

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE: 2004 Second Quarter Financial Report
DEPARTMENT: Finance
PRESENTED BY: Debbie Tarry, Finance Director and Steve Oleson, Budget Analyst

PROBLEM/ISSUE STATEMENT:

Attached is the 2004 second quarter financial report. This report summarizes second quarter financial activities for the City's major funds: General, Streets, Surface Water Operations, Development Services, General Capital, Roads Capital and Surface Water Capital. This report is provided to keep the Council informed of any financial issues and the financial position of the City. The Executive Summary section of the report provides a high level overview. More detailed information on specific revenue and expenditures is provided following the Executive Summary.

FINANCIAL IMPACT:

The following table provides a summary of the financial results for the City's operating funds for the first half of 2004:

Operating Funds	Revenues						Expenditures					
	2004 Budget	2004 Projected	2004 YTD Actuals	2004 YTD Projected	Variance Actuals v. Projected	% Variance	2004 Budget	2004 Projected	2004 YTD Actuals	2004 YTD Projected	Variance Actuals v. Projected	% Variance
General Fund	\$26,082,033	\$27,173,567	\$11,388,123	\$11,346,359	\$41,764	0.4%	\$25,811,785	\$25,177,071	\$10,141,491	\$10,216,113	-\$74,622	-0.7%
Streets	\$2,535,958	\$2,529,186	\$1,153,893	\$1,149,812	\$4,081	0.4%	\$2,535,008	\$2,535,008	\$1,125,580	\$1,200,121	-\$74,541	-6.2%
SWM OPS	\$2,655,629	\$2,634,647	\$1,334,927	\$1,324,107	\$10,820	0.8%	\$1,941,243	\$1,941,243	\$708,669	\$968,847	-\$260,178	-26.9%
PADS	\$1,765,851	\$1,769,489	\$871,200	\$895,126	-\$23,926	-2.7%	\$1,765,851	\$1,747,158	\$846,332	\$880,743	-\$34,411	-3.9%
General Capital	\$15,591,625	\$7,852,362	\$452,658	\$338,762	\$113,896	33.6%	\$15,456,034	\$2,132,923	\$262,506	\$476,366	-\$213,860	-44.9%
Roads Capital	\$11,454,323	\$11,430,257	\$1,637,773	\$1,390,420	\$247,354	17.8%	\$14,771,686	\$13,911,942	\$2,650,319	\$2,037,884	\$612,435	30.1%
SWM Capital	\$2,525,980	\$5,165,654	\$3,477,961	\$3,477,900	\$61	0.0%	\$2,525,980	\$3,137,000	\$960,250	\$821,613	\$138,637	16.9%
Arterial Street Fund	\$348,546	\$347,029	\$166,972	\$173,515	-\$6,543	-3.8%	\$348,546	\$348,546	\$174,273	\$184,113	-\$9,840	-5.3%
General Reserve Fund	\$172,889	\$172,889	\$93,054	\$86,445	\$6,610	7.6%	\$0	\$0	\$0	\$0	\$0	#DIV/0!
Code Abatement Fund	\$100,000	\$25,000	\$199	\$50,000	-\$49,801	-99.6%	\$100,000	\$100,000	\$183	\$68,538	-\$68,355	-99.7%
Asset Seizure Fund	\$23,000	\$23,000	\$1,470	\$11,500	-\$10,030	-87.2%	\$23,000	\$23,000	\$0	\$11,500	-\$11,500	-100.0%
Public Arts Fund	\$183,250	\$183,250	\$97	\$91,625	-\$91,528	-99.9%	\$0	\$0	\$0	\$0	\$0	#DIV/0!
Vehicle Operations Fund	\$55,300	\$55,300	\$53,940	\$52,535	\$1,405	2.7%	\$55,300	\$70,300	\$30,750	\$39,487	-\$8,737	-22.1%
Equipment Replacement Fund	\$372,155	\$372,155	\$284,284	\$279,116	\$5,168	1.9%	\$180,050	\$180,050	\$56,406	\$52,630	\$3,776	7.2%
Unemployment	\$10,000	\$10,000	\$10,271	\$10,000	\$271	2.7%	\$10,000	\$40,000	\$19,866	\$20,000	-\$134	-0.7%
Totals	\$63,876,539	\$59,743,785	\$20,926,822	\$20,677,220	\$249,602	1.2%	\$65,524,483	\$51,344,241	\$16,976,625	\$16,977,955	-\$1,330	0.0%

At the end of second quarter the City's operating revenues and expenditures are tracking very closely with projections.

RECOMMENDATION

No action is required by the Council. This item is provided for informational purposes.

Approved By: City Manager  City Attorney N/A

ATTACHMENTS

Attachment A: 2004 Second Quarter Financial Report

Attachment A



2004 Second Quarter Financial Report

Prepared by the Finance Department

for the

Fiscal Year January 1, 2004 – December 31, 2004

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EXECUTIVE SUMMARY

General Fund

Revenue totaling \$11,388,123 through the first half of the year was \$41,764 or 0.4% above projected revenue of \$11,346,359. Collections exceeded projections in all categories except Utility Tax/Franchise Fee and Grants and Miscellaneous revenue, which includes Investment Earnings. Interest rates continue to be lower than originally anticipated. Utility tax and franchise fees are below projections by \$78,131. This is primarily due to a late cable franchise fee payment. Property tax collections are ahead of projections by \$20,467, sales taxes are up by \$127,154, criminal justice sales tax collections are above projections by \$13,093, state distributed revenues are up by \$1,623, and parks and recreation fees are above projections by \$3,035.

Departmental expenditures during the first half of 2004 were \$10,141,491, under projected expenditures of \$10,216,113 by \$74,622 or 0.7%. Contributing to the under-expenditure are savings in the City Manager's Office, Community & Inter-governmental Relations, Planning and Development Services, and Economic Development. The cost savings in these departments are related to savings in salaries due to staff vacancies and under-spending in professional service contracts.

Development Services Fund

After the first half of 2004, Development Services Fund revenues of \$871,200 are behind projected revenue of \$895,126 by \$23,926 or 2.7%. Year-to-date revenue is also about \$58,000 below collections for the same period in 2003. The number of Land Use/SEPA reviews and Building Permits/Plan Checks are down when compared with 2003.

Expenditures are behind projections by \$34,411 or 3.9%. Vacancies have resulted in salary and benefit savings. All vacancies are expected to be filled during the third quarter.

Street Fund

Street Fund revenue through the first half of 2004 was \$1,153,893, ahead of revised projections of \$1,149,812 by only \$4,081, a 0.4% variance. Right-of-way fees are up by \$2,977 or 5.6% and fuel tax is ahead of projections by \$2,868 or 0.8%. Investment earnings continue to be under lowered projections by \$475 or 10.4% as the interest rate has not increased as quickly as expected.

Street Fund expenditures of \$1,125,576 are behind projections of \$1,200,121 by \$74,541 or 6.2%. The majority of this under-expenditure is occurring in the Traffic Services program. Expenditures in contracted services and intergovernmental services are below projections by \$54,546. Expenditures through the first half of the year for the largest program in this fund, Street Operations, are running 2.6% or \$16,830 below projections.

Surface Water Management Fund

Revenues in the Surface Water Management Fund of \$1,334,927 are ahead of revised projections of \$1,324,107 by \$10,820 or 0.8%. Storm Drainage fees are ahead of projections by \$11,516 or 0.9% and investment earning are under lowered projections by \$695.

Expenditures of \$708,670 are under projections of \$968,847 by \$260,177.

Capital Funds

In the General Capital Fund, the major sources of revenue are a contribution from the General Fund, real estate excise tax and investment earnings. Funding from the General Fund is on target and real estate excise tax collections are ahead of projections by \$114,627. Investment earnings, however, as in the other funds are under lowered projections. Expenditures are under projections, but are expected to increase as the busy construction season gets underway.

In the Roads Capital Fund, major revenue sources are also Contributions from the General Fund and Arterial Street Fund (fuel tax), real estate excise tax, grants and investment earnings. Real estate excise tax collections are ahead of projections by \$115,059. Investment earnings are under lowered projections. Expenditures are ahead of projections as activity is progressing ahead of last year's pace.

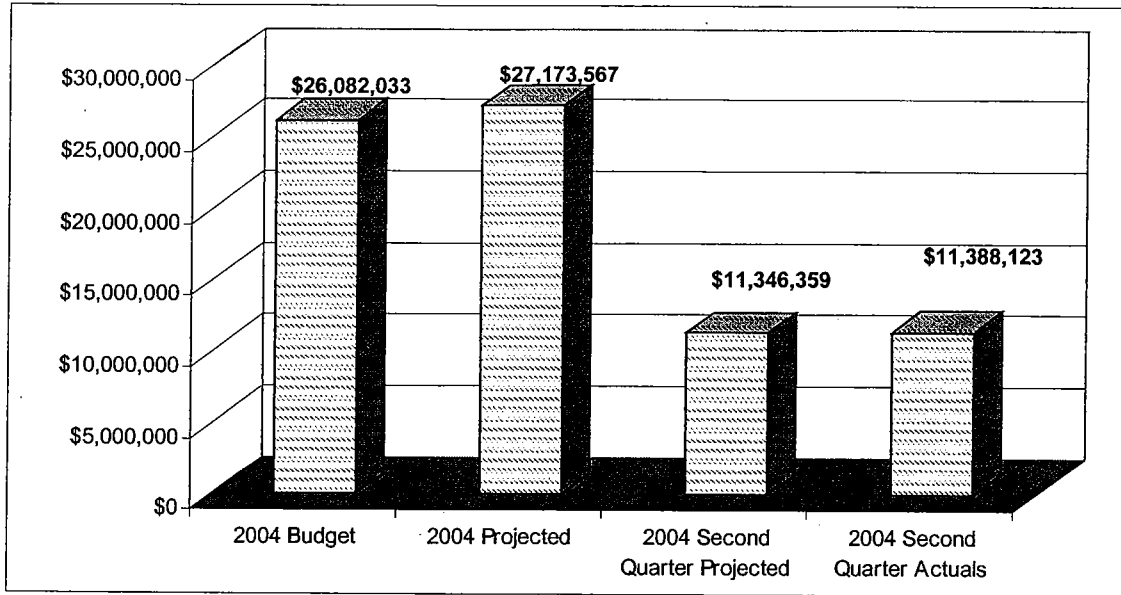
In the Surface Water Capital Fund, the major revenue sources are storm drainage fees and loans from the state's Public Works Trust Fund. Through the first half of the year, revenues are right at projections. Expenditures are ahead of projections as project work has been accelerated.

Summary of Key Operating Funds

The following table provides a summary of the financial results for the key City operating funds for first half of 2004.

Operating Funds	Revenues						Expenditures					
	2004 Budget	2004 Projected	2004 YTD Actuals	2004 YTD Projected	Variance Actuals v. Projected	% Variance	2004 Budget	2004 Projected	2004 YTD Actuals	2004 YTD Projected	Variance Actuals v. Projected	% Variance
General Fund	\$26,082,033	\$27,173,567	\$11,388,123	\$11,346,359	\$41,764	0.4%	\$25,811,785	\$25,177,071	\$10,141,491	\$10,216,113	-\$74,622	-0.7%
Streets	\$2,535,958	\$2,529,186	\$1,153,893	\$1,149,812	\$4,081	0.4%	\$2,535,008	\$2,535,008	\$1,125,580	\$1,200,121	-\$74,541	-6.2%
SWM OPS	\$2,655,629	\$2,634,647	\$1,334,927	\$1,324,107	\$10,820	0.8%	\$1,941,243	\$1,941,243	\$708,669	\$968,847	-\$260,178	-26.9%
PADS	\$1,765,851	\$1,769,489	\$871,200	\$895,126	-\$23,926	-2.7%	\$1,765,851	\$1,747,158	\$846,332	\$880,743	-\$34,411	-3.9%
General Capital	\$15,591,625	\$7,852,362	\$452,658	\$338,762	\$113,896	33.6%	\$15,456,034	\$2,132,923	\$262,506	\$476,366	-\$213,860	-44.9%
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SWM Capital	\$2,525,980	\$5,165,654	\$3,477,961	\$3,477,900	\$61	0.0%	\$2,525,980	\$3,137,000	\$960,250	\$821,613	\$138,637	16.9%
Arterial Street Fund	\$348,546	\$347,029	\$166,972	\$173,515	-\$6,543	-3.8%	\$348,546	\$348,546	\$174,273	\$184,113	-\$9,840	-5.3%
General Reserve Fund	\$172,889	\$172,889	\$93,054	\$86,445	\$6,610	7.6%	\$0	\$0	\$0	\$0	\$0	#DIV/0!
Code Abatement Fund	\$100,000	\$25,000	\$199	\$50,000	-\$49,801	-99.6%	\$100,000	\$100,000	\$183	\$68,538	-\$68,355	-99.7%
Asset Seizure Fund	\$23,000	\$23,000	\$1,470	\$11,500	-\$10,030	-87.2%	\$23,000	\$23,000	\$0	\$11,500	-\$11,500	-100.0%
Public Arts Fund	\$183,250	\$183,250	\$97	\$91,625	-\$91,528	-99.9%	\$0	\$0	\$0	\$0	\$0	#DIV/0!
Vehicle Operations Fund	\$55,300	\$55,300	\$53,940	\$52,535	\$1,405	2.7%	\$55,300	\$70,300	\$30,750	\$39,487	-\$8,737	-22.1%
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Unemployment	\$10,000	\$10,000	\$10,271	\$10,000	\$271	2.7%	\$10,000	\$40,000	\$19,866	\$20,000	-\$134	-0.7%
Totals	\$63,876,539	\$59,743,785	\$20,926,822	\$20,677,220	\$249,602	1.2%	\$65,524,483	\$51,344,241	\$16,976,625	\$16,977,955	-\$1,330	0.0%

General Fund Revenue



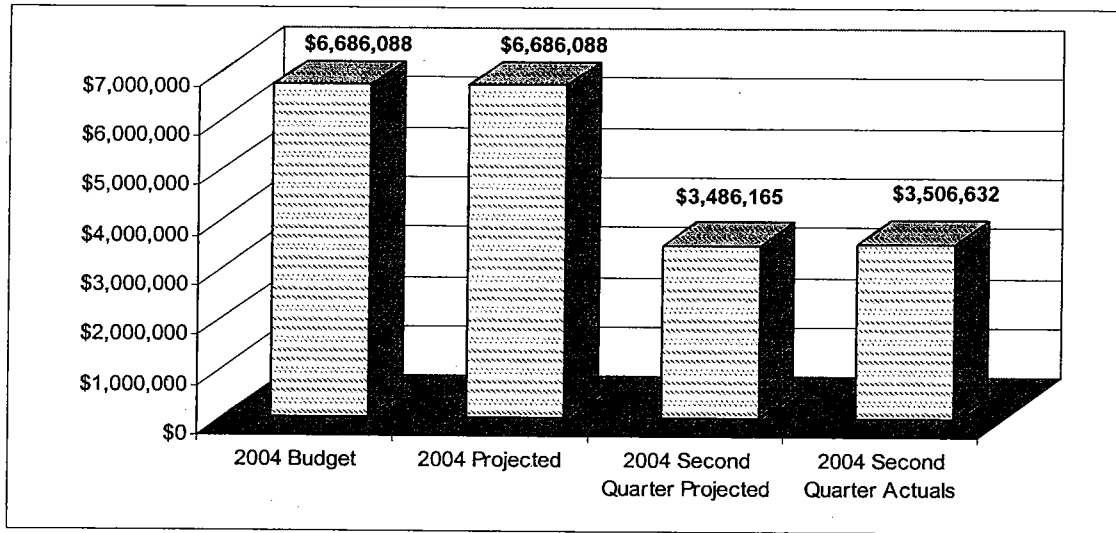
Actual revenue collections of \$11,388,123 through the second quarter of 2004 were \$41,764 or 0.4% above revised projections of \$11,346,359. The General Fund is projected to collect \$1,091,534 more revenue than originally budgeted. Revenue increases are projected in sales tax, gambling tax, recreation fee collections, state revenue and grants. Through the second quarter of 2003, the General Fund collected revenue totaling \$11,189,569. This year's collections are \$198,554 above that amount, a 1.8% increase.

Revenue collections exceeded projections in all categories except Utility Tax/Franchise Fees and Grants and Miscellaneous revenue, which includes Investment Earnings. Interest rates continue to be lower than originally anticipated. Utility tax and franchise fees are below projections by \$78,131. This is primarily due to a late cable franchise fee payment. Property tax collections are ahead of projections by \$20,467, sales taxes are up by \$127,154, criminal justice sales tax collections are above projections by \$13,093, state distributed revenues are up by \$1,623, and parks and recreation fees are above projections by \$3,035.

The chart below details each revenue category for the General Fund for first half of 2004. The first column is the adopted 2004 revenue amount. The second column represents the revised projection, if applicable, for each category. The third column displays the projected revenue through the first half of the year. The fourth column displays the actual revenues through June. The fifth column shows the variance between second quarter projections and actual collections. The last column displays the variance in percentage terms.

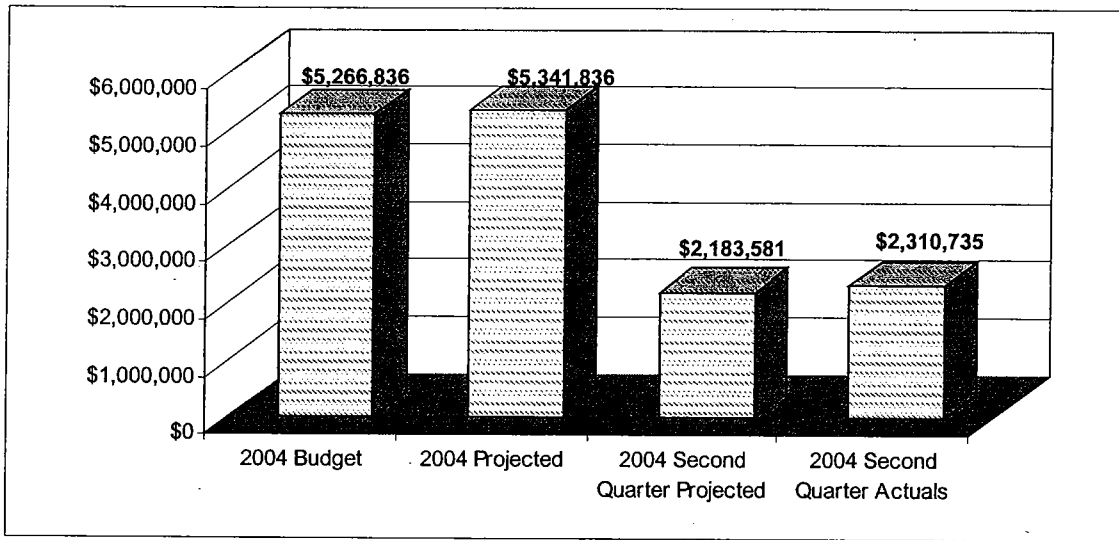
	2004 Budget	2004 Projected	2004 Second Quarter Projected	2004 Second Quarter Actuals	\$\$ Variance Actuals v. Projected	% Variance
Budgeted Fund Balance	\$1,279,309	\$1,279,309	\$0	\$0	\$0	0.0%
Property Tax	\$6,686,088	\$6,686,088	\$3,486,165	\$3,506,632	\$20,467	0.6%
Sales Tax	\$5,266,836	\$5,341,836	\$2,183,581	\$2,310,735	\$127,154	5.8%
Criminal Justice Sale Tax	\$1,000,000	\$1,000,000	\$484,800	\$497,893	\$13,093	2.7%
Utility Tax/Franchise Fee Category						
Natural Gas Utility Tax	\$609,927	\$609,927	\$311,939	\$370,247	\$58,308	18.7%
Sanitation Utility Tax	\$300,000	\$300,000	\$138,433	\$130,045	-\$8,388	-6.1%
Cable TV Utility Tax	\$80,000	\$80,000	\$27,947	\$21,098	-\$6,849	-24.5%
Telephone/Cell Utility Tax	\$1,320,000	\$1,320,000	\$530,519	\$557,573	\$27,054	5.1%
Electricity Franchise Fee	\$1,025,000	\$1,025,000	\$490,087	\$444,886	-\$45,201	-9.2%
Water Franchise Fee	\$450,325	\$450,325	\$123,507	\$119,269	-\$4,238	0.0%
Sewer Franchise Fee	\$600,000	\$600,000	\$298,373	\$300,000	\$1,627	0.5%
Cable TV Franchise Fee	\$400,000	\$400,000	\$100,445	\$0	-\$100,445	-100.0%
Utility Tax/Franchise Fee Subtotal	\$4,785,252	\$4,785,252	\$2,021,249	\$1,943,118	-\$78,131	-3.9%
Gambling Tax	\$2,500,000	\$3,332,568	\$817,924	\$892,247	\$74,323	9.1%
State Revenue	\$683,577	\$743,554	\$408,835	\$410,458	\$1,623	0.4%
Parks & Recreation Revenue	\$705,337	\$766,039	\$447,784	\$450,819	\$3,035	0.7%
Fines & Forfeitures	\$101,000	\$100,225	\$39,388	\$62,137	\$22,749	57.8%
Grants & Misc. Revenue	\$832,139	\$896,201	\$335,384	\$192,836	-\$142,548	-42.5%
Transfers-In	\$2,242,495	\$2,242,495	\$1,121,248	\$1,121,248	\$1	0.0%
Total General Fund Revenue	\$26,082,033	\$27,173,567	\$11,346,359	\$11,388,123	\$41,764	0.4%

Property Tax Revenue



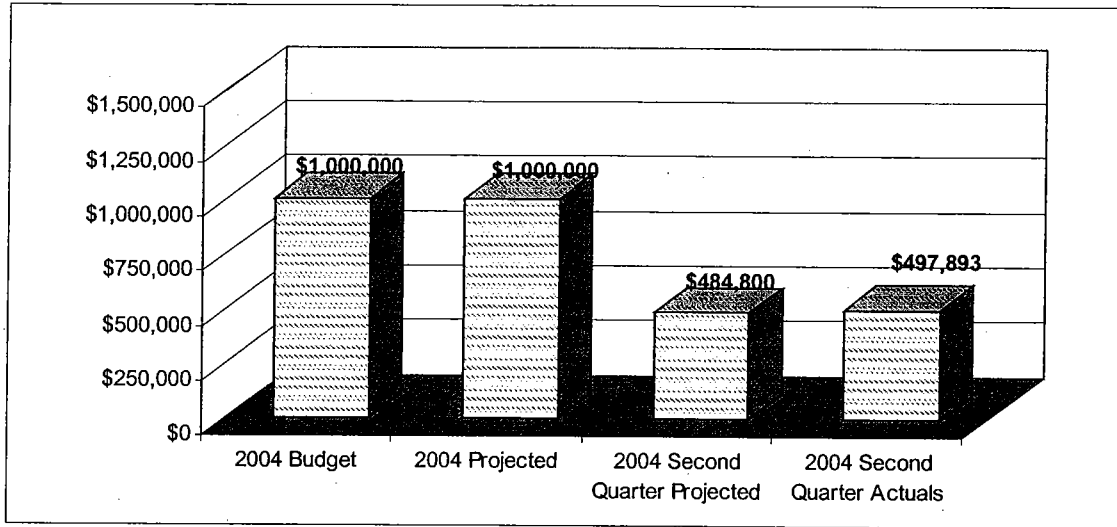
Property tax collections of \$3,506,632 exceeded projections of \$3,486,165 by \$20,467 or 0.6%. No change has been made in the 2004 projected revenue in this category as the adopted budget for this tax is based upon the property tax levy adopted by Council. Only 98% of the levy is expected to be collected due to an anticipated 2% rate of delinquencies. Through the first half of each year, the City typically receives about 52% of the annual collections.

Sales Tax Revenue



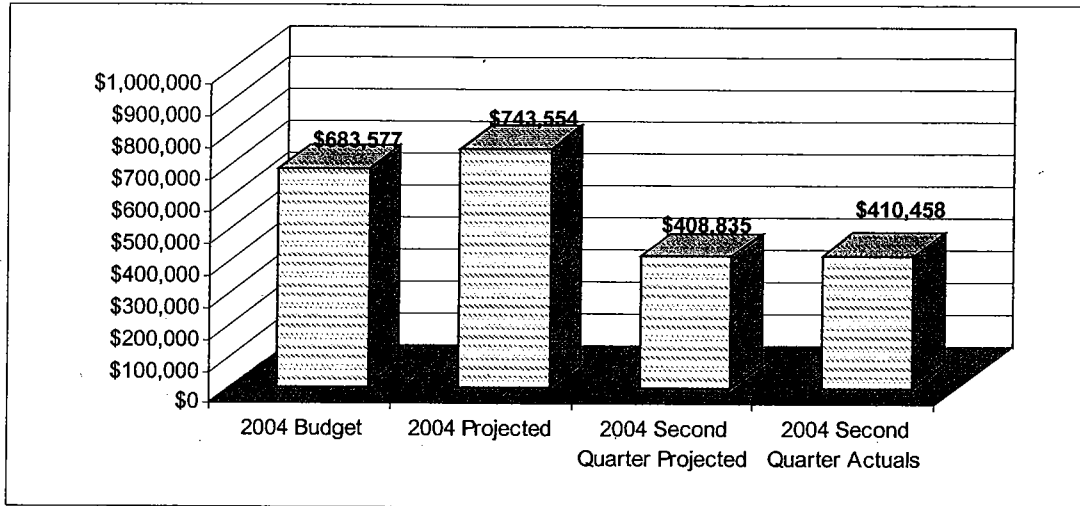
Sales tax collections of \$2,310,735 were ahead of revised projections of \$2,183,581 by \$127,154 or 5.8%. During the same period of 2003, the City collected \$2,234,870. Sales tax collections have grown steadily during the second quarter. The following business categories have shown strong growth through this first half of the year: General Building Contractors \$11K or 6.8% increase; Communications \$17K or 21% increase; Retail Building Materials \$38K or 13% increase; Retail Eating and Drinking \$23,169 or 16.6% increase and Misc Retail Trade \$51K or 25% increase. Projected revenue for 2004 has been increased by \$75,000 to account for one-time revenue from auditing efforts that captured sales tax that was being remitted to other jurisdictions.

Criminal Justice Sales Tax Revenue



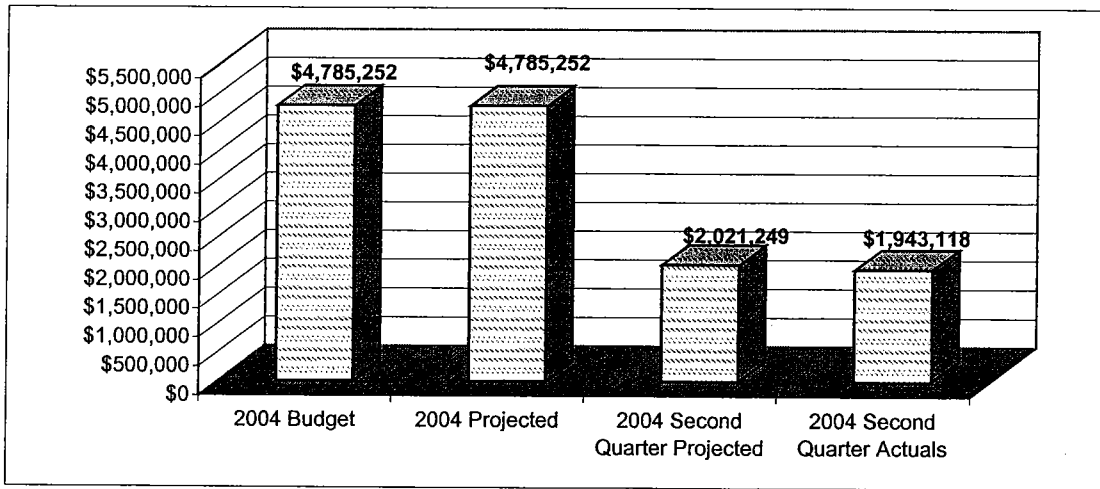
Local Criminal Justice Sales Tax of \$497,893 is ahead of projected revenue of \$484,800 by only \$13,093 or 2.7%. This category differs from sales tax because it results from a distribution by the County and is collected on a countywide basis. The distribution amount is based on a city's population and the amount of sales tax collected through all of King County. No changes are being made to the projected annual revenue for this category. This slight growth could be a sign that county-wide taxable sales are on the rise.

State Revenue



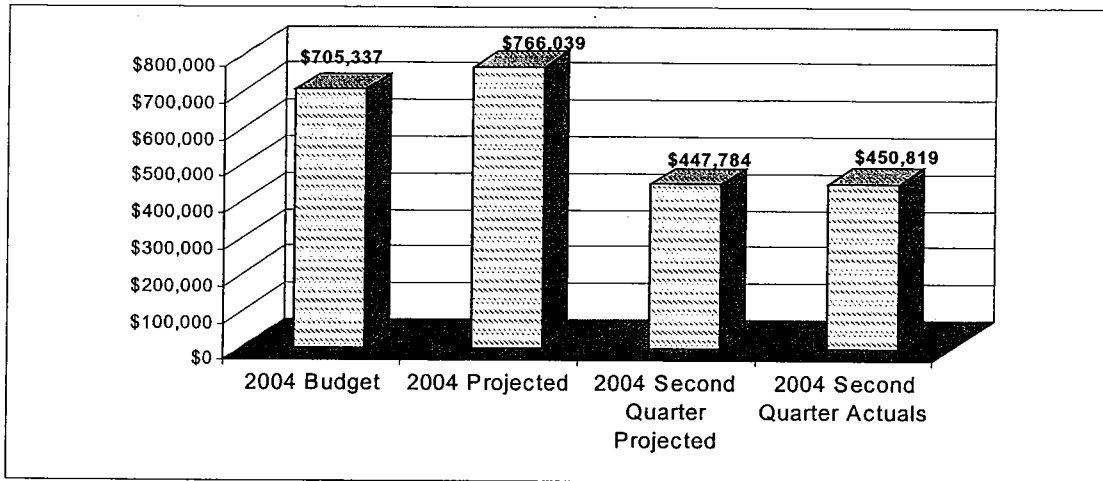
State Revenue of \$410,458 exceeded projections of \$408,835 by \$1,623 or 0.4%. Projected revenues in this category have been increased by \$59,977. This reflects the latest per capita distribution amounts as published by MRSC. The majority comes from Liquor Excise taxes and state liquor board profits. We expect to receive an additional \$2,921 from the state to support various criminal justice programs.

Utility Tax and Franchise Fee Revenue



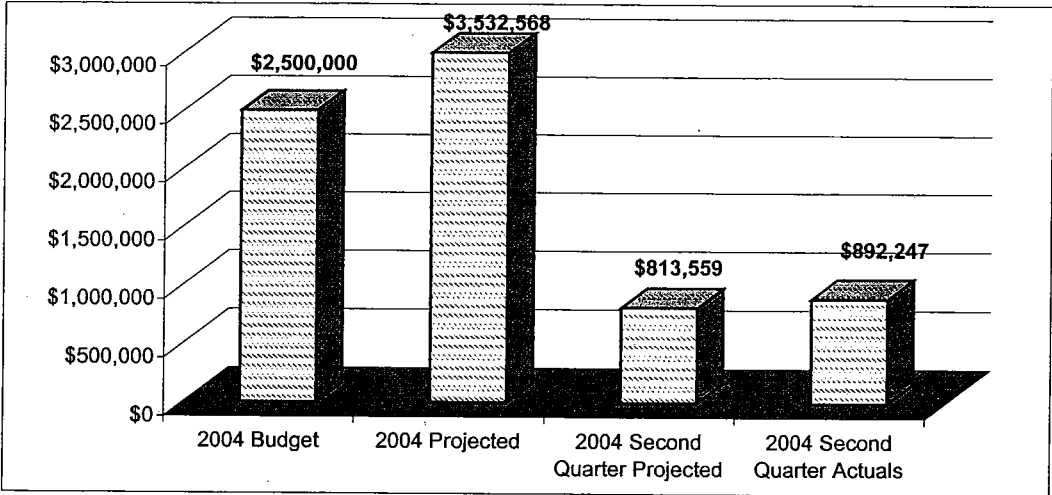
Utility tax and franchise fee revenue of \$1,943,118 is below projected revenue of \$2,021,249 by \$78,131 or 3.9%. This is primarily due to a late cable franchise fee payment. Utility tax from Natural Gas is ahead of projections by \$58,308 or 18.7%. Sanitation revenues are behind projections by \$8,388 or 6.1%. Growth continues in the Telephone/Cell phone category. Through June, collections are ahead of projections by \$27,054 or 5.1%. This is behind the double-digit growth we have seen over the past couple of years. Franchise fees for electricity are behind projections by \$45,201 or 9.2%. Sewer and water franchise fees are very close to projections. At this time no change is being made to total projected revenue since there is no overall trend in the category.

Parks and Recreation Fee Revenue



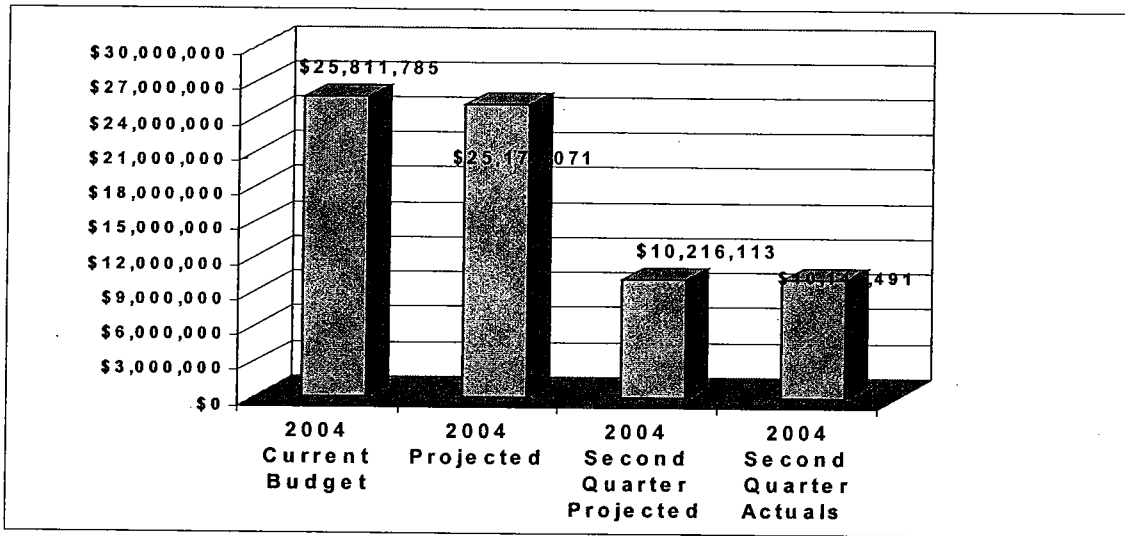
Parks and recreation fee revenue of \$450,819 was above revised projections of \$447,784 by \$3,035 or 0.7%. During the first half of 2003, recreation revenue totaled \$429,058. Projected revenue for 2004 has been increased by \$60,702 over the 2004 budget. The majority of the increase in projected revenue is in the Aquatics program. Aquatics revenues are now projected to exceed the adopted budget by \$50,172. The remainder of the increase in projected revenue is shared by the Facility/Field Rental program and the General Recreation program.

Gambling Tax Revenue



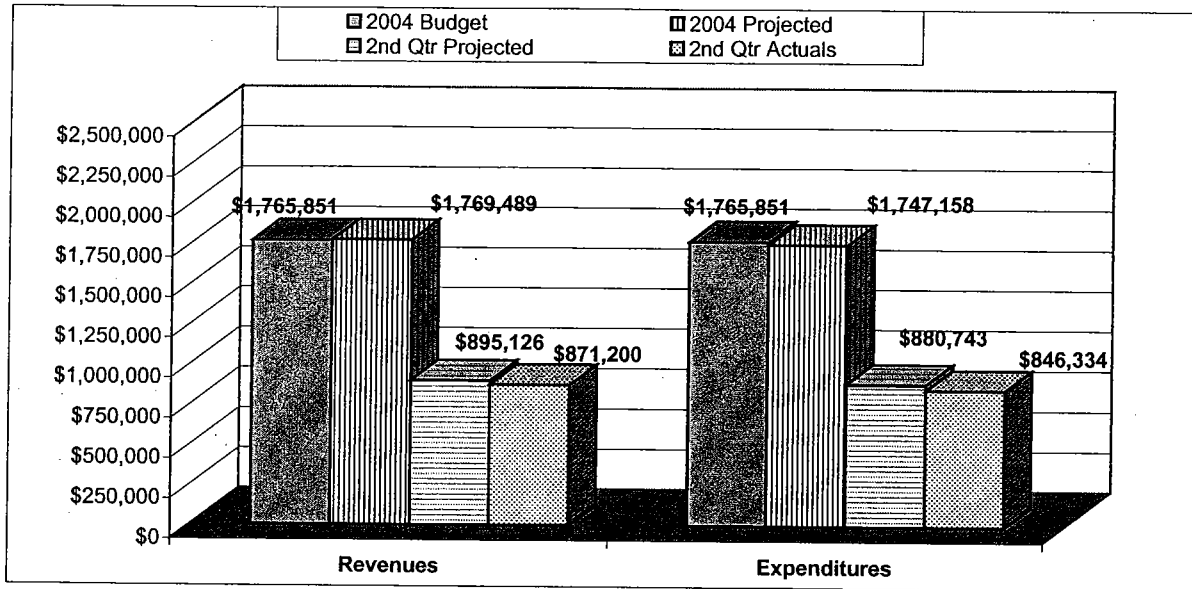
Gambling tax collections through June of \$892,247 are over revised projections of \$813,559 by \$78,688 or 9.7%. During the same period of 2003, collections from gambling taxes equaled \$663,649. Projected revenue from this category has been revised upward by \$832,568. With the opening of a new mini-casino at the end of 2003, we have seen gambling tax revenue increase significantly over last year. We believe that the current level of collections can be sustained. It is important to note, that under current Council financial policies, a portion of this additional revenue will be earmarked for capital purposes. Council policy designates that of the current 11% tax rate on card-rooms, only an amount equal to a tax rate of 7% shall be used for ongoing general fund programs or activities. The remaining tax collected (4% tax rate) shall be used to support capital projects or one-time expenditures.

General Fund Expenditures

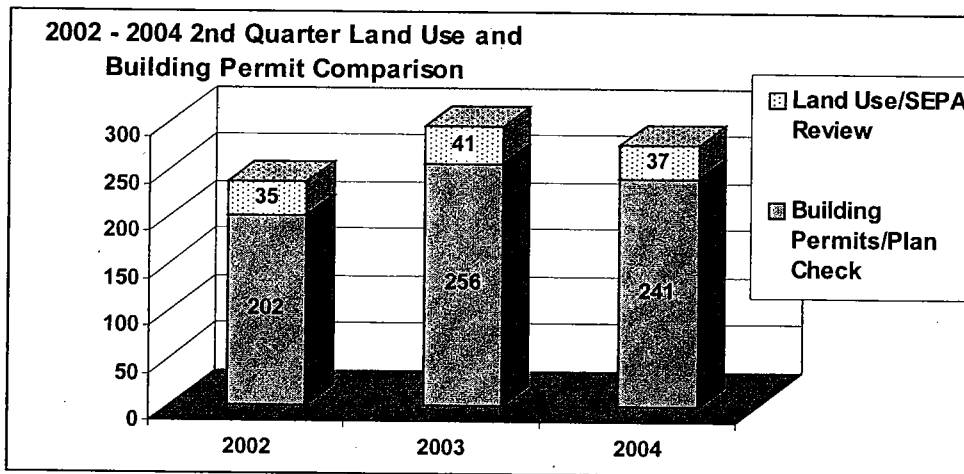


Departmental expenditures during the first half of 2004 were \$10,141,491, under projected expenditures of \$10,216,113 by \$74,622 or 0.7%. Contributing to the under-expenditure are savings in the City Manager's Office, Community & Inter-governmental Relations, Planning and Development Services, and Economic Development. The cost savings in these departments are related to savings in salaries due to staff vacancies and under-spending in professional service contracts. At this time 2004 projected expenditures have been revised downward by \$634,714 as we do not expect to spend any of the citywide contingency or insurance reserve and due to anticipated salary and benefit savings from staff vacancies.

Development Services Fund

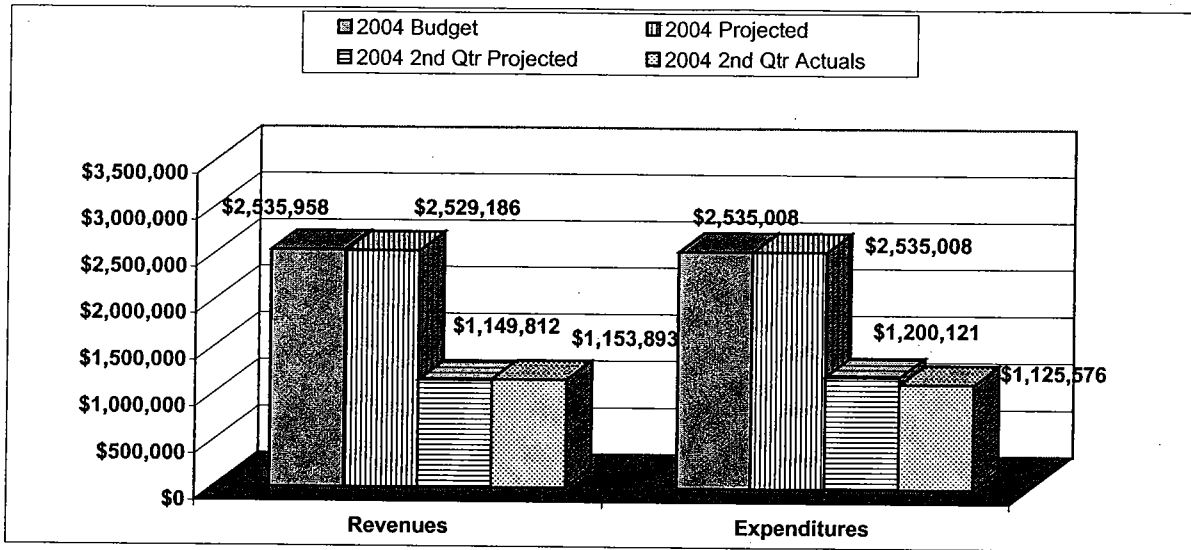


After the first half of 2004, Development Services Fund revenues of \$871,200 are behind projected revenue of \$895,126 by \$23,926 or 2.8%. Year-to-date revenue is also about \$58,000 below collections for the same period in 2003. The number of Land Use/SEPA reviews and Building Permits/Plan Checks are down when compared with 2003.



Expenditures are behind projections by \$34,409 or 3.9%. Vacancies have resulted in salary and benefit savings. All vacancies are expected to be filled during the third quarter.

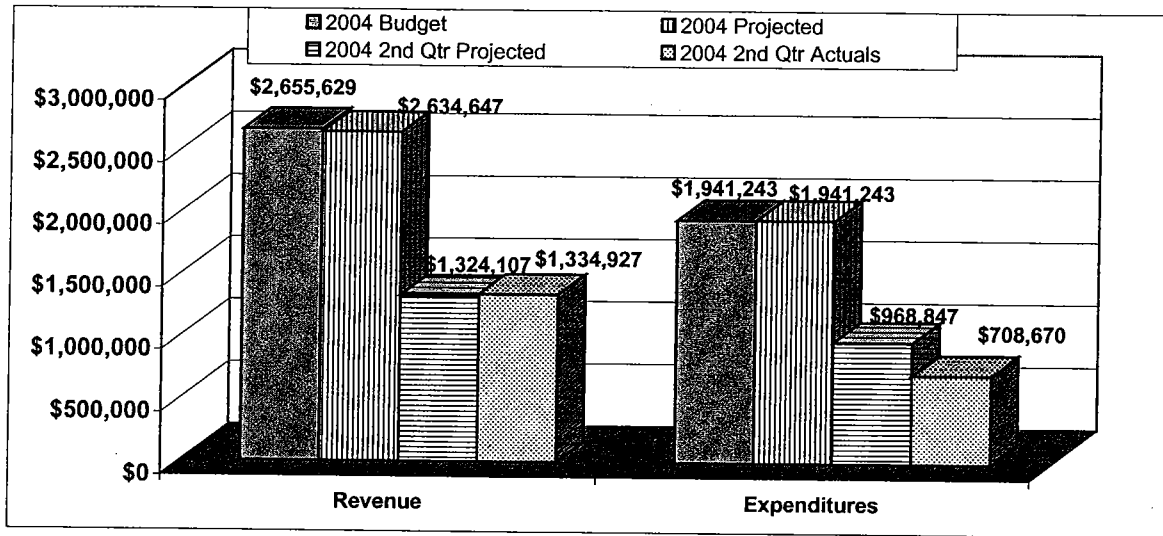
Street Fund



Street Fund revenue through the first half of 2004 was \$1,153,893, ahead of revised projections of \$1,149,812 by only \$4,081, a 1% variance. Right-of-way fees are up by \$2,977 or 5.6% and fuel tax is ahead of projections by \$2,868 or 0.8%. Investment earnings continue to be under lowered projections by \$475 or 10.4% as the interest rate has not increased as quickly as expected. 2004 projected revenue has been reduced by \$6,772 overall. Some categories have been increased slightly while others have been reduced. Projected revenue from fuel tax has been increased by \$2,251 to reflect increased per capita distributions from the state. Miscellaneous revenues including interlocal government support, insurance recoveries, and restitution have been increased by \$5,477 to reflect revenues that have been received that were not included in the original budget. Projections for investment earnings have been reduced from the original budget of \$22,500 to \$8,000 due to lower interest rates.

Street Fund expenditures of \$1,125,576 are behind projections of \$1,200,121 by \$74,541 or 6.2%. The majority of this under-expenditure is occurring in the Traffic Services program. Expenditures in contracted services and intergovernmental services are below projections by \$54,546, but spending is expected to increase by the end of the year. Expenditures through the first half of the year for the largest program in this fund, Street Operations, are running 2.6% or \$16,830 below projections. No changes have been made to the 2004 projected expenditures for this fund at this time.

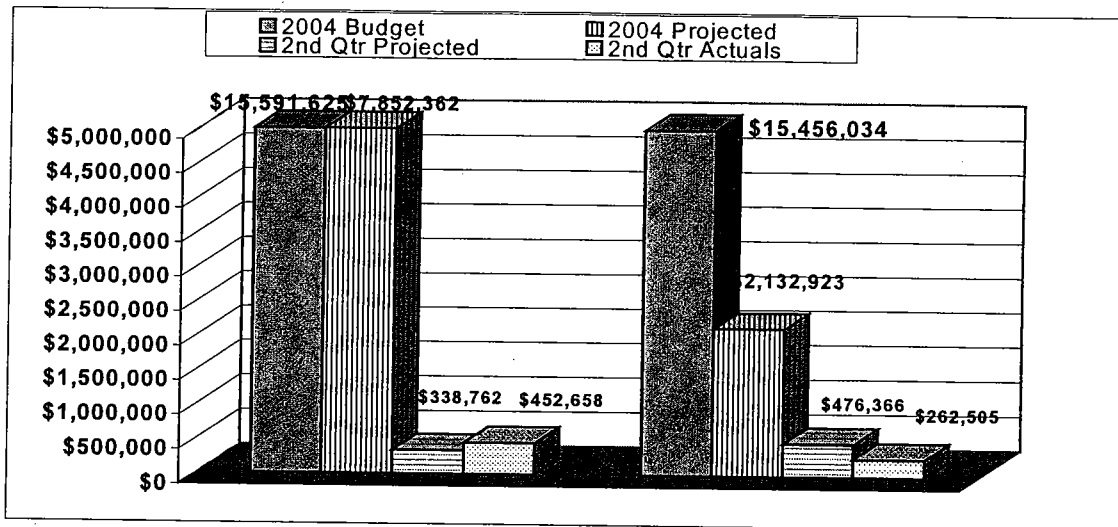
Surface Water Management Fund



Revenues in the Surface Water Management Fund of \$1,334,927 are ahead of revised projections of \$1,324,107 by \$10,820 or 0.8%. Storm Drainage fees are ahead of projections by \$11,516 or 0.9% and investment earnings are under lowered projections by \$695. 2004 projected revenue has been lowered slightly by \$20,982. Almost all of this change is in investment earnings. Projections in this category have been lowered to \$24,000 from a budget of \$45,000. This change reflects lower interest rates, which are still impacting investment earnings.

Expenditures of \$708,670 are under projections of \$968,847 by \$260,177. The majority of the under-expenditure is in the Intergovernmental Professional Services category due to the timing of billings from King County. No changes have been made to the 2004 projected expenditures at this time.

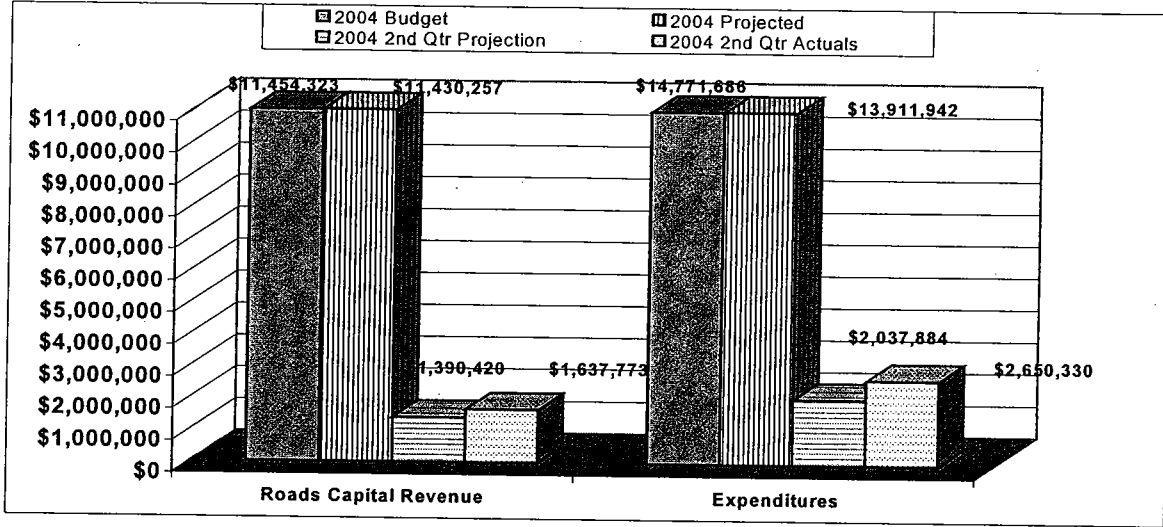
General Capital Fund



Revenues of \$452,658 ahead of revised projected revenue of \$338,762 by \$113,896 or 25.2%. Real estate excise tax collections are ahead of revised projections by \$114,627 or 27.6%. Projected 2004 revenue from real estate excise taxes has been increased by \$140,000 over the adopted budget. Real estate activity has continued to be strong through the first half of 2004 as mortgage interest rates have remained low. Investment earnings, however, are below lowered projections by \$732. Projected income from investments for the year has been lowered from a budget of \$168,891 to \$75,000. 2004 projected revenues from grants and municipal financing have been revised to match those included in the recently adopted 2005 – 2010 Capital Improvement Plan (CIP).

Capital expenditures are much more difficult to project than revenues since each project has its own unique timeline. Typically through June, we would expect that about 39% of revised project budgets would be spent which would equal \$476,366. Through the first half of 2004, \$262,505 has been spent, which is under projections by \$213,860. Overall, 2004 projected expenditures have been reduced from the original budget of \$15,456,034 to \$2,132,323. This change reflects the 200 projected expenditures included in the 2005 – 2010 CIP. The majority of the lower expenditures is due to a delay in the Spartan Gym project which is being managed by the Shoreline School District and the City Hall project. A major portion of the work that was planned for 2004 will now occur in 2005.

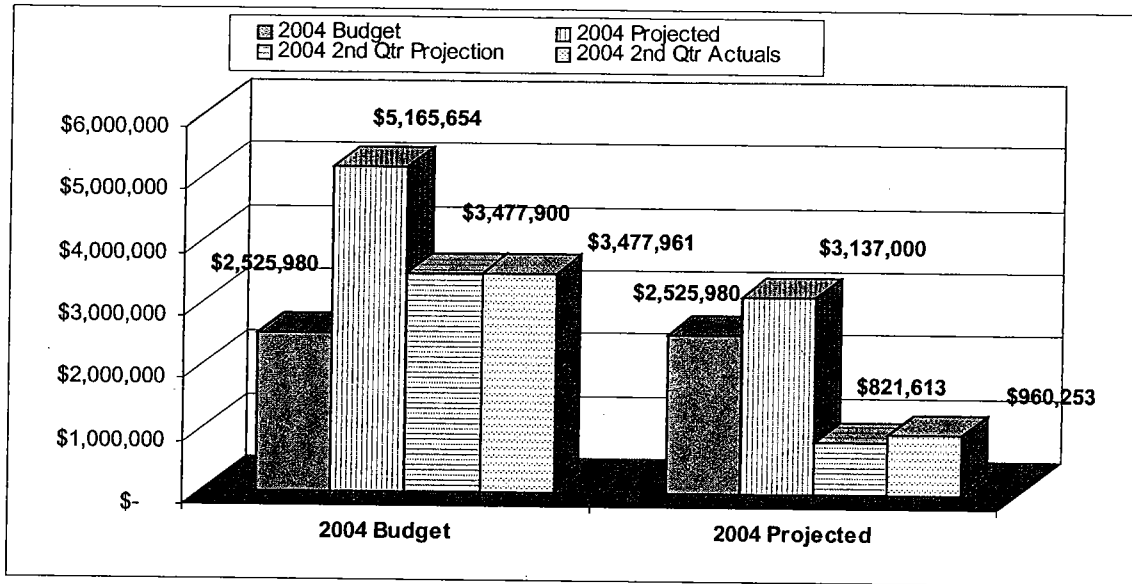
Roads Capital Fund



Year-to-date revenues of \$1,637,773 are above projected revenue of \$1,390,420 by \$247,354 or 17.8%. Real estate excise tax collections are ahead of revised projections by \$115,059 or 38.21%. Projected 2004 revenue from real estate excise taxes has been increased by \$ 140,000 over the adopted budget. Real estate activity has continued to be strong through the first half of the year as mortgage interest rates have remained low. Investment earnings are below lowered projections by \$1,822. Projected 2004 revenue from investments has been lowered from a budget of \$314,166 to \$150,000. 2004 projected revenue has been revised to match the recently adopted 2005-2010 CIP. Overall projected revenues for 2004 have been lowered from a budget of \$11,454,323 to \$11,430,257, a change of \$24,066.

Projected 2004 expenditures have been lowered from the original budget by \$859,744 to \$13,911,942. This change reflects the projections included in the 2005 – 2010 CIP. Expenditures through June totaling \$2,650,330 are over projections of \$2,037,884 by \$612,446 or 4.5%. Project work is being completed at a faster rate than in prior years.

Surface Water Capital Fund



Revenues through the June of \$3,477,961 are ahead of projected revenues of \$3,477,900 by only \$61. The main sources of revenue for this fund are an operating transfer from the Surface Water Management Fund (storm drainage fees) and Public Works Trust Fund Loans (PWTFL) from the state. Projected 2004 revenues have been increased from a budget of \$2,525,980 by \$351,800 to \$5,165,654. This reflects proceeds from the PWTFL for the Ronald Bog Drainage Improvements project being received earlier than originally expected. Projected interest earnings in this fund have actually increased as less fund balance is being used this year. We now expect to collect \$67,000 from investments, an increase of \$27,000.

Projected 2004 expenditures have been revised upwards from \$2,525,980 to \$3,137,000 as adopted in the 2005 – 20109. This increase reflects accelerated activity on the Ronald Bog and 3rd Avenue drainage improvements. Expenditures through June of \$960,253 are ahead of projected expenditures of \$821,613 by \$138,640, due to the accelerated project activity.

Cash and Investments
August 20, 2004

The City's investment policy adheres to strict standards prescribed by federal law, state statutes, local ordinances, and allows the City to develop an investment model to maximize its investment returns within the primary objectives of safety and liquidity.

Our yield objectives are very important and, pursuant to policy, the basis used by the City to determine whether the market yields are being achieved is through the use of a comparable benchmark. Our benchmark has been identified as the annual average of the Washington State Local Government Investment Pool, which has been the City's primary mode of investment prior to adopting our Investment Policy.

Our in-house investment activity is illustrated in the following table for the period January 01 through August 20, 2004. The table contains significant data on each investment instrument including a column representing annualized interest utilizing actual yield rates. As a comparison we have also displayed a column illustrating annualized interest had all our investments remained in the State Pool:

LGIP Cash and Investment Balances						
July 31, 2004						
Instrument Type	Settlement Date	Investment Cost	Yield To Maturity	Maturity Date	Annualized Interest	Annualized Interest at LGIP rate (1.0601%)
FNMA (Fannie Mae)	02/09/04	5,029,629	1.2694%	02/15/05	63,846.10	53,316.58
FHLMC (Freddie Mac)	02/24/04	5,000,000	2.1400%	02/24/06	107,000.00	53,002.50
Certificate of Deposit	02/25/04	155,000	1.4500%	12/24/04	2,247.50	1,643.08
Certificate of Deposit	02/25/04	2,189,400	1.8000%	05/24/05	39,409.20	23,208.73
Certificate of Deposit	04/26/04	300,000	1.3300%	10/26/04	3,990.00	3,180.15
FHLB	05/13/04	2,000,000	1.8750%	05/13/05	37,500.00	21,201.00
FHLB	06/30/04	5,000,000	2.6300%	12/30/05	131,500.00	53,002.50
FHLB	06/30/04	4,000,000	2.1700%	06/30/05	86,800.00	42,402.00
FHLB	08/12/04	5,043,911	2.1150%	08/15/05	106,678.71	53,467.97
FNMA (Fannie Mae)	08/12/04	5,003,846	3.4240%	08/30/06	171,331.67	53,043.26
<i>Sub Total</i>		33,721,785			750,303.18	357,467.78
Average Maturity (days)				444		
Average Yield to Maturity			2.2250%			
State Investment Pool		9,852,667	1.0601%	1		
Total Investments		43,574,451				

Note: Yield to Maturity for the State Investment Pool is a 12 month average.

The above annualized interest columns illustrate a significant gain through the use of our in-house investment process as compared to holding our total portfolio within the State investment Pool at an average yield of 1.0601%. Based on the annualized interest the City's investment portfolio has an average yield of 2.2250%, nearly 117 basis points greater than our benchmark. In dollars this can equate to nearly \$393,000 in annualized investment interest revenue.

The significant difference from the last investment portfolio statement, dated March 31, 2004 is primarily due to the last four investment instruments. The declining rate in the investment pool also contributes to this change. This is illustrated in the table above.

The following table illustrates the City's portfolio diversification by instrument type at August 20, 2004:

Portfolio Diversification		
Instrument Type	Percentage	Amount
Certificate of Deposit	6%	2,644,400.00
FHLMC (Freddie Mac)	11%	5,000,000.00
FNMA (Fannie Mae)	23%	10,033,474.00
FHLB (Fed Home Loan Bank)	37%	16,043,910.50
State Investment Pool	23%	9,852,666.57
Total Investments	100%	43,574,451.07