

Debt Service Funds account for the payment of general obligation bond principal and interest from governmental resources and the payment of special assessment bond principal and interest from special assessment levies when the City is obligated in some manner for the payment.

GENERAL GOVERNMENT DEBT SERVICE FUNDS



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CITY OF KIRKLAND

GENERAL GOVERNMENT DEBT SERVICE FUNDS

There are three types of debt generally issued by the City for general government purposes:

- **Unlimited Tax General Obligation (UTGO) Bonds** represent debt that was approved by voters for a specific purpose. In this case, citizens have agreed to levy property taxes to repay the debt generally over a twenty-year period.
- **Limited Tax General Obligation (LTGO) Bonds** (also called Councilmanic Bonds) can be issued with approval of the City Council. The debt is repaid from general revenues of the City.
- **Local Improvement District (LID) Bonds** represent debt that is repaid by the property owners who benefited from the capital improvement through annual assessments paid to the City. LIDs are formed by the City Council after a majority of property owners agree to the assessment. Currently the City has no LID Bonds outstanding.

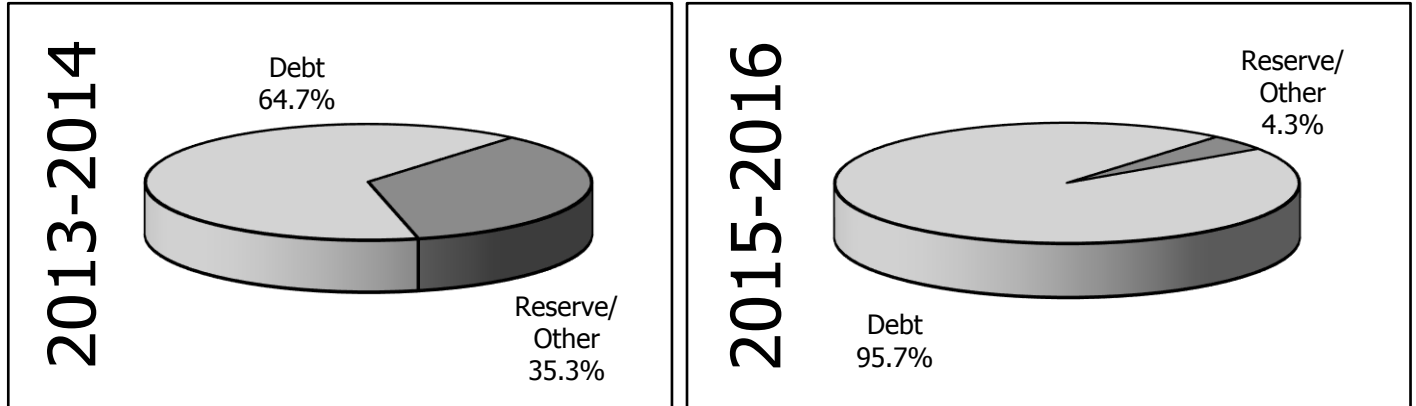
The City's debt management policies provide guidelines for the appropriate use of debt. The complete policies are contained at the end of this document in the appendix. Some key debt management policies include:

- *City Council approval is required prior to issuance of debt.*
- *The City will only use debt to finance capital improvements that cannot be financed through current revenues. The City will not use debt to finance current operations, non-capital furnishings, supplies, or personnel.*
- *Bonds will be issued for a period not to exceed the useful life of the asset being financed.*
- *The City will conduct a thorough analytical review before issuing debt and maintain a good credit rating at all times.*
- *The City's outstanding debt will remain within the limits stated in the City's fiscal policies.*
- *The City will use refunding bonds (refinancing) to restructure current outstanding debt when sufficient savings can be realized from lower interest rates.*

When the City issues debt, a thorough review of the City's financial condition is completed by bond rating agencies. Based on their findings, the bonds are given a rating. The City's bond rating is a reflection of its creditworthiness and affects the cost to the City of issuing debt. There are two rating agencies--Standard and Poor's (S&P) and Moody's Investor Service--that rate Kirkland's bonds. As of November 2008, S&P upgraded the City's rating from AA to AAA, which is the highest rating. This AAA rating was reaffirmed on August 16, 2011. As of April 2010, Moody's upgraded the City's rating from Aa2 to Aa1 for the UTGO Bonds and from Aa3 to Aa2 for the LTGO Bonds. Moody's reaffirmed Kirkland's rating for LTGO bonds at Aa2 on August 15, 2011.

Once bonds are rated, the City enters the bond market to secure the necessary funding. Occasionally, the City will conduct an "over-the-counter" sale where City staff sell bonds directly to Kirkland residents. The proceeds (cash) received from selling the bonds are placed in a capital projects fund to account for the cost of constructing the capital improvement. Separate funds have been created to track the principal and interest payments for limited and unlimited bonds. Each year a sufficient amount of revenue is budgeted and placed in each fund to pay the annual principal and interest due.

CITY OF KIRKLAND GENERAL GOVERNMENT NON-OPERATING DEBT SERVICE FUNDS



Debt service funds are used to account for principal and interest payments used for the retirement of long-term debt. Debt is used by the City as a means of financing capital improvements. By extending the repayment of debt over the anticipated useful life of the improvement, the cost of an improvement can be more equitably spread among the citizens who benefit from the improvement. Bonds are sold and the proceeds (cash) are used to pay for the construction of capital improvements. The bonds are repaid over a period of time from taxes, fees, or other revenue sources dedicated for that purpose.

2013-2014 BUDGET SUMMARY: BY PURPOSE

Fund	2013-14 Budget	Budget by Purpose			
		Reserve	Debt	Capital	Other
210 LTGO Debt Service	7,721,892	9,563	7,712,329	-	-
220 UTGO Debt Service	6,364,593	4,960,580	1,404,013	-	-
Total Debt Service Funds	14,086,485	4,970,143	9,116,342	-	-

2015-2016 BUDGET SUMMARY: BY PURPOSE

Fund	2015-16 Budget	Budget by Purpose			
		Reserve	Debt	Capital	Other
210 LTGO Debt Service	6,837,479	47,185	6,790,294	-	-
220 UTGO Debt Service	1,453,331	309,276	1,144,055	-	-
Total Debt Service Funds	8,290,810	356,461	7,934,349	-	-

CITY OF KIRKLAND
CHANGE IN FUND BALANCE (Beginning 2013 to Ending 2016)
GENERAL GOVERNMENT NON-OPERATING

DEBT SERVICE FUNDS

	Limited GO Debt	Unlimited GO Debt	Total
2013 Actual Beginning Fund Balance	9,563	305,580	315,143
<i>Reserved</i>	<i>9,563</i>	<i>305,580</i>	<i>315,143</i>
<i>Unreserved Working Capital</i>	<i>-</i>	<i>-</i>	<i>-</i>
Plus: 2013-14 Estimated Revenues	7,729,548	6,058,249	13,787,797
Less: 2013-14 Estimated Expenditures	7,712,358	6,054,553	13,766,911
2014 Estimated Ending/2015 Budgeted Beginning Fund Balance	26,753	309,276	336,029
Plus: 2015-16 Budgeted Revenues	6,810,726	1,144,055	7,954,781
Less: 2015-16 Budgeted Expenditures	6,790,294	1,144,055	7,934,349
2016 Budgeted Ending Fund Balance	47,185	309,276	356,461
<i>Reserved</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Unreserved Working Capital</i>	<i>47,185</i>	<i>309,276</i>	<i>356,461</i>
Change in Fund Balance: Beginning 2013 to Ending 2016	37,622	3,696	41,318

Notes:

Fund balances in debt service funds provide for cash flow needs.

**CITY OF KIRKLAND
GENERAL GOVERNMENT NON-OPERATING
DEBT SERVICE FUNDS
2015-2016 PAYMENT AND RESERVE SUMMARY**

2013-2014 Budget

Fund	Payment		Reserve	Total
	Principal	Interest		
210 LTGO Debt Service	3,889,400	3,759,819	9,563	7,658,782
220 UTGO Debt Service	990,000	474,160	306,693	1,770,853
Total Debt Service Funds	4,879,400	4,233,979	316,256	9,429,635

2015-2016 Budget

Fund	Payment		Reserve	Total
	Principal	Interest		
210 LTGO Debt Service	3,186,886	3,603,408	47,185	6,837,479
220 UTGO Debt Service	965,000	179,055	309,276	1,453,331
Total Debt Service Funds	4,151,886	3,782,463	356,461	8,290,810

CITY OF KIRKLAND

SCHEDULE OF LONG TERM DEBT

The City uses long term debt to finance the cost of large capital improvements. Councilmanic debt is repaid from general revenues. Voter approved debt is retired from property tax increases put in place for the life of the bond issue. Revenue bonds are repaid from water/sewer utility rates. The following schedule identifies current outstanding long-term debt.

Type of Debt	Issue Date	Original Amount	Outstanding 12/31/2014	Cost Per \$1,000 AV	Avg Annual Debt Service*
<i>Councilmanic Bonds:</i>					
2011 Limited G.O. Refunding (Teen Center) ¹	9/2/11	430,000	280,000	N/A	60,948
2011 Limited G.O. Refunding (McAuliffe) ²	9/2/11	1,781,031	1,145,000	N/A	182,973
2010 Limited G.O. (Facilities Expansion)	12/21/10	35,345,000	33,270,000	N/A	2,352,106
Total Councilmanic Bonds		37,556,031	34,695,000		2,596,027
<i>Voter Approved Bonds:</i>					
2013 Unlimited G.O. Refunding (Parks) ³	10/29/13	4,670,000	4,130,000	0.262	570,875
Total Voter Approved Bonds		4,670,000	4,130,000	0.262	570,875
<i>Estimated Remaining Voter Approved Debt Capacity as of 12/31/2014</i>				\$	1,144,570,840
<i>Fire District #41 Bond:</i>					
2011 Limited G.O. (Fire Station Construction)	5/26/11	4,000,000	2,930,287	N/A	470,572
Total Fire District #41 Bond		4,000,000	2,930,287		470,572
<i>Public Works Trust Fund Loans:</i>					
1995 Lift Station	6/9/95	794,850	44,522	N/A	45,412
2000 Lift Station Replacement-Design	7/1/00	227,500	62,675	N/A	13,036
2001 Lift Station Replacement-Construction	9/15/03	1,848,000	720,780	N/A	105,543
2004 Central Way Sewer Replacement	9/1/04	1,086,300	573,325	N/A	59,195
2012 NE 80th ST Water/Sewer Replacement ⁴	10/8/12	4,038,000	N/A	N/A	N/A
Total Revenue Bonds & Trust Fund Loans		7,994,650	1,401,302		223,186

*The average annual debt service is based on the remaining principal and interest payments due until the debt is extinguished.

¹ Refunds Original 1999 Issue with 2011 Refund

² Refunds 2001 Refund with 2011 Refund

³ Refunds Original 2003 Issue with 2013 Refund

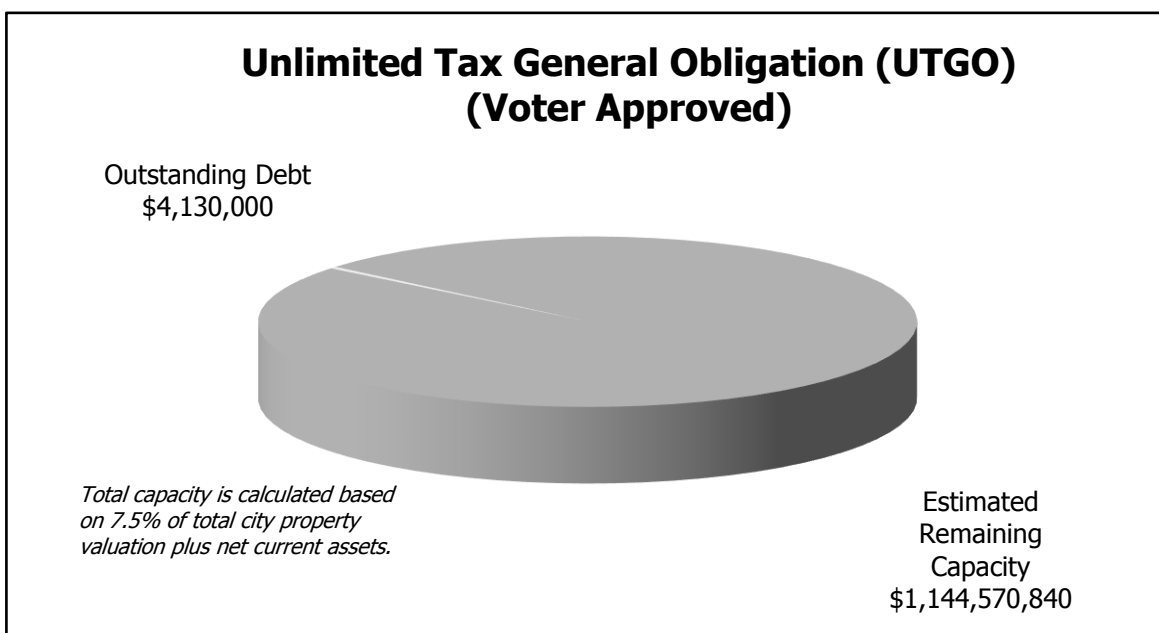
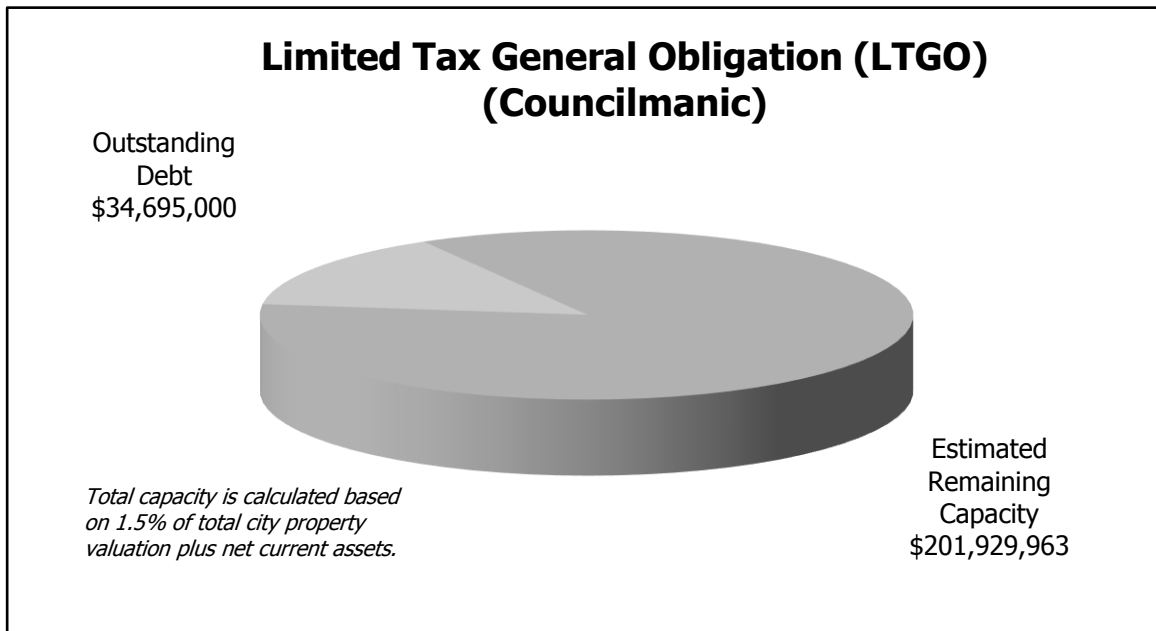
⁴ Active PWTF project; draws occur until project is complete. Total amortization schedule unknown until draws are complete.

Note: On May 26, 2011, Fire Protection District #41 issued \$4 million in Limited Tax General Obligation Bonds to finance the Consolidated Fire Station Project. On June 1, 2011, the Fire District ceased operation when the City of Kirkland annexed all the territory served by the District. The outstanding debt remains an obligation of the taxable property which was annexed.

CITY OF KIRKLAND

DEBT CAPACITY

Washington State law imposes limitations on the total amount of debt that a city can have outstanding to 7.5 percent of total assessed property valuation plus the net of current assets and liabilities. This comprises the City's "Debt Capacity" at any one time. The City Council has authority to issue bonds without voter approval (Councilmanic) for a combined total of up to 1.5 percent of the City's assessed valuation. The following graphs compare the total estimated capacity available to the City's indebtedness:



City of Kirkland
2010 Build America Bonds and Recovery Zone Economic Development Bonds

Purpose: Facilities Expansion

Amount of Issue	\$35,345,000	Date of Bond Sale	12/21/2010
Ordinance	4272	Net Interest Rate	3.593%
		Org:	2100009010

DEBT SERVICE SCHEDULE

Year	Interest Dates:		Interest Rate	Maturity Date	Principal Amount	Total Payment	Principal Balance
	June 1	December 1					
2011	765,233	860,888	0.90%	12/1/2011	135,000	1,761,121	35,210,000
2012	860,280	860,280	1.20%	12/1/2012	640,000	2,360,560	34,570,000
2013	856,440	856,440	1.50%	12/1/2013	645,000	2,357,880	33,925,000
2014	851,603	851,603	1.80%	12/1/2014	655,000	2,358,205	33,270,000
2015	845,708	845,708	2.20%	12/1/2015	990,000	2,681,415	32,280,000
2016	834,818	834,818	2.75%	12/1/2016	1,010,000	2,679,635	31,270,000
2017	820,930	820,930	3.00%	12/1/2017	1,030,000	2,671,860	30,240,000
2018	805,480	805,480	3.40%	12/1/2018	1,045,000	2,655,960	29,195,000
2019	787,715	787,715	3.75%	12/1/2019	1,070,000	2,645,430	28,125,000
2020	767,653	767,653	4.00%	12/1/2020	1,195,000	2,730,305	26,930,000
2021	743,753	743,753	4.20%	12/1/2021	805,000	2,292,505	26,125,000
2022	726,848	726,848	4.40%	12/1/2022	1,000,000	2,453,695	25,125,000
2023	704,848	704,848	4.60%	12/1/2023	1,030,000	2,439,695	24,095,000
2024	681,158	681,158	4.75%	12/1/2024	1,060,000	2,422,315	23,035,000
2025	655,983	655,983	4.90%	12/1/2025	1,095,000	2,406,965	21,940,000
2026	629,155	629,155	5.10%	12/1/2026	1,125,000	2,383,310	20,815,000
2027	600,468	600,468	5.25%	12/1/2027	1,165,000	2,365,935	19,650,000
2028	569,886	569,886	5.40%	12/1/2028	1,205,000	2,344,773	18,445,000
2029	537,351	537,351	5.50%	12/1/2029	1,245,000	2,319,703	17,200,000
2030	503,114	503,114	5.55%	12/1/2030	1,290,000	2,296,228	15,910,000
2031	467,316	467,316	5.60%	12/1/2031	1,340,000	2,274,633	14,570,000
2032	429,796	429,796	5.88%	12/1/2032	1,390,000	2,249,593	13,180,000
2033	388,965	388,965	5.88%	12/1/2033	1,440,000	2,217,930	11,740,000
2034	346,665	346,665	5.88%	12/1/2034	1,495,000	2,188,330	10,245,000
2035	302,749	302,749	5.88%	12/1/2035	1,555,000	2,160,499	8,690,000
2036	257,071	257,071	5.88%	12/1/2036	1,610,000	2,124,143	7,080,000
2037	209,778	209,778	5.90%	12/1/2037	1,675,000	2,094,555	5,405,000
2038	160,365	160,365	5.90%	12/1/2038	1,735,000	2,055,730	3,670,000
2039	109,183	109,183	5.95%	12/1/2039	1,800,000	2,018,365	1,870,000
2040	55,633	55,633	5.95%	12/1/2040	1,870,000	1,981,265	-
Totals	17,275,940	17,371,594			35,345,000	69,992,535	

City of Kirkland**Fire District #41 Bond (Issued by Fire District prior to Annexation)****Purpose: Fire Station Construction**

Denomination	n/a	Date of Bond Sale	5/26/2011
Amount of Issue	4,000,000	Net Interest Rate	3.200%
Ordinance	n/a	Org:	2100009110

DEBT SERVICE SCHEDULE

Year	Interest Dates:		Interest Rate	Maturity Date	Principal Amount	Total Payment	Principal Balance
	June 1	December 1					
2011	-	65,778	3.20%	12/1/2011	-	65,778	4,000,000
2012	64,000	61,259	3.20%	12/1/2012	345,313	470,572	3,654,687
2013	58,475	55,646	3.20%	12/1/2013	356,451	470,572	3,298,236
2014	52,772	49,852	3.20%	12/1/2014	367,949	470,572	2,930,287
2015	46,885	43,870	3.20%	12/1/2015	379,817	470,572	2,550,470
2016	40,808	37,696	3.20%	12/1/2016	392,069	470,572	2,158,401
2017	34,534	31,322	3.20%	12/1/2017	404,715	470,572	1,753,686
2018	28,059	24,743	3.20%	12/1/2018	417,770	470,572	1,335,916
2019	21,375	17,952	3.20%	12/1/2019	431,245	470,572	904,670
2020	14,475	10,942	3.20%	12/1/2019	445,156	470,572	459,515
2021	7,352	3,705	3.20%	12/1/2019	459,515	470,572	-
Totals	368,734	402,766			4,000,000	4,771,500	

Note: On May 26, 2011, Fire Protection District #41 issued \$4 million in Limited Tax General Obligation Bonds to finance the Consolidated Fire Station Project. On June 1, 2011, the Fire District dissolved when the City of Kirkland annexed all the territory served by the District. The outstanding debt remains an obligation of the taxable property which was annexed.

City of Kirkland**1999 Limited General Obligation Bonds****Now a portion of the 2011 LTGO REFUNDING BONDS****Purpose: Teen Center Design and Construction**

Denomination	\$5,000	Date of Bond Sale	9/2/2011
Amount of Issue	\$430,000	Net Interest Rate	1.380%
Ordinance	4317	Org:	2100009111

DEBT SERVICE SCHEDULE

Year	Interest Dates:		Interest Rate	Maturity Date	Principal Amount	Total Payment	Principal Balance
	June 1	December 1					
2011	-	-	2.00%	12/1/2011	-	-	430,000
2012	7,189	4,810	2.00%	12/1/2012	45,000	56,999	385,000
2013	4,431	4,431	2.00%	12/1/2013	50,000	58,862	335,000
2014	4,055	4,055	2.00%	12/1/2014	55,000	63,110	280,000
2015	3,792	3,792	2.00%	12/1/2015	50,000	57,584	230,000
2016	3,252	3,252	2.00%	12/1/2016	55,000	61,504	175,000
2017	2,625	2,625	3.00%	12/1/2017	55,000	60,250	120,000
2018	1,800	1,800	3.00%	12/1/2018	60,000	63,600	60,000
2019	900	900	3.00%	12/1/2019	60,000	61,800	-
Totals	28,044	25,665			430,000	483,709	

City of Kirkland
2011 Limited General Obligation Bonds

Purpose: Refunds McAuliffe Private Placement Takeout Bonds 2001

Denomination	\$5,000	Date of Bond Sale	9/2/2011
Amount of Issue	\$1,781,031	Net Interest Rate	1.380%
Ordinance	4317	Org:	2100009111

DEBT SERVICE SCHEDULE

Year	Interest Dates:		Interest Rate	Maturity Date	Principal Amount	Total Payment	Principal Balance
	June 1	December 1					
2011	-	-	2.00%	12/1/2011	-	-	1,781,031
2012	29,776	19,924	2.00%	12/1/2012	210,137	259,837	1,570,894
2013	18,081	18,081	2.00%	12/1/2013	215,330	251,492	1,355,564
2014	16,408	16,408	2.00%	12/1/2014	210,564	243,380	1,145,000
2015	15,508	15,508	2.00%	12/1/2015	155,000	186,016	990,000
2016	13,998	13,998	2.00%	12/1/2016	155,000	182,996	835,000
2017	12,525	12,525	3.00%	12/1/2017	155,000	180,050	680,000
2018	10,200	10,200	3.00%	12/1/2018	160,000	180,400	520,000
2019	7,800	7,800	3.00%	12/1/2019	170,000	185,600	350,000
2020	5,250	5,250	3.00%	12/1/2020	175,000	185,500	175,000
2021	2,625	2,625	3.00%	12/1/2021	175,000	180,250	-
Totals	132,171	122,319			1,781,031	2,035,521	

City of Kirkland
Unlimited Tax General Obligation Refunding Bonds, 2013

Purpose: Refund 2003 UTGO Park Bonds

Denomination	\$5,000	Date of Bond Sale	10/29/2013
Amount of Issue	\$4,670,000	Net Interest Rate	2.3%
Ordinance	4420	Org:	2200009113

DEBT SERVICE SCHEDULE

Year	Interest Dates:		Interest Rate	Maturity Date	Principal Amount	Total Payment	Principal Balance
	June 1	December 1					
2013	-	-	2.30%		-	-	4,670,000
2014	63,253	53,705	2.30%	12/1/2014	540,000	656,958	4,130,000
2015	47,495	47,495	2.30%	12/1/2015	475,000	569,990	3,655,000
2016	42,033	42,032	2.30%	12/1/2016	490,000	574,065	3,165,000
2017	36,398	36,397	2.30%	12/1/2017	510,000	582,795	2,655,000
2018	30,533	30,532	2.30%	12/1/2018	520,000	581,065	2,135,000
2019	24,553	24,552	2.30%	12/1/2019	515,000	564,105	1,620,000
2020	18,630	18,630	2.30%	12/1/2020	530,000	567,260	1,090,000
2021	12,535	12,535	2.30%	12/1/2021	540,000	565,070	550,000
2022	6,325	6,325	2.30%	12/1/2022	550,000	562,650	-
Totals	281,755	272,203			4,670,000	5,223,958	