abatement, and on-going support of information technology projects funded by the CIP. Many of these programs began as pilot projects, some of which were grant funded. When the pilot programs are deemed a success, the on-going programs are then “absorbed” by existing resources, putting an additional strain on already stretched resources.

As in the prior budget, the fundamental challenge that we face is the ongoing ability for revenue growth to keep pace with the cost of doing business. As in prior years, roughly seventy percent of the City’s operating budget goes toward the wages and benefits of the employees that provide the City’s basic output – services to the public. With wage and benefit costs increasing faster than inflation, the revenue base cannot keep pace with costs. While progress had been made, the structural imbalance in the City’s financial picture remains and will continue to be a primary topic of discussion and decision-making in the next biennium.

BUDGET OVERVIEW

In keeping with the biennial budget format, most of the descriptions and comparisons we present in the budget reflect two-year totals. In some cases, annual changes are shown to illustrate trends.

The total biennial budget for 2007-2008 is \$318,183,403 which is a 7.8% increase from the 2005-2006 budget of \$295,199,050.¹ Factors contributing to the change include increases in the utility funds and the full impact of the mid-biennium increase in public safety service levels using some of the banked property tax capacity available to the City. **The general government operating budget totals \$151,914,779**, which represents a two-year increase of 10.9% over the previous two-year period. Although this figure may seem larger than average, it should be kept in mind that this increase represents two years of salary and benefits adjustments rather than the annual amounts shown in past years. The

¹ 2005-2006 budget as of June 30, 2006, excluding carryovers.

following table shows the relative change in the budget's major components:

	05-06 Budget	07-08 Budget	% Change
GENERAL GOV'T			
General Fund	95,198	107,267	12.68
Other Operating	20,910	22,598	8.07
Internal Service Funds	20,845	22,050	5.78
Non-Operating Funds	75,867	74,025	-2.43
UTILITIES			
Water/Sewer	53,510	57,256	7.00
Surface Water	13,319	17,925	34.58
Solid Waste	15,550	17,063	9.73
TOTAL BUDGET	295,199	318,183	7.79

The typical focus for the Council's discussion relates to the operating budget which accounts for basic services to the public. The most important (and largest) component of the operating budget is the General Fund which accounts for the majority of general government services and most of the City's general purpose revenue sources. The following sections describe overall revenue and expenditure trends that influenced this budget recommendation and provide a context for understanding this budget and for future financial planning decisions.

REVENUE TRENDS

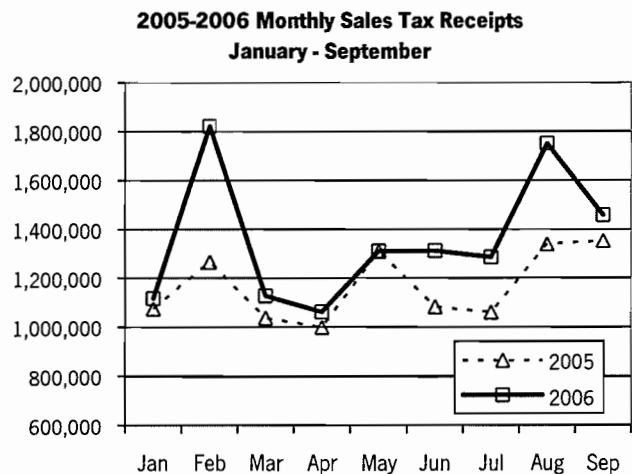
The improved economic climate continues to be the primary contributor to stronger revenue growth than budgeted for 2005-2006. In particular, consistent increases in sales tax and development fee revenue reflect the high level of new construction and the continued stability of the retail base. In addition, the revenue generated by taxes on utilities has increased reflecting the increases in utility costs, especially in the areas of gas and electric rates. While this is a positive impact on the revenue side of the ledger, it also raises concerns regarding cost increases and inflation.

Another area where revenues are improving is the interest earned on the City's investments. Interest rates have increased, resulting in interest revenues at levels that have not been seen in several years. This revenue source is subject to overall market and

economic conditions, and the City's policy of using the revenues for one-time purposes, rather than relying on them as an on-going component of the budget, continues to be prudent.

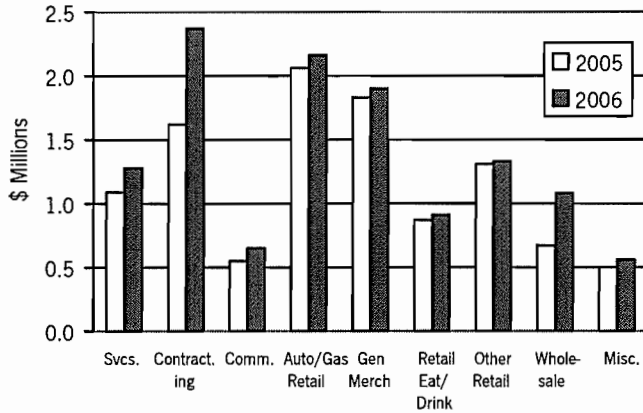
As part of the City's budget and financial planning efforts the City Council continuously reviews and re-assesses the City's revenue base to assure that it is meeting the current financial needs of the community. In general terms, the City's revenue base is not markedly different from most other cities of a similar size and service scope. Although comparisons with other cities are interesting, they should not necessarily guide revenue decisions. Rather, it is more important that the revenue base reflects the values of this community and its preferred land use which, in turn, will help focus economic development efforts.

Sales tax revenue continues to be the City's largest source of general purpose revenue and is one that has seen strong results over the past year. The following chart shows a month-by-month comparison of 2006 sales tax revenue relative to 2005. By the end of 2006, we expect that sales tax revenue will have increased by more than 15% over 2005 levels, although most of the increase is in the construction-related sectors, which are highly dependent on new construction.



Normalizing for this activity, the level of overall sales tax growth continues to track with the 6% growth assumption reflected in the long-term forecast. The graph on the following page illustrates the strong performance in the construction-related sectors.

**2005-2006 Sales Tax Receipts by Business Sector
January - September**



Because of the strong results expected in 2006, the preliminary budget reflects an adjustment to the one-year “lag” budget strategy, which would result in the 2006 actual being the amount of sales tax revenue budgeted for 2007. The one-year lag is a conservative policy, but with the cyclical nature of sales taxes as experienced by the City in 2000-2003, an even more conservative approach is recommended. Given the strength in the volatile construction sector, an estimate of the revenue in excess of projected on-going sales tax growth was held out of the projected 2007-2008 on-going revenues in the basic budget (approximately \$1.9 million for the biennium). A part of this revenue was used to fund on-going service packages (\$385,000) and the remainder will be used to fund recommended annexation service packages (\$1.2 million) if the decision is made to proceed and/or to replenish reserves closer to target levels.

Property tax is the second largest source of revenue for the operating budget and supports services in the General Fund, Street Operating Fund and the Parks Maintenance Fund. A two percent new construction increase was assumed along with a one percent optional increase in the levy, consistent with the assumptions used in the long-term forecasting model. In addition, a use of banked property tax capacity is assumed to fund additional corrections staffing, as discussed later in this overview.

As in prior years, the projected growth in property tax revenues to the Street Operating Fund is not expected to keep pace with the increase in street maintenance

costs, necessitating the use of other resources to maintain adequate working capital (\$250,000 in expected interest earnings for the biennium). If new construction results in revenue growth in excess of the two percent assumed in the budget, this use of sometimes unpredictable interest earnings should be replaced with a transfer of property tax revenues from the General Fund.

Similar to the Street Operating Fund, there is a need to transfer tax revenue to the Parks Maintenance Fund which has property tax as its sole source of income, which is legally restricted to new construction growth plus one percent. As noted in the 2005-2006 budget, the revenue imbalance in this fund was not apparent until 2006, when the parks maintenance special levy operations had completed “ramping up” and all of the planned positions were filled. It is now necessary to supplement property tax with other tax revenue, expected to be \$70,000, to support the labor and operating expenses in the fund that are projected to grow at a faster rate than the dedicated revenue source. Given the property tax growth limitations, this required transfer is expected to grow in future years.

One topic of discussion related to property taxes is expected to be the pending Washington Supreme Court review of the constitutionality of Initiative 747, which imposes the one percent optional levy limit. A decision is not expected before the end of the year, but to preserve flexibility, the Council may want to take action to “bank” the capacity available if the limit is removed.

Utility taxes represent about 15% of the General Fund revenue base and have been an increasing source of revenue, particularly in the gas and electric utility sectors. Changes in budget estimates from one year to the next reflect anticipated rate increases, changes in consumption or adjustment of utility revenue estimates. Telephone utility tax continues to decline as more services are offered at lower prices and through alternative means such as voice over internet. This area will continue to be worth watching as the regulatory environment (and our taxing authority) changes to reflect current technology.

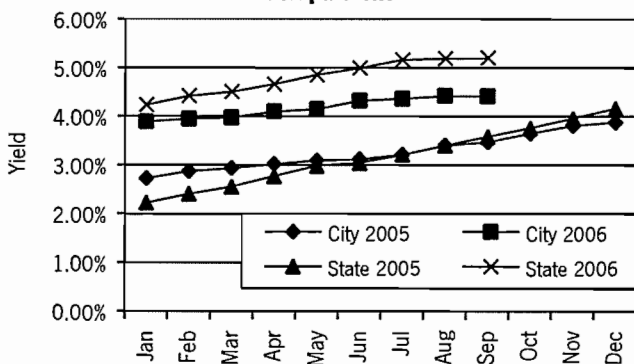
Business license fees are performing better than expected due to the increased emphasis on licensing

“outside” businesses (i.e. not located in Kirkland but doing business within the city limits). There are two elements to the fee – a base fee that is shown in the license and permit category and the surcharge which is shown in the tax section. The continuation and amount of the surcharge will be the subject of a specific policy discussion during the budget process. The preliminary budget assumes that this source of revenue to continue to be collected at a stable rate.

Development fees continue to be a strong source of revenue in the General Fund. By the end of 2006 we expect to have collected approximately \$500,000 in development fee revenue over and above the budgeted amount. At the mid-biennium (year end 2005), the City converted 6 one-time development staff positions to permanent positions based on anticipated workload and established the Development Services reserve to recognize that development revenues are often collected in advance of the time that the work is conducted (for example, required inspections may occur in a subsequent budget period). To recognize this dynamic, an issue paper was prepared as part of this budget to size the current reserve requirement and refine the reserve management guidelines. The 2007-2008 budget incorporates the new on-going staffing and contemplates an addition to the current Development Service reserve balance to recognize revenue collected for services that are expected to be provided during this budget period.

Interest income is an area of substantial improvement from performance in recent years. The City’s investments are currently earning over 4%, as illustrated in the graph below.

City of Kirkland/State Investment Pool Yield Comparisons



2006 interest revenue that is not dedicated to specific funds is expected to be used to fund one-time service packages and reserve replenishment. In addition, strong interest earnings are expected in 2007-2008, with approximately \$1 million expected to be added to move reserves closer to target levels.

EXPENDITURE TRENDS

The effects of inflation (the consumer price index is a factor in wage and cost increases), benefit costs, and commodity costs (gasoline, steel, concrete, asphalt) have impacted both the operating and capital costs in the City budget. Sharp increases in gasoline prices during 2005-2006 necessitated a mid-biennium budget adjustment. While prices have decreased from their highs in August, the 2007-2008 budget has been built to recognize the variability of this cost.

Benefit increases have moderated from the double digit growth of prior years, but still are growing well in excess of inflation. The medical benefits task force established as part of the prior budget process will continue to meet into next year to determine how we can best meet our long-term health care insurance needs, how to do so at an affordable price and how to have more direct control over our costs through proactive health promotion activities. An issue paper on the research to date is included as part of the preliminary budget.

It is the City’s policy to pay its employees at the average of the labor market. Averages are determined by comparing like positions in similar organizations in the Puget Sound area to those in Kirkland. By paying competitive wages, the City will attract and retain quality employees. In addition to periodic market adjustments, cost of living increases are provided for in contracts with the City’s five bargaining units. The Teamsters contract was settled during 2006 and the AFSCME (administrative, technical and professional workers) contract is currently under negotiation. There will be three contracts under negotiation in 2007, commissioned police, police support staff, and the firefighter’s contract. Reserves representing the budgeted wage settlements have been set aside. Wage costs that were known at the time the budget was developed are incorporated within departmental budgets.

One operating fund highlighted in the prior budget that is still under evaluation is the Recreation Revolving Fund, which accounts for fee-supported classes ranging from swim lessons to aerobic classes. Several years ago, the Council was presented with a fee policy for recreation programs that included a recommended level of tax support versus fee support for various programs. Although the council adopted the recommended policy, a specific implementation plan about how the General Fund would subsidize recreation classes was not brought back to the Council. In the meantime, the revolving fund has received subsidies each year from the General Fund. A more permanent resolution of this issue is under development, which may involve consolidating all of the recreation programs within the revolving fund to facilitate application of the cost recovery policy. The preliminary budget reflects the current structure and changes will be brought forward separately as part of a fee update contemplated during the biennium.

SERVICE PACKAGES

The guidance provided to departments for preparation of the 2007-2008 Budget called for maintenance of current service and staffing levels, but provided the opportunity to submit service packages for one-time needs. This guideline recognized that while cash balances have grown, the sources of that growth are volatile and cannot be relied upon for on-going needs. New ongoing positions were most likely to be considered if there was an identified revenue source available to fund them. Although significant new ongoing resources are not projected to be available, we are confident that the one-time resources will be sufficient to fund the recommended one-time service packages in 2007 and 2008.

Even with this guidance, many departments requested ongoing positions because they felt that it was important to identify the needs, even if they could not be funded. A total of 35.20 positions were requested for the two-year period. Of those, 11.95 are recommended, all of which have identified funding sources specific to those positions or address an imminent service level need. Of the 11.95 recommended positions, 4.00 are related to corrections needs. The following discussion describes the service package recommendation included in the 2007-2008 preliminary budget.

Priority was given to services packages that maintained current service levels and addressed the highest priority areas from the City Council's goal-setting session: economic development, neighborhoods, housing, and environmental stewardship.

Ongoing positions recommended for funding include:

- A 0.65 FTE increase in **Courts**, consisting of 0.15 FTE to increase the Presiding Judge from 0.85 FTE to 1.0 FTE (funded from state revenues) and 0.5 FTE for a part-time probation officer to be funded from probation revenues.
- A 0.5 FTE **Accounts Associate** in Parks and Community Services, which is currently funded on a one-time basis. This will increase the current position to 1.0 FTE and is expected to be funded by additional marina/moorage revenues and seasonal expenditure offsets. This position, which processes fee revenues, is key to the more entrepreneurial approach to funding that Parks and Community Services is pursuing.
- A 1.0 FTE **Public Works Engineering Office Assistant** to staff the Engineering counter to provide more responsive customer service. The position is funded as follows: 30% General Fund, 40% Water/Sewer operating, 20% Surface Water, and 10% Solid Waste fund.
- One new **utility billing position** (1.0 FTE) is recommended to be funded jointly by the water, sewer and solid waste utilities. Additional staff time is needed to meet the workload created by the increased complexities of the utility rate structures and increased customer turnover.
- The current **Mail Services Clerk** is at 0.95 FTE, but position requires full-time coverage, which is provided by adding 0.05 FTE. The **Special Projects Coordinator** in the City Manager's Office is also increased by 0.25 FTE, to recognize current service levels and provide support for the Cultural Council.

- The Police department requested 5.0 correction officers (one position, 24/7) to provide round the clock coverage at the City's jail. Adding **4.0 FTEs for increased corrections coverage** is recommended, to be funded by using \$275,000 of banked property tax capacity, leaving a banked capacity balance of approximately \$75,000. While this will not provide a full FTE 24/7, it will provide substantial progress toward covering critical gaps.
- Fire & Building is recommending that **Expedited Review services** be provided with in-house staff, rather than consultants, to address service needs. This action results in adding 3.0 FTEs, which should be fully funded from expenditure reductions, assuming that fee revenues remain at projected levels.

Most of the remaining service packages recommended are funded on a one-time basis (despite the fact that some of them represent ongoing needs). Major items include:

- **Human services funding** is recommended in two pieces. One time funding of \$142,000 is recommended (\$1.49 per capita per year). The addition of \$0.25 per capita each year in the on-going funding level increases the on-going funding per capita from \$8.11 in 2006 to \$8.36 in 2007 and \$8.61 in 2008. Unfortunately, the revenue from these increases may not be sufficient to backfill the elimination of the King County CDBG (Community Development Block Grant) contribution. An issue paper is provided with the budget that contains a table summarizing the changes in funding for human services.
- A Regional Coalition for Housing (**ARCH**) is facing funding challenges due to reductions of CDBG funding. As summarized in the issue paper, the City has increased its contribution in recent years, but the impact has been offset in part by fluctuations in CDBG funding. With the reduction of that source, a range of contributions was provided to the City and the recommended

funding for 2007 of \$216,000 is the midpoint of the City's parity range of \$159,000 and \$269,000.

- The bridge funding to maintain both the **North Finn Hill Overtime Staffing and the Forbes Creek Staffing** (\$700,000) is shown as funded on a one-time basis, however, this reflects that funding has been set aside pending receipt of satisfactory commitment by Fire District #41 to complete the station consolidation in a timely manner.
- Funding for the first year of the **NORCOM** implementation is recommended at \$47,000, which reflects Kirkland's share of the 2007 implementation budget.
- A total of \$385,000 in **temporary staff support for development services** is recommended to meet current service demands.
- Additional **Fire programs**, including emergency preparedness training (\$189,540), and a variety of fire equipment needs (\$111,000), are recommended for one-time funding.
- Technology plays an important role in helping staff meet increasing service demands, requests for information and outreach to the public. A number of **technology improvements** are recommended for funding including the continuation of the Kirkland Free Wireless pilot, disaster recovery/test environment, planned copier replacements, and the continuation of a variety of one-time positions (some of which will ultimately be required to support systems on an on-going basis).
- Continuation of the **state legislative advocate** is recommended for the biennium (\$30,000 per year) and one-time funding is provided for some level of support by the federal legislative advocate (\$20,000), recognizing that the City's involvement in regional affairs and local government legislative efforts is vital to Kirkland's interests.

- **Maintenance and operation of new parks facilities** is funded on an on-going basis for Heritage Park and Heritage Hall and on a one-time basis for 124th Ave. Park (although this represents an ongoing commitment). A number of other one-time requested, including the Parks, Recreation & Open Space plan update (\$45,000), were also funded.
- Funding for the **Youth Council Summit** and video programming is recommended along with **Youth and Senior video programs** through funding of the videographer in IT. Funding for the **summer performing arts series and movies** was converted from one-time to on-going.
- A variety of **planning studies** are recommended to continue work begun in previous years including updates to neighborhood plans and the zoning code. The annual comprehensive plan update has been given on-going funding, which will make this requirement part of the basic budget in future years.
- As mentioned previously, no funding has been recommended related to the **annexation service packages**, pending the “go/no-go” decision in late 2006 or early 2007. However, \$1.2 million has been set aside and could be used to fund these service packages (based on the City Manager’s tentative recommendations), if the decision is made to proceed to the next phase of the process. The funds would be available to further replenish reserves or fund additional one-time needs in the event of a no-go decision.

Once again, as important as the funded service packages are those that are **not recommended for funding**. Most notably, the on-going service packages related to the **Communication Coordinator (PIO)** and **Emergency Preparedness Coordinator** were not funded since they represent increases to current service levels. The other unfunded service packages are contained in the “2007-2008 Service Package Requests and Recommendations” table elsewhere in this

document. As part of arriving at the funding recommendations, a list of high priority 2008 unfunded one-time needs was developed and follows the service package summary. These needs, which include the 2008 ARCH funding and a number of filled one-time positions, will be reviewed at the mid-biennium to determine if additional one-time funds are available.

Any revenue growth anticipated over the next few years will be needed to fund existing service levels. The City Council has discussed a variety of possible voted tax measures for the future including a sidewalk bond, another parks bond and a public safety levy (this issue is discussed further in an issue paper). The prioritization and coordination of these measures will be important to their success. Realistic planning for service enhancements needs to take place with the community so that they are informed about service deficiencies and can make choices about whether they should be funded from new revenue sources.

OUTSIDE AGENCIES

Each year the City Council receives requests for funding from outside agencies. Funding for these agencies comes from the business and community events grant program, lodging tax (as allocated by the Lodging Tax Advisory Committee) and one-time resources. Of the \$469,500 requested for the biennium, \$452,000 is being recommended for funding, which is similar to the 2006 funding level. The on-going funding level doubled to \$70,000 per year, however, a number of the City’s partner agencies continue to be funded with one-time revenues. Specific funding recommendations have been made for 2007; new requests will need to be filed by outside agencies for 2008. An issue paper and matrix summarizing the specific funding recommendations and progress in on-going funding is included with this document.

UTILITIES

The City operates three utilities – a water/sewer utility, a solid waste utility and a surface water utility. Each of these utilities operates independently with its own rate structure. Annual rate changes are needed to acknowledge the general cost of operations, any

new debt service obligations incurred in the previous year and “pass-through” increases from other agencies.

In addition to these cost elements, the City also has a series of financial policies in place that ensure that the utilities are managed in a prudent and sustainable manner. These policies fall in several categories, including reserves for working capital, operating contingencies, and unanticipated system failures, a debt coverage policy to provide flexibility and maintain the utilities’ strong credit rating, and policies to ensure that the level of reinvestment is adequate to maintain the system in a manner that provides a consistent level of service over time. These policies were established in 1998 and the City has succeeded in meeting them in the intervening years. However, the recent rate study indicates that some level of rate increase will be needed to sustain compliance with the capital reinvestment policy. The level of reinvestment in infrastructure since 1998 has significantly reduced water main breaks and sewer overflows and continues to be an important part of keeping the system sound as it ages.

No rate adjustment is recommended for the surface water utility, given the increases implemented in recent years. The current rates have provided a means for funding the required activities identified in the Surface Water Master Plan. While the current rates will meet the 2007-2008 needs, the revenue base does not increase each year. Utility staff will be evaluating long-term strategies to address this issue during the biennium.

A four percent rate increase is recommended for the solid waste utility in 2007. This adjustment reflects cost of living adjustments in the City’s contract with Waste Management and implementation of the environmental stewardship program and commercial organics recycling. No recommendation is made for 2008 at this time, pending King County’s decision on increases to the landfill tipping fee.

No rate adjustment is recommended for water services. The City purchasing water through the Cascade Water Alliance, which is projecting increases in the charges to the City of Kirkland of 5.7% in 2007 and 11.0% in 2008. This pass through increase, taken together with normal increases in operating

costs and compliance with capital reinvestment needs, results in recommended increases of 9.5% each year for 2007 and 2008.

The City purchases sewer treatment services from King County/Metro who will be passing on a nine percent rate increase to cities. Sewage treatment costs represent a large portion of the sewer utility budget and this pass-through cost, increases in normal operating costs and compliance with capital reinvestment needs will require a 12% percent rate adjustment in 2007 and an 7% increase in 2008. It is also important to recognize that King County is projecting a treatment rate increase of almost 20% in 2009.

Looking at the impact of the proposed increases on the typical single family residence, the total utility cost would increase approximately 8.5% in 2007 and 7.5% in 2008.

NON-OPERATING BUDGET

The non-operating budget is composed of capital projects, debt service and reserves. The capital project budget results from development of the six-year capital improvement program (CIP). The new biennial budget cycle includes a comprehensive update of the CIP in the “off budget year,” which will be 2007. In the meantime, the preliminary budget reflects the six-year CIP that was updated and adopted by Council in September of this year.

The City’s debt service budget does not change significantly from year to year unless new debt is issued or old debt is retired. The City’s current utility bond rating reflects the utility’s excellent financial position, Council’s continuing support of sound business practices and the City’s general management capabilities.

As discussed in the introduction, the City’s policy of fiscal discipline helped maintain service levels during the downturn in the economy in past years. Meeting City needs during the lean times has meant that reserves have fallen short of target levels for some time. During the current economic upturn, high priority should be placed on replenishing reserves toward target levels.

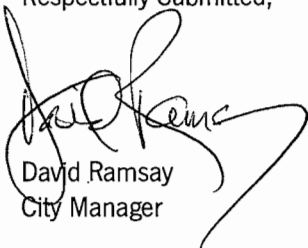
Improved financial performance, coupled with higher projected interest earnings on City cash and investments, affords the opportunity to replenish reserves so that they begin to approach the 2005-2006 target levels by the end of 2008. Unfortunately, with increases in the City's budget, the reserve targets increase as well. The preliminary budget assumes that over \$2.7 million will be added to reserves by the end of 2008, which will significantly close the gap from 2006 targets and make progress toward 2007-2008 target levels. Replenishing reserves should continue to be a high priority if financial performance exceeds planned levels in the next budget period.

CONCLUSION

The City is continuing to see improvement in its financial picture, but there is still work to do in order to address unfunded service needs throughout the organization. There will be a need to revisit the budget after decisions are made regarding annexation and at the mid-biennium to determine whether any of the priority 2008 service packages can be funded.

The development of the preliminary budget is an arduous task for the City staff, especially the Financial Planning staff. We have every reason to be proud of the work done day in and day out by the City staff. With the support of the City Council, it is their efforts that make the City work and make Kirkland an exceptional place to live.

Respectfully Submitted,



David Ramsay
City Manager



Tracey Dunlap
Director of Finance and Administration

POSTSCRIPT

In October and November 2006, the City Council held a series of study sessions and a public hearing to review the 2007-2008 Preliminary Budget proposed by the City Manager. After making a number of changes, the City Council adopted the 2007-2008 Final Budget on December 12, 2006. Overall, the 2007-2008 Final Budget totals \$318.3 million, which represents a 7.57 percent increase compared to the 2005-2006 Budget². Factors contributing to the change include planned increases in all of the utility funds, the full impact of the increase in public safety service levels approved at the mid-biennial update using a portion of the banked property tax capacity available, and planned increases in spending for capital improvements. The 2007-2008 Final Budget is summarized in the following table by fund type:

(\$ in thousands)	05-06 Budget	07-08 Budget	% Change
GENERAL GOV'T			
General Fund	95,338	107,830	13.10
Other Operating	21,070	22,597	7.25
Internal Service Funds	20,845	22,103	6.03
Non-Operating Funds	76,314	74,025	-3.00
UTILITIES			
Water/Sewer	53,510	55,105	2.98
Surface Water	13,319	19,624	47.34
Solid Waste	15,550	17,063	9.73
TOTAL BUDGET	295,946	318,347	7.57

The total General Fund budget is \$107.8 million, which represents an increase of 13.10% from the 2005-2006 Budget. It should be noted that the increase is for a two year period and is primarily the result of employee wage and benefit growth, increased technology costs, and approved service packages.

The final budget incorporates changes made by the City Council and housekeeping adjustments, which resulted in a minor increase to the overall budget.

The changes from the preliminary to final budget are summarized in the following table:

Type of Adjustment	07-08 Total (\$ in thousands)
Preliminary Budget	318,183
Basic Budget Adjustments	0
Service Package Adjustments	567
Outside Agency Adjustments	49
Housekeeping Adjustments	(452)
Final Budget	318,347

Of particular note are the following items:

- Increased human service agencies funding for 2007-2008 (\$70,383)
- Increased allocation to 2007 Kirkland Downtown Association (\$8,500)
- Added a fifth Corrections Officer (\$136,840 for two years), in addition to the four Corrections Officers funded from additional new construction property tax
- Added a Communications Coordinator (\$185,640 for two years)
- Added a half-time Emergency Preparedness Coordinator (\$156,255 for two years)
- Added funding for a Wine Event (\$40,000) in 2007

A one-time "housekeeping" change from the preliminary budget related to a change in the treatment of the Cascade Water Alliance (CWA) regional connection charge revenue/expenditure accounts. No additional funding was required as a result of this change.

Lastly, Council requested follow-up on a number of issues, including:

- Continue to report on Process Improvements.
- The consideration of Performance Management as a potential Council retreat topic.
- A potential Council retreat or workshop topic on Projects Utilizing Long Term Financing.
- A more detailed look at the LTAC/tourism program.
- A report on Special Events Cost Recovery.

² Excluding carryovers.

- Further discussion on long-term issues relating to the Jail.
- A report on human services with a breakout of homelessness initiatives and the final outcome of CDBG funding.
- A discussion regarding a matching program for Special Events funding.
- A report on ARCH projects when they have been decided.

**City of Kirkland
2007-2008 Final Budget
2007 Service Package Requests**

	2007 Department Request				2007 City Council Approved				Funding Source						
	FTE		Total		FTE		Total		Available Fund Balance	External Source	Expenditure Offset	Fees/Charges	Taxes	CIP	Reserves
	Ongoing	One-time	Ongoing	One-time	Ongoing	One-time	Ongoing	One-time							
GENERAL FUND															
Nondepartmental															
Flexpass for City Employees	21,000	-	21,000	21,000	-	21,000	21,000	21,000	21,000	-	-	-	-	-	-
Outside Agency Funding	165,000	60,500	225,500	225,500	-	70,000	164,500	234,500	160,770	-	35,000	-	38,730	-	-
Subtotal Nondepartmental	186,000	60,500	246,500	246,500	-	70,000	185,500	255,500	181,770	-	35,000	-	38,730	-	-
City Council															
Community Survey	-	15,000	15,000	15,000	-	10,000	10,000	10,000	10,000	-	-	-	-	-	-
Subtotal City Council	-	15,000	15,000	15,000	-	10,000	10,000	10,000	10,000	-	-	-	-	-	-
City Manager															
NORCOM Transition (Kirkland Portion)	-	215,000	215,000	215,000	-	215,000	215,000	215,000	47,407	-	167,593	-	-	-	-
Kirkland Cannery Project	-	30,000	30,000	30,000	-	30,000	30,000	30,000	30,000	-	-	-	-	-	-
Vancouver International Sculpture Exhibit	-	62,500	62,500	62,500	-	30,000	30,000	30,000	30,000	-	-	-	-	-	-
State Legislative Advocate Services	-	30,000	30,000	30,000	-	20,000	20,000	20,000	20,000	-	-	-	-	-	-
Federal Legislative Advocate Services	-	40,000	40,000	40,000	-	45,354	45,354	45,354	-	-	45,354	-	-	-	-
Probation Officer & Administration Support	0.50	28,198	28,198	28,198	0.15	28,198	28,198	28,198	-	28,198	-	-	-	-	-
Increase Judicial Services	0.15	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Economic Development - Services for Entrepreneurs	-	5,000	5,000	5,000	-	-	-	-	-	-	-	-	-	-	-
Economic Development - Professional Services	-	30,000	30,000	30,000	-	12,500	12,500	12,500	12,500	-	-	-	-	-	5,000
Economic Development - Marketing and Promotion	-	42,000	42,000	42,000	-	12,500	12,500	12,500	7,500	-	-	-	-	-	-
Economic Development - Doing Business in Kirkland	-	14,000	14,000	14,000	-	14,000	14,000	14,000	14,000	-	-	-	-	-	-
Economic Development Program Update	-	49,200	49,200	49,200	-	15,000	15,000	15,000	34,200	-	-	-	15,000	-	-
Communications Coordinator	1.00	92,253	92,253	92,253	1.00	92,253	92,253	92,253	4,614	-	-	-	92,253	-	-
Special Projects Coordinator	0.25	19,720	19,720	19,720	0.25	19,720	19,720	19,720	4,614	-	19,720	-	-	-	-
Summer Wine Event	-	40,000	40,000	40,000	-	40,000	40,000	40,000	-	40,000	-	-	-	-	-
Subtotal City Manager	1.90	294,725	453,114	747,839	1.90	200,525	412,814	613,339	200,221	68,198	187,313	45,354	107,253	-	5,000
Human Resources															
HR Analyst Reclass to Senior Analyst	-	4,016	4,016	4,016	-	4,016	4,016	4,016	-	-	-	-	4,016	-	-
Temporary Human Resources Analyst	-	75,081	75,081	75,081	-	52,557	52,557	52,557	52,557	-	-	-	-	-	-
Automate Personnel Action Form	-	180	6,360	6,540	-	6,360	6,540	6,540	6,360	-	-	-	180	-	-
Regional HR Initiatives	-	25,000	25,000	25,000	-	-	-	-	-	-	-	-	-	-	-
Respiratory Fit Machine	-	695	10,150	10,845	-	695	10,845	10,845	10,150	-	-	-	695	-	-
Employee Training	-	7,130	7,130	7,130	-	3,530	3,530	3,530	2,330	-	1,200	-	-	-	-
Subtotal Human Resources	-	12,021	116,591	128,612	-	4,891	72,597	77,488	71,397	-	1,200	-	4,891	-	-

**City of Kirkland
2007-2008 Final Budget
2007 Service Package Requests**

	2007 Department Request				2007 City Council Approved				Funding Source						
	FTE	Ongoing	One-time	Total	FTE	Ongoing	One-time	Total	Available Fund Balance	External Source	Expenditure Offset	Fees/Charges	Taxes	CIP	Reserves
Parks & Community Services															
Accounts Associate	0.50	34,489	-	34,489	0.50	34,489	-	34,489	-	-	14,496	19,993	-	-	-
Heritage Park Maintenance Phase I & II	-	26,266	-	26,266	-	26,266	-	26,266	-	-	-	-	26,266	-	-
124th Avenue Park Site Maintenance	-	23,717	-	23,717	-	23,717	23,717	23,717	23,717	-	-	-	-	-	-
Heritage Hall Operations	-	27,593	-	27,593	-	27,593	-	27,593	-	-	-	-	27,593	-	-
Waterfowl Management	-	7,196	-	7,196	-	7,196	7,196	7,196	7,196	-	-	-	-	-	-
Human Services Grant Per Capita Funding Increase	-	117,093	-	117,093	-	11,795	115,528	127,323	115,528	-	-	-	11,795	-	-
Community Center IT Project	-	1,401	10,024	11,425	-	-	-	-	-	-	-	-	-	-	-
Senior Council Increase Access to Services & Programs	-	12,000	-	12,000	-	-	9,500	9,500	9,500	-	-	-	-	-	-
Enhance Wellness Program for Older Adults	-	15,000	-	15,000	-	-	7,500	7,500	7,500	-	-	-	-	-	-
Improving Water Safety	-	10,777	-	10,777	-	-	5,000	5,000	5,000	-	-	-	-	-	-
Comprehensive Park, Rec. & Open Space Plan Update	-	-	45,000	45,000	-	-	45,000	45,000	45,000	-	-	-	-	-	-
Senior Services Needs Assessment	-	-	5,000	5,000	-	-	-	-	-	-	-	-	-	-	-
All-City Youth Summit	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Youth Council Video Program	-	-	9,000	9,000	-	-	-	-	-	-	-	-	-	-	-
Environmental Stewardship - Community Outreach & Ed.	-	-	43,677	43,677	-	-	43,210	43,210	43,210	-	-	-	-	-	-
Leash Law Enforcement	-	-	10,800	10,800	-	-	10,800	10,800	10,800	-	-	-	-	-	-
Step Up to Health	-	-	14,000	14,000	-	-	-	-	-	-	-	-	-	-	-
Summer Performing Arts Series and Movies	-	-	8,370	8,370	-	5,370	-	5,370	-	-	-	-	5,370	-	-
Cemetery Business Plan	-	-	10,000	10,000	-	-	-	-	-	-	-	-	-	-	-
Convert Waterfront Parks Irrigation Systems/Water Rights	-	450	58,346	58,796	-	450	58,346	58,796	-	-	7,150	-	-	-	51,646
Marina Park Dock Master	-	28,400	9,489	37,889	-	20,007	9,489	29,496	9,489	-	-	20,007	-	-	-
Boat Launch Card System Update	-	-	5,000	5,000	-	-	5,000	5,000	5,000	-	-	-	-	-	-
Marina Park Electrical Upgrades	-	-	10,800	10,800	-	-	10,800	10,800	10,800	-	-	-	-	-	-
Subtotal Parks & Community Services	0.50	304,382	239,506	543,888	0.50	125,970	351,086	477,056	281,940	-	21,646	40,000	71,024	-	62,446
Public Works															
Public Works Engineering Office Specialist	0.30	19,273	1,566	20,839	0.30	19,273	1,566	20,839	1,566	-	-	-	19,273	-	-
Alternative Fuel Vehicle	-	2,610	12,000	14,610	-	-	-	-	-	-	-	-	-	-	-
BKR Model Support	-	10,000	-	10,000	-	-	10,000	10,000	10,000	-	-	-	-	-	-
Record Drawing Scanning Project	-	-	5,000	5,000	-	-	5,000	5,000	5,000	-	-	-	-	-	-
Traffic Counts Alternate Years	-	30,000	-	30,000	-	-	30,000	30,000	30,000	-	-	-	-	-	-
Transportation Management Plans Support	-	10,000	-	10,000	-	-	10,000	10,000	10,000	-	-	-	-	-	-
Customer Self-Service Computer Work Station	-	467	5,389	5,856	-	-	-	-	-	-	-	-	-	-	-
Neighborhood Traffic Control Program Support	0.50	28,171	-	28,171	-	-	28,171	28,171	13,734	-	14,437	-	-	-	-
Non-Motorized Plan Update	-	-	50,000	50,000	-	-	50,000	50,000	50,000	-	-	-	-	-	-
Kirkland Intelligent Transportation System Plan/Strategy	-	-	60,000	60,000	-	-	-	-	-	-	-	-	-	-	-
Development Services Permit Center Remodel	-	-	80,000	80,000	-	-	-	-	-	-	-	-	-	-	-
Temporary Construction Inspector	-	-	81,689	81,689	-	-	81,689	81,689	81,689	-	-	-	-	-	-
Subtotal Public Works	0.80	100,521	295,644	396,165	0.30	19,273	216,426	235,699	120,300	81,689	14,437	-	19,273	-	-