

Attachment A



2002 Second Quarter Financial Report

Prepared by the Finance Department

For

Fiscal Year January 1, 2002 – December 31, 2002

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EXECUTIVE SUMMARY

The figures presented in this report include the revised budget and incorporate the budget amendment adopted by Council on April 8, 2002.

General Fund

Second quarter 2002 actual revenue collections were 12,720,070, \$183,041 or 1.5% above projections of \$12,550,276. This increase was generated by greater than expected revenues from electricity franchise fees, telephone utility taxes, cable TV franchise fees and Parks revenue. As a result, 2002 revenue projections have been revised upward by \$620,172 to \$27,034,152 which is a 2.3% increase.

Actual second quarter expenditures were \$10,901,240, \$949,786 or 8% below projections of \$11,851,026. 2002 projected expenditures have been reduced from \$27,018,650 to \$26,450,791 a reduction of \$565,859 or 2.1%. This revised projection assumes that the Operational Contingency, Insurance Reserves and PERS Contingency will not be spent in 2002.

Development Services Fund

Revenues in this fund continue to be behind projections as permit activity continues to decline due to the recession. Projected revenue has been revised downward by \$178,135 from \$1,912,731 to \$1,734,596 to reflect the decline in permit activity and investment earnings. Through the first half of the year, permit revenues equals \$524,348. During the same period in 2000 and 2001, revenues equaled \$545,692 and \$595,972 respectively. Overall, after the first half of the year, total revenues of \$855,285 are behind projections of \$900,452 by \$45,167 or 5%.

Expenditure projections have been reduced by \$33,961. After the first half of the year, actual expenditures of \$908,624 are below projections of \$917,055 by \$8,431.

Street Fund

Revenues in this fund totaling \$1,346,614 are behind projections of \$1,391,790 by \$45,176. Most of the under-collection is from lower than expected motor vehicle fuel tax receipts and interest earnings. Fuel consumption is down statewide and is not expected to increase significantly until we start to recover from the recession.

Street Fund expenditures of \$1,479,784 are slightly ahead of projections of \$1,467,607 by \$12,177 or 1.4%. No changes have been made to the expenditure projections for this fund.

Surface Water Management Fund

Revenue projections in this fund have been reduced from \$2,345,524 by \$49,803 to \$2,295,721 to reflect lower than expected interest earnings. Revenues in this fund totaling \$1,153,386 are ahead of projections of \$1,124,998 by \$28,388 mainly due to storm drainage fees that are ahead of projections by \$31,259.

Expenditures of \$916,897 are behind projections of \$929,858 by \$12,960 or 1%. No changes have been made to the expenditure projection for this fund.

Capital Improvement Funds

Revenues in the General Capital Fund of \$1,415,756 are behind projections of \$1,430,730 by \$14,974 or 5%. Expenditures of \$1,287,131 are behind projections of \$1,649,787 by \$362,654 or 22%.

Roads Capital Fund revenues of \$1,396,024 are only \$3,204 above projections of \$1,392,820. Expenditures of \$210,266 are \$193,999 or 48% below expenditure projections of \$404,265.

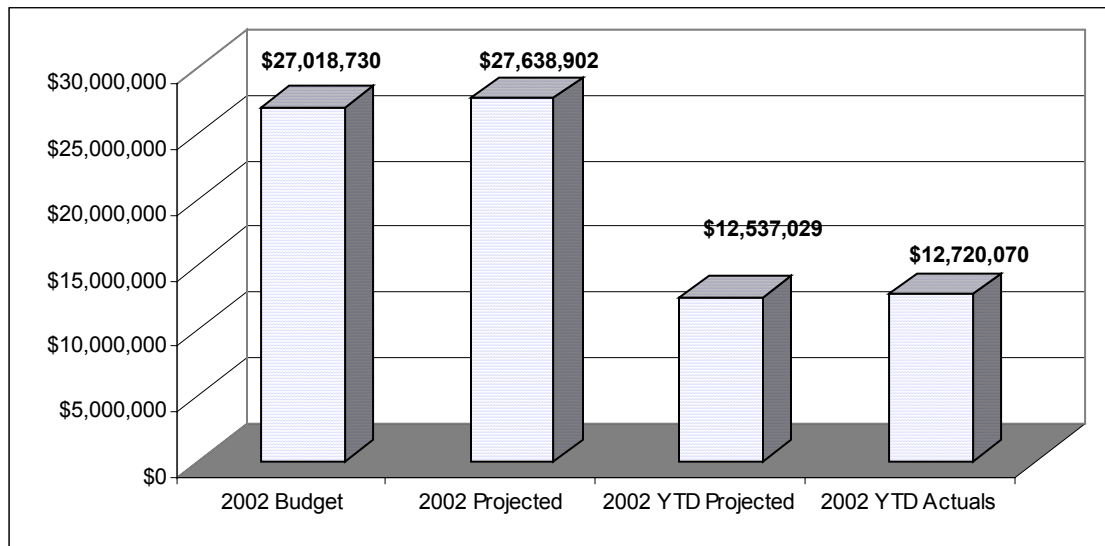
In the Surface Water Capital Fund, revenues of \$120,487 are only \$229 below projections of \$120,716. Expenditures through June of \$128,315 are only \$693 below projections of \$129,008.

All Funds Summary

The following table provides a summary of the financial results for all City funds for the first half of 2002:

Fund	2002 Revenues				2002 Expenditures			
	Current Budget	2nd Qtr Projected	2nd Qtr Actual	2 nd Qtr Variance	Current Budget	2nd Qtr Projected	2nd Qtr Actual	2nd Qtr Variance
General Fund	\$27,018,730	12,537,029	\$12,720,070	\$183,041	\$27,018,730	\$11,851,026	\$10,901,240	(\$949,786)
Streets	3,585,011	1,391,790	1,346,614	(45,176)	3,585,011	1,467,607	1,479,786	12,179
Arterial Streets	369,042	180,410	169,726	(10,684)	369,042	184,521	184,524	3
Surface Water Operations	2,345,524	1,124,998	1,153,386	28,388	2,345,524	929,858	916,898	(12,960)
General Reserve	0	257,550	257,550	0	0	0	0	0
Development Services	1,914,731	900,452	855,285	(45,167)	1,914,731	917,055	908,624	(8,431)
PD&S Abatement	100,000	50,000	0	(50,000)	100,000	50,000	11,181	(38,819)
Asset Seizure Fund	25,000	11,928	2,279	(9,649)	25,000	12,500	5,276	(7,224)
Gen. Capital Improvement	3,299,574	1,430,730	1,415,756	(14,974)	3,299,574	1,649,787	1,287,133	(362,654)
Roads Capital	4,042,649	1,392,820	1,396,024	3,204	4,042,649	404,265	210,266	(193,999)
Surface Water Capital	645,038	120,716	120,487	(229)	645,038	129,008	128,315	(693)
Vehicle Operations/Maint.	70,000	35,784	36,521	737	70,000	35,000	20,692	(14,308)
Equipment Replacement	275,000	206,073	204,367	(1,706)	275,000	175,000	111,027	(63,973)
Unemployment	8,259	10,000	10,000	0	8,259	4,130	14,868	10,739
Total	\$43,698,558	\$19,650,280	\$19,688,065	\$37,785	\$43,698,558	\$17,809,759	\$16,179,832	(\$1,629,927)

General Fund Revenue



2002 General Fund revenue projections have been increased by \$620,172 or 2.3% to \$27,638,902. Second quarter 2002 actual revenue collections were 12,720,070, \$183,041 or 1.5% above projections of \$12,550,276. This increase is small and represents conservative estimates. Contributing factors to this increase are better than expected utility revenue due to continued auditing and collection efforts, increased Parks revenue and adjusting revenues so that they more closely follow historical patterns and current trends.

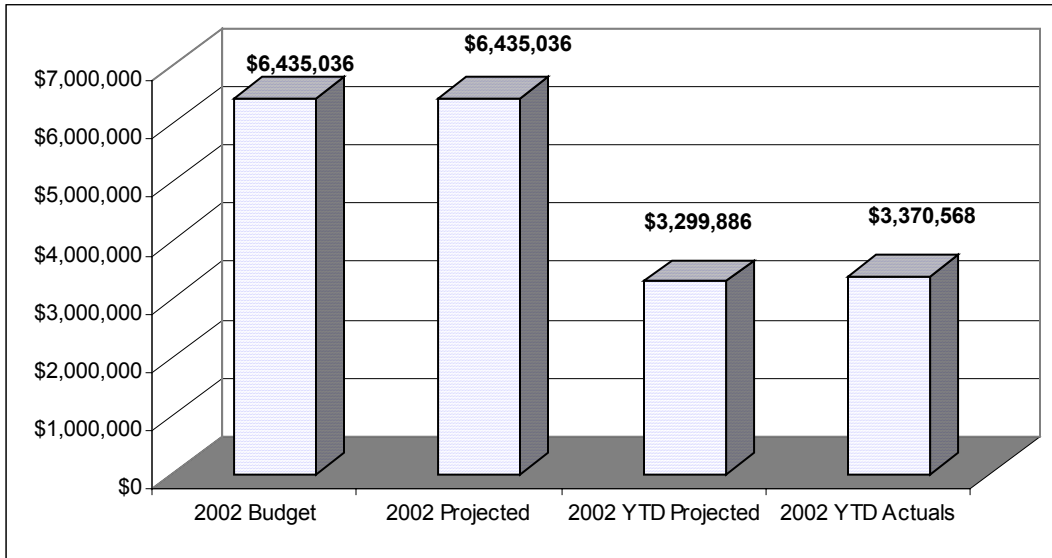
Tempering the City's revenue increases for second quarter 2002 is the continued decrease in interest income and the stagnant growth in sales tax revenue. For second quarter 2002 interest income was \$22,882 below already lowered projections of \$139,951. This decrease is attributable to the continued decline in the net rate of return in the Local Government Investment Pool. As a result, interest income has been lowered to \$250,000 which is a decrease of \$308,725 from the 2002 budget amount. Sales tax revenue through second quarter is growing at 0.43% which represents only a \$9,000 increase over budgeted revenue.

Given the regional economic conditions the fact that the City's overall second quarter revenue collections are ahead of projections is encouraging news. However, it is still critical that the City maintains a very conservative financial approach during this time of economic uncertainty.

The chart below details each revenue category for second quarter of 2002. The first column is the adopted 2002 revenue amount. The second column represents the revised projection, if applicable, for each category. The third column displays the projected revenue through second quarter. The fourth column displays the actual revenues through June. The fifth column shows the variance between second quarter projections and actual collections. The sixth column displays the variance in percentage terms and the last column reflects that revenue source as a percent of General Fund revenues.

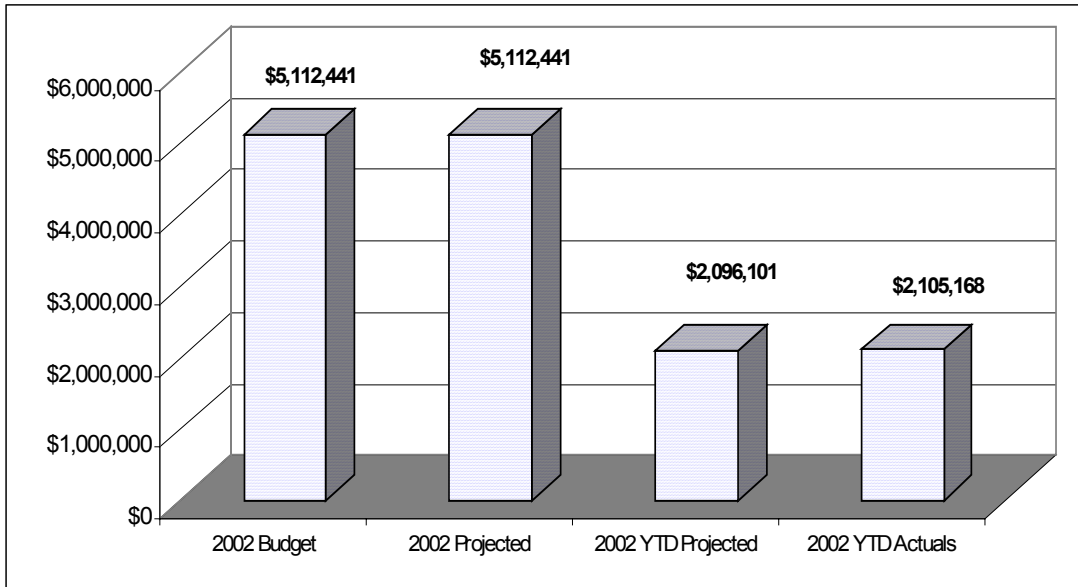
	2002 Budget	2002 Projected	2002 YTD Projected	2002 YTD Actuals	2nd Qtr. Variance	% Variance	% of Total Revenue
Budgeted Fund Balance	1,805,443	1,805,443	-	-			
Property Tax	6,435,036	6,435,036	3,299,886	3,370,568	70,682	2.1%	23.3%
Sales Tax	5,112,441	5,112,441	2,096,101	2,105,168	9,067	0.4%	18.5%
Criminal Justice Sale Tax	1,128,989	1,128,989	541,247	499,811	(41,436)	-7.7%	4.1%
Utility Tax/Franchise Fee Category					-		
Natural Gas Utility Tax	844,539	844,539	439,160	434,005	(5,155)	-1.2%	3.1%
Sanitation Utility Tax	181,800	278,019	115,841	123,674	7,833	6.8%	1.0%
Cable TV Utility Tax	58,222	72,093	28,837	32,067	3,230	11.2%	0.3%
Telephone/Cell Utility Tax	1,020,000	1,188,318	592,377	640,075	47,698	8.1%	4.3%
Electricity Franchise Fee	694,350	840,000	378,000	455,757	77,757	20.6%	3.0%
Water Franchise Fee	430,325	430,325	107,581	150,097	42,516	39.5%	1.6%
Sewer Franchise Fee	202,444	257,750	103,100	98,526	(4,574)	-4.4%	0.9%
Cable TV Franchise Fee	360,467	463,819	185,528	209,530	24,002	12.9%	1.7%
Utility Tax/Franchise Fee Subtotal	3,792,147	4,374,863	1,950,424	2,143,731	193,307	9.9%	15.8%
Gambling Tax	2,500,000	2,699,032	876,085	817,583	(58,502)	-6.7%	9.8%
State Revenue	2,113,414	2,113,414	1,800,864	1,800,867	3	0.0%	7.6%
Parks & Recreation Revenue	560,227	611,726	344,164	370,986	26,822	7.8%	2.2%
Fines & Forfeitures	75,000	136,500	58,724	76,054	17,331	29.5%	0.5%
Grants & Misc. Revenue	1,047,929	773,354	321,001	273,750	(47,251)	-14.7%	2.8%
Transfers-In	2,448,104	2,448,104	1,248,533	1,261,552	13,019	1.0%	8.9%
Total General Fund Revenue	27,018,730	27,638,902	12,537,029	12,720,070	183,041	1.5%	100.0%

Property Tax Revenue



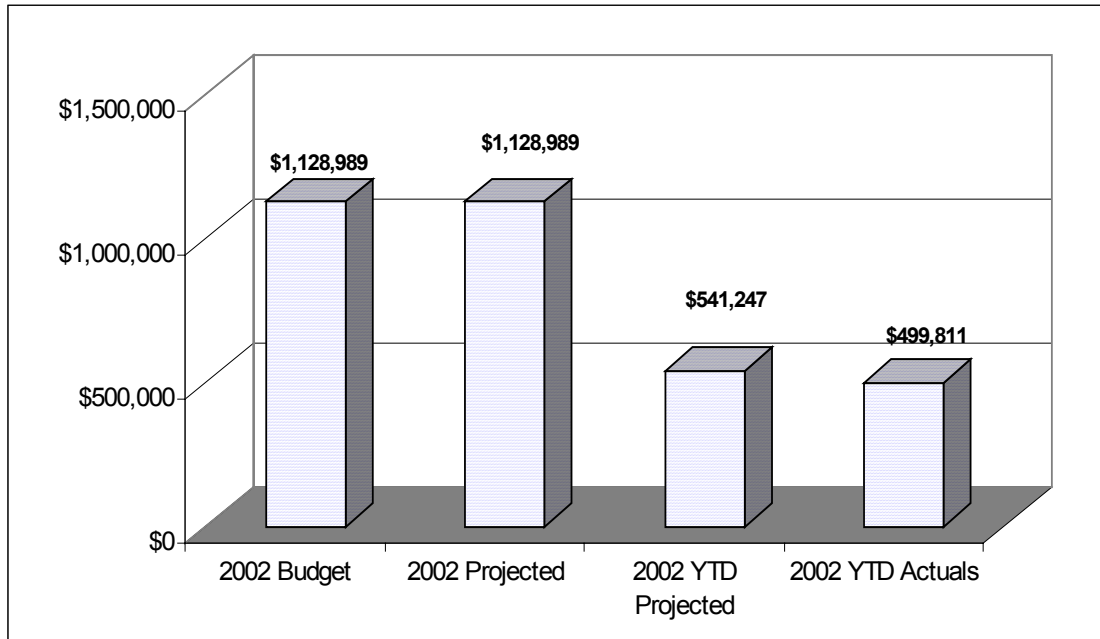
Property tax collections of \$3,370,568 exceeded projections of \$3,299,886 by \$70,682 or 2.1%. This variance has increased from the first quarter variance of \$57,368. A portion of this variance represents tax payments for prior periods. No change has been made in the 2002 projected revenue in this category as the adopted budget for this tax is based upon the property tax levy adopted by Council. Only 98% of the levy is expected to be collected due to an anticipated 2% rate of delinquencies. During the first half of each year, the City typically receives slightly more than 51% of the annual collections.

Sales Tax Revenue



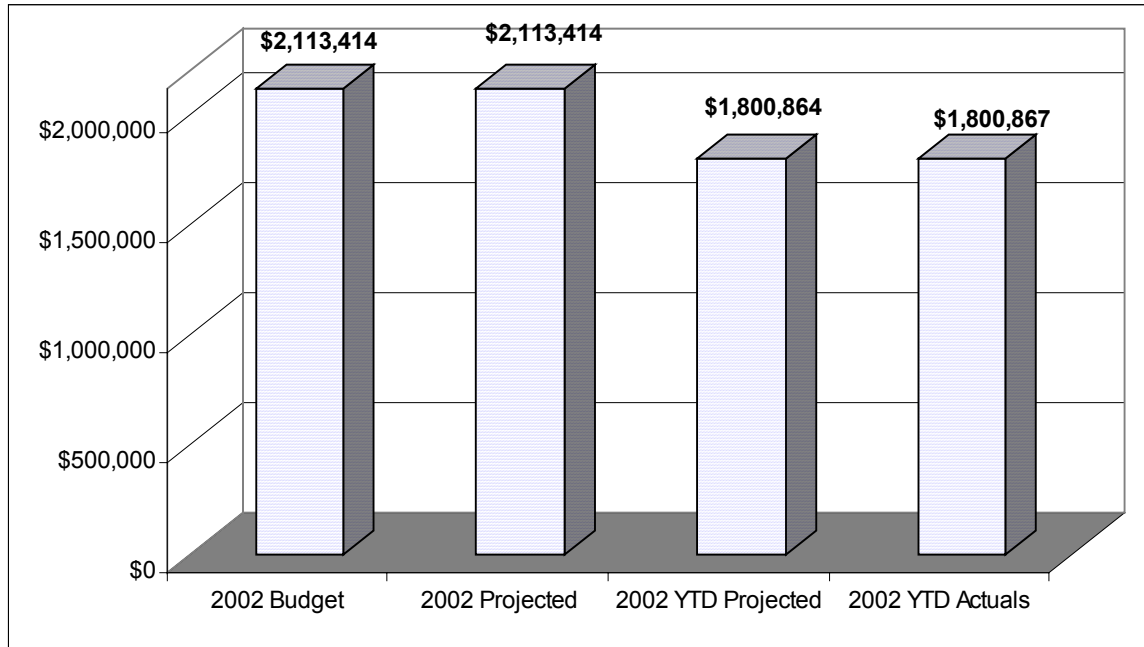
Sales tax collections of \$2,105,168 are slightly ahead of projections of \$2,096,101 by \$9,067 or 0.4%. Through the first half of 2001, the city had collected \$2,041,427 in sales tax revenue. Collections this year are \$63,741 or 3.1% ahead of the same period in 2001. No revisions have been made to the 2002 projections in this category since collections are very close to projections. We are not expecting to experience any growth in collections for the remainder of the year, yet it does appear that we will collect at or slightly above budget.

Criminal Justice Sales Tax Revenue



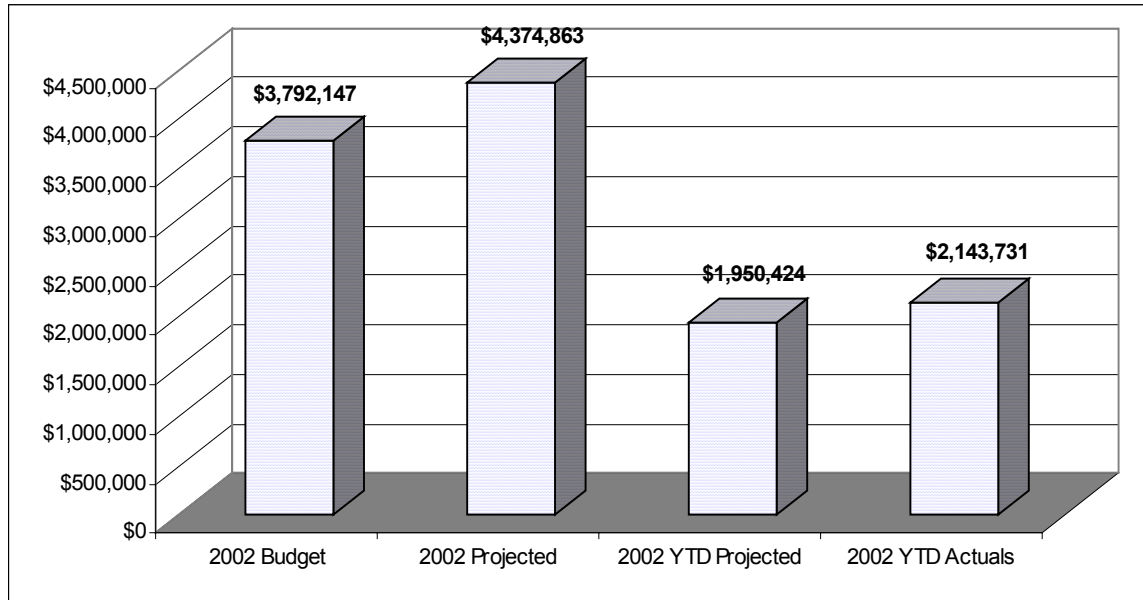
Local Criminal Justice Sales Tax of \$499,811 is below projections of \$541,247 by \$41,436 or 7.7%. Projections for this revenue have not been revised. This category differs from sales tax because it represents sales tax collected throughout King County. The distribution of the tax is based upon each city's population. Revenue received by the City does not reflect sales tax experience within Shoreline. While sales tax collections in Shoreline remain flat in comparison with 2001, January through March collections throughout the County are down by 8% when compared with the same period of 2001.

State Revenue



State Revenue of \$1,800,867 exceeded projections of \$1,800,864 by only \$3. This category includes Local Government Assistance (I-695 backfill), CTED criminal justice funding, liquor excise tax and Liquor Board profits.

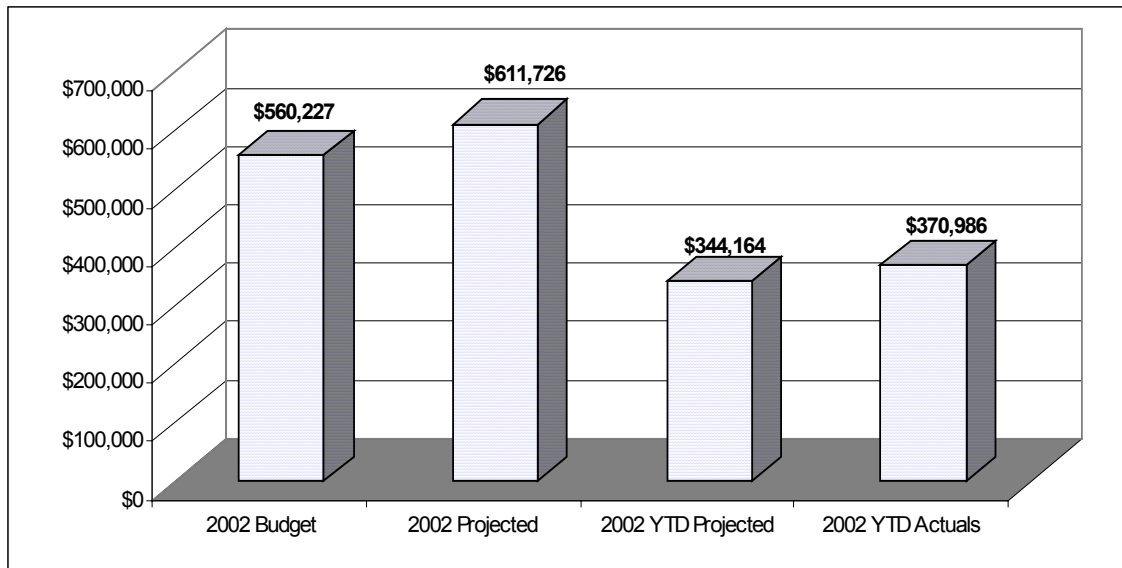
Utility Tax and Franchise Fee Revenue



Utility tax and franchise fee revenue of \$2,143,731 exceeded projections of \$1,950,424 by \$193,307 or 9.9%. After the first quarter of the year we increased the 2002 revenue projection by \$408,890 or by 10%. At this time we are increasing projections by another \$173,826 for a total increase of \$582,716. The increase in revenue is due primarily to the following:

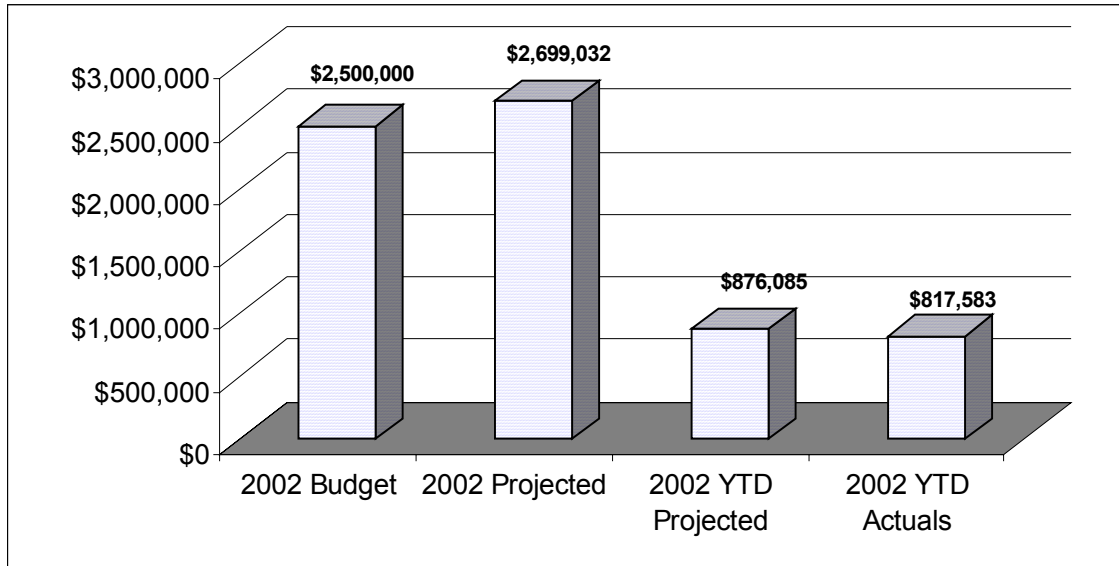
- ◆ Rate increases implemented by Seattle City Light generated \$36,592 more than projected during the first quarter, as a result SCL revenue for 2002 was revised upward by \$145,650 or 20%.
- ◆ A rate increase implemented by Waste Management (sanitation) on January 1, 2002 generated \$13,861 more than projected during the first quarter; as a result sanitation revenue for 2002 was revised upward by \$96,219 or 52%.
- ◆ Cable TV utility tax revenue for 2002 has been revised upward by \$13,871 or 24% to more accurately reflect historical data and current trends.
- ◆ Further contributing to this increase is the collection in 2002 of late 2001 fourth quarter payments in Cable TV Franchise fees (\$103,352) and Seattle Public Utilities – Sewer (\$55,306) franchise fees.
- ◆ Telephone projections were increased by \$168,318 to include taxes received from prior periods as a result of the completion of auditing activities.

Parks and Recreation Fee Revenue



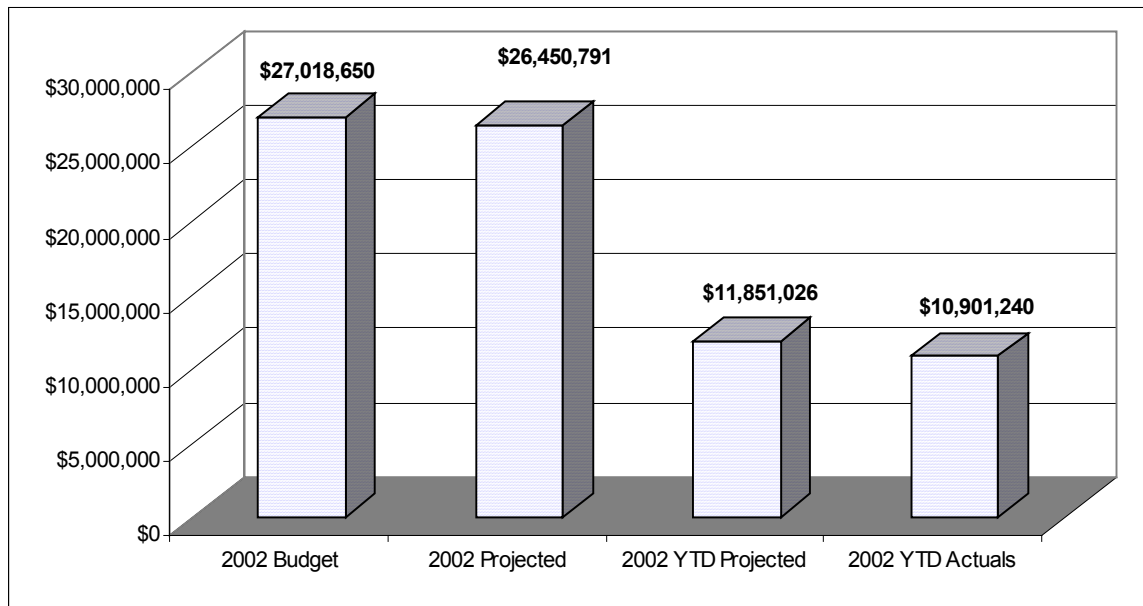
Parks and Recreation Fee revenue of \$370,986 is above projections of \$344,164 by \$26,822 or 7.8%. The primary contributor to this increase was pool revenue that was \$53,943 above projections. At this time we are increasing Parks revenue from \$560,227 to \$611,726.

Gambling Revenue



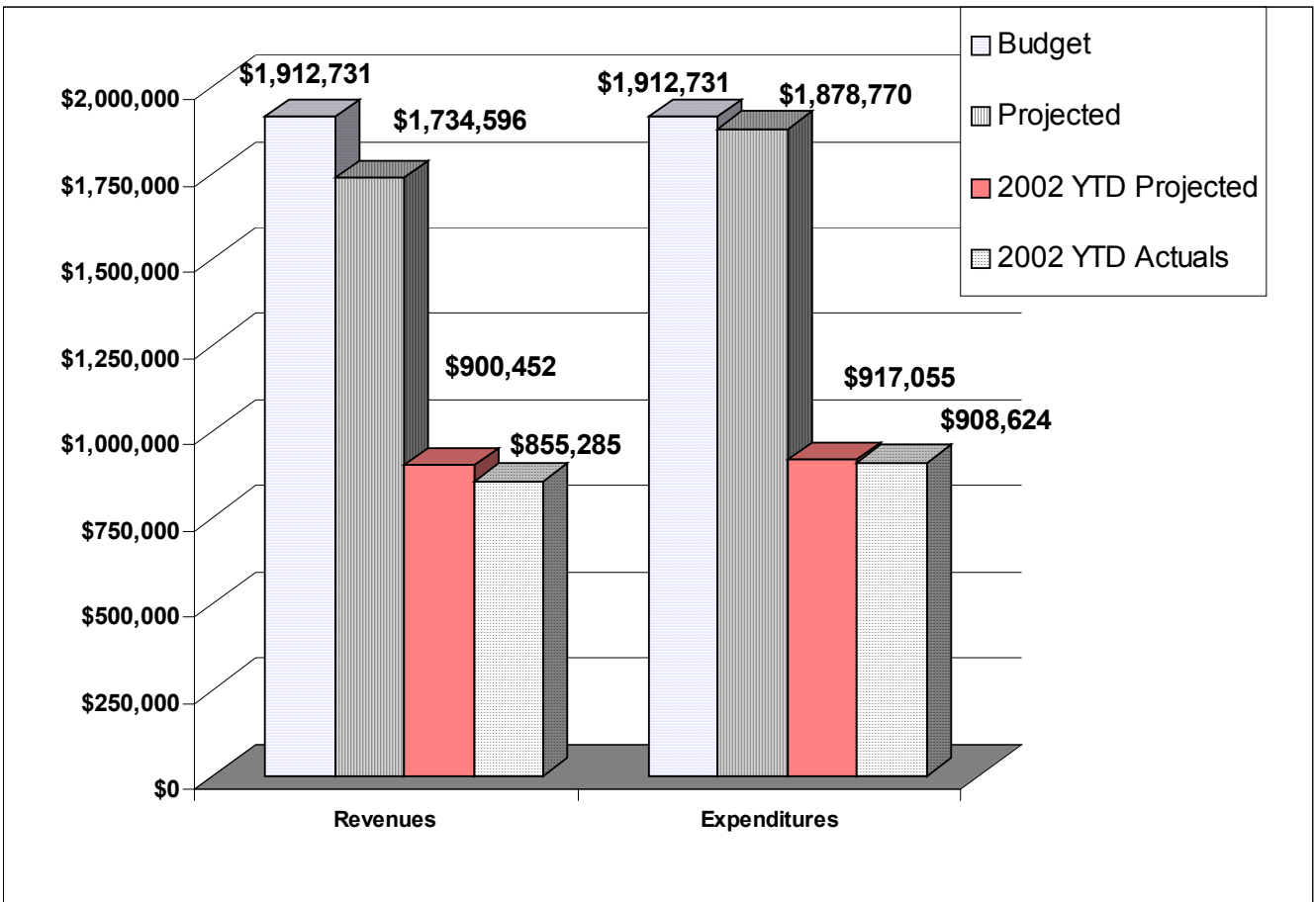
Gambling tax revenue of \$817,583 is behind projections of \$876,085 by \$58,502 or 6.7%. Projections were increased by \$199,032 to include fourth quarter taxes from 2001 that were received this year. Collections during the same period of 2001 equaled \$682,590. Without the fourth quarter taxes received early this year, current year revenues would equal only 618,551, \$64,039 below last year.

General Fund Expenditures



Projected expenditures for 2002 represent a reduction of \$567,859 from the current General Fund budget. The revised projection assumes that the Operational Contingency, Insurance Reserve and PERS Contingency budgeted in Citywide will not be spent during the remainder of the year. General Fund expenditures during the first half of 2002 were \$10,901,240, under projected expenditures of \$11,851,026 by \$949,786 or 9%. Expenditures to date represent about 40% of the General Fund budget. At this point last year, General Fund expenditures were only \$6,551,507 or about 25% of the annual budget. Expenditure projections are based upon historical spending patterns of the departments. Most of the variance can be attributed to a couple of irregularities. King County provides contracted jail and police services to the City. Due to delays in billing for these services, the City is experiencing an under-expenditure of \$413,834. This variance will level out by the end of the year. The timing of various technology projects is responsible for a variance of \$366,268 in the City's Technology Plan. The remaining programs are experiencing variances of between 1% and 10%.

Development Services Fund

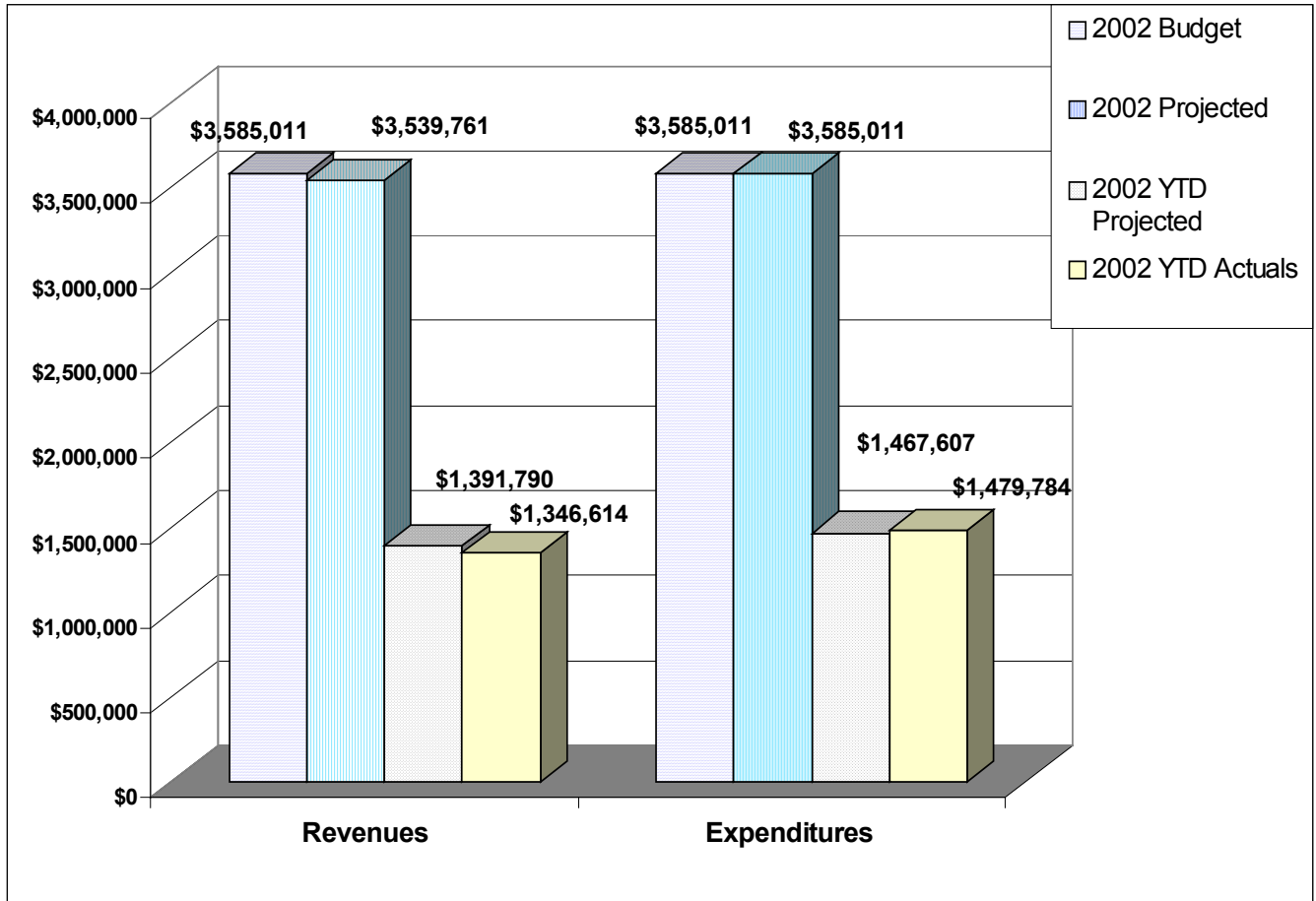


Revenue projections for this fund have been reduced to reflect the downturn in permit activity being experienced. Projections have been lowered by a total of \$178,135 to \$1,734,596. The largest decrease came in the Building and Structure permits. Projections for this revenue source were lowered by \$180,000. Investment interest was also lowered by \$25,485 due to lower than anticipated interest rates. Minor reductions were made in other permit types with the exception of Land Use permits, where projections were actually increased by \$29,500.

After the first half of 2002, Development Services Fund revenues of \$855,285 are behind lowered projections of \$900,452 by \$45,167 or 5%. Permit revenue, with the exception of Land Use Fees, is behind projections. Construction activity is down both regionally and locally.

Projected expenditures have been reduced from the current budget of 1,912,731 by \$33,961 to \$1,878,770. Through the first six months of 2002, expenditures of \$908,624 are behind projections of \$917,055 by \$8,431. We will continue to monitor permit revenue and expenditures in this fund.

Street Fund

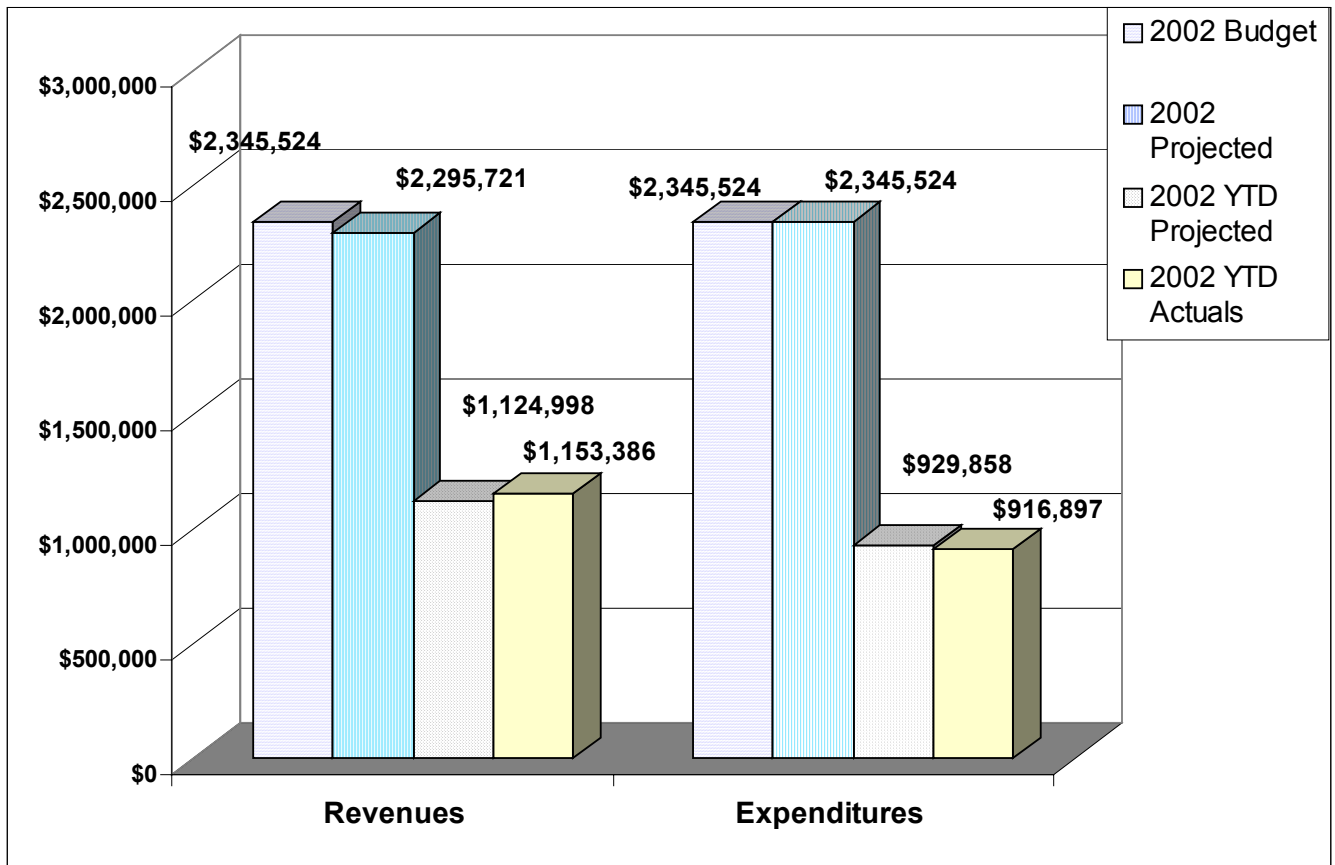


Revenue projections in this fund have been reduced by \$45,250 to \$3,539,761. This reduction comes from a decrease of \$54,500 in projected interest earnings due to lower than expected interest rates and an increase of \$9,250 in miscellaneous revenue to reflect the receipt of unbudgeted restitution and insurance recoveries. Street Fund revenue through the first half of the year of \$1,346,614 is behind projections by \$45,176. Motor vehicle fuel tax collections were behind projections by \$15,808. This is due to a decline in consumption statewide. This tax is assessed per gallon of fuel sold; therefore it is not affected by any increases in the price per gallon. Consumption is not expected to rise significantly until the region begins to recover from the current recession. Investment interest is also behind projections by \$2,816 although we expect this deficit to level out since the projection for interest earnings has been reduced.

Right-of-way activities have been transferred into this fund from the Development Services Fund. Through June, right-of-way permit fees are ahead of projections by \$17,627.

Street Fund expenditures of \$1,479,784 are ahead of projections of \$1,467,607 by \$12,177. No revisions have been made to the projected expenditures in this fund.

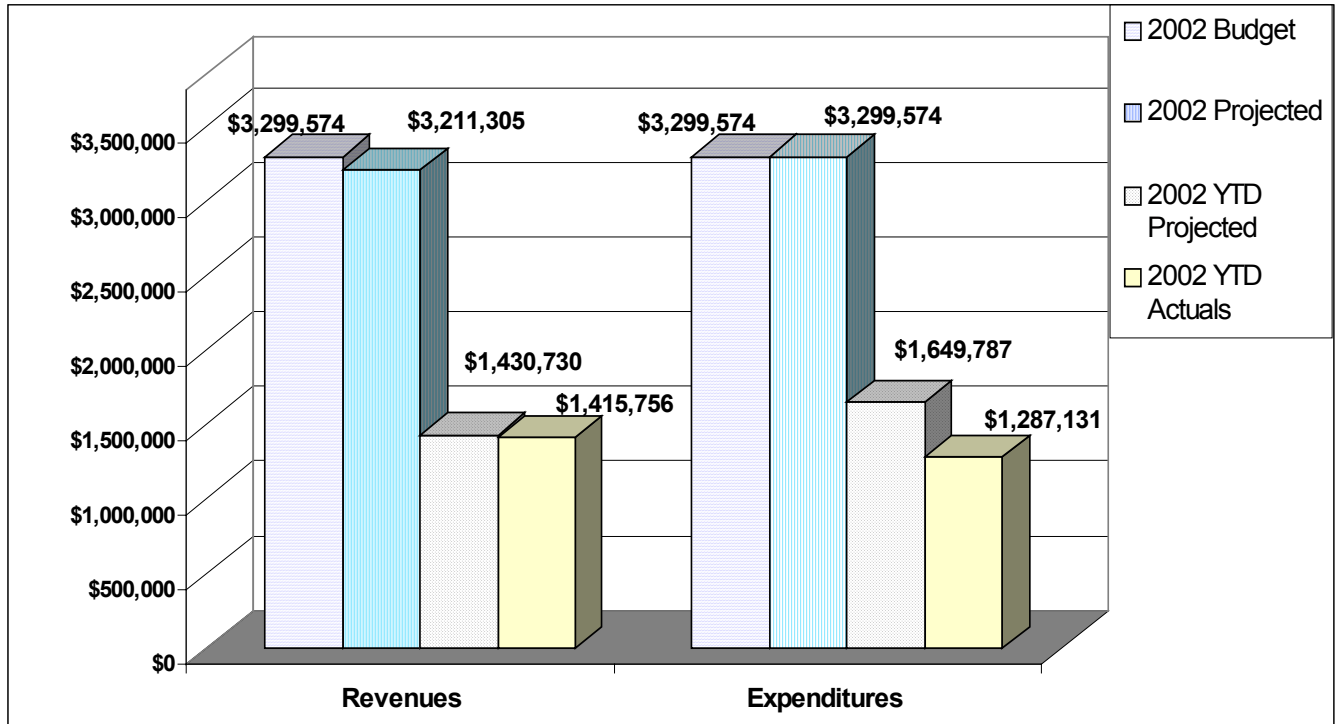
Surface Water Management Fund



Revenue projections have been revised downward by \$49,803 in this fund to \$2,295,721. This change includes a reduction in investment earnings of \$53,000 and an increase of \$3,197 in miscellaneous revenues. Revenues of \$1,153,386 in the Surface Water Management Fund are ahead of projections of \$1,124,998 by \$28,388. Storm drainage fees are ahead of projections by \$31,259.

Expenditures totaling \$916,897 are behind projections of \$929,858 by \$12,961 or only 1%. Funding was included in the 2002 budget for two major projects, Drainage Basin Monitoring and Infrastructure Assessment. These two projects started during the second quarter, therefore spending will increase toward the projected line as the year progresses.

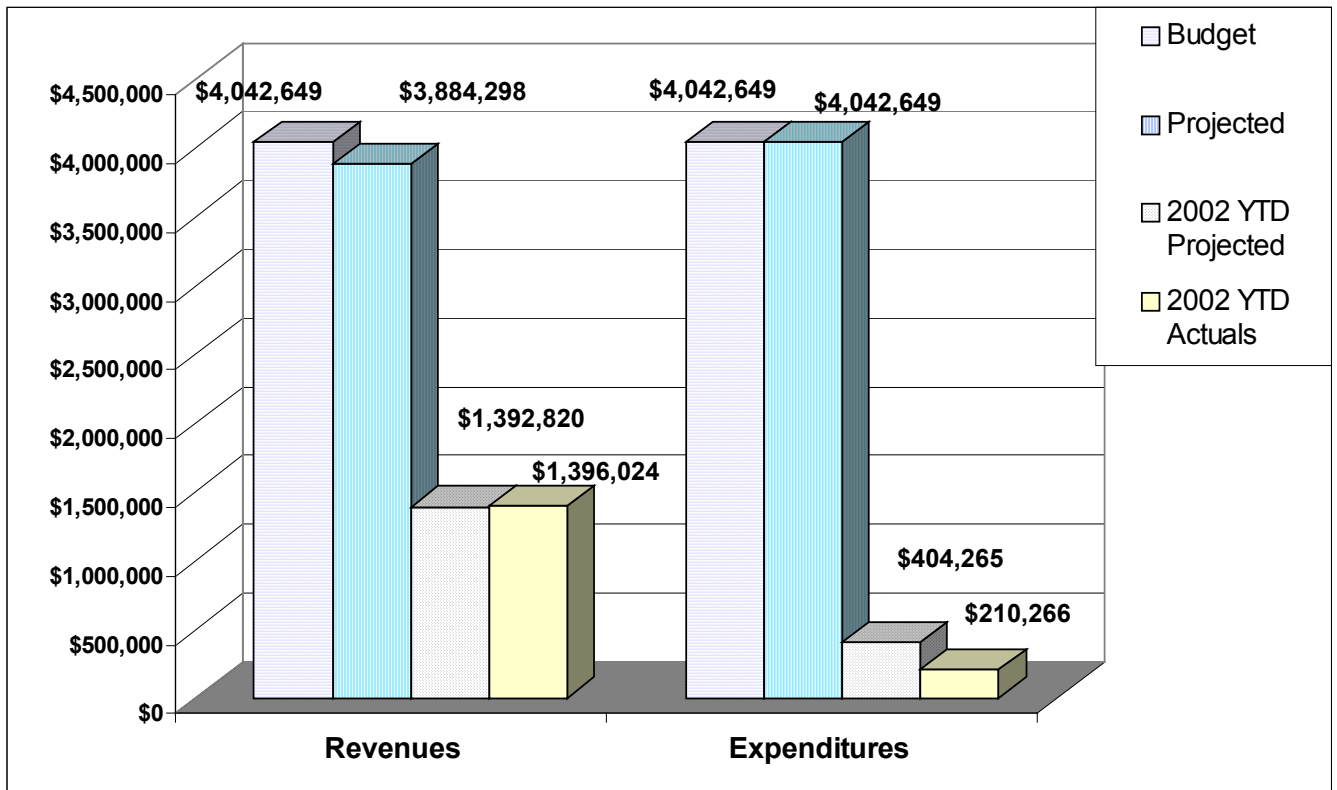
General Capital Fund



Revenue projections have been reduced by \$88,269 to reflect lower investment earnings due to falling interest rates. Through the first half of 2002, revenues of \$1,415,756 are only \$14,974 below projections or \$1,430,730. The largest revenue source in this fund, real estate excise tax, is right on target, with collections of \$253,119 against projections of \$252,670.

Expenditures of \$1,287,131 are behind projections of \$1,649,787 by \$362,656 or 22%. Spending is expected to increase during the next quarter as project work continues.

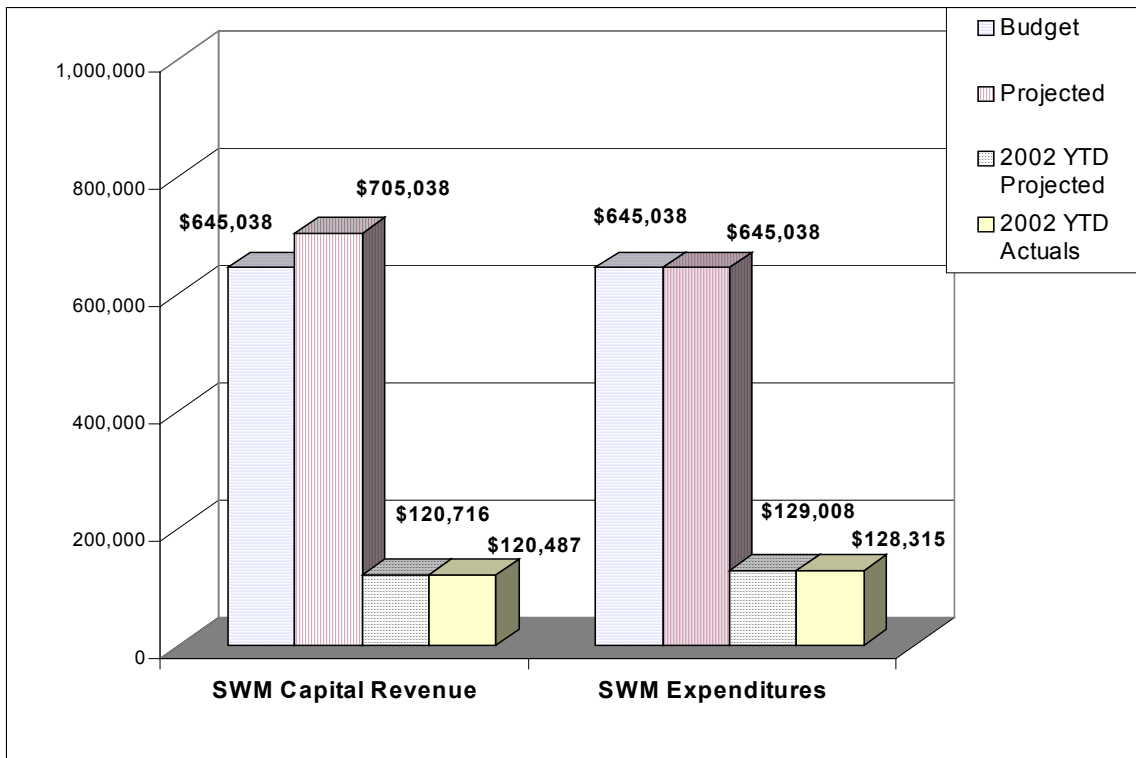
Roads Capital Fund



Projected revenues have been lowered in this fund by \$158,351. This consists of a reduction of \$140,303 in interest earnings and \$18,048 in real estate excise tax to bring both revenue sources into alignment with actual receipts. Actual revenues of \$1,396,024 through June are only \$3,204 above projections of \$1,392,820.

Expenditures in this fund through the first six months of 2002 equal \$210,266. This is \$193,999 or 48% under projected expenditures of \$404,265. Spending is expected to increase during the next quarter as project work continues.

Surface Water Capital Fund



Projected revenues have been increased by \$60,000 to include investment earnings that were not expected due to a higher fund balance partially from Public Works Trust Fund loans received in 2001. Revenues to date equal \$120,487, which is only \$229 below projections of \$120,716.

Expenditures to date of \$128,315 are only \$693 below projected expenditures of \$129,008.