



CITY OF KIRKLAND

CITY COUNCIL

Amy Walen, Mayor • Jay Arnold, Deputy Mayor • Dave Asher • Doreen Marchione
Toby Nixon • Jon Pascal • Penny Sweet • Kurt Triplett, City Manager

Vision Statement

Kirkland is one of the most livable cities in America. We are a vibrant, attractive, green and welcoming place to live, work and play. Civic engagement, innovation and diversity are highly valued. We are respectful, fair, and inclusive. We honor our rich heritage while embracing the future. Kirkland strives to be a model, sustainable city that values preserving and enhancing our natural environment for our enjoyment and future generations.

2017 KIRKLAND CITY COUNCIL RETREAT II

Kirkland City Hall

123 5th Avenue

Peter Kirk Room

Tuesday, June 13, 2017

11:00 a.m.

AGENDA

- | | |
|---|------------|
| 1. Call to Order | 11:00 a.m. |
| 2. Roll Call | |
| 3. Agenda Overview | |
| 4. Financial Update | 11:05 a.m. |
| (a) 2016 Year End Status | |
| (b) 2017 Year-to-Date | |
| (c) Strategic Anchors | |
| Lunch | Noon |
| 5. Grant Update | 12:40 p.m. |
| 6. Park Acquisition Strategy | 1:00 p.m. |
| 7. Parks Maintenance Center Expansion | 1:30 p.m. |
| Break | 2:00 p.m. |
| 8. Capital Improvement Program Issues Preview | 2:15 p.m. |
| 9. Council Topics of Interest | 2:30 p.m. |
| 10. Adjournment | 3:00 p.m. |

PLEASE CALL 48 HOURS IN ADVANCE (425-587-3190) if you require this content in an alternate format or if you need a sign language interpreter in attendance at this meeting.

Times provided are our best estimate.
The order of items is subject to change during the Retreat



CITY OF KIRKLAND
Department of Finance & Administration
123 Fifth Avenue, Kirkland, WA 98033 425.587.3100
www.kirklandwa.gov

MEMORANDUM

To: Kurt Triplett, City Manager

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

Date: May 31, 2017

Subject: CITY COUNCIL RETREAT – FINANCIAL PLANNING

The purpose of this memo is to provide information on a number of financial planning topics, including: year-end 2016 financial results and proposed uses of one-time resources, year-to-date 2017 financial results; the 2017-2024 financial forecast, including an analysis of the impact of alternative growth assumptions on financial projections; an update to the "Price of Government"; comparative information on per capita tax revenues collected in Kirkland and neighboring cities; and, an update on Totem Lake and Kirkland Urban revenues in the context of infrastructure requirements in the development agreement and the expiration of the Annexation Sales Tax in 2021.

FINANCIAL STATUS

Year-end 2016

The 4th Quarter 2016 Financial Management Report (FMR) provides a citywide review of revenue and expenditure performance for 2016 (**Attachment A**). From a broad perspective, revenues across all operating funds, including general government and utilities, ended the year 4.7% ahead of projections. In terms of expenditures, operating funds ended 3.8% below budget at 96.2% of budget.

The process of developing the 2017-2018 Biennial Operating Budget began in June of last year. During that process, City staff developed estimates of expenditures and revenues for 2016, to generate forecast for year-end resources available at the beginning of 2017. As financial activity for 2016 is now complete, it is now possible to compare estimates with actual results as show in the table on the next page.

Based on that comparison, staff estimates that an additional \$3.9 million of General Fund resources will be added to the 2017 beginning balance in the General Fund. This is due to expenditures that were \$1.1 million below estimates, and revenues that exceeded estimates by \$2.8 million. Approximately \$1.8 million of the revenue variance is due to development revenue in the final quarter of the year.

Of the \$3.9 million available, approximately \$900,000 is placed into reserves to support future development services work, and another \$60,000 represents donations that are earmarked for work funded through the donations. Council-approved uses include \$28,000 for consultants working on the Houghton/Everest Neighborhood Center update and \$242,000 to create a one-

time Deputy Director position in the Parks and Community Services Department through December 31, 2018 to support the Department's work plan, address standard systems and practices, update its business model to be more sustainable in the long-term, and consider succession planning.

Requests from departments to carryover unspent portions of their 2015-2016 budget appropriations, representing invoices for good or services received last year, or specific project expenses that were not completed last year, represent an additional \$1.38 million. Another \$63,000 represent items that did not meet the technical definition of a carry forward, but represented specific new requests from departments. These items will be included in the 2017 mid-year budget adjustment Staff Summary report to be provided for the June 20 Regular Council meeting.

Of the remaining \$1.27 million, the City Manager proposes \$900,000 be directed for Council Work program items, related investments, and reserves as detailed in the table below. Descriptions of each of the proposed investments are provided after the table. Potential uses of the remaining unobligated portion of \$371,593 is presented in the section after that.

	2015-16 Estimate	2015-16 Actual	Difference Est/Actual
Revenue	183,310,986	186,112,542	2,801,556
Total Expenditures	179,576,628	178,453,099	1,123,529
Fund Balance - 12/31/16	29,918,353	33,843,438	3,925,085
Technical Adjustments:			
Accounting Adjustment			18,701
Development Reserves			(899,828)
Revolving Accounts			(59,356)
Total Adjustments			(940,483)
Approved Uses:			
Houghton-Everest Neighb Ctr.			(28,325)
Deputy Parks Director			(242,397)
Total Approved Uses			(270,722)
Carryovers/Other:			
Recommended Carryovers			(1,379,021)
Department Other Requests			(63,266)
Total Carryover/Other Requests			(1,442,287)
City Manager Proposed			
Transportation Consultant for Work Program			(200,000)
"For Love of Kirkland and Inclusive Community" for Work Program			(75,000)
Full-time Emergency Management Coordinator through 2018			(75,000)
Temp. Staffing for Cultural Arts Commission through 2018			(50,000)
Major IT Systems Reserve			(500,000)
Total City Manager Proposed			(900,000)
Remaining Unobligated			371,593

Transportation Consultant (\$200,000)

The Council added the Work Plan element of partnering with Sound Transit, WSDOT and KC Metro around I-405 and transit investments after the 2017-2018 budget was adopted. This allocation will allow Public Works to contract for additional technical support to effectively engage those entities to ensure project designs serve Kirkland mobility needs. Examples include assisting with the evaluation of service concepts and preferred alternatives for the SR 520 Route Restructure and SR 520 Construction as well as the I-405 BRT and Kingsgate TOD projects. The technical consultants will also assist with evaluating design concepts and preferred design alternatives, preparing information, identifying next steps and preparing staff recommendations for the Transportation Commission, City Council and the Ad-hoc City Council Transportation group by providing briefings, preparing materials and making recommendations in coordination with City staff.

For Love of Kirkland and Inclusive Community Support (\$75,000)

The Council also added the Work Plan element of engaging Kirkland businesses and residents in these two community based initiatives after the 2017-2018 budget was adopted. Staff has convened a community stakeholder group that is brainstorming ideas for both initiatives. The group articulates the purpose of the coalition as one that *embraces connections, connects community, connects neighbors, celebrates diversity, grows understanding and co-creates Kirkland.*

This allocation will fund a spectrum of potential actions to support these community conversations that could include grants to neighborhoods, public outreach and survey support, and pilot programs that implement the goal of keeping Kirkland a welcoming, inclusive community that is loved by those who live, work and play here.

Full-time Emergency Management Coordinator (\$75,000)

The Cascadia Rising exercise of 2016 demonstrated that neither the City organization nor the Kirkland community is appropriately prepared for a major catastrophe. The recent transitions of the Emergency Manager and part-time Emergency Management Coordinator have created a backlog of critical actions that need to be implemented to prepare the City for all potential hazards. This allocation will allow the Fire Department to increase the Coordinator position to full-time through the end of 2018 to reduce the backlog and help prepare the City. Near term actions will include adoption of Continuity of Operations (COOP) and Continuity of Government (COG) plans, as well as a renewed focus on Kirkland staff preparedness and training.

Temporary Staffing for Cultural Arts Commission (\$50,000)

In 2016 the Council adopted formal 1% for the Arts policies that will result in public art investments throughout the City as major public infrastructure projects are completed. Council policies give the Cultural Arts Commission (CAC) responsibility to coordinate development of this art and advise the Council on 1% for Art selection and implementation. The adopted budget allocates a small amount of time from the Economic Development program to support this effort and the overall Commission. The significant number of capital projects resulting in arts projects has overwhelmed the current funding. This allocation would help support the work of the Commission with temporary staffing and consultant resources to allow the CAC to keep up with the art selection and implementation. A re-assessment of the on-going resource needs of the CAC will be part of the 2019-2020 budget process.

Major IT Systems Reserve (\$500,000)

The City Manager is proposing to begin rebuilding the Major IT Systems Reserve, which was recently drawn to zero balance to fund the Finance/HR System Replacement in the capital budget. This is consistent with how the reserve has traditionally been funded: through the use of interest earnings or one-time surplus funds. Finance, IT and CMO staff are evaluating the creation of an IT sinking fund for major IT systems. Options for such a sinking fund will be part of the 2019-2020 budget discussion.

Staff will be seeking direction as to whether the Council concurs with, or wishes to amend the City Manager recommendations.

Potential Uses of Remaining Unobligated

Staff will also be seeking direction from the Council on possible uses of the remaining \$371,000. The City Manager suggests several potential categories for use of the funds.

Public Safety Investments

There are some key one-time investments in Police and Fire facilities that can create efficiencies, reduce cost growth, or protect previous public safety investments.

Police: Converting the two “drunk tanks” at the Kirkland Justice Center to inmate cells by adding toilets, sinks and showers for an estimated cost of up to \$150,000. The extra cells would help reduce the use of inmate transfers to SCORE by providing the KJC with more flexibility to address inmate classification issues and to house female inmates, saving both money and staff time.

Fire: Year-round weatherproof covered storage for Water Rescue Craft with a very preliminary estimated cost of up to \$100,000. Currently, the rescue craft reside on the water at the Anthony’s Marina Dock. Kirkland’s first year of experience with the rescue craft shows that wind and wave action caused minor damage, and exposure to weather created mold and mildew. To protect the investment in the craft and the rescue program, the Fire Department recommends exploring options to provide covered, heated storage and transport capabilities.

ARCH Housing and/or Human Services Grant Funding

Some or all of the unallocated revenue could be dedicated to the ARCH Trust Fund, the Women and Family Shelter, or supplemental Human Services Grants as recommended by the soon-to-be-formed Human Services Commission

Reserve Replenishment

Some or all of the remaining unallocated revenue could be used for early replenishment of General Fund Reserves. A status update on the reserves is provided on the following page.

General Purpose Reserves Review

In the 2017-2018 Biennial Budget, reserve replenishments were programmed representing 1 percent of the General Fund budget, totaling \$1.8 million over the biennium. This plan brings the General Purpose Reserves within approximately \$1 million of target levels, as shown in the table below. On the current schedule, reserve replenishment will be completed in the 2019-2020 budget.

Reserves	Estimated 2016 Ending Balance	Estimated 2018 Ending Balance	2017-18 Target	Revised Over (Under) Target
GENERAL PURPOSE RESERVES WITH TARGETS				
Contingency	4,036,425	5,675,121	6,076,030	(400,909)
General Capital Contingency	4,993,407	5,709,768	6,317,430	(607,662)
General Oper. Reserve (Rainy Day)	4,803,388	4,829,865	4,829,865	-
Revenue Stabilization Reserve	2,848,220	3,029,951	3,029,951	-
Council Special Projects Reserve	250,000	316,927	250,000	66,927
Building & Property Reserve	3,600,000	600,000	600,000	-
General Purpose Reserves with Targets	20,531,440	20,161,632	21,103,276	(941,644)

The reserves that are not at target levels include:

- **Contingency Reserve Fund**, which shall be maintained in accordance with RCW 35A.33.145 to meet any municipal expense, the necessity or extent of which could not have been reasonably foreseen at the time of adopting the biennial budget. The target balance will be set at 80 percent of the statutory maximum of \$0.375 per \$1,000 of assessed valuation; and,
- **General Capital Contingency**, which is established to address unforeseen capital project expenditures or external revenue shortfalls in an amount equivalent to ten percent of the funded two-year CIP budget, less proprietary fund projects.

2017 Year-to-Date Financial Status

The Financial Management Report (FMR) provides a review of revenue and expenditure performance for the quarter ending March 31, 2017 (**Attachment B**) and provides more detailed information on economic conditions and financial performance. Overall, financial conditions in the first quarter of 2017 continued to show strength, with strong revenue growth particularly in areas related to development. Expenditures are on pace with 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 C**):

- Total **General Fund revenues** were at 38.1 percent of the budget through the end of April, one third of the way through the year. Key revenues, including sales tax, utility taxes and development fees are all ahead of last year.
- Overall, **General Fund expenditures** are consistent with budget projections with 31.1 percent of budget spent through April. Salaries and benefits are 13.1 above the same period last year, which is due to retroactive pay and base pay adjustments in accordance with 2017 contract amounts for bargaining agreements that were recently settled.

The April sales tax memo (**Attachment D**) 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 8.7 percent compared to the same period in 2016, with positive growth in most major sectors, led by the Contracting and Services sectors. Contracting accounts for the lion's share of the growth, representing 70.8 percent of the year-over-year gain, in part due to the Village at Totem Lake and Kirkland Urban. After accounting for this, and a number of smaller one-time factors, including the impact of a one-time payment of back taxes in the Communications category, year over year growth is 3.0%.

FINANCIAL FORECAST

The baseline financial forecast has been updated to reflect actual revenues and expenditures in 2016 and to account for the adopted 2017-2018 Biennial Budget. The forecast end date has been extended to 2024, to provide a 6 year forecast that includes the next three biennial budgets beyond the current biennium, and to include the impact of the expiration of the Annexation Sales Tax Credit in mid-2021. As with prior forecasts, the forecast includes the Annexation Sales Tax Credit at \$3.9 million in 2017 through 2020, declining to \$1.97 million in 2021 (due to the June 30 expiration) and no revenue in 2022.

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.

The key assumptions in the Baseline Forecast include:

- Revenues
 - Based on 2017 and 2018 adopted budget;
 - Private utility taxes growth of 0% in 2017-2018, 1% per year thereafter;
 - Sales tax growth of 0% growth in 2017 and 2018 consistent with modified two-year lag, and 3% per year 2019-2024;
 - Annexation sales tax credit (ASTC) assumptions:
 - \$3,935,000 in 2017-2020;
 - \$1,967,00 in 2021 reflecting the end of the 10th year on June 30, 2021; and,
 - Expires mid-2021.
 - 1% optional property tax and 1% annual growth in new construction property taxes;
 - 2% growth in other taxes (revenue generating regulatory license and gambling taxes);
 - 2% annual growth in other revenue;
 - 1% growth in state shared revenue other than the ASTC; and,
 - No use of reserves.
- Expenditures
 - Based on 2017-2018 adopted budget;

- 3% annual growth in wages in 2019-2024 (assumes long term trend based on 2% raises, 0.5% steps & longevity, 0.5% market and other adjustments);
- 6.1% annual increase in total benefits in 2019-2024, derived as follows:

Category	Average Share of Benefits (2012-2016)	Projected Growth	Share of Composite	Rationale
Health, Dental, Life	62%	5.0%	3.08%	cadillac tax compliance
Industrial Insurance	5%	8%	0.39%	average of last 3 years
Pension Contributions	18%	12%	2.16%	average of last 3 years
MEBT	13%	3%	0.40%	salary growth
All Other Benefits	2%	3%	0.07%	salary growth
Composite Growth Rate			6.10%	

This is 1% higher than the rate used in the 2016 forecast, due to an increase in the Health, Dental, and Life growth rate to 5% from 3.5%. The 2016 forecast used a budgeted health premium amount that had been established prior to implementation of the Healthy Kirkland Plan; the 3.5% growth assumption was built off of this base funding amount. Based on the results of Healthy Kirkland, the budgeted premium amount was higher than actual needs for self-insurance. The 2017-2018 budgeted transfers to the Health fund have been re-based in light of the lower funding requirements.

Because of the downward base adjustment, we are using a slightly higher growth assumption of 5% provided by our benefits broker. This rate is conservative based on our continuing results from the Healthy Kirkland program, but it is also lower than the 8% rate normally assumed for health cost growth nationally.

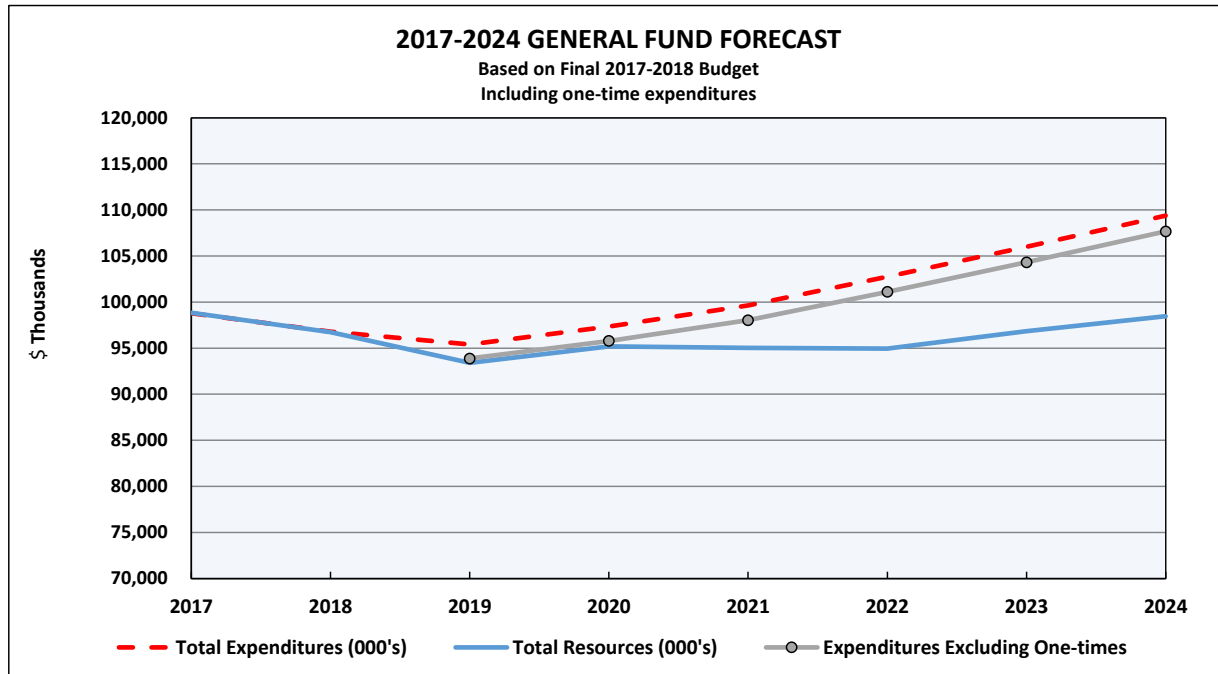
- 1% growth in supplies, services & capital;
- Planned transfers in 2019-2024 include:
 - \$391,252 in 2019-2020 for the Walkable Kirkland Program in the Transportation CIP;
 - \$114,000 per year to fund CIT 0200 Geographic Information Systems in the CIP and \$60,000 in 2020 for Emergency Generators in the Public Safety Program in the CIP;
 - Estimated City Hall and Kirkland Justice Center debt and sinking fund transfers for years 2019-2024; and,
 - 1% planned reserve replenishment until 2019, after which time reserves will be at target.
- Assumed continuation of recurring one-time expenditures beyond 2017-2018, as described in the 2017-2018 Budget Message and detailed in the table on the following page:

Title	2017	2018
2018 Community Survey	-	30,000
4Culture Arts Sustained Support	8,000	8,000
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
Court Security	111,768	108,441
Eastside Timebank Operating Support	3,000	3,000
Engineering Program Assistant	49,223	49,508
Grant Support for Capital Engineering	30,000	30,000
Human Services Option 3	85,430	87,139
Jail Administration	85,719	82,999
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 Traffic Control Coordinator	67,090	67,509
State Legislative Advocacy Services	60,000	60,000
Supplemental Human Services Grant Funding	84,865	84,865
Transportation Planner	128,603	135,055
ARCH Housing Trust Fund Sustained Support	415,000	415,000
CIP Outreach Coordinator	67,090	67,509
Total	1,382,924	1,503,286

A final assumption that underpins this model is that there is no national recession projected in the forecast period. This assumption becomes less certain with each additional year of growth since the last recession. The Business Cycle Dating Committee of the National Bureau of Economic Research (NBER) provides the determination of the beginning and end of each business cycle. According to NBER data, the average number of months of economic expansion from trough to peak in the post-war period is 58.4 months, a little under 5 years.

The current national economic expansion began June 2009, and is closing in on its 8th year. While the economic adage states that 'expansions do not die of old age', it is instructive to refer to the historical average when reviewing growth assumptions. The assumptions included above are conservative, the modified two year sales tax lag in particular, providing some hedge against the fact that a specific recession is not called-out in the forecast. However, it is likely that in the event of a national downturn one or more revenue growth rates will turn negative.

Given the assumptions above, the following graph and table provide an overview of the General Fund 6 year forecast.



	2017	2018	2019	2020	2021	2022	2023	2024
Total Expenditures (000's)	98,776	96,792	95,413	97,342	99,630	102,739	105,989	109,377
Total Resources (000's)	98,829	96,738	93,398	95,184	95,042	94,940	96,848	98,466
Net Resources (000's)	53	(53)	(2,015)	(2,158)	(4,588)	(7,800)	(9,141)	(10,911)
Biennium Total (000's)		(0)		(4,173)		(12,388)		(20,052)

As shown, a biennial deficit of \$4.1 million is projected in 2019-2020, increasing to \$12.4 in 2021-2022 when the \$3.9 million Annexation Sales Tax Credit expires. Approximately \$1.5 million of the deficit in each year is due to the continuation of one-time expenditure items that do not have an ongoing funding source. For a perspective on the expenditure trend if the one-time spending items are excluded in 2019 through 2024, an alternate trend line is included in the chart above. The remainder of the difference in net resources under either expenditure scenario is due to projected revenues growth not keeping pace with expenditures, and the loss of the Annexation Sales Tax Credit.

In terms of explaining trends, the downward shift in revenues and spending from 2017 to 2018 is due to the effect of using one-time prior year resources forward to fund one-time expenses in 2017, in particular the transfer of \$3 million to the Public Safety Capital Budget to support Fire Station construction.

To provide a sensitivity analysis to allow alternate growth projections, the following table indicates the impact of an additional 1 percent growth based on 2017 levels for major revenue and expenditure categories.

1% Sensitivity Analysis*

Revenues	1%	% of Total
Sales Tax	198,910	21%
Property Tax	183,850	20%
Utility Taxes	146,616	16%
All other Taxes	101,267	11%
Licenses and Permits	85,578	9%
Intergov	23,831	3%
Charges for Services	159,761	17%
Fine and Forfeits	18,860	2%
Misc	16,805	2%

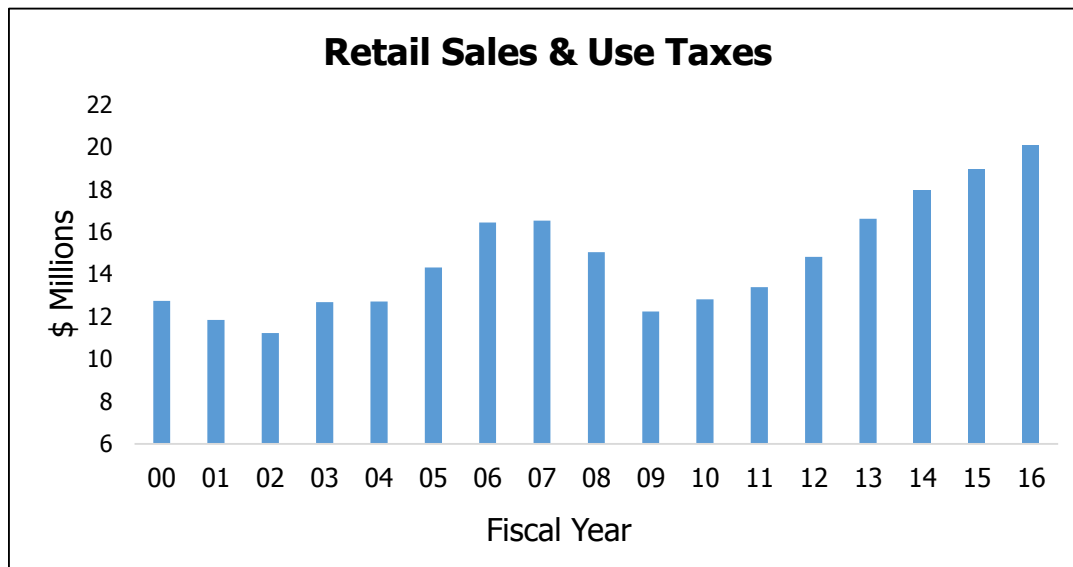
Expenditures	1%	% of Total
Salaries and Wages	459,170	46%
Benefits	188,080	19%
Supplies	9,863	1%
Services	183,124	19%
Intergov/Interfund	146,923	15%
Capital	604	0%

*Based on 2017 Amounts

As shown in the table, Salaries and Wages growth projections have the largest expenditure impact for each 1 percent, representing \$459,170 on an annual basis. This is because this line of the budget generally represents 46% percent of the General Fund. It is also important to note that increases in personal services spending are persistent as long as staffing levels are kept consistent from year to year, and that this increase is compounded with the addition of new staff.

On the revenue side, sales taxes and property taxes are in close proximity in terms of 1 percent impacts, representing impacts of \$198,910 and \$183,850, respectively. Property tax revenues, due to the statutory provisions that caps annual growth at the lesser of 1 percent or inflation plus the value of new construction, are generally stable and only threatened by year over year decreases when inflation rates are negative. The flipside is that, due to the cap, the only growth potential above 1 percent is in the way of new construction.

Sales taxes, on the other hand, are a relatively volatile revenue stream, heavily influenced by economic factors. This is best portrayed by the following chart of historical retail sales tax collections, including two recessions:



The impact of the expiration of the Annexation Sales Tax Credit (ASTC) in 2021 can be seen at the end of the projection period. Measures that have been taken to help the City adjust to the future 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% of revenues would go toward reserve replenishment until reserves reach their targets, which is projected in 2019. The removal of this requirement would reduce the operating budget by approximately \$900,000 a year, continuing through the expiration of the ATSC; and,
- Creation of a \$500,000 Annexation Sales Tax Reserve from ongoing revenue in 2018.

It bears mention that the forecast discussed above includes the impact of these measures. However, the forecast does not include an estimate of the potential revenue and expenditure impacts from the Village at Totem Lake and Kirkland Urban developments when they are completed. As more information about the scope and timing of the economic impact and cost increases (debt service demands) from each project becomes available, staff will be able to incorporate estimates into future forecasts.

The Village at Totem Lake and Kirkland Urban development projects are principal elements of the City's comprehensive growth plan as well as the financial plan to backfill the \$3.9 million revenue loss to the General Fund from the expiration of the Annexation Sales Tax in 2021. As the ultimate revenue impacts of these projects are as yet unquantified, they are not included in the financial forecast. Another impact that is not included in the forecast is the commitment in the Totem Lake Development Agreement to fund \$15 million of public infrastructure improvements in the Totem Lake vicinity. As an initial down payment towards this obligation, \$5 million has been reserved in existing REET 2 balances in the 2017-2018 budget. The current plan for the other \$10 million is to be funded using long-term debt, although continued

economic growth may allow for additional one time funds to be used to reduce the amount that must be borrowed.

Annual debt payments would be approximately \$567,000 per year to repay \$10 million, based on a 30 year amortization schedule, at 3.77% interest, which represents current market rates. Sensitivity analysis reveals that each quarter percent fluctuation in the interest rate would add (or subtract) approximately \$10,600 in debt service each year. The Federal Reserve continues to speak of one or more increases to the Federal Funds rate this year, which could result in an increase to long term borrowing rates by the end of the year.

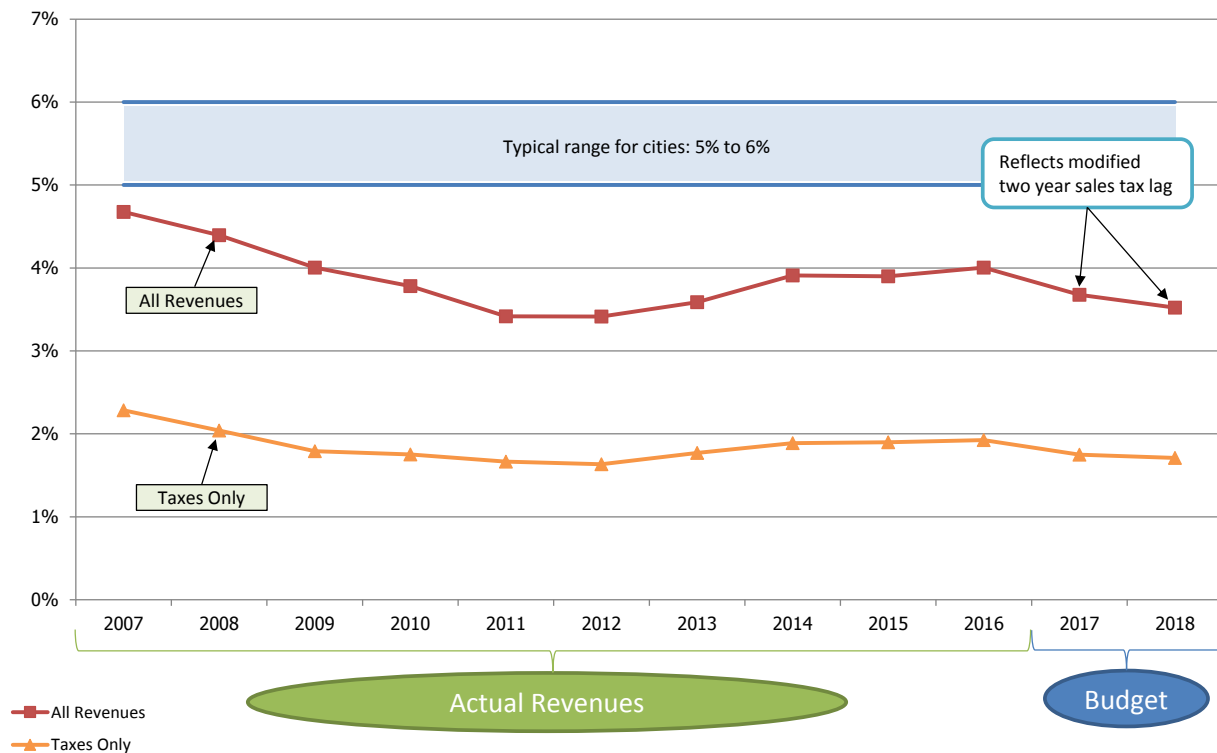
The financial concept behind the development agreement is that the debt repayment should come from revenues from the project. To potentially offset some of this obligation, an option would be to set aside contracting sales taxes from the Village at Totem Lake project.

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 through 2015, 2016 estimates, and the 2017-2018 preliminary budget. The personal income data reflected actuals published by the U.S. Census Bureau (American Community Survey through 2015 and projections based on the Washington State Economic and Revenue Forecast Council (ERFC) personal income growth forecast. Staff has updated the Price of Government graph to now include 2016 actual revenues and adopted 2017-2018 budgeted revenues. The update also includes a revised personal income growth forecast for 2015 through 2018. The revised graph is shown on the following page:

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



Since the last update, the Price of Government in Kirkland has risen very slightly in 2015 through 2018, based primarily on downward revisions to the Washington State ERFC's personal income growth forecast in March 2017, which is used to derive the aggregate personal income metric. The following table compares the prior and current figures:

	2015	2016	2017	2018
All Revenues				
Preliminary Budget	3.89	3.77	3.61	3.42
Current – May 2017	3.90	4.00	3.68	3.52
<i>Change</i>	<i>0.01</i>	<i>0.23</i>	<i>0.07</i>	<i>0.10</i>
Taxes only				
Preliminary Budget	1.89	1.89	1.72	1.66
Current – May 2017	1.90	1.93	1.75	1.71
<i>Change</i>	<i>0.01</i>	<i>0.04</i>	<i>0.03</i>	<i>0.05</i>

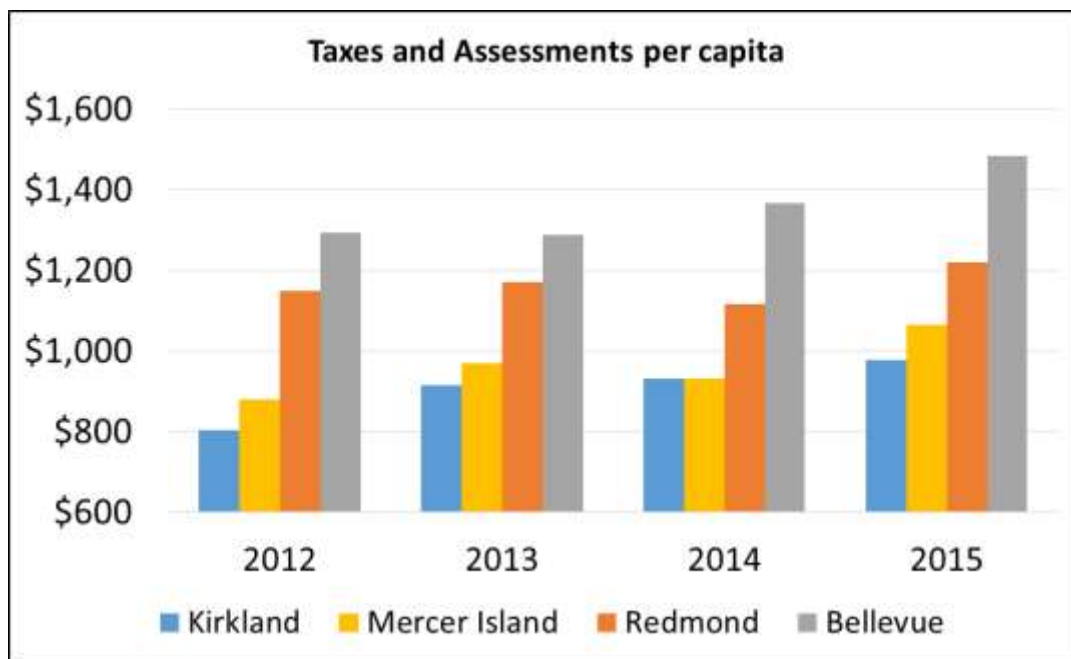
In each year, a slightly lower personal income forecast results in a marginal increase in the calculated price of government. The largest change is in the 2016 "All revenues" figure; this is due to higher than estimated collection of development and impact fees in the second half of the year. Even with these minor changes, the total revenues are still below 4 percent and "taxes-only" are below 2 percent of Aggregate Personal Income. Furthermore, this is below the typical range for cities of 5% to 6%. This outcome continues the trend established in prior years where the price of government increased modestly as actual revenue data was added to the model and as personal income estimates were revised.

While comparisons with the typical range for cities is one perspective for viewing this metric, perhaps more powerful is the analysis of historical trends, to capture changes in the price over time. From that perspective, the majority of the rise is due to high levels of development related revenues, particularly development fees, Real Estate Excise Tax (REET), and Contracting sales taxes. Each of these have been at historically high levels in recent years. This can fluctuate significantly with economic cycles, and is not related to policy changes to taxes or fees.

As the change in the Price of Government over recent years has happened without action on the part of the City, due to ERFC revisions and robust development revenue activity, this 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, rather than as a single measure of financial stability in Kirkland.

COMPARATIVE TAX COLLECTIONS REVIEW

While the Price of Government provides a mechanism to help define a band in which residents are willing to pay for government services and to provide a comparison over time, it does not foster a comparison of aggregate capacity to fund government services. To allow for such a review, per capita taxes and assessments data were collected from Comprehensive Annual Financial Reports for Bellevue, Redmond, and Mercer Island. These data are compared to similar information for the City of Kirkland in the following chart.



As shown in the chart, the City of Kirkland has consistently lower total taxes and assessments per capita than its neighbors. There are a number of reasons for these differences including the presence of major private employers, the relative sizes and composition of the property tax base, and specific revenue portfolio differences.

Though Redmond has approximately 24,000, or nearly 30 percent, fewer residents than Kirkland, its revenues in 2015 were only \$9 million, or 11 percent lower. This is largely due to the presence of the Microsoft Corporate headquarters which comprised \$1.9 billion of its taxable assessed value in 2015; this is \$1.1 billion larger than the City of Kirkland's top ten taxpayers combined in 2015. In addition, Microsoft employed 34,358 people in 2015 which, on its own,

was more than three times the combined employment total of Kirkland's top ten employers. This adds substantial daily economic activity within the city limits, through both sales taxes from Microsoft directly as well as ancillary daily economic activity of employees.

Bellevue's population is 61 percent larger than Kirkland's, though its assessed property value is 104 percent greater than Kirkland's. As a mid-sized urban center, its top ten taxpayers accounted for \$3.5 billion of assessed value in 2015, compared with Kirkland's \$895 million in assessed value from the top ten. Bellevue's tax collections in 2015 were 155 percent higher than Kirkland's, due to a much larger sales tax base. This is in some portion due to the presence of large shopping malls, including Bellevue Square, Lincoln Square, and Bellevue Place. In addition, Bellevue levies a Business and Occupations tax, which generated \$37 million in 2015, compared to the \$2.3 million generated from the Revenue Generating Regulatory License (head tax) in Kirkland.

Mercer Island is the jurisdiction that is closest in comparison to Kirkland on a per capita basis, though in 2015 the population was 28 percent of Kirkland's while the tax collections were 30 percent. Noteworthy in this comparison is that Mercer Island levies a B&O tax that generated \$4.7 million in 2015, compared to \$2.3 million from the RGRL in Kirkland.

The implication of the revenue differences is a comparatively lower capacity to provide additional funding for emerging service and infrastructure needs in Kirkland. That said, recent changes, including the location of Google in Kirkland and recent development activity, have helped Kirkland gain ground in this metric. As shown in the following table, Kirkland has seen the fastest growth in this gauge since 2012, in particular due to the 2013 levy lifts.

City	Total Taxes/Assessments per capita				% Change 2012-2015
	2012	2013	2014	2015	
Kirkland	\$802	\$914	\$930	\$976	21.7%
Redmond	\$1,148	\$1,169	\$1,115	\$1,219	6.2%
Bellevue	\$1,292	\$1,287	\$1,366	\$1,484	14.8%
Mercer Island	\$878	\$968	\$932	\$1,064	21.2%

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, anchored by strength in Contracting sales tax collections, and expenditures continue to come in below budget. A review of the Price of Government demonstrates the City continues to provide affordable services.

The Financial Forecast continues to signal the financial challenge beyond the 2017-2018 Biennium. There are a number of options that can be considered to address this, including revisiting revenue growth assumptions, scheduled reserve transfers and the modified two-year sales tax lag policy, among others. 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.



Financial Management Report as of December 31, 2016

AT A GLANCE:

Kirkland Parks and Community Services launches new online registration and rental portal (page 2)

2016 General Fund revenues increased 7.6% over 2015 (page 3)

Sales tax revenue grew 6.0% in 2016 (page 5)

Unemployment is falling, Seattle inflation grows, and consumer confidence reaches a 13-year high (pages 7-8)

The City's portfolio continues to outperform both the 90 day T Bill and the 2 year rolling average of the 2 year Treasury note (page 8)

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Summary of All Operating Funds: *Revenue*

- **General Fund** revenue ended **7.6 percent ahead** of 2015, an increase of \$6,805,674. The increase is largely the result of higher planning fees, sales taxes, and construction permits. Actual revenues finished the year 106.9 percent of budget. More detailed analyses of General Fund revenue can be found on page 3, and of sales tax revenue on page 5.
- **Other General Government Funds** revenue finished the year **5.4 percent higher** than 2015, up \$1,434,109. **The Street Operating Fund** and **Information Technology Fund** accounted for the majority of the growth, up **7.2 and 6.0 percent** respectively. Information Technology Fund revenue grew largely due to charges received for temporary GIS services provided in support of the Lucity Enterprise Asset Management project, while Street Operating Fund revenue grew largely due to two factors: higher gas tax revenue as a result of state legislative increases in the fall of 2015 and an insurance recovery for a traffic signal that was knocked down on Willows Road.
Actual revenue for total Other Government revenues, excluding interfund transfers, was at **103.3 percent of budget**. All funds were near or exceeding expected levels. Of particular note is the **Cemetery Operating Fund**, which received revenues at **228.1 percent of budget** in 2016 due to higher than anticipated sales of cemetery plots, niche walls, open/close service charges, and markers offered by the City's cemetery.
- **Water/Sewer Operating Fund** revenue is **down 0.5 percent** from 2015. Actual revenue for the year was **103.6 percent of budget**. The decline in collections from 2015 is due cooler weather and lower consumption in 2016. This decline was partially mitigated by increasing revenues related to new water connection charges driven by development activity.
- **Surface Water Management Fund** revenues were **0.8 percent lower** than they were in 2015 and are at **100.3 percent of budget**. The decrease is due to lower grant revenue in 2016. In 2015, the City received grant revenue from the Department of Ecology for local source control and from the Environmental Protection Agency for Totem Lake/Juanita Creek Basin storm water control design. Excluding the impacts of these grants, revenue would otherwise be 1.9 percent higher than in 2015, led by growth in Storm drainage fees.
- The **Solid Waste Fund** finished the fourth quarter of the year with **99.6 percent of budgeted revenues**. Actual revenues were 1.2 percent higher than in 2015.

Resources by Fund	Year-to-Date Actual			Budget			% of Budget	
	12/31/2015	12/31/2016	% Change	2015	2016	% Change	2015	2016
General Gov't Operating:								
General Fund	89,224,406	96,030,080	7.6%	86,443,318	89,835,829	3.9%	103.2%	106.9%
Other General Gov't Operating Funds	26,543,760	27,977,869	5.4%	26,531,966	27,076,983	2.1%	100.0%	103.3%
Total General Gov't Operating	115,768,166	124,007,949	7.1%	112,975,284	116,912,812	3.5%	102.5%	106.1%
Utilities:								
Water/Sewer Operating Fund	28,028,683	27,880,725	-0.5%	26,451,995	26,905,563	1.7%	106.0%	103.6%
Surface Water Management Fund	10,156,458	10,077,822	-0.8%	9,939,650	10,047,501	1.1%	102.2%	100.3%
Solid Waste Fund	16,590,112	16,786,691	1.2%	16,445,443	16,853,760	2.5%	100.9%	99.6%
Total Utilities	54,775,253	54,745,238	-0.1%	52,837,088	53,806,824	1.8%	103.7%	101.7%
Total All Operating Funds	170,543,419	178,753,187	4.8%	165,812,372	170,719,636	3.0%	102.9%	104.7%

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

Kirkland Parks & Community Services Launches *Rec1*

On March 16th, 2017, Kirkland Parks and Community Services will launch its new online registration and rental portal. In addition to class registration, the revamped site will also allow customers to reserve picnic shelters, rent community facilities, see field and park schedules, and sign up for Green Kirkland Partnership events—over 1,200 activities in total. The new system—named *Rec1*—offers an easier-to-use experience, streamlined processes such as automated field scheduling, and the ability to accept all payments online.

Rec1 is just one change coming to Parks and Community Services during the 2017-2018 biennium. "The Parks and Community Services Department is thrilled to bring new services to the community and to update the processes to be more customer friendly. This is just one initiative in a series that should transform how we serve the Kirkland community," stated Parks and Community Services Director Lynn Zwaagstra.

To see the new site in action, go to KirklandParks.net.

Summary of All Operating Funds: *Expenditures*

- **General Fund** expenditures (excluding transfers) finished 2016 **up 3.2 percent** from the year before. Actual expenditures finished at **97.6 percent of budget**. Intergovernmental Professional Services led the growth with a \$977,478, or 25.0 percent, increase over last year. This is primarily due to one-time pass-through payments related to the "A Regional Coalition for Housing" (ARCH) affordable housing project. Personnel services grew 2.9 percent above last year, due to movement through salary steps and collective bargaining contract increases. An analysis of General Fund expenditures by department can be found on pages 4 and 5.
- **Other General Government Operating Funds** actual expenditures were **3.7 percent lower** than 2015, largely due to lower expenditures in the **Equipment Rental Fund**. Expenditures in this fund **fell 24.1 percent** when compared to 2015, due to lower fuel prices and fewer vehicle replacements in 2016. Street Operating Fund expenditures **increased 14.5 percent** due to the hiring of temporary employees, increased Utility Services charges for a full year of street light funding in the annexed area, and Capital Outlays. Capital Outlays expenditures in 2016 were for median landscaping improvements, originally budgeted in 2015. In aggregate, other general government operating funds finished 2016 at **88.0 percent** of budgeted funds.
- **Water/Sewer Operating Fund** actual expenditures were **1.1 percent higher** than in 2015. With its rapid growth relative to the region as a whole, Kirkland is placing a greater share of demand on both the Cascade Water Alliance regional water utility and the King County wastewater treatment utility. The City accordingly assumes a greater share of each system's costs, resulting in increased expenditures. In total, the Water/Sewer fund finished September at **98.7 percent of budget**.
- **Surface Water Management Fund** expenditures at the end of 2016 were **5.3 percent higher** than 2015. This increase is from salaries and benefits. Expenditures for labor were up due to acceleration of the work load for the Cochran Springs project. Surface Water Management's non-personnel services spending was lower by comparison, due largely to higher one-time professional services spending in 2015 on grant funded work, including the Totem Lake/Juanita Creek basin design project and the Local Source Control program. Expenditures through the end of December were **lower than budgeted, at 92.7 percent** of budget.
- **Solid Waste Fund** expenditures through December were **1.0 percent higher** in 2016 than in 2015. Small increases in expenditures for the waste disposal contract based on annual consumer price index growth was the cause of the overall increase. Expenditures in the fund finished the year at **99.3 percent of budget** which is in line with expected expenditure levels.

Expenditures by Fund	Year-to-Date Actual			Budget			% of Budget	
	12/31/2015	12/31/2016	% Change	2015	2016	% Change	2015	2016
General Gov't Operating:								
General Fund	80,773,717	83,379,742	3.2%	83,534,621	85,420,149	2.3%	96.7%	97.6%
Other General Gov't Operating Funds	22,418,648	21,587,677	-3.7%	25,071,855	24,533,474	-2.1%	89.4%	88.0%
Total General Gov't Operating	103,192,365	104,967,419	1.7%	108,606,476	109,953,623	1.2%	95.0%	95.5%
Utilities:								
Water/Sewer Operating Fund	22,274,790	22,523,983	1.1%	22,929,938	22,813,187	-0.5%	97.1%	98.7%
Surface Water Management Fund	6,501,169	6,847,770	5.3%	7,877,204	7,384,522	-6.3%	82.5%	92.7%
Solid Waste Fund	16,030,003	16,183,353	1.0%	15,988,325	16,299,008	1.9%	100.3%	99.3%
Total Utilities	44,805,961	45,555,107	1.7%	46,795,467	46,496,717	-0.6%	95.7%	98.0%
Total All Operating Funds	147,998,326	150,522,526	1.7%	155,401,943	156,450,340	0.7%	95.2%	96.2%

* 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 through the fourth quarter of 2016 was **6.0 percent higher** than it was in 2015. The bulk of this increase is in the Contracting, Other Retail, and Services sectors. A detailed analysis of total sales tax revenue can be found starting on page 5.
- **Property taxes** through December were **2.5 percent higher** than 2015, **at 99.8 percent of budget**.
- **Utility tax** collections finished the year **2.0 percent lower** compared to results through December 2015. Growth in electric utility taxes were offset by declines in gas and telecommunications. The City also received one-time revenues in 2015 following a telephone utility tax audit. Collections through December were at **95.3 percent** of budget.
- **Other taxes** actual revenues were **5.3 percent higher** than in 2015, and finished the year at **138.5 percent of budget**. This increase is the result of higher than expected gambling revenues from card games, punch boards, and pull tabs.
- **Business license and franchise fees** were **2.8 percent** higher than in 2015 and finished December **at 103.4 percent** of budget.
- Collections from the **revenue generating regulatory license fee** were **11.9 percent higher** than in 2015. Revenues were **at 110.5 percent of budget**. A portion of this growth is one-time revenue, as the City identified businesses operating without licenses, some of them owing up to three years of back payments.
- **Plan check fees** and **planning fees** finished the year **up 48.5 percent** and **58.9 percent** respectively. **Building, Structural and Equipment permits** were **up 39.7 percent** and **Engineering Services charges** were **up 16.6 percent** compared to 2015. Much of these increases are due to redevelopment activity at the Village at Totem Lake and Kirkland Urban as well as a rush in activity in advance of a building code change in July.
- **Fines and forfeitures** were **down 12.1 percent** from 2015 as revenue from traffic and parking infraction penalties decreased due to vacancies in the Police Department's Traffic Unit. This revenue source finished the year **at 77.1 percent of budget**. Past trends suggested that this category would be closer to budget by year end. However, the impact of the extended vacancies continued to persist throughout the year.
- **Miscellaneous** revenue finished the year **14.8 percent up** from 2015 due to higher interest earnings and increased revenue from rental properties, most notably from the Yuppie Pawn Shop property. This category was **above budget projections at 166.7 percent of budget**.

General Fund revenues ended the year \$6,805,674 higher than in 2015 largely due to growth in charges for services and taxes.

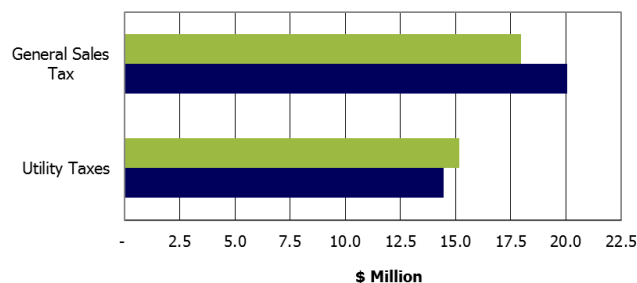
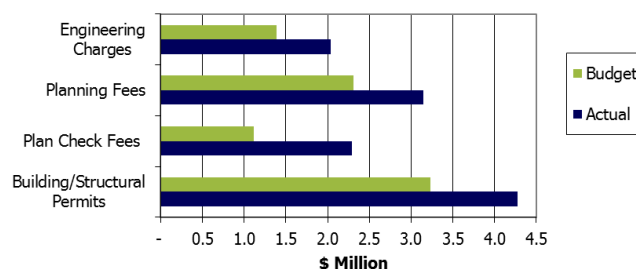
The General Fund is the largest of the General Government Operating funds. It is primarily tax supported and accounts for basic services such as public safety, parks and recreation, and community development.

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

• About 454 of the City's 592 regular employees are budgeted within the General Fund.

General Fund Resource Category	Year-to-Date Actual			Budget			% of Budget	
	12/31/2015	12/31/2016	% Change	2015	2016	% Change	2015	2016
Taxes:								
Retail Sales Tax: General	18,943,810	20,079,322	6.0%	17,963,747	17,963,747	0.0%	105.5%	111.8%
Retail Sales Tax Credit: Annexation	3,864,058	4,026,899	4.2%	3,792,500	3,935,000	3.8%	101.9%	102.3%
Retail Sales Tax: Criminal Justice	2,111,271	2,081,190	-1.4%	2,036,370	2,097,461	3.0%	103.7%	99.2%
Property Tax	17,413,046	17,847,591	2.5%	17,456,855	17,886,952	2.5%	99.7%	99.8%
Utility Taxes	14,745,394	14,456,718	-2.0%	15,015,081	15,175,950	1.1%	98.2%	95.3%
Rev Generating Regulatory License	2,335,121	2,612,198	11.9%	2,338,315	2,364,399	1.1%	99.9%	110.5%
Other Taxes	1,410,625	1,485,576	5.3%	1,063,075	1,072,758	0.9%	132.7%	138.5%
Total Taxes	60,823,324	62,589,493	2.9%	59,665,943	60,496,267	1.4%	101.9%	103.5%
Licenses & Permits:								
Building, Structural & Equipment Permits	3,064,693	4,280,013	39.7%	3,219,731	3,227,201	0.2%	95.2%	132.6%
Business Licenses/Franchise Fees	4,606,373	4,736,849	2.8%	4,532,649	4,580,520	1.1%	101.6%	103.4%
Other Licenses & Permits	547,817	503,133	-8.2%	444,563	519,801	16.9%	123.2%	96.8%
Total Licenses & Permits	8,218,883	9,519,996	15.8%	8,196,943	8,327,522	1.6%	100.3%	114.3%
Intergovernmental:								
Grants and Federal Entitlements	163,288	166,415	1.9%	162,125	162,322	0.1%	100.7%	102.5%
State Shared Revenues & Entitlements	1,186,864	1,563,023	31.7%	1,098,514	1,339,360	21.9%	108.0%	116.7%
EMS	903,169	924,738	2.4%	902,338	920,385	2.0%	100.1%	100.5%
Total Intergovernmental	2,253,321	2,654,176	17.8%	2,162,977	2,422,067	12.0%	104.2%	109.6%
Charges for Services:								
Internal Charges	5,752,676	6,849,506	19.1%	6,159,409	7,143,831	16.0%	93.4%	95.9%
Engineering Services	1,749,593	2,039,689	16.6%	1,400,887	1,391,146	-0.7%	124.9%	146.6%
Plan Check Fee	1,545,137	2,293,781	48.5%	951,346	1,118,880	17.6%	162.4%	205.0%
Planning Fees	1,980,797	3,148,294	58.9%	1,457,383	2,313,515	58.7%	135.9%	136.1%
Recreation	1,320,666	1,448,486	9.7%	1,215,100	1,215,200	0.0%	108.7%	119.2%
Other Charges for Services	2,093,622	2,000,306	-4.5%	1,980,204	2,138,139	8.0%	105.7%	93.6%
Total Charges for Services	14,442,491	17,780,063	23.1%	13,164,329	15,320,711	16.4%	109.7%	116.1%
Fines & Forfeits	1,921,507	1,689,295	-12.1%	2,189,359	2,191,067	0.1%	87.8%	77.1%
Miscellaneous	1,564,880	1,797,058	14.8%	1,063,767	1,078,195	1.4%	147.1%	166.7%
Total Revenues	89,224,406	96,030,080	7.6%	86,443,318	89,835,829	3.9%	103.2%	106.9%
Other Financing Sources:								
Interfund Transfers	437,228	416,666	-4.7%	437,228	416,791	-4.7%	100.0%	100.0%
Total Other Financing Sources	437,228	416,666	-4.7%	437,228	416,791	-4.7%	100.0%	100.0%
Total Resources	89,661,634	96,446,746	7.6%	86,880,546	90,252,620	3.9%	103.2%	106.9%

*Budgeted and actual revenues exclude resources forward.

General Fund Revenue *continued***2016 Budget to Actual Comparison of Selected Taxes****2016 Budget to Actual Comparison of Development Related Fees****General Fund Expenditures**

General Fund Department Expenditures	Year-to-Date Actual			Budget			% of Budget	
	12/31/ 2015	12/31/ 2016	% Change	2015	2016	% Change	2015	2016
Non-Departmental	2,777,196	2,385,913	-14.1%	2,943,258	2,441,324	-17.1%	94.4%	97.7%
City Council	432,927	461,237	6.5%	473,818	501,980	5.9%	91.4%	91.9%
City Manager's Office	1,964,735	2,396,560	22.0%	2,438,154	2,303,341	-5.5%	80.6%	104.0%
Municipal Court	2,349,416	2,439,952	3.9%	2,445,952	2,551,144	4.3%	96.1%	95.6%
Human Resources	1,394,293	1,422,118	2.0%	1,492,619	1,553,970	4.1%	93.4%	91.5%
City Attorney's Office	1,123,382	1,210,294	7.7%	1,246,620	1,203,014	-3.5%	90.1%	100.6%
Parks & Community Services	7,973,038	7,792,530	-2.3%	8,423,620	8,160,387	-3.1%	94.7%	95.5%
Public Works (Engineering)	4,857,902	5,718,991	17.7%	5,421,184	6,000,767	10.7%	89.6%	95.3%
Finance and Administration	4,491,660	4,709,519	4.9%	4,715,638	4,842,147	2.7%	95.3%	97.3%
Planning & Building	7,940,291	9,576,449	20.6%	8,492,888	9,711,401	14.3%	93.5%	98.6%
Police	24,616,666	24,161,397	-1.8%	25,154,856	24,812,125	-1.4%	97.9%	97.4%
Fire	20,852,211	21,104,783	1.2%	20,286,014	21,338,549	5.2%	102.8%	98.9%
Total Expenditures	80,773,717	83,379,742	3.2%	83,534,621	85,420,149	2.3%	96.7%	97.6%
Other Financing Uses:								
Interfund Transfers	8,428,861	5,870,398	-30.4%	8,480,717	6,065,916	-28.5%	99.4%	96.8%
Total Other Financing Uses	8,428,861	5,870,398	-30.4%	8,480,717	6,065,916	-28.5%	99.4%	96.8%
Total Expenditures & Other Uses	89,202,578	89,250,140	0.1%	92,015,338	91,486,065	-0.6%	96.9%	97.6%

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

Comparing 2016 and 2015 expenditures:

In 2016, excluding interfund transfers, General Fund expenditures were **3.2 percent higher** than 2015, and finished at **97.6 percent of budget**. Specific reasons for increased expenditures are highlighted below:

- Expenditures for **Non-departmental** were **down 14.1 percent** due to one-time legal services expenditures in 2015 related to a utility tax refund claim and an invoice for elections services in 2016 that was not received until early 2017. Non-departmental finished the year **at 97.7 percent** of budget spent.
- Actual 2016 expenditures for the **City Council increased 6.5 percent** from 2015. The increase is due to expenditures for the Community Survey, which is conducted in even-numbered years. City Council finished the year at **91.9 percent of budget**.
- The **City Manager's Office (CMO)** finished the year **up 22.0 percent** from 2015. This increase reflects a difference in timing of between when one-time expenditures for the Police Strategic Plan were budgeted in 2015 and when they were paid in 2016. The increase also reflects the timing of the Deputy City Manager reorganization which occurred in mid-2015. Although the CMO is at 104.0 percent of budget for the year, it finishes the biennium at **92.0 percent of budget**.
- The **City Attorney's Office (CAO)** finished 2016 **up 7.7 percent** from the year prior. This reflects an increase in personnel costs that occurred due to a one-month overlap period to facilitate an effective transition between retiring and incoming City Attorneys. Although the CAO is at 100.6 percent of budget for the year, it finishes the biennium at **95.3 percent of budget**.
- Year-end expenditures for the **Parks & Community Services Department** were **down 2.3 percent** from 2015 due to an invoice for the 2014 Human Services Pooled Program which was paid early in 2015, as well an invoice for the 2016 Human Services Pooled Program that will be paid in 2017. Other contributors to this

2016 General Fund actual expenditures (excluding "other financing uses") were 3.2 percent higher than they were in 2015.

Continued on page 5

Financial Management Report as of December 31, 2016

change are one-time expenses related to the proposed Kirkland Aquatics, Recreation, and Community Center project. Parks and Community Services finished the year at **95.5 percent of budget**.

- **Public Works - General Fund** expenditures were **17.7 percent above 2015**. Growth in expenditures in Wages and Benefits was due to the addition of four positions in the Capital Project Engineering division. Overall, Public Works - General Fund finished the year at **95.2 percent of budget**.
- **Planning and Building** finished the year **20.6 percent above 2015**, with **98.6 percent of the budget** expended. This is largely due to the addition of one-time and ongoing resources to meet workload demands associated with the high levels of development activity in Kirkland.
- Due to a high level of turnover and vacancies in the department in 2016, **Police** expenditures ended the year **1.8 percent below 2015, at 97.4 percent of budget**.
- Expenditures for the **Fire Department** finished the year **1.2 percent above 2015, at 98.9 percent of budget**. At the end of 2016, the Department's budget was supplemented with \$200,000 from reserves to pay for higher than expected overtime costs incurred in order to meet minimum staffing requirements following personnel turnover and training of new firefighters. Without this funding, Fire would have finished at 101.3 percent for the biennium.
- Actual **Interfund Transfers** finished the year **down 30.4 percent** from 2015, at **96.8 percent of budget**. The change is due to one-time transfers for funding City Hall construction and contributing to equipment and system replacement reserves which occurred at the beginning of the biennium.

Summary of Fire District 41 Funds	
Revenues & Expenditures	
Beginning Balance	5,230,000
Investment Interest	105,180
Expenditures:	114,893
Current Balance	\$ 5,220,287

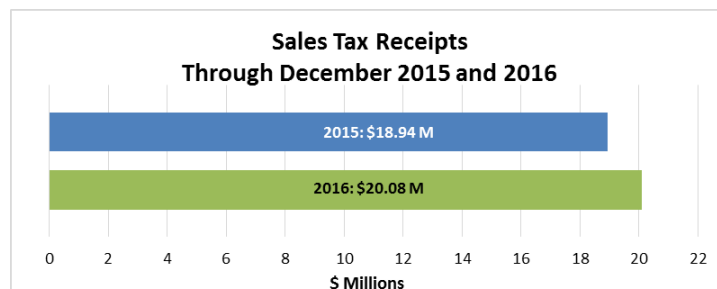
Sales Tax Revenue Analysis

Sales tax revenue was **6.0 percent** higher in 2016 than 2015. This represents a deceleration in the growth rate from the 7.8 percent mark set in the first half of the year. Increased activity in contracting, other retail, and services composed the bulk of the revenue gains.

Review by business sectors:

- **Contracting** was **up 15.3 percent** compared to 2015. Construction collections were strong this year, and lead overall sales tax growth. However, this is a very volatile revenue category and will fluctuate with changing economic conditions.
- Sales tax from the retail sectors was collectively **up 2.7 percent** compared to 2015.
 - ◊ The City's largest business sector—**Auto/gas retail**—was **up 0.8 percent** compared to 2015.
 - ◊ **General merchandise/miscellaneous retail** sector was **down 0.4 percent** in 2016 compared to 2015 due to reduced revenue from major retailers. This category is the most likely to contain impacts from displaced business activity during ongoing construction at Kirkland Urban and the Village at Totem Lake.
 - ◊ **Retail eating/drinking** sector performance was **up 2.5 percent** compared to 2015.
 - ◊ **Other retail** was **up 9.0 percent** compared to 2015. Internet sales, along with health & personal care and furniture, led growth.
- The **Services** sector was **up 4.8 percent** compared to 2015, largely due to growth in administrative support services.
- Revenue from **Communications** and **Wholesale** revenues were **up 3.6** and **6.8 percent** on the year, respectively.
- The **Miscellaneous** sector was **up 16.4 percent** through December, largely due to real estate growth and an anomalously large one-time distribution from the state. This could not be attributed to any sector due to incomplete coding and was distributed according to the Department of Revenue's best estimate of origin.

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.



Regional Sales Tax
Bellevue was up 6.7 percent, Redmond was up 33.8 percent in 2016 compared to 2015.

King County
King County's sales tax receipts were up 6.0 percent through the end of the year compared to 2015.

Business Sector Group	YTD		Dollar Change	Percent Change	Percent of Total	
	2015	2016			2015	2016
Services	2,553,773	2,677,011	123,238	4.8%	13.5%	13.3%
Contracting	2,980,957	3,438,137	457,180	15.3%	15.7%	17.1%
Communications	521,689	540,250	18,561	3.6%	2.8%	2.7%
Auto/Gas Retail	4,735,672	4,775,308	39,636	0.8%	25.0%	23.8%
Gen Merch/Misc Retail	2,086,086	2,078,681	(7,405)	-0.4%	11.0%	10.4%
Retail Eating/Drinking	1,571,340	1,610,458	39,118	2.5%	8.3%	8.0%
Other Retail	2,513,329	2,740,697	227,368	9.0%	13.3%	13.6%
Wholesale	903,425	964,533	61,108	6.8%	4.8%	4.8%
Miscellaneous	1,077,541	1,254,250	176,709	16.4%	5.7%	6.2%
Total	18,943,810	20,079,322	1,135,513	6.0%	100%	100%

Kirkland's sales tax base is comprised of a variety of businesses which are grouped and analyzed by business sector (according to "North American Industry Classification System" or NAICS). Nine business sector groupings are used to compare 2015 and 2016 sales tax receipts in the table to the left.

- Sales tax revenues in 2016 were 6.0 percent higher than in 2015. Growth slowed throughout the second half of the year before picking up in December, as shown in the table to the right.
- Sales tax revenue in December 2016 was up 7.9 percent compared to the same month in 2015. This was the highest level of month-over-month growth seen since February 2016.
- Increases have been led by growth sectors that tend to be volatile and will fluctuate with changing economic conditions, particularly Contracting.
- The City's largest business sector—Auto/Gas Retail—continues to see very slow growth and has trailed behind citywide growth throughout the year. General Merchandise/Misc Retail was the only sector to decline in 2016, in part due to business closures at the Kirkland Urban and Village at Totem Lake redevelopment projects.

Month	Sales Tax Receipts		Dollar Change	Percent Change
	2015	2016		
January	1,406,662	1,580,669	174,007	12.4%
February	1,783,689	1,958,878	175,189	9.8%
March	1,391,418	1,495,268	103,850	7.5%
April	1,323,936	1,440,078	116,142	8.8%
May	1,599,980	1,675,945	75,965	4.7%
June	1,480,647	1,533,895	53,248	3.6%
July	1,573,925	1,674,432	100,507	6.4%
August	1,715,342	1,769,207	53,865	3.1%
September	1,779,742	1,748,148	(31,594)	-1.8%
October	1,643,390	1,751,274	107,884	6.6%
November	1,679,392	1,761,836	82,444	4.9%
December	1,565,685	1,689,692	124,007	7.9%
Total	18,943,810	20,079,322	1,135,512	6.0%

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

Comparing to the same period last year:

Totem Lake, which accounted for 27.5 percent of the total sales tax receipts in 2016, was **down 1.5 percent** from 2015 due to declining results in the automotive/gas retail, general merchandise retail, and hotel/motel sectors. Some of this decline can be attributed to the closure of businesses during redevelopment at Totem Lake. About 60 percent of this business district's revenue comes from the auto/gas retail sector.

NE 85th Street, which made up 13.1 percent of the total sales tax receipts in 2016, was **up 1.4 percent** compared to 2015. This area's receipts grew due to improving auto retail, general merchandise retail and retail eating/drinking sales. Auto and general retail contribute about 80 percent of this business district's revenue.

Downtown, which accounted for 5.3 percent of sales tax receipts in 2016, was **down 9.1 percent**. This is primarily due to the closure of businesses during the Kirkland Urban redevelopment. Sectors seeing the sharpest declines include information and retail eating/drinking.

Carillon Point & Yarrow Bay, which accounted for 1.9 percent of the total sales tax receipts, were **down 0.7 percent** compared to 2015. About 67 percent of this business district's revenue came from retail eating/drinking and accommodations.

Houghton & Bridle Trails, which has produced 2.2 percent of the total sales tax receipts in 2016, was **up 0.9 percent** due to an increase in arts, entertainment and recreation, which offset a decrease in several other categories.

Juanita, which generated 1.3 percent of the total 2016 sales tax receipts, was **even** when compared to 2015. Increases in retail eating/drinking offset declines in several other sectors.

North Juanita, Kingsgate, & Finn Hill accounted for 2.5 percent of the total sales tax receipts in 2016 and were **up 0.6 percent** from 2015, with growth in Kingsgate and North Juanita offsetting a decline in Finn Hill. The former two districts grew by 2.7 and 0.9 percent, respectively, while the latter declined by 3.9 percent. The overall revenue increase can be attributed to increasing activity in financial services and real estate in these business districts.

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

Financial Management Report as of December 31, 2016

When reviewing sales tax receipts by business district, it is important to be aware that 46.2 percent of the revenues received in 2016 were in the "unassigned or no district" category largely due to contracting and other revenue, which includes revenue from internet, catalog sales and other businesses located outside of the City. This percentage has grown in recent years as internet sales have grown in volume.

OFFICE VACANCIES:

According to the latest report from CB Richard Ellis Real Estate Services, Kirkland's office vacancy rate fell from 3.6 in the third quarter of 2016 to 3.3 percent at the end of the year.

This vacancy rate is among the lowest within the Eastside and the Puget Sound as a whole with office vacancy rates of 10.1 and 11.1 percent respectively.

The bulk of major leasing activity on the Eastside during the fourth quarter of 2016 occurred in the Bellevue Central Business District and along with I-90 and SR-520 corridors.

The region currently has 7.0 million square feet of office space under construction. This includes projects on the Eastside, with over 1.6 million square feet currently being built, including 390,000 square feet in Kirkland Urban alone.

LODGING TAX REVENUE:

Lodging tax revenue grew compared to 2015, finishing the year up 2.0 percent, an increase of \$6,125. Revenues in 2016 finished above expectations at 106.0 percent of budget.

Business District	YTD		Dollar Change	Percent Change	Percent of Total	
	2015	2016			2015	2016
Totem Lake	5,607,588	5,522,091	(85,497)	-1.5%	29.6%	27.5%
NE 85th St	2,592,033	2,627,472	35,439	1.4%	13.7%	13.1%
Downtown	1,160,978	1,055,522	(105,456)	-9.1%	6.1%	5.3%
Carillon Pt/Yarrow Bay	392,245	389,423	(2,822)	-0.7%	2.1%	1.9%
Houghton & Bridle Trails	428,470	432,152	3,682	0.9%	2.3%	2.2%
Juanita	262,247	262,130	(117)	0.0%	1.4%	1.3%
Kingsgate	159,204	163,475	4,271	2.7%	0.8%	0.8%
North Juanita	249,876	252,149	2,273	0.9%	1.3%	1.3%
Finn Hill	92,274	88,670	(3,604)	-3.9%	0.5%	0.4%
Unassigned or No District:						
Contracting	2,952,802	3,402,688	449,886	15.2%	15.6%	16.9%
Other	5,046,094	5,883,551	837,457	16.6%	26.6%	29.3%
Total	18,943,810	20,079,322	1,135,512	6.0%	100.0%	100.0%

Sales Tax Revenue Outlook

After a fast start to 2016, revenue growth steadily slowed through the fourth quarter. Year to date growth downshifted from a 7.8 percent pace through June to 6.0 percent at the end of the year. The reduced pace was driven by continued slow growth in automotive sales and a dip in contracting during the month of September. Staff will continue to monitor and report on emerging trends in the monthly Sales Tax Report.

Economic Environment Update

The **Washington State Economic & Revenue Council** monthly update reports continued job growth, adding 14,300 nonfarm jobs in the fourth quarter of 2016. The economic forecast for Washington projects that the annual job growth rate in 2016 will be 3.1 percent. However, it also anticipates that growth will slow to 2.3 percent in 2017 and continue to decelerate in the years ahead, falling to 1.0 percent in 2021.

The Conference Board's **Consumer Confidence Index** ended 2016 at 113.7, an increase from 107.1 in November 2016. A rating of 100 equals the 1985 consumer confidence level. While consumer assessment of current business conditions decreased, the short-term outlook for both business conditions and the labor market improved considerably. Consumer expectations and optimism for the economy, jobs, and income are at a 13-year high at the end of 2016.

Unemployment Rates in December 2016 increased by 0.1 percent from the month prior at both national and state levels, up to 4.7 percent and 5.3 percent respectively. However, this trend did not carry over locally. Unemployment in King County dropped from 3.9 percent to 3.4 percent in the same period. Similarly, unemployment in Kirkland also fell from 3.4 to 3.0 percent—its lowest level for the year.

The **Western Washington Purchasing Manager Index** was at 49.2 in December 2016, indicating a slight contraction in activity at the end of the year. An index reading greater than 50 signals an economic expansion. This is a decrease of 5.2 points over November's reading of 54.4.

Local **building permitting activity** has increased 102.3 percent compared to December 2015. The increase is primarily due to commercial development, which is up 723.9 percent from this time last year. Totem Lake and Kirkland Urban development are driving this increase. Multi-family/mixed use development has also increased 445.4 percent. The valuation of single family home construction is down 6.3 percent when compared to 2015, but activity has recovered since the second quarter report when year-to-date activity was down 15.7 percent.

(Continued on page 8)

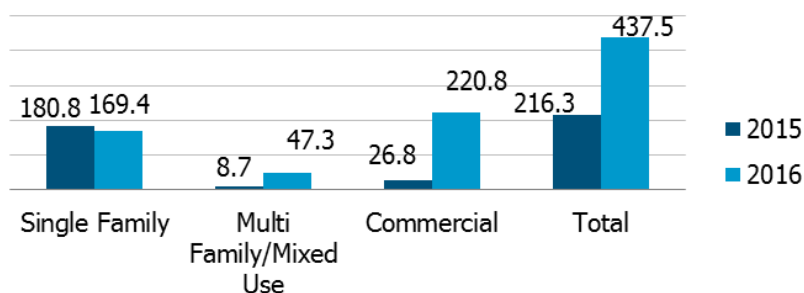
Economic Environment Update *continued*

The net effect is a year-to-date growth of \$221.2 million in development valuation.

Prices in the **housing market** continued to increase in the fourth quarter of 2016 with the Case-Shiller housing index for the Seattle metro area up to 206.35, increasing the gap above the pre-recession peak index score of 192.3 set in July 2007. There were 48,500 new housing permits issued in November 2016 according to the Washington State Economic and Revenue Council.

Inflation in the Seattle area is high relative to the national rate. In December 2016, the Seattle core CPI increased 2.5 percent compared to the previous year, while the national CPI was at 2.0 percent year-to-year growth.

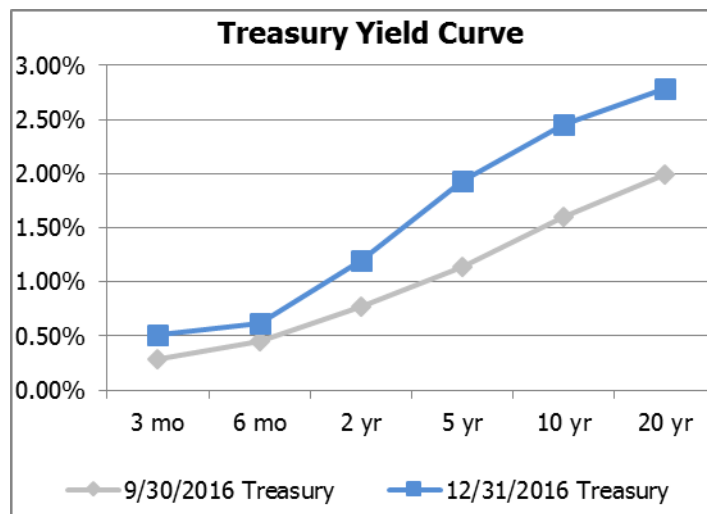
Valuation of Building Permits
Fourth Quarter Total 2015 and 2016
(in millions \$)



Investment Report

MARKET OVERVIEW

The rate of economic growth declined in the fourth quarter of 2016, but continues to be characterized as slow and steady. The Fed Funds rate was increased on December 14 to between 0.50 to 0.75 percent and is now expected to be raised 3 times, a total of 0.75 percent in 2017. The yield curve rose at every point as a result of the increase in the Fed Funds rate, as can be seen in the graph below.

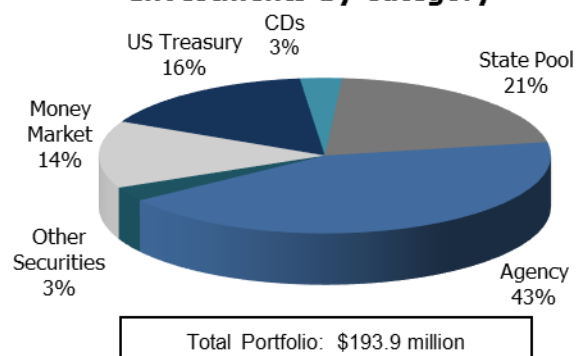


CITY PORTFOLIO

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

The City's portfolio increased \$17.6 million in the fourth quarter of 2016, moving from \$176.3 million on September 30, 2016 to \$193.9 million on December 31, 2016. The increase in the portfolio is related to the normal cash flows of the fourth quarter, as the second half of property taxes is received at the end of October and early November.

Investments by Category



Diversification

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

Liquidity

The target duration for the City's portfolio is based on the 0-5 year U.S. Treasury. The average maturity of the City's investment portfolio decreased from 1.44 years on September 30, 2016 to 1.23 years on December 31, 2016 as the cash position of the portfolio increased due to property tax collections.

Financial Management Report as of December 31, 2016

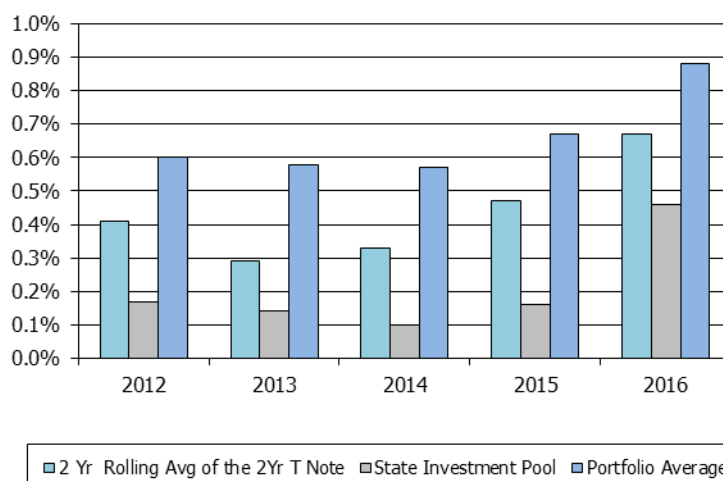
Investment Report *continued*

Yield

The City Portfolio yield to maturity decreased from 0.96 percent on September 30, 2016 to 0.92 percent on December 31, 2016. Through December 31, 2016, the City's annual average yield to maturity increased to 0.88 percent. The City's portfolio benchmark is the range between the 90 day Treasury Bill and the 2 year rolling average of the 2 year Treasury Note. This benchmark is used as it is reflective of the maturity guidelines required in the Investment Policy adopted by City Council. The City's portfolio outperformed both the 90 day T Bill and the 2 year rolling average of the 2 year Treasury note, which was 0.75 percent on December 31, 2016.

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

Investment Interest Rate Comparisons



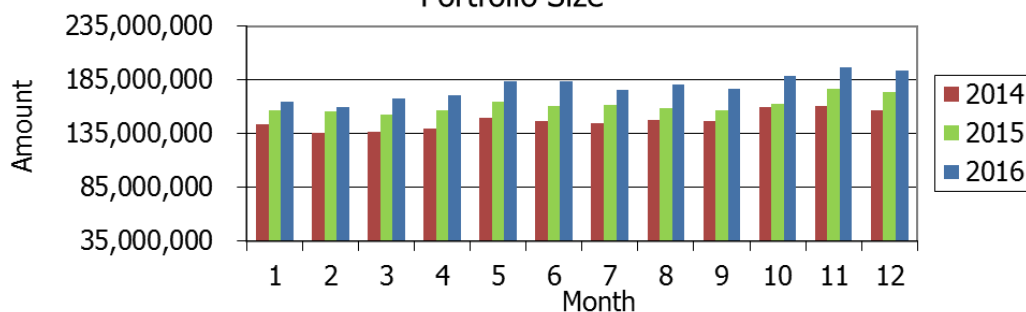
2017 ECONOMIC OUTLOOK and INVESTMENT STRATEGY

The economic outlook is stronger now than in the previous quarter. The U.S. economy is expected to grow at an annual rate of 2.3 percent in 2017 and 2.4 percent in 2018. CPI inflation is expected to average 2.4 percent in 2017 and 2.3 percent in 2018. The unemployment rate is expected to average 4.6 percent in 2017 and fall to 4.5 percent in 2018. The Fed Funds rate, at 0.75% at the end of 2016, was increased to 1.00 percent in March of 2017 and is expected to rise two more times in 2017 to 1.50%.

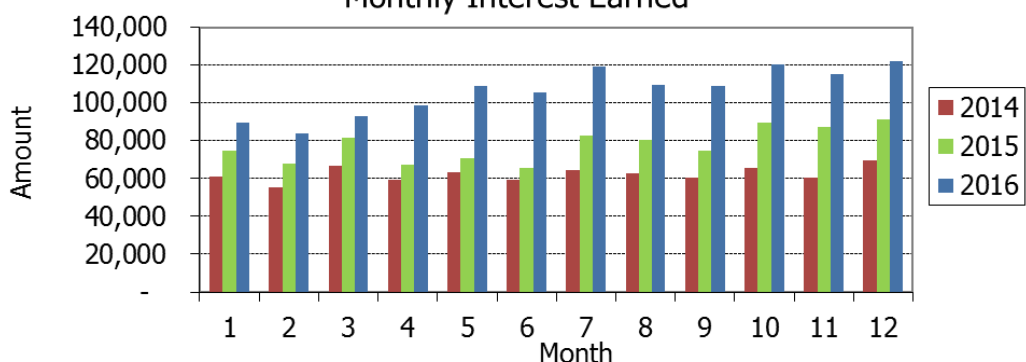
The City's investment advisor, Government Portfolio Advisors (GPA) is currently recommending that the duration of the portfolio be increased slightly in relation to the benchmark. As the Fed Funds rate is increased, GPA will recommend security purchases to capture higher returns as they are available.

The State Pool is currently at 0.63%, 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 2017 occur as projected, 2 additional rate increases of 0.25 percent each. Total estimated investment income for 2017 is \$1,500,000.

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

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

GENERAL CAPITAL RESERVES

- Real estate activity has been growing significantly over the last few years and 2015 reached an all-time high in **Real Estate Excise Tax (REET)** collections. However, **2016 is 19.1 percent ahead of 2015**. The current ending balances do not reflect this revenue performance. They incorporate 2015-2016 uses in the 2015-2020 Capital Improvement Plan as adopted in December 2015 and budgeted rather than actual revenues.
- Impact fees (Parks and Transportation)** reflect development activity, which remains strong. However, 2016 Parks revenue is **1.8 percent behind** 2015. Normalizing for receipts related to large developments during the biennium, 2016 revenue is up 7.7 percent over last year. Transportation fees are **up 213.5 percent** above 2015. However, a single payment received in 2016 accounts for 53.8 percent of revenues received this year. Controlling for this outlier, revenues are still up 86.0 percent over 2015.
- The City adopted a new Capital Improvement Program (CIP) for 2015-2020 in December 2015, which made significant uses of REET and Impact Fees in the current budget period, as well as future years in response to projects identified in several long-range master plans that were adopted in 2015. The balances below were adjusted during the CIP adoption process to fund capital projects that were budgeted during this biennium.

General Government & Utility Reserves Targets Summary

Reserves	Actual 2015 Beginning Balance	Adopted 2016 Ending Balance	Revised 2016 Ending Balance	2015-16 Target	Revised Over (Under) Target
GENERAL PURPOSE RESERVES WITH TARGETS					
General Fund Reserves:					
General Fund Contingency	50,000	50,000	50,000	50,000	-
General Oper. Reserve (Rainy Day)	2,806,513	4,803,388	4,803,388	4,803,388	-
Revenue Stabilization Reserve	2,570,090	2,848,220	2,848,220	2,848,220	-
Building & Property Reserve	571,579	600,000	531,000	600,000	(69,000)
Council Special Projects Reserve	250,000	250,000	119,000	250,000	(131,000)
Contingency	2,426,425	4,036,425	4,036,425	5,512,218	(1,475,793)
General Capital Contingency	3,768,012	4,961,855	4,961,855	5,701,001	(739,146)
General Purpose Reserves with Targets	12,442,619	17,549,888	17,349,888	19,764,827	(2,414,939)
ALL OTHER RESERVES WITH TARGETS					
General Fund Reserves:					
Litigation Reserve	150,000	150,000	150,000	150,000	-
Firefighter's Pension Reserve	1,493,687	1,225,835	1,225,835	933,405	292,430
Health Benefits Fund:					
Claims Reserve	2,058,311	2,058,311	2,058,311	2,058,311	-
Rate Stabilization Reserve	1,000,000	1,000,000	1,000,000	1,000,000	-
Excise Tax Capital Improvement:					
REET 1	5,843,876	8,697,813	5,213,854	1,732,329	3,481,525
REET 2	4,888,788	7,146,044	6,000,344	2,436,255	3,564,089
Water/Sewer Operating Reserve:	2,414,471	2,659,932	2,659,932	2,659,932	-
Water/Sewer Capital Contingency:	1,107,600	613,300	613,300	613,300	-
Surface Water Operating Reserve:	706,364	893,306	893,306	893,306	-
Surface Water Capital Contingency:	845,163	391,380	233,380	391,380	(158,000)
Other Reserves with Targets	20,508,260	24,835,921	20,048,262	12,868,218	7,180,044
Reserves without Targets	44,926,197	58,565,303	47,620,490	n/a	n/a
Total Reserves	77,877,076	100,951,112	85,018,640	n/a	n/a

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

General Purpose reserves are funded from general revenue and may be used for any general government function.

All Other Reserves with Targets have restrictions for use either from the funding source or by Council-directed policy (such as the Litigation Reserve).

The summary to the right details all Council authorized uses and additions in the 2015-16 biennium.

USES AND ADDITIONS HIGHLIGHTS

RESERVE	AMOUNT	DESCRIPTION
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2015-16 Council Authorized Uses

Prior 2015-2016 Uses	\$15,446,499	
Fire Overtime & Equipment Reserve	\$200,000	Additional Fire Overtime Costs
Dev. Services Technology Reserve	\$212,530	City Hall Front Counter & Dev. Services Scanners
Surface Water Capital Contingency	\$158,000	Cochran Springs Surface Water Enhancement Project
Revolving/Donation Accounts	\$11,520	Fire Training Video Equipment

2015-16 Council Authorized Additions

Prior 2015 Additions	\$96,077
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Financial Management Report as of December 31, 2016

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

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

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

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

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

Reserves	Description	Est. 2015 Beginning Balance	Adopted 2016 Ending Balance*	Additional Authorized Uses/Additions	Revised 2016 Ending Balance
GENERAL FUND/CONTINGENCY					
General Fund Reserves:					
General Fund Contingency	Unexpected General Fund expenditures	50,000	50,000		50,000
General Oper. (Rainy Day)	Unforeseen revenues/temporary events	2,806,513	4,803,388		4,803,388
Revenue Stabilization	Temporary revenue shortfalls	2,570,090	2,848,220		2,848,220
Building & Property	Property-related transactions	571,579	600,000	(69,000)	533,000
Council Special Projects	One-time special projects	250,000	250,000	(131,000)	119,000
Contingency	Unforeseen expenditures	2,426,425	4,036,425		4,036,425
Total General Fund/Contingency		8,674,607	12,588,033	(200,000)	12,388,033
SPECIAL PURPOSE RESERVES					
General Fund Reserves:					
Litigation	Outside counsel costs contingency	150,000	150,000		150,000
Labor Relations	Labor negotiation costs contingency	74,928	55,312		55,312
Police Equipment	Equipment funded from seized property	50,284	75,970		75,970
Fire OT & Equipment	Contingency for overtime and equipment	200,000	200,000	(200,000)	0
LEOFF 1 Police	Police long-term care benefits	618,079	618,079		618,079
Facilities Expansion	Special facilities expansions	150,982	50,663		50,663
Development Services	Revenue and staffing stabilization	2,572,520	2,612,670	(432,445)	2,180,225
Development Svcs. Technology	Permit system replacement	1,040,324	1,356,174	(329,974)	1,026,200
Tour Dock	Dock repairs	206,271	273,095	(21,500)	251,595
Tree Ordinance	Replacement trees program	56,267	65,488		65,488
Revolving/Donation Accounts	Fees/Donations for specific purposes	940,330	788,976	(453,081)	335,895
Lodging Tax Fund	Tourism program and facilities	310,420	233,031	(115,000)	118,031
Cemetery Improvement	Cemetery improvements/debt service	736,215	769,313	(41,923)	727,390
Off-Street Parking	Downtown parking improvements	259,161	391,613	(285,500)	106,113
Fire Equipment Life Cycle	20-year fire equipment costs	418,326	896,604	(145,800)	750,804
Police Equipment Life Cycle	20-year police equipment costs	343,114	806,343	239,700	1,046,043
Technology Equipment Life Cycle	20-year technology equipment costs	663,600	1,265,117	(179,226)	1,085,891
Firefighter's Pension	Long-term care/pension benefits	1,493,687	1,225,835		1,225,835
Total Special Purpose Reserves		10,284,508	11,834,283	(1,964,749)	9,869,534
GENERAL CAPITAL RESERVES					
Excise Tax Capital Improvement:					
REET 1	Parks/transportation/facilities projects, parks debt service	5,843,876	8,697,813	(3,483,959)	5,213,854
REET 2	Transportation and other capital projects	4,888,788	7,146,044	(1,145,700)	6,000,344
Impact Fees					
Transportation	Transportation capacity projects	3,663,839	4,227,671	(2,300,900)	1,926,771
Parks	Parks capacity projects	1,727,746	2,007,936	(484,599)	1,523,337
Street Improvement	Street improvements	995,958	995,958	(995,958)	0
General Capital Contingency	Changes to General capital projects	3,768,012	4,961,855		4,961,855
Total General Capital Reserves		20,888,219	28,037,277	(8,411,116)	19,626,161
UTILITY RESERVES					
Water/Sewer Utility:					
Water/Sewer Operating	Operating contingency	2,414,471	2,659,932		2,659,932
Water/Sewer Debt Service	Debt service	498,591	35,390		35,390
Water/Sewer Capital Contingency	Changes to Water/Sewer capital projects	1,107,600	613,300		613,300
Water/Sewer Construction	Replacement/re-prioritized/new projects	10,051,937	18,278,169	(4,127,036)	14,151,133
Surface Water Utility:					
Surface Water Operating	Operating contingency	706,364	893,306		893,306
Surface Water Capital Contingency	Changes to Surface Water capital projects	845,163	391,380	(158,000)	233,380
Surface Water Construction	Trans. related surface water projects	5,656,579	7,597,175	(759,300)	6,837,875
Total Utility Reserves		21,280,705	30,468,652	(5,044,336)	25,424,316
INTERNAL SERVICE FUND RESERVES					
Health Benefits:					
Claims	Health benefits self insurance claims	2,058,311	2,058,311		2,058,311
Rate Stabilization	Rate stabilization	1,000,000	1,000,000		1,000,000
Equipment Rental:					
Vehicle	Vehicle replacements	10,068,738	8,583,511	22,829	8,606,340
Radio	Radio replacements	59,463	74,764		74,764
Information Technology:					
PC Replacement	PC equipment replacements	459,063	521,142		521,142
Major Systems Replacement	Major technology systems replacement	656,200	1,165,089	135,200	1,300,289
Facilities Maintenance:					
Operating	Unforeseen operating costs	550,000	550,000		550,000
Facilities Sinking Fund	20-year facility life cycle costs	1,897,262	4,070,050	(470,300)	3,599,750
Total Internal Service Fund Reserves		16,749,037	18,022,867	(312,271)	17,710,596
Grand Total		77,877,076	100,951,112	(15,932,472)	85,018,640

*Adjusted for estimated cash balances through December 2016



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

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



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Economic Environment Update References:

- The Conference Board Consumer Confidence Index Press Release, September 2016
- Carol A. Kujawa, MA, A.P.P., *ISM-Western Washington, Inc. Report On Business*, Institute for Supply Management-Western Washington, December 2016
- Washington State Economic & Revenue Forecast Council, *Quarterly Economic & Revenue Forecast*, March 2017 and *Monthly Economic & Revenue Update*, February 2017
- CB Richard Ellis Real Estate Services, Market View Puget Sound, Fourth Quarter 2016
- S&P/Case-Shiller Seattle Home Price Index
- United States Bureau of Labor Statistics
- Washington State Department of Revenue
- King County Office of Economic & Financial Analysis, *EconPulse*, Fourth Quarter 2016
- City of Kirkland Planning & Building Department
- City of Kirkland Finance & Administration Department



Financial Management Report as of March 31, 2017

AT A GLANCE:

City Hall Remodel Project reaches substantial completion milestone on January 24th (page 2)

2017 General Fund revenues increased 15.3% over March 2016 (page 3)

Sales tax revenue grew 8.6% in the first quarter of 2017 (page 5)

Unemployment is falling, Seattle inflation grows, and consumer confidence remains high (pages 7-8)

The City's portfolio continues to outperform both the 90 day T Bill and the 2 year rolling average of the 2 year Treasury note (page 8)

Inside this issue:

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

Summary of All Operating Funds: *Revenue*

- **General Fund** revenue ended the first quarter of **15.3 percent ahead** of March 2016, an increase of \$3,180,599. The increase is largely the result of higher sales tax revenues and \$2.4 million in proceeds from the sale of the 505 Market Building. Actual revenues finished the first quarter at 25.7 percent of budget. More detailed analyses of General Fund revenue can be found on page 3, and of sales tax revenue on page 5.
- **Other General Government Funds** revenue finished the quarter **3.9 percent higher** than March 2016, up \$188,130. **The Information Technology Fund** and **Equipment Rental Fund** accounted for the majority of the growth, up **8.6 and 5.8 percent** respectively. For both funds, revenue grew largely due to charges received for vehicle and personal computer purchases related to service packages in the 2017-2018 budget.

Actual revenue for total Other Government revenues, excluding interfund transfers, was at **18.0 percent of budget**. Several funds, such as the **Street Operating Fund, Parks Maintenance Fund, and Parks Levy Fund** receive revenue from property taxes, the bulk of which are received in the second and fourth quarters of the year.

Also of note is the **Cemetery Operating Fund**, which received revenues at **61.5 percent of budget** in the first quarter of 2017 due to higher than anticipated sales of cemetery plots, niche walls, open/close service charges, and markers offered by the City's cemetery.

- **Water/Sewer Operating Fund** revenue is **up 9.2 percent** from March 2016. Actual revenue through the first quarter was **23.2 percent of budget**. The growth in collections from 2016 was caused by an unusually high level of prior year receivables which were paid in January.
- The **Solid Waste Fund** finished the first quarter of the year with **25.5 percent of budgeted revenues**. Actual revenues were 7.4 percent higher than in 2016, again due to high prior year receivables paid at the start of the year.
- **Surface Water Management Fund** revenues were **18.7 percent lower** than they were in at this time in 2016 and are at **5.2 percent of budget**. Storm drainage fees are collected alongside property tax payments which are due twice yearly at the end of April and October. Revenues received at other times of the year are related to irregular events such as property sales, refinancing, and payment of back taxes. As a result, revenues in the first and third quarters can be volatile.

Resources by Fund	Year-to-Date Actual			Budget			% of Budget	
	3/31/2016	3/31/2017	% Change	2016	2017	% Change	2016	2017
General Gov't Operating:								
General Fund	20,819,097	23,999,696	15.3%	89,835,829	93,232,434	3.8%	23.2%	25.7%
Other General Gov't Operating Funds	4,836,387	5,024,516	3.9%	27,076,983	27,917,660	3.1%	17.9%	18.0%
Total General Gov't Operating	25,655,483	29,024,213	13.1%	116,912,812	121,150,094	3.6%	21.9%	24.0%
Utilities:								
Water/Sewer Operating Fund	6,048,253	6,607,431	9.2%	26,905,563	28,419,059	5.6%	22.5%	23.2%
Surface Water Management Fund	669,239	544,053	-18.7%	10,047,501	10,393,907	3.4%	6.7%	5.2%
Solid Waste Fund	4,119,569	4,424,797	7.4%	16,853,760	17,354,535	3.0%	24.4%	25.5%
Total Utilities	10,837,061	11,576,281	6.8%	53,806,824	56,167,501	4.4%	20.1%	20.6%
Total All Operating Funds	36,492,544	40,600,493	11.3%	170,719,636	177,317,595	3.9%	21.4%	22.9%

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

City Hall Renovations



The City Hall Remodel Project reached a major milestone with substantial completion of the project achieved as of January 24th 2017. City Hall was originally constructed in 1982, with the last major expansion/renovation occurring twenty years ago. Following the 2011 annexation, the City anticipated the need for expanded facilities to accommodate the needs of over 30,000 new residents.

Following the relocation of the Police Department to the new Kirkland Justice Center, renovations began in earnest in the fall of 2015 with re-roofing. Interior work occurred mostly throughout 2016. Improvements include a concierge customer service area, more flexible Council Chambers with improved multimedia capabilities, an improved Emergency Operations Center, refurbished interior spaces, seismic upgrades to the original portion of the building, and energy-saving features such as an efficient heating/cooling system and solar panels. Incorporating a new furniture system allowed for optimization of space to bring Human Resources and Parks & Community Services, which had been located off-site, back to City Hall. The project is now nearly complete—additional pending items include the installation of the Parks Customer Service counter, updated exterior signage, art glass, window coverings, landscaping, and minor “punch list” items.

So far, the new concierge customer service lobby with consolidated development services counters and the renovated Council Chambers have been well-received by the public. For more information, go to kirklandwa.gov and search for “City Hall Remodel.”

Summary of All Operating Funds: *Expenditures*

- **General Fund** expenditures (excluding transfers) finished March 2017 **up 7.7 percent** from the prior year. Actual expenditures finished at **25.6 percent of budget**. Personnel services led the growth with a \$1,802,756, or 12.5 percent, increase over last year. Key factors contributing to this growth included 1) cost-of-living adjustments and one-time retroactive pay related to the settlement of collective bargaining agreements and 2) the addition of temporary staff during 2017. An analysis of General Fund expenditures by department can be found on pages 4 and 5.
- **Other General Government Operating Funds** actual expenditures were **4.4 percent higher** than March 2016, largely due to higher expenditures in the **Equipment Rental Fund** and **Information Technology Fund**. Expenditures in these funds grew **41.5 percent and 13.0 percent respectively** when compared to this time last year, due to larger vehicle and personal computer replacement schedules this year and the earlier timing of major equipment purchases in 2017 including payment for a number of vehicles budgeted and ordered in 2016, but were not delivered and paid for until 2017. In aggregate, other general government operating funds finished the first quarter of 2017 at **23.8 percent** of budgeted funds.
- **Water/Sewer Operating Fund** actual expenditures were **5.4 percent higher** than in March 2016. This growth is due to a rate increase from the King County wastewater utility. In total, the Water/Sewer fund finished March at **25.4 percent of budget**.
- **Surface Water Management Fund** expenditures at the end of March 2017 were **13.5 percent higher** than 2016. Costs for both labor and professional services grew in order to implement provisions of the Critical Areas Ordinance and Surface Water Design Manual adopted in late 2016. Expenditures through the end of March were at **21.7 percent** of budget.
- **Solid Waste Fund** expenditures through the first quarter were **1.2 percent higher** in 2017 than in 2016. Small increases in expenditures for the waste disposal contract based on annual consumer price index growth was the cause of the overall increase. Expenditures in the fund finished March at **24.1 percent of budget** which is in line with expected expenditure levels.

Expenditures by Fund	Year-to-Date Actual			Budget			% of Budget	
	3/31/2016	3/31/2017	% Change	2016	2017	% Change	2016	2017
General Gov't Operating:								
General Fund	20,902,619	22,502,735	7.7%	85,420,149	87,768,813	2.7%	24.5%	25.6%
Other General Gov't Operating Funds	5,580,686	5,826,707	4.4%	24,533,474	24,511,341	-0.1%	22.7%	23.8%
Total General Gov't Operating	26,483,305	28,329,442	7.0%	109,953,623	112,280,154	2.1%	24.1%	25.2%
Utilities:								
Water/Sewer Operating Fund	5,655,677	5,961,530	5.4%	22,813,187	23,463,936	2.9%	24.8%	25.4%
Surface Water Management Fund	1,528,945	1,735,766	13.5%	7,384,522	7,980,643	8.1%	20.7%	21.7%
Solid Waste Fund	4,023,226	4,071,095	1.2%	16,299,008	16,904,265	3.7%	24.7%	24.1%
Total Utilities	11,207,848	11,768,392	5.0%	46,496,717	48,348,844	4.0%	24.1%	24.3%
Total All Operating Funds	37,691,153	40,097,833	6.4%	156,450,340	160,628,998	2.7%	24.1%	25.0%

*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 through the first quarter of 2017 was **8.6 percent higher** than it was in 2016. The bulk of this increase is in the Contracting, Services and Communications sectors. A detailed analysis of total sales tax revenue can be found starting on page 5.
- **Property taxes** through March were **5.0 percent higher** than 2016, **at 6.0 percent of budget**. As the bulk of property tax revenue is received in the second and fourth quarters, this is within expected levels.

Continued on next page

General Fund Revenue *continued*

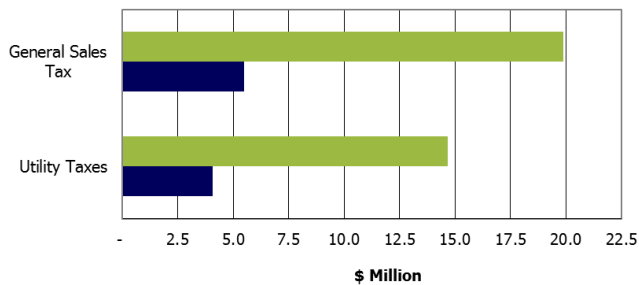
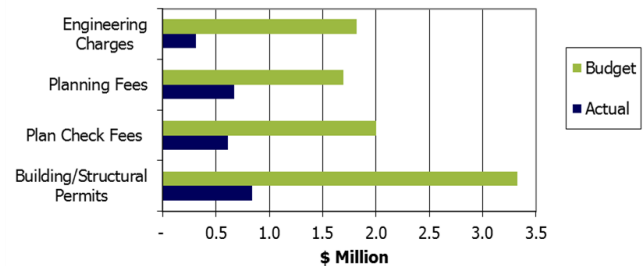
- **Utility tax** collections for the quarter were **3.8 percent higher** compared to results from the first quarter of 2016. Growth in energy and city-managed utility taxes were offset by declines in telecommunications. Collections through March were at **27.6 percent** of budget.
- **Other tax** actual revenues were **8.6 percent higher** than in the first quarter of 2016 and finished March at **28.6 percent of budget**. This increase is the result of higher than expected gambling revenues from card games.
- **Business license and franchise fees** were **1.5 percent higher** than in March 2016 and finished the first quarter at **25.6 percent** of budget.
- **Revenue generating regulatory license** collections were **3.5 percent lower** than in March 2016. This is due to one-time revenues received last year as the City identified businesses operating without licenses and sought payment of up to three years of back fees. Revenues were at **35.7 percent of budget**.
- Compared to March 2016, **Building, Structural and Equipment permit revenues** were **up 25.6 percent** and finished the quarter at **25.2 percent of budget**. The bulk of this increase is due to several payments related to large projects.
- **Engineering Services charges** were down **35.3 percent** from March 2016, finishing at only **16.9 percent of budget**.
- One-time revenue in early 2016 related to development at Kirkland Urban accounts for most of this decline.
- **Plan check fees** finished the first quarter of 2016 **down 11.0 percent** from the year prior at **30.4 percent of budget**. Similarly, most of this difference is related to reduced one-time payments related to large mixed-use and residential developments.
- **Planning fees** were **down 26.9 percent** due to a large one-time payment in lieu of affordable housing fees which the City received in early 2016 which was then passed through to A Regional Coalition for Housing (ARCH).
- As revenues from the voter-approved King County **EMS Levy** are received in the latter half of the year, no revenue has been receipted to-date.
- **Fines and forfeitures** were **down 14.1 percent** through March 2016, finishing the first quarter at **15.0 percent of budget**. Continued police staffing shortages have resulted in the reassignment of dedicated traffic enforcement personnel to general patrol duties and a corresponding reduction in infraction revenue.
- **Miscellaneous** revenue finished the first quarter **805.1 percent up** from March 2016 due to \$2.4 million in one-time proceeds from the sale of the 505 Market building. Excluding this event, miscellaneous revenues through the first quarter are **down 8.2 percent** from 2016 and are at **20.0 percent of budget**.

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	
	3/31/2016	3/31/2017	% Change	2016	2017	% Change	2016	2017
Taxes:								
Retail Sales Tax: General	5,034,815	5,468,321	8.6%	17,963,747	19,891,000	10.7%	28.0%	27.5%
Retail Sales Tax Credit: Annexation	1,189,982	1,294,448	8.8%	3,935,000	3,935,000	0.0%	30.2%	32.9%
Retail Sales Tax: Criminal Justice	563,957	578,034	2.5%	2,097,461	2,305,000	9.9%	26.9%	25.1%
Property Tax	1,055,561	1,108,797	5.0%	17,886,952	18,384,976	2.8%	5.9%	6.0%
Utility Taxes	3,897,886	4,047,833	3.8%	15,175,950	14,661,582	-3.4%	25.7%	27.6%
Rev Generating Regulatory License	929,288	896,992	-3.5%	2,364,399	2,509,268	6.1%	39.3%	35.7%
Other Taxes	362,667	393,973	8.6%	1,072,758	1,377,458	28.4%	33.8%	28.6%
Total Taxes	13,034,155	13,788,398	5.8%	60,496,267	63,064,284	4.2%	21.5%	21.9%
Licenses & Permits:								
Building, Structural & Equipment Permits	668,658	839,854	25.6%	3,227,201	3,327,698	3.1%	20.7%	25.2%
Business Licenses/Franchise Fees	1,184,622	1,202,797	1.5%	4,580,520	4,691,013	2.4%	25.9%	25.6%
Other Licenses & Permits	188,392	245,416	30.3%	519,801	539,101	3.7%	36.2%	45.5%
Total Licenses & Permits	2,041,671	2,288,066	12.1%	8,327,522	8,557,812	2.8%	24.5%	26.7%
Intergovernmental:								
Grants and Federal Entitlements	73,328	165,104	125.2%	162,322	77,000	-52.6%	45.2%	214.4%
State Shared Revenues & Entitlements	328,413	340,555	3.7%	1,339,360	1,366,446	2.0%	24.5%	24.9%
EMS	0	0	N/A	920,385	939,657	2.1%	N/A	N/A
Total Intergovernmental	401,741	505,660	25.9%	2,422,067	2,383,103	-1.6%	16.6%	21.2%
Charges for Services:								
Internal Charges	1,161,202	1,862,920	60.4%	7,143,831	6,978,733	-2.3%	16.3%	26.7%
Engineering Services	476,966	308,465	-35.3%	1,391,146	1,821,228	30.9%	34.3%	16.9%
Plan Check Fee	684,274	608,817	-11.0%	1,118,880	2,000,000	78.8%	61.2%	30.4%
Planning Fees	914,275	668,000	-26.9%	2,313,515	1,692,561	-26.8%	39.5%	39.5%
Recreation	563,840	601,374	6.7%	1,215,200	1,390,471	14.4%	46.4%	43.2%
Other Charges for Services	914,962	397,516	-56.6%	2,138,139	2,093,082	-2.1%	42.8%	19.0%
Total Charges for Services	4,715,520	4,447,093	-5.7%	15,320,711	15,976,075	4.3%	30.8%	27.8%
Fines & Forfeits	329,029	282,560	-14.1%	2,191,067	1,886,030	-13.9%	15.0%	15.0%
Miscellaneous	296,982	2,687,920	805.1%	1,078,195	1,365,130	26.6%	27.5%	196.9%
Total Revenues	20,819,097	23,999,696	15.3%	89,835,829	93,232,434	3.8%	23.2%	25.7%
Other Financing Sources:								
Interfund Transfers	0	0	N/A	416,791	315,372	-24.3%	N/A	N/A
Total Other Financing Sources	0	0	N/A	416,791	315,372	-24.3%	N/A	N/A
Total Resources	20,819,097	23,999,696	15.3%	90,252,620	93,547,806	3.7%	23.1%	25.7%

General Fund Revenue *continued***2017 Budget to Actual Comparison of Selected Taxes****2017 Budget to Actual Comparison of Development Related Fees****General Fund Expenditures**

General Fund Department Expenditures	Year-to-Date Actual			Budget			% of Budget	
	3/31/2016	3/31/2017	% Change	2016	2017	% Change	2016	2017
Non-Departmental	502,927	656,745	30.6%	2,441,324	2,660,056	9.0%	20.6%	24.7%
City Council	217,969	238,495	9.4%	501,980	518,224	3.2%	43.4%	46.0%
City Manager's Office	583,123	516,549	-11.4%	2,303,341	2,433,919	5.7%	25.3%	21.2%
Municipal Court	620,524	601,597	-3.1%	2,551,144	2,493,411	-2.3%	24.3%	24.1%
Human Resources	379,909	381,285	0.4%	1,553,970	1,580,837	1.7%	24.4%	24.1%
City Attorney's Office	298,613	308,301	3.2%	1,203,014	1,224,232	1.8%	24.8%	25.2%
Parks & Community Services	1,724,225	1,820,689	5.6%	8,160,387	8,249,974	1.1%	21.1%	22.1%
Public Works (Engineering)	1,290,749	1,645,459	27.5%	6,000,767	6,860,782	14.3%	21.5%	24.0%
Finance and Administration	1,128,084	1,257,518	11.5%	4,842,147	4,878,627	0.8%	23.3%	25.8%
Planning & Building	2,573,684	2,204,869	-14.3%	9,711,401	9,037,662	-6.9%	26.5%	24.4%
Police	6,137,741	6,431,452	4.8%	24,812,125	25,714,248	3.6%	24.7%	25.0%
Fire	5,445,071	6,439,775	18.3%	21,338,549	22,116,841	3.6%	25.5%	29.1%
Total Expenditures	20,902,619	22,502,735	7.7%	85,420,149	87,768,813	2.7%	24.5%	25.6%
Other Financing Uses:								
Interfund Transfers	639,784	639,742	0.0%	6,065,916	10,487,625	72.9%	10.5%	6.1%
Total Other Financing Uses	639,784	639,742	0.0%	6,065,916	10,487,625	72.9%	10.5%	6.1%
Total Expenditures & Other Uses	21,542,403	23,142,476	7.4%	91,486,065	98,256,438	7.4%	23.5%	23.6%

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

Comparing 2017 and 2016 expenditures:

In 2017, excluding interfund transfers, General Fund expenditures were **7.7 percent higher** than in the first quarter of 2016, and finished at **25.6 percent of budget**. Specific reasons for increased expenditures are highlighted below:

- Expenditures for **Non-departmental** were **up 30.6 percent** due to an invoice for elections services in 2016 that was not received and paid until early 2017. Non-departmental finished the first quarter of 2017 **at 24.7 percent** of budget spent.
- Actual first quarter expenditures for the **City Council increased 9.4 percent** from this time in 2016. This cost growth is a result of membership dues increases for organizations which provide services to municipalities and represent municipal interests. City Council finished March 2016 at **46.0 percent of budget**, which is normal as these dues are paid at the beginning of each year.
- The **City Manager's Office (CMO)** finished March 2017 **down 11.4 percent** from March 2016. This decrease reflects the transfer of Capital Improvement Program-related neighborhood outreach staff to Public Works as well as one-time expenditures related to the Police Strategic Plan that occurred in the first quarter of 2016. The CMO finished the first quarter at **21.2 percent of budget**.
- March 2017 expenditures for **Parks & Community Services** were **up 5.6 percent** from 2016 due to increased personnel costs related to service packages which increased staffing for recreation and human services and a departmental reorganization as well as one-time payments for human services grants awarded in 2016, but not paid until early 2017. Parks and Community Services finished the first quarter at **22.1 percent of budget**.

Actual first quarter General Fund expenditures (excluding "other financing uses") were 7.7 percent higher than they were in 2016.

Continued on page 5

Financial Management Report as of March 31, 2017

- **Public Works - General Fund** expenditures were **27.5 percent above** March 2016. Growth in expenditures was driven by the addition of staff part way through 2016, particularly in Capital Projects Engineering. Overall, Public Works - General Fund finished the quarter at **24.0 percent of budget**.
- **Planning and Building** finished the first quarter **14.3 percent below** March 2016, with **24.4 percent of the budget** expended. This decline is due to a large one-time payment in lieu of affordable housing fees which the City received in early 2016 which was then passed through to A Regional Coalition for Housing (ARCH).
- **Police** expenditures ended March 2017 **4.8 percent above** the same time in 2016, **at 25.0 percent of budget**. This increase is due to increased personnel costs related to a recent labor contract agreement as well as growing professional services costs. The growth in services costs are due in particular to greater number of offender referrals to the South Correctional Entity (SCORE). These referrals have been necessary as the offender population currently has more individuals with acute mental health needs than the Kirkland Justice Center (KJC) is equipped to properly address.
- Expenditures for the **Fire Department** finished the first quarter of 2017 **18.3 percent above** March 2016, **at 29.1 percent of budget**. This increase is largely driven by increased personnel costs related to one-time retroactive pay and cost-of-living adjustments as the result of a recent labor contract agreement.

Summary of Fire District 41 Funds	
Revenues & Expenditures	
Beginning Balance	5,230,000
Investment Interest	124,130
Expenditures:	114,893
Current Balance	\$ 5,239,237

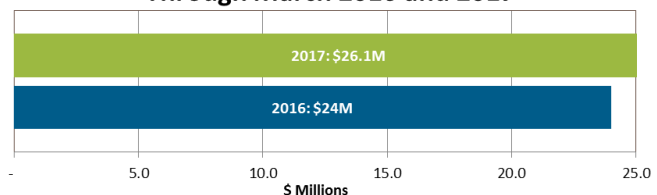
Sales Tax Revenue Analysis

Year-to-date sales tax revenue was **8.6 percent higher** in March 2017 than in March 2016. Increased activity in contracting, services, and communications composed the bulk of the revenue gains.

Review by business sectors:

- **Contracting** was **up 35.1 percent** compared to March 2016. Construction collections were strong this year, and led overall sales tax growth. However, this is a very volatile revenue category and will fluctuate with changing economic conditions.
- Sales tax from the retail sectors was collectively **down 0.4 percent** compared to March 2016.
 - ◊ The City's largest business sector—**Auto/gas retail**—was **up 3.8 percent** compared to the first quarter of 2016.
 - ◊ The **General merchandise/miscellaneous retail** sector was **down 7.9 percent** compared to the first quarter of 2016 due to increased competition from new businesses in neighboring cities. This category is also the most likely to contain impacts from displaced business activity during ongoing construction at Kirkland Urban and the Village at Totem Lake.
 - ◊ **Retail eating/drinking** sector performance was **up 6.2 percent** compared to March 2016.
 - ◊ **Other retail** was **up 4.6 percent** compared to the first quarter of 2016. Internet sales, along with health & personal care and electronics, led growth.
- The **Services** sector was **up 12.2 percent** compared to March 2016, largely due to growth in 1) professional, scientific, and technical services; 2) information services; and 3) arts, entertainment, and recreation services.
- Revenues from **Communications** were **up 52.0 percent** through the first quarter over this prior year due to a one-time distribution resulting from Department of Revenue audits. Controlling for this event, growth in this sector is only 11.3 percent.
- **Wholesale** revenues through March 2017 were **down 6.0 percent** when compared to collections from the first quarter of last year. Wholesale activity subject to retail sales tax reflects direct sales to business consumers by providing both consumable goods such as medical and office supplies and durable goods such as furniture, medical equipment, and computer hardware and software. As infrequently purchased durable goods are included in this category together with regularly purchased consumables, revenues in this category will be somewhat volatile.
- The **Miscellaneous** sector was **down 8.2 percent** from March 2016, largely due to declining revenues related to real estate.

Sales Tax Receipts
Through March 2016 and 2017



Regional Sales Tax
Bellevue was up 11.7 percent, Redmond was down 23.2 percent in March 2017 compared to March 2016.

King County
King County's sales tax receipts were up 3.0 percent through the end of March 2017 compared to the same time in the prior year.

City of Kirkland Actual Sales Tax Receipts

Business Sector Group	YTD		Dollar Change	Percent Change	Percent of Total	
	2016	2017			2016	2017
Services	646,474	725,492	79,018	12.2%	12.8%	13.3%
Contracting	769,944	1,040,543	270,599	35.1%	15.3%	19.0%
Communications	132,737	201,767	69,030	52.0%	2.6%	3.7%
Auto/Gas Retail	1,227,643	1,274,007	46,364	3.8%	24.4%	23.3%
Gen Merch/Misc Retail	577,154	531,566	(45,587)	-7.9%	11.5%	9.7%
Retail Eating/Drinking	370,910	393,932	23,022	6.2%	7.4%	7.2%
Other Retail	725,430	758,839	33,409	4.6%	14.4%	13.9%
Wholesale	252,807	237,611	(15,195)	-6.0%	5.0%	4.3%
Miscellaneous	331,716	304,564	(27,152)	-8.2%	6.6%	5.6%
Total	5,034,815	5,468,321	433,506	8.6%	100%	100%

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 2016 and 2017 sales tax receipts in the table to the left.

"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.

- Sales tax revenues through March 2017 were 8.6 percent higher than through March 2016.
- Sales tax revenue in March 2017 was up 15.5 percent compared to the same month in 2016. Controlling for significant one-time revenues related to an audit of a large company, month-over-month growth remained high at 12.2 percent.
- Growth has been led by sectors that tend to be volatile and will fluctuate with changing economic conditions, particularly Contracting, and sectors with revenue generated from one-time events.
- The City's largest business sector—Auto/Gas Retail—continues to see growth rates trailing behind citywide growth.

Review by business district:

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

Totem Lake, which accounted for 29.2 percent of total sales tax receipts through March 2017, was **down 0.8 percent** from 2016 due to declining results in the services, communications, and retail eating/drinking sectors. Some of this decline can be attributed to the closure of businesses during redevelopment at Totem Lake. About 66 percent of this business district's revenue comes from the auto/gas retail sector alone.

NE 85th Street, which made up 9.2 percent of the total sales tax receipts in the first quarter of 2017, was **down 5.9 percent** compared to this same time in 2016. The declining receipts in this area are due to slow general merchandise/miscellaneous retail sales. Auto and general retail contribute about 82 percent of this business district's revenue.

Downtown, which accounted for 4.5 percent of sales tax receipts through March 2017, was **up 7.4 percent** despite the closure of businesses during Kirkland Urban redevelopment. Sectors seeing the sharpest increases include services and retail eating/drinking. These sectors, along with other retail, comprise about 83 percent of this business district's revenue.

Carillon Point & Yarrow Bay, which accounted for 1.6 percent of the total sales tax receipts, were **up 9.1 percent** compared to March 2016. About 86 percent of this business district's revenue came from services, retail eating/drinking, and other retail.

City of Kirkland Actual Monthly Sales Tax Receipts

Month	Sales Tax Receipts		Dollar Change	Percent Change
	2016	2017		
January	1,580,669	1,660,299	79,630	5.0%
February	1,958,877	2,080,553	121,675	6.2%
March	1,495,268	1,727,469	232,201	15.5%
Total	5,034,815	5,468,321	433,506	8.6%

Houghton & Bridle Trails, which has produced 1.8 percent of the total first quarter sales tax receipts, were **down 1.3 percent** due to a decrease in other retail. This sector, along with services and retail eating/drinking, make up about 86 percent of sales tax receipts from this business district.

Juanita, which generated 1.2 percent of sales tax receipts through March 2017, was **down 1.1 percent** when compared to this time in 2016 due to decreases in services and other retail.

North Juanita, Kingsgate, & Finn Hill accounted for 2.6 percent of the total sales tax receipts in the first quarter of 2017 and were **down 1.6 percent** from March 2016 due to declines in retail eating/drinking and other retail.

Year-to-date tax receipts by business district for 2016 and 2017 are compared in the table on the next page.

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.

Financial Management Report as of March 31, 2017

When reviewing sales tax receipts by business district, it is important to be aware that 53.7 percent of the revenues received in 2016 were in the "unassigned or no district" category largely due to contracting and other revenue, which includes revenue from internet, catalog sales and other businesses located outside of the City. This percentage has grown in recent years as internet sales have grown in volume.

OFFICE VACANCIES:

According to the latest report from CB Richard Ellis Real Estate Services, Kirkland's office vacancy rate grew to 3.9 percent from 3.3 percent at the beginning of the year.

This vacancy rate is among the lowest within the Eastside and the Puget Sound as a whole with office vacancy rates of 11.4 and 11.7 percent respectively.

These increases in vacancies represent new construction coming online in the region and are expected to decline as tenants move into the new space. Notable leasing activity in the first quarter is focused on renewals, including one 28,000 square foot lease in Totem Lake.

The region currently has 5.5 million square feet of office space under construction. This includes projects on the Eastside, with over 850,000 square feet currently being built, including 390,000 square feet in Kirkland Urban alone.

LODGING TAX REVENUE:

Lodging tax revenue grew in the first quarter of 2017 compared to the same time period in 2016, finishing up 5.5 percent, an increase of \$3,023. Revenues through March 2017 finished at 19.7 percent of budget.

Business District	YTD		Dollar Change	Percent Change	Percent of Total	
	2016	2017			2016	2017
Totem Lake	1,609,106	1,595,516	(13,590)	-0.8%	32.0%	29.2%
NE 85th St	534,139	502,740	(31,399)	-5.9%	10.6%	9.2%
Downtown	231,273	248,409	17,137	7.4%	4.6%	4.5%
Carillon Pt/Yarrow Bay	80,154	87,426	7,272	9.1%	1.6%	1.6%
Houghton & Bridle Trails	102,026	100,664	(1,362)	-1.3%	2.0%	1.8%
Juanita	63,793	63,122	(672)	-1.1%	1.3%	1.2%
Kingsgate	50,413	49,039	(1,373)	-2.7%	1.0%	0.9%
North Juanita	57,256	56,715	(542)	-0.9%	1.1%	1.0%
Finn Hill	38,086	37,711	(375)	-1.0%	0.8%	0.7%
Unassigned or No District:						
Contracting	766,250	1,034,389	268,139	35.0%	15.2%	18.9%
Other	1,502,319	1,692,590	190,271	12.7%	34.0%	34.8%
Total	5,034,815	5,468,321	433,506	8.6%	100.0%	100.0%

Sales Tax Revenue Outlook

While 2017 appears to be off to a promising start, it should be noted that about three-fourths of sales tax revenue growth during the first quarter of the year has been due to Contracting—a sector that fluctuates significantly with the economic conditions—and a one-time back payment of taxes. Continued weaker growth in Auto/Gas Retail, the City's largest business sector, and negative growth in all but two business districts also contributes to concerns that current revenue trends will eventually slow. Staff will continue to monitor and report on emerging trends in the monthly Sales Tax Report.

Economic Environment Update

The **Washington State Economic & Revenue Council** monthly update reports continued job growth, adding 12,200 nonfarm jobs in January and February 2017. The economic forecast for Washington projects that the annual job growth rate in 2017 will be 2.3 percent. However, it also anticipates that growth will slow to 1.8 percent in 2018 and continue to decelerate in the years ahead, falling to 1.0 percent in 2021.

The Conference Board's **Consumer Confidence Index** in April 2017 fell to 120.3 from a high of 125.6 the month before. A rating of 100 equals the 1985 consumer confidence level. Despite this decline, consumer assessment of current business conditions and the short-term outlook for both business conditions and the labor market continue to display levels of optimism not seen for over a decade.

Unemployment Rates in March 2017 decreased to 4.5 and 4.9 percent at national and state levels respectively, down from 4.7 and 5.2 percent in the month prior. While March data is not yet available at a local level, the trend of declining unemployment appears to apply locally as well. Unemployment in King County dropped from 3.7 percent to 3.3 percent from January to February 2017. Similarly, unemployment in Kirkland also fell from 3.8 to 3.3 percent in that same period.

The **Western Washington Purchasing Manager Index** was at 58.0 in March 2017, indicating a return to expanding activity at the end of the first quarter. An index reading greater than 50 signals an economic expansion. This is an increase of 9.7 points over February's reading of 48.3.

Local **building permitting activity** has decreased 1.3 percent compared to March 2016. The decrease is primarily due to commercial development, which is down 31.1 percent from this time

(Continued on page 8)

Economic Environment Update *continued*

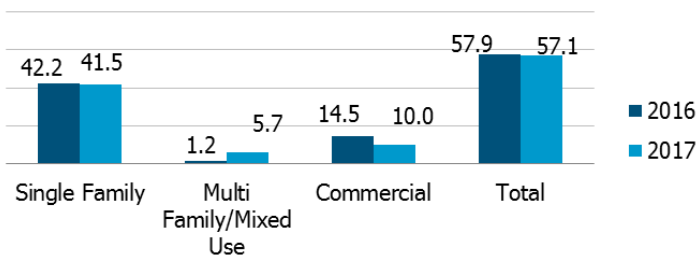
last year. Offsetting this is an increase in multi-family/mixed use development of 371.0 percent. The valuation of single family home construction is down 1.7 percent when compared to this time in 2016.

The net effect is a year-to-date growth of \$57.1 million in development valuation.

After a brief lull during the third quarter of 2016, prices in the **housing market** continued to surge. As of February 2017, the Case-Shiller home price index for the Seattle metro area reached 211.49, further increasing the gap above the pre-recession peak index score of 192.3 set in July 2007. There were 45,200 new housing permits issued in February 2017 according to the Washington State Economic and Revenue Council.

Inflation in the Seattle area is high relative to the national rate. In February 2016, the Seattle core CPI increased 3.7 percent compared to the previous year, while the national CPI was at 2.8 percent year-to-year growth.

**Valuation of Building Permits
First Quarter Total 2016 and 2017
(in millions \$)**



Investment Report

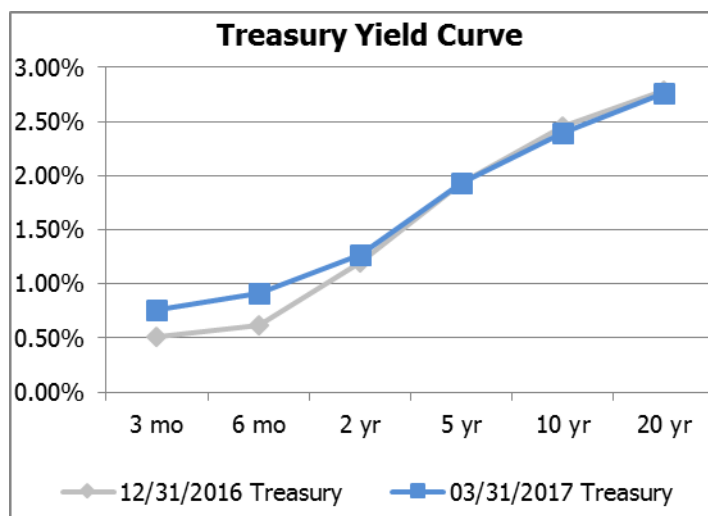
MARKET OVERVIEW

Economic growth was positive although slight in the first quarter of 2017. The Fed Funds rate was raised from 0.75 to 1.00 percent on March 15th and is expected to be increased twice more this year for a total increase of 0.75 percent in 2017. The yield curve rose on the short end, the continuing result of the increase in the Fed Funds rate, while the long end of the curve remained mostly the same throughout the first quarter.

\$195.2 million on March 31, 2017. The increase in the portfolio is related to normal cash flows during the first quarter. Larger increases will be seen in the second quarter as the first half of property taxes is 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, State and Local Government bonds, Bank CDs, 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.

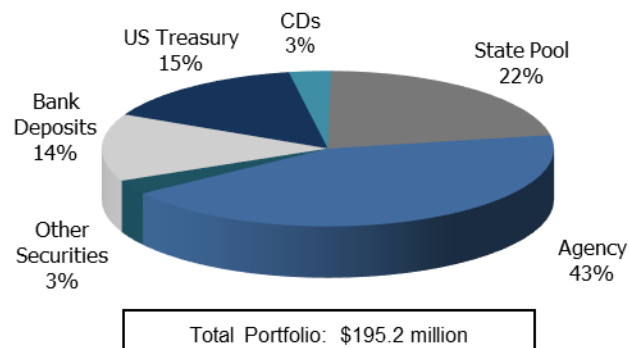


CITY PORTFOLIO

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 increased \$1.3 million in the first quarter of 2017, moving from \$193.9 million on December 31, 2016 to

Investments by Category



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 remained steady at 1.23 years on March 31, 2017 compared to the benchmark duration of 1.39 years. The weighted average maturity of the portfolio was 1.32 years on March 31, 2017.

Financial Management Report as of March 31, 2017

Investment Report *continued*

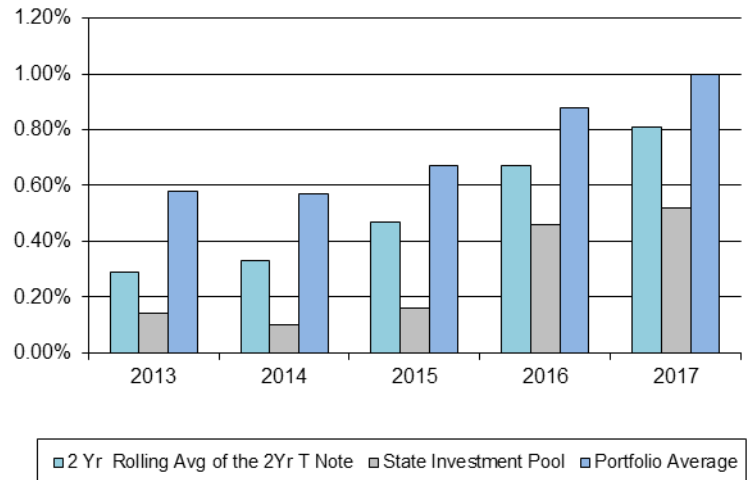
Yield

The City Portfolio yield to maturity increased from 0.92 percent on December 31, 2016 to 1.02 percent on March 31, 2017, topping 1 percent for the first time since August 2011. Through March 31, 2017, the City's annual average yield to maturity increased to 1.00 percent. The City's portfolio benchmark is the range between the 90 day Treasury Bill and the 2 year rolling average of the 2 Year Treasury Note. This benchmark is used as it is reflective of the maturity guidelines required in the Investment Policy adopted by City Council. The City's portfolio outperformed both the 90 day T Bill and the 2 year rolling average of the 2 Year

Treasury note, which was 0.84 percent on March 31, 2017.

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

Investment Interest Rate Comparisons



2017 ECONOMIC OUTLOOK and INVESTMENT STRATEGY

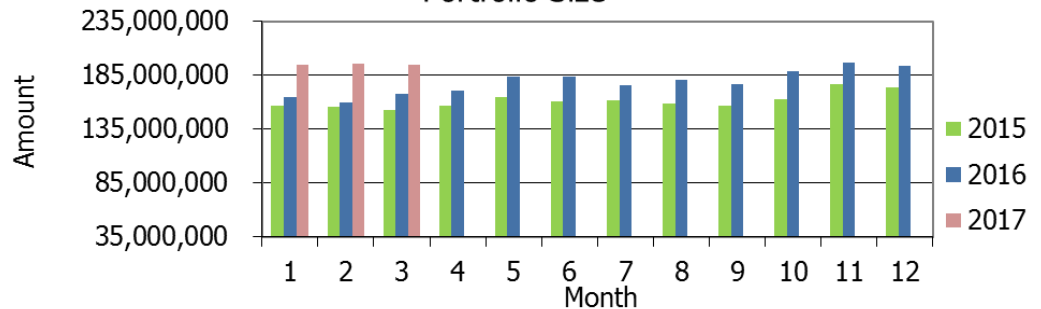
The economic outlook is stronger now than it looked three months ago. The U.S. economy is expected to grow at an annual rate of 2.3 percent in 2017 and 2.4 percent in 2018. CPI inflation is expected to average 2.4 percent in 2017 and 2.3 percent in 2018. The unemployment rate is expected to average 4.6 percent in 2017 and fall to 4.5 percent in 2018. The Fed Funds rate, currently at 0.75 percent to 1.00 percent as of March 15, 2017 and is expected to rise two more times in 2017 to 1.50%.

The City's investment advisor, Government Portfolio Advisors (GPA) is currently recommending that the duration of the portfolio be increased slightly in relation to the benchmark. As the Fed Funds rate is increased, GPA will recommend security purchases to capture higher returns as they are available.

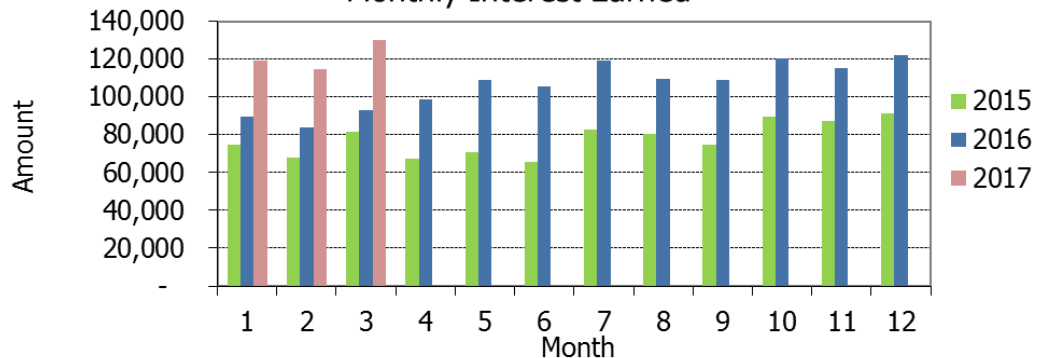
The State Pool is currently at 0.70%, slowly increasing each month as short term rates rise with the increase in the Fed Funds rate. Rates will continue to rise if the Fed Funds rate increases in 2017 occur as projected, 2 additional rate increases of 0.25 percent.

Total estimated investment income for 2017 is \$1,500,000.

Portfolio Size



Monthly Interest Earned



Reserves are an important indicator of the City's fiscal health and effectively represent "savings accounts" established to meet unforeseen budgetary needs (general purpose reserves) or dedicated for 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 below. The City's fiscal policy is to set at least 1 percent of the General Fund adopted budget toward reserve replenishment toward 80 percent of the target level (100 percent for the Revenue Stabilization Reserve). 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 the external agencies' measurement of the City's financial strength (Standard and Poor's: AAA and Moody's Aa1).

GENERAL CAPITAL RESERVES

- Real estate activity has been growing significantly over the last few years and **Real Estate Excise Tax (REET)** collections reached an all-time high in 2016. However, first quarter collections in **2017 are 23.7 percent behind 2016**. Even so, collections are still well ahead of budget. The ending balances in the table below do not reflect this revenue performance. They incorporate 2017-2018 uses in the 2017-2022 Capital Improvement Program as adopted in December 2016 and budgeted rather than actual revenues.
- Impact fees (Parks and Transportation)** reflect development activity, which remains strong. First quarter 2017 Parks revenue is **10.9 percent above** this time in 2016. Transportation fees through March 2017 are **32.0 percent above** revenues from the first quarter of 2016. Impact fees were increased at the beginning of both 2016 and 2017 to keep pace with inflation.
- The City adopted a Capital Improvement Program (CIP) for 2017-2022 in December 2016, which makes significant uses of REET and Impact Fees in the current budget period, as well as future years in response to projects identified in several long-range master plans. The balances below were adjusted during the CIP adoption process to fund capital projects that were budgeted during this biennium and will be adjusted again with the CIP update anticipated to occur in December 2017.

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	600,000	600,000	0
Council Special Projects Reserve	250,000	381,927	331,927	250,000	81,927
Contingency	4,036,425	5,675,121	5,675,121	6,076,030	(400,909)
General Capital Contingency	4,993,407	5,709,768	5,709,768	6,317,430	(607,662)
General Purpose Reserves with Targets	20,581,440	20,276,632	20,226,632	21,153,276	(926,644)
ALL OTHER RESERVES WITH TARGETS					
General Fund Reserves:					
Litigation Reserve	93,871	150,000	150,000	150,000	0
Firefighter's Pension Reserve	750,804	1,364,204	1,364,204	933,405	430,799
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	3,119,466	1,585,000	1,534,466
REET 2	6,000,344	8,457,722	8,543,722	6,731,000	1,812,722
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	19,675,102	21,428,936	20,799,936	17,021,949	3,777,987
Reserves without Targets	70,905,240	76,960,268	75,658,251	n/a	n/a
Total Reserves	90,580,342	98,389,204	96,458,187	n/a	n/a

General Purpose reserves are funded from general revenue and may be used for any general government function.

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

All Other Reserves with Targets have restrictions for use either from the funding source or by Council-directed policy (such as the Litigation Reserve).

*Adjusted for estimated cash balances through December 2016

USES AND ADDITIONS HIGHLIGHTS

RESERVE	AMOUNT	DESCRIPTION
2017-18 Council Authorized Uses		
Council Special Projects Reserve	\$50,000	Peter Kirk Building Seismic Upgrades
Development Services Reserves	\$1,223,312	Development Services Temporary Staffing
Tour Dock Reserve	\$25,500	Marina Park Pier Expansion Study
REET 1 Reserve	\$715,000	Juanita Beach Bathhouse Replacement
Surface Water Construction Reserve	\$3,205	Juanita Creek Rockery Replacement
2017-18 Council Authorized Additions		
REET 2 Reserve	\$86,000	2016 Annual Striping Project Close-out

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

Financial Management Report as of March 31, 2017

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

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

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

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

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

Reserves	Description	Est. 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	-	50,000
General Oper. Reserve (Rainy Day)	Unforeseen revenues/temporary events	4,803,388	4,829,865	-	4,829,865
Revenue Stabilization Reserve	Temporary revenue shortfalls	2,848,220	3,029,951	-	3,029,951
Building & Property Reserve	Property-related transactions	3,600,000	600,000	-	600,000
Council Special Projects Reserve	One-time special projects	250,000	381,927	(50,000)	331,927
Annexation Sales Tax Reserve	Preparation for credit expiring in 2021	-	500,000	-	500,000
Contingency	Unforeseen expenditures	4,036,425	5,675,121	-	5,675,121
Total General Fund/Contingency		15,588,033	15,066,864	(50,000)	15,016,864
SPECIAL PURPOSE RESERVES					
General Fund Reserves:					
Litigation Reserve	Outside counsel costs contingency	93,871	150,000	-	150,000
Labor Relations Reserve	Labor negotiation costs contingency	74,342	76,342	-	76,342
Police Equipment Reserve	Equipment funded from seized property	81,687	69,187	-	69,187
Fire OT & Equipment Reserve	Contingency for overtime and equipment	190,704	200,000	-	200,000
LEOFF 1 Police Reserve	Police long-term care benefits	618,079	618,079	-	618,079
Facilities Expansion Reserve	Special facilities expansions reserve	50,663	50,663	-	50,663
Development Services Reserve	Revenue and staffing stabilization	5,782,995	6,607,183	(1,189,305)	5,417,878
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	-	150,000
Tree Ordinance	Replacement trees program	74,585	89,585	-	89,585
Revolving/Donation Accounts	Fees/Donations for specific purposes	444,696	683,905	-	683,905
Lodging Tax Fund	Tourism program and facilities	220,068	156,500	-	156,500
Street Fund Operating Reserve	Unforeseen expenditures	100,000	100,000	-	100,000
Cemetery Improvement	Cemetery improvements/debt service	727,390	751,435	-	751,435
Off-Street Parking	Downtown parking improvements	217,695	383,595	-	383,595
Fire Equipment Life Cycle	20-year fire equipment costs	750,804	1,364,204	-	1,364,204
Parks Facilities Sinking Fund	20-year parks facilities costs	0	186,000	-	186,000
Police Equipment Life Cycle	20-year police equipment costs	980,914	979,114	-	979,114
Technology Equipment Life Cycle	20-year technology equipment costs	1,315,713	730,013	-	730,013
Firefighter's Pension	Long-term care/pension benefits	1,225,835	976,955	-	976,955
Total Special Purpose Reserves		14,657,321	16,151,680	(1,248,812)	14,902,868
GENERAL CAPITAL RESERVES					
Excise Tax Capital Improvement:					
REET 1	Parks/transportation/facilities projects, parks debt service	5,213,854	3,834,466	(715,000)	3,119,466
REET 2	Transportation and other capital projects	6,000,344	8,457,722	86,000	8,543,722
Impact Fees					
Transportation	Transportation capacity projects	1,926,771	3,635,208	-	3,635,208
Parks	Parks capacity projects	1,523,337	3,116,107	-	3,116,107
General Capital Contingency	Changes to General capital projects	4,993,407	5,709,768	-	5,709,768
Total General Capital Reserves		19,657,713	24,753,271	(629,000)	24,124,271
UTILITY RESERVES					
Water/Sewer Utility:					
Water/Sewer Operating Reserve	Operating contingency	2,659,932	2,659,932	-	2,659,932
Water/Sewer Debt Service Reserve	Debt service reserve	501,024	62,022	-	62,022
Water/Sewer Capital Contingency	Changes to Water/Sewer capital projects	613,300	1,216,400	-	1,216,400
Water/Sewer Construction Reserve	Replacement/re-prioritized/new projects	10,591,907	14,526,860	-	14,526,860
Surface Water Utility:					
Surface Water Operating Reserve	Operating contingency	893,306	983,035	-	983,035
Surface Water Capital Contingency	Changes to Surface Water capital projects	391,380	740,492	-	740,492
Surface Water Construction Reserve	Replacement/re-prioritized/new projects	7,828,203	4,125,424	(3,205)	4,122,219
Total Utility Reserves		23,479,052	24,314,165	(3,205)	24,310,960
INTERNAL SERVICE FUND RESERVES					
Health Benefits:					
Claims Reserve	Health benefits self insurance claims	2,058,311	2,022,685	-	2,022,685
Rate Stabilization Reserve	Rate stabilization	1,000,000	0	-	0
Equipment Rental:					
Vehicle Reserve	Vehicle replacements	8,570,163	9,666,346	-	9,666,346
Radio Reserve	Radio replacements	8,463	17,950	-	17,950
Information Technology:					
PC Replacement Reserve	PC equipment replacements	308,453	196,587	-	196,587
Major Systems Replacement Reserve	Major technology systems replacement	1,300,289	0	-	0
Facilities Maintenance:					
Operating Reserve	Unforeseen operating costs	800,000	800,000	-	800,000
Facilities Sinking Fund	20-year facility life cycle costs	3,152,544	5,399,656	-	5,399,656
Total Internal Service Fund Reserves		17,198,223	18,103,224	-	18,103,224
GRAND TOTAL		90,580,342	98,389,204	(1,931,017)	96,458,187



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

- It provides a **summary budget to actual and year over year comparisons** for year-to-date revenues and expenditures for all operating funds.
- The **Sales Tax Revenue Analysis** report takes a closer look at one of the City's larger and most economically sensitive revenue sources.
- **Economic environment** information provides a brief outlook at the key economic indicators for the Eastside and Kirkland such as office vacancies, residential housing prices/sales, development activity, inflation and unemployment.
- The **Investment Summary** report includes a brief market overview, a snapshot of the City's investment portfolio, and the City's year-to-date investment performance.
- The **Reserve Summary** report highlights the uses of and additions to the City's reserves in the current year as well as the projected ending reserve balance relative to each reserve's target amount.

- Tracey Dunlap, Deputy City Manager
- Michael Olson, Director of Finance & Administration
- Tom Mikesell, Financial Planning Manager
- Neil Kruse, Senior Financial Analyst
- George Dugdale, Senior Financial Analyst
- 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 2017
- Carol A. Kujawa, MA, A.P.P., *ISM-Western Washington, Inc. Report On Business*, Institute for Supply Management-Western Washington, March 2017
- Washington State Economic & Revenue Forecast Council, *Quarterly Economic & Revenue Forecast*, March 2017 and *Monthly Economic & Revenue Update*, April 2017
- CB Richard Ellis Real Estate Services, Market View Puget Sound, First Quarter 2017
- 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 2017 Financial Dashboard Highlights**May 26, 2017**

- The dashboard report reflects the 2017 share of the biennial budget adopted by the City Council on December 13, 2016. The actual revenues and expenditures summarized reflect results through April 30, 2017, 33.3 percent through the year.
- Total General Fund revenues received through April were at 38.1 percent of budget, and 16.4 percent (\$5.0 million) higher than 2016. Property tax collection timing is \$1.5 million ahead of last year, contributing to this variance and the sale of the 505 Market Building accounts for \$2.4 million of the increase. Without the property tax timing variance and this one-time sale, revenues received through April 2017 are still up 4.5 percent compared to last year at this time.
 - Sales tax revenue through April is up 8.7 percent compared to 2016 and is at 35.4 percent of budget. Revenue by category shows high variances from 2016 across several sectors. Contracting is up 40.4 percent and is by far the largest contributor to the growth in tax revenue. Communications is also up 40.0 percent, but the majority of this is due to a large back payment of taxes by one company in March. Miscellaneous, General Merchandise, and Services are down 15.6, 9.7, and 7.6 percent respectively. The sales tax revenue reflects activity through February 2017 due to the two month lag in receipt of the funds from the Department of Revenue.
 - Utility tax receipts were \$5.5 million through the end of April, which is 37.3 percent of the budget. This amount is 5.0 percent above 2016 results.
 - Business license revenues through April are 42.7 percent of budget, but this is lower than last March's revenue by \$5,000, a decrease of 0.4 percent. This decrease is due to a large multi-year payment in overdue business license fees by a large employer in the City in April 2016.
 - After a slow start to the year, Development Fee revenues have improved, and now exceed \$3.4 million, equal to 35.4 percent of budget and 9.8 percent higher than 2016.
 - Building revenues through April are 33.0 percent of the annual budget, on target a third of the way through the year, and exceed last year's year to date revenues by over \$166,000.
 - Engineering revenues in April also picked up and are now at 34.7 percent of budget and 21.4 percent higher than year to date through April 2016. One large permit payment related to a new housing development accounted for 25.4 percent of April revenue.
 - Planning revenues were strong in January and have been slow since. Although year to date revenue is at 41.2 percent of budget, it lags behind 2016 numbers by 8.0 percent.
 - Gas taxes through April were \$545,396, which is 29.6 percent of the annual budget. This is 2.5 percent lower than April 2016.
- Total General Fund expenditures were at 31.1 percent of budget through the end of April, 6.1 percent higher than 2016. This is due to growth in salary and benefit expenditures, described below:
 - General Fund expenditures for salaries and benefits were at \$21.0 million through April, which is 33.2 percent of the annual budget. Salaries and benefits are 13.1 percent above April 2016, 3.7 percent of which is due to just over two years of retroactive pay for fire fighters as the result of a recent contract agreement. The remaining increase is due to three factors:
 - The addition of temporary staff part-way through 2016.
 - As AFSCME and IAFF contracts were not settled until June and December of 2016 respectively, employees from those bargaining units were being paid at the same rate as in 2014.
 - Since each bargaining unit settled in time to receive COLAs for 2017, the wages for each bargaining unit can now include up to three years' worth of COLAs on top of wages in the early months of 2016.

As a result of these factors, salary and benefit spending will continue to outpace 2016 spending by a larger margin until the latter months of 2017. The adopted budget for 2017 incorporates each of these impacts.

- Fire suppression overtime expenditures were over \$371,000 at the end of April, which is 44.5 percent of budget, but 6.0 percent lower than this time in 2016. The primary driver of these expenditures is backfill to maintain daily minimum staffing levels; the recent placement of a fourth ongoing firefighter at Fire Station 25 has served as a buffer against overtime, leading to the year-over-year decrease.
- Contract jail expenditures through April totaled \$134,877, 53.9 percent of budget. This amount is 46.6 percent above expenditures through April 2016. The increase is due to a greater number of inmate days referred to the South Correctional Entity (SCORE). Since the opening of the Kirkland Justice Center (KJC), the hope was to send fewer inmates to other facilities due to increased capacity. However, contract jail costs have increased substantially in recent months as the offender population currently has more individuals with acute mental health and drug addiction needs which the KJC is unable to handle in-house and require referrals to SCORE. The initial implementation of offender classification has also increased costs, as the jail cannot house all levels of offenders together. Offender classification effectively reduces the capacity of the jail in cases where one or two inmates occupy an entire eight-person cell because they cannot be housed with any of the other inmates. The lower effective jail capacity has the potential to lead to situations in which some inmates must be temporarily housed in other correctional facilities, resulting in additional corrections costs.
- Fuel costs ended April at \$115,253, 21.6 percent of budget. Expenditures are 26.1 percent above 2016, which was even further under-expended at this point last year. This increase is due to larger inventory replenishments occurring in January and March 2017 than in those same months in the prior year.

Attachments: April Dashboard

City of Kirkland Budget Dashboard for:

April

Date Completed

5/22/2017

Annual Budget Status as of 4/30/2017 (Note 1)

Percent of Year Complete 33.33%

				Status		
	2017 Budget	Year-to-Date Actual	% Received/ % Expended	Current Month	Last Month	Notes
General Fund						
Total Revenues	93,547,806	35,650,742	38.1%			
Total Expenditures	98,298,262	30,617,228	31.1%			

Key Indicators (All Funds)

<i>Revenues</i>						
Sales Tax	19,891,000	7,036,762	35.4%			
Utility Taxes	14,661,582	5,468,300	37.3%			
Business License Fees	3,203,682	1,367,013	42.7%			
Development Fees	9,667,110	3,418,762	35.4%			
Gas Tax	1,842,637	545,396	29.6%			
<i>Expenditures</i>						
GF Salaries/Benefits	63,412,349	21,022,583	33.2%			Excludes Fire Suppression Overtime
Fire Suppression Overtime	834,521	371,702	44.5%			Primary driver of suppression overtime is backfill to maintain daily minimum staffing levels
Contract Jail Costs	250,425	134,877	53.9%			
Fuel Costs	533,011	115,253	21.6%			

Status Key

Revenue is higher than expected or expenditure is lower than expected

Revenue/expenditure is within expected range

WATCH - Revenue/expenditure outside expected range



Note 1 - Report shows annual values during the first year of the biennium (2017).



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
 Lori Wile, Budget Analyst

Date: May 26, 2017

Subject: April Sales Tax Revenue

April results reflect sales activity in February, due to the two month lag in reporting sales tax data. Sales tax revenue is **up 8.9 percent** compared to April 2016. Contracting and Retail Eating/Drinking drove growth, while Gen Merch/Misc Retail, Services and Miscellaneous tax receipts fell on the month.

The following sections discuss the highlights by business sector of the month-over-month results, an annual year to date comparison and a discussion of key economic variables that impact sales taxes.

Comparing the month of April 2017 to the month of April 2016

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

2017 Sales Tax Receipts by Business Sector-Monthly Actuals

Business Sector Group	April		Dollar Change	Percent Change	Percent of Total	
	2016	2017			2016	2017
Services	218,675	202,063	(16,612)	-7.6%	15.2%	12.9%
Contracting	215,974	342,281	126,307	58.5%	15.0%	21.8%
Communications	41,429	42,593	1,163	2.8%	2.9%	2.7%
Retail:						
Auto/Gas Retail	360,862	368,718	7,856	2.2%	25.1%	23.5%
Gen Merch/Misc Retail	140,051	126,462	(13,590)	-9.7%	9.7%	8.1%
Retail Eating/Drinking	118,645	140,175	21,530	18.1%	8.2%	8.9%
Other Retail	189,520	200,808	11,289	6.0%	13.2%	12.8%
Wholesale	69,585	73,308	3,723	5.3%	4.8%	4.7%
Miscellaneous	85,337	72,034	(13,303)	-15.6%	5.9%	4.6%
Total	1,440,079	1,568,441	128,363	8.9%	100%	100%

Comparing month-over-month, April tax collections this year are **\$128,000 (8.9 percent)** higher than April 2016.

In terms of dollar growth, **Contracting** performed best compared to April 2016, increasing by over **\$126,000 (58.5 percent)** and providing almost all of the growth compared with April of 2016. Contracting continues to bring in high levels of revenue, making up almost **22 percent** of total receipts in April compared to **15 percent** in April 2016. Of the **\$342,000** Contracting revenue in April, **\$63,000**

came from development at Kirkland Urban and the Village at Totem Lake. The rest of the growth in contracting is due to additional construction spending throughout Kirkland. The other sector that showed a strong positive increase was **Retail Eating/Drinking**, which was up **\$21,500 (18.1 percent)**, this was primarily due to revenue collected from an audit in April 2017, as opposed to a real increase in sales during the month. **Services** sales tax is down **7.6 percent** due to a large anomaly in revenue in 2016 from an individual company. Excluding for this aberration, the category as a whole would have seen a positive increase of over **10 percent**, driven by increases in Publishing, Other Informational, and Administrative and Support Services.

The decrease in **Gen Merch/Misc Retail** is due to a business that opened another location in a nearby city which reduced their sales in Kirkland. This is the fourth month of declining sales tax revenue from this business and we will continue to monitor to see if this decrease in sales revenue is temporary or permanent.

Miscellaneous tax receipts show a decline of **15.6 percent**. Half of this decrease can be explained by an accounting adjustment for a real estate services business and the other half can be explained by a decline in sales for a few manufacturing companies

The total overall analysis in sales tax growth is positive when comparing April 2017 to April 2016. Removing the sales tax revenue and audit adjustments in 2017, and the anomaly in the 2016 Services revenue, this comparison in sales tax revenue would have shown an increase of **10.9%**. However, if you also remove the revenue from contracting as well as the adjustments listed above, the April comparison would only show an increase of **2.2 percent**. This is troubling as it shows without the increase in contracting revenue, the City's sales tax revenues are not keeping up with the current Seattle area inflation of **3.3 percent**.

Year-to-Date Review

Year-to-date sales tax totals are useful for comparing revenues received so far this year with last year's totals through the same period. This information gives context on each sector's longer term performance and allows developing trends to be identified.

City of Kirkland Actual Sales Tax Receipts

Business Sector Group	YTD		Dollar Change	Percent Change	Percent of Total	
	2016	2017			2016	2017
Services	867,055	930,074	63,018	7.3%	13.4%	13.2%
Contracting	986,050	1,384,098	398,048	40.4%	15.2%	19.7%
Communications	173,618	243,058	69,440	40.0%	2.7%	3.5%
Retail:						
Auto/Gas Retail	1,588,505	1,642,724	54,220	3.4%	24.5%	23.3%
Gen Merch/Misc Retail	717,205	658,026	(59,179)	-8.3%	11.1%	9.4%
Retail Eating/Drinking	489,555	534,108	44,553	9.1%	7.6%	7.6%
Other Retail	914,950	962,241	47,291	5.2%	14.1%	13.7%
Wholesale	320,980	309,392	(11,587)	-3.6%	5.0%	4.4%
Miscellaneous	416,976	373,041	(43,935)	-10.5%	6.4%	5.3%
Total	6,474,893	7,036,762	561,869	8.7%	100%	100%

Through the end of April, year-to-date sales tax revenues are up **8.7 percent**.

By dollar amount, **Contracting** grew the most, up **\$398,000 (40.4 percent)** from last year. Of this growth, **\$233,000** is related to the Kirkland Urban and Village at Totem Lake projects. Contracting continues to bring in significant revenue and accounts for **70.8 percent** of year-to-date growth in total sales taxes. **Communications** is the next leading sector, up **\$69,000 (40.0 percent)**.

Communications makes the top three due to the large back-payment of taxes by one company in March. Without this back payment, Communication growth would be still be **11.4 percent**. **Services, Auto/Gas Retail, Retail Eating/Drinking** and **Other Retail** are all doing well this year compared with 2016.

Three sectors are down this year. **General Merchandise/Misc Retail** is down **\$59,000 (8.3 percent)**. As previously mentioned, most of this is due to a business that opened another store in a nearby city, drawing sales away from their Kirkland store. The remainder is due to displaced business activity from the construction at the Village at Totem Lake and Kirkland Urban. **Miscellaneous** is down almost **\$44,000 (10.5 percent)** thus far this year. Much of this is due to a real estate adjustment in 2016 that is adversely affecting the YTD comparison. **Wholesale** is also down thus far in 2017, **\$12,000 (3.6 percent)**; due to the volatile nature of wholesale transactions there is no easily identifiable cause of this decline through April.

As Contracting continues to make up a larger portion of the sales tax revenues received, it is important to look at trends within the other sectors to see the big picture. From this perspective year-to-date growth would still be **3 percent** without the one-time Communications back-payment, the 2016 Miscellaneous real estate adjustment, the 2016 anomalies from one company's Service revenue, and excluding Contracting.

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 provide the broader economic context for key factors in sales tax revenues. The following table includes the most recently available data and prior month's readings, for some of the most relevant indicators.

2017 Wider Economic Indicators

Indicator	Most Recent Month of Data	Unit	Month		
			Current	Previous	Change
Consumer Confidence					
Consumer Confidence Index	April	Index	120.3	124.9	(4.6)
Unemployment Rate					
National	March	%	4.5	4.7	(0.2)
Washington State	March	%	4.9	5.2	(0.3)
King County	February	%	3.1	3.3	(0.2)
Kirkland	February	%	3.1	3.3	(0.2)
Housing					
New House Permits	March	Thousands	38.1	45.2	(7.1)
Seattle Area Home Prices	February	Index	211.5	207.5	4.0
Inflation (CPI-W)					
National (Not Seasonally Adjusted)	April	% Change	2.1	2.3	(0.2)
Seattle (Not Seasonally Adjusted)	April	% Change	3.3	3.7	(0.4)
Car Sales					
New Vehicle Registrations	March	Thousands	25.5	25.0	0.5

The Conference Board reported a decrease for the **Consumer Confidence Index** in April, as the Index decreased 4.6 points to 120.3. Although consumer confidence declined in April, the prior two months had shown sharp increases and it remains at a strong level.

Unemployment Rates decreased in the most recent data for all areas tracked above. The national unemployment numbers decreased 0.2 percentage points, to the lowest rate in 10 years. Washington State, King County, and Kirkland also saw unemployment rates decrease by 0.2-0.3 percentage points.

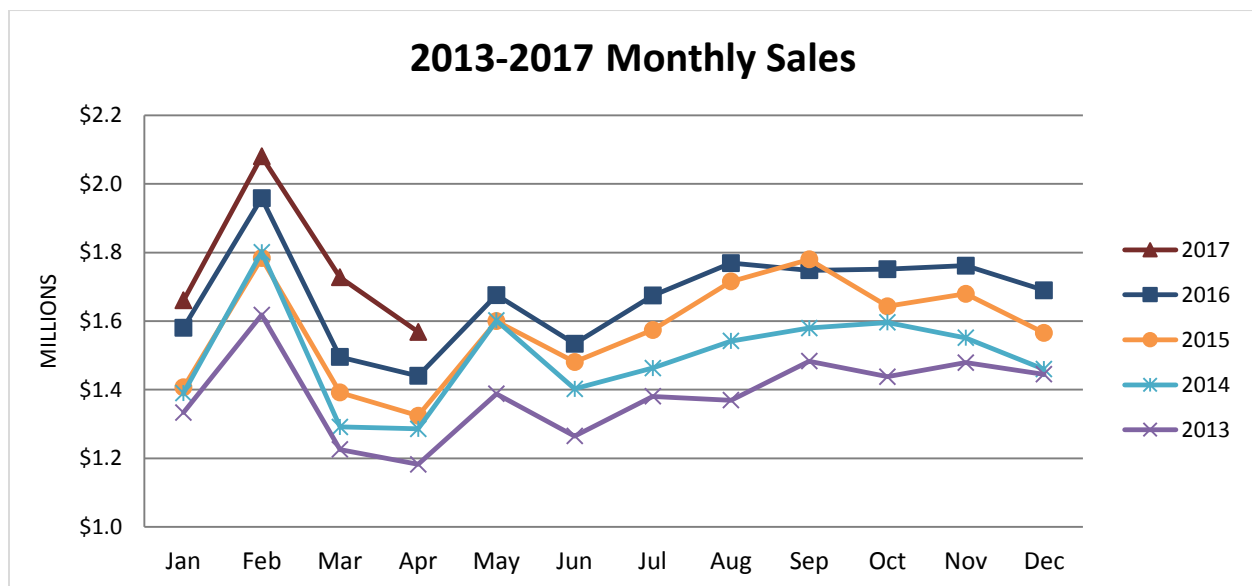
The Seattle area housing market values continue to rise as shown by the **Case-Shiller Home Price Index** which grew from 207.5 to 211.5, and Seattle continues to be one of the hottest home markets in the country. **New House Permits** showed 38,100 permits issued in March, a decrease from a very high February, and below the 40,400 issued in March of 2016. We will watch to see if this decrease is a temporary change or the beginning of a slowdown.

New Vehicle Registrations increased by 500 in March to 25,500, still slightly below the 2016 average of 26,100.

Inflation slowed between March and April, as the BLS reported **3.3 percent** for the Seattle-Tacoma-Bremerton area, and **2.1 percent** nationally. Seattle-area inflation is averaging **3.5 percent** so far in 2017 while the national average is **2.4 percent**.

Conclusion

The following chart shows Kirkland's monthly sales tax revenues through April.



Sales tax revenue in 2017 continues to outperform revenue in 2016, though the gap decreased slightly from March to April. Contracting continues to represent the largest share of the growth in revenue, and is growing as a percentage of the overall sales tax revenue. The development projects at the Village at Totem Lake and Kirkland Urban are a large portion of this growth, though there are other construction projects around the City contributing large amounts to Contracting revenue as well. Excluding Contracting Sales Tax Revenues, and one-time factors, the remaining sectors are growing at **3 percent**.



CITY OF KIRKLAND
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MEMORANDUM

To: Kurt Triplett, City Manager

From: Kathy Brown, Director of Public Works
Kyle Butler, Senior Operations & Financial Analyst

Date: May 31, 2017

Subject: CITY COUNCIL RETREAT – GRANT UPDATE

The purpose of this memo is to provide Council with background information on the City of Kirkland's capital grant revenues since annexation and an overview of grant needs that have been identified in the 2017-22 Capital Improvement Plan (CIP). The Public Works Department would also like to brief Council on grant strategies moving forward.

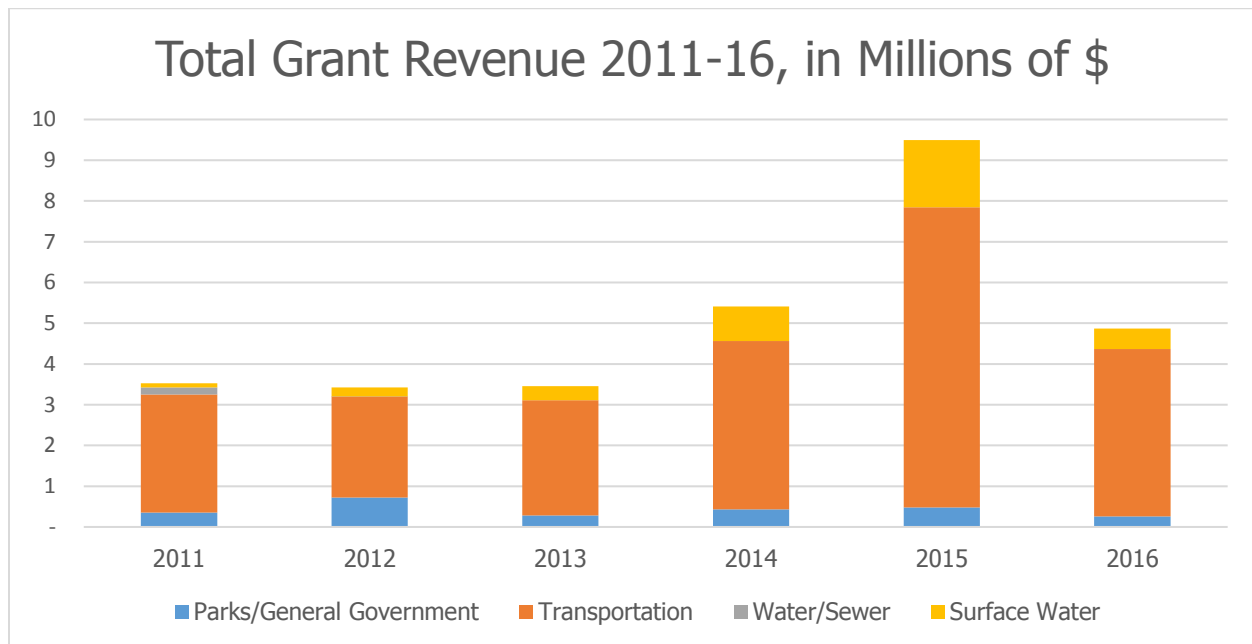
Overall grant collections 2011-16:

From 2011 to the end of 2016, the City of Kirkland collected \$30,187,619 in General Government, Transportation, Water/Sewer, and Surface Water grants. Grant levels were relatively stable in 2011, 2012, and 2013 with grant revenues each year of about \$3.5 million. Grant revenues increased in 2014, 2015, and 2016, collecting \$5.4 million, \$9.5 million and \$4.9 million, respectively. 2015 was an exceptional year due to a strong roster of candidate projects that reshaped the city in major ways. The level of grants received in 2015 may not be an annual occurrence, but big years will come with some frequency, which is assumed in the 2017-18 CIP. The 2014 and 2016 years are more indicative of Kirkland's outlook for grants in an average year of the 2017-22 CIP.

2015 – An exceptional year:

The City of Kirkland Received \$9,497,069.43 in General Government, Transportation and Surface Water grants in 2015. Seven transportation projects accounted for 62% of this total. This amounted to \$5,894,335.92 in grant revenues to help fund; the Cross Kirkland Corridor (CKC) Interim Trail (\$2,242,559.52), Park Lane Pedestrian Corridor Enhancements Phase II (\$661,122.98), NE 120th Street Roadway Extension East Section (\$902,224.73), and two signal projects and one sidewalk project that were part of the suite of NE 85th St improvements (\$2,088,428.69). Kirkland's CIP assumes that the City will pursue grants for major projects every year, and it is clear that 2015 was a particularly successful year for securing grant funding for major projects. The scope and ambition of the projects listed above helped make them very attractive grant candidates that were completed with the help of the City Council's

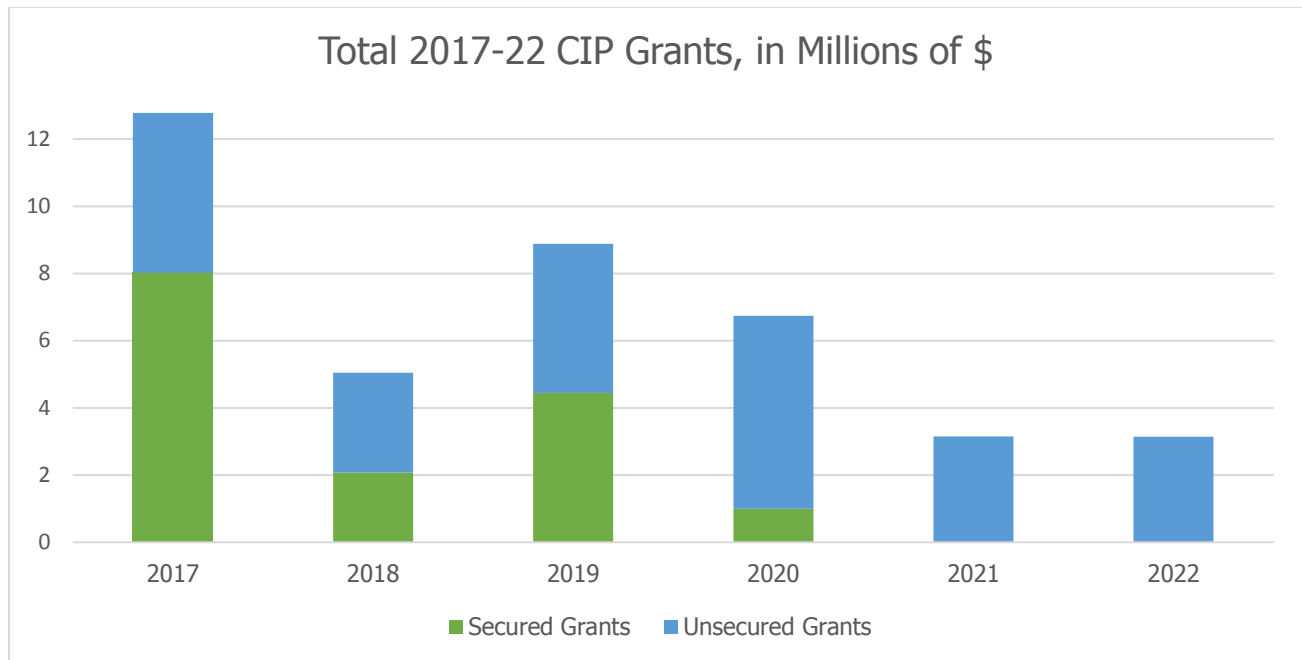
vision and the solid performance of the City's CIP, Development and Transportation engineering staff.



The 2017-22 CIP:

Kirkland's 2017-22 CIP continues to anticipate grant revenues as a major funding source for many projects, with over \$39.7 million incorporated into the project funding mix. So far, 39% of these grants are already secured, amounting to \$15.5 million, while \$24.2 million in outside funding is still being sought. Grants that are further in the future will need to be pursued as the application processes for those years open up, which depends on each particular grant type and granting agency. In the near term, 2017 currently has \$8 million in external funding commitments secured and 2018 has \$2 million secured. (Note that this amount does not include the request for funding the CKC to Redmond Central Connector non-motorized connection along Willows Road, which is currently in the proposed 2018 State Senate and House budgets at \$1.4 million and \$1.1 million respectively.) The majority of the remaining grants being sought are related to the Totem Lake Connector (project details in the current CIP planned for \$3.9 million in 2017 and \$2.46 million in 2018¹). Other unsecured grants in the near term include Totem Lake Intersection Improvements (\$831,500 being sought in 2017), 128th Avenue NE Greenway (\$200,000 sought in 2018) and the Intelligent Transportation System Phase 3 project (\$311,400 sought in 2018). Actual grants received will, of course, depend on actual project costs, which will likely vary from these preliminary estimates.

¹ The preliminary total project cost estimate for the bridge is \$16.6 million, dependent on the price of steel at the time of bidding. The placeholder budget in the current CIP is \$12.9M based on the original estimate that was made in 2014 using WSDOT standard cost estimates, which indicate bridges of this type range from \$200 to \$600 per square foot. Staff used \$450 per square foot for placeholder budget planning purposes.



Grants are being pursued from many County, State and Federal agencies, including:

- The State of Washington Transportation Improvement Board (TIB) with its Urban Arterial Program, Sidewalk Program, and Complete Streets Program
- Federal programs administered by the Washington State Department of Transportation (WSDOT) through the Puget Sound Regional Council (PSRC) including the Surface Transportation Program (STP), Congestion Mitigation and Air Quality (CMAQ) Improvement Program, and the Transportation Alternatives Program (TAP)
- The Washington State Department of Ecology (DOE)
- The Washington State Recreation and Conservation Office (RCO)
- The Washington State Legislature through direct appropriations
- The Washington State Traffic Safety Commission
- King County programs, including the Flood Reduction Grant Program and Community Development Block Grants (CDBG)
- Federal Transportation Investing Generating Economic Recovery (TIGER) grants

Grant Strategy:

While the Public Works Department has been successful in receiving many grants and has an annual grant prioritization process, the Department does not have a formal grant strategic plan. Given the level of grant funding projected in the six-year CIP, Public Works recognized the need to establish a more formal plan and process and requested funding to support this work in the 2017-2018 budget. The Council approved this request and Public Works has contracted with a grant consultant, Steven Gorcester of Performance Plane, LLC, to help develop a programmatic and strategic grant action plan and to assist with grant writing, editing, and communication in 2017. The department plans to contract with Performance Plane, LLC in 2018 as well.

This grant strategy effort is well underway, and staff is developing the following strategies:

- Grant Fitness Evaluation of CIP
 - Identifying projects that match up well with the objectives of granting agencies in order to maximize chances of successful applications
 - Optimizing grant requests based on historical data of each grant program's project awards to improve the chances that Kirkland's requests align with the funding availability of granting agencies
 - Evaluate the CIP for opportunities for high-likelihood grant candidate projects to decrease risk associated with low-likelihood grants
 - Leverage match funds and free up local funds for priorities that may not have a high likelihood of receiving a grant
- Grant process mapping/streamlining and grant program assistance
 - Grant writing
 - Grant editing
 - Strategic communications with granting agencies

Once the grant action plan is completed, staff will bring the plan to the Council for review and input. When the Council approves the plan, staff will actively pursue grants according to the priorities of the plan.

2017-22 CIP External Funding Matrix

Project #	Project Title	External Funding					
		2017	2018	2019	2020	2021	2022
ST 0006 004	Street Levy Street Preservation, Central Way			\$ 184,000			
ST 0059 101	124th Ave NE Roadway Improvements (North Section) Design		\$ 1,033,900				
ST 0083 102	100th Avenue NE Roadway Improvements			\$ 3,194,000	\$ 4,740,000		
ST 0089	Juanita Drive Auto Improvements					\$ 2,654,000	\$ 2,641,000
NM 0007	Cross Kirkland Corridor Connection-NE 52nd Street Sidewalk	\$ 414,900					
NM 0086 100	NE 124th St/124th Ave NE Ped Bridge Design & Construction	\$ 3,920,300	\$ 2,459,600				
NM 0081*	CKC to Redmond Central Connector*		\$ 1,400,000				
NM 0087	Citywide School Walk Route Enhancements			\$ 300,000	\$ 400,000	\$ 150,000	\$ 150,000
NM 0087 001	North Kirkland/JFK School Walk Route Enhancements			\$ 350,000	\$ 235,400		
NM 0089	Lake Front Pedestrian and Bicycle Improvements	\$ 261,000					
NM 0090	Juanita Drive 'Quick Wins'	\$ 726,000					
NM 0095	124th Avenue NE Sidewalk Improvements						
NM 0113 002	Citywide Greenways Network Project-128th Avenue NE		\$ 200,000	\$ 250,000			
NM 0118	NE 128th Street / 139th Avenue NE Non-Motorized Imps	\$ 504,000					
TR 0079 001	NE 85th St/114th Ave Intersection Improvements Phase II	\$ 1,800,000					
TR 0082	Central Way/Park Place Center Traffic Signal	\$ 200,000					
TR 0091 101	NE 124th St/124th Ave NE Intersection Improvements Design		\$ 344,600				
TR 0092	NE 116th St / 124th Ave NE Dual Left Turn Lanes	\$ 657,900	\$ 132,100				
TR 0093	NE 132nd St/Juanita H.S. Access Rd Intersection Improvements			\$ 1,260,000			
TR 0100 100	6th Street & Central Way Intersection Improvements Phase 2	\$ 1,866,800					
TR 0103	Central Way/4th Street Intersection Improvements	\$ 31,000					
TR 0104	6th Street/4th Ave Intersection Improvements	\$ 580,000					
TR 0105	Central Way/5th Street Intersection Improvements	\$ 564,000					
TR 0120	Kirkland Intelligent Transportation System Phase 3		\$ 311,400	\$ 346,000	\$ 366,600	\$ 342,000	\$ 348,000
TR 0122	Totem Lake Intersection Improvements	\$ 831,500					
TR 0127	NE 132nd Street Roundabout	\$ 266,000					
SD 0107	132nd Square Park Stormwater Retrofit Project		\$ 560,000	\$ 3,000,000	\$ 1,000,000		
PK 0139 101	Totem Lake - CKC Land Acquisition	\$ 150,000					
Secured (Governmental) Subtotal:		\$ 4,342,600	\$ 2,070,600	\$ 3,184,000	\$ 1,000,000	\$ -	\$ -
Secured (Developer Funded) Subtotal:		\$ 3,679,000	\$ -	\$ 1,260,000	\$ -		
Unsecured Subtotal:		\$ 4,751,800	\$ 2,971,000	\$ 4,440,000	\$ 5,742,000	\$ 3,146,000	\$ 3,139,000
Total:		\$ 12,773,400	\$ 6,441,600	\$ 8,884,000	\$ 6,742,000	\$ 3,146,000	\$ 3,139,000

* NM 0081 is an unfunded project that is being considered for a State Capital Budget appropriation in 2018, currently \$1.4 million in the Senate draft budget and \$1.1 million in the House draft budget.

TOTAL GRANT AMOUNTS (including previous years)
NM007 - \$1,036,900
NM 0086 100 - \$923,000
NM 0089 - \$1,250,000
NM 0090 - \$1,350,000



CITY OF KIRKLAND
Department of Parks & Community Services
123 5th Ave, Kirkland, WA 98033 425.587.3300
www.kirklandwa.gov

MEMORANDUM

To: Kurt Triplett, City Manager

From: Lynn Zwaagstra, Director
Michael Cogle, Deputy Director

Date: June 2, 2017

Subject: Near Term Park Acquisition Strategy

RECOMMENDATION

That the Council review the proposed park acquisition strategy and provide feedback on the proposed park acquisition priorities for the next 5 years.

BACKGROUND

In this period of rapid residential and commercial development, it is more important than ever that the City provide parks near all residents as places of recreation and refuge to keep Kirkland sustainable, green and vibrant. Adding new parks is becoming even more challenging as land is developed and real estate prices escalate significantly. These factors create the need for a near-term park acquisition strategy so that the City may seize opportunities and provide the recreation and open space experiences that are so essential to the quality of life in Kirkland.

The Parks and Community Services Department is guided in its vision, mission and direction by the Parks, Recreation and Open Space Plan (PROS). The PROS Plan provides a vision for the City's park and recreation system, contains service guidelines and addresses department goals, objectives and other management considerations toward the continuation of high quality recreation opportunities to benefit the residents of and visitors to Kirkland. The PROS Plan was part of the Kirkland 2035 Comprehensive Plan process and was updated with substantial input and direction from Kirkland residents, approved by the Park Board and adopted by City Council in November 2015.

The PROS Plan contains level of service guidelines, including an acreage guideline for community and neighborhood parks as well as a park within a specified walking distance. (PROS Plan p. viii) The neighborhood acreage guideline is 1.5 acres per 1,000 residents. The community park acreage guideline is 2.25 acres per 1,000 residents. (Comprehensive Plan Chapter X, policy 2.1) No specific guidelines are given for waterfront and natural parks, but they are included in the acreage targets. Each resident should have a neighborhood park within a ¼ mile walking distance (PROS p. 44) and a community park serving residents within a 1-mile drive (PROS p. 46).

The PROS plan defines the different park types. The definition of neighborhood and community parks are below. These are guidelines only. Some parks fall below, at or above the guidelines.

- **Neighborhood Parks:** Designed for unstructured, non-organized play and limited active and passive recreation. Preferably meets a minimum of 2 acres when possible and generally are 3-5 acres. The defined goal is to have a neighborhood park within ¼ mile walking distance. As this type of park is meant to serve neighbors in walking distance, typically parking and restrooms are not provided. Amenities typically include picnic tables, benches, play equipment, trails, a multi-use open field for informal play and sports courts. This City has defined areas of services gaps, covered below.
- **Community Parks:** Designed for active and structured recreational activities and sports. Preferably meets a minimum of 15 acres and generally are 15-30 acres. The defined goal is to have a community park within a 1 mile drive, walk or bike ride. Since community parks serve a larger geographic area, parking and restrooms should be provided. Amenities typically include a wide array of active recreation amenities as well as opportunities for more passive use. The City currently meets the acreage standard, but will fall short upon full residential development by 2035 if no acreage is added.

Levels of Service Guidelines – Acreage and Gaps

As indicated above, the PROS Plan and the Kirkland Comprehensive Plan identify park service levels of 1.5 acres per 1,000 residents for neighborhood parks and 2.25 acres per 1,000 residents for community parks. The following analysis is based on this service level.

In calculating the service level gap by acreage, the PROS Plan included all City park space, 50% of elementary school space and 100% of secondary school space. (PROS Plan p. 131)

- **Neighborhood Parks –**
Current:
 - 82,590 residents * 1.5 acres per 1,000 residents = 123.8 acres
 - Current service level is 107.57 acres
 - Current service gap is 16.23 acres
Vision 2035:
 - 95,000 residents * 1.5 acres per 1,000 residents = 142.5 acres
 - Current service level is 107.57 acres
 - Future service gap is 34.93 acres
- **Community Parks –**
Current:
 - 82,590 residents * 2.25 acres per 1,000 residents = 185.8 acres
 - Current service level is 207.92 acres
 - Current service gap is -22.12 acres
Vision 2035:
 - 95,000 residents * 2.25 acres per 1,000 residents = 213.75 acres
 - Current service level is 207.92 acres
 - Future service gap is 5.83 acres

It is important to note that County Parks and State Parks are not counted in this analysis. While it is helpful to understand the acreage gaps and the number of acres to target, it does not guide an acquisition strategy. It does, however, point to a focus on neighborhood parks for acquisition.

Levels of Service Guidelines – Walking Distance and Gaps

The PROS Plan conducted a gap analysis based on the walking distance guideline in order to determine where future park acquisitions should focus. This analysis took into consideration the location of State and County parks. Additionally, school sites are included as park space available to the community at a 50% and 100% level as indicated above. However, privately held lands, such as homeowner association amenities or development holds are not included as park space.

After including all City of Kirkland park and open space, State and County parks, and school sites, the PROS Plan identifies areas of Kirkland where the service level gaps are most prominent. This information begins to guide an acquisition strategy. These gaps are outlined on the map in **Addendum A**. More detailed aerial photos of each of the gap areas are included as **Addendum B**. The largest areas of identified gaps are in the eastern portion of the Big Finn Hill area, North Juanita neighborhood and the Kingsgate neighborhood. The gaps outlined in the PROS Plan are as follows.

- Gap A: Northeastern portion of the Finn Hill neighborhood (**Addendum B**)
- Gap B: Southwestern portion of the North Juanita neighborhood (**Addendum B**)
- Gap C: Northeastern portion of the North Juanita neighborhood (**Addendum B**)
- Gap D: Northeastern portion of the Kingsgate neighborhood (**Addendum B**)
- ✓ Gap E: Central portion of the Kingsgate neighborhood – Eliminated with Hazen Hills Park Acceptance (**Addendum B**)
- Gap F: Northern portion of the North Rose Hill neighborhood (**Addendum B**)
- Gap G: Western portion of the South Rose Hill neighborhood (**Addendum B**)
- Gap H: Southern portion of the Bridle Trails neighborhood (**Addendum B**)

Acquisition

The Parks and Community Services Department regularly evaluates property for acquisition in order to meet the Parks, Recreation and Open Space Plan (PROS) goal of acquiring parklands necessary to adequately serve the City's current and future populations based on level of service guidelines. (PROS Plan Policy 2.1, p. 23)

The PROS Plan provides several objectives to guide accomplishment of this goal. This includes the following. (PROS Plan Policy 2.1, p. 23)

- Proactively seek parkland identified within this plan, in both developed and undeveloped areas, to secure suitable locations for new parks to serve future residents. Evaluate acquisition opportunities based on criteria such as improvement to existing levels of service, connectivity, preservation and scenic or recreational opportunities for residents.
- To provide equitable park distribution, prioritize park acquisition in underserved areas where households are more than ¼ mile from a developed park.
- Prioritize park acquisition in areas of the City facing population growth and residential and commercial development.

- Establish or improve urban public services in newly annexed areas, as funds are available, to meet established levels of service.
- Evaluate opportunities to acquire lands declared surplus by other public agencies for park and recreation use.
- Pursue low-cost and / or non-purchase options to preserve open space, including the use of conservation easements and development covenants.
- When considering vacation of any right-of-way, consider its appropriateness for use as public park or open space.

In order to help objectively evaluate potential parcels for acquisition, staff utilized these objectives to develop a "Property Acquisition Rating" sheet. **(Addendum C)** This acquisition rating sheet is not policy, just a guideline that can help create a numerical metric to assist in decision making.

Possible Acquisition Costs

As mentioned above, the PROS Plan provides clear priorities and guidelines for the pursuit of future park properties. It also identifies locations on which to focus acquisition efforts. In order to gain an understanding of rough costs to obtain new park land, an analysis of land costs was conducted through an MLS search.

As the information above indicates, there is no gap in service guidelines for community parks at this time; however, there is a gap for neighborhood parks. Thus, the acquisition of neighborhood parks becomes more of a priority.

Neighborhood Parks – Potential Cost of Acquisitions

Cost per acre = \$1,513,585*

** This estimate comes from an analysis of property sales conducted by Brenda Nunes with KW Nunes Group. This analysis included 21 vacant land parcels currently listed, 12 pending Kirkland developed property sales and 23 recent Kirkland developed property sales. This figure is the average of these 56 properties.*

Neighborhood Park	Target for Neighborhood Park Size	Cost Per Neighborhood Park Assuming 4 Acres
Assumes developed land	3-5 acres	\$6,054,340

This information simply shows an approximate cost assuming similar market conditions over time. As market conditions are variable and development is occurring at a rapid rate, it would be difficult to determine the cost of acquiring new park space with any degree of accuracy.

Available Acquisition Funds

Funds for park acquisitions come from numerous sources including the 2012 Park Levy, Impact Fees, REET, the King County Levy and grants. Based upon current budget projections, development projections for Impact Fees and an assumption that the King County Levy will be renewed at the same level, the following chart represents funding available for park acquisitions. This includes 2 currently awarded grants for a specific parcel acquisition and a previous year set-aside to match those grants.

	2017	2018	2019	2020	2021	2022
Levy	\$360,000	\$750,000	\$600,000			
Impact Fees				\$734,000	\$1,035,000	\$1,135,000
King County Levy <i>(Assuming renewal)</i>				\$230,000	\$230,000	\$230,000
REET						
Grants	\$285,000					
Unconfirmed Grant	\$250,000					
Reserves						
Balance Forward	\$500,000					
Possible Property Sale	\$600,000					
Total	\$1,995,000	\$750,000	\$600,000	\$964,000	\$1,265,000	\$1,3695,000

ACQUISITION STRATEGY TO GUIDE THE NEXT FEW YEARS

As mentioned throughout this document, the PROS Plan contains significant guidance on the pursuit of new park space. This includes demonstrating the areas of greatest need to achieve equitable distribution of parks within the community and priorities to focus acquisition efforts in the coming years. This information should be considered the first component of an acquisition strategy. But the PROS Plan is a twenty year plan and priorities for the next six years must be set to respond to growth, maximize the effective use of existing dollars, fulfill levy commitments and leverage community support. Therefore staff is proposing the following near term acquisition strategy.

1. Focus on the acquisition priorities and guidelines outlined in the PROS Plan.
2. Complete the current pending purchases of parcels contiguous to Juanita Heights Park. These parcel acquisitions have been in discussion with the City for several years, have grant money available and strong support, including financial support, from the neighborhood. Previous year funds exist for these purchases. **(See Addendum D for Funding Chart)**
 - a. Wu property: \$250,000 City funding, \$250,000 grant (if approved) and private funding of \$120,000
 - b. Smith property: \$240,000 City funding, \$240,000 approved grants
3. Complete the current pending purchase of the parcel contiguous to McAuliffe Park. This parcel acquisition has been in discussion with the City for approximately 1 year and is contiguous to a centrally located community park, allowing an enhancement to that park. This purchase would be completed with 2017 and 2018 funds. **(See Addendum D for Funding Chart)**
 - a. Richards property: \$600,000 possible proceeds from property sale, \$1,072,000 City funding

- b. Note: The \$1,672,000 purchase price does not include inspection or demolition costs.
- 4. Reconsider the standards for property acquisition. For example, holding out for parcels that meet all criteria is becoming increasingly difficult. Compromises may need to be made in size, condition, visibility of the space, and so on.
- 5. Focus on neighborhood park acquisitions in specified gap areas.
- 6. Prioritize the gap areas that are not close to other park spaces over gap areas that are close to a park space. For example, Gap Area H has Bridle Trails State Park on 2 sides. Additionally, prioritize gap areas with higher residential population density.
 - Proposed 3 top gap area priorities:
 - i. Gap Area B: Southwestern portion of the North Juanita neighborhood
 - ii. Gap Area C: Northeastern portion of the North Juanita neighborhood
 - iii. Gap Area D: Northeastern portion of the Kingsgate neighborhood
- 7. Begin a proactive process of identifying available property and targeting parcels for development and/or purchase. Some possible steps include the following:
 - a. Meet with Planning and GIS staff to identify City-owned lands set aside for green belt and/or Stormwater detention that might be modified to include neighborhood park amenities.
 - b. Use GIS to identify undeveloped land or developed land in target zones that could be purchased.
 - c. Work with the Park Board and Kirkland Alliance of Neighborhoods to discuss properties of interest.
 - d. Contact property owners to discuss interest in selling.
- 8. Aggressively pursue grant funding to assist with acquisitions.
- 9. Consider condemnation in certain circumstances to acquire key parcels in strategic locations.

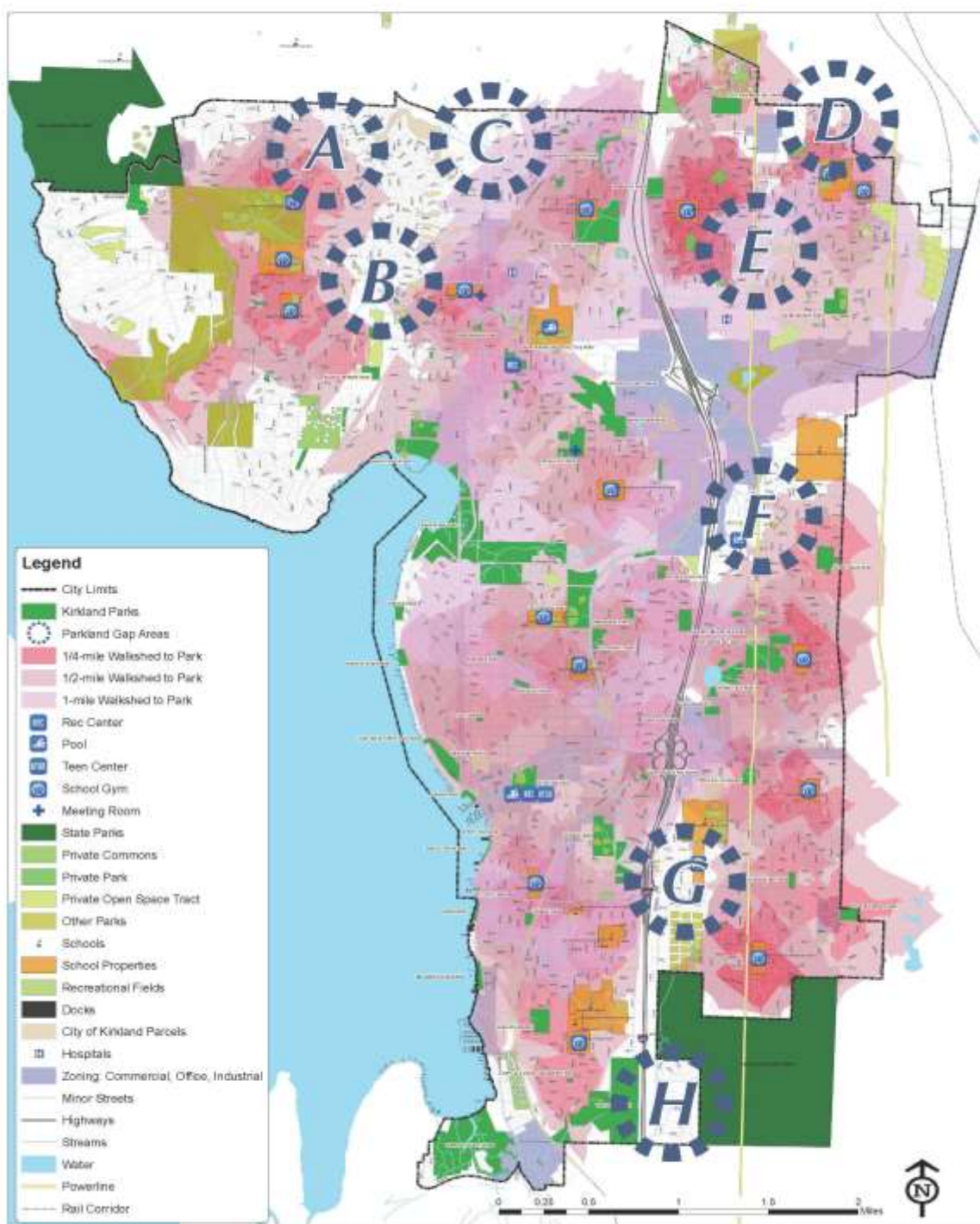
Next Steps

Staff is seeking feedback from the City Council on the proposed near-term acquisition strategy. Once a final strategy has been determined by the Council, staff will proceed with implementation as quickly as possible.

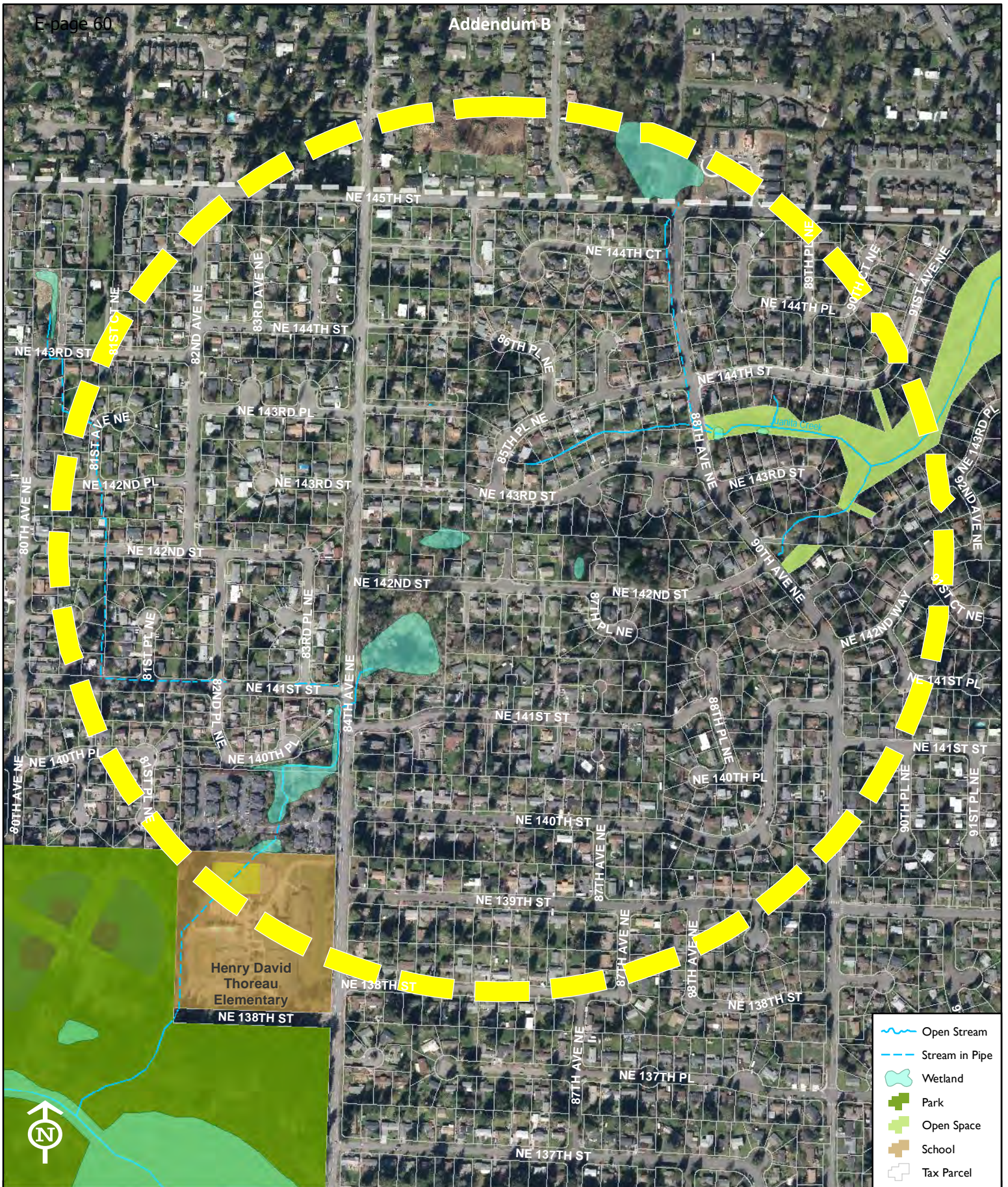
Addendum A: Park Gap Analysis



Parks, Recreation & Open Space Plan | 2015



MAP 4: Parkland Gap Areas

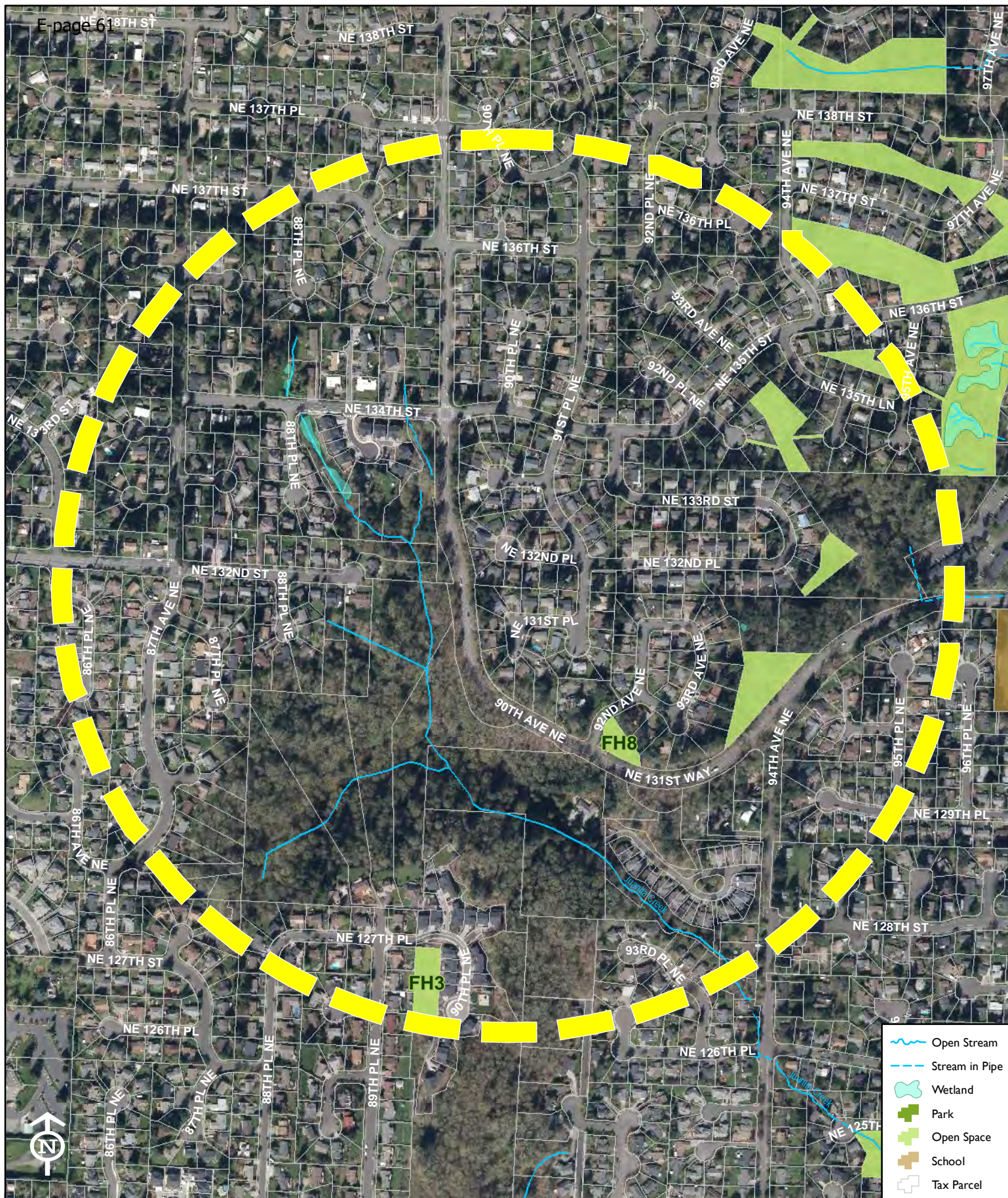


Parkland Gap Areas: A

(Reference to MAP 4 in Parks, Recreation & Open Space Plan)

0 0.1 0.2 0.3 Miles

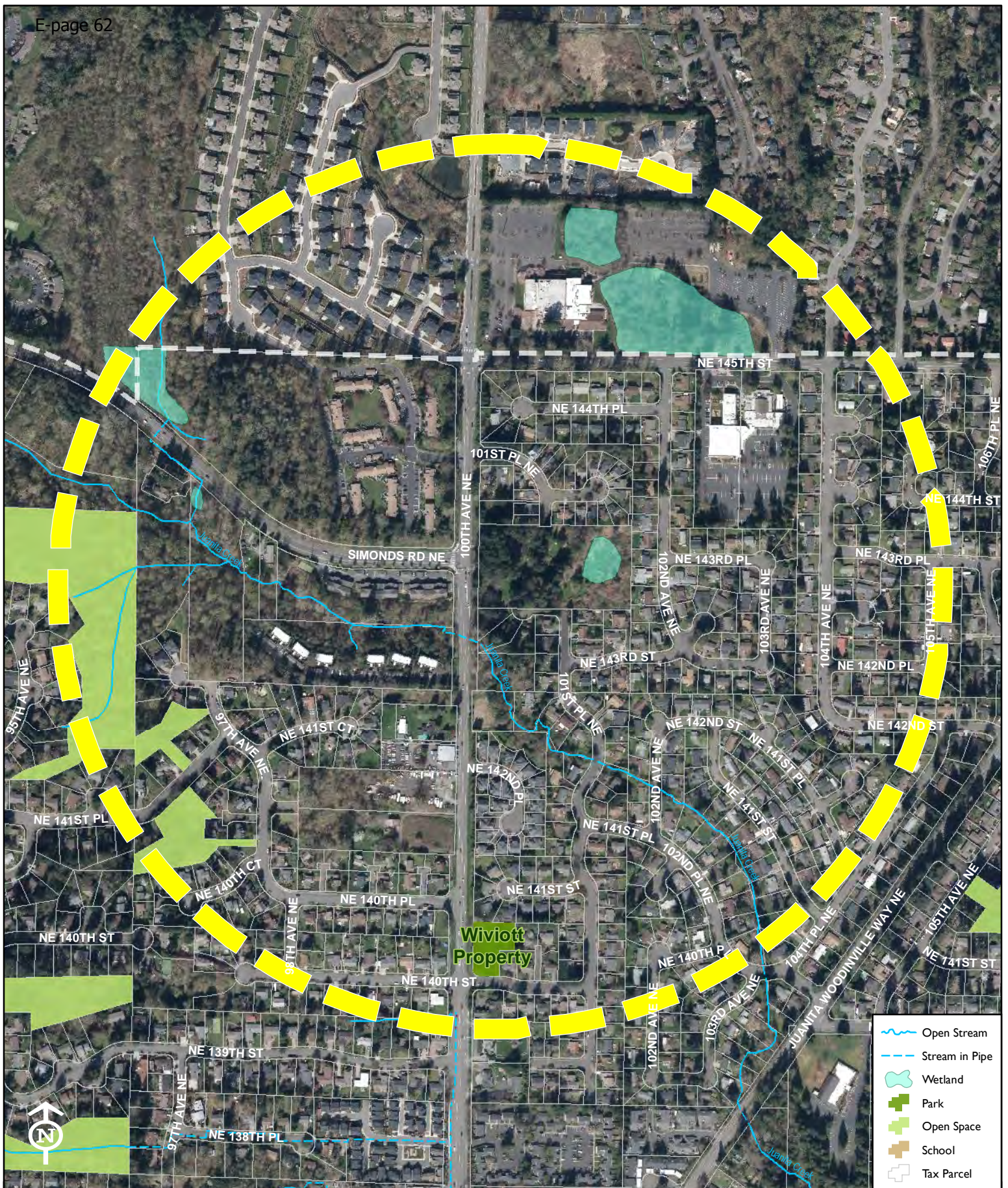




Parkland Gap Areas: B

(Reference to MAP 4 in Parks, Recreation & Open Space Plan)

0 0.1 0.2 0.3 Miles

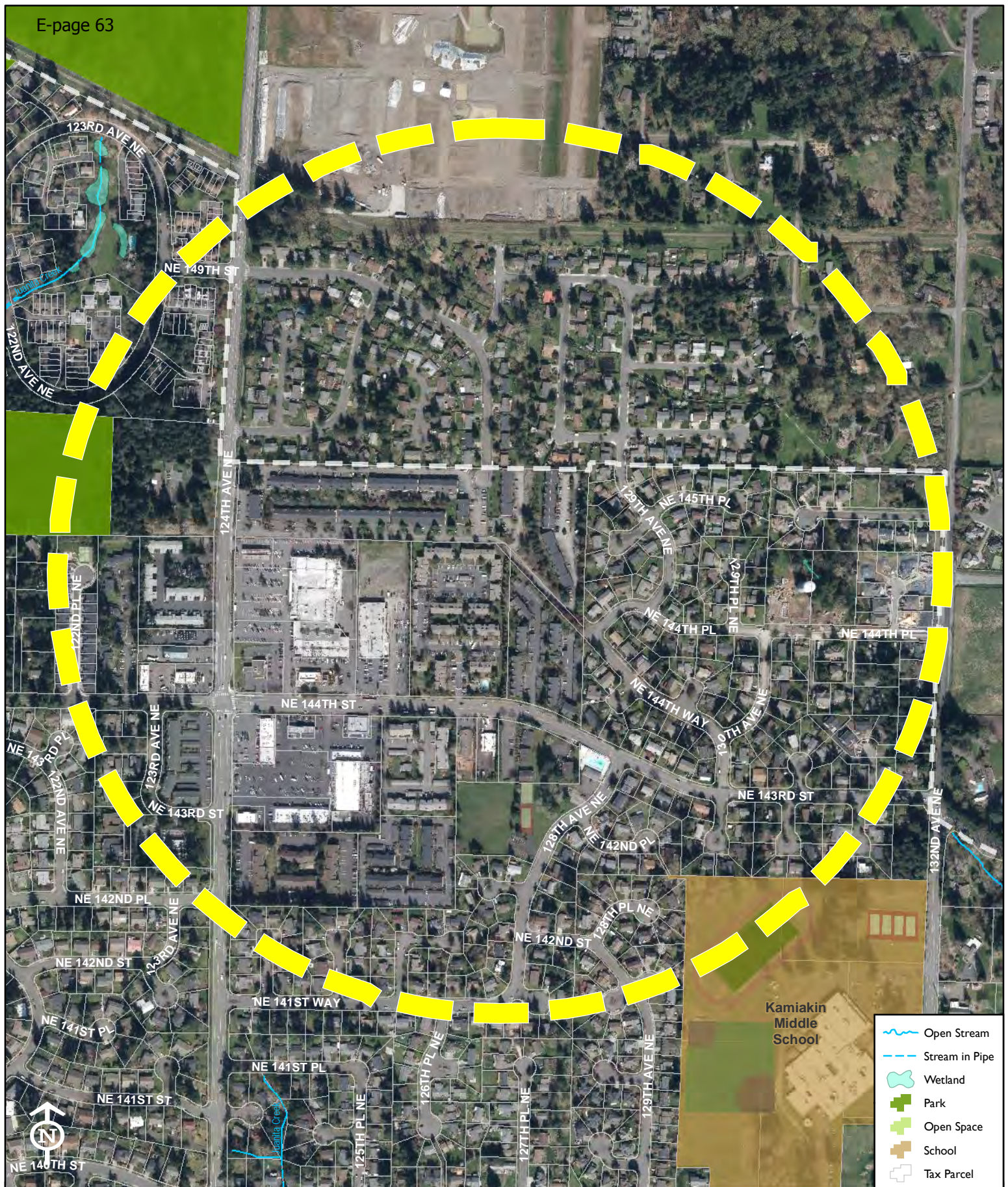


Parkland Gap Areas: C

(Reference to MAP 4 in Parks, Recreation & Open Space Plan)

0 0.1 0.2 0.3 Miles



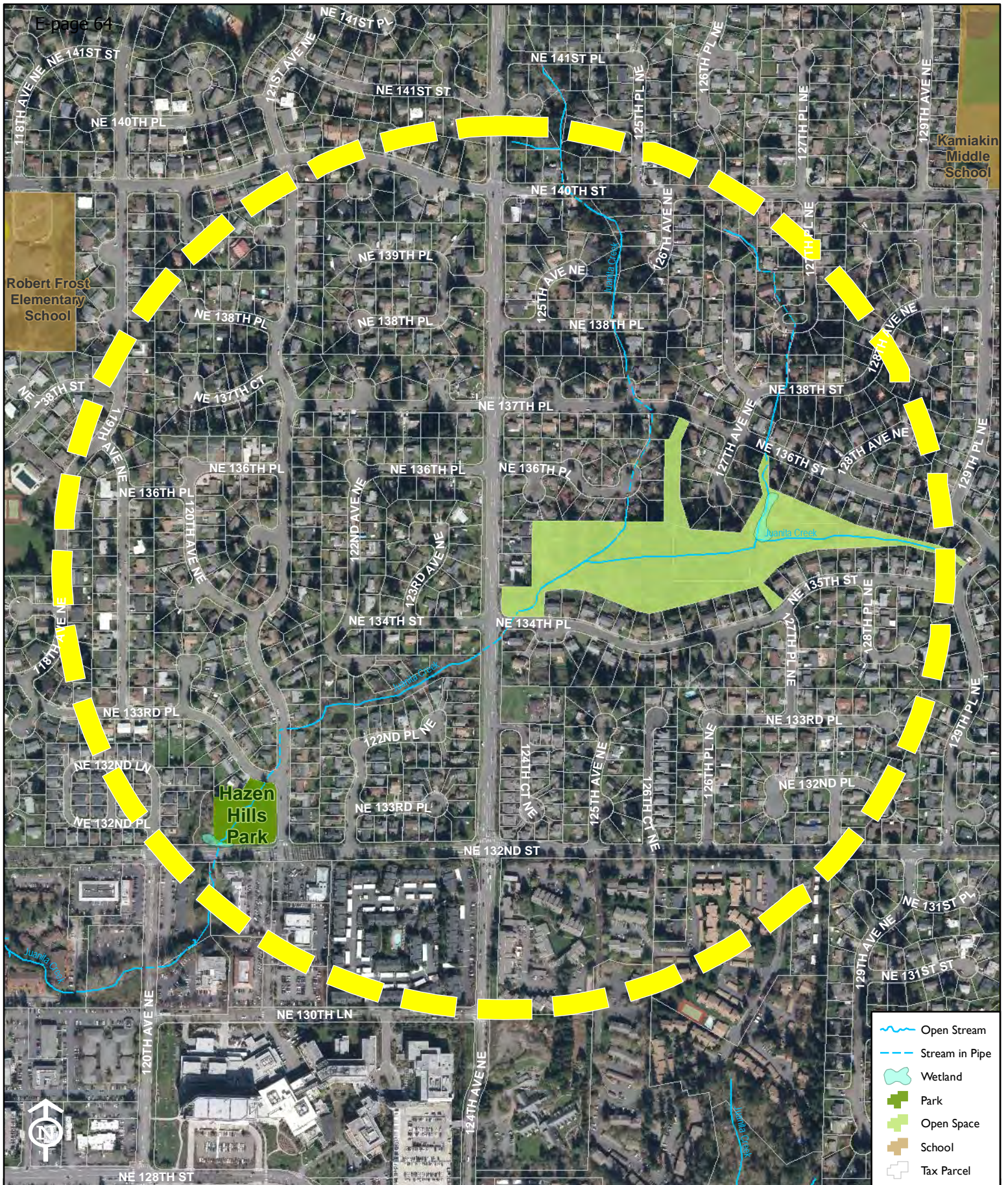


Parkland Gap Areas: D

(Reference to MAP 4 in Parks, Recreation & Open Space Plan)

0 0.1 0.2 0.3 Miles



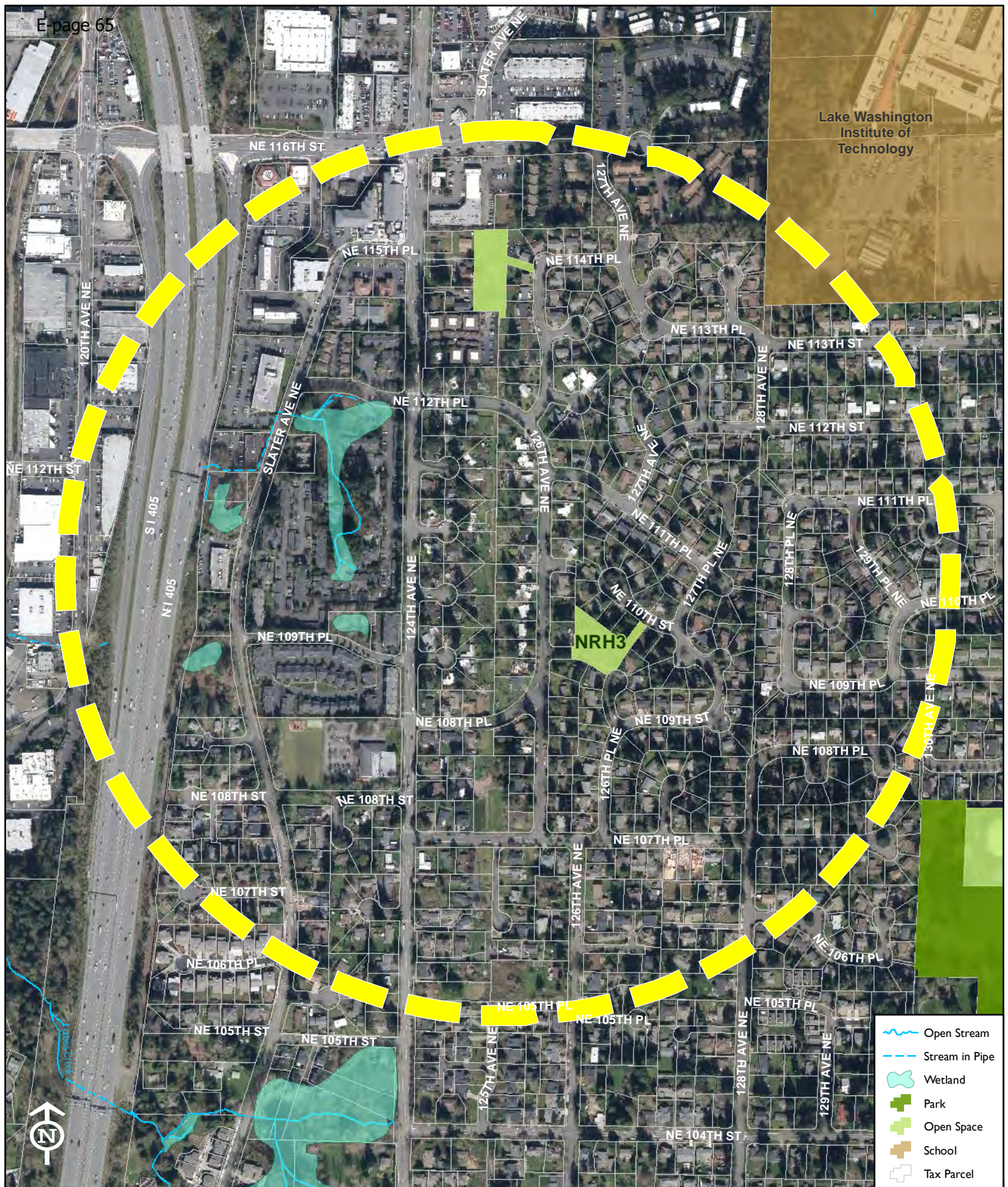


Parkland Gap Areas: E

(Reference to MAP 4 in Parks, Recreation & Open Space Plan)

0 0.1 0.2 0.3 Miles



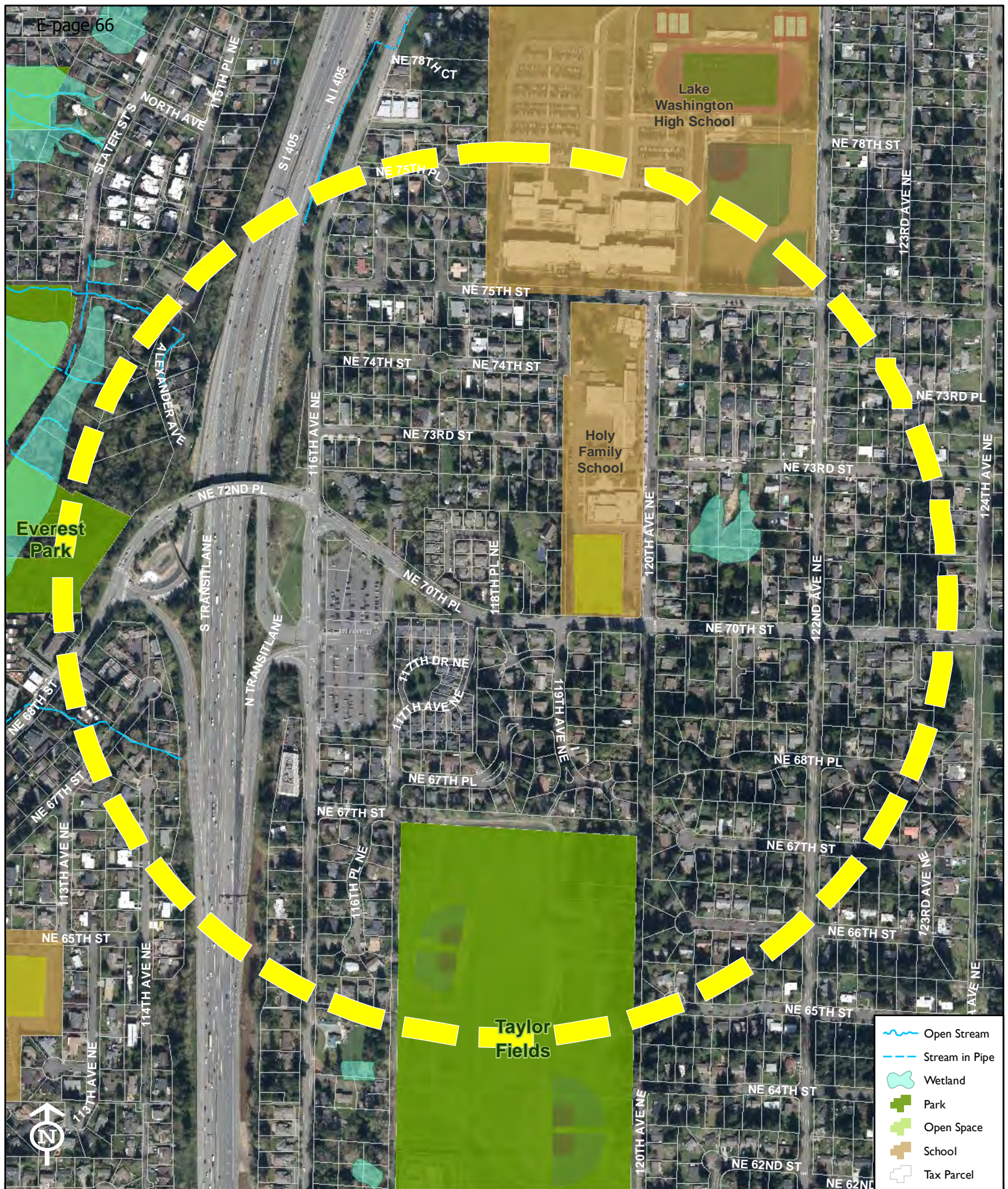


Parkland Gap Areas: F

(Reference to MAP 4 in Parks, Recreation & Open Space Plan)

0 0.1 0.2 0.3 Miles





Parkland Gap Areas: G

(Reference to MAP 4 in Parks, Recreation & Open Space Plan)

0 0.1 0.2 0.3 Miles



NE 53RD ST

114TH AVE NE

116TH AVE NE

112TH AVE NE

S I 405
N I 405

Watershed
Park

117TH PL NE

118TH AVE NE

119TH PL NE

NE 48TH PL

NE 43RD PL

117TH AVE NE

118TH AVE NE

NE 41ST ST

- Open Stream
- Stream in Pipe
- Wetland
- Park
- Open Space
- School
- Tax Parcel



Parkland Gap Areas: H

(Reference to MAP 4 in Parks, Recreation & Open Space Plan)

0 0.1 0.2 0.3 Miles



Addendum C
Parks and Community
Services
Property Acquisition Rating

Property under evaluation: _____ Rating Total: _____
 Date of evaluation: _____
 Rating completed by: _____

	Criteria	None	Low	Moderate	High
		0 Points	1 Point	2 Points	3 Points
1	Consistency with PROS Plan: Meets PROS Plan goals/policies. Located in an underserved area as identified in the PROS Plan and would help achieve target levels of service.	None.	Helps achieve service level but not in underserved area.	Close proximity to underserved area, helps achieve service level.	Identified in PROS plan, helps achieve levels of service.
2	Need: Area facing population growth, identified in a neighborhood plan, demand by local residents and/or adjacent to a current park/trail amenity such that it achieves defined levels of service.	None.	Growing area, future need.	Growing area, demand, helps achieve level of service.	Growing area, demand, in neighborhood plan, helps achieve level of service.
3	Number of residents served: Ability to serve a broad section of the Kirkland community or serves a broad base of a specific identified sub-section / neighborhood.	Duplicates services already available.	Serves a small section of intended population.	Serves large section of intended population.	Serves broad section of Kirkland or intended subsection /neighborhood.
4	Location: Located near a street frontage, located on an arterial street or collector, located adjacent to or near a school or public amenity such that it expands the current amenity or service level provided. Enhances or preserves a connected natural resource area or system.	Suboptimal location.	Future development could create more suitable conditions.	Location close to frontage, arterial, collector or other amenity.	Ideal location.
5	Partnerships: Possible partnership with the community and suitable for other public or private partnership.	None.	Minimal interest in partnering.	Partnership interest, nothing definitive.	Strong partnership potential with stated commitments.
6	Site conditions such as size, configuration, topography: Large enough to meet the intended use, configuration suitable to the intended use, topography suitable to the intended use. Varied topography enhances the aesthetic appeal or use.	Not a suitable match.	Significant compromises and/or cost necessary to match intended use with site conditions.	Site and intended use a match with small adjustments.	Site conditions match intended use.
7	Accessibility and visibility: Visible, easy to find and access. Ease of access by pedestrians/bikers, individuals with disabilities or motorists (as dictated by use).	Not accessible or visible.	Difficult to find and minimally accessible. Expensive to rectify.	Either easy to find or accessible. Appropriate site plan would address any issues.	Easy to find, fully accessible.
8	Preserves and Protects Land: Preserves endangered land, high ecological value resource, important habitat or wildlife corridor.	None	Sensitive area.	Endangered or high value area.	Endangered area, high value and wildlife habitat.
9	Cost: Willing seller, cost consistent with appraised value.	Too expensive, unwilling seller.	Challenges with seller or cost.	Market rate.	Willing seller, good price, strong value for cost.
10	Funding: Availability of capital and operational funding, suitable for grant consideration or private contributions available.	No funding available.	Funding may take a few years, extended agreement.	Capital funding, but no operational funding available.	Capital and operational funding available.

Addendum D: Funding Chart

Proposed Funding For Acquisitions

Wu purchase cost \$620,000

Smith purchase cost \$480,000

Richards purchase cost \$1,672,000

	2017	2018	2019	2020	2021	2022
Levy	\$360,000 -\$50,000 Wu -\$140,000 Smith -\$170,000 Richards	\$750,000 -\$702,000 Richards	\$600,000			
Impact Fees				\$734,000	\$1,035,000	\$1,135,000
King County Levy <i>(Assuming renewal)</i>				\$230,000	\$230,000	\$230,000
REET						
Grants	\$285,000 -\$240,000 Smith					
Unconfirmed Grant	\$250,000 -\$250,000 Wu					
Reserves						
Previous Year Funding*	\$500,000 -\$200,000 Wu -\$100,000 Smith -\$200,000 Richards	\$0	\$48,000	\$648,000	\$0	\$1,265,000
Possible Property Sale	\$600,000 -\$600,000 Richards					
Private Funding	-\$120,000 Wu					
Total Available	\$1,995,000	\$750,000	\$648,000	\$1,612,000	\$1,265,000	\$2,630,000
Total Spent	\$1,950,000	\$750,000	\$0	\$1,612,000	\$0	\$2,630,000
Remaining Available	\$0 (\$45,000 of grant money remains unused but cannot be applied for other purposes.)	\$48,000	\$648,000	\$0	\$1,265,000	\$0

2020 – Target purchase year

2022 – Target purchase year

Previous Year Funding

- CPK1349000 REET 1, 2013 Open Space, Park Land, Trail Opportunity - \$100,000
- CPK1544000 REET 1, 2015 Open Space, Park Land, Trail Opportunity - \$100,000
- PK0049000 REET 1 Reserves, Open Space Grant Match - \$100,000
- PK0135200 Reserves, Juanita Heights Parks Expansion - \$200,000



CITY OF KIRKLAND
City Manager's Office
123 Fifth Avenue, Kirkland, WA 98033 425.587.3000
www.kirklandwa.us

MEMORANDUM

To: Kurt Triplett, City Manager

From: Tracey Dunlap, Deputy City Manager
Chris Dodd, Facilities Services Manager

Date: June 7, 2017

Subject: Parks Maintenance Center Expansion Next Steps

RECOMMENDATION:

City Council receives an update on options for expanding the Parks Maintenance Center at 1129 8th Street and:

- (1) Provides staff direction to retaining architectural services to complete a schematic design and provide an estimated project costing and move forward with lease negotiations with Roger Perrin; and
- (2) Receives briefing on status of discussions with the King County Housing Authority (KCHA) to potentially swap the KCHA-owned real property located at 1129 8th Street, for the City-owned property at Houghton Court to be preserved as affordable housing.

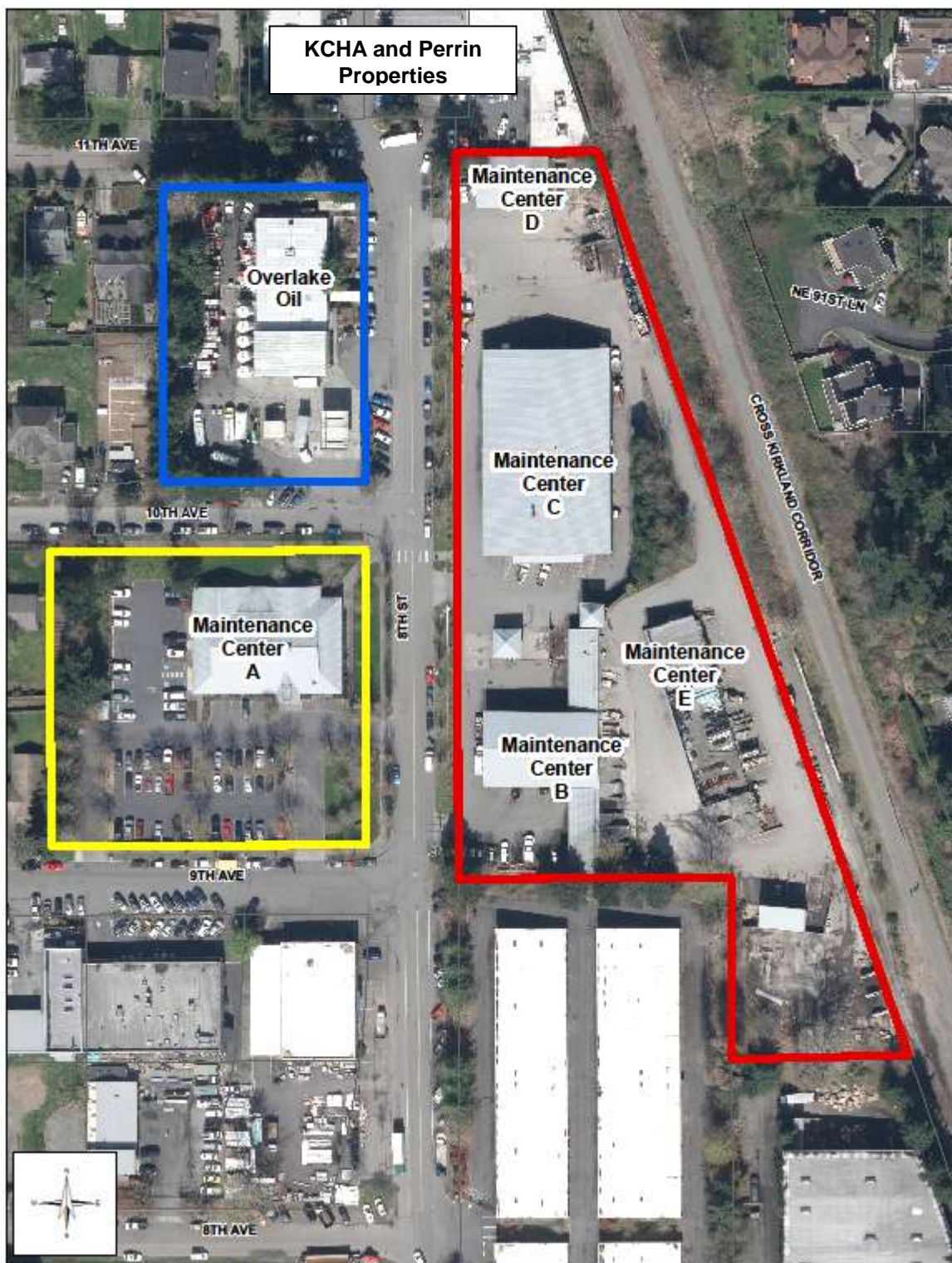
PROJECT UPDATE

At the February 3, 2017 City Council Retreat, Council was given an update and options for a possible [Parks Maintenance Center expansion](#). Many properties were evaluated including adding additional properties located near the current Maintenance Center, McAuliffe Park, Rite Aid site being considered for a new Fire Station 24, Yuppie Pawn Shop and several other sites. Many of the sites were ultimately deemed too expensive or too difficult to accommodate the needed requirements.

At the conclusion of the evaluations, it was determined that the most viable solution was to try and purchase the currently leased facility located at 1129 8th Street from the King County Housing Authority (KCHA) and enter into a long-term lease with Roger Perrin for the facility located at 1120 8th Street (across the parking lot from the KCHA building).

The City contracted with Wagner Architects, who did the City's 2013 review of the Maintenance Center needs, to perform a \$15,000 feasibility study and assessment of these two properties to provide high-level concepts and cost ranges. The results of this study are in Attachment A for Council review. The photos on the following pages show the subject properties (page 2) and their location in relationship to the City's other maintenance facilities.





Wagner Architects evaluated the feasibility of accommodating the essential parks operations between the KCHA facility and the Perrin Building. The initial budget analysis indicates this project would cost between \$2,900,000 and \$5,800,000 including an estimate for soft costs (architecture fees, project management, furniture, fixtures & equipment, taxes, etc.). Within the limited scope, it was determined that most of the operations could be accommodated, with further detailed analysis would come within the schematic design project. Schematic design is estimated to cost \$110,000.

As can be seen by the chart below, there is approximately \$5.5 million in budget available for the potential property purchase and tenant improvements to both buildings examined in the feasibility study.

General Capital Contingency	50,000
REET 1	1,118,443
Facilities SF (Life Cycle Reprog.)	331,557
Subtotal Original Funding	1,500,000
REET 1 Reserves	1,000,000
Facilities Fund Working Capital	2,000,000
Subtotal Additional Funding	3,000,000
Total GG 037 Funding	4,500,000
REET 1	1,425,000
Park Impact Fees	75,000
Total CPK 0147 Funding	1,500,000
Grand Total Project Funding	6,000,000
less: Expended thru 12/31/16	(418,573)
Remaining Budget	5,581,427

Wagner Architects was also tasked with evaluating the existing Fire Station 27 for the purposes of a future auxiliary maintenance yard and fueling station, if the station was relocated in the future. The estimated costs to rehabilitate Fire Station 27 are between \$291,000 and \$442,000.

Discussions between staff and Mr. Perrin have been positive with both parties having mutual interest in a long-term lease with the potential option to purchase the property in the future.

King County Housing Authority Property and HUD Deed of Trust

Since the fall of 2016, the City of Kirkland has been having parallel discussions with the King County Housing Authority regarding the KCHA-owned property that is leased for Parks Maintenance. The primary path was a straightforward purchase of the property by Kirkland. After exchanging appraisals and value estimations, KCHA established a purchase price of \$1.9 million in August of 2016 and expressed a willingness to continue leasing the property to Kirkland, or to sell the property outright.

As it became clearer that the KCHA purchase and Perrin Building lease was likely to be the recommendation of staff to the City Council for maintenance center needs, KCHA evaluated the necessary elements of a potential sale this spring. In the past month, KCHA identified a challenge to the sale with the federal Department of Housing and Urban Development (HUD). The property was purchased using HUD funds and includes a HUD Deed of Trust on the

property. HUD has told KCHA that if the property is sold, KCHA will need to repay HUD the original million dollars used to purchase the property. Because of this restriction, KCHA has recently concluded it cannot afford to sell the property to Kirkland, but KCHA is still willing to continue leasing the property to the City.

Potential Property Exchange for Houghton Court

At the same time, the City Manager and the KCHA Executive Director have been having discussions about the potential for KCHA to take over responsibility for the City-owned properties at Houghton Court as one possible option if the City Council chose to retain Houghton Court rather than sell the properties back to the market. The discussions were conceptual in nature and both parties acknowledged that any formal negotiations would only occur after the Council made final decisions regarding the Houghton/Everest Business District zoning and had a policy discussion about the future of the Houghton Court properties.

The Houghton Court properties include 15 units in two apartment buildings. The properties total approximately one acre and are zoned at 12 units per acre. They were purchased in 2015 using an interfund loan that must be paid off, with interest, within three years for a total of \$4.73 million. The purchase price was based on the land's most profitable use, which is currently as up to 11 single family lots. The deadline for loan repayment is April of 2018. The primary purpose of the purchase was to secure the land in order to build a pedestrian bridge and connection between the Cross Kirkland Corridor (CKC) and the Houghton Shopping Center as called for in the CKC Master Plan. The City has successfully constructed the bridge, established the connection to the shopping center and will ensure a permanent easement to the CKC is included in any future use of the properties. At the time of the purchase, the final disposition of the properties was not decided by the Council, but potential options discussed at the time were to retain it for affordable housing, sell it back to the market, or reserve it in some way for transit on the Cross Kirkland Corridor as part of the ST3 package. ST3 was approved by the voters in November of 2016 with no implementation of transit on the CKC, but the measure did include a study of future high capacity transit options on the CKC and on I-405.

At the Houghton/Everest Business District Study Session of June 6, 2017, the Council was informed that both the Planning Commission and the Houghton Community Council have recommended that the City retain the Houghton Court properties for affordable housing as part of the overall Comprehensive Plan and zoning proposals.

KCHA has evaluated the properties and identified significant rehabilitation needs. KCHA estimates that as much as \$1.5 million must be invested in the properties to bring them up to KCHA standards. Neither the KCHA, nor any other non-profit that provides affordable housing, can afford to pay anything near the purchase price to Kirkland which is necessary to retire the interfund loan. Therefore, if Kirkland wishes to retain these properties as affordable housing, the City will need to create innovative partnerships, piece together funding, and most likely subsidize the project significantly.

While still proceeding on the concept of the purchase by Parks, the City Manager and the Executive Director also began discussing the idea of exchanging ownership of the properties. The KCHA has offered several potential commitments to Kirkland as consideration to the City in return for trading ownership given the significant differences in market value of the properties.

In addition to transferring the Parks Maintenance site to the City, KCHA would fund the \$1.5 million in upgrades at Houghton Court, dealing with immediate repair needs, assuring long term viability and significantly upgrading the appearance of the site and buildings to match the neighborhood. Examples of what KCHA properties look like can be seen at Kirkland Place (419-421 Seventh Ave) and Kirkwood Terrace (11925 N.E. 81st Circle).

KCHA would also commit federal rental subsidies to assure that these units would be available to a spectrum of lower income ranges. KCHA would also coordinate with the Lake Washington School District to facilitate admission of families with homeless school children to vacant units when available. As the Council is aware, the District identified 353 homeless students last school year.

Once KCHA identified the challenge with the HUD Deed of Trust on selling its property, it explored whether the Deed of Trust could be transferred to the Houghton Court properties without a financial penalty. While there is still more work to do on this issue, KCHA believes that Deed transfer may be possible.

Conclusion

Utilizing the current Parks Maintenance Center property at 1129 8th Street in conjunction with the Perrin Building remains the staff recommendation as the best way to accommodate the expanded needs of the Parks Department. Purchase of the KCHA property appears to no longer be an option, however the KCHA is still willing to lease the property to Parks. Staff is seeking direction on whether to continue exploring the concept of a property swap with KCHA. If the Council provides such direction, then staff will begin negotiations in earnest and will develop potential funding options from ARCH, King County and the state and return to the Council for further discussion.

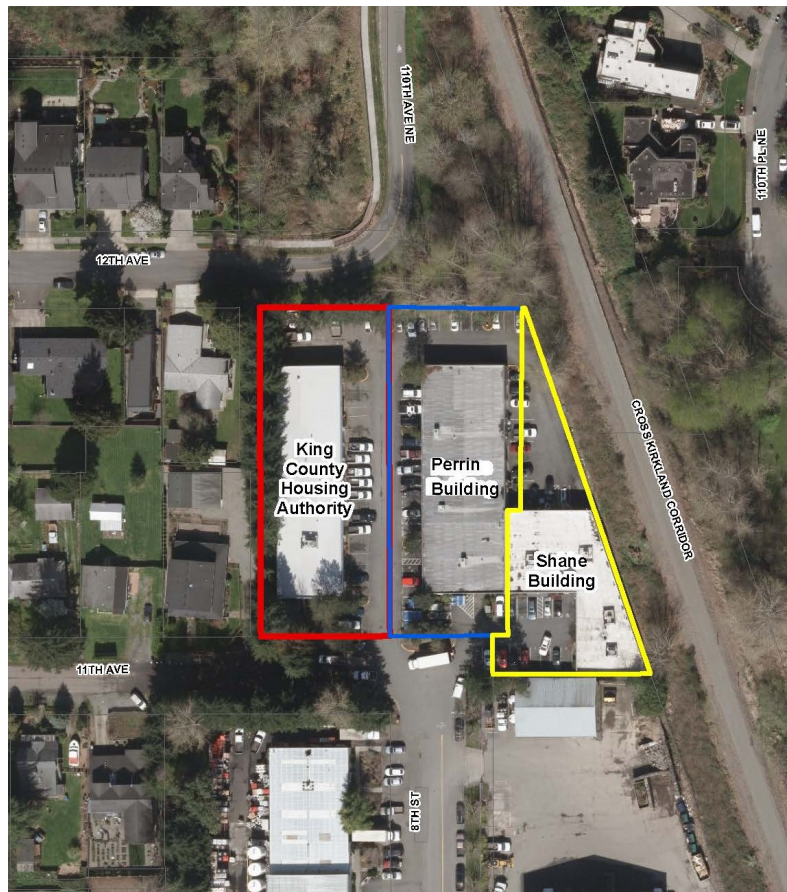
In the meantime, staff recommends moving forward with the Perrin Building lease and tenant improvements under any option. Leasing the Perrin Building is the quickest and most cost-effective way to meet the majority of the Parks Maintenance needs. Staff is looking for approval from the Council to proceed with that action and bring back the necessary authorizations to future Council meetings.

FEASIBILITY STUDY

PARKS MAINTENANCE FACILITIES

AT KCHA AND PERRIN PROPERTIES

PREPARED FOR
CITY OF KIRKLAND



May 2017

WAGNER ARCHITECTS
1916 PIKE PLACE # 221
SEATTLE, WASHINGTON 98101

**KIRKLAND PARKS MAINTENANCE CENTER FEASIBILITY STUDY
 MAY REPORT**

INTRODUCTION

Wagner Architects were retained to assess the feasibility of developing improved and expanded Parks Maintenance facilities at the north end of 8th Street, incorporating their existing facilities and adding adjacent properties. The scope asked that Wagner also consider potential uses of FS 27 for Parks, Public Works, or other City uses, if it is replaced by a new station east of I-405.

A Draft Report was discussed in a workshop type meeting with the City on April 27. In attendance were:

Tracey Dunlap
 Lynn Zwaagstra
 Jason Filan
 Chris Dodd
 Rob Jammerman
 Jeremy McMahan
 Tom Jensen
 Bob Wagner
 Greg Somers

This Report presents a revised assessment which incorporates comments from that meeting.

BACKGROUND

Kirkland Parks Maintenance is now accommodated in a building owned by the King County Housing Authority (KCHA), with limited site area and limited parking. The City has leased the building for several years and has made improvements to facilitate Parks use for both offices and warehouse. It is much too small for all Parks operations. The KCHA property may be available for purchase.

The owner of the adjacent building to the east, Roger Perrin, would consider leasing the building to the City and allow substantial remodeling. The building is fully leased but we understand leases will expire in mid 2018. The existing tenants are aware of the potential need to relocate, and may consider leaving earlier. The best time for remodeling and moving, with the least impact on Parks operations, would be during the winter months.

There are still some unfinished warehouse bays. Over half of the building is now improved with offices, with the most extensive offices at the north end. Parks use will not be able to take advantage of much of the improvements since they do not match Parks needs.

A third property further east, owned by Bob Shane, may also become available. It is not currently available and we understand lease of that building would be beyond the City's current budget. We understand this building is mostly office space, but there is some warehouse which can be seen from the north. We should also note that the site plan proposals attached to this Report would require Shane approval, even if the Shane property is not leased.

Parks continues to use space in the Public Works Maintenance Center to the south. Vehicles, trailers, and mowers are stored under cover. The Admin building is used for some staff meetings. Parks uses fueling and wash-off facilities.

CONCLUSIONS: EIGHTH STREET

Accommodating all essential Parks operations in the existing KCHA building along with the Perrin building is feasible, but there is not room for all City vehicles and all staff parking. Within the limited scope and schedule of this analysis, there was little time to develop, refine and agree on concepts for site use. Some space goals might be compromised. Parking and site circulation needs additional attention.

We were not able to fully address the extent of energy code requirements which could be triggered by reuse and remodeling. We have also not agreed on final layouts, and layouts affect system costs. We are therefore providing a range of potential project costs.

We estimate the total cost to be between \$2,900,000 and \$5,000,000. The difference reflects different assumptions about the need to upgrade all building systems during remodeling. Component costs are itemized in the attached spreadsheet so the City can adjust individual line items. The total costs include all construction related costs, including sales tax and contingency. They also include allowances for “soft” costs including design, permits, administration, inspection, furniture, equipment and move in costs. Note that soft costs normally account for 35% to 40% of construction costs, but we have only identified 24%, so this number should be critically reviewed.

We recommend that the City proceed with a first “schematic” phase of design to identify an approach to use and development, and to refine the potential costs into a single number. This first phase would begin by identifying all code required changes which were difficult to define in the feasibility study. It could then identify a specific design solution and cost estimate. We estimate the cost of this design phase to be no more than \$110,000, and it would be part of the overall costs identified above.

Construction would have to be phased to allow continued occupancy by Parks during construction. It could be phased to recognize when leases expire in the Perrin building. Construction of all work and occupancy could occur in 2018.

CONCLUSIONS: FIRE STATION 27

If the Fire Department vacates FS 27, City vehicles are expected to continue to use the fuel facilities located in the large paved front yard. If vacated, Parks would like to park a valuable bucket truck inside one work bay. We did not identify any other specific Parks or Public Works uses for Fire Station 27, except for general storage.

Vandalism and theft could be a problem if the site is not occupied. The rear yard is fenced but the fence does not provide adequate security and it should be replaced. Fencing the front yard, facing the street, would protect the station from vandalism and tagging, but would have to allow for access to the fuel pumps. This would leave little room for open yard storage. Interior framed walls could be removed to open the interior for more efficient storage operations, however we suggest more thought be given to potential use of the entire site and building before the interior is gutted. It could be used for training, public meetings, or community events.

We estimate the costs will be between \$291,000 and \$442,000. The total costs include all construction related costs, including sales tax and contingency. They do not include design, permits, administration, inspection, or move in costs. They are itemized in a spreadsheet so the City can adjust individual line items.

The biggest single cost is a new roof. The biggest cost variable is whether to fence the entire site or only the back yard.

1. PARKS MAINTENANCE FACILITIES at 8th STREET

PROPERTY DESCRIPTION

The north end of 8th Street was developed as a single property with three buildings between 1989 and 1991. Sometime after that time the property was subdivided into 3 separate lots with 3 separate buildings. There are now three separate ownerships.

The KCHA lot is 25,600 sf in size according to King County records. The central lot is owned by Roger Perrin and is 23,215 sf in size. The eastern lot is 16,610 sf in size and owned by Bob Shane.

EXISTING DEVELOPMENT

The KCHA building is physically independent of the other two properties. Its gross area is 8856 sf from King Co records. The Roger Perrins building shares a partial common wall with the Bob Shane building. Its gross area is 11,136 sf. The Shane building has 7739 sf. (The original design drawings show the KCHA to be 9000 sf, Perrin to be 11,328 sf, and Shane to be 7811 sf.)

For brevity we will refer to the buildings by their owner, KCHA, Perrin, and Shane.

The buildings are constructed with tilt-up concrete exterior panels, with interior posts, glu-lam beams, and wood roof framing. They are not fire sprinklered. Each building contains offices and warehouses and KCHA also has “workshops.”

The buildings appear to be sound and generally in good shape. Office build out in Perrin appears to be recent and comfortable. Perrin has several HVAC units on the roof serving independent areas below. The roof is recent and has a warranty.

KCHA has older HVAC units in the office areas. The warehouse space is heated but uninsulated. The roof was replaced two years ago. There is no insulation at the roof.

All 3 buildings have been remodeled since initial construction, but we did not search to find permits for all improvements. This is significant because unpermitted improvements might not vest the construction with code compliance, especially energy code compliance.

The three properties are almost totally paved with asphalt paving. The pavement between KCHA and Perrin slopes to a center drain line along the property line and is breaking up. It needs repair or replacement.

ACCESS AND ACCESS AGREEMENTS

There is an existing agreement between Perrin and Shane governing access and site use. The easement language and drawing is attached. Perrin has the right to access the east side of his building thru the Shane Property, and to have 4 parking spaces which extend into the Shane property. Shane has the right to access the central drive thru the site thru the Perrin property, and rights to 4 parking spaces along the north property line of the Perrin property. We have not seen any similar agreement between Perrin and KCHA to share the central access drive, though it is shared. If we fence the site and provide security gates, this would block traffic from Shane's north side loading areas.

BUILDING CODE REVIEW

Wagner visually reviewed the condition of Perrin and KCHA, looked at the limited drawings available for the existing development and the original construction, and spoke with Tom Jensen, Plans Examiner Supervisor.

Separate permits would be required for construction on each separate site.

The buildings were originally permitted under the 1988 UBC. They were designated as Type V-N, and the permit drawings describe their use as offices, warehouses, and workshops with a B-2 occupancy classification.

Subsequent permit drawings we have seen for a 2006 remodel of Perrin describe the building use as a type F1 for warehouses and workshops, and a type B for offices. We do not know if permits were ever granted or completed.

We have also seen limited drawings for Shane from 1998 which appear to be for permit review, and which show build out as offices and warehouse. Again, we do not know if permits were ever granted or completed.

USE AND OCCUPANCY

The proposed uses would be consistent with the original building occupancy, “offices, warehouse, and workshop” use. The proposed uses would not be a change in use triggering compliance with all current codes.

ENERGY CODE

The buildings were originally constructed with some office and some open warehouse. Occupied spaces which were permitted as office spaces are grandfathered with existing insulation and HVAC systems. This would include the existing Parks offices and the southern offices in Perrin. We assume these were permitted because we have seen permit drawings, but this has not been verified.

If the spaces we intend to use for warehouse were originally used as warehouse, with heat, then we can assume they can also be grandfathered. If not, then we would suggest they be utilized as “semi-heated”

spaces, with thermostats set at 44 degrees. This would require only R-21 insulation in the ceiling/roof, with none required in walls.

We did not have time to determine the history of conditioned spaces, and the extent of changes necessary for code compliance. We have therefore included a minimum and a maximum assumption on change and cost.

The insulation we observed at warehouse spaces in Perrin is simply vinyl clad fiberglass stapled between joists to the underside of the plywood roof decking. This is typical of many warehouses, but is not allowed by code because the space above the insulation is not vented and cannot be vented to remove water vapor. Condensation above the insulation can deteriorate the plywood deck, and can cause the roofing above to deteriorate.

STRUCTURAL

Since the proposed use of the building will not change, we are not required to upgrade the buildings to current structural standards. If we alter the buildings, by installing new overhead doors for instance, then we would have to confirm that the reconfigured building has the same or better structural performance as the existing.

LIFE SAFETY AND ADA

Any changes made to the layouts of the site and buildings would have to meet current life safety and ADA standards.

FIRE DEPARTMENT REVIEW

We spoke with Grace Steuart, Assistant Fire Marshal, about FD concerns. Any new building over 5000 sf in size requires fire sprinklers. Though all three buildings exceed this threshold, if there is not a change in use, then fire sprinklers would not be required. However, if the buildings are expanded, "by even one sq. ft.," then a fire sprinkler system would be required.

PLANNING REVIEW

We spoke with Jeremy McMahan, Planning Director, about potential site use.

The site is zoned LIT, Industrial and the proposed uses are all allowed.

LOT COVERAGE

Current site standards would allow 80% hardscape. Shane has 98% and Perrin has 91%, so additional pavement would not be allowed, nor is there room to add pavement anyway.

KCHA has only 76% coverage, and we propose increasing this to 80% to improve circulation and parking. Adding additional paving would remove some trees, and a tree assessment would be necessary to establish that the trees are not significant.

We would propose rearranging the landscaped areas at Perrin so that parking and building openings can be more efficiently sited.

BUILDING SETBACKS

Construction must be set back 20 ft from the front property line. There are no setbacks from the rear and side property lines. Both 11th and 12th would be considered front yards with 20 ft setbacks.

STORM WATER REVIEW

We spoke with Rob Jammerman, Development Engineering Manager, and walked the site with our civil engineer. Storm water improvements would not be triggered by any changes contemplated here.

PROGRAM REQUIREMENTS

We began with a program describing Parks needs which was developed in 2016 when the City was considering development at McAuliffe Park. The program projects staffing, vehicles, equipment, and space needs for Parks operations thru the year 2025. It assumes Green Kirkland will be accommodated with the rest of Parks maintenance activities. It does not include responsibility for Big Finn Park which is maintained by King County, or for the Cross Kirkland Corridor which is maintained by Public Works.

The program was reviewed by Parks and minor updates were made to the vehicle and equipment list.

Shop areas in the proposed layouts are larger than those in the program because there is space available in our approach to using KCHA. This might add around \$30,000 to the total cost of development for additional hvac and power costs, but it depends on the final building layout.

OTHER SITE ISSUES

SECURITY

Security has been an issue. The KCHA building has been broken into, and Parks has installed fenced areas within the building to limit theft. Equipment outside the building has been stolen. The value of stolen goods exceeds \$250,000. Development should include improved fencing and gates. The major concern is to stop the theft of vehicles.

PUBLIC ACCESS

Although all of the property at the north end of 8th Street is privately owned, the street still appears to be a street end, and the public walks thru the property to get to 12th Avenue to the north. Parents walk children in the morning thru the site on their way to Peter Kirk Elementary School. Walkers use the street end to access the CKC which is accessible at grade north of the property. If the Parks facilities are fenced, this would stop this public use unless man gates were always open. Allowing continued public access thru a maintenance yard which is totally controlled by the City does pose security and public liability issues.

An undeveloped alley east of the KCHA connects 11th to 12th, but it is fenced off by private users. The property line location at the southern section is not marked and it is unclear if it is wooded or open. There is also space on the KCHA site between the building and the property line, but it is wooded and sloped. The combined areas could offer an alternate urban path.

USE OF 11TH AVENUE STREET END

The south end of the KCHA property abuts the 11th Avenue right of way. The roadway is paved adjacent to the site, but the pavement does not connect with the residential 11th Avenue roadway to the west, at the top of a small hill. Parks uses the area for parking trailers holding mowers, and would like to continue this use. The adjacent property owner to the south, Overlake Oil, does not use the street end. Though it appears to be dedicated to Parks use, it could evidently be used by anyone.

We spoke with Rob Jammerman about continued and future use of the 11th Ave right of way. He suggested Parks might simply continue to use it as is, since others don't seem to contest their use.

If Parks wants dedicated use of the street end, then they would need a street use permit or a vacation. A street use permit would allow dedicated use and fencing.

Construction in the right of way would require a street vacation, and each adjacent property owner would normally purchase their half of the right of way from the City. In this case, the City might be able to get a prior agreement from Overlake Oil to relinquish interest in their half.

There are other problems with vacation, and construction. City water and storm water lines are located in the right of way. A building cannot be constructed over City utilities. Utilities require a 20 ft easement and would probably have to be relocated. This would reduce the width of buildable area from 60 ft to no more than 40 ft.

Public Works would also have to consider whether the City might someday want to connect 11th Avenue to 8th Street to allow Fire Dept access. Extending it would allow light industrial traffic thru a residential area. It seems unlikely the roadway would be extended.

PROPERTY OWNER TO THE SOUTH

Storm water from the subject properties flows south to the Overlake Oil site and any petroleum residue from parking or cleaning activities can be carried along with it. Overlake is required to monitor their site for oil spills and contamination. We understand that in the past Overlake monitoring detected oil which originated off their site, and the result was a burdensome increase in monitoring requirements.

The potential project will make some asphalt and storm water changes and a solution to this run off problem could be solved relatively inexpensively.

STAFF PARKING

Parks staff now park off site and on public streets. The site is not large enough for all Parks operations

and for all parks staff parking.

Jason Filan has suggested developing some City right of way along 12th, just north of the site, for parking. This could be used by staff during work hours, but could be available to trail users at other times. We have not investigated this idea.

PROPOSED DEVELOPMENT

Within the limited time and budget, we looked at different ways that Parks could be accommodated. Parks staff was very accessible and provided ideas and feedback, but there was not time to agree on exact layouts. But for the purposes of this study, final plans were not necessary. Our goal was to decide whether Parks could be made to fit, not exactly how.

The proposed development would first permit and redevelop the Perrin Building for Parks office and crew facilities, with the north end used for dry warehouse storage. Our initial layouts would require interior demolition and new construction in most of the building. The south end offices and toilets could be reused.

Once the Perrin Building was complete and occupied, the KCHA building would be renovated. It would require a separate building permit. The current idea is to accommodate all mowers, and provide workshops for carpentry, welding, painting, and small equipment repair. The workshops would be in space which is now heated and permitted. The mowers would be in warehouse space.

The south end of the building would provide access for drive in mowers, so the existing depressed loading dock would be replaced with an at-grade entry, requiring filling, paving, and relocation of a catch basin. The overhead door at the south end of the building and at the north end of the building might have to be relocated to provide access without hitting interior columns.

Parks would like to continue using the 11th Ave paved right of way for parking. They have suggested covering the parking with a pole structure, but this poses problems discussed earlier.

There are still many questions about potential use and the extent of changes. We developed some floor and site plan layouts to determine what would fit. These layouts were aggressively trying to make everything fit, and we did not have time for too much review and revision.

We reviewed our approach with Lynn Zwaagstra, Jason Filan, Jeff Rotter, and Tim Werner. We reviewed our initial layouts with Jason, Jeff, Tim and Chris Dodd. We met on site with structural, civil, mechanical, and electrical engineers and each contributed opinions on reuse and costs.

BUILDINGS potential layouts with

Changes include:

- Reusing compatible spaces as is
- Removing conflicting interiors
- Changing some building overhead doors
- Providing new HVAC and electrical systems
- Allowance for data, surveillance, and alarm systems

SITE AND EXTERIOR

Changes include:

- Replacing a depressed level loading dock with an at grade building entry
- Grinding and overlaying pavement at the main entry drive
- Installing a new catch basin to keep storm water on site, though this might be done by Public Works
- Fencing the entire site, with two new vehicle gates
- Signage

POTENTIAL COSTS

A detailed estimate of costs is attached. Because of the unknowns, we provide a range from low to high on each of many component costs. The total costs include all construction related costs, including sales tax and contingency. They also include allowances for design, permits, administration, inspection, and move in costs. There is no allowance for developing an alternate public pathway to limit public passage thru the site

2. USE OF FIRE STATION 27

A Second part of this study was to look at Fire Station 27, and to suggest potential future uses and associated changes if it is replaced by a new station east of I-405.

We visited the station twice to become generally acquainted with the building, and to then look at specific issues. We also had a building envelope specialist look at the roof. His report is being submitted separately.

ZONING

The property is zoned R6A, and government facilities are allowed.

The front yard setback is 20 ft, and side and rear yard setbacks are 10 ft.

Fences over 6 ft high are not allowed in any setback area without approval of the planning official.

BUILDING

We don't know when the station was constructed and it appears to be in good condition.

The exterior walls are "jumbobrick" with no apparent wall insulation.

The interior has three long and heated parking bays. Smaller rooms on either side have a combination of brick and framed walls, so some could be easily removed. Firefighters only highlighted issues about one building system, the kitchen drain gets plugged occasionally.

The roof has leaked, has been patched, but we understand there are still some leaks around the scuppers. It will need replacement within 5 years.

SITE

The fire station sits in the middle of the site, 78 ft north of the 132nd Ave property line, maybe an additional 10 ft to the edge of street. City vehicles fuel from two dispensers located next to the front yard pavement. This is a big front yard, but circulation is necessary for both the station and the fuel pumps. Parking is available at the back of the station. A wetlands limits expansion and provides a barrier from the north.

The pavement has considerable alligatoring and needs attention.

The landscaping next to the station is wonderful, but the best is not seen from the public side.

FUEL SYSTEM

The fuel island needs paint, and the dispensers and fuel monitor system are old.

We don't know the condition of the tanks, they are double walled glass tanks with monitoring installed in 1992.

TIMING

The schedule for replacing the station has not been determined. The potential future use, the condition of the building and the costs of improvements may change by the time the station is available.

FUTURE USES

Parks identified only one potential use, parking the bucket truck they share with Public Works inside the station.

Public Works thought they could use the station for unspecified storage.

The fueling facilities could continue to be useful for both Public Works and the Police. Parks indicated they would continue to use the PW Maintenance Center for fueling.

The building has facilities for training, a kitchen, several toilets and showers. It could be used for training or public meetings, or for limited recreation.

POTENTIAL CHANGES**FENCING THE FRONT YARD**

There are existing chain link fences on the north, east and west property lines. They have a 2" mesh and the height varies from 5 ft to almost 6 ft. They could not be considered a security fence. Landscaping abuts these fences and the fences tend to disappear, you see right thru them.

A security fence should be at least 8 ft high, and higher levels of security use a small weave and a higher fence.

Fencing the front yard would provide some security to the front of the station, and stop tagging. If the fencing were opaque, it might also block views of mischief. An 8 ft fence should suffice at the front, but it would be pointless unless the higher fence extended around the entire perimeter. That would intrude on the setback restrictions.

If we park large vehicles inside the building, and it is uniquely able to do this, then we need room in front of the building for circulation. Vehicles using the fuel island need room to pull off the roadway and stop before activating an access code device. Some vehicles fuel on the right and some on the left, so some need clockwise and some need counter clockwise circulation. The fuel truck needs access and turning. The firefighters at the station told us that they have seen both single body tanker trucks and tankers pulling a trailer tank. We could presumably ask for the shorter truck, but we have not followed up on this.

Fencing the front yard would require 2 gates, each powered and each with an access device. We should also install exit loops. The fence could be only 20 ft from the front property line without a code deviation, but the gates might be held back a little more to allow vehicles to pull off the road and stop while the gate operator is accessed and the gates slide open. This configuration, and using a transparent 2" mesh, would limit storage in the front yard.

FENCING ONLY THE BACK YARD

This would require one gate. It could be as high as desired, but the fencing along side property lines behind the gate would also have to be high. This would leave the front of the station exposed for tagging and vandalism, but mischief might be reduced because the front would be in sight from the street. This would also allow unimpeded access to the fuel island.

BUILDINGS

Changes include:

- The cost of removing interior framed walls and associated plumbing is estimated.
- Fixing the immediate roof leak.
- Replacing the roof within 5 years.

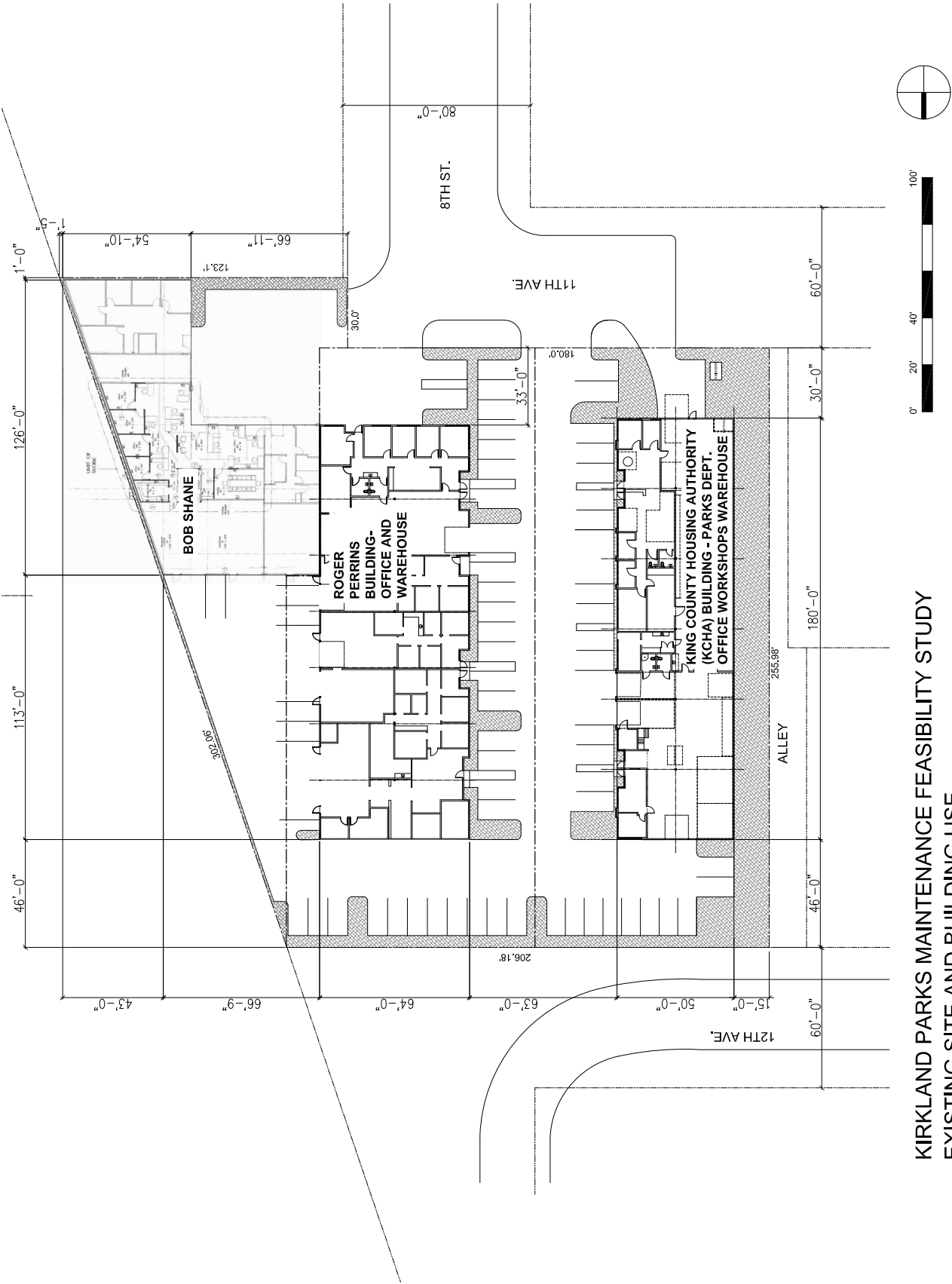
SITE AND EXTERIOR

Changes include:

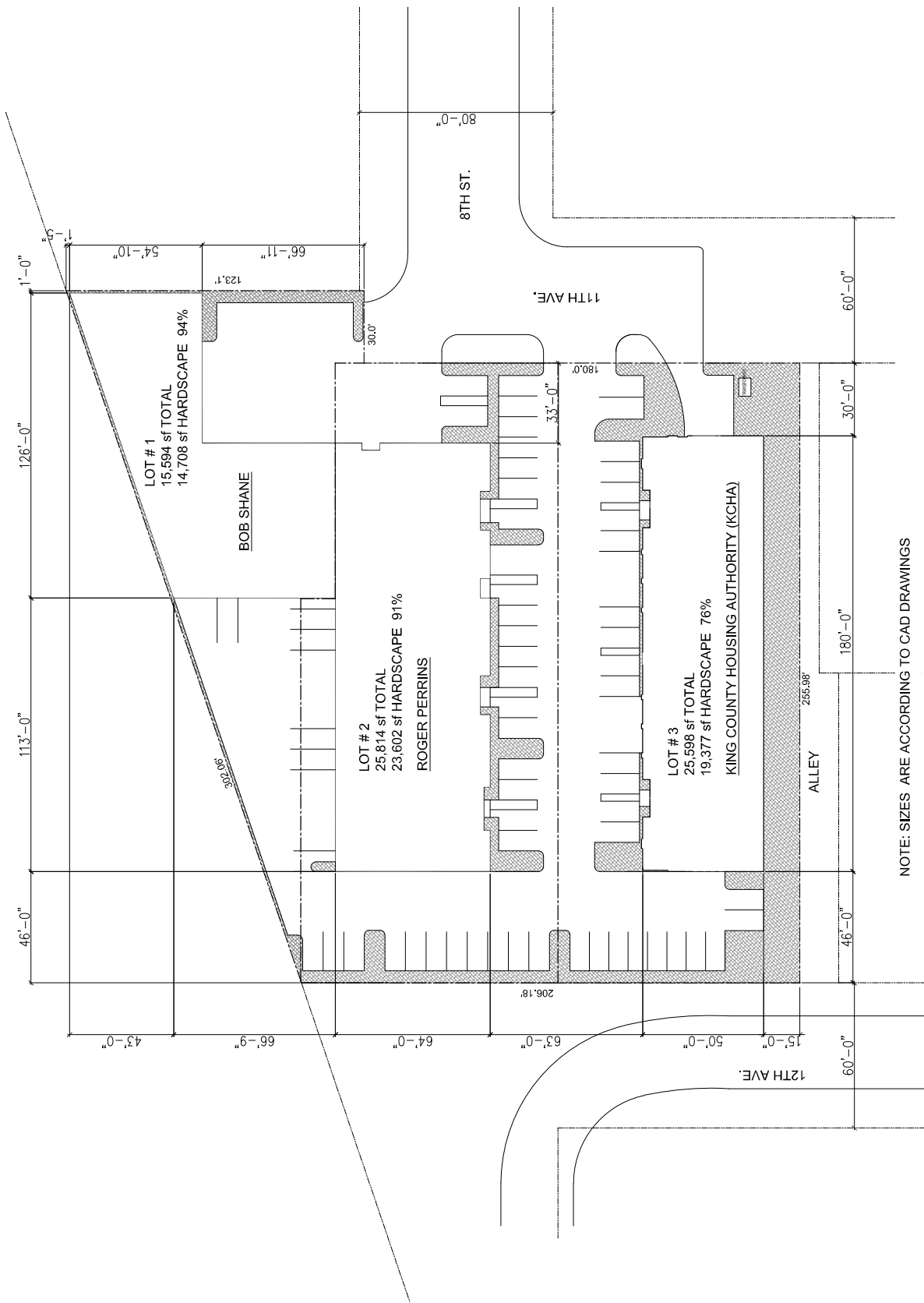
- Overlaying existing pavement.
- Installing a new catch basin to keep storm water on site, though this might be done by Public Works
- Fencing the entire site, with two new vehicle gates
- Fencing just the back yard, with one new gate, manually operated.
- Signage

POTENTIAL COSTS

We estimate the costs will be between \$291,000 and \$442,000. The largest cost is the cost of reroofing. The variation is between fencing the entire site or just the back yard. A detailed estimate of costs is attached. Because of the unknowns, we provide a range from low to high on each of many component costs. The total costs include all construction related costs, including sales tax and contingency. They do not include design, permits, administration, inspection or move in costs. The City has choices on what to do, and how much to spend.



KIRKLAND PARKS MAINTENANCE FEASIBILITY STUDY
EXISTING SITE AND BUILDING USE
WAGNER ARCHITECTS
MAY 2017



KIRKLAND PARKS MAINTENANCE FEASIBILITY STUDY
EXISTING HARDSCAPE PLAN
WAGNER ARCHITECTS

MAY 2017

VEHICLES AND EQUIPMENT - APRIL 2017 (ALTERNATE STUDY)

COMPLETE INVENTORY OF VEHICLES AND EQUIPMENT

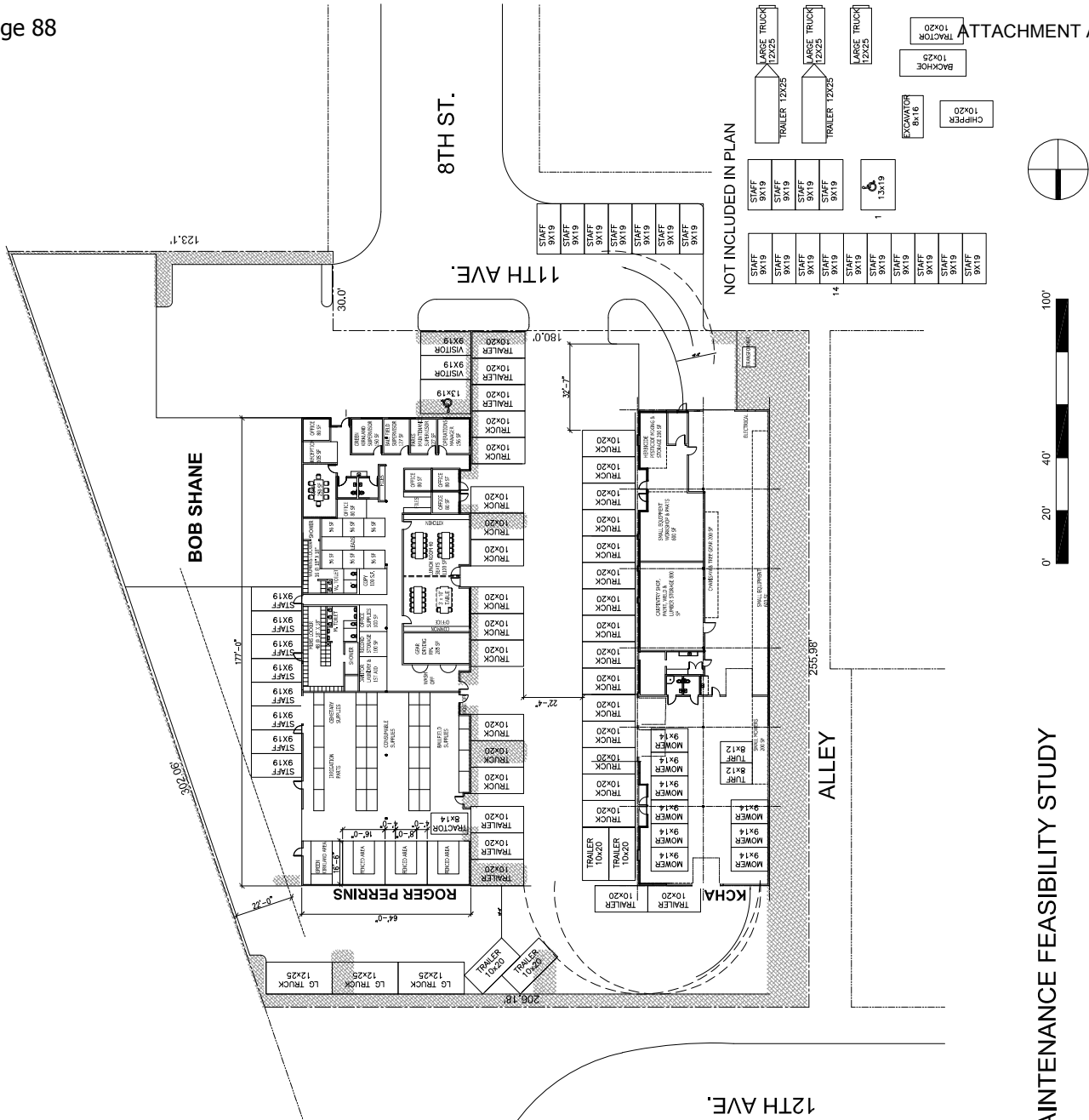
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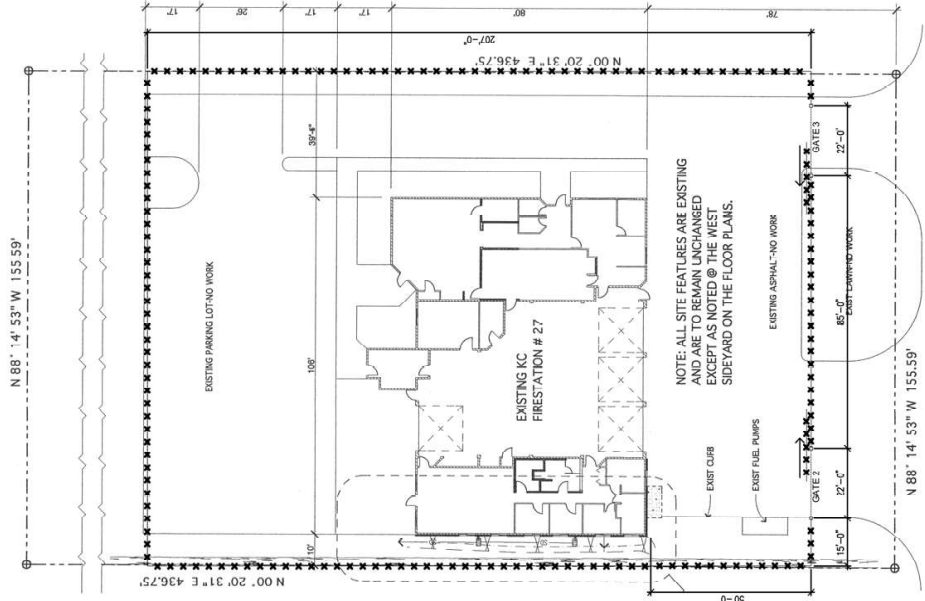
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OTHER	
DINGO	SOD CUTTER
JOB BOXES	SWEEP RIGHT
LEAF SUCKER	GROOM RIGHT
WALK BEHIND THATCHER	PRESSURE WASHER 1
WALK BEHIND SLICE	PRESSURE WASHER 2
SEEDER	PRESSURE WASHER 3
WALK BEHIND AERATOR	WATER TANK 1
	WATER TANK 2

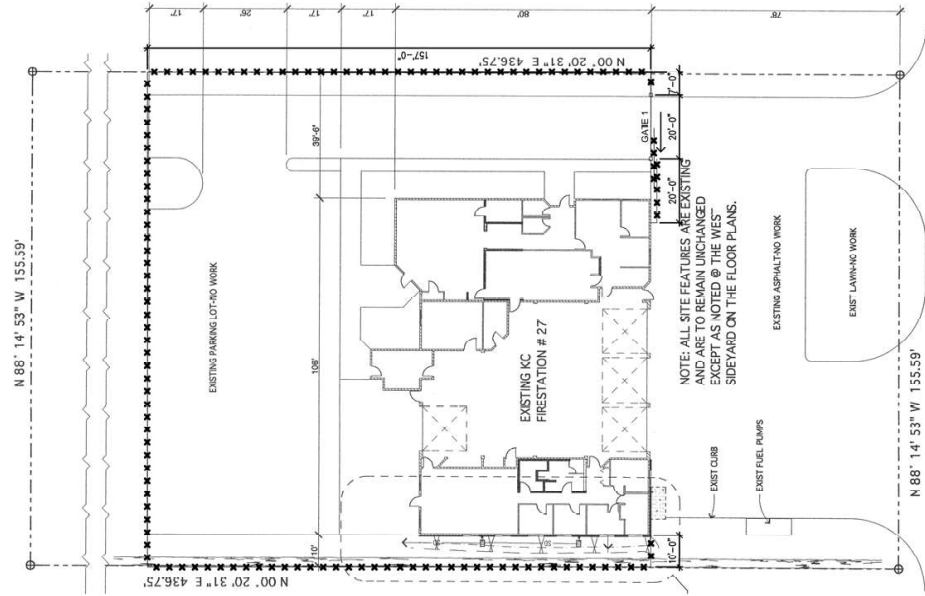
KIRKLAND PARKS MAINTENANCE FEASIBILITY STUDY
APPROACH 2
WAGNER ARCHITECTS
MAY 2017

MAY 2017

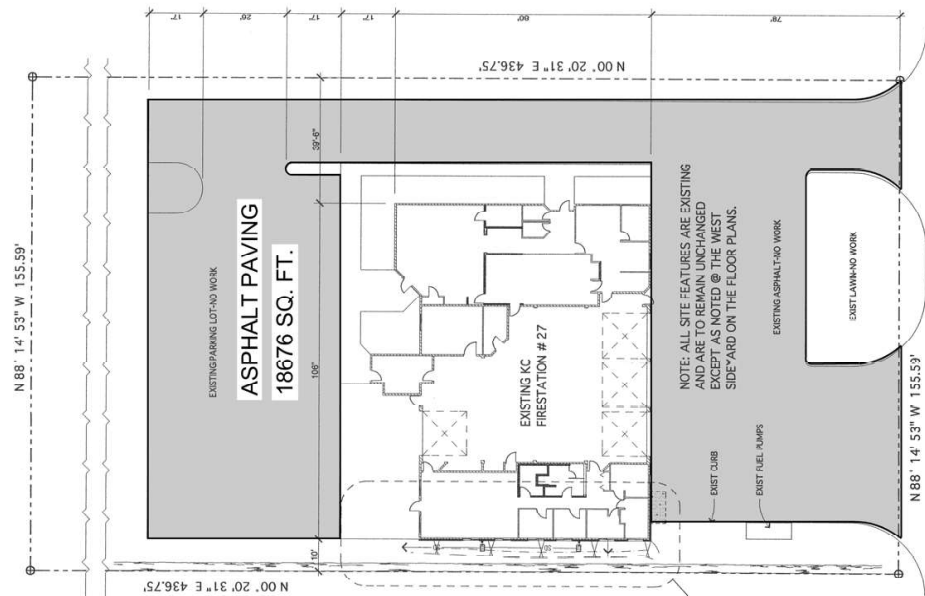




FENCE - OPTION 2



FENCE - OPTION 1



ASPHALT PAVING CALCULATIONS FOR KIRKLAND FS #27

FIRE STATION #27 POTENTIAL REUSE IDEAS
MAY 2017
WAGNER ARCHITECTS

CITY OF KIRKLAND									
NEW PARKS MAINTENANCE FACILITIES									
ESTIMATES OF PROJECT COSTS				KCHA AND PERRIN BULDINGS				May 18, 2017	
1 DEVELOPMENT COSTS FOR WORK ON THE SITE									
A Site Work								Low	High
		1	Demolition of Existing Pavement						
		2	Pavement grind and overlay	1,300	\$	15	\$	20	\$19,500 \$26,000
		3	Site Lighting						
		4	Fencing	540	\$	35	\$	75	\$18,900 \$40,500
		5	Gates & Operators	2	\$	18,000			\$36,000 \$36,000
		6	Infill Loading Dock at Building #3						\$75,000 \$75,000
								\$ 149,400	\$ 177,500
								Low	High
B Buildings									
1 ADMIN /CREW /WAREHOUSE: PERRIN BUILDING									
			Moderate Renovation Estimate - Total Floor Area	11,135	sf				
			Includes demo			\$48	\$75	\$534,480	\$835,125
			Mechanical						
			HVAC Office Areas	6,500		\$20	\$40	\$130,000	\$260,000
			HVAC Warehouse	4,665	sf			\$20,000	\$55,000
			Plumbing	20	fixtures		\$4,500	\$90,000	\$90,000
			Electrical						
			Electrical Office Areas	6,500	sf		\$20	\$130,000	\$130,000
			Electrical Warehouse	4,665		\$10	\$22	\$46,650	\$102,630
			Video Surveillance	\$2,000			6	\$12,000	\$12,000
			Card Access	\$1,000			6	\$6,000	\$6,000
			Remove (7) existing meters and provide 600A distrib					\$10,000	\$10,000
								\$ 979,130	\$ 1,500,755

CITY OF KIRKLAND											
NEW PARKS MAINTENANCE FACILITIES											
ESTIMATES OF PROJECT COSTS				KCHA AND PERRIN BULDINGS				May 18, 2017			
				KCHA AND PERRIN BULDINGS							
				Site			\$	149,400	\$	177,500	
				Buildings			\$	1,318,935	\$	2,209,754	
				COMBINED			\$	1,468,335	\$	2,387,254	
			Design / Estimating Contingency		10.00%	15.00%	\$	146,834	\$	358,088	
							\$	1,615,169	\$	2,745,342	
			General Conditions - Phased	6	8	\$35,000	\$	210,000	\$	280,000	
							\$	1,825,169	\$	3,025,342	
			General Contractor Overhead & Profit		7.50%		\$	136,888	\$	226,901	
							\$	1,962,056	\$	3,252,243	
			Escalation at 4.5% per year		2.25%		\$	44,146	\$	73,175	
							\$	2,006,202	\$	3,325,418	
			Sales Tax		10.00%		\$	200,620	\$	332,542	
							\$	2,206,823	\$	3,657,960	
			Construction Phase Contingency		7.00%	10.00%	\$	154,478	\$	365,796	
			TOTAL CONSTRUCTION CONTRACT COST					\$	2,361,300	\$	4,023,756
2 OTHER RELATED PROJECT COSTS							IDENTIFIED SOFT COSTS				
			Allowance for Move in				\$	10,000	\$	20,000	
			Special Equipment not in the Construction Contract				\$	10,000	\$	25,000	
			Furniture and Equipment	offices	6,500	20	\$	130,000	\$	130,000	
				warehouse	4,665	10	\$	46,650	\$	46,650	
				shops	3,046	5	\$	15,230	\$	15,230	
			Permit & Review Fee				\$	19,000	\$	27,000	
			Testing Labs and Inspection				\$	-	\$	2,500	
			City Administrative Costs				no charge		no charge		
			Consultant Fees, verification of conditions thru occupancy	% of	12%	20%	\$	235,447	\$	650,449	
			Construction Management by Design Team, not full time	6 months	384	\$ 150	\$	57,600	\$	57,600	
							\$	523,927	\$	974,429	
						as % of project costs	22%		24%		
							low		high		
			TOTAL EXPENDITURES					\$	2,885,227	\$	4,998,185
			Soft Costs e are typically 30 to 45% of construction costs					\$	708,390	\$	1,810,690
			TOTAL EXPENDITURES WITH TYPICAL RANGE OF SOFT COSTS					\$	3,069,690	\$	5,834,444

Wagner Architects
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BEGINNING AT the Southwest corner of said Lot 23, Block 241 as shown on that certain survey recorded in Volume 36 of Surveys, Page 150, Records of said County; thence North 89°42'28" East along the South line of said lot a distance of 12.06 feet; thence North 0°16'07" West 97.37 feet; thence South 89°58'26" East 10.00 feet; thence North 0°16'07" West 158.63 feet to the North line of said Lot 1, Block 26; thence North 89°43'06" East, along said line 3.65 feet to said West margin of the Burlington Northern right-of-way; thence South 19°05'14" East along said margin 302.05 feet to the intersection of the centerline of said vacated 11th Avenue with said westerly margin of the Northern Pacific Railway Company right-of-way; thence South 89°42'28" West (South 89°42'31" West Record) along said line 123.09 feet to the southerly prolongation of the East margin of 8th Street (formerly known as Lake Avenue); thence North 0°23'02" West along said margin 30.00 feet to the POINT OF BEGINNING.

All hereinafter "Parcel B."

2. As a condition and part of the sale by Party B of Parcel A to Party A, the parties to this agreement have agreed to establish a common easement for access, parking and utilities, each over the property of the other, for the benefit of both properties, and to create a maintenance and indemnification agreement respecting the easements so created, on the following terms and conditions:

WHEREFORE IN CONSIDERATION OF THE FOLLOWING MUTUAL GRANTS THE PARTIES HERETO AGREE AS FOLLOWS:

3. Effective upon the closing of that certain Purchase and Sale, the parties hereto each grant to the other the following non-exclusive cross easements:

3.1. Party B hereby grants to Party A for the benefit of and to run with the Parcel A, a non-exclusive easement for the purposes described below for so much of the Easement Property hereinafter described, as also constitutes Parcel B.

3.2. Party A hereby grants to Party B for the benefit of and to run with Parcel B, a non-exclusive easement for the purposes described below for so much of the Easement Property hereinafter described, as also constitutes Parcel A.

3.3. In both cases 3.1 and 3.2, only for the purposes of ingress and egress to and from Eleventh Avenue, parking in stalls designated on Exhibit A, attached hereto and incorporated herein by this reference, installation and maintenance of sewers, drains, roads and landscaping, and related purposes, and in addition for utility lines, fire hydrants, and storm drain

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