



Kirkland at a Glance

Founded	1888
Incorporated	1905
Population	82,590
Elevation	14 to 500 feet
Land Area	18 square miles
Average Temperature	46.8 degrees
Average Annual Precipitation	38.6 inches
Miles of City Streets	254
Miles of City Sewers	116
Miles of Water Lines	173
Residential Dwellings	37,450
Fire Department Rating Class	4
City Employees (Full-Time Equivalents)	573.28
General Obligation Bond Rating:	
Moody's	Aa2
Standard and Poor's	AAA

City Council

Mayor, Amy Walen ♦ Deputy Mayor, Penny Sweet ♦ Jay Arnold ♦ Dave Asher
 ♦ Shelley Kloba ♦ Doreen Marchione ♦ Toby Nixon

Administrative Staff

City Manager
Kurt Triplett

Deputy City Manager
Marilynne Beard

Municipal Court Judge
Michael Lambo

City Attorney
Robin Jenkinson

Director of Finance & Administration
Tracey Dunlap

Director of Fire & Building
Kevin Nalder

Director of Human Resources & Performance Management
James Lopez

Chief Information Officer
Brenda Cooper

Director of Parks & Community Services
Jennifer Schroder

Director of Planning & Community Development
Eric Shields

Chief of Police
Eric Olsen

Director of Public Works
Kathy Brown

The City of Kirkland is located on the eastern shore of Lake Washington. It is a suburban city, surrounded by other suburban cities and pockets of unincorporated King County. The City is near several major transportation routes including Interstate 405, State Route 520, and Interstate 5. These routes connect the City economically and socially to the greater Seattle area.

At the time of incorporation in 1905, the City of Kirkland's population was approximately 530. The current estimated population is 82,590. Kirkland is the thirteenth largest city in the State of Washington and the sixth largest in King County.

Since its incorporation, Kirkland has grown in geographic size to eighteen square miles - approximately twenty times its original size. This growth occurred primarily through the consolidation of the cities of Houghton and Kirkland in 1968, the annexations of Rose Hill and Juanita in 1988 and the annexation of North Juanita, Finn Hill, and Kingsgate areas in 2011.

Kirkland operates under a Council-Manager form of government. The City Council is the policy-making branch of Kirkland's government and consists of seven members elected at large to staggered, four-year terms. The Mayor is elected from within the Council. The City Council is supported by several advisory boards and commissions and the City Manager. The City Manager is appointed by the City Council and serves as the professional administrator of the organization, coordinating its day-to-day activities.

The City government offers a full range of municipal services which are provided by eleven operating departments. The City boasts forty-five parks, including eleven that are located on the waterfront, as well as two community centers, a swimming pool, and a teen center. The broad range of recreational facilities provides year-round services for citizens of all ages.

*Cover design – Kirkland 2035 Comprehensive Plan "Wordle"

2015 - 2016 Budget

KIRKLAND WASHINGTON



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City of Kirkland Mayor & City Council



Amy Walen
Mayor



Penny Sweet
Deputy Mayor



Jay Arnold
Council Member



Dave Asher
Council Member



Shelley Kloba
Council Member



Doreen Marchione
Council Member



Toby Nixon
Council Member



CITY OF KIRKLAND

2015-2016 BUDGET

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2015-2016 BUDGET
BUDGET MESSAGE

Dear Council Members and Citizens of Kirkland,

We are pleased to present to you the City Manager's proposed 2015-2016 budget which helps fulfill the Council's promise of decisive, responsive government. The proposed budget is balanced and financially sound, with all basic government operations funded with on-going, predictable revenues, significant contributions made to our reserves, and investments to fund community priorities and make progress on the Goals adopted by the City Council. As in the 2013-2014 budget, the recommendations are grounded in Kirkland's three Strategic Anchors:

- **The Price of Government** – to ensure that Kirkland's services remain affordable to the residents;
- **The Kirkland Quad Chart** – to ensure through surveys and outreach that the City provides the services that matter most to the community, and does so in a way that meets the performance expectations of the residents;
- **The 2015-2022 Financial Forecast** – to recognize that the projected revenue through 2021 is insufficient to meet the expenditures necessary to fund Kirkland's current level of service over that same time frame. This "diverging line" problem is compounded after 2021 with the expiration of the Annexation Sales Tax Credit. Solving the diverging line dilemma requires careful planning and either significant new tax revenue, curtailed City expenditures, or a combination of new revenue and lower cost growth.

The influence of the anchors on the budget recommendations, and the impact of the proposals on the anchors, are described later in the budget message. In the introduction that follows we highlight changes in revenues and expenditures and then categorize all notable investments under the appropriate **Council Goal**. We also show how the proposed budget addresses the "improvement opportunities" identified in the 2014 community survey. The proposed budget is the first step in a larger, on-going discussion of a framework to identify the "**Wants and Needs**" of the community and short, medium and long-term strategies to ensure that "**Resources**" become available to sequence and fund the services desired.

INTRODUCTION

The proposed 2015-2016 budget represents "A Tale of Two Budgets", with the dual perspectives described in terms applied by the Governor in discussing the State's budget:

- **Stay steady** given the long-term revenue outlook that includes temporary Real Estate Excise Tax (REET) use for maintenance and operations that ends after 2016 and anticipates the end of the State annexation sales tax credit (ASTC) in 2021; and
- **Get ready** to meet the challenge of matching the long-term needs and wants identified during the Kirkland 2035 visioning and planning process.

Improving revenues provide the opportunity to **stay steady** and prepare for the revenue challenges ahead. The budget was developed recognizing the following guidelines and recommendations:

- Budget sales tax on a **modified two-year lag**, assuming no growth in the 2015 or 2016 revenues from 2014 estimates, and set aside a portion of sales tax revenue growth toward one

time uses. This approach provides both a hedge against recession and a means to set aside revenue capacity for the loss of the ASTC.

- Evaluate service packages in the context of new revenue, reprioritizing or trade-offs. Positions and services currently funded with one-time resources were reviewed first to determine if they are basic services that should be funded from on-going revenues. Continuation of one-time packages was weighed against emerging needs, with many proposed additions evaluated in the context of whether they can be supported by new revenues or through reductions in lower priority programs.
- Continue to focus on replenishing reserves that served the City well in weathering the “Great Recession.”
- Set aside funds toward unfunded capital needs rather than spending available General Fund revenues solely on operations.

The majority of the General Fund budget is allocated to Public Safety, one of residents’ top priorities. Revenue projections were budgeted conservatively, with the modified two year sales tax lag included as a hedge against economic uncertainty and to prepare for the Annexation Sales Tax Credit expiration. Zero percent growth was assumed in the health benefits fund as a result of higher than expected health care reserves and in anticipation of the results of the “**Healthy Kirkland Plan**” a health care reform initiative built around empowered employees, a high-deductible, consumer-driven health plan and an employee clinic. The proposed budget minimizes on-going operational additions, sets aside substantial monies for reserve replenishment and sinking fund enhancements, and reserves REET, Impact Fees, and sales tax in excess of budget for the capital investments discussion in 2015.

To **get ready**, the budget also begins to increase quality of life investments. While the general fund budget is disciplined and conservative, the proposed budget recognizes that quality of life remains Kirkland’s most important economic development strategy. Therefore, considerable new investments are proposed in street maintenance, pedestrian and bicycle safety, and school walk routes through the Neighborhood Safety Program and the **Walkable Kirkland Initiative**. In addition, the budget proposes substantial infrastructure investments in parks, roads, sidewalks, surface water, solid waste, and water and sewer systems. The Kirkland 2035 planning process is helping to shape the infrastructure needs in all areas looking into the future.

The assumptions and recommendations in the preliminary budget reflect the City Manager’s suggested financial and policy strategies as part of the “**Wants, Needs, and Resources (WNR)**” framework. The purpose of the WNR framework is to identify integrated strategies to keep the Price of Government moderate, fund priority services and capital projects at a performance level residents expect, and close the diverging line gap by 2021. The framework will be discussed further toward the end of the budget message to help articulate how the City can prioritize investments today and in the future.

Along with the Strategic Anchors, the framework also builds off of key City Council initiatives to make measurable progress in implementing the **Council Goals** through an adopted biennial **City Work Program**, and to maintain Kirkland’s AAA credit rating.

Despite the steps to help ensure financial stability embodied in the budget, there are always unknowns and uncertainties in any financial projection. The major risk to the sustainability of the proposed budget is the overall health of the world, U.S. and local economies and the State’s fiscal challenges in funding the McCleary decision. While the economic outlook locally and in the U.S. are on a positive trajectory, the world economy continues to show signs of weakness and instability. On the positive side, the City’s financial outlook could be positively impacted by proposed major developments, such as Park Place and the Totem Lake Mall, and decisions of major employers to increase their local presence.

BUDGET SUMMARY

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

The total biennial budget for 2015-2016 is \$583.0 million which is a 0.2% increase from the 2013-2014 budget of \$581.8 million. Factors contributing to the change include:

Major Increases

- Higher revenue collections in 2014 for sales tax and development fees, which adjusts the basis used for both 2015 and 2016,
- Increased internal service charges, especially in facilities for operation of the Kirkland Justice Center (KJC) and fleet for vehicle replacements,
- Higher costs for external services, including NORCOM and liability insurance payments to the Washington Cities Insurance Authority (WCIA),
- Assumed reserve replenishment of one-percent of General Fund revenue and other substantial reserve additions described in later sections,
- Recommended funding to take responsibility for street lights in the annexation area using ASTC revenue transferred to the Street Fund (**see related issue paper**),
- Increases in expected revenues from Real Estate Excise Tax (REET), impact fees, and lodging tax due to the improving economy, and
- Water, sewer, surface water, and solid waste rate increases approved by Council on October 7, 2014.

Major Decreases

- Lower capital project spending due to completion of the Kirkland Justice Center and the Totem Lake culvert and other projects in the surface water utility,
- Lower debt service payments due to refunding of UTGO debt and retirement of bonds in 2014.

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

	2013-14 Budget	2015-16 Budget	% Change
GENERAL GOV'T			
General Fund	178,638,538	194,737,442	9.0
Other Operating	30,399,499	31,453,100	3.5
Internal Service Funds	69,527,520	77,886,892	12.0
Non-Operating Funds	146,657,455	113,905,152	(22.3)
UTILITIES			
Water/Sewer	80,092,537	89,148,000	11.3
Surface Water	44,112,640	41,966,491	(4.9)
Solid Waste	32,339,121	33,928,345	4.9
TOTAL BUDGET	581,767,310	583,025,422	0.2

The general fund budget totals \$194.7 million, which represents a two-year increase of 9.0% over the previous two-year period. Much of the increase in the General Fund is driven by assumed growth in wage and benefit costs, substantial additions to reserves, and funding of service packages, as described below.

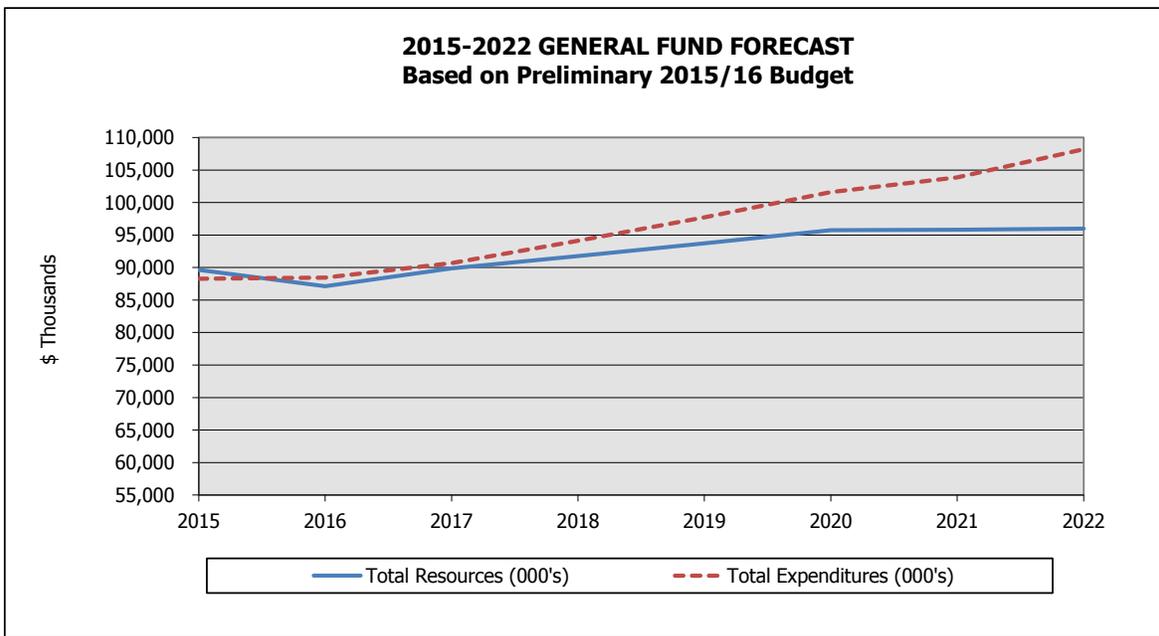
The typical focus for the Council's budget discussion relates to the operating budget which accounts for basic services to the public. The most important (and largest) component of the operating budget is the General Fund which accounts for the majority of general government services and most of the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

GENERAL FUND TRENDS

The General Fund forecast for the 2015-2016 biennium presented at the City Council Retreat in May projected a very small shortfall between ongoing revenues and expenditures in 2015-16 (less than 0.7%). Since that time, the General Fund revenue and expenditure projections have been refined as part of the budget process to reflect current economic conditions and the budget information submitted by departments. The result is that there was a small amount of on-going General Fund revenue available (before service packages) to fund identified on-going needs. In addition, one-time resources from revenues collected in 2013-2014 over budgeted amounts were available to fund one-time service packages. Over half these funds are the planned result of the City's policy to budget sales tax on a one-year lag. One significant change from the Council retreat is the recommendation to utilize a modified two year lag for sales tax revenue, which sets the sales tax assumptions for both 2015 and 2016 at 2014 expected revenues. The major revenue and expenditure assumptions, including the modified two year lag, are discussed further below.

One of the challenges in balancing the budget was the number of one-time expenditures from the 2013-2014 budget, including the additions at the mid-biennium. The revised financial projections allowed a few of those services to be funded with on-going revenues beginning in 2015, but the majority of those identified needs are funded again with one-time funds. Notably, a few previously funded one-time expenditures are not recommended for funding in the preliminary budget based on other funding priorities.

The revised forecast reflects a balanced budget for 2015-2016, although there is still a structural imbalance in subsequent years due to the underlying mismatch between predictable growth in revenues and the rate of cost increase to provide City services. It is also exacerbated by the expiration of the Annexation Sales Tax Credit in 2021. The gap is smaller than it was in the prior forecast, due to actions taken to balance this budget and the City's continued focus on "bending the cost growth curve" to a more sustainable level.



	2015	2016	2017	2018	2019	2020	2021	2022
Total Resources (000's)	89,620	87,126	89,879	91,781	93,735	95,742	95,837	95,989
Total Expenditures (000's)	88,285	88,461	90,690	94,124	97,729	101,602	103,894	108,202
Net Resources (000's)	1,334	(1,334)	(812)	(2,343)	(3,994)	(5,860)	(8,056)	(12,214)
Biennium Total (000's)	0		(3,155)		(9,854)		(20,270)	

REVENUE TRENDS

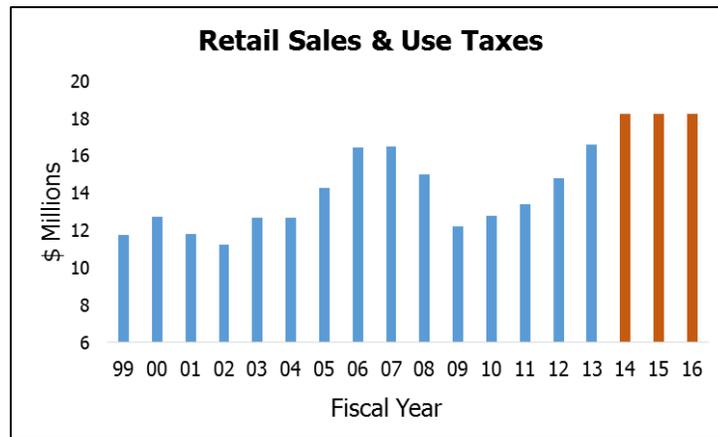
Revenues continued to improve during 2013-2014, with sales tax finally passing the pre-annexation peak in 2007 of \$16.5 million. The assumptions for revenue growth reflect cautious optimism related to continuation of moderate growth. No increases in tax rates are reflected in the preliminary budget, except for the 1% optional increase in property tax. Selected fee increases recommended by staff are highlighted later in this section. The table that follows provides a summary of the major General Fund revenue changes.

GENERAL FUND REVENUE SUMMARY			
Category	2013-14 Budget	2015-16 Budget	% Change
Property Tax	33,573,159	35,267,664	5.0
Retail Sales Tax	30,321,475	36,460,794	20.2
Annexation Sales Tax Credit	6,831,252	7,870,000	15.2
Utility Tax	29,398,309	30,071,556	2.3
Business Licenses /Permits	5,680,766	6,484,609	14.2
Liquor Profits/Excise Tax	1,813,911	1,768,501	(2.5)
Development Fees	9,594,414	12,180,084	26.9
Internal Charges	11,114,451	12,415,161	11.7
All Other	28,965,022	30,733,342	6.1
TOTAL BUDGET	157,292,759	173,251,711	10.1
Resources Forward	21,345,779	21,485,731	0.7
TOTAL BUDGET	178,638,538	194,737,442	9.0

Property tax is currently the largest source of revenue for the operating budget and supports services in the General Fund, Street Operating Fund (117), Parks Maintenance Fund (125), and 2012 Parks Levy Fund (128). A 1.65% percent increase in revenue from new construction is assumed for 2015 based on preliminary figures received from the King County Assessor's Office on September 17, along with a one percent optional increase in the levy (\$0.26 million across all four funds) resulting in an estimated 5% increase over the two-year period. Note that with the annexation, three City property tax rates apply to different areas of the City, with the pre-annexation City paying for existing voted debt, those previously served by Fire District 41 paying a tax component toward the District's remaining debt, and those previously served by Woodinville Fire and Rescue paying only the base rate.

For the Street, Parks Maintenance, and Parks Levy funds, property tax is the predominate or sole source of income which is legally restricted to one percent plus new construction growth. Historically, the growth in revenues has not been sufficient to offset the growth in costs, resulting in service level adjustments and/or some level of general fund subsidy. The Street Fund is projected to use cash reserves that are higher than required working capital that resulted from underexpenditures. However, in past years the fund under-expended at a sufficient rate so as not to require reserve use. To maintain the balance in the Parks Maintenance Fund, a 0.75 FTE position was moved to the General Fund to recognize that the position would be focused on rentals and moorage, revenues which appear in the General Fund. The 2012 Park Levy fund does not yet require a subsidy as additional revenues were built in to help recognize the costs of inflation in the early years and the expectation is that the level of capital funding will decline after the initial projects are completed to help revenues keep pace with future operating expenses. Given the complex dynamics of these funds, staff is planning to model the cash flow trends in more detail during the next biennium to help establish a strategy to address the structural imbalance issue.

Sales tax revenue has been volatile over the past few years, but has shown marked improvement over the last biennium. The following chart shows a comparison of sales tax revenue for a fifteen year period, including the budget projections for 2015-2016 with the modified two year lag. Note that the increase in 2012 and subsequent projections is due in part to the addition of revenues from the new neighborhoods.



A “modified” two year lag strategy was applied to the 2015-2016 Budget. The 2015 budgeted revenues reflect the City’s one-year “lag” budget strategy, which sets 2015 sales tax revenues equal to expected 2014 revenues. For 2016, the preliminary budget is also based on the expected 2014 revenues rather than the 4% growth rate discussed at the Revenue Public Hearing (a reduction of \$0.7 million). Note that at the time the City last employed a two-year lag strategy, revenue for the first year of the biennium would be set at the actual two years prior (e.g., 2015 would be set at 2013). This approach would have idled an additional \$1.1 million. The modified approach represents a hedge against the expiration of the state annexation sales tax credit in 2021. By using this more conservative strategy, the City can use any actual growth in sales tax in each biennium toward capital needs and then, in 2021, consider returning to the one-year lag strategy.

The budget assumes that the revenues from the Annexation Sales Tax Credit (ASTC) increase from the current level to help fund assuming responsibility for the street light utilities and maintenance in the annexation area which is estimated to cost an additional \$285,000 per year.

The state shares a portion of **Liquor Board Profits and Liquor Excise Taxes** with cities based on population. The total amounts available in each year are based on estimates provided by the Municipal Research Services Center (MRSC) applied to population forecasts from the State Office of Financial Management. While the revenue available to cities from Liquor Board Profits is projected to be stable, since it assumes a fixed revenue amount equivalent to collections prior to December 2011 per state law, the Liquor Excise Tax portion is subject to potential legislative changes in light of ongoing state budget challenges. To reflect this uncertainty, MRSC provided both a base and pessimistic scenario for this revenue source, the latter of which assumes the state continues, beyond its June 30, 2015 expiration, a provision that diverts a portion of these revenues to the state’s General Fund. The budget uses the pessimistic Liquor Excise Tax scenario from MRSC resulting in a budget of \$0.3 million for Excise Tax and \$1.45 million in Liquor Profits for the biennium. The funds continue to be used to fund part of the Public Safety and IT equipment sinking funds that were established in 2013.

Utility taxes represent another large General Fund revenue source. Overall, utility taxes are projected to grow at 1% each year, although actual changes by sector will vary based on utility rates and potential variations in consumption. Electric, gas, and water utility taxes can be significantly impacted by weather conditions. The telecommunications and cable sectors continue to be worth watching as the regulatory environment (and potentially taxing authority) changes to reflect current technology and consumer usage patterns respond to economic conditions.

Business license fees consist of a base fee of \$100 that is shown in the license and permit category and the revenue generating regulatory license fee of \$100 per full time equivalent employee (FTEs), which is shown in the tax category. The revenue for 2015 and 2016 assumes no fee increase and a 1% annual increase in FTEs over 2014 estimated revenues. In addition, the biennial contribution of sales tax to the Street Fund of \$540,000 has been swapped with business license fees based on the recommendation of the Finance and Administration Council Committee (**see the Retreat Follow Up issue paper**).

Development fee revenues have continued to be strong in 2014. The 2015-2016 revenues assume a similar amount of development activity in 2015-2016. The projections do not assume that the redevelopment of Park Place and Totem Lake will occur, however, staff has included unfunded service packages to identify resource needs for these major projects. Staff will bring back a resolution at budget adoption seeking contingent approval of the service packages to allow the City Manager to add resources rapidly if the projects occur, with the related appropriation change to be brought back with the next budget adjustment.

Consistent with adopted policies, the budget assumes an inflation adjustment to the City’s **EMS transport fees** of 2.2% in 2015 and 2% in 2016.

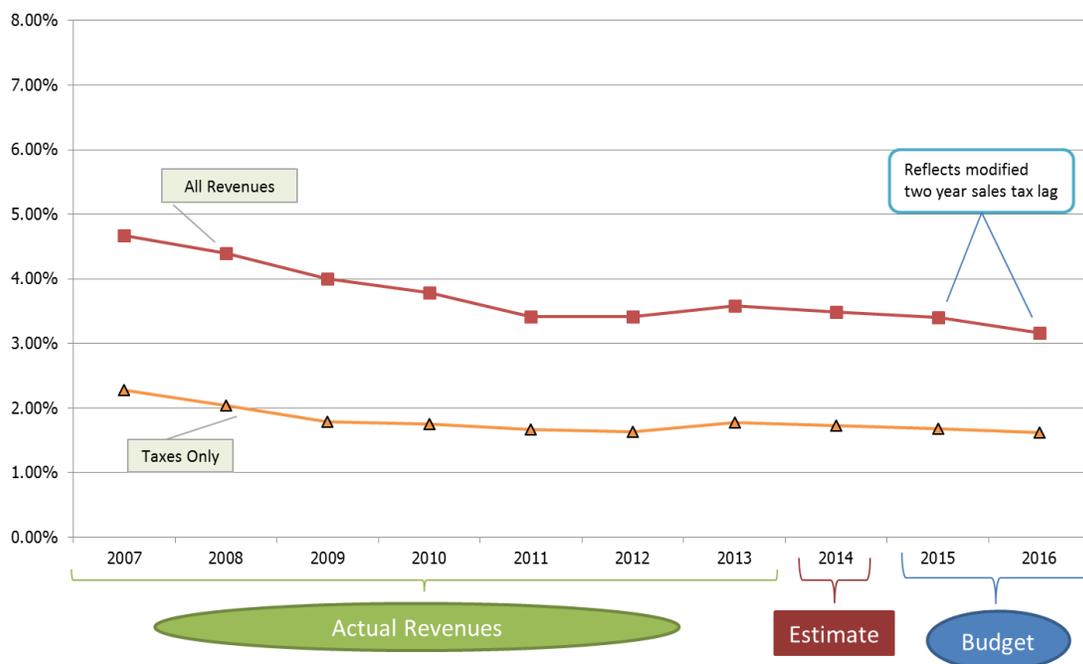
While not a General Fund revenue, **Real Estate Excise Tax (REET)**, which is generated by the sale of real property, has been made available by the State Legislature provided for the use in the operations and maintenance of facilities constructed with REET funds through 2016. The budget reflects using REET revenues to support some street and parks maintenance during the upcoming biennium.

THE KIRKLAND “PRICE OF GOVERNMENT”

In evaluating these revenue assumptions, one question raised by taxpayers is “how affordable is government”? The “Price of Government” is a measure of this concept used by some jurisdictions as a comparison of the revenues from taxes and fees of the government to the aggregate personal income level of the City’s constituents. In general terms, the calculation is used to help define a band in which residents are willing to pay for government services.

The graph that follows shows Kirkland’s Price of Government over the past several years and the projection for the proposed budget. Over that period, total revenues as a percentage of personal income have slowly decreased from over 4% to just over 3% in the proposed budget. As noted in the last budget, a Price of Government between 5% and 6% is typical for local governments. This approach does not provide a tool for universal evaluation across cities (even similar cities) as to the “correct” price. Differences in service delivery approaches and expectations make cross city comparisons virtually impossible. The value of this approach is largely with respect to the city’s own history.

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



EXPENDITURE TRENDS

Salary and benefit costs comprise over 61% of the General Fund budget. **Salary cost** increases are open for all of the City's bargaining units except for Police Non-commissioned, which will receive a 2.3% increase in 2015. Funds have been set aside in the Nondepartmental budget to be distributed for personnel cost increases for management & confidential employees (MAC) and in anticipated settlement of the open contracts, assuming potential annual raises of 2% each year. The City Manager recommends that the MAC salaries increase 2% in 2015 and consistent with the AFSCME and Teamsters contracts in 2016. The City Manager is also conducting a salary survey for MAC, AFSCME and Teamsters employees. The results of that study may also result in increased wages for specific positions that are determined to be out of line with comparable positions in the market.

Benefit costs in earlier forecasts assumed a 7% increase each year. In recognition that the City is expecting to transition the majority of employees to the new Healthy Kirkland Plan during 2015, there is no increase in medical costs from the 2014 level assumed during the biennium. One-time costs of the transition are expected to be paid from reserves in the Health Benefits fund and the Benefits fund will be used first to fund any unanticipated costs. In addition, a share of the projected General Fund savings from the transition (\$1.61 million) is recommended to be set aside in the City's Contingency (Fund 152) in the event that expected savings do not materialize. If the Healthy Kirkland program is successful, those funds will represent a reserve replenishment. The budgeted benefits also reflect the most recent pension contribution rates, which range from 5.23% to 11.0% annually depending on the plan (an increase from prior projections). These figures are subject to change based on the Legislature's final action.

The costs associated with the Northeast King County Regional Communications Agency (**NORCOM**) are increasing significantly from 2013-14 to 2015-16 due to two main factors. First, the payment made by Bellevue during the first seven years of NORCOM's operation to help smooth the impacts to other agencies from the transition are phasing out and will end in mid-2016. The second factor is that the share Kirkland's Police calls represent as a percentage of total Police calls continues to grow, increasing from 40.9% to 44.2% from 2013 to 2015. The shift reflects the impacts of reaching full staffing in Police post-annexation and variations in practices and operations at other Police agencies.

Another cost driver is the City's **liability insurance** premium that has increased significantly between the biennia. Staff has conducted an in-depth review of the driving factors and is actively pursuing risk reduction strategies, as **described in the related budget issue paper**. The preliminary budget includes implementation of the recommendations described in the issue paper including a sidewalk inventory and the closed circuit television (CCTV) truck and related staffing.

Approximately \$0.39 million per year resulting from retiring debt at the end of 2014 is included as a set-aside in the 2015-16 budget in anticipation of offsetting the loss of the annexation sales tax credit in 2021. These funds are available for one-time needs in 2015-2016 (a total of \$0.78 million) and the City Manager is recommending to use them to establish a **Walkable Kirkland Initiative that would continue through 2021**. This additional investment, and the potential use of the set-aside funds until the ASTC expiration, will supplement and accelerate the Street levy Pedestrian Safety and Safe School Walk route investments and related projects identified in the Transportation Master Plan.

Reserve Replenishment - Continuing planned reserve replenishment of one-percent of General Fund revenue results in a total of \$1.6 million of the projected 2015-2016 operating revenues being set aside toward the reserve target level based on the Council's reserve replenishment principles as adopted by resolution (R-4948). Staff is recommending other substantial additions to reserves, including:

- Placing the majority of the expected savings achieved in 2015-2016 from holding healthcare fund contributions constant into the Contingency Fund as a hedge against the programs performance (\$1.6 million),

- Setting aside \$3 million from sales tax in excess of the one-year lag in 2013-2014 in the Building and Property Reserve toward the construction of a new fire station in North Kirkland (recognizing that current plans exceed the \$5.2 million set aside for the project),
- Increasing the balance in the Police equipment sinking fund by \$650,000 and the Information Technology sinking fund by \$500,000 to recognize additional equipment identified and the impacts of the Kirkland Justice Center (KJC) and the intelligent transportation system (ITS),
- Adding \$500,000 to the major systems reserve as we build toward the eventual replacement of the Finance system, and
- Placing \$912,000 in development revenues into the development services reserve toward technology investments in a new permit center concept.

As a reminder, two of the strategies to absorb the loss of the ASTC in 2021 are the planned 1% of General Fund revenues used for reserve replenishment that can be discontinued once reserves meet targets and the use of revenues from retiring debt in 2014 and 2021 toward the Build America Bond (BAB) debt service payments used for the Kirkland Justice Center.

As discussed at the May Council Retreat, there were a number of one-time service packages budgeted in 2013-2014, including additions at the mid-biennium. Some of these service packages are recommended for on-going funding in 2015-2016, while many continue to be funded using one-time revenues and a few are not recommended to continue in favor of other funding priorities. **Service packages** were evaluated in the context of reprioritizing or trade-offs and many proposed additions are supported by new revenues or through reductions or reallocations in other activities. The table that follows provides a brief summary of the staffing additions and the proposed funding sources.

General Fund	FTE	Temp
Development Fees/Reserves	2.00	2.50
Other Revenues/Balances	0.95	1.30
CIP	-	0.50
One Time Cash	-	2.00
Ongoing General Fund Revenue	2.15	-
Subtotal General Fund	5.10	6.30
Other Funds		
Utility Supported	8.00	-
Internal Rate Supported	2.00	-
Other Revenues/Balances	0.50	-
Subtotal Other Funds	10.50	-
Grand Total - Service Packages	15.60	6.30

The City Manager's recommendations regarding these service packages are summarized in the following sections, including a limited number of on-going service packages and requests funded using one-time resources. The full list and recommendations are summarized later in the budget document.

COMMUNITY AND COUNCIL PRIORITIES

One of the main tools used to assess the **community's priorities** is through the **Citizen Survey** that the City conducts every two years. The results of the most recent survey (January 2014) were presented to the City Council at the May retreat. The overall results indicated that 86% of those surveyed rated Kirkland as a "very good" or "excellent" place to live. An additional 11% rated the City as "satisfactory". One of the key graphics from that survey is the *Quadrant Analysis*, which provides an important basis for prioritizing the proposed budget recommendations. The survey report describes the *Quadrant Analysis* as follows:

"Plotting the importance and performance on a quadrant chart allows items to be categorized in the following ways:

1) High Importance & Performance (top-right quadrant) – These are the services that residents view as very important and that the City is doing best with. Items in this category should be considered Kirkland’s most valued strengths.

2) High Importance, Low Performance (top-left quadrant) – Services falling into this category should be viewed as opportunities for improvement. These are the items that residents feel are very important but the City could be doing better with. Improving the services in this quadrant will have the greatest effect in improving citizens’ overall favorability of the City.

3) Low Importance & Performance (bottom-left quadrant) – Services in this category are low-priority items for residents and so lower performance here is not a critical issue for them. Some of these items may be raised by a vocal minority of residents but, for the most part, focusing too much on them will have a minimal impact on improving overall attitudes about the City.

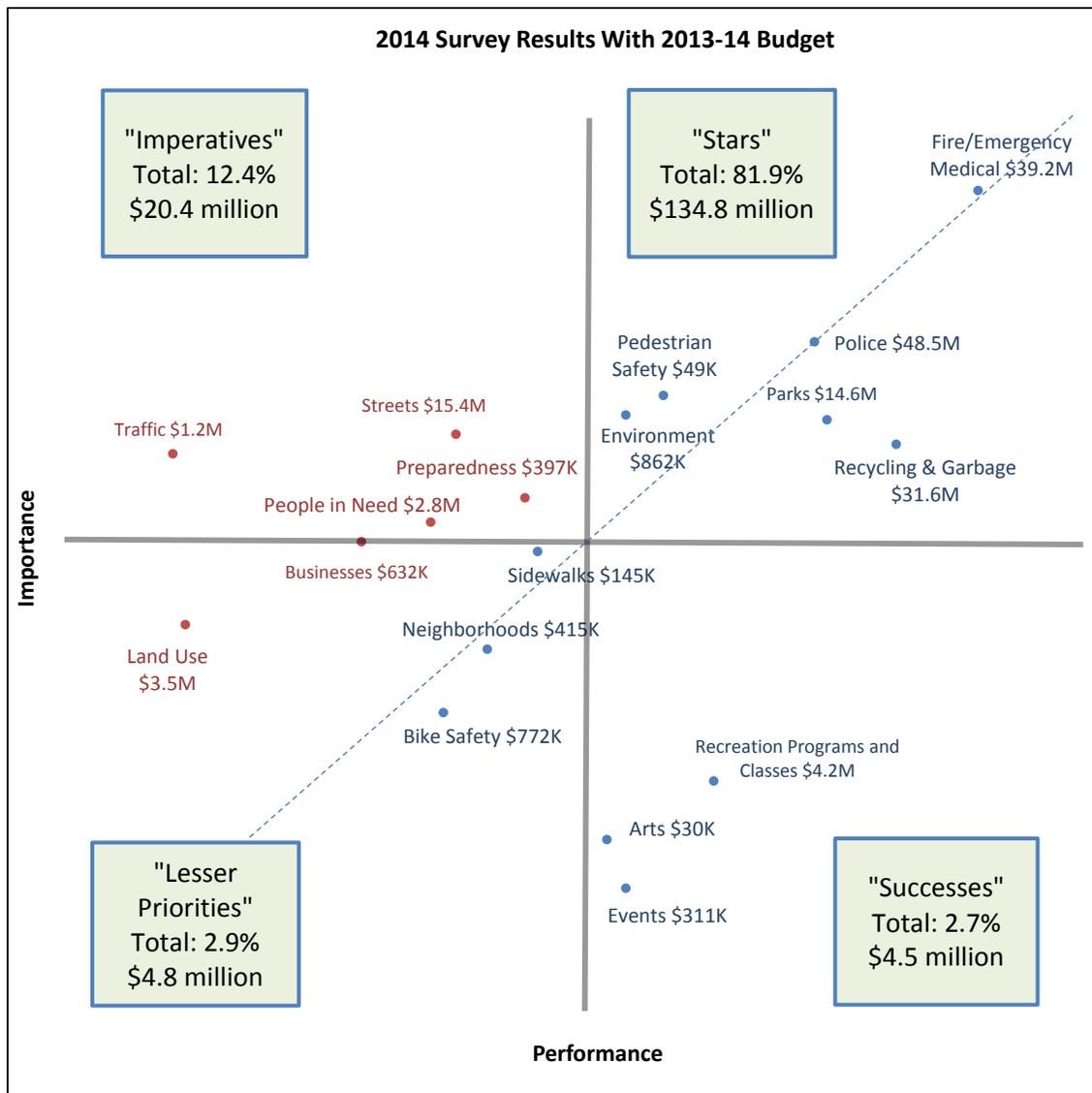
4) Low Importance, High Performance (bottom-right quadrant) – This quadrant represents services that citizens think the City is doing well with but are believed to be less important. While items in this quadrant can be considered successes with certain niche groups, for most citizens, they are not major drivers of the City’s favorability.

The diagonal line overlaying the chart represents where the ideal performance should be relative to the level of importance. Services falling on or near this line are performing optimally compared to how citizens value them. Items significantly left of the line may be potentially valuable improvement opportunities (even if they appear in quadrants 1 or 3) while items far right of the line may result in wasted resources if given too much focus.

This view shows that, overall, many items are exactly where they should be, with appropriate performance levels for their importance. Further, it once again shows that the City is doing well with most of the higher importance items – fire & emergency, police, parks, pedestrian safety, recycling/garbage and environment.

The most critical area for improvement opportunities is managing traffic flow. Among the higher importance services/functions, city parks and recycling/garbage services are over performing.”

The City turns the *Quadrant Analysis* into the “**Kirkland Quad**” by adding the budget allocated to each of the surveyed services and referring to the four quadrants described above as “Stars”, “Imperatives”, “Lesser Priorities”, and “Successes”. The Kirkland Quad below shows the 2014 survey results with the related expenditures on the surveyed services in the 2013-2014 budget. A version reflecting the 2015-2016 preliminary budget follows the *Key Recommendations by Goal Area* summarized below.



The survey and the Kirkland Quad provided key guidance on the areas that were opportunities for improvement identified by the community. The survey contains a *Gap Analysis* that analyzes the gap between importance and performance. Many of the recommendations that are summarized below focus on the five services identified in the survey as “underperforming”, for example:

<i>High Importance/Low Performance Quadrant – “Imperatives”</i>	
Managing Traffic Flow	<ul style="list-style-type: none"> • Adding resources to focus on implementation of the City’s Intelligent Transportation System (ITS) to help improve traffic flow • Accelerated capital investments in neighborhood traffic control, pedestrian safety, and safe school walk routes through the matching of Street Levy funds with one-time General fund capital dollars – the Walkable Kirkland Initiative
Maintaining Streets	<ul style="list-style-type: none"> • Continued investments in street maintenance through the Street Levy • Continuation of REET funded maintenance activities, including median upkeep and funds to convert median plants and materials on Market Street

Attracting and Keeping Businesses	<ul style="list-style-type: none"> • Funding capital improvements in the City’s business districts, including projects associated with the Google campus expansion • Continuation of the suspension of impact fee for change of use • Increased investment in the City’s tourism program
Services for People in Need	<ul style="list-style-type: none"> • Continuation of the supplemental one-time funding in addition to the on-going base Human Services funding levels • Adding Community Development Block Grant (CDBG) funding for agencies • Increased ARCH funding through the direct allocation of CDBG funds
<i>Low Importance/Low Performance Quadrant – “Lesser Priorities”</i>	
Zoning and Land Use	<ul style="list-style-type: none"> • Continued Kirkland 2035 efforts, including the Finn Hill Neighborhood Plan update and Houghton/Everest Neighborhood Center community process • Update of the Critical Areas Ordinance (CAO), including an evaluation of landslide hazards

Another major priority reflected in the preliminary budget is the **Customer Service Initiative**. This effort encompasses a comprehensive look at how customer service is provided at City Hall and through other media. Some of the recommendations have emerged from the LEAN process through which front counter staff evaluated how to improve the customer experience when they walk through the door of City Hall. Major highlights include:

- Add a 1.0 FTE Customer Service Coordinator to serve as a “concierge” as customers enter City Hall. The coverage for breaks, lunch, and vacations for this position would be cooperatively provided by existing front-line staff.
- Continuation of the one-time funded Public Disclosure Analyst to handle increasingly challenging public records requests, continue the successful implementation of the Council’s Public Disclosure Ordinance, and keep up the web portal. Note that the level of resources budgeted to support the Public Disclosure process will be a topic of discussion during the October 30 Study Session, per the requirements of the Ordinance. **For further information, see the related Issue Paper.**
- Add one-time Graphic Designer hours to continue to make progress in creating fillable forms to streamline customer submittals.
- Fund an on-going 1.0 FTE Applications Analyst using funds from an increase in the MyBuildingPermit.com surcharge to focus on enhancing and automating the customer interface with development services (an addition supported by the Master Builders).
- Additional staff support of the Neighborhood Services Coordinator and Communications program.
- \$912,000 of permit fee revenue set aside for permit kiosks and permit customer service center.

KEY RECOMMENDATIONS BY GOAL AREA

The City Manager’s recommendations were crafted to address the community and City Council priorities within the context of the City Council goals. The funded service packages, key policy recommendations, and major capital investments are presented within the goal area they primarily support, although many of the recommendations support multiple goals.



The citizens of Kirkland experience a high quality of life in their neighborhoods.

Goal: Achieve active neighborhood participation and a high degree of satisfaction with neighborhood character, services and infrastructure.

- Fund the 2016 Community Survey to assess priorities and satisfaction (\$30,000 one-time)
- Add a 0.5 FTE Communications Program Specialist (offset by expenditure reductions) in the City Manager's Office to assist the Neighborhood Services Coordinator and Communications program
- Continue the Neighborhood Traffic Control (NTC) Coordinator to assist with implementing the NTC and Neighborhood Safety program, \$117,354 one-time (temporary 0.5 FTE)
- Establish a Kingsgate Traffic Calming Opportunity Fund, \$50,000 one-time
- Provide funding of the Finn Hill Neighborhood Plan using funds set aside in the prior biennium for Kirkland 2035 Neighborhood Plan Updates
- Continue the CIP Outreach Coordinator position to enhance communication about capital projects, \$123,873 (temporary 0.5 FTE)
- Add support to provide television broadcast of Planning Commission meetings to provide greater access to the public, \$8,746 on-going



Ensure that all those who live, work and play in Kirkland are safe.

Goal: Provide for public safety through a community-based approach that focuses on prevention of problems and a timely response.

- Continue Municipal Court Security, \$134,352 one-time
- Add a 0.5 FTE Police Support Associate to assist with records maintenance/requests and provide supplemental administrative support, \$91,497 on-going
- Increase Inmate Contracted Medical services to fund additional on-site hours beyond what was contemplated during Kirkland Justice Center (KJC) planning and to allow staff to assess the appropriate level of coverage required by the expanded jail, \$222,194 one-time
- Add a 1.0 FTE IT Service Desk Analyst to meet the on-going needs of the KJC, \$196,358 on-going and \$4,389 one-time
- Add supplemental one-time funding of \$650,000 to the Police Equipment sinking fund to recognize equipment that was not included when the fund was established in 2013 and provide reserves required for a 15-year horizon
- Police CIP equipment replacement totaling \$500,000
- Fire Strategic Plan and Standard of Cover Study implementation actions:
 - Set aside an additional \$3 million in sales tax collections above budgeted levels in 2013-2014 in the Building and Property reserve for use toward funding fire station options for North Kirkland
 - Continue North Neighborhoods Fourth Firefighter Staffing (\$1,060,582 one-time)
 - Senior Financial Analyst - The on-going 1.0 FTE Senior Financial Analyst in the Police Department (which is vacant at this time) will be restructured as an on-going 1.0 FTE Public Safety Senior Financial Analyst in the Finance & Administration Department that will focus on support of Fire and Police at no new net cost, allowing elimination of the one-time funded Fire Financial Analyst. Additional administrative resources are recommended for each public safety department to assist with tasks that do not require a Senior Financial Analyst's level of expertise.
 - Provide on-going funding for Lexipol service to keep policies and procedures current, \$14,500
 - Fully equip Reserve Engine and aid cars to minimize transition time required to place them in service, \$39,200 one-time
 - Fund on-going support of the Fire Corps Volunteer Program, \$14,628 on-going and \$2,000 one-time
 - Fund the purchase of two Water Rescue Craft to assist with open water rescue, \$158,507 funded in part with grant funds (\$37,000) and residual CIP project savings (\$55,000)

- **See related Issue Paper for further description of these items and discussion of implementation status**
- Add a temporary 0.5 FTE Office Technician to support the Fire Department Training Division and carry out other administrative duties, \$44,573 one-time (half of position is funded by expenditure savings)
- Establish a Public Access Automated External Defibrillator (AED) Opportunity Fund for use in adding AEDs in additional high use private locations, with related training and support, \$50,000 one-time
- Set aside \$14,000 as a grant match to purchase Body Armor (grants will be pursued in 2015 to make this purchase)
- Provide a match set aside for community fundraising to restore the Antique Pumper, \$25,000 one-time
- Increase EMS Transport Fee with inflation
- Fund upgrade of Telestaff scheduling and timekeeping software for Police and Fire (\$20,000 - IT)



Kirkland is a diverse and inclusive community that respects and welcomes everyone and is concerned for the welfare of all.

Goal: To support a regional coordinated system of human services designed to meet the special basic needs of our community and remove barriers to opportunity.

- Maintain on-going funding level for human services agencies at \$1.3 million
- Continue one-time enhanced human services grant funding of \$89,628 and recognize additional CDBG funding of \$37,280 for human services
- Fund administration of the Community Development Block Grant (CDBG) program to establish the City as a Joint Agreement City (funded with Federal grant funds) and \$160,000 in CDBG funds to ARCH Housing Trust Fund also listed under the *Housing* Goal
- Provide on-going funding of the Eastside Time Bank to the base budget (\$6,000)
- Continue staffing for participation in regional human services initiatives
- **For further information on Human Services funding, see the related Issue Paper**



Kirkland values an integrated multi-modal system of transportation choices.

Goal: To reduce reliance on single occupancy vehicles and improve connectivity and multimodal mobility in Kirkland in ways that maintain and enhance travel times, safety, health and transportation choices.

- Add 0.25 FTE Transportation Engineer to provide full support of the successful Intelligent Transportation System program to improve traffic flow, \$64,630 on-going
- Conduct a Citywide Sidewalk Condition Survey, \$100,600 one-time
- Fund Non-motorized Transportation CIP projects totaling \$3.1 million for 2015-2016, including \$1.2 million for the Cross Kirkland Corridor/South Kirkland Park and Ride Transit Oriented Development (TOD) Multimodal connector
- Fund Transportation CIP projects totaling \$3.5 million in 2015-2016, including \$2.5 million for 100th Ave. NE/132nd St. improvements
- Use one-time funds generated by setting aside on-going funding related to retiring debt (that will ultimately be used to help absorb the sales tax credit in 2021) to accelerate pedestrian safety and safe school walk route efforts in addition to the street levy, as part of the **Walkable Kirkland Initiative** (\$782,000 in this biennium)



PARKS, OPEN SPACES AND RECREATIONAL SERVICES

Kirkland values an exceptional park, natural areas and recreation system that provides a wide variety of opportunities aimed at promoting the community's health and enjoyment.

Goal: To provide and maintain natural areas and recreational facilities and opportunities that enhance the health and well being of the community.

- Continue Parks Operation and Maintenance from Real Estate Excise Tax (REET), temporary 1.0 FTE, \$217,515 one-time
- Restore KPC Operating Support to pre-recession levels (\$100,000 total one-time, \$32,000 in new funding over 2013-2014 budget)
- Increase seasonal labor hours to support the Green Kirkland Partnership, \$43,286 one-time
- Add 0.5 FTE Environmental Outreach Specialist, \$115,095 ongoing, (offsetting expenditure savings of \$75,520)
- Add Program Assistant to Support Facility Rentals/Marina, 1.0 FTE, \$230,801 ongoing (offsetting revenue of \$117,001)
- Conduct a facility condition assessment of Parks structures and rental properties (\$27,600)
- Parks CIP projects totaling \$4.0 million in 2015-2016



HOUSING

The City's housing stock meets the needs of a diverse community by providing a wide range of types, styles, size and affordability.

Goal: To ensure the construction and preservation of housing stock that meets a diverse range of incomes and needs.

- Contribute Community Development Block Grant funding for ARCH, \$160,000 ongoing
- Continue ARCH Housing Trust Fund parity contribution, \$630,000 one-time
- Continue support of affordable housing projects in the City



FINANCIAL STABILITY

Citizens of Kirkland enjoy high quality services that meet the community's priorities.

Goal: Provide a sustainable level of core services that are funded from predictable revenue.

- In keeping with the 2013-2014 Work Plan item: "*Develop a cost effective 2015-2016 Budget that maintains Kirkland's AAA credit rating and implements and improved performance management system that delivers desired outcomes to further the goal of Financial Stability*":
 - No basic operations funded by one-time revenues
 - Set aside projected health benefit cost savings in the Contingency Fund (\$1.61 million) as a hedge against unanticipated costs
 - Continue incorporating a component into the on-going budget for replenishment based on 1% of the General Fund budget
 - Maintain the revenue stabilization reserve to 100% of target.
- Replenish and enhance reserves as summarized in table that follows showing the recommended replenishments and target status:

2015-2016 General Purpose Reserves with Targets

Reserve	2015-2016 Budget Target	2014 Estimated Ending Balance	Planned Additions to/(Use of) Reserves	2016 Estimated Ending Balance	(Under)/Over Target	2016 Ending Balance as % of Target
Contingency (Fund 152)	5,512,218	2,426,425	1,610,000	4,036,425	(1,475,793)	73.2%
General Capital Contingency (Fund 310)	5,607,221	3,729,946	1,193,843	4,923,789	(683,432)	87.8%
General Operating Reserve (Rainy Day Reserve)	4,804,388	2,806,513	1,997,875	4,804,388	-	100.0%
Revenue Stabilization Reserve	2,848,220	2,570,090	278,130	2,848,220	-	100.0%
Council Special Projects	250,000	29,072	220,928	250,000	-	100.0%
Building and Property Reserve	600,000	572,579	3,027,421	600,000	-	100.0%
<i>Expected Use for North Kirkland Fire Station</i>			<i>(3,000,000)</i>	-	-	
TOTAL	19,622,047	12,134,625	5,328,197	17,462,822	(2,159,225)	89.0%

- Restructure existing funding and add HR Coordinator resources to focus on Americans with Disabilities Act (ADA) compliance, performance management, and Healthy Kirkland Plan implementation. The proposal adds 0.20 FTE on-going and 0.30 temporary FTE to an existing 0.5 FTE, on-going net cost of \$111,316 paid from the Health Benefits fund
- Add 0.5 FTE Accounting Support Associate to increase the focus in collections of outstanding receivables and to implement centralized receivable tracking (the entire cost of this increase is expected to be more than offset by improved revenue collections)
- Provide on-going Senior Financial Analyst support to Fire and Building through the reorganization of the existing Police Senior Financial Analyst to a Public Safety Senior Financial Analyst in the Finance and Administration Department (no new net cost) *See "Public Safety" item*



ENVIRONMENT

We are committed to the protection of the natural environment through an integrated natural resource management system.

Goal: To protect and enhance our natural environment for current residents and future generations.

- Establish adequate rates to support the needs of the Sewer, Surface Water, and Solid Waste utilities, resulting in:
 - 4.1% rate increase in 2015 and 1.2% increase in 2016 for Sewer
 - 4% rate increases each year for Surface Water
 - 3.2% rate increase for 2015 and 3.3% increase in 2016 for Solid Waste
- Conduct Cross Kirkland Corridor (CKC) Eco-Charette, \$5,000 one-time
- Update Critical Areas Ordinance Regulations and related GIS data, \$305,000 (\$90,000 paid by Planning/\$215,000 paid by Surface Water)
- Purchase Urban Forestry Bucket Truck, \$190,000 one-time and \$56,664 on-going (75% of costs paid by Streets/25% by Parks)
- Implement the Surface Water Master Plan recommendations, including:
 - CCTV Inspection Program Expansion (Funded 50% from Surface Water and 50% from Sewer), 2.0 FTE, \$0.75 million
 - NPDES Field Inspection Program, 0.50 FTE, \$124,741 on-going and \$105,815 one-time
 - Ditch Maintenance Program, 4.0 FTE, \$1.5 million
 - Surface Water Rehab Catch-Up, \$147,564 one-time
 - Right of Way Tree Inventory, \$66,000 one-time
 - Cochran Spring Monitoring, \$6,520 on-going
 - Potential Property Acquisition ID & Prioritization, \$30,000 one-time
 - Environmental Permitting Maintenance Work, \$24,000 ongoing
 - Utility Engineer, 1.0 FTE, \$0.25 million
- Provide financing for Surface Water utility CIP projects totaling \$3.2 million for 2015-2016
- Conduct a Reclaimed Water Study, \$120,000 one-time
- Create a Sewer Improvement Opportunity Fund, \$20,000 onetime
- Add a Fats, Oils, and Grease (FOG) Inspector, 0.50 FTE, \$104,823 on-going
- Conduct a Sewer Master Plan Update (\$180,000)

- Provide financing for sewer utility CIP projects totaling \$5.1 million for 2015-2016, including \$2.6 million for the Rose Point Lift Station replacement and \$1.2 million for the 3rd Ave/2nd St. main replacement



Kirkland has a diverse, business-friendly economy that supports the community's needs.

Goal: To attract, retain and grow a diverse and stable economic base that supports city revenues, needed goods and services and jobs for residents.

- Recognize 4Culture Arts Sustained Support, \$16,000 one-time
- Increase funding for Community Programs and Events, \$128,000 one-time (\$64,000 from Waste Management matched with an equal amount of City funds) **(for further discussion on event funding, see the related Issue Paper)**
- Increase tourism staff support hours, \$53,995 one-time
- Increase Tourism Outside Agency Grant funding, \$50,000 one-time
- Complete phase 2 of the Water Optimization Study, \$20,000 one-time
- Add resources to Development Services to address workload and maintain/enhance customer service expectations (these activities are all funded from development revenues or related reserves):
 - Convert temporary Planner position to on-going, 1.0 FTE, \$171,938 ongoing
 - Add Office Specialist, temporary 1.0 FTE, \$175,588 one-time
 - Engage Consultant Planner Professional Services, \$92,000 one-time
 - Increase overtime and hourly wages, \$169,730 one-time
 - Enhance public records request assistance, \$26,469 one-time
 - Add 1.0 FTE Applications Analyst to support permit system and electronic plans, 1.0 FTE, \$252,805 ongoing from MBP surcharge
 - GIS Support: Parcel and Address Database Management, Temp 0.50 FTE, \$108,738 one-time
 - Add 1.0 FTE temporary Records Specialist, Temp 1.0 FTE, \$84,683 one-time
- In addition to the Development Services additions above, staff is also asking the Council to provide contingent authorization of resources to address the pending Park Place and Totem Lake redevelopment efforts. The intent of the contingent authorization is to allow staff to maximize the ability to be responsive to the permitting needs of these major redevelopment efforts when and if they materialize. A separate resolution will be brought forward for Council consideration approving the FTEs and expenditures on a contingent basis, allowing the City Manager to authorize the resources as needed, with related appropriation changes to be processed at the next budget amendment date
- Fund capital projects in support of the Google campus expansion
- Replace the \$270,000 annual sales tax allocation in the Street Fund with business license revenues to provide a basis for the street maintenance allocation to grow as employment grows
- Continue suspension of impact fee for change of use, which proved to be a strong incentive for businesses to relocate within Kirkland
- Continue funding of programs with business and development interests, including the Kirkland Business Roundtable and the business retention program



Kirkland has a well-maintained and sustainable infrastructure that meets the functional needs of the community.

Goal: To maintain levels of service commensurate with growing community requirements at optimum life-cycle costs.

- Establish adequate rates to support the needs of the Water Utility resulting in a 4.9% increase in 2015 and 3.3% in 2016 for single family and irrigation customers and no increase in multifamily/commercial rates
- Finance Water utility CIP projects totaling \$1.0 million for 2015-2016, including \$0.8 million for the Kirkland Ave./6th St water main

- Set aside \$478,000 in utility reserves and \$535,000 in IT reserves to fully fund the upgrade and redeployment of the Hansen Maintenance Management system. The majority of the utility funds are expected to be generated by delaying hiring of the sewer and surface water positions until mid-year 2015
- Engage an Americans with Disabilities Act (ADA) Consultant to assist with drafting the City's compliance strategy, \$15,000 one-time
- Engage consultant services to assist with capital project cost estimating related to the soon to be completed master plans in anticipation of the comprehensive 2015 CIP Update (\$60,000 one-time)
- Assume responsibility for all utility and maintenance costs for street lights in the annexed neighborhoods funded initially from the Annexation Sales Tax Credit, \$570,000 one-time
- Maintain temporary Grounds Crew funded from Real Estate Excise Tax (REET) for landscape maintenance at all non-parks City facilities, \$186,192 one-time
- Purchase additional snow and ice-related equipment, \$91,600 one-time
- Reestablish the Street/Utility Undergrounding Opportunity Fund (\$50,000)
- Replace Market Street Medians with less maintenance-intensive approach, \$175,000 one-time
- Increase Seasonal Laborer hours to provide additional capacity to maintain medians and pathways (\$150,107)
- Finance Street CIP projects totaling \$11.2 million for 2015-2016, including \$9.4 million for street preservation
- Add a 1.0 FTE Network Engineer to address IT Network Security and provide additional backup in this critical area, \$269,333 on-going
- Increase Network Back-up and Storage Space, \$62,000 one-time
- Commission a survey to refine Business Connectivity needs, \$25,000 one-time
- Add \$500,000 one-time to the IT equipment sinking fund to recognize the new network equipment added as part of the Intelligent Transportation System and the Kirkland Justice Center and provide reserves required for a 15-year horizon
- Add \$500,000 to the Major Systems Reserve recognizing that the next major system that will need to be replaced or significantly upgraded will be the City's Finance system

In addition to recommendations directly related to the Goal areas, the following service packages are recommended:

- Upgrade National League of Cities Membership, \$14,000 ongoing
- Continue State Legislative Advocacy Services, \$96,000 one-time
- Increase training budget for Planning staff for one-time attendance at the American Planning Association National Conference that will be held in Seattle, \$7,000 one-time
- Complete City facilities CIP projects totaling \$8.5 million, including \$8 million for the City Hall renovation (the remainder of the \$10 million project was funded in prior years)
- Provide support for the Customer Service Initiative, as discussed earlier:
 - Add Customer Service Coordinator, 1.0 FTE, \$207,855 (\$202,811 ongoing and \$5,044 one-time)
 - \$912,000 in permit fees for permit kiosks and permit customer service center
 - Continue Public Disclosure Analyst, temporary 1.0 FTE, \$199,223 one-time
 - Add Graphic Designer hours to support Fillable Forms Project Support, \$44,324 one-time
 - Add an Applications Analyst to support Development Services, 1.0 FTE, as shown under *Economic Development*
 - Provide additional support for Neighborhood Services and Communications programs as described under *Neighborhoods*

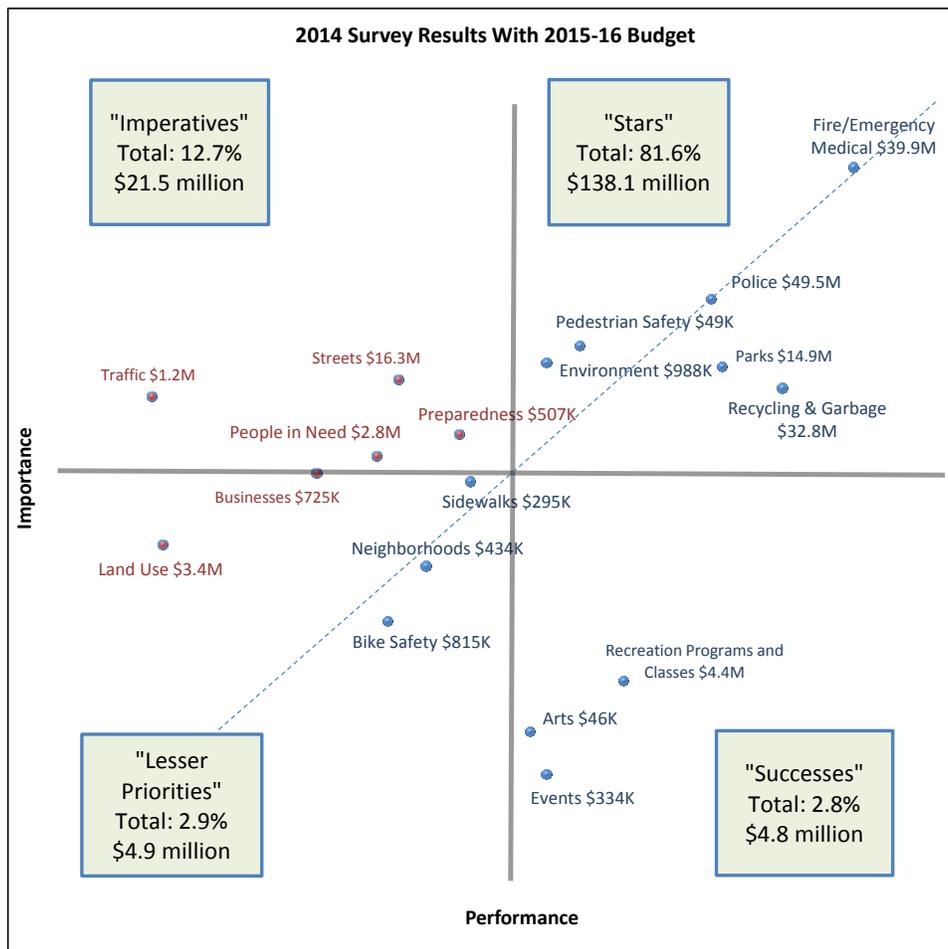
PRELIMINARY WORK PLAN

As with the 2013-2014 Budget, suggestions for the draft 2015-2016 City Work Plan emerged from the process. The following are preliminary recommendations for the 2015-2016 biennium:

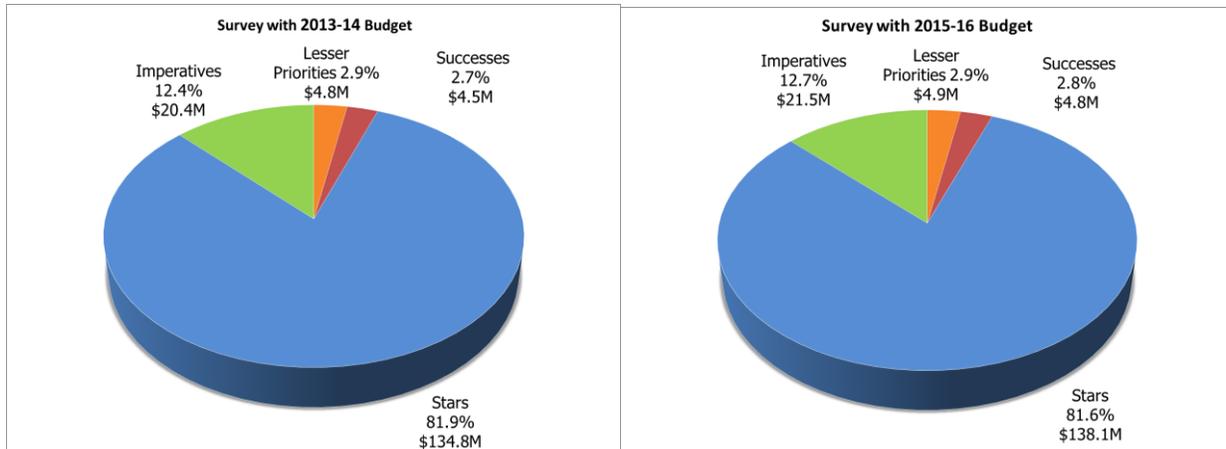
- Continue implementation of the Cross Kirkland Corridor Master Plan (Council Goals: Balanced Transportation, Parks and Recreation, Economic Development, Neighborhoods).
- Complete a comprehensive update of the Capital Improvement Program to incorporate the projects identified in the Kirkland 2035 master plans and Comprehensive Plan (Council Goals: Public Safety, Neighborhoods, Balanced Transportation, Parks and Recreation, Diverse Housing, Economic Development, Dependable Infrastructure).
- Site and begin construction of a new fire station in North Kirkland (Council Goals: Public Safety).
- Continue annexation-related facility investments by initiating the renovation of City Hall with a focus on enhancing customer service and identifying options to expand Maintenance Center capacity for both Parks and Public Works to serve the larger City (Council Goals: Neighborhoods, Economic Development, Parks and Recreation, Dependable Infrastructure).
- Cultivate private sector partnerships to attract tenants to business districts and respond to redevelopment opportunities, especially Park Place and Totem Lake (Council Goals: Economic Development, Financial Stability).
- Identify locations, costs and explore ballot measure options for funding an Aquatics, Recreation, and Community Center to replace the Juanita Aquatic Center (Council Goals: Parks and Recreation, Economic Development)
- Implement the Healthy Kirkland Plan, the consumer-driven healthcare initiative, including establishing an employee clinic as part of the effort to achieve sustainability of benefits (Council Goals: Financial Stability).

CONCLUSION

The proposed budget is focused on the City Council goals and community priorities. The recommended decisions result in proposed 2015-2016 investments in the services on the Kirkland Quad, as summarized below:



The pie charts that follow show the investments in each quadrant in the 2013-2014 budget versus the proposed 2015-2016 budget. The comparison shows that we have made incremental progress in addressing the “imperatives” in the upper left quadrant, after the significant gain in the last biennium, with the share of funding for the surveyed items in this quadrant increasing from 12.4% to 12.7%, or \$20.4 million to \$21.5 million. Although the percentage invested in “stars” decreased from 81.9% to 81.6%, the total dollars invested increased from \$134.8 million to \$138.1 million.



Wants, Needs and Resources Framework

The 2015-2016 budget represents a first step at prioritizing the City’s “Wants, Needs, and Resources”, which will be a continuing focus through 2021 and beyond. To provide a structure for this process into the future, we offer the following “Wants, Needs, and Resources” Framework.

Identifying the “Wants and Needs”

There are five primary ways that “Wants and Needs” will be identified between now and 2021:

- Citizen Surveys and Public Outreach to Neighborhood Associations, Business organizations, advocacy groups and residents which inform the Kirkland Quad Chart,
- Kirkland 2035 Community Outreach and Planning Process,
- Council Goal review and updates,
- Programmatic reviews of Departments or services that are highlighted by Quad Chart performance, or necessary to make progress on Council Goals,
- Department and City-wide Budget development where operational and capital needs are identified by professional staff and the public.

Most Capital Improvement Project (CIP) “Wants and Needs” will be identified initially through the current Kirkland 2035 Planning processes, particularly the Parks Recreation and Open Space (PROS) Plan, Transportation Master Plan, Surface Water Master Plan, and Water and Sewer Comprehensive Plan updates. These project lists will then be reviewed and updated by the City Council as part of future biennial budget processes. Note that the 2015 CIP update is “off-cycle” by one year due to the extensive Kirkland 2035 Planning process. The Council agreed to postpone the CIP update process until the Kirkland 2035 Plans are complete. In future years the CIP will likely be synchronized with the budget process.

CIP needs will also be identified through public outreach to Neighborhood Associations, Business organizations, advocacy groups, residents, “Suggest a Project” ideas, the Neighborhood Safety Program and Corridor Studies such as the Juanita and 100th Avenue Corridor Studies.

Identifying and Sequencing the "Resources" through 2021

Most on-going revenue sources, such as property tax, business license fees, utility tax and sales tax are analyzed in depth every two years as part of the biennial budget process, with an update at the mid-biennium. In addition, considerable sums have been set aside as part of the 2015-2016 preliminary budget to fund capital projects that will come from the Kirkland 2035 Plans. These unallocated revenues include Real Estate Excise Tax (REET I and II), sales tax revenue collected above projections, park and transportation impact fees generated by the rebound in development activity, unexpended fund balances, and potentially sales tax revenues resulting from growth (intentionally excluded by the modified two-year lag).

Key strategies to develop sufficient revenues to fund the desired services and close the gap between the diverging lines include:

- Replenish reserves (see Fiscal Policies adopted by R-4948 later in the document)
- Generate new revenue through economic development – Park Place, Totem Lake Mall, Google expansion, Waterfront revitalization
- Moderate the growth of employee wages and benefits to lower cost of future levels of service through collective bargaining, the budget process and the Healthy Kirkland Plan
- Generate new revenue through ballot measures

These strategies are prioritized by the City Council through the Council Goals and the City Work Program. **Council Goals** articulate the key policy and service priorities for Kirkland that are to be achieved over time. Goals should be reviewed and updated every two years in even-numbered years following Council elections to ensure that the Goals reflect the priorities of each new Council. The updated Goals will then form the basis for subsequent City Work Programs and budgets. **City Work Programs** are "action plans" adopted every two years by the Council following the budget process to accomplish major policy and administrative goals and demonstrate priority focus on major cross-departmental efforts with significant impacts designed to maintain the public health, safety and quality of life in Kirkland. The City Work Programs are essential to accomplishing Council Goals in a methodical and measurable manner.

The Role of Ballot Measures in Meeting Resource Needs

Kirkland has historically been judicious in its use of ballot measures. However the City has recently asked the voters to fund both "wants" through the Parks Maintenance and Enhancement Levy as well as "needs" through the Road Maintenance and Pedestrian Safety Levy.

Some critical keys to the success of both initiatives were:

- The services desired were identified by the Kirkland Quad Chart and resident surveys and implement Council Goals
- The Price of Government was low, which signifies that residents feel they have the capacity to invest in better service
- The measures were developed as part of the City Work Program so that the programs to be provided were clear and specific, with accountability and oversight built into the measures

Using these criteria as initial guidelines, there are three potential measures on the horizon that would invest new resources in programs identified by the public as important while the Price of Government is still low:

- Aquatic, Recreation and Community Center (ARC)
- Fire Strategic Plan implementation
- Transportation Benefit District – voter-approved revenue if the Council believes revenues beyond the \$20 car tab are necessary to help implement the Transportation Master Plan

The graphic below illustrates how all of these pieces fit into the prioritization of “Wants, Needs, and Resources”. In reality, the framework is a long-term process that will evolve with changes in economic conditions, City Council direction, and citizen priorities. Each process will need to be cognizant of its impacts on the long-term picture to ensure the City’s long-term financial strength.

	2014	2015	2016	2017	2018	2019	2020	2021
Citizen Survey	✓		✓		✓		✓	
Budget	Adopt 2015-2016 Budget	Mid-biennial Adjustments	Adopt 2017-2018 Budget	Mid-biennial Adjustments	Adopt 2019-2020 Budget	Mid-biennial Adjustments	Adopt 2021-2022 Budget	Mid-biennial Adjustments
Goals & Work Program	Amended 9/27/13	Adopt 2015-2016 Goals & Work Program	Review & Update Goals	Adopt 2017-2018 Goals & Work Program	Review & Update Goals	Adopt 2019-2020 Goals & Work Program	Review & Update Goals	Adopt 2021-2022 Goals & Work Program
Capital Improvement Program	CIP Update	Adopt 2015-2021 CIP Project List (Off-cycle)	Adopt 2016-2022 CIP Project List	CIP Update	Adopt 2018-2024 CIP Project List	CIP Update	Adopt 2020-2026 CIP Project List	CIP Update



As always, we expect that we will be discussing the budget with the City Council frequently during the biennium and making adjustments as conditions warrant. At a minimum, we expect to provide an update at the Council Retreat in late spring, with the mid-year budget report in June, and with the mid-biennium budget update in November 2015.

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

Respectfully Submitted,

Kurt Triplett
City Manager

Tracey Dunlap
Director of Finance and Administration

POSTSCRIPT

Between October and December 2014, the City Council held a series of study sessions and public hearings to review the 2015-2016 Preliminary Budget proposed by the City Manager. The City Council adopted the 2015-2016 Final Budget on December 9, 2014. Overall, the 2015-2016 Final Budget totals \$584.06 million, which represents a 0.39 percent increase compared to the 2013-2014 Amended Budget. The 2015-2016 Final Budget is summarized in the following table by fund type:

	2013-14 Amended Budget	2015-16 Final Budget	% Change
General Government			
General Fund	178,638,538	194,798,557	9.0%
Other Operating	30,399,499	31,384,551	3.2%
Internal Service Funds	69,527,520	77,886,892	12.0%
Non-Operating Funds	146,657,455	114,948,995	-21.6%
Utilities			
Water/Sewer	80,092,537	89,148,000	11.3%
Surface Water	44,112,640	41,966,491	-4.9%
Solid Waste	32,339,121	33,928,345	4.9%
Total Budget	581,767,310	584,061,831	0.39%

The City Council requested changes to the preliminary budget totaling \$0.58 million, including increased funding for human services, the addition of a School Resource Officer, professional services in support of updating the Totem Lake Development Agreement. A full list of Council-directed changes is provided at the top of the table on the following page. In addition, the following housekeeping adjustments were made, including recognition of contributions made subsequent to the Preliminary Budget:

- Adjusting Special Revenue fund budgets to account for higher property tax new construction estimates;
- Removing half of the 2015 appropriation in the General Fund and Street Fund for Street Lights in the annexation area to coincide with availability of the Annexation Sales Tax Credit, which is already fixed for half of 2015 based on the state fiscal year, which ends in June;
- Contribution to the General Capital Contingency from unallocated General Fund year end resources (these funds were identified as available in the preliminary budget, but not shown as transferred to the General Capital Fund);
- Development of wireless internet access in select City parks funded from outside contributions; and,
- Private contributions to support forestry projects in the Green Kirkland program.

Note that a portion of these needs are one-time in nature and funded through the use of unallocated year-end resources (\$386,454) and, therefore, do not require an adjustment to the total budget appropriation. The net appropriation increases \$1.04 million as a result of these changes as shown in the following table.

The table below summarizes the changes from the Preliminary Budget, which total \$1.04 million:

	2015-16 Cost		
	Ongoing	One-time	Total
Preliminary 2015-16 Budget			583,025,422
General Fund			
Council Directed Actions			
Human Services Option 3	-	116,226	116,226
School Resource Officer	224,118	15,843	239,961
Northshore Public Health Center Set-Aside	-	80,000	80,000
Leadership Eastside Scholarships ¹	-	24,000	24,000
KAN Request	-	10,202	10,202
Social Worker at John Muir Elementary	-	23,504	23,504
Cultural Organization Grant Matching	-	10,000	10,000
Totem Lake Development Agreement	-	75,000	75,000
<i>Subtotal Council Directed Action</i>	<i>224,118</i>	<i>354,775</i>	<i>578,893</i>
Annexation Street Lights adjusted to June 15	(142,500)	-	(142,500)
General Fund Housekeeping	(1,324)	12,500	11,176
Subtotal General Fund	80,294	367,275	447,569
Special Revenue Funds			
Property Tax Adjustments	44,755	29,196	73,951
Annexation Street Lights adjusted to June 15	(142,500)	-	(142,500)
Subtotal Special Revenue Funds	(97,745)	29,196	(68,549)
General Capital Fund			
General Capital Contingency Replacement from GF	-	793,843	793,843
Wireless in Parks Phase 2	-	200,000	200,000
Green Kirkland	-	50,000	50,000
Subtotal General Capital Fund	-	1,043,843	1,043,843
Grand Total All Funds	(17,451)	1,440,314	1,422,863
Less Use of Unallocated Year End Resources			(386,454)
Net Appropriation Impact			1,036,409
Final 2015-16 Biennial Budget			584,061,831

In addition to formal adoption of the 2015-2016 Budget, the Council approved the following actions to implement the budget decisions on December 9, 2014:

- Suspending reserve replenishment requirements to recognize that reserve contributions from uncommitted 2014 ending balances would be slightly below 50%, with the additional funds used to continue to support ARCH and the Kirkland Performance Center with one-time funds and make additional one-time investments in equipment sinking funds and high priority recommendations of the Fire Strategic Plan and Standard of Cover study;
- Authorizing the City Manager to deploy additional development services resources during the biennium contingent upon the commencement of development activity at the Totem Lake and/or Park Place projects; and,
- An update to the City's Investment Policy.

The final 2015-2016 City Work Program will be adopted during the first quarter of 2015. If any budget adjustments are needed to implement the Work Program, they will be brought forward in June 2015.

**City of Kirkland
2015-2016 Budget
Service Package Requests**

Pkg. #	2015-16 Department Request					2015-16 City Manager Recommended				
	FTE	Temp	Ongoing	One-time	Total	FTE	Temp	Ongoing	One-time	Total
GENERAL FUND										
City Council										
Renewals of One time										
15GCC01			-	30,000	30,000	-	-	-	30,000	30,000
15GCC02			14,000	-	14,000	-	-	14,000	-	14,000
Subtotal City Council										
			14,000	30,000	44,000			14,000	30,000	44,000
City Manager										
Renewals of One time										
15GCM01			-	96,000	96,000	-	-	-	96,000	96,000
New										
15GCM02	0.50	-	99,134	-	99,134	0.50	-	99,134	-	99,134
			<i>reduce Neighborhood Outreach Coordinator/ Hrly Wages</i>							
	(0.10)	-	(99,134)	-	(99,134)	(0.10)	-	(99,134)	-	(99,134)
15GCM03	-	-	-	16,000	16,000	-	-	-	16,000	16,000
15GCM04	-	-	-	128,000	128,000	-	-	-	128,000	128,000
15GCM05	1.00	-	202,811	5,044	207,855	1.00	-	202,811	5,044	207,855
Subtotal City Manager										
	1.40	-	202,811	245,044	447,855	1.40	-	202,811	245,044	447,855
Parks & Community Services										
Renewals of One-time										
15GPK06		1.00	-	217,515	217,515		1.00	-	217,515	217,515
15GPK01		-	-	100,000	100,000		-	-	100,000	100,000
15GPK02		-	-	89,628	89,628		-	-	89,628	89,628
New										
15GPK08	1.00	-	230,801	-	230,801	1.00	-	230,801	-	230,801
			<i>Reduce Office Technician from Parks Maint. Fund 125</i>							
	(0.75)	-	(117,001)	-	(117,001)	(0.75)	-	(117,001)	-	(117,001)
15GPK03	-	-	79,630	-	79,630	-	-	79,630	-	79,630
15GPK04	-	-	160,000	-	160,000	-	-	160,000	-	160,000
15GPK07	-	-	14,166	47,500	61,666	-	-	14,166	47,500	61,666
15GPK05	-	-	-	27,600	27,600	-	-	-	27,600	27,600
Subtotal Parks and Community Services										
	0.25	1.00	367,596	482,243	849,839	0.25	1.00	367,596	482,243	849,839
Human Resources										
New										
15GHR01	-	-	-	5,000	5,000	-	-	-	5,000	5,000
15GHR02	-	-	-	15,000	15,000	-	-	-	15,000	15,000
15GHR03	1.00	-	199,200	54,594	253,794	0.70	0.30	138,264	111,316	249,580
			<i>reduce HR Assistant/Professional Services</i>							
	(0.50)	-	(138,850)	-	(138,850)	(0.50)	-	(138,264)	-	(138,264)
Subtotal Human Resources										
	0.50	-	60,350	74,594	134,944	0.20	0.30	-	131,316	131,316

*Partially or entirely funded with new revenue

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**City of Kirkland
2015-2016 Budget
Service Package Requests**

Pkg. #	2015-16 Department Request					2015-16 City Manager Recommended				
	FTE	Temp	Ongoing	One-time	Total	FTE	Temp	Ongoing	One-time	Total
Public Works										
Renewal of One time										
15GPW01	-	0.50	-	123,873	123,873	-	0.50	-	123,873	123,873
15GPW02	0.25	-	64,630	-	64,630	0.25	-	64,630	-	64,630
15GPW03	-	0.50	-	117,354	117,354	-	0.50	-	117,354	117,354
New										
15GPW04	-	-	-	60,000	60,000	-	-	-	60,000	60,000
15GPW05	-	0.50	-	85,152	85,152	-	-	-	-	-
15GPW06	-	-	-	50,000	50,000	-	-	-	50,000	50,000
Subtotal Public Works	0.25	1.50	64,630	436,379	501,009	0.25	1.00	64,630	351,227	415,857
Finance & Administration										
Renewals of One time										
15GFA01	-	1.00	-	199,223	199,223	-	1.00	-	199,223	199,223
New										
15GFA02	0.50	-	94,927	5,044	99,971	0.50	-	94,927	5,044	99,971
Subtotal Finance & Administration	0.50	1.00	94,927	204,267	299,194	0.50	1.00	94,927	204,267	299,194
Planning & Community Development										
Renewals of One Time										
15GPL01	-	-	-	630,000	630,000	-	-	-	630,000	630,000
15GPL02	-	-	-	92,000	92,000	-	-	-	92,000	92,000
New										
15GPL03	1.00	-	171,938	-	171,938	1.00	-	171,938	-	171,938
15GPL04	-	1.00	-	175,588	175,588	-	1.00	-	175,588	175,588
15GPL05	-	-	-	90,000	90,000	-	-	-	90,000	90,000
15GPL06	-	-	-	35,000	35,000	-	-	-	-	-
15GPL07	-	-	-	7,000	7,000	-	-	-	7,000	7,000
Subtotal Planning & Community Development	1.00	1.00	171,938	1,029,588	1,201,526	1.00	1.00	171,938	994,588	1,166,526
Police										
Renewals of One time										
15GPD01	-	-	-	134,352	134,352	-	-	-	134,352	134,352
15GPD02	1.00	-	177,792	-	177,792	0.50	-	91,497	-	91,497
15GPD03	-	-	-	222,194	222,194	-	-	-	222,194	222,194
Subtotal Police	1.00	-	177,792	356,546	534,338	0.50	-	91,497	356,546	448,043

*Partially or entirely funded with new revenue

**City of Kirkland
2015-2016 Budget
Service Package Requests**

Pkg. #	2015-16 Department Request					2015-16 City Manager Recommended				
	FTE	Temp	Ongoing	One-time	Total	FTE	Temp	Ongoing	One-time	Total
Fire & Building										
Fire										
Renewals of One time										
15GFB01				1,060,582	1,060,582				1,060,582	1,060,582
15GFB02		1.00		205,013	205,013	Combined w/ Police Sr. Financial Analyst and organized in Finance				
15GFB03			14,500		14,500			14,500		14,500
New										
15GFB04				50,000	50,000				50,000	50,000
15GFB05				49,000	49,000				25,000	25,000
15GFB06				39,200	39,200				39,200	39,200
15GFB07			14,628	2,000	16,628			14,628	2,000	16,628
15GFB08	0.50		44,573		44,573		0.50		44,573	44,573
15GFB09			18,411	140,096	158,507			18,411	140,096	158,507
15GFB10				14,000	14,000				14,000	14,000
Building										
Renewals of One time										
15GFB11				169,730	169,730				169,730	169,730
15GFB12				26,469	26,469				26,469	26,469
15GFB13	1.00		252,805		252,805	1.00		252,805		252,805
New										
15GFB14		0.50		108,738	108,738		0.50		108,738	108,738
15GFB15		1.00		84,683	84,683		1.00		84,683	84,683
Subtotal Fire & Building	1.50	2.50	344,917	1,949,511	2,294,428	1.00	2.00	300,344	1,765,071	2,065,415
GENERAL FUND TOTAL	6.40	7.00	1,498,961	4,808,172	6,307,133	5.10	6.30	1,307,743	4,560,302	5,868,045

*Partially or entirely funded with new revenue

**City of Kirkland
2015-2016 Budget
Service Package Requests**

Pkg. #	2015-16 Department Request					2015-16 City Manager Recommended				
	FTE	Temp	Ongoing	One-time	Total	FTE	Temp	Ongoing	One-time	Total
OTHER FUNDS										
Parks Levy Fund										
New										
15PPK01				43,286	43,286				43,286	43,286
15PPK02	0.50		115,095	-	115,095	0.50		115,095	-	115,095
			(75,520)	-	(75,520)			(75,520)	-	(75,520)
			<i>reduce hourly wages/professional services</i>							
Subtotal	0.50	-	39,575	43,286	82,861	0.50	-	39,575	43,286	82,861
Street Operating Fund										
Renewal of One time										
15SPW01				186,192	186,192				186,192	186,192
New										
15SPW02				91,600	91,600				91,600	91,600
15SPW03				50,000	50,000				50,000	50,000
15SPW04				175,000	175,000				175,000	175,000
15SPW05				100,600	100,600				100,600	100,600
15SPW06			42,498	142,500	184,998			42,498	142,500	184,998
15SPW07				178,761	178,761				178,761	178,761
Subtotal Street Operating Fund	-	-	42,498	924,653	967,151	-	-	42,498	924,653	967,151
Lodging Tax Fund										
Renewals of One Time										
15LCM01				53,995	53,995				53,995	53,995
New										
15LCM02				50,000	50,000				50,000	50,000
15LCM03				20,000	20,000				20,000	20,000
Subtotal Lodging Tax Fund	-	-	-	123,995	123,995	-	-	-	123,995	123,995
Surface Water Fund										
New*										
15DPW01	1.00		238,359	141,133	379,492	1.00		238,359	141,133	379,492
15DPW02	0.50		124,741	105,815	230,556	0.50		124,741	105,815	230,556
15DPW03	4.00		983,631	526,112	1,509,743	4.00		983,631	526,112	1,509,743
15DPW04				147,564	147,564				147,564	147,564
15DPW05				215,000	215,000				215,000	215,000
15DPW06				66,000	66,000				66,000	66,000
15DPW07			6,520	-	6,520			6,520	-	6,520
15DPW08				30,000	30,000				30,000	30,000
15DPW09			24,000	-	24,000			24,000	-	24,000
15DPW10	1.00		253,820	5,864	259,684	1.00		253,820	5,864	259,684
Subtotal Surface Water Fund	6.50	-	1,631,071	1,237,488	2,868,559	6.50	-	1,631,071	1,237,488	2,868,559

*Partially or entirely funded with new revenue

**City of Kirkland
2015-2016 Budget
Service Package Requests**

Pkg. #	2015-16 Department Request					2015-16 City Manager Recommended				
	FTE	Temp	Ongoing	One-time	Total	FTE	Temp	Ongoing	One-time	Total
Water/Sewer Fund										
New*										
15UPW01				120,000	120,000				120,000	120,000
15UPW02				20,000	20,000				20,000	20,000
15DPW01	1.00		238,359	141,133	379,492	1.00		238,359	141,133	379,492
15UPW03	0.50		104,773	50	104,823	0.50		104,773	50	104,823
15UPW04				180,000	180,000				180,000	180,000
Subtotal Water/Sewer Fund										
	1.50	-	343,132	461,183	804,315	1.50	-	343,132	461,183	804,315
Information Technology Fund										
Renewals of One Time										
15IIT01	1.00		269,333		269,333	1.00		269,333		269,333
15IIT02	0.50		110,784		110,784					
15IIT03	0.75		139,456		139,456					
15IIT04	1.00		196,358	4,389	200,747	1.00		196,358	4,389	200,747
New										
15IIT05				44,324	44,324				44,324	44,324
15IIT07			8,746		8,746			8,746		8,746
15IIT08				20,000	20,000				20,000	20,000
15IIT09				25,000	25,000				25,000	25,000
15IIT06				62,000	62,000				62,000	62,000
Subtotal Information Technology Fund										
	3.25	-	724,677	155,713	880,390	2.00	-	474,437	155,713	630,150
TOTAL OTHER FUNDS										
	11.75	-	2,780,953	2,946,317	5,727,270	10.50	-	2,530,713	2,946,318	5,477,031
TOTAL ALL FUNDS										
	18.15	7.00	4,279,914	7,754,489	12,034,403	15.60	6.30	3,838,456	7,506,620	11,345,076

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*Partially or entirely funded with new revenue



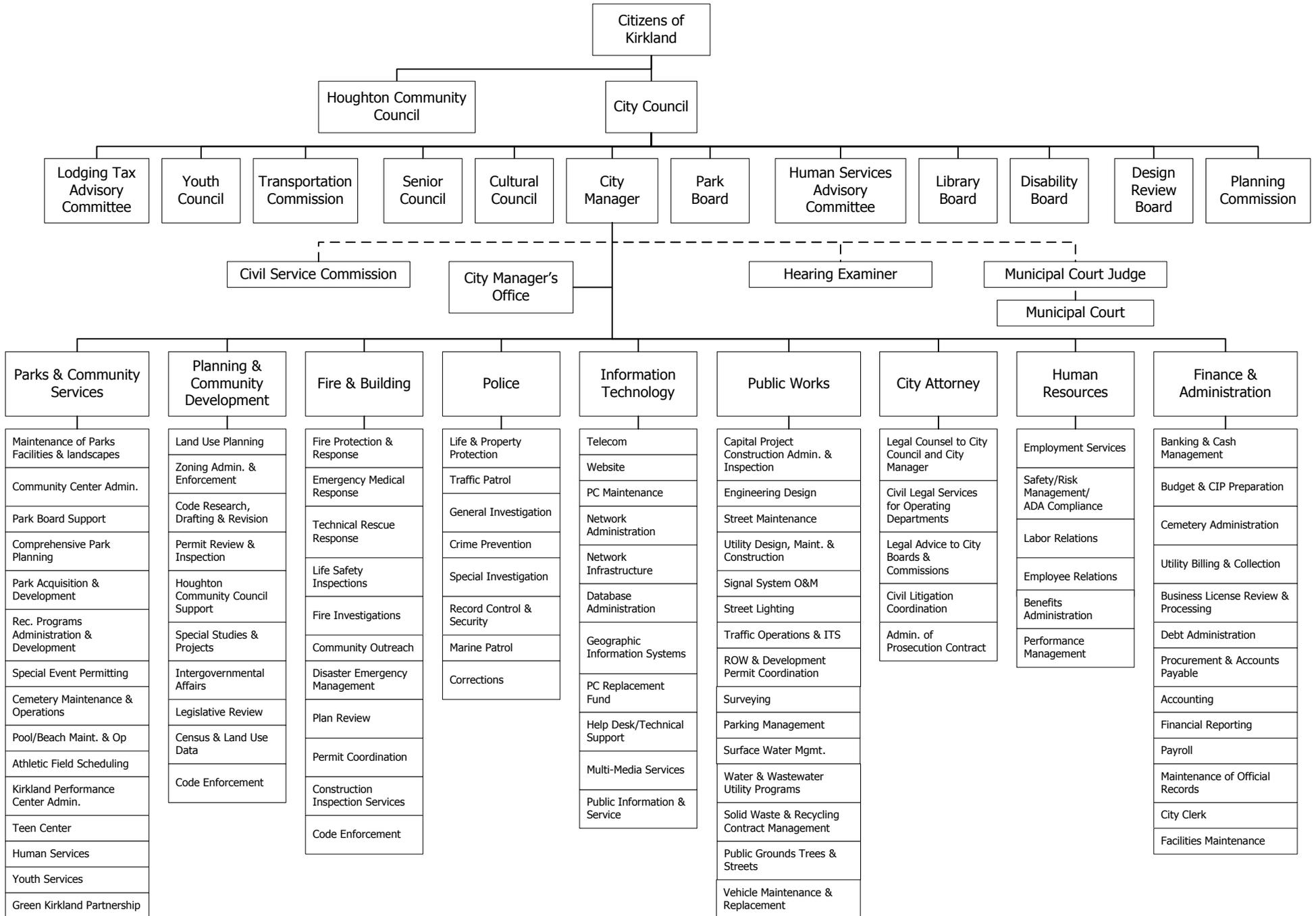
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KIRKLAND PROFILE



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CITY OF KIRKLAND





CITY OF KIRKLAND CITY COUNCIL GOALS

The purpose of the City Council Goals is to articulate key policy and service priorities for Kirkland. Council goals guide the allocation of resources through the budget and capital improvement program to assure that organizational work plans and projects are developed that incrementally move the community towards the stated goals. Council goals are long term in nature. The City's ability to make progress towards their achievement is based on the availability of resources at any given time. Implicit in the allocation of resources is the need to balance levels of taxation and community impacts with service demands and the achievement of goals.

In addition to the Council goal statements, there are operational values that guide how the City organization works toward goal achievement:

- **Regional Partnerships** – Kirkland encourages and participates in regional approaches to service delivery to the extent that a regional model produces efficiencies and cost savings, improves customer service and furthers Kirkland's interests beyond our boundaries.
- **Efficiency** – Kirkland is committed to providing public services in the most efficient manner possible and maximizing the public's return on their investment. We believe that a culture of continuous improvement is fundamental to our responsibility as good stewards of public funds.
- **Accountability** – The City of Kirkland is accountable to the community for the achievement of goals. To that end, meaningful performance measures will be developed for each goal area to track our progress toward the stated goals. Performance measures will be both quantitative and qualitative with a focus on outcomes. The City will continue to conduct a statistically valid citizen survey every two years to gather qualitative data about the citizen's level of satisfaction. An annual Performance Measure Report will be prepared for the public to report on our progress.
- **Community** – The City of Kirkland is one community composed of multiple neighborhoods. Achievement of Council goals will be respectful of neighborhood identity while supporting the needs and values of the community as a whole.

The City Council Goals are dynamic. They should be reviewed on an annual basis and updated or amended as needed to reflect citizen input as well as changes in the external environment and community demographics.

Kirkland is an attractive, vibrant and inviting place to live, work and visit. Our lakefront community is a destination for residents, employees and visitors. Kirkland is a community with a small-town feel, retaining its sense of history, while adjusting gracefully to changes in the twenty-first century.

NEIGHBORHOODS

The citizens of Kirkland experience a high quality of life in their neighborhoods.

Council Goal: Achieve active neighborhood participation and a high degree of satisfaction with neighborhood character, services and infrastructure.

PUBLIC SAFETY

Ensure that all those who live, work and play in Kirkland are safe.

Council Goal: Provide for public safety through a community-based approach that focuses on prevention of problems and a timely response.

HUMAN SERVICES

Kirkland is a diverse and inclusive community that respects and welcomes everyone and is concerned for the welfare of all.

Council Goal: To support a regional coordinated system of human services designed to meet the basic needs of our community and remove barriers to opportunity.

BALANCED TRANSPORTATION

Kirkland values an integrated multi-modal system of transportation choices.

Council Goal: To reduce reliance on single occupancy vehicles and improve connectivity and multi-modal mobility in Kirkland in ways that maintain and enhance travel times, safety, health and transportation choices.

PARKS, OPEN SPACES AND RECREATIONAL SERVICES

Kirkland values an exceptional park, natural areas and recreation system that provides a wide variety of opportunities aimed at promoting the community's health and enjoyment.

Council Goal: To provide and maintain natural areas and recreational facilities and opportunities that enhance the health and well being of the community.

HOUSING

The City's housing stock meets the needs of a diverse community by providing a wide range of types, styles, sizes and affordability.

Council Goal: To ensure the construction and preservation of housing stock that meet a diverse range of incomes and needs.

FINANCIAL STABILITY

Citizens of Kirkland enjoy high-quality services that meet the community's priorities.

Council Goal: Provide a sustainable level of core services that are funded from predictable revenue.

ENVIRONMENT

We are committed to the protection of the natural environment through an integrated natural resource management system.

Council Goal: To protect and enhance our natural environment for current residents and future generations.

ECONOMIC DEVELOPMENT

Kirkland has a diverse, business-friendly economy that supports the community's needs.

Council Goal: To attract, retain and grow a diverse and stable economic base that supports city revenues, needed goods and services and jobs for residents.

DEPENDABLE INFRASTRUCTURE

Kirkland has a well-maintained and sustainable infrastructure that meets the functional needs of the community.

Council Goal: To maintain levels of service commensurate with growing community requirements at optimum life-cycle costs.

KIRKLAND'S CITY MANAGEMENT

City departments are involved in a number of long-range planning efforts to assure that community growth supports the balance of livability and prosperity. Financial planning occurs as an integral part of operating department initiatives. Examples of some of the more important planning tools that contribute to the City's financial strength are:

- **Fiscal Policies** which are adopted by the City Council and provide guidance in the areas of budgeting, capital improvements, reserves, debt, cash management and investments and financial reporting.
- **Investment Policies** that dictate the manner in which excess funds will be invested.
- The **Six-Year Capital Improvement Program (CIP)** which provides a long-term plan for building, enhancing, and maintaining the City's infrastructure. The CIP, which includes a financing plan and is adopted biennially, reflects other major capital plans including the Six-Year Transportation Improvement Plan, the Comprehensive Sanitary Sewer Plan, the Surface Water Management Master Plan, and the Water Distribution Master Plan.

Kirkland's Comprehensive Plan is updated annually. As required by the Growth Management Act (GMA), the last major update process was completed in 2002 and 2003 to update Kirkland's vision statement and Comprehensive Plan. The next update is in process and will be completed in 2015.

Among the several elements included in the Comprehensive Plan as required by the GMA, a **Capital Facilities Element** is completed in coordination with the six-year CIP. A **Transportation Element** identifies needed transportation improvements, and an **Economic Development Element** that links community economic health with land use and growth policies.

Other master planning efforts, such as the **Fire Strategic Plan, Police Strategic Plan, Neighborhood Plans,** and **Kirkland's Comprehensive Park, Open Space and Recreation Plan** provide further examples of Kirkland's efforts to respond to the changing needs of the community through careful planning and community involvement.

The City's mission statement and basic values summarize the qualities that are an integral part of its management efforts:

We are committed to the enhancement of Kirkland as a community for living, working, and leisure with an excellent quality of life, which preserves the City's existing charm and natural amenities.

Basic Values

Integrity

Excellence

Respect for the Individual

Responsiveness

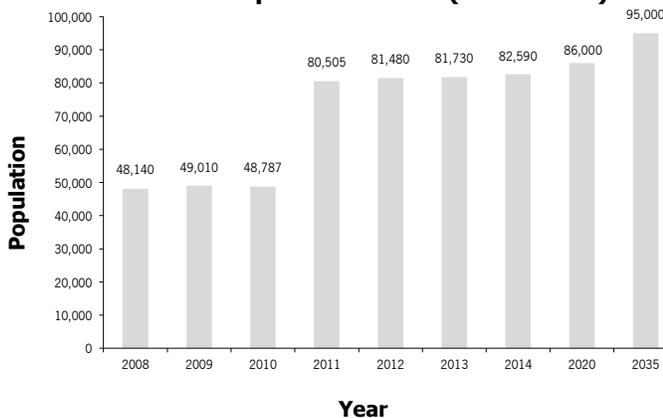
CITY OF KIRKLAND

ECONOMIC ENVIRONMENT

POPULATION

Following the annexation of South Juanita, North Rose Hill and South Rose Hill in 1988, population growth has generally been modest, but steady. In 2011, the City annexed Finn Hill, Kingsgate, and Juanita increasing the population by 31,816. The following chart presents actual population data for the past seven years and projections for 2020 and 2035.

Kirkland Population Trend (2008-2035)



EMPLOYMENT BASE

A diverse range of businesses comprise Kirkland’s employment base. Key factors contributing to Kirkland’s attraction include the following:

- High quality of life, housing, and local amenities.
- Availability of high quality human resources.
- Proximity to other major business centers.
- Availability of high quality office space.

Approximately 41,000 individuals are employed within the City limits. The following table presents the City’s top 10 employers as of 2014.

Kirkland’s Major Employers

Employer	# Persons Employed
Evergreen Healthcare	3762
Lake Washington School District	1112
Google, Inc.	774
City of Kirkland	580
Kenworth Truck Co.	410
Astronics Advanced Electronic Systems	388
Costco Wholesale	318
Isoftstone Inc	272
Wave Broadband	268
ATG Stores	253

UNEMPLOYMENT RATE

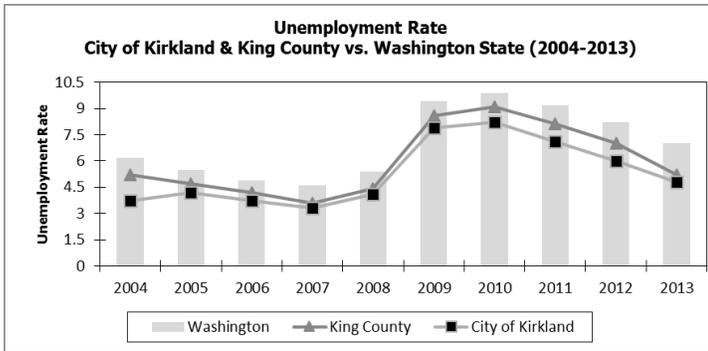
Unemployment rates in King County generally run parallel to state and national rates but at a lower level. Since 2004, King County’s unemployment rate has been consistently below the national rate. The City of Kirkland unemployment rate consistently runs below the national, State of Washington and King County rates. The following table and chart provide comparative unemployment rate data for the past 10 years.

Unemployment Rates¹

Year	Kirkland*	King County	Washington State	United States
2004	3.7	5.2	6.2	5.5
2005	4.2	4.7	5.5	5.1
2006	3.7	4.2	4.9	4.6
2007	3.3	3.6	4.6	4.6
2008	4.1	4.4	5.4	5.8
2009	7.9	8.6	9.4	9.3
2010	8.2	9.1	9.9	9.6
2011	7.1	8.1	9.2	8.9
2012	6.2	6.6	8.1	8.1
2013	4.8	5.2	7.0	7.4

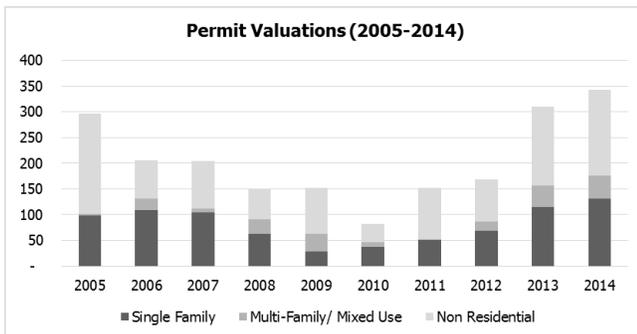
¹ Rate is per the U.S. Bureau of Labor Statistics.

*Rate for the pre-annexation City. According to the BLS, annexation areas statistics will be included after the 2020 census.



BUILDING ACTIVITY

Kirkland's local construction trends are a microcosm of the regional economy. The strong economy in the Puget Sound area beginning in 2004 drove development growth in Kirkland (as shown in the following chart and table) during the boom years of the mid 2000's. Construction activity skyrocketed in 2005 and continued at a rate above historical averages before declining in 2008 and 2009 due to the recession. Kirkland's development hit its post-recession low in 2010 before construction started its slow climb back to pre-recession levels. In 2011 and 2012 there was some growth in development, but the level of activity was still slowed due to a sluggish economy. Development picked up in 2013 and 2014, largely driven by some large commercial and public projects, which have brought project valuations to their highest level in Kirkland since 2005.



Permit Valuation in Millions of Dollars*

Year	Single Family	Multi-Family/ Mixed Use	Non Residential	Total
2005	98	3	196	297
2006	109	22	75	206
2007	105	7	92	204
2008	63	28	59	150
2009	29	34	89	152
2010	37	9	36	82
2011	51	2	99	152
2012	69	18	82	169
2013	115	41	154	310
2014	132	44	166	342

* Based on building permits issued by the City of Kirkland Building Division.

OTHER ECONOMIC INDICATORS

Office Vacancies

- According to latest report available from CB Richard Ellis Real Estate Services, the Eastside office vacancy rate dropped to 13.2 percent in the second quarter of 2014, the lowest vacancy rate since the first quarter of 2009. Kirkland's office vacancy rate has dropped to 4.5 percent, the lowest on the Eastside. The Puget Sound region's office vacancy rate is 14.2 percent.

Housing Values

- Kirkland home values trended up over the last two years, rising 17.9 percent from September 2012 to September 2013 and 6.4 percent from September 2013 to September 2014 according to Zillow.com, a 25.5 percent increase over 24 months.

Inflation

- The Seattle metro Consumer Price Index (CPI), a measure of price inflation for goods and services, has grown over the 2013-14 biennium with an increase of 1.37 percent from June 2012 to June 2013 and growth of 2.2 percent from June 2013 to June 2014.



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BUDGET GUIDE

A user's guide to understanding Kirkland's budget document



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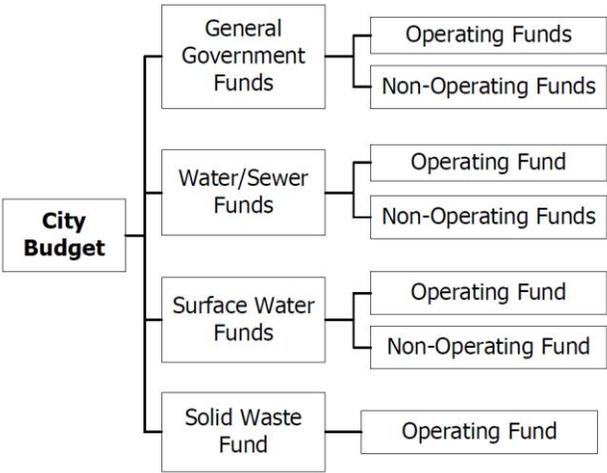
GUIDE TO BUDGET FUND STRUCTURE

The City Budget is composed of 24 separate funds that are each balanced independently – revenues equal expenditures. The City’s budget is divided into four primary sections – General Government, Water/Sewer Utility, Surface Water Utility and Solid Waste Utility. Within each of these primary sections there are operating and non-operating funds, with the exception of the Solid Waste Utility which is comprised of an operating fund only.

The general government operating funds include the General Fund, five special revenue funds, and four internal service funds. General government operating funds account for services to the public including public safety, street maintenance, land use, parks and administrative functions. Taxes, fees and charges, and contributions from other governments are the primary financing sources for general government functions. The general government non-operating funds account for debt service, capital improvements and reserves related to these operating funds.

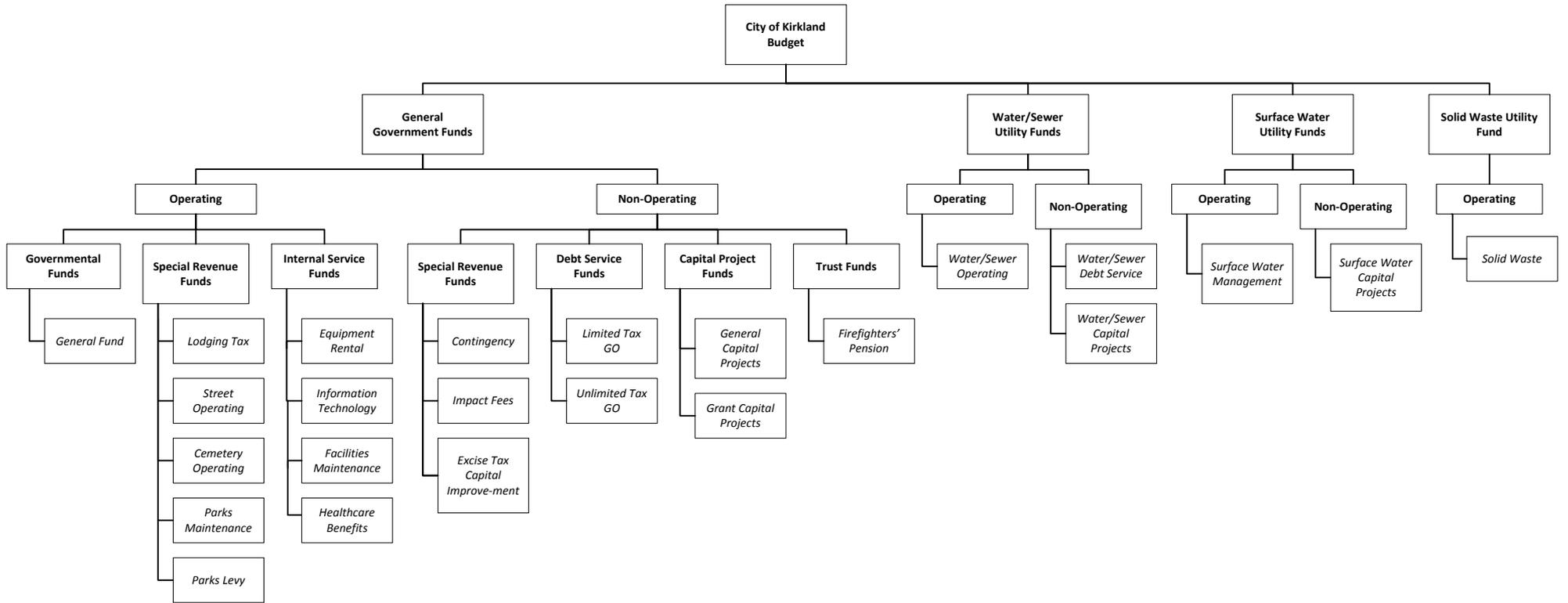
Like the general government funds, the Water/Sewer Utility and the Surface Water Utility both have operating and non-operating components. The Solid Waste Utility consists of only an operating fund. All utility operating funds account for the cost of providing and maintaining services to its customers. Distinct from the general government funds, each of the utilities operate much the same as a business (enterprise), with customer charges (rates) supporting all costs. Resources of the utilities cannot be used to subsidize general government functions.

The budget document is presented in a manner that acknowledges these components as shown on the following chart.



The chart on the following page illustrates the organization of funds in greater detail.

CITY OF KIRKLAND Organization of Funds



BUDGETING, ACCOUNTING AND REPORTING BASIS

The City's financial structure is consistent with Washington State's required Budgeting, Accounting, and Reporting System (BARS). This system provides for a uniform chart of accounts and procedures for all Washington local governments. While each agency has minor differences, this system provides useful comparative data to the state regarding local spending.

BUDGETARY BASIS

Budget projections for revenues and expenditures are prepared on a cash basis. Cash basis of accounting means that transactions are recognized at the point when cash is received or paid. This method matches the cash projected to be available to the cash projected for necessary payments.

Revenues are prepared at the "line-item" or source-of-revenue level (e.g., gas utility tax, amusement license, plumbing permit, etc.). General government operating revenues are summarized by revenue type (e.g., taxes, licenses and permits, charges for services, etc.) and across funds. Major revenue sources and trends are highlighted in the Budget Summary section.

Expenditure budgets, like revenues, are prepared at the "line-item" or object-of-expense level (e.g., regular wages, uniforms and clothing, office supplies, professional services, etc.). Summary totals are provided for "object groups" (e.g., wages, benefits, supplies, capital outlay etc.). Subtotals are provided by organizational units (divisions) within each department which represent costs by function. The financial overview page contained within each department section provides summary level financial data with data for comparative bienniums.

Non-operating fund expenditures are presented at the "by purpose" level (reserve, debt service, capital improvement and other).

ACCOUNTING AND REPORTING BASIS

The financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. Generally Accepted Accounting Principles are minimum standards and guidelines for financial accounting and reporting. Reporting in accordance with GAAP assures that financial reports of all state and local governments contain the same types of financial statements and disclosures, for the same categories and types of funds and account groups, based on the same measurement and classification criteria.

Governmental funds use the modified-accrual basis of accounting. Under this basis, revenues are recognized when they become both measurable and available. "Measurable" means the amount of the transaction can be reasonably determined. "Available" means collectible within the current fiscal year or soon thereafter to pay for expenditures incurred during the fiscal year. Expenditures are recognized when the related obligations (goods have been purchased or services have been received) are incurred (two exceptions are employee leave benefits and long-term debt which are recognized when due).

Proprietary operations of the City - enterprise and internal service functions - use the accrual basis of accounting. Under this method, revenues are recorded when earned (e.g., revenues for water/sewer utility services are recognized when the services are provided) and expenses are recorded at the time obligations are incurred. This method is similar to private business enterprises.

BUDGET PROCESS

BUDGET PREPARATION PROCESS

Kirkland follows a biennial budget process. State law requires that the first year of a biennial budget be an odd numbered year. Accordingly, the preparation of the biennial budget occurs during an even numbered year, beginning in June and continuing through the end of the year. The following are key steps that the City takes to prepare its budget. (See the next page for a diagram of this process.)

1. The City Council holds its mid-year budget review meeting in June and receives a status report on the current biennial budget and an updated six-year financial forecast, with an emphasis on the coming biennium. In addition, the City Manager requests input from the City Council about budget priorities and overall direction.
2. In July, the Finance & Administration (F&A) Director makes the official "budget call" to all department directors requesting expenditure and revenue estimates for the current year and the coming two years.
3. The F&A Department prepares all general purpose revenue estimates, which mostly consist of taxes, state shared revenues and entitlements, and intergovernmental service revenues, during the first half of August. In addition, the F&A Department receives and reviews all departmental revenue estimates during the same time period. All departmental expenditure estimates for the current year and "basic budget" requests for the coming biennium, which represent the estimated cost of maintaining the current service level, are received and reviewed by the F&A Department during the second half of August.
4. In late August, the F&A Director, City Manager and Deputy City Manager meet with each department to review their basic budget requests.
5. In early September, departments submit additional funding requests (called "service packages") for new positions, equipment, and projects which are over and above their basic budgets. The F&A Department reviews all service package requests by mid-September. In years when funding is limited, departments may also be asked to submit proposed expenditure reductions.
6. In mid-September, the City Manager meets with each department to review their basic budget and service package requests. In addition, the City holds a public hearing in mid-September to gather citizen input on proposed revenue sources for the coming biennium.
7. The City Manager finalizes the preliminary budget proposal, which includes recommended service packages and reductions (if any), by the end of September. In October, the City Manager and F&A Director brief the Council Finance Committee on the preliminary budget proposal.
8. In October, the F&A Department prepares and prints the preliminary budget document for the coming biennium. By November 1st, the preliminary budget document is filed with the City Clerk, distributed to the City Council and the departments, and made available to the public.
9. The City Council meets in October and/or November for a series of budget study sessions to review the City Manager's proposed budget and to determine if there are any changes they wish to make.
10. The City holds a public hearing in mid-November to gather citizen input on the preliminary budget as well as on any changes made by the City Council during their budget deliberations.
11. In December, the City Council adopts the final property tax levy for the coming year and the final budget for the coming biennium each by ordinance via a simple majority of the members present. The appropriation approved by the City Council is at the individual fund level.

- The F&A Department publishes the final budget document during the first quarter of the following year, distributes the document to the City Council and the departments, and makes copies available to the public.

BUDGET ADJUSTMENT PROCESS

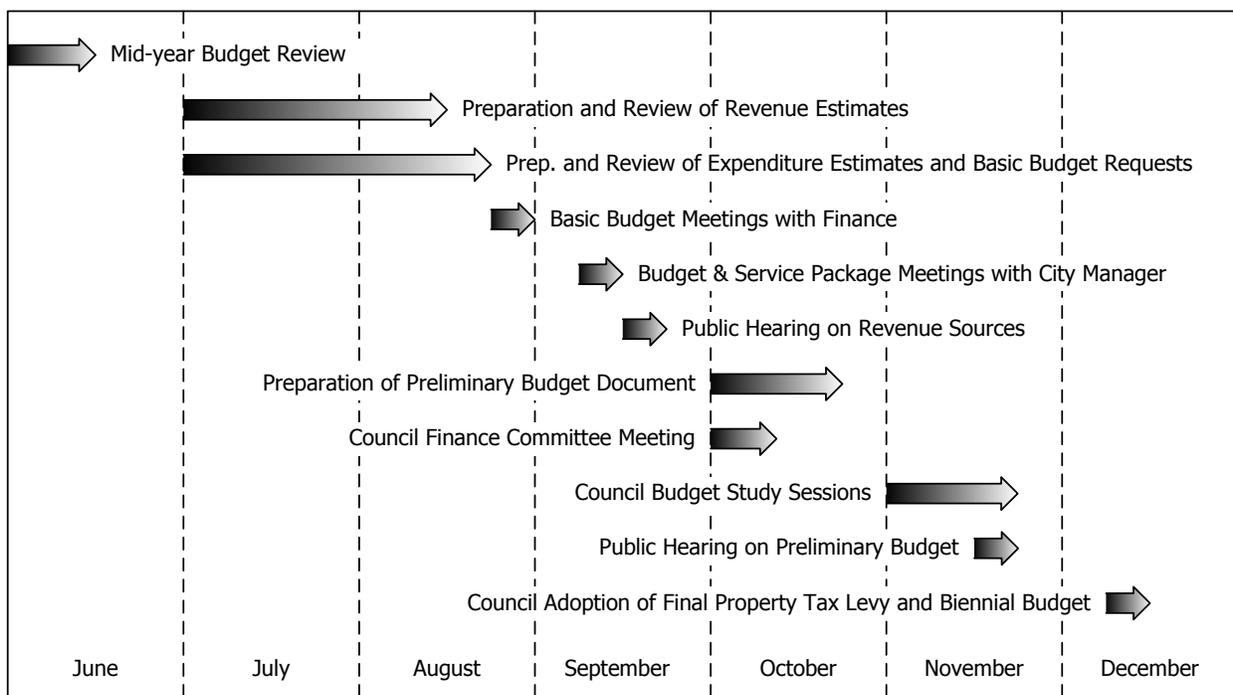
There are two types of adjustments related to the adopted budget: 1) transfers between line items or between departments within the same fund; and 2) changes to an individual fund’s total appropriation. The former is handled administratively when needed with the approval of the F&A Director. The latter can take place at various times during the biennium and requires Council approval by ordinance.

The first opportunity to adjust a fund’s total appropriation generally occurs in March of the first year of the biennium. Typically, this is when funding for projects and other significant purchases that were not completed during the prior biennium is “carried over” to the new biennium. The second opportunity takes place during the mid-biennial budget review which culminates in December of the first year of the biennium. This adjustment primarily relates to the following: 1) outside agency and new service package funding requests for the second year of the biennium; 2) any unanticipated needs, events, or revenue sources. The final opportunity to adjust a fund’s total appropriation occurs at the end of the biennium in December. This is the last time that adjustments for unanticipated needs, events, and revenue sources can be recognized and approved. Also, this is when the General Fund’s total appropriation is adjusted, if necessary, to provide the budgetary authority to transfer excess net resources to other funds in order to replenish or build-up reserves and to fund one-time service packages in the coming biennium. In addition to the three adjustment processes described above, other adjustments may occur during the biennium as needed.

The process for changing a fund’s total appropriation is as follows:

- Requests for budget adjustments are submitted in writing to the F&A Director.
- If approved, requests are consolidated in an ordinance and presented to the City Council at a regular meeting at one of the three times noted above.
- The City Council approves adjustments to a fund’s total appropriation for the biennium by a simple majority of the members present.
- Approved adjustments are incorporated into the existing biennial budget resulting in a revised appropriation for the current biennium.

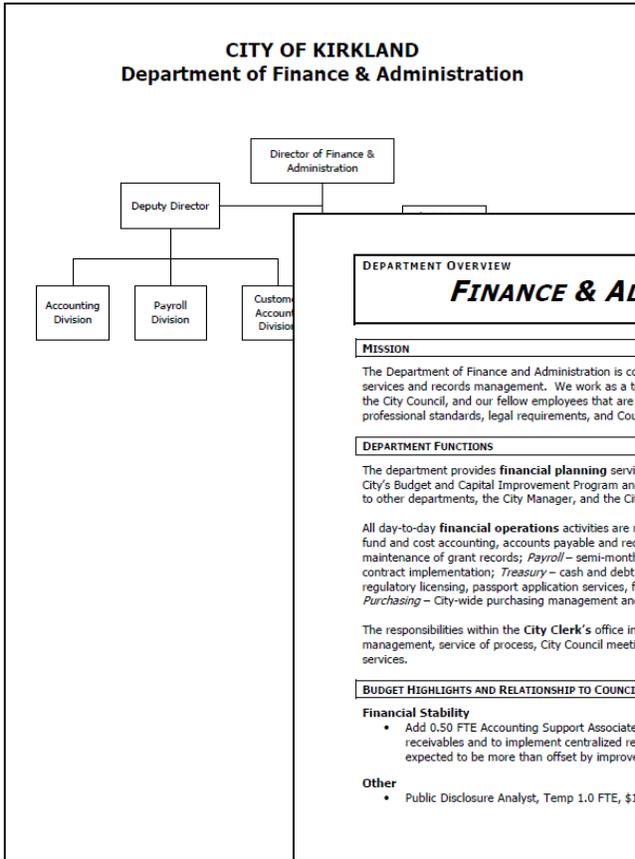
BIENNIAL BUDGET PREPARATION TIMELINE



GUIDE TO KIRKLAND'S BUDGET DOCUMENT

OPERATING FUND AND DEPARTMENT SECTIONS

The following sections are organized by fund and department. Within each fund, organization charts, department overviews, budget analyses and financial overviews are provided for each department as well as detailed schedules of revenues. Line item expenditure detail reports are provided in an ancillary document titled, "Budget Line Item Detail."



The reporting relationships are delineated in each department section. Positions that are funded by a different fund are indicated by a double-lined box.

DEPARTMENT OVERVIEW

FINANCE & ADMINISTRATION

MISSION

The Department of Finance and Administration is committed to excellence in the provision of financial services and records management. We work as a team to provide services and information to the public, the City Council, and our fellow employees that are timely, impartial, supportive, and consistent with professional standards, legal requirements, and Council policy.

DEPARTMENT FUNCTIONS

The department provides **financial planning** services including coordination and preparation of the City's Budget and Capital Improvement Program and provision of financial planning and analysis support to other departments, the City Manager, and the City Council.

All day-to-day **financial operations** activities are managed by the department including: *Accounting* – fund and cost accounting, accounts payable and record maintenance of grant records; *Payroll* – semi-monthly contract implementation; *Treasury* – cash and debt regulatory licensing, passport application services; *Purchasing* – City-wide purchasing management and

The responsibilities within the **City Clerk's** office in management, service of process, City Council meeting services.

BUDGET HIGHLIGHTS AND RELATIONSHIP TO COUNCIL

- Financial Stability**
- Add 0.50 FTE Accounting Support Associate receivables and to implement centralized re expected to be more than offset by improve
- Other**
- Public Disclosure Analyst, Temp 1.0 FTE, \$1

The mission and functional areas are described in each department's overview along with the relationship of the department's activities to Council goals and budget highlights for the coming biennium.

2015 - 2016 FINANCIAL OVERVIEW

FINANCE & ADMINISTRATION

FINANCIAL SUMMARY BY OBJECT

	2011-2012 Actual	2013-2014 Estimate	2013-2014 Budget	2015-2016 Budget	Percent Change
Salaries and Wages	4,455,028	4,804,763	4,839,623	5,226,579	8.00%
Benefits	1,765,925	2,133,535	2,246,467	2,579,301	14.82%
Supplies	34,651	42,410	38,073	35,096	-7.82%
Other Services	1,366,683	1,417,921	1,473,137	1,512,983	2.70%
Government Services	486,774	805,265	833,100	253,000	-69.63%
Capital Outlay	-	-	-	-	n/a
TOTAL	8,109,061	9,203,894	9,430,400	9,606,959	1.87%

FINANCIAL SUMMARY BY DIVISION

	2011-2012 Actual	2013-2014 Estimate	2013-2014 Budget	2015-2016 Budget	Percent Change
Financial Planning & Admin.	2,465,778	2,577,331	2,572,000	2,931,042	13.96%
Treasury/Customer Services	2,152,541	2,334,486	2,450,484	2,570,968	4.92%
Financial Operations	2,318,312	2,545,320	2,582,178	2,763,063	7.01%
City Clerk	1,172,430	1,746,757	1,825,738	1,341,886	-26.50%
TOTAL	8,109,061	9,203,894	9,430,400	9,606,959	1.87%

POSITION SUMMARY BY DIVISION

	2011-2012 Actual	Adjustments	2013-2014 Budget	Adjustments	2015-2016 Budget
Financial Planning & Admin.	8.00	0.00	8.00	1.00	9.00
Treasury/Customer Services	10.50	1.00	11.50	0.00	11.50
Financial Operations	10.50	0.00	10.50	0.50	11.00
City Clerk	3.80	0.00	3.80	0.00	3.80
TOTAL	32.80	1.00	33.80	1.50	35.30

The Financial Overview contains financial summaries by category of expense and division.

GUIDE TO KIRKLAND'S BUDGET DOCUMENT

Revenue needed to support fund activities is presented in detail with summaries at the revenue category level. For each revenue item, data is presented for the prior biennium actual amount received, the total estimated for the current biennium, the current biennial budget, and the budgeted amount for the coming biennium.

City of Kirkland 2015 - 2016 Budget Revenues						
		2011 -2012	2013 - 2014	2013- 2014	2015 - 2016	Percent
		Actual	Estimate	Budget	Budget	Change
Fund:	General Fund (010)					
Department:	General					
Division:	Not Applicable					
Key:	General Fund (0100000000)					
Taxes						
Property Tax-Real & Personal	3111001	29,082,652	33,252,361	33,573,159	35,267,664	5.04%
Property Tax-Fire Dist 41	3111003	1,872,041	0	0	0	0.00%
Property Tax-Fire Dist 34 36	3111004	441,120	0	0	0	0.00%
Retail* SalesUse Tax	3131001	27,258,446	0	0	0	0.00%
Retail Sales Use Tax	3131101	0	34,295,710	30,321,475	36,460,794	20.24%
Annexation Sales Tax	3131201	4,631,492	7,504,330	6,831,252	7,870,000	15.20%
Brokered* Nat Gas Use Tax	3136001	6,074	0	0	0	0.00%
Brokered Nat Gas Use Tax	3136101	0	5,335	6,400	5,454	-14.78%
Crim Justice-Local Sales Tax	3137101	2,813,084	3,659,472	3,301,260	4,133,831	25.21%
Rev Generating Regulatory Lic	3161001	4,718,880	5,062,372	4,679,290	4,702,714	0.50%
Admissions *Tax	3162001	246,073	0	0	0	0.00%
Electric Utility Tax-Private	3164101	6,997,634	7,561,025	8,019,140	7,727,244	-3.63%
Gas Utility Tax-Private	3164301	2,758,902	2,931,329	3,324,982	3,054,376	-8.13%
Television Cable-Private	3164601	2,753,645	3,160,298	3,128,271	3,223,700	3.05%
Telephone Utility Tax-Private	3164701	5,625,107	6,407,280	5,806,793	6,426,862	10.67%
Telephone Util Tax Priv Audit	3164702	0	403,040	0	0	0.00%
Water Customer Utility Tax	3164811	0	2,646,894	2,524,566	2,773,878	9.87%
Sewer Customer Utility Tax	3164812	0	2,438,745	2,422,103	2,566,069	5.94%
Solid Waste Customer Util Tax	3164813	0	3,014,513	2,908,321	3,018,155	3.77%
Surface Water Cust Util Tax	3164814	0	1,310,172	1,264,133	1,281,272	1.35%
Water *Customer Utility Tax	3167201	2,262,586	0	0	0	0.00%
Sewage* Customer Utility Tax	3167401	2,185,169	0	0	0	0.00%
Garb*Solid Waste Cust Util Tax	3167501	2,316,515	0	0	0	0.00%
Surface*Water Cust Utility Tax	3167801	1,122,291	0	0	0	0.00%
Punch Boards and Pull Tabs	3168101	0	292,961	242,233	273,585	12.94%
Bingo and Raffles	3168201	0	1,316	3,023	267	-91.16%
Amusement Games	3168301	0	2,554	2,408	2,151	-10.67%
Card Games	3168401	0	1,439,302	1,426,214	1,478,624	3.67%
Leasehold Excise Tax	3172001	229,036	276,048	236,000	183,924	-22.06%
Punch *Boards and Pull Tabs	3175101	253,040	0	0	0	0.00%
Bingo* and Raffles	3175201	6,211	0	0	0	0.00%
Amusement* Games	3175301	2,330	0	0	0	0.00%
Card *Games	3175401	820,085	0	0	0	0.00%
Admissions Tax	3181101	0	194,013	221,000	191,828	-13.20%
Business *Tax Penalty Interest	3196001	11,990	0	0	0	0.00%



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FISCAL POLICIES



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FISCAL POLICIES

BACKGROUND AND PURPOSE

The stewardship of public funds is one of the greatest responsibilities given to the officials and managers of the City of Kirkland. Therefore, the establishment and maintenance of wise fiscal policies enables city officials to protect public interests and ensure public trust.

This document incorporates past financial practices in defining the current policies to be used by the City to meet its obligations and operate in a financially prudent manner. These policies have been established to provide general fiscal guidelines and are intended to provide sound direction in the management of the City's financial affairs.

OPERATING BUDGET POLICIES

The municipal budget is the central financial planning document that embodies all operating revenue and expenditure decisions. It establishes the level of services to be provided by each department within the confines of anticipated municipal revenues.

- The City Council will adopt a biennial budget which will reflect estimated revenues and expenditures for the ensuing two years. A mid-biennium review and update will take place as prescribed by law during the first year of the biennium.
- The City Council will establish municipal service levels and priorities for the ensuing two years prior to and during the development of the preliminary budget.
- The City Manager shall incorporate the Council's priorities in the formulation of the preliminary and final budget proposal.
- Adequate maintenance and replacement of the City's capital plant and equipment will be provided for in the biennial budget.
- The biennial budget will be balanced with resources in that biennium.

REVENUE AND EXPENDITURE POLICIES

Annual revenues are conservatively estimated as a basis for preparation of the biennial budget and City service programs.

Expenditures approved by the City Council in the biennial budget define the City's spending limits for the upcoming biennium. Beyond legal requirements, the City will maintain an operating philosophy of cost control and responsible financial management.

- The City will maintain revenue and expenditure categories according to state statute and administrative regulation.
- Current revenues will be sufficient to support current expenditures.
- All revenue forecasts will be performed utilizing accepted analytical techniques.
- All fees for services shall be reviewed and adjusted (where necessary) at least every three years to ensure that rates are equitable and cover the total cost of service, or that percentage of total service cost deemed appropriate by the City.
- Revenues of a limited or indefinite term will be used for capital projects or one-time operating expenditures to ensure that no ongoing service program is lost when such revenues are reduced or discontinued.
- Grant applications to fund new service programs with state or federal funds will be reviewed by the City, as they become available, with due consideration being given to whether locally generated revenues will be required to support these programs when outside funding is no longer available.
- The City of Kirkland will establish and maintain Special Revenue Funds which will be used to account for proceeds from a substantial restricted or committed revenue source used to finance designated activities

which are required by statute, ordinance, resolution or executive order.

- Biennial expenditures will be maintained within the limitations of biennial revenues. The City will not use short-term borrowing to finance current operating needs without full financial analysis and prior approval of the City Council.
- In order to ensure the continuity of services, the City will budget no more sales tax revenue than was received in the prior year as a hedge against possible future economic events.
- Interest income revenue will be used to finance one-time capital or time-limited goods or services including debt service on councilmanic bond issues.
- All authorized positions will be budgeted for a full year (or biennium) unless specifically designated by the City Council as a partial-year position.
- In the event that budget reductions are needed in order to balance revenues and expenditures, the City Council will provide policy direction to staff as to the priority order and combination for using the following strategies:
 - Raise revenue
 - Reduce expenditures
 - Use reserves
- The use of reserves to balance the budget will only be used to address short term temporary revenue shortfalls and expenditure increases.
- The biennial budget will be formally amended by the City Council as needed to acknowledge unforeseen expenditures. All requests for funding will be analyzed by the Finance and Administration Department. The Council will be provided with a discussion of the legality and/or policy basis of the expenditure, the recommended funding source, an analysis of the fiscal impact and a review of all reserves and previously approved amendments since budget adoption.

- A request will not be approved at the same meeting at which it is introduced unless it is deemed an urgent community issue by a supermajority vote of the City Council. Requests made to Council outside of the formal budget adjustment process will be analyzed and presented to the Council for approval at the next regular Council meeting that allows sufficient time for staff to prepare an analysis and recommendation.

ENTERPRISE FUND POLICIES

The City will establish enterprise funds for City services when 1) the intent of the City is that all costs of providing the service should be financed primarily through user charges; and/or 2) the City Council determines that it is appropriate to conduct a periodic review of net income for capital maintenance, accountability, or other public policy purposes.

- Enterprise funds will be established for City-operated utility services.
- Enterprise fund expenditures will be established at a level sufficient to properly maintain the fund's infrastructure and provide for necessary capital development.
- Each enterprise fund will maintain an adequate rate structure to cover the costs of all operations, including maintenance, depreciation, capital and debt service requirements, reserves (as established by fiscal policy or bond covenant), and any other cost deemed necessary.
- Rates may be offset from available fund cash after requirements are met for cash flow and scheduled reserve contributions.
- Enterprise fund services will establish and maintain reserves for general contingency and capital purposes consistent with those maintained for general governmental services.
- Revenue bonds shall be issued only when projected operating revenues are insufficient for the enterprise's capital financing needs.
- The City will insure that net operating revenues of the enterprise constitute a minimum of 1.5 times the annual debt service requirements.

- The City will limit the maturities of all utility revenue bond issues to 30 years or less.

CASH MANAGEMENT AND INVESTMENT POLICIES

Careful financial control of the City's daily operations is an important part of Kirkland's overall fiscal management program. Achieving adequate cash management and investment control requires sound financial planning to ensure that sufficient revenues are available to meet the current expenditures of any one operating period. Once steps are taken to ensure that the City maintains a protected cash position in its daily operations, it is to the municipality's advantage to prudently invest idle funds until such time as they are required to make expenditures.

- The City's idle cash will be invested on a continuous basis in accordance with the City's adopted investment policies.
- The City will maintain a formal investment policy which is reviewed and endorsed by state and/or national professional organizations. The complete policy can be found in the appendix of this document.
- The City will invest all funds (in excess of current requirements) based upon the following order of priority: 1) legality; 2) liquidity; 3) safety; and 4) yield.
- Investments with City funds shall not be made for purposes of speculation.
- The City is prohibited from investing in derivative financial instruments for the City's managed investment portfolio.
- Proper security measures will be taken to safeguard investments. The City's designated banking institution will provide adequate collateral to insure City funds.
- The City's investment portfolio will be reviewed every three years by a qualified portfolio valuation service to assess the portfolio's degree of risk and compliance with the adopted investment policies.
- An analysis of the City's cash position will be prepared at regular intervals throughout the fiscal year.

- The City Council will be provided with quarterly reports on the City's investment strategy and performance.
- Sufficient cash shall be maintained to provide adequate funds for current operating expenditures.
- Where permitted, the City will pool its cash resources from various funds ("Treasurer's Cash") for investment purposes.
- Net investment income from Treasurer's Cash will be allocated in accordance with KMC 5.24.060 considering 1) average cash balance of the participating fund and 2) the minimum cash balance needs of each fund as determined by the Director of Finance and Administration. Net investment income is the amount of annual investment proceeds after an allocation of earned interest is made to certain funds as required by the State and Council-directed obligations are met for General Fund purposes.
- The City of Kirkland will select its official banking institution through a formal bidding process in order to provide the City with the most comprehensive, flexible, and cost-effective banking services available.

ACCOUNTING, FINANCIAL REPORTING AND AUDITING POLICIES

The City of Kirkland will establish and maintain a high standard of accounting practices. Accounting and budgetary systems will, at all times, conform to Generally Accepted Accounting Principles, the State of Washington Budgeting Accounting Reporting System (BARS) and local regulations.

- A comprehensive accounting system will be maintained to provide all financial information necessary to effectively operate the City.
- The City will meet the financial reporting standards set by the Governmental Accounting Standards Board.
- Full disclosure will be provided in all City financial reports and bond representations.
- An annual audit will be performed by the State Auditor's Office and include the issuance of a financial opinion.

RESERVE AND FUND BALANCE POLICIES

Adequate fund balance and reserve levels are a necessary component of the City's overall financial management strategy and a key factor in external agencies' measurement of the City's financial strength.

Maintenance of fund balance for each accounting fund assures adequate resources for cash flow and to mitigate short-term effects of revenue shortages.

City and state regulations have been established to allow the City of Kirkland to create and maintain specific reserve funds. Prudent use of reserve funds enables the City to defray future costs, take advantage of matching funds, and beneficial (but limited) opportunities. Reserve funds provide the City with the ability to exercise flexible financial planning in developing future capital projects. Reserve funds are necessary to enable the City to deal with unforeseen emergencies or changes in condition.

- The City will establish minimum fund balance targets for each fund based on the cash flow requirements of the fund. The City will include all fund balances in the biennial budget.
- The minimum fund balance will be attained and maintained through expenditure management, revenue management and/or contributions from the General Fund.
- All expenditures drawn from reserve accounts shall require prior Council approval unless previously authorized by the City Council for expenditure in the biennial budget or otherwise provided for by City policies.

Reserve Purposes and Targets

- A Contingency Reserve Fund 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.

- The City will maintain a General Operating Reserve at an amount equivalent to five percent of the tax-supported general government budgets (General Fund, Street Operating Fund and Parks Maintenance Fund) for the second year of the biennium. The General Operating Reserve is available to address unforeseen revenue shortfalls or expenditure needs that occur during the current biennium.
- The City will maintain a Revenue Stabilization Reserve to address temporary revenue losses due to economic cycles or other time-limited causes. The Revenue Stabilization Reserve will be maintained at ten percent of selected General Fund revenue sources which, in the judgment of the Director of Finance and Administration, are subject to volatility. The Revenue Stabilization Reserve may be used in its entirety; however, replenishment will be a priority, consistent with adopted policies.
- The City will maintain a Council Special Project Reserve, which is available to the City Council to fund special one-time projects that were unforeseen at the time the budget was prepared. When the reserve is used, it is replenished from the General Fund year-end fund balance to a target balance of \$250,000.
- The City will maintain a General Capital Contingency to address unforeseen project expenditures or external revenue shortfalls in an amount equivalent to ten percent of the funded two-year CIP budget, less proprietary fund projects.
- In establishing targets for the reserves defined above, voted property tax levies will be excluded from the calculations, since the levies are not intended to burden the General Fund and are expected to absorb unexpected costs from levy proceeds.
- The City Manager may authorize the use of capital funding reserves up to an aggregate total of \$100,000 per year in increments not to exceed \$25,000. The City Manager will provide regular reports to the City Council at a regular Council meeting if this authorization is used. Capital funding reserves include: General Capital Contingency, Street Improvement Reserve,

REET Reserves, Impact Fee Reserves, Water/Sewer Capital Contingency, Water/Sewer Construction Reserve, Surface Water Capital Contingency, and Surface Water Construction Reserve.

- The City will maintain a Capital Improvement Project Grant Match Reserve as a means of assuring the availability of cash resources to leverage external funding when the opportunity arises. The reserve will be maintained in the Real Estate Excise Tax Capital Reserve Fund and maintained through excise tax revenue received over and above the annual allocation to the Capital Improvement Plan.
- The City will maintain a Building and Property Reserve with a minimum balance of \$600,000. This reserve is used for property purchases, building improvements and other property-related transactions. It can also be used as a general purpose reserve to fund Council-approved unanticipated expenditures.
- The City will maintain fully funded reserves for the replacement of vehicles and personal computers. Contributions will be made through assessments to the using funds and maintained on a per asset basis.
- Additional reserve accounts may be created to account for monies for future known expenditures, special projects, or other specific purposes.
- All reserves will be presented in the biennial budget.

Reserve Replenishment

- Reserve replenishments occur in two ways during periods of economic recovery:
 - Planned - A specific amount is included in the adopted budget, and
 - Unplanned - Ending fund balances are higher than budgeted, either due to higher than budgeted revenues or under-expenditures.
- Planned amounts are included as part of the adopted budget. Planned replenishments toward 80% of the target level shall be set to at least 1% of the General Fund adopted budget.

- Unplanned amounts available at the end of each biennium (if any) should help replenish to target faster. A high percentage (up to all) uncommitted funds available at the end of a biennium should be used for reserve replenishment until reserves meet 80% of target and the revenue stabilization reserve is at 100% of target. Some or all of those unplanned funds may be used in place of planned (budgeted) amounts in the following biennium to the extent it meets or exceeds the 1% budgeted amount.
- Once reserves reach 80% of target and revenue stabilization reserve is at 100%, funds may be used to meet other one time or on-going needs. Additional funds should be used to fund a variety of needs, based on the following process:
 - Set 50% of available cash toward reserves until they are at 100% of target.
 - The remaining 50% shall be available for one or more of the following needs, depending on the nature of the funds available (one-time or on-going) and in the following order of priority:
 - Fund liabilities related to sinking funds for public safety and information technology equipment,
 - Maintain current service levels,
 - Fund one-time projects or studies,
 - Increase funding for capital purposes,
 - Restore previous program service reductions,
 - Potential program and service enhancements.
- In terms of priority for replenishing the individual reserves, the following guidelines shall be used:
 - If the Council Special Projects reserve is below target, replenish to target at the start of each biennium.
 - If the revenue stabilization reserve is below target, prioritize replenishing the reserve.
 - To the extent cash is from volatile revenues above budgeted amounts,

those funds should be applied to revenue stabilization reserve first.

- If unplanned funds are available because planned reserve uses did not occur, those funds should be returned to the source reserve.
- The source of uncommitted funds should be taken into consideration (for example, interest earnings over budget could be applied to the capital contingency, since they are one of the designated sources for this reserve).
- The degree to which an individual reserve is below target (for example, the reserve that is furthest from its target level on a percentage basis might receive a larger share of the funds).
- Decisions on how replenishments are allocated to specific reserves will be based on where available funds came from and on each reserve's status at the time the decision is made.
- The replenishment policy will provide a mechanism whereby Council may take action to suspend replenishment policies if it was found that special conditions existed warranting such action.

DEBT MANAGEMENT POLICIES

The amount of debt issued by the City is an important factor in measuring its financial performance and condition. Proper use and management of borrowing can yield significant advantages. From a policy perspective, the City of Kirkland uses debt in two ways: (1) as a mechanism to equalize the costs of needed improvements to both present and future citizens; and (2) as a mechanism to reduce the immediate costs of substantial public improvements.

- The City will maintain a formal Debt Management Policy which is reviewed and endorsed by state and/or national professional organizations. The complete policy can be found in the appendix of this document.
- City Council approval is required prior to the issuance of debt.

- An analytical review shall be conducted prior to the issuance of debt.
- The City will continually strive to maintain its bond rating by improving financial policies, budget forecasts and the financial health of the City so its borrowing costs are minimized and its access to credit is preserved.
- All debt issued by the City will include a written opinion by bond counsel affirming that the City is authorized to issue the proposed debt.
- The City of Kirkland will not use long-term debt to support current operations.
- Long-term borrowing will only be used for capital improvements that cannot be financed from current revenues.
- Non-capital furnishings, supplies, and personnel will not be financed from bond proceeds.
- Interest, operating and/or maintenance expenses will be capitalized only for enterprise activities; and will be strictly limited to those expenses incurred prior to actual operation of the facilities.
- The general obligation debt of Kirkland will not exceed an aggregated total of 7.5% of the assessed valuation of the taxable property within the City.
- The following individual percentages shall not be exceeded in any specific debt category:
 - General Debt -- 2.5% of assessed valuation
 - Non-Voted -- 1.5% Limited Tax General Obligation (LTGO) Bonds
 - Voted -- 1.0% Unlimited Tax General Obligation Bonds
 - Utility Debt -- 2.5% of assessed valuation
 - Open Space and Park Facilities -- 2.5% of assessed valuation
- The City's policy is to plan and direct the use of debt so that debt service payments will be a predictable and manageable part of the Operating Budget.

- Short-term borrowing will only be used to meet the immediate financing needs of a project for which long-term financing has been secured but not yet received.
- Assessment bonds will be considered in place of general obligation bonds, where possible, to assure the greatest degree of public equity.
- Limited Tax General Obligation (LTGO) bonds will be issued only if:
 - A project requires funding not available from alternative sources;
 - Matching fund monies are available which may be lost if not applied for in a timely manner; or
 - Emergency conditions exist.
- The issuance of bonds shall be financed for a period not to exceed a conservative estimate of the asset's useful life.
- General Obligation bonds will be issued with maturities of 30 years or less unless otherwise approved by Council.
- The maturity of all assessment bonds shall not exceed statutory limitations. RCW 36.83.050.
- The City will use refunding bonds, where appropriate, when restructuring its current outstanding debt.

biennium review and update will take place during the first year of the biennium.

- The City Council will designate annual ongoing funding levels for each of the major project categories within the Capital Improvement Program.
- Financial analysis of funding sources will be conducted for all proposed capital improvement projects.
- A Capital Improvement Budget will be developed and adopted by the City Council as part of the biennial budget and will be amended during the mid-biennial budget review process (during the first year of the biennium) to reflect any changes in the updated Capital Improvement Program.
- The Capital Improvement Program will be consistent with the Capital Facilities Element of the Comprehensive Plan.
- The City Manager may authorize the reallocation of CIP project funds between CIP projects within a CIP category up to \$50,000 per instance. Funding may only be reallocated within a CIP category (i.e. between Transportation projects, or Parks projects, or Public Safety projects, etc.) when one project is over budget and, in the same period, a second project within the same CIP category has been completed and is closing out under budget. The City Manager will provide regular reports to the City Council at a regular Council meeting if this authorization is used.

CAPITAL IMPROVEMENT POLICIES

Kirkland's City government is accountable for a considerable investment in buildings, parks, roads, sewers, equipment and other capital investments. The preservation, maintenance, and future improvement of these facilities are a primary responsibility of the City. Planning and implementing sound capital improvement policies and programs today will help the City avoid emergencies and major costs in the future, therefore:

- The City will establish and implement a comprehensive multi-year Capital Improvement Program.
- The Capital Improvement Program will be prepared biennially concurrent with the development of the biennial budget. A mid-