

**CITY COUNCIL AGENDA ITEM**  
CITY OF SHORELINE, WASHINGTON

**AGENDA TITLE:** 2006 Second Quarter Financial Report  
**DEPARTMENT:** Finance  
**PRESENTED BY:** Debbie Tarry, Finance Director

**PROBLEM/ISSUE STATEMENT:**

The purpose of this agenda item is to summarize the second quarter financial activities for the City's major funds: General, Streets, Surface Water Operations, General Capital, Street Capitals, and Surface Water Capital. The second quarter report is provided to keep the Council informed of the financial issues and the financial position of the City.

**Revenue Section**

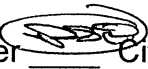
Revenues						
Operating Funds	2006 Budget	2006 Projected	2006 YTD Actuals	2006 YTD Projected	Variance Actuals v. Projected	% Variance
General Fund	\$29,398,165	\$28,722,678	\$12,207,736	\$12,056,791	\$150,945	1.3%
Streets	\$2,559,651	\$2,603,638	\$1,228,399	\$1,236,202	-\$7,803	-0.6%
Surface Water Utility Fund	\$5,868,216	\$6,224,607	\$1,610,772	\$1,538,573	\$72,199	4.7%
General Capital	\$19,026,460	\$26,403,761	\$1,561,228	\$1,482,886	\$78,342	5.3%
Roads Capital	\$34,488,918	\$28,504,404	\$6,185,735	\$6,169,461	\$16,274	0.26%
General Reserve Fund	\$38,350	\$38,350	\$47,212	\$38,350	\$8,862	23.1%
Code Abatement Fund	\$102,500	\$102,500	\$33,427	\$25,625	\$7,802	30.4%
Asset Seizure Fund	\$23,500	\$23,500	\$1,578	\$11,750	-\$10,172	-86.6%
Public Arts Fund	\$149,667	\$149,667	\$6,436	\$3,742	\$2,694	72.0%
Vehicle Operations Fund	\$88,717	\$88,717	\$91,878	\$88,717	\$3,161	3.6%
Facility - Major Maintenance Fund	\$74,680	\$74,680	\$72,809	\$36,405	\$36,405	100.0%
Equipment Replacement Fund	\$299,308	\$299,308	\$310,237	\$224,481	\$85,756	38.2%
Unemployment	\$10,450	\$30,000	\$11,056	\$15,000	-\$3,944	-26.3%
<b>Totals</b>	<b>\$92,128,582</b>	<b>\$93,265,810</b>	<b>\$23,368,503</b>	<b>\$22,927,982</b>	<b>\$440,521</b>	<b>1.9%</b>

## Expenditure Section

Expenditures						
Operating Funds	2006 Budget	2006 Projected	2006 YTD Actuals	2006 YTD Projected	Variance Actuals v. Projected	% Variance
General Fund	\$29,398,165	\$28,792,966	\$13,110,458	\$13,294,900	-\$184,443	-1.4%
Streets	\$2,559,652	\$2,581,146	\$1,042,268	\$1,069,949	-\$27,681	-2.6%
Surface Water Utility Fund	\$3,476,121	\$2,948,485	\$980,218	\$1,188,528	-\$208,310	-17.5%
General Capital	\$18,951,461	\$19,879,279	\$517,134	\$755,389	-\$238,255	-31.5%
Roads Capital	\$34,488,920	\$27,967,938	\$8,777,070	\$10,030,637	-\$1,253,568	-12.5%
General Reserve Fund	\$0	\$0	\$0	\$0	\$0	0.0%
Code Abatement Fund	\$100,000	\$100,000	\$310	\$5,000	-\$4,690	-93.8%
Asset Seizure Fund	\$23,000	\$23,000	\$3,722	\$11,500	-\$7,778	-67.6%
Public Arts Fund	\$115,775	\$115,775	\$8,955	\$11,578	-\$2,623	-22.7%
Vehicle Operations Fund	\$88,717	\$88,717	\$28,755	\$44,359	-\$15,604	-35.2%
Facility - Major Maintenance Fund	\$60,000	\$60,000	\$0	\$15,000	-\$15,000	-100.0%
Equipment Replacement Fund	\$138,180	\$138,180	\$24,693	\$34,545	-\$9,852	-28.5%
Unemployment	\$10,000	\$30,000	\$8,658	\$7,500	\$1,158	15.4%
<b>Totals</b>	<b>\$89,409,990</b>	<b>\$82,725,485</b>	<b>\$24,502,240</b>	<b>\$26,468,884</b>	<b>-\$1,966,644</b>	<b>-7.4%</b>

### RECOMMENDATION

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

Approved By: City Manager  City Attorney \_\_\_\_\_

### **ATTACHMENTS**

Attachment A – 2006 Second Quarter Financial Report

Attachment A



# **2006 Second Quarter Financial Report**

Prepared by the Finance Department

*for the*

*Fiscal Year January 1, 2006 – December 31, 2006*

## Table of Contents

<b>Executive Summary</b>	<b>3</b>
<b>General Fund Revenue</b>	<b>6</b>
Property Tax	8
Sales Tax	9
Criminal Justice Sales Tax	10
State Revenue	11
Utility Tax and Franchise Fees	12
Seattle City Light Contract Payment	13
Parks Revenue	14
Gambling Tax	15
Permit Revenue	16
<b>General Fund Expenditures</b>	<b>17</b>
<b>Street Fund</b>	<b>19</b>
<b>Surface Water Utility Fund</b>	<b>20</b>
<b>General Capital Fund</b>	<b>21</b>
<b>Roads Capital Fund</b>	<b>22</b>
<b>Investment Report</b>	<b>23</b>

## EXECUTIVE SUMMARY

### **General Fund**

Actual revenue collections of \$12,207,736 through the second quarter of 2006 were \$150,893 or 1.3% above revised projections of \$12,056,791. The General Fund is projected to collect \$675,487 less in revenue than originally budgeted. 2006 projected revenue is \$28,722,678 down from the current revenue budget of \$29,398,165. The revenue decrease is primarily due to the \$876,700 reduction in gambling tax revenue and a \$35,012 reduction in state shared revenue. Offsetting those decreases are projected revenue increases in collections from the criminal justice sales tax of \$49,313, the Seattle City Light (SCL) contract payment of \$150,000, newly awarded grants totaling \$33,438, and a minor increase in miscellaneous revenue of \$3,474.

Reductions in gambling tax revenues impact both general fund operation revenues and roads capital revenues. Operational revenues are expected to decrease by \$426,700 and capital revenues by \$450,000.

Departmental expenditures during the first half of 2006 were \$13,110,485, under projected expenditures of \$13,281,900 by \$184,443 or 1.4%. The Customer Response Team, Parks, Recreational & Cultural Services (PRCS), and Planning & Development Services have all experienced staff vacancies resulting in savings. PRCS has also experienced some savings in contracted services and utility costs through the second quarter. Some other departments have under-spent projections due to delays in billing from contractors including King County when compared with prior years.

### **Street Fund**

Street Fund revenue through the first half of 2006 was \$1,228,399, under revised projections of \$1,236,202 by only \$7,803, a 0.6% variance. Projected revenues for 2006 have been increased by \$43,987 to include a grant from the Washington Traffic Safety Council (WTSC) for \$22,500, unanticipated insurance recoveries, \$17,476, and increased investment earnings of \$4,000.

Street Fund expenditures of \$1,042,268 are below projections of \$1,069,949 by \$27,681 or 2.6%.

### **Surface Water Utility Fund**

Earlier this year, the City Council approved the creation of this new fund to merge all surface water related activities. Prior to 2006, operating and capital activities were recorded separately. Revenues in the Surface Water Utility Fund of \$1,610,772 are ahead of projections of \$1,538,573 by \$72,199 or 2.3%. Storm drainage fees are slightly ahead of projections by \$6,504 or 0.5%. Investment earnings are ahead of projections by \$65,695.

Expenditures of \$980,218 are under projections of \$1,188,528 by \$208,310 or 17.5%. The majority of the under-expenditure is in the intergovernmental professional services category due to the timing of billings from King County and other contracted services. Some capital projects are also under projections as of the end of the second quarter.

### **Capital Funds**

In the General Capital Fund, the major sources of revenue are contributions 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 \$68,239 or 12.7%. Investment earnings also exceeded projections by \$8,671 or 14.6%. Projected 2006 revenue from real estate excise taxes has been increased by \$362,326 over the adopted budget. 2006 projected revenues have been adjusted to reflect the delay of financing for the Civic Center project until 2007 and to include proceeds from the parks bond issue that will be received later this year. Through the first half of 2006, \$517,134 has been spent, which is under projections of \$755,389 by \$238,255. Overall, 2006 projected expenditures have been increased to include new projects funded by the bond issue.

In the Roads Capital Fund, year-to-date revenues of \$6,185,735 are above projected revenue of \$6,169,461 by \$16,274 or 0.26%. Overall projected revenues for 2006 have been lowered from a budget of \$34,488,918 to \$28,504,404 to reflect the recently adopted CIP. The revenue changes are a result of the reduced transfer of general fund monies as a result of reduced gambling tax proceeds and adjustments to grants as a result of timing.

Projected 2006 expenditures have been lowered from the original budget of \$34,488,918 to \$27,967,937. This change reflects the projections included in the 2007 – 2012 CIP. Expenditures through June totaling \$8,777,070 are under projections of \$10,030,637.

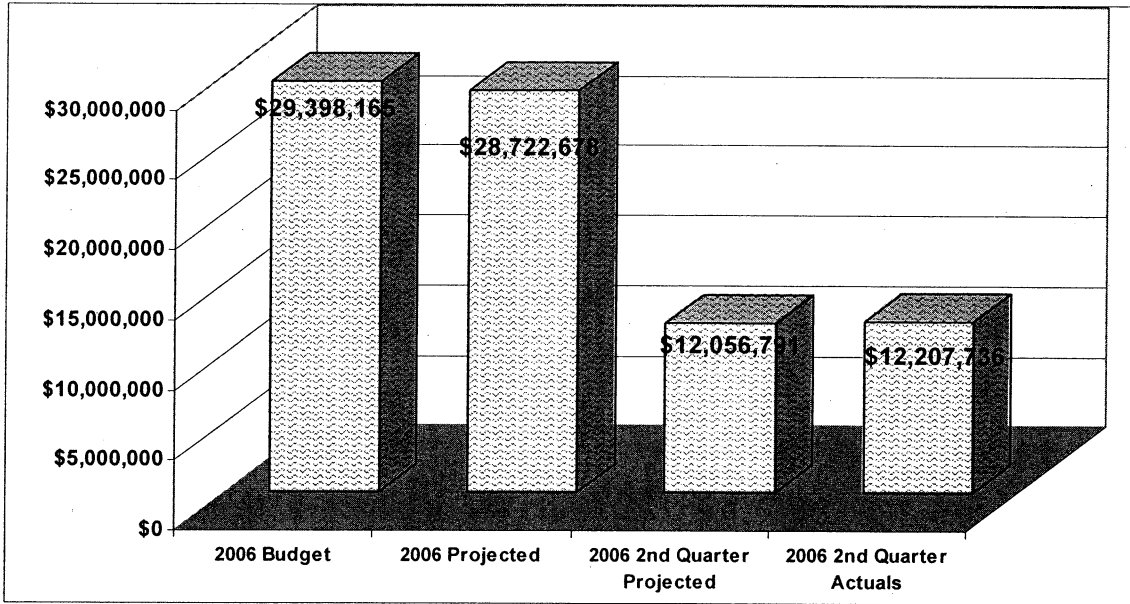
## Summary of Key Operating Funds

The following table provides a summary of the financial results for each City fund for first half of 2006.

Revenues						
Operating Funds	2006 Budget	2006 Projected	2006 YTD Actuals	2006 YTD Projected	Variance Actuals v. Projected	% Variance
General Fund	\$29,398,165	\$28,722,678	\$12,207,736	\$12,056,791	\$150,945	1.3%
Streets	\$2,559,651	\$2,603,638	\$1,228,399	\$1,236,202	-\$7,803	-0.6%
Surface Water Utility Fund	\$5,868,216	\$6,224,607	\$1,610,772	\$1,538,573	\$72,199	4.7%
General Capital	\$19,026,460	\$26,403,761	\$1,561,228	\$1,482,886	\$78,342	5.3%
Roads Capital	\$34,488,918	\$28,504,404	\$6,185,735	\$6,169,461	\$16,274	0.26%
General Reserve Fund	\$38,350	\$38,350	\$47,212	\$38,350	\$8,862	23.1%
Code Abatement Fund	\$102,500	\$102,500	\$33,427	\$25,625	\$7,802	30.4%
Asset Seizure Fund	\$23,500	\$23,500	\$1,578	\$11,750	-\$10,172	-86.6%
Public Arts Fund	\$149,667	\$149,667	\$6,436	\$3,742	\$2,694	72.0%
Vehicle Operations Fund	\$88,717	\$88,717	\$91,878	\$88,717	\$3,161	3.6%
Facility - Major Maintenance Fund	\$74,680	\$74,680	\$72,809	\$36,405	\$36,405	100.0%
Equipment Replacement Fund	\$299,308	\$299,308	\$310,237	\$224,481	\$85,756	38.2%
Unemployment	\$10,450	\$30,000	\$11,056	\$15,000	-\$3,944	-26.3%
<b>Totals</b>	<b>\$92,128,582</b>	<b>\$93,265,810</b>	<b>\$23,368,503</b>	<b>\$22,927,982</b>	<b>\$440,521</b>	<b>1.9%</b>

Expenditures						
Operating Funds	2006 Budget	2006 Projected	2006 YTD Actuals	2006 YTD Projected	Variance Actuals v. Projected	% Variance
General Fund	\$29,398,165	\$28,792,966	\$13,110,458	\$13,294,900	-\$184,443	-1.4%
Streets	\$2,559,652	\$2,581,146	\$1,042,268	\$1,069,949	-\$27,681	-2.6%
Surface Water Utility Fund	\$3,476,121	\$2,948,485	\$980,218	\$1,188,528	-\$208,310	-17.5%
General Capital	\$18,951,461	\$19,879,279	\$517,134	\$755,389	-\$238,255	-31.5%
Roads Capital	\$34,488,920	\$27,967,938	\$8,777,070	\$10,030,637	-\$1,253,568	-12.5%
General Reserve Fund	\$0	\$0	\$0	\$0	\$0	0.0%
Code Abatement Fund	\$100,000	\$100,000	\$310	\$5,000	-\$4,690	-93.8%
Asset Seizure Fund	\$23,000	\$23,000	\$3,722	\$11,500	-\$7,778	-67.6%
Public Arts Fund	\$115,775	\$115,775	\$8,955	\$11,578	-\$2,623	-22.7%
Vehicle Operations Fund	\$88,717	\$88,717	\$28,755	\$44,359	-\$15,604	-35.2%
Facility - Major Maintenance Fund	\$60,000	\$60,000	\$0	\$15,000	-\$15,000	-100.0%
Equipment Replacement Fund	\$138,180	\$138,180	\$24,693	\$34,545	-\$9,852	-28.5%
Unemployment	\$10,000	\$30,000	\$8,658	\$7,500	\$1,158	15.4%
<b>Totals</b>	<b>\$89,409,990</b>	<b>\$82,725,485</b>	<b>\$24,502,240</b>	<b>\$26,468,884</b>	<b>-\$1,966,644</b>	<b>-7.4%</b>

# General Fund Revenue



Actual revenue collections of \$12,207,736 through the second quarter of 2006 were \$150,945 or 1.3% above revised projections of \$12,056,791. The General Fund is projected to collect \$675,487 or 2.3% less revenue than originally budgeted for 2006 as projected revenue is \$28,722,678 down from budgeted revenue of \$29,398,165. The revenue decrease is due to the \$876,700 reduction in gambling tax revenue and a \$35,012 reduction in state shared revenue. Offsetting those decreases are projected increases in collections from the criminal justice sales tax of \$49,313, the Seattle City Light (SCL) contract payment of \$150,000, newly awarded grants totaling \$33,438, and a minor increase in miscellaneous revenue of \$3,474.

Dominating the outlook for General Fund revenue is the \$876,700 reduction in 2006 projected gambling tax revenue. The reduction is based on two factors; a 20% reduction in card game gross receipts for the mini-casinos and the temporary 3% reduction in the City's card room tax rate. On the bright side of the City's revenue picture is the better than expected SCL contract payment revenue of \$150,000 due to increasing monthly revenue amounts beyond historical averages. Other revenue activity of note includes property tax collections ahead of projections by \$47,744 or 1.3%; sales tax collections up by \$4,797 or 0.2%; criminal justice sales tax revenue exceeds projections by \$10,954 or 1.9%; the utility tax/franchise fee category up by \$7,052 or 0.4%; parks and recreation revenue is up by \$121,250 or 23.4%; and investment earnings continue to increase and are \$15,195 or 9.3% ahead of projections. More detail about specific general fund revenues follows later in this report.

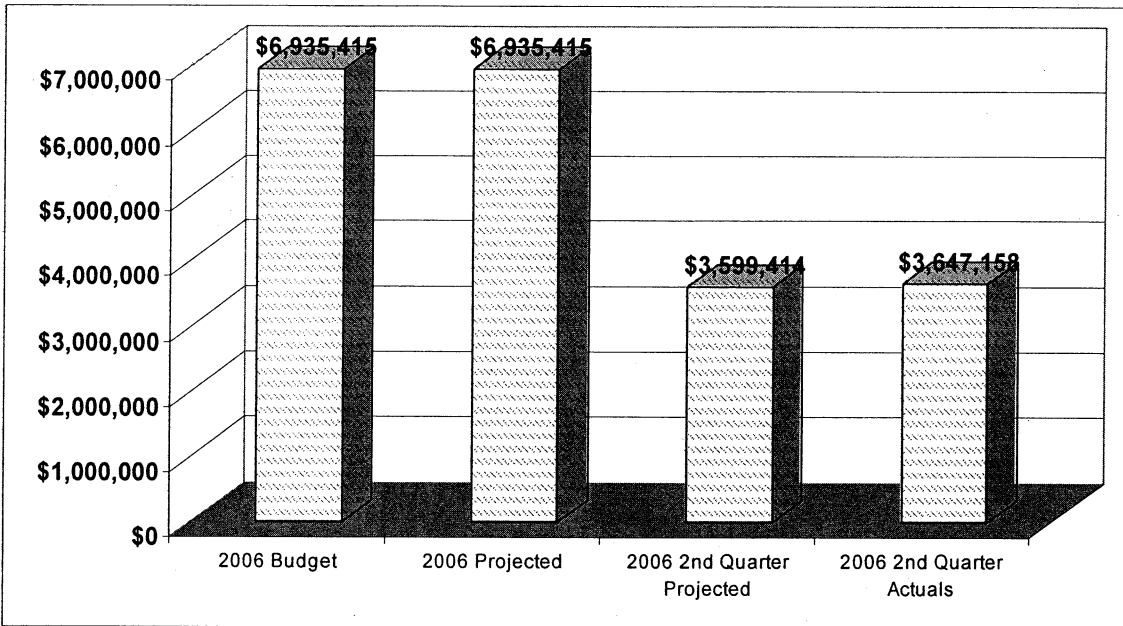
The chart on the following page details each revenue category for the General Fund for first half of 2006. The first column is the adopted 2006 revenue amount. The second column represents the revised annual projection, if applicable, for each category. The third column displays the projected revenue 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.



## General Fund Revenue Detail

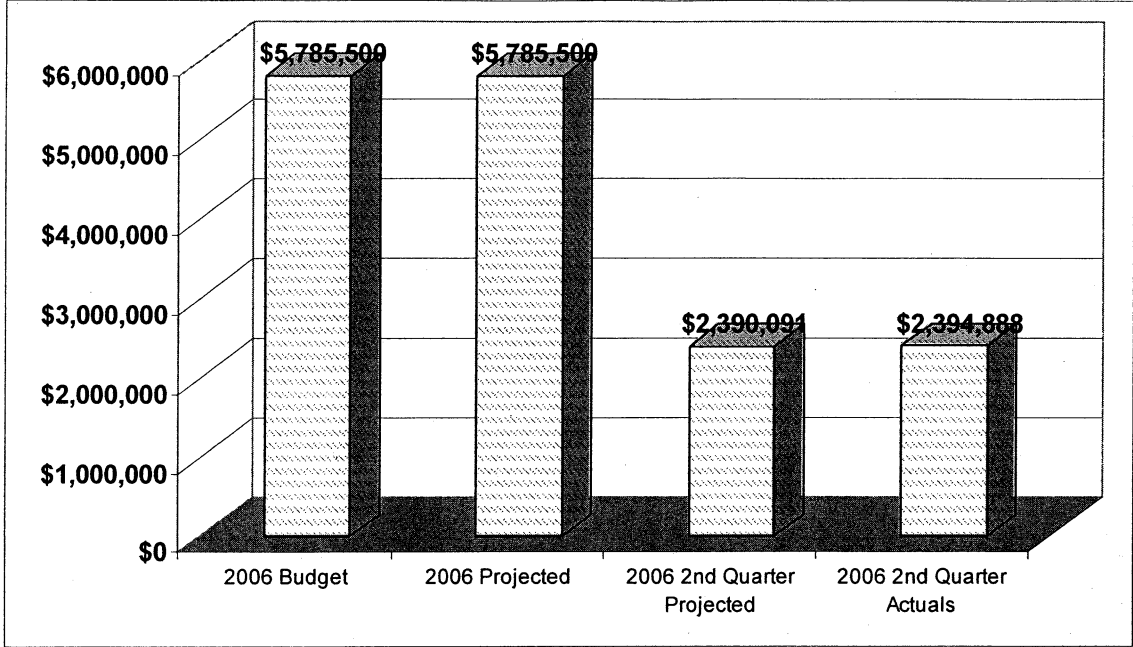
Revenue Source	2006 Budget	2006 Projected	2006 2nd Quarter Projected	2006 2nd Quarter Actuals	\$\$ Variance Actuals v. Projected	% Variance
<b>Budgeted Fund Balance</b>	\$2,140,529	\$2,140,529	\$0	\$0		
<b>Property Tax</b>	\$6,935,415	\$6,935,415	\$3,599,414	\$3,647,158	\$47,744	1.3%
<b>Sales Tax</b>	\$5,785,500	\$5,785,500	\$2,390,091	\$2,394,888	\$4,797	0.2%
<b>Criminal Justice Sale Tax</b>	\$1,100,687	\$1,150,000	\$563,834	\$574,788	\$10,954	1.9%
<b>Utility Tax/Franchise Fee Category</b>						
<b>Natural Gas Utility Tax</b>	\$850,000	\$850,000	\$448,630	\$467,256	\$18,626	4.0%
<b>Sanitation Utility Tax</b>	\$331,000	\$331,000	\$142,676	\$134,247	-\$8,429	-6.3%
<b>Cable TV Utility Tax</b>	\$96,000	\$96,000	\$38,151	\$32,626	-\$5,525	-16.9%
<b>Telephone/Cell Utility Tax</b>	\$1,480,000	\$1,480,000	\$588,448	\$573,573	-\$14,875	-2.6%
<b>Water Franchise Fee</b>	\$500,000	\$500,000	\$150,000	\$148,147	-\$1,853	-1.3%
<b>Sewer Franchise Fee</b>	\$636,500	\$636,500	\$318,250	\$318,500	\$250	0.1%
<b>Storm Drainage Utility Tax</b>	\$162,500	\$162,500	\$84,336	\$85,264	\$928	1.1%
<b>Cable TV Franchise Fee</b>	\$480,000	\$480,000	\$120,000	\$137,929	\$17,929	13.0%
<b>Utility Tax/Franchise Fee Subtotal</b>	\$4,536,000	\$4,536,000	\$1,890,490	\$1,897,542	\$7,052	0.4%
<b>Electricity Contract Payment</b>	\$850,000	\$1,000,000	\$502,500	\$502,836	\$336	0.1%
<b>Gambling Tax</b>	\$2,930,500	\$2,053,800	\$614,075	\$611,434	-\$2,641	-0.4%
<b>State Revenue</b>	\$720,593	\$685,581	\$360,157	\$341,961	-\$18,196	-5.3%
<b>Permit Revenue</b>	\$1,305,155	\$1,305,155	\$668,055	\$635,460	-\$32,595	-5.1%
<b>Parks &amp; Recreation Revenue</b>	\$950,828	\$950,828	\$530,662	\$654,912	\$124,250	19.0%
<b>Fines &amp; Licenses/Forfeitures</b>	\$35,530	\$35,530	\$18,215	\$15,290	-\$2,925	-19.1%
<b>Grants &amp; Misc. Revenue</b>	\$262,812	\$296,250	\$31,067	\$28,080	-\$2,987	-10.6%
<b>Investment Interest</b>	\$320,000	\$320,000	\$163,893	\$179,088	\$15,195	8.5%
<b>Miscellaneous Revenue</b>	\$320,775	\$324,249	\$122,418	\$122,380	-\$38	0.0%
<b>Transfers-In</b>	\$1,203,841	\$1,203,841	\$601,921	\$601,919	-\$2	0.0%
<b>Total General Fund Revenue</b>	\$29,398,165	\$28,722,678	\$12,056,791	\$12,207,736	\$150,945	1.3%

## Property Tax Revenue

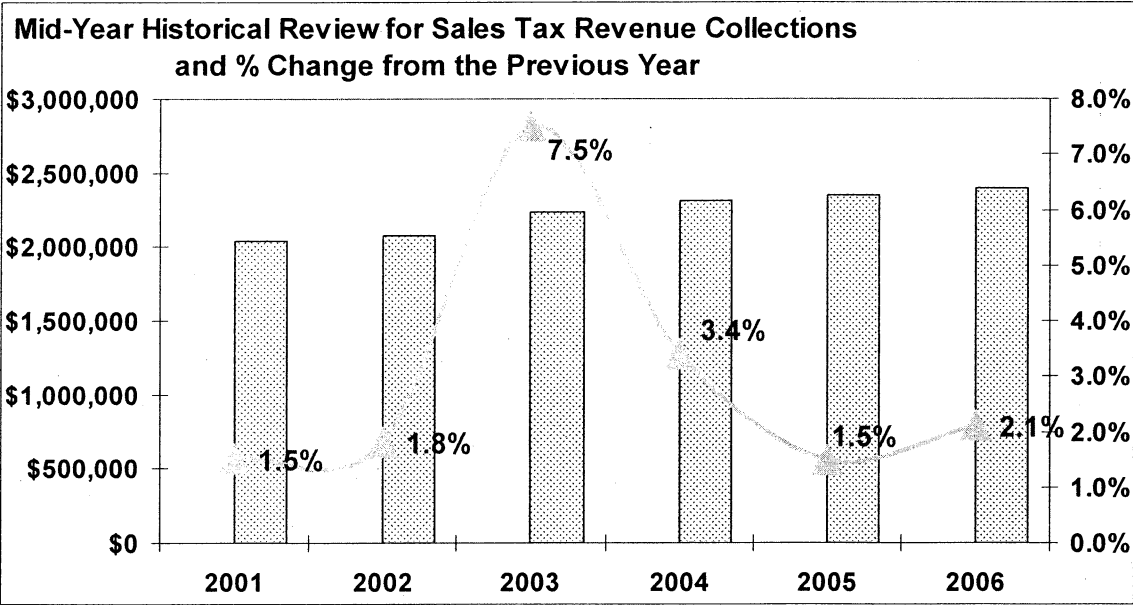


Property tax collections of \$3,647,158 exceeded projections of \$3,599,414 by \$47,744 or 1.3%. No change has been made in the 2006 projected revenue in this category as the adopted budget for this tax is based upon the property tax levy adopted by Council. Only 98% of the levy is expected to be collected 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.

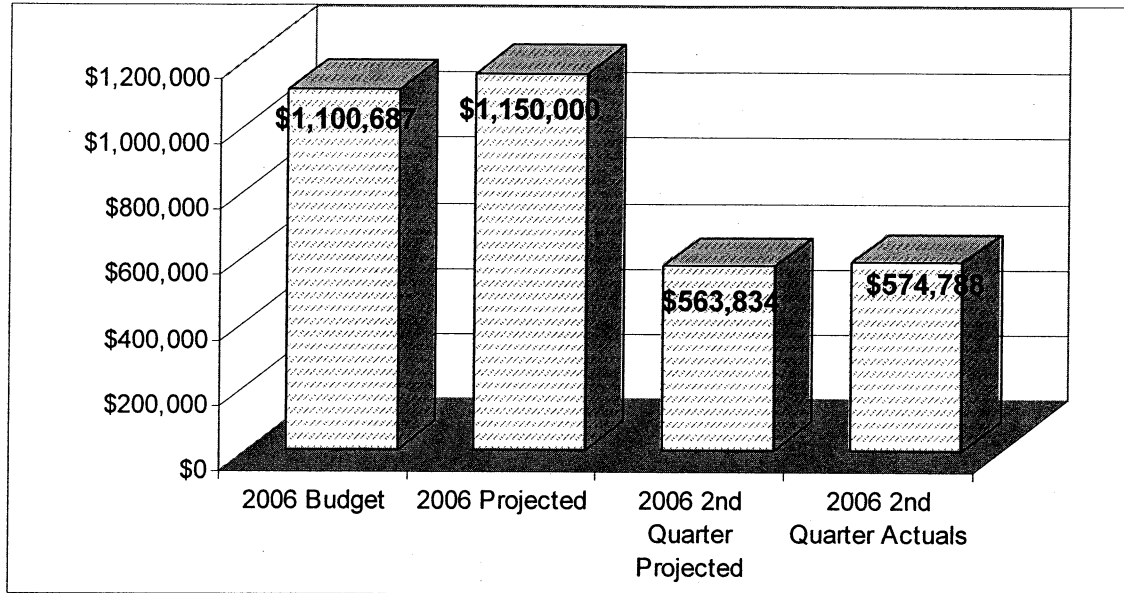
# Sales Tax Revenue



Sales tax collections of \$2,394,888 are just slightly ahead of projections of \$2,390,091 by \$4,797 or 0.2%. Sales tax revenue is tracking right at budgeted levels. The graph below highlights sales tax revenue growth since 2001.

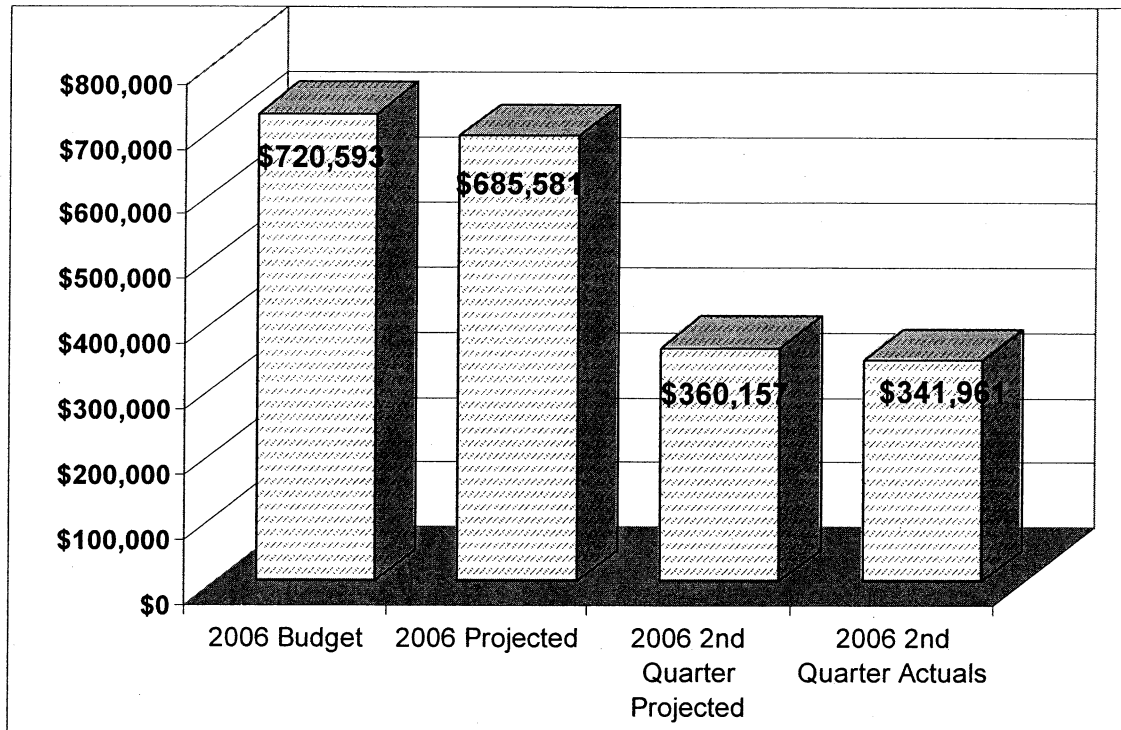


## Criminal Justice Sales Tax Revenue



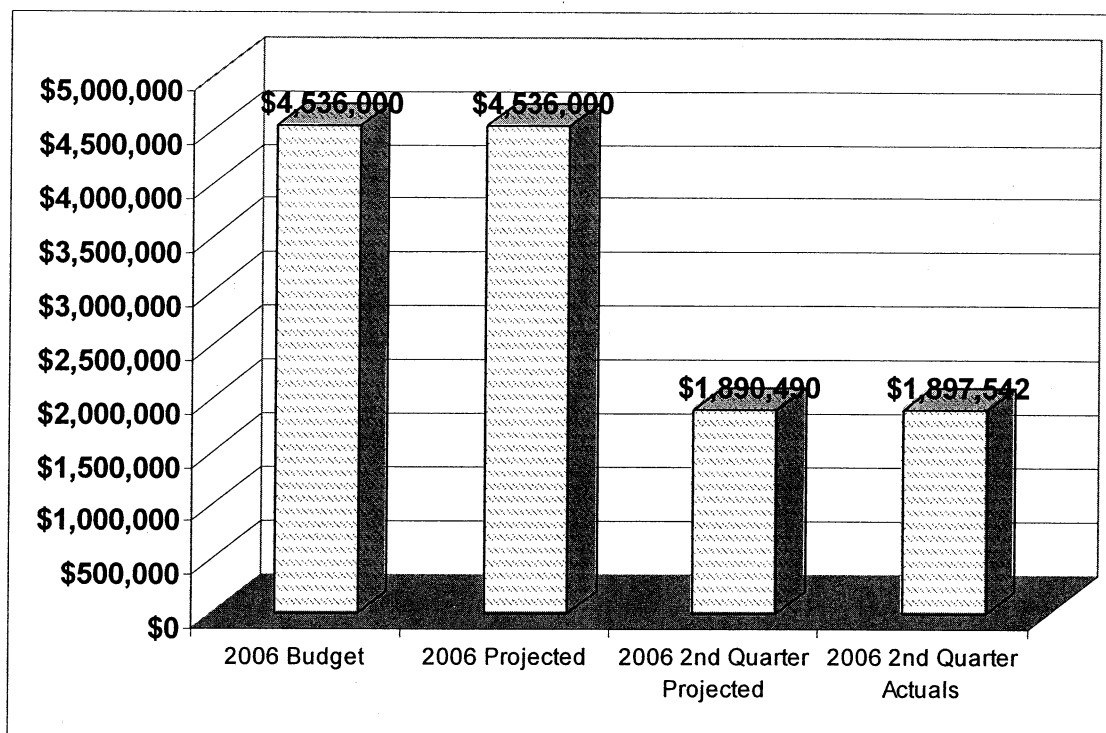
Local Criminal Justice Sales Tax of \$574,788 is ahead of projected revenue of \$563,834 by \$10,954 or 1.9%. At this time we are revising the 2006 projected amount up by \$49,313 due to strong county wide sales tax revenue. This category differs from sales tax because it results from a distribution 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.

## State Revenue



State Revenue of \$341,961 was below projected revenue of \$360,157 by \$18,196 or 5.1%. Revenue from state liquor board profits is projected to come in below projected amounts so as a result we are lowering 2006 projected amounts by \$35,012. The decrease in state-shared revenues is primarily a result of decreased revenues from liquor board profits. In the 2005-2007 state budget the State Legislature included appropriations to the Liquor Control Board for a number of new initiatives and programs. These ventures are all intended to increase profits in the future by increasing revenues or decreasing costs. Their short term effect, however, was to reduce profits for distribution in calendar year 2005 and 2006.

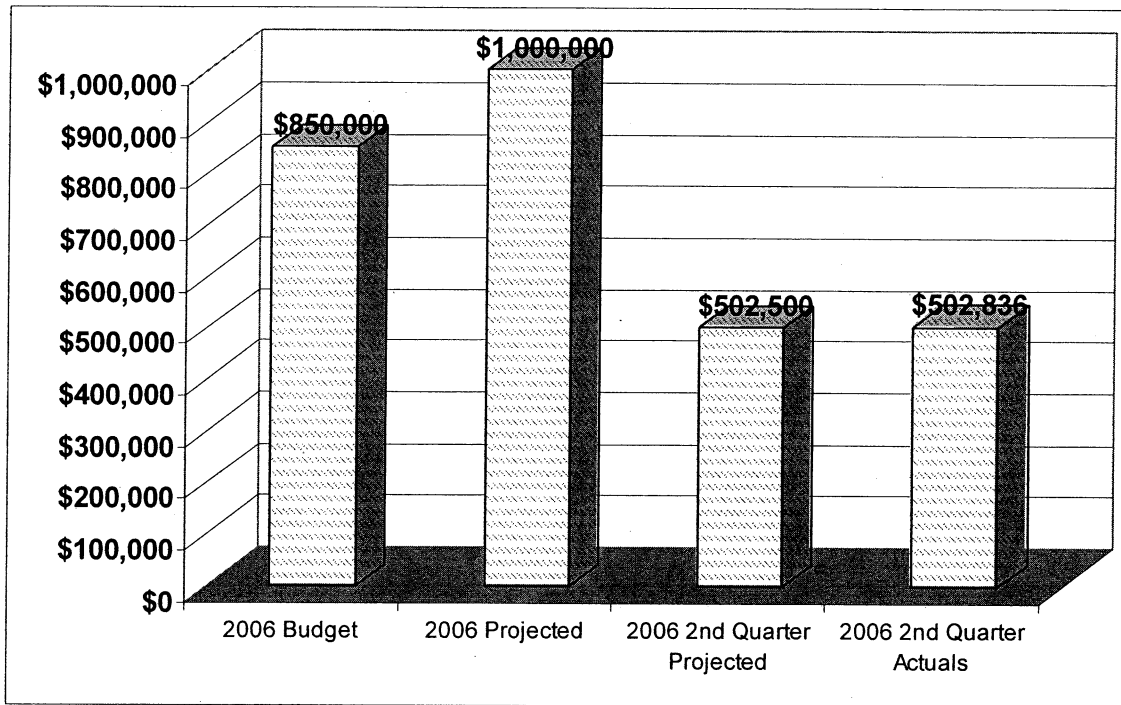
## Utility Tax and Franchise Fee Revenue



Utility tax and franchise fee revenue of \$1,897,542 is just slightly above projected revenue of \$1,890,490 by \$7,052 or 0.4%. So far through 2006 all of the utility revenues are either tracking right at budget or tracking slightly below budgeted amounts. Of particular interest is telephone/cell phone revenue which if current trends hold true could be \$38,332 below budgeted revenue. We will be keeping a close eye on these revenue sources as we move through the rest of 2006. This trend is concerning because historically utility revenue has always performed ahead of budgeted revenues.

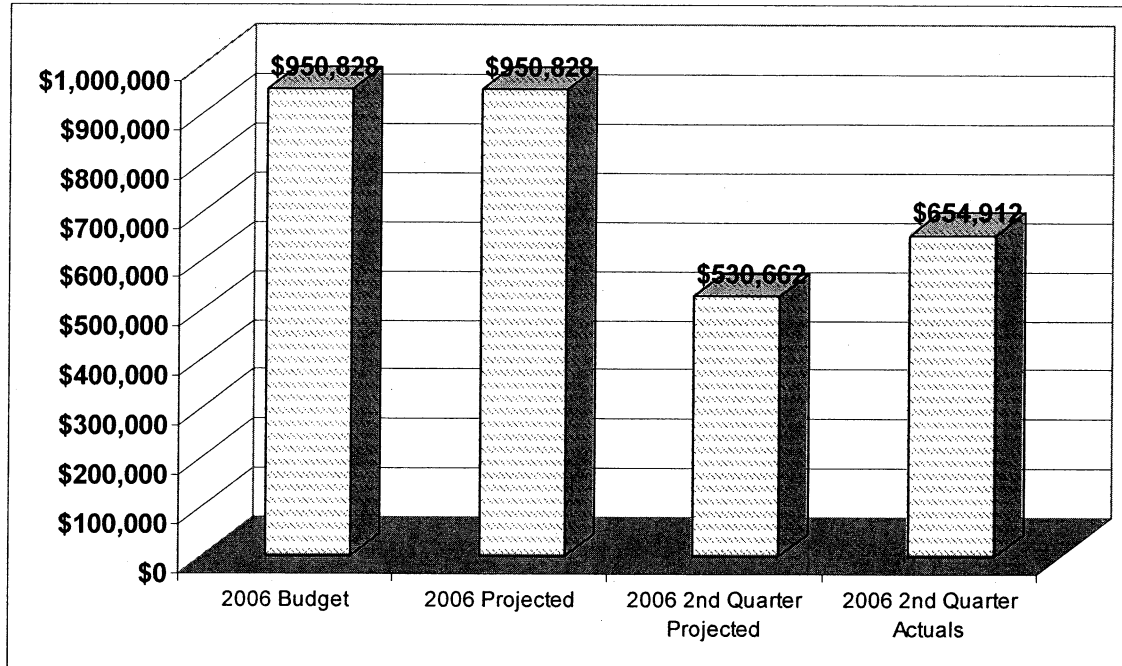
Revenue Source	2006 Budget	2006 Projected	2006 2nd Quarter Projected	2006 2nd Quarter Actuals	\$\$ Variance Actuals v. Projected	% Variance
Natural Gas Utility Tax	\$850,000	\$850,000	\$448,630	\$467,256	\$18,626	4.2%
Sanitation Utility Tax	\$331,000	\$331,000	\$142,676	\$134,247	-\$8,429	-5.9%
Cable TV Utility Tax	\$96,000	\$96,000	\$38,151	\$32,626	-\$5,525	-14.5%
Telephone/Cell Utility Tax	\$1,480,000	\$1,480,000	\$588,448	\$573,573	-\$14,875	-2.5%
Water Franchise Fee	\$500,000	\$500,000	\$150,000	\$148,147	-\$1,853	-1.2%
Sewer Franchise Fee	\$636,500	\$636,500	\$318,250	\$318,500	\$250	0.1%
Storm Drainage Utility Tax	\$162,500	\$162,500	\$84,336	\$85,264	\$928	1.1%
Cable TV Franchise Fee	\$480,000	\$480,000	\$120,000	\$137,929	\$17,929	14.9%
Utility Tax/Franchise Fee Subtotal	\$4,536,000	\$4,536,000	\$1,890,490	\$1,897,542	\$7,052	0.4%

## Seattle City Light Contract Payments



Seattle City Light contract payment revenue of \$502,836 is just slightly above projected revenue of \$502,500 by \$336 or 0.1%. We are increasing the 2006 projected revenue by \$150,000 as a result of revenue activity during the first six months of 2006.

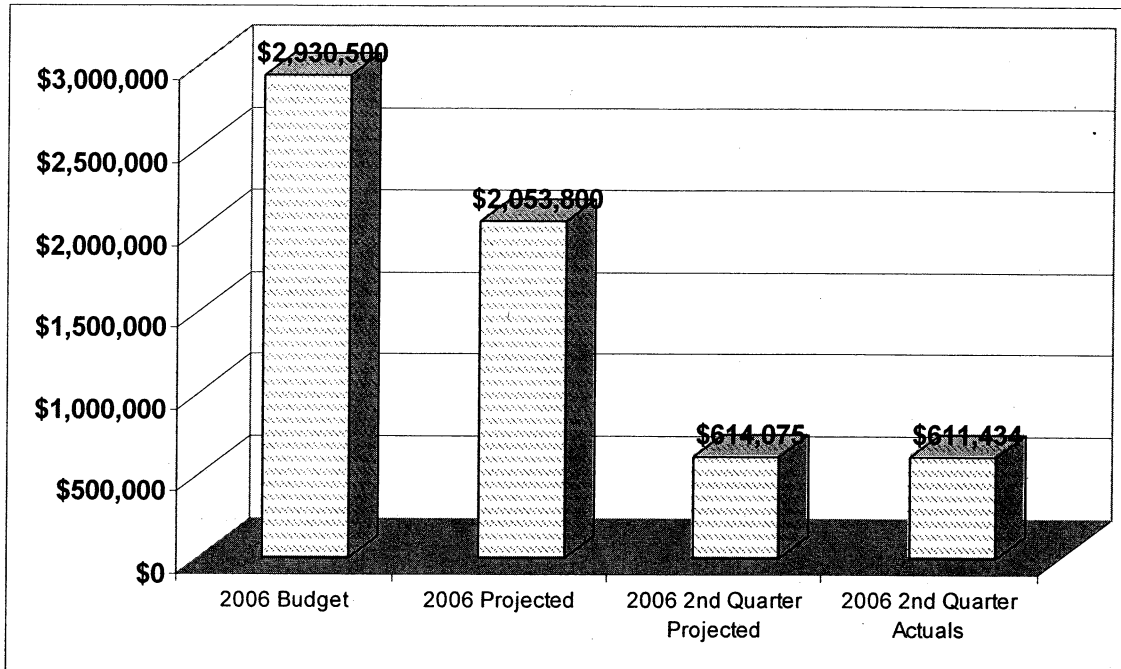
## Parks and Recreation Fee Revenue



Parks and recreation fee revenue of \$654,912 is above projections of \$533,662 by \$124,250 or 23.4%. At this time we are not revising the 2006 Parks projected revenue even though revenues are running well ahead of budget. The additional revenue is primarily from recreational programming such as the summer playground, adult health and fitness, and youth sports programs. We are studying the timing of Parks revenue due to seasonal fluctuations to determine if it differs from earlier models. Departments are developing their year-end revenue estimates at this time and we will review this category again during the budget process.



## Gambling Tax Revenue

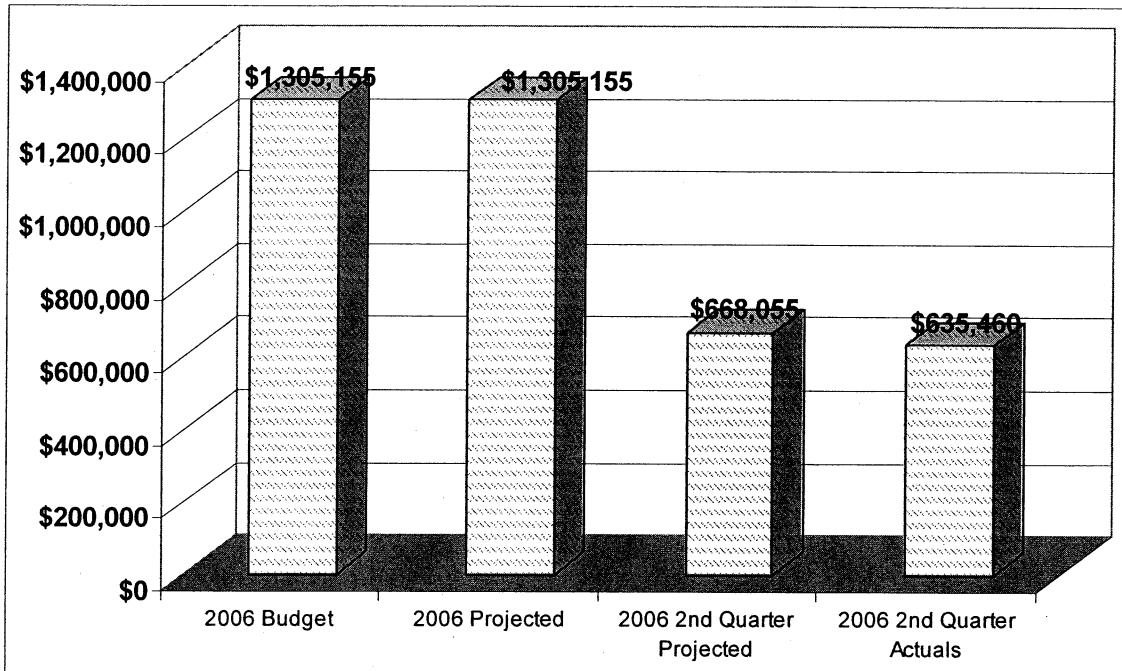


Given the timing of the second quarter report the revenue reported includes only the first quarter gambling tax filings. Second quarter gambling revenue is not due to the City until the end of July. The 2006 projected gambling tax revenues have been reduced by \$876,700 for 2006. Based on the reduced projections gambling tax collections of \$611,434 are just slightly under projected revenue by \$2,641 or 0.4%. However in comparison with 2005 revenue is down by \$189,292 or 23% due to a \$164,252 decline in card room revenue, \$23,207 decline in pull-tab revenue and \$1,832 decline in bingo revenue.

We are anticipating a continued overall downturn in this category as a result of reduced gaming activity and a lowering of the City's card room tax rate from 10% to 7% for the last six months of 2006. The following table summarizes the changes in gambling tax revenues expected for 2006:

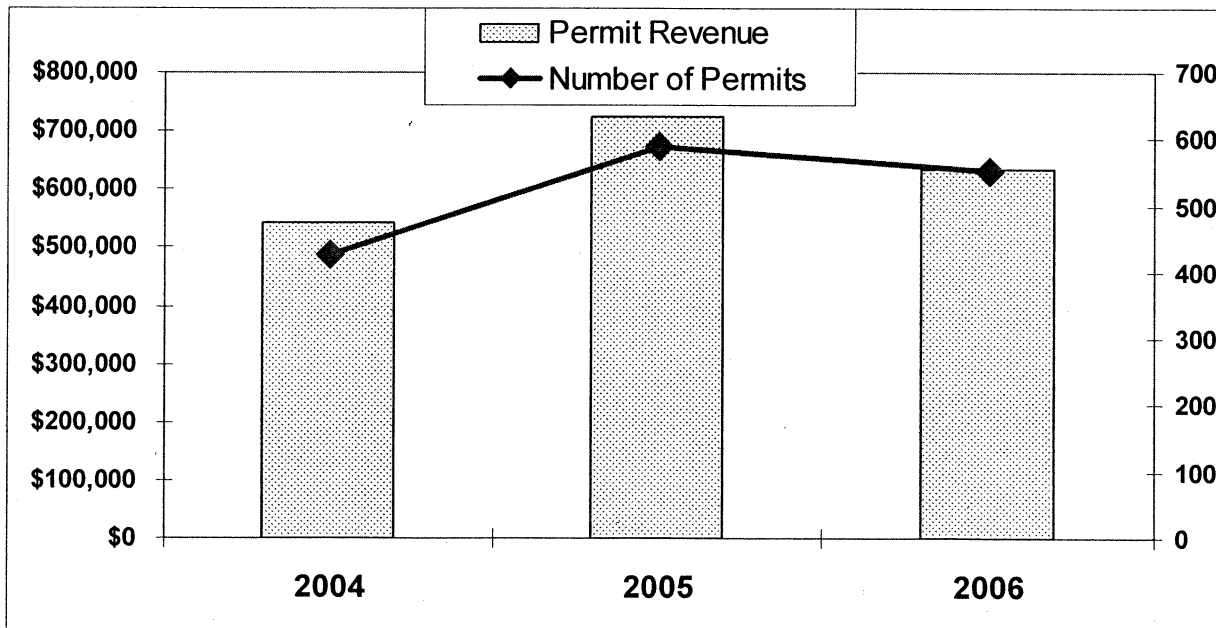
Revenue Source	2006 Budget	2006 Projections	Difference Between Budget & Projections	Operational Revenue Impact	Capital Revenue Impact
Punch Boards/Pull Tabs	\$236,000	\$185,000	(\$51,000)	(\$51,000)	\$0
Bingo/Raffles	\$44,000	\$18,300	(\$25,700)	(\$25,700)	\$0
Amusement Games	\$500	\$500	\$0	\$0	\$0
Card Games	\$2,650,000	\$1,850,000	(\$800,000)	(\$350,000)	(\$450,000)
<b>Total</b>	<b>\$2,930,500</b>	<b>\$2,053,800</b>	<b>(\$876,700)</b>	<b>(\$426,700)</b>	<b>(\$450,000)</b>

## Permit Revenue

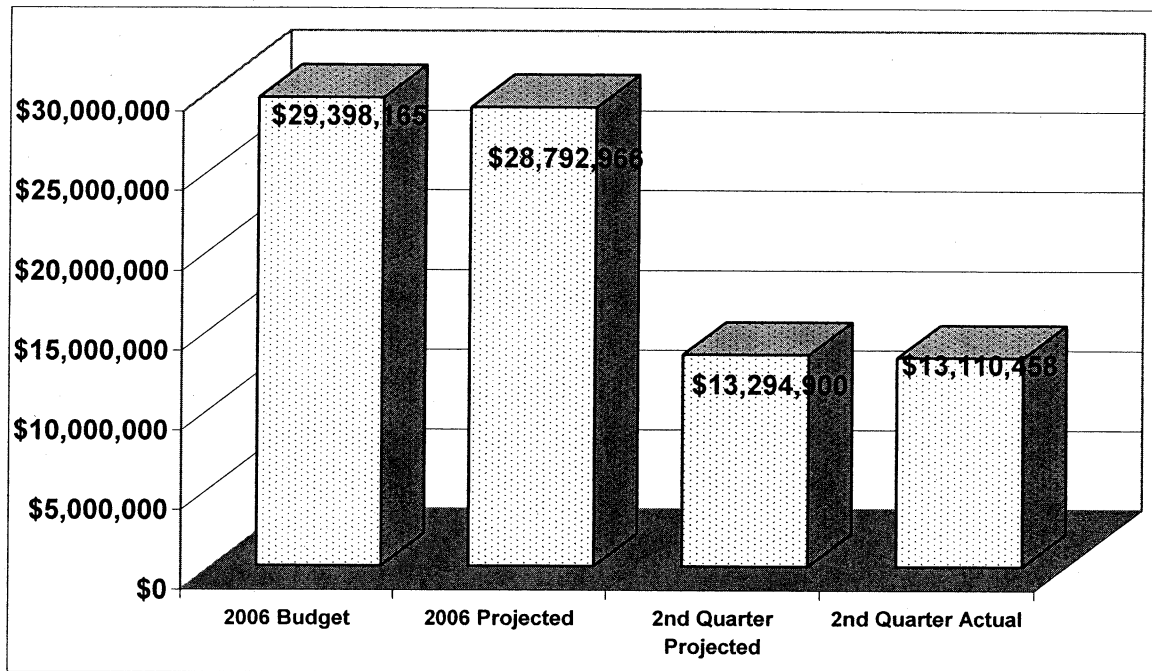


Permit revenue of \$635,460 is below projected revenue of \$668,055 by \$32,595 or 4.9%. The budget was recently amended to increase revenue by \$135,000 to account for collecting fees in accordance with the time it takes to complete development reviews. Revenue from building permits is down by \$48,928 while land use fee are up by \$26,653 and plumbing inspections are ahead by \$16,679.

The graph immediately below illustrates the number of building permits and the revenue generated by building permits at the mid-year point for 2004 – 2006.



## General Fund Expenditures



Departmental expenditures during the first half of 2006 were \$13,110,485, under projected expenditures of \$13,294,900 by \$184,443 or 1.4%. The Customer Response Team, Parks, Recreational & Cultural Services (PRCS), and Planning & Development Services have all experienced staff vacancies resulting in savings. PRCS has also experienced some savings in contracted services and utility costs. Some other departments have under-expended due to delays in billing from contractors including King County when compared with prior years. Due to the reduction in gambling tax revenue General Fund transfers to the Capital funds have been reduced.

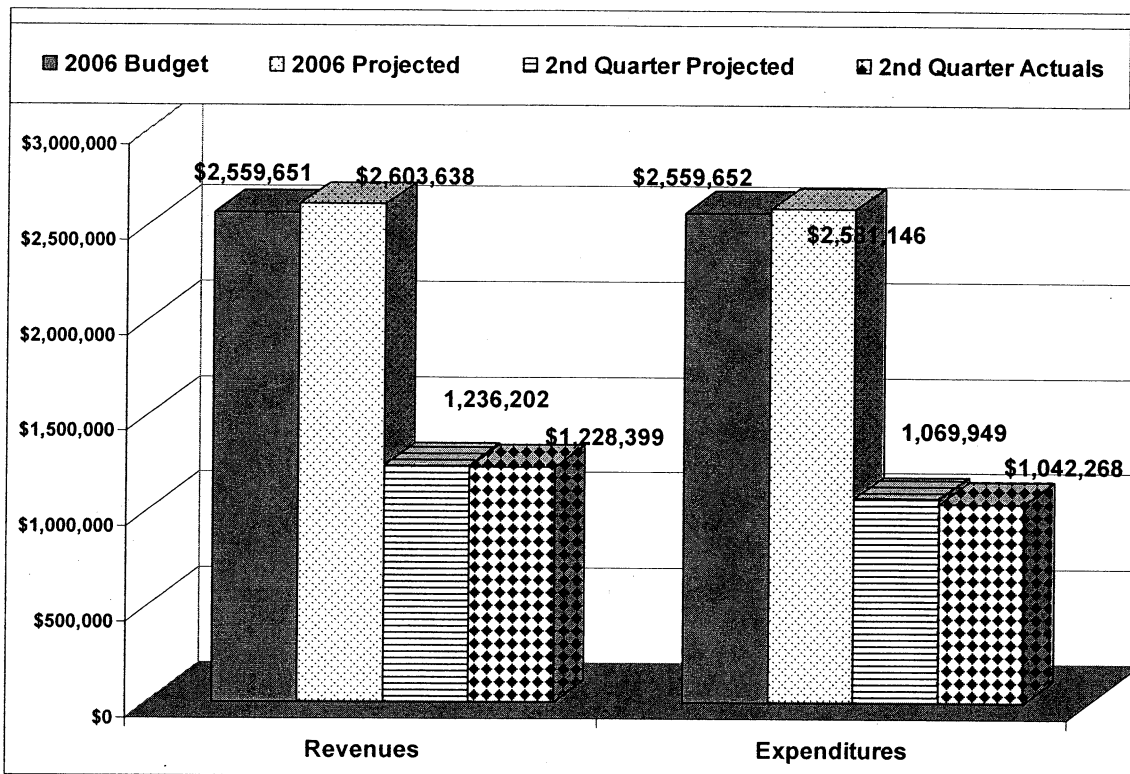
All departments are in the process of developing their year-end estimates which may result in an adjustment to the total projected expenditures for the General Fund. Most departments are expected to spend at or near their 2006 budget. We will continue to monitor department spending as we prepare the 2007 budget. Some adjustments have been made to the total 2006 projected expenditures. The projected cost for jail services has been increased by \$361,000 to a projected total of \$1.2 million for 2006 to reflect the increasing number of prisoners and length of jail stays. The 2006 budget for jail costs is \$839,000.

For a more detailed review of departmental expenditures through the first half of 2006, see the table on the following page.

## General Fund Expenditure Detail

Department	2006 Budget	2006 Projected	2nd Quarter Projected	2nd Quarter Actual	\$ Variance Actual vs Projected	% Variance
City Council	\$167,738	\$167,738	\$91,635	\$101,893	\$10,258	11.2%
City Manager	\$733,396	\$733,396	\$336,262	\$344,128	\$7,866	2.3%
City Clerk	\$387,158	\$387,158	\$189,091	\$166,888	-\$22,202	-11.7%
Community/Government Relations	\$580,159	\$580,159	\$285,510	\$245,600	-\$39,910	-14.0%
Health and Human Services	\$587,208	\$587,208	\$221,201	\$217,483	-\$3,718	-1.7%
City Attorney	\$523,039	\$523,039	\$226,683	\$237,762	\$11,079	4.9%
Finance	\$2,387,367	\$2,387,367	\$1,098,885	\$1,116,388	\$17,503	1.6%
City Wide	\$1,550,283	\$1,052,620	\$894,727	\$914,377	\$19,650	2.2%
Human Resources	\$369,222	\$369,222	\$191,036	\$175,390	-\$15,646	-8.2%
Customer Response Team	\$422,769	\$422,769	\$217,050	\$200,876	-\$16,174	-7.5%
Police	\$8,227,386	\$8,227,386	\$3,385,015	\$3,290,384	-\$94,631	-2.8%
Criminal Justice	\$973,104	\$1,334,104	\$452,190	\$501,097	\$48,907	10.8%
Parks, Recreation, Cultural Sv	\$3,985,126	\$3,985,126	\$1,692,405	\$1,570,470	-\$121,934	-7.2%
Planning & Development Svcs	\$2,436,799	\$2,436,799	\$1,072,191	\$1,031,784	-\$40,407	-3.8%
Economic Development	\$294,521	\$294,521	\$123,021	\$87,388	-\$35,633	-29.0%
Public Works	\$1,528,853	\$1,528,853	\$695,983	\$682,137	-\$13,846	-2.0%
Total Department Expenditures	\$25,154,129	\$25,017,463	\$11,172,882	\$10,884,045	-\$288,838	-2.6%
Operating Transfers Out	\$4,244,036	\$3,775,503	\$2,122,018	\$2,226,413	\$104,395	4.9%
<b>Total General Fund</b>	<b>\$29,398,165</b>	<b>\$28,792,966</b>	<b>\$13,294,900</b>	<b>\$13,110,458</b>	<b>-\$184,443</b>	<b>-1.4%</b>

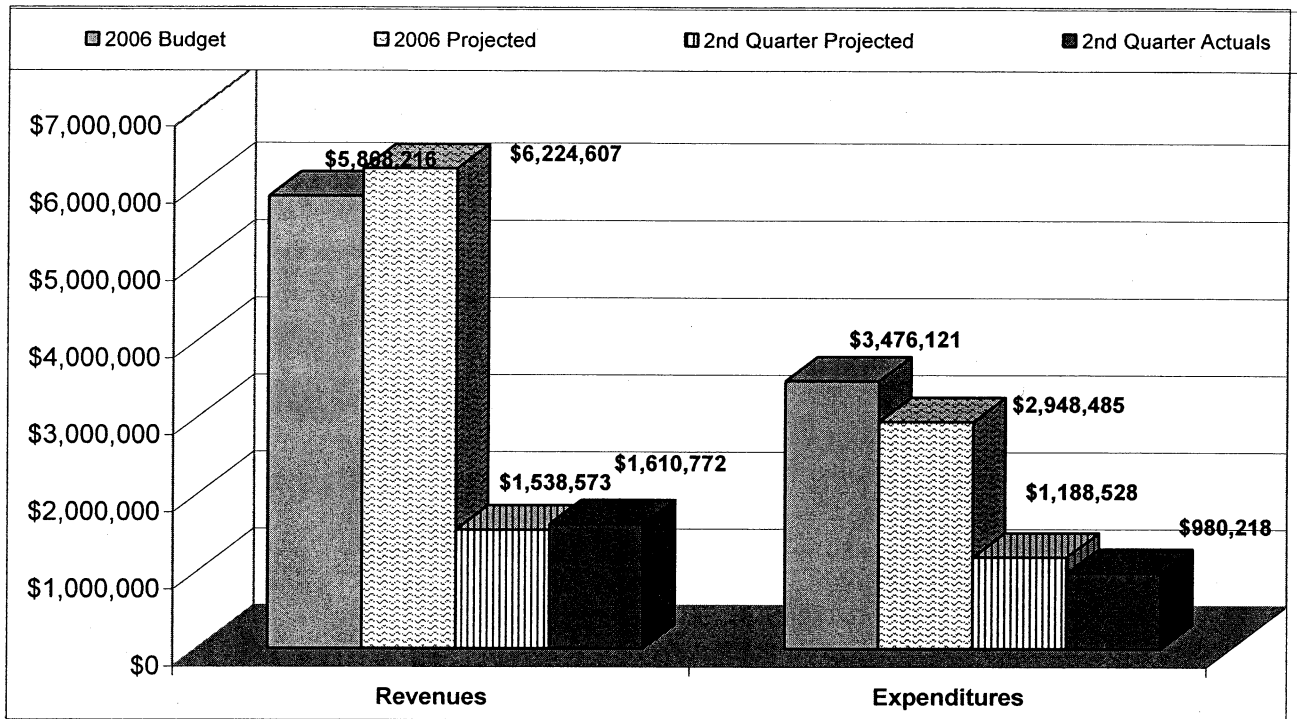
## Street Fund



Street Fund revenue through the first half of 2006 was \$1,228,399, under revised projections of \$1,236,202 by only \$7,803, a 0.6% variance. Projected revenues for 2006 have been increased by \$43,987 to include a grant from the Washington Traffic Safety Council (WTSC) for \$22,500, unanticipated insurance recoveries, \$17,476, and increased investment earnings of \$4,000. Motor Vehicle fuel tax revenue is below projections by \$12,712 as consumption levels have decreased as the price per gallon has increased.

Street Fund expenditures of \$1,042,268 are below projections of \$1,069,949 by \$27,681 or 2.6%. The expenditure variance is primarily due in large part to delayed billings from King County for street maintenance and street lighting services and salary savings generated by a vacant position in Street Operations. Total projected expenditures for the year have been increased to account for spending related to the WTSC grant in the Traffic Services program.

## Surface Water Utility Fund

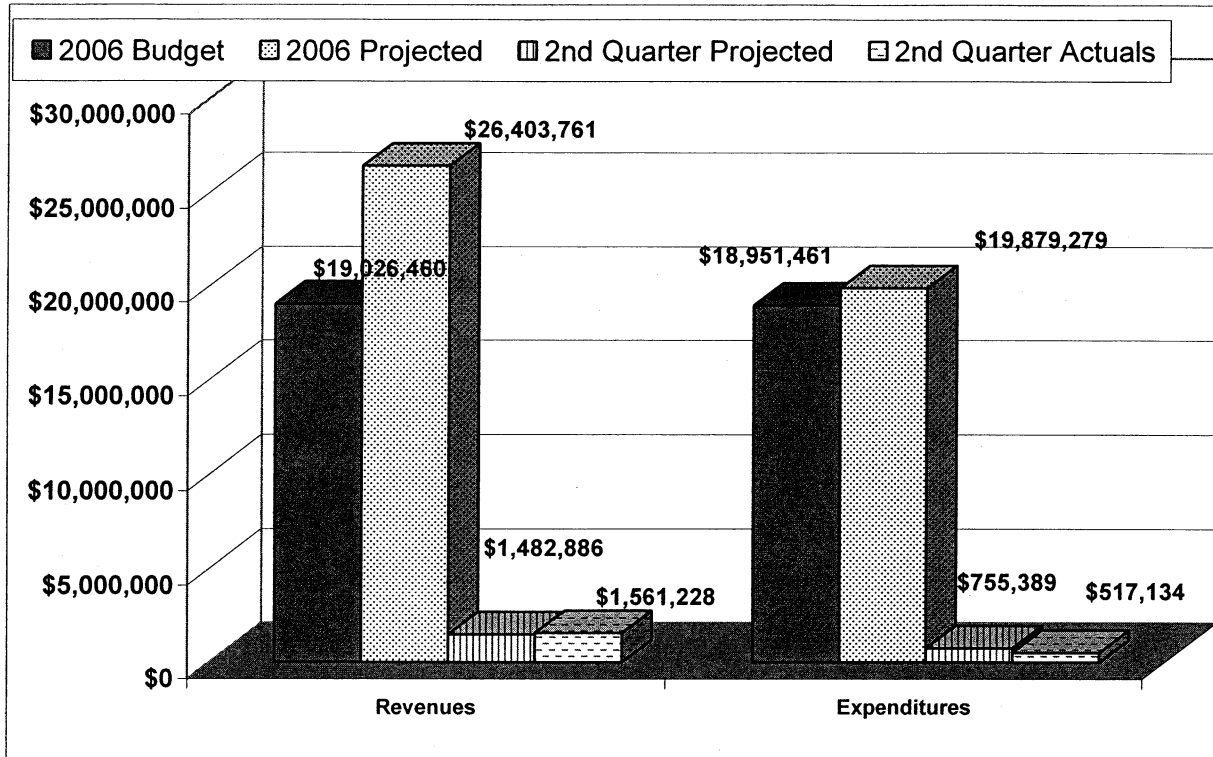


The surface water utility fund accounts for both day-to-day operations of the utility and capital improvements to the utility system.

Revenues in the Surface Water Utility Fund of \$1,610,772 are ahead of projections of \$1,538,573 by \$72,199 or 2.3%. Storm Drainage fees are slightly ahead of projections by \$6,504 or 0.5%. Investment earnings are ahead of projections by \$65,695.

Expenditures of \$980,218 are under projections of \$1,188,528 by \$208,310 or 17.5%. The majority of the under-expenditure is in the intergovernmental professional services category due to the timing of billings from King County and other contracted services. Some capital projects are also under projections. We assume that by the end of the year, capital expenditures will be at or very near budget. Some changes have been made to the 2006 surface water capital projects as included in the recently adopted 2007 – 2012 CIP.

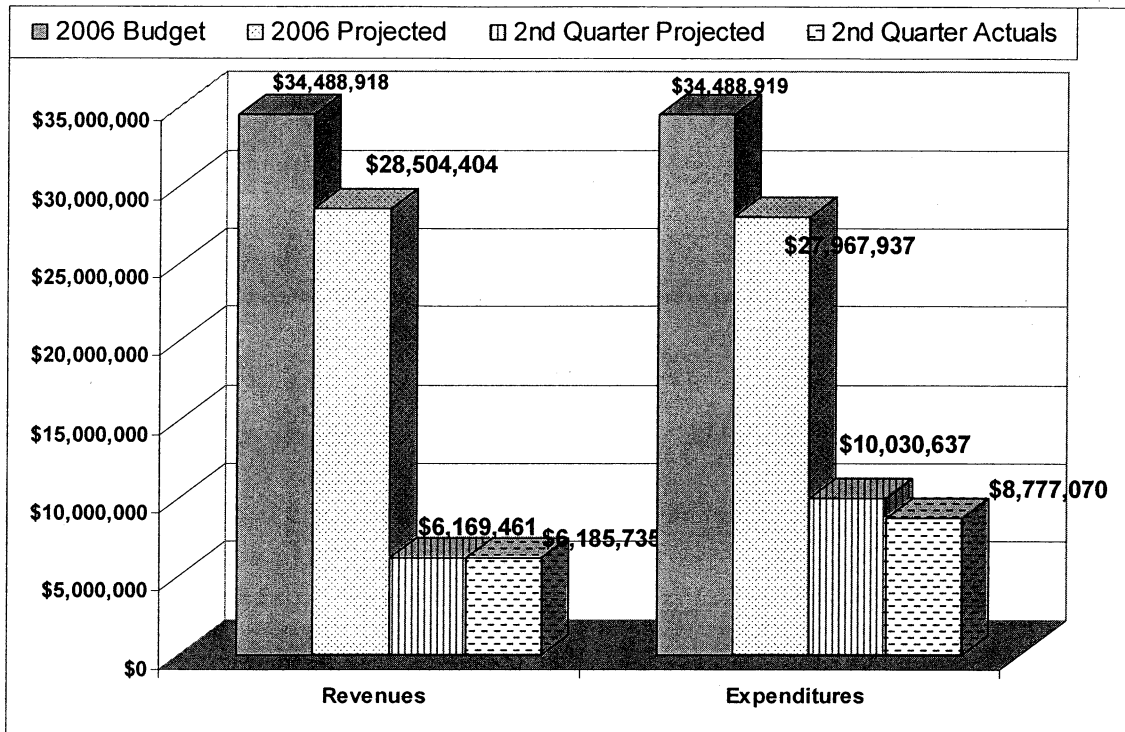
## General Capital Fund



Revenues collected through June total \$1,561,228 ahead of revised projected revenue of \$1,428,886 by \$78,342 or 5.3%. Real estate excise tax collections are ahead of revised projections by \$68,239 or 12.7%. Investment earnings also exceeded projections by \$8,671 or 14.6%. Projected 2006 revenue from real estate excise taxes has been increased by \$362,326 over the adopted budget. Real estate activity has continued to be strong through the first half of 2006 as there have been some large commercial transactions and real estate values continue to increase. 2006 projected revenues have been adjusted to reflect the delay of financing for the Civic Center project until 2007 and to include proceeds from the parks bond issue that will be received later this year.

Capital expenditures are much more difficult to project than revenues since each project has its own unique timeline. Through the first half of 2006, \$517,134 has been spent, which is under projections of \$755,389 by \$238,255. Overall, 2006 projected expenditures have been increased to include new projects funded by the bond issue. Several of these projects will get started during 2006.

# Roads Capital Fund



Year-to-date revenues of \$6,185,735 are above projected revenue of \$6,169,461 by \$16,274 or 0.26%. Real estate excise tax collections are ahead of revised projections by \$6,490 or 1.08%. 2006 projected revenue has been revised to match the recently adopted 2007-2012 CIP. Overall projected revenues for 2006 have been lowered from a budget of \$34,488,918 to \$28,504,404 to reflect the recently adopted CIP. The revenue changes are a result of the reduced transfer of general fund monies as a result of reduced gambling tax proceeds and adjustments to grants as a result of timing.

Projected 2006 expenditures have been lowered from the original budget of \$34,488,918 to \$27,967,937. This change reflects the projections included in the 2007 – 2012 CIP. Expenditures through June totaling \$8,777,070 are under projections of \$10,030,637.



Cash and Investments  
June 30, 2006

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. As of June 30, 2006, the City's investment portfolio, excluding the State Investment Pool, had a weighted average rate of return of 4.3%. This exceeds the 12 month average rate of return from the State Investment Pool of 4.13% by 17 basis points. Investment earnings through June 30, 2006, total \$725,412.

Interest rates have continued to rise during the first six months of 2006. The City has invested a larger portion of the investment portfolio in the State Investment Pool during this time period to provide additional liquidity for anticipated capital expenditures. As more certainty has been developed on the timing of these projects, staff will be reviewing the City's investment strategy for the remainder of 2006 in order to maximize investment earnings.

As of June 30, 2006, the City's investment portfolio had a fair market value of \$45,324,413. approximately 54% of the investment portfolio was held in U.W. government instrumentality securities and 46% was held in the Washington State Investment Pool. The city's investment portfolio valued at cost as of June 30, 2006, was \$45,445,893. The difference between the cost and the market value of the portfolio represents either the loss or the gain of the portfolio if the City were to liquidate investments as of the day that the market value is stated. This would only be done if the City needed to generate cash. The City holds all of its investments until the scheduled maturity date, and therefore when the investments mature the principal market value should equal the cost of the investment. The City also holds sufficient investments within the State Pool to allow for immediate cash liquidation if needed. Investments within the State pool can be liquidated on any given day with no penalty.

The following page provides a summary of the City's investment portfolio as of June 30, 2006.

**LGIP Cash and Investment Balances  
June 30, 2006**

Instrument Type	Settlement Date	Maturity Date	Investment Cost	Yield To Maturity	Market Value	Unrealized
					6/30/2006	Gain/(Loss) as of 6/30/06
FHLB (Fed Home Loan Bank)	05/24/05	05/24/07	2,000,000	3.2500%	1,988,750	(11,250)
FNMA (Fannie Mae)	05/27/05	05/17/07	2,499,000	4.0610%	2,467,975	(31,025)
FNMA (Fannie Mae)	06/21/05	09/29/06	1,957,324	3.8200%	1,983,125	25,801
FHLB (Fed Home Loan Bank)	06/21/05	12/14/06	1,985,024	3.9000%	1,980,000	(5,024)
FHLB (Fed Home Loan Bank)	07/25/05	07/13/07	1,990,200	4.2620%	1,968,120	(22,080)
FHLB (Fed Home Loan Bank)	07/27/05	07/27/07	2,000,000	3.7650%	1,997,468	(2,532)
FHLB (Fed Home Loan Bank)	01/05/06	11/21/07	2,003,400	4.7930%	1,986,260	(17,140)
FHLB (Fed Home Loan Bank)	01/06/06	01/28/08	4,000,000	4.8990%	3,961,250	(38,750)
FHLMC (Freddie Mac)	01/05/06	02/15/07	3,956,800	4.6300%	3,953,440	(3,360)
FHLMC (Freddie Mac)	01/05/06	10/05/07	1,994,600	4.7840%	1,978,480	(16,120)
State Investment Pool			21,059,545	4.9860%	21,059,545	0
<b>Sub Total</b>			<b>45,445,893</b>		<b>45,324,413</b>	<b>(121,480)</b>

Average Maturity Excluding the State Investment Pool (days) 612

Weighted Average Yield to Maturity Excluding the State Pool 4.3032%

Average Yield to Maturity State Investment Pool 4.1275%

Basis Points in Excess (Below) Benchmark 17

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

**Portfolio Diversification**

Instrument Type	Percentage	Amount at		Broker	Percentage	Amount at	
		Market Value	Cost			Cost	Cost
Certificate of Deposit	0%	0	0	Bank of America	36%	16,444,000	
FHLMC (Freddie Mac)	13%	5,931,920	5,951,400	Piper Jaffray	17%	7,942,348	
FNMA (Fannie Mae)	10%	4,451,100	4,456,324	Gilford Securities	0%	0	
FHLB (Fed Home Loan Bank)	31%	13,881,848	13,978,624	Shorebank	0%	0	
State Investment Pool	46%	21,059,545	21,059,545	State Investment Pool	46%	21,059,545	
<b>Total Investments</b>	<b>100%</b>	<b>45,324,413</b>	<b>45,445,893</b>	<b>Total Investments</b>	<b>100%</b>	<b>45,445,893</b>	

**Investments by Fund**

Fund	Investments at			Total Investments by Fund as of 06/30/06	Investment Earnings		
	Cost as of 06/30/06	Unrealized Market Value			Investment Earnings Budget 2006	YTD Actual 6/30/2006	Over/(Under) Budget
		Adjustment as of 06/30/2005	Pool as of 06/30/06				
001 General	5,396,873	28,795	3,674,621.01	9,100,289	300,000	169,295	(130,705)
101 Street	550,401	4,370	275,120.41	829,892	22,000	14,209	(7,791)
102 Arterial Street	(2,726)	(61)	55,914.34	53,128	-	823	823
104 Reserve	1,842,605	1,361	364,422.04	2,208,388	-	28,037	28,037
107 Code Abatement	25,365	65	93,641.12	119,071	2,500	2,177	(323)
108 Asset Seizure	11,222	34	5,861.12	17,116	500	352	(148)
109 Public Arts	12,113	36	256,982.09	269,131	-	6,436	6,436
301 General Capital	6,397,011	6,906	7,821,490.75	14,225,408	225,847	210,751	(15,096)
312 City Fac-Mjr Maint	26,564	173	188,063.53	214,801	4,680	2,809	(1,871)
330 Roads Capital	1,691,766	5,531	2,380,620.85	4,077,918	388,875	108,095	(280,780)
401 Surface Water Utility	5,461,828	6,655	4,973,515.01	10,441,997	214,286	155,433	(58,853)
501 Vehicle Oper/Maint	1,802,649	48	478,977.88	2,281,675	1,250	6,512	5,262
503 Equip Dep Replace	1,086,547	789	464,876.49	1,552,212	15,000	19,427	4,427
505 Unemployment	29,338	91	25,438.85	54,868	450	1,056	606
<b>Total Investments</b>	<b>24,331,556</b>	<b>54,793</b>	<b>21,059,545</b>	<b>45,445,894</b>	<b>1,175,388</b>	<b>725,412</b>	<b>(449,976)</b>