

CITY COUNCIL AGENDA ITEM

CITY OF SHORELINE, WASHINGTON

AGENDA TITLE: 2008 Fourth Quarter Financial Report
DEPARTMENT: Finance
PRESENTED BY: Debbie Tarry, Finance Director

PROBLEM/ISSUE STATEMENT:

Attached is the 2008 fourth quarter financial report. This report summarizes the financial activities during 2008 for all City funds. It is provided to keep the Council informed of the 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.

Page 19 of the fourth quarter financial report contains information on the City's investment portfolio. The City's investment portfolio is considered very safe, but given all the recent information on the crisis in the housing and financial markets, Council may find it beneficial to review this section.

FINANCIAL IMPACT:

The table on page 2 provides a summary of the financial results for all City funds for 2008.

RECOMMENDATION

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

Approved By: City Manager  City Attorney ____

ATTACHMENTS

Attachment A – 2008 Fourth Quarter Financial Report

Revenues							Expenditures					
Fund	2008 Budget	2008 Projected	2008 Actuals	2008 Carryover	Variance Actuals + Carryovers v. Projected	% Variance	2008 Budget	2008 Projected	2008 Actuals	2008 Carryover	Variance Actuals + Carryover v. Projected	% Variance
General Fund	\$33,735,676	\$32,197,647	\$31,794,983	\$110,760	-\$291,904	-0.9%	\$33,761,534	\$32,000,136	\$30,968,820	\$302,690	-\$728,626	-2.3%
Streets	\$2,744,038	\$2,307,231	\$2,324,111	\$0	\$16,880	0.7%	\$2,744,038	\$2,744,018	\$2,548,108	\$0	-\$195,910	-7.1%
SWM Utility Fund	\$11,949,858	\$3,735,099	\$3,812,276	\$49,267	\$126,444	3.4%	\$11,949,857	\$9,902,930	\$6,912,650	\$2,466,523	-\$523,757	-5.3%
General Capital	\$30,648,265	\$5,621,897	\$4,540,591	\$1,114,168	\$32,862	0.6%	\$30,632,881	\$11,211,627	\$7,327,158	\$3,692,783	-\$191,686	-1.7%
Roads Capital	\$23,012,286	\$16,472,781	\$6,911,533	\$10,230,876	\$669,628	4.1%	\$23,012,286	\$19,979,160	\$7,522,303	\$11,893,315	-\$563,542	-2.8%
Code Abatement Fund	\$100,000	\$4,792	\$4,628	\$0	-\$164	-3.4%	\$100,000	\$20,106	\$499	\$0	-\$19,607	-97.5%
Asset Seizure Fund	\$45,500	\$45,500	\$55,522	\$0	\$10,022	22.0%	\$45,500	\$45,500	\$27,416	\$0	-\$18,084	-39.7%
Revenue Stabilization Fund	\$0	\$0	\$0	\$0	\$0	0.0%	\$0	\$0	\$0	\$0	\$0	0.0%
Unltd Tax GO Bond Fund	\$1,780,000	\$1,785,827	\$1,755,245	\$0	-\$30,582	-1.7%	\$1,662,475	\$1,661,778	\$1,661,779	\$0	\$1	0.0%
Public Arts Fund	\$168,645	\$16,108	\$37,381	\$0	\$21,273	132.1%	\$168,645	\$146,577	\$81,287	\$0	-\$65,290	-44.5%
Vehicle Operations Fund	\$135,049	\$117,384	\$116,209	\$0	-\$1,175	-1.0%	\$135,049	\$135,049	\$126,383	\$0	-\$8,666	-6.4%
Facility - Major Maintenance Fund	\$40,000	\$34,097	\$35,795	\$0	\$1,698	5.0%	\$61,000	\$61,000	\$48,547	\$8,453	-\$4,000	-6.6%
Equipment Replacement Fund	\$423,322	\$312,983	\$341,070	\$0	\$28,087	9.0%	\$281,088	\$247,887	\$85,065	\$47,868	-\$114,954	-46.4%
Unemployment	\$10,000	\$6,972	\$7,028	\$0	\$56	0.8%	\$10,000	\$10,000	\$4,834	\$0	-\$5,166	-51.7%
Totals	\$104,792,639	\$62,658,318	\$51,736,372	\$11,505,071	\$583,125	0.9%	\$104,564,353	\$78,165,768	\$57,314,849	\$18,411,631	-\$2,439,287	-3.1%



2008 FOURTH QUARTER FINANCIAL REPORT

December 2008

PERFORMANCE AT A GLANCE

	YEAR TO DATE TREND	COMPARED TO PROJECTIONS	REFERENCE
GENERAL FUND REVENUES			
Property Tax Revenue	◀NEUTRAL▶	0.1%	Page 4
Sales Tax Revenue	●WARNING●	-2.2%	Page 5, 6
Utility Tax Revenue	◀NEUTRAL▶	1.2%	Page 8, 9
Permit Revenue	▼NEGATIVE▼	-21.5%	Page 10
Gambling Tax Revenue	▼NEGATIVE▼	-5.1%	Page 11
Interest Revenue	▲POSITIVE▲	28.7%	Page 13
EXPENDITURES			
General Fund Expenditures		-2.27%	Page 14
NON-GENERAL FUND REVENUES			
Fuel Tax Revenue	●WARNING●	-1.8%	Page 16
Real Estate Excise Tax Revenue	▼NEGATIVE▼	-9.2%	Page 17
Surface Water Fees	◀NEUTRAL▶	0.003%	Page 18

Key to trend indicators:

- ◀NEUTRAL▶ = Variance of -1% to +2% compared to projections.
- ▲POSITIVE▲ = Positive variance of >+2% compared to projections.
- WARNING● = Negative variance of -1% to -4% compared to projections.
- ▼NEGATIVE▼ = Negative variance of > -4% compared to projections.

CITY FINANCIAL OVERVIEW

EXECUTIVE SUMMARY

Actual General Fund revenue finished the year \$291,904 or 0.91% below projected revenue. In 2008, three major revenue sources under performed when compared against projections; sales tax, permit revenue and gambling tax revenue. Collectively these three revenue sources finished the year \$556,110 below projections. This impact was minimized somewhat by better than expected revenue from utility tax, franchise fees, and investment interest. However, the decline of sales tax, permit and gambling tax revenue created an overall negative impact on the General Fund.

- Permit revenue finished the year \$302,680 or 21.5% under projections as construction related activity slowed. In 2008, permit activity dropped from 2007 by 461 permits or 20.8%.
- Gambling revenue finished the year \$104,049 or 5.1% below projections as gambling activity continued to decline in 2008. Card game activity (which make up 95% of gambling tax revenue) declined by 9.5% in 2008 when compared to 2007 activity. When compared to 2004 activity, it was down by 30.7%.
- Sales tax revenue finished the year \$149,381 or 2.2% below projections due to a slow down of the City's retail sector which declined by 2.8% compared to 2007. Since retail sales make up 60% of all sales tax revenue its impact on total revenue is very acute. The gap between 2008 actual revenue from sales tax and projected revenue is the largest negative variance in Shoreline's 14 year history.

Utility tax revenue ended 2008 1.2% ahead of projections. Revenue generated from natural gas and cable television primarily contributed to the increase. Puget Sound Energy and Comcast implemented rate increases in the fourth quarter of 2008 which led to higher receipts. Interest income was up by \$107,287 or 28.7% due to higher than expected balances in the City's investment portfolio. Interest earned by the Revenue Stabilization Fund is credited to the General Fund, even though it had been budgeted in the Revenue Stabilization Fund.

General fund expenditures, including carryovers, finished the year \$728,626 or 2.28% below projections. Some of the major areas of savings include:

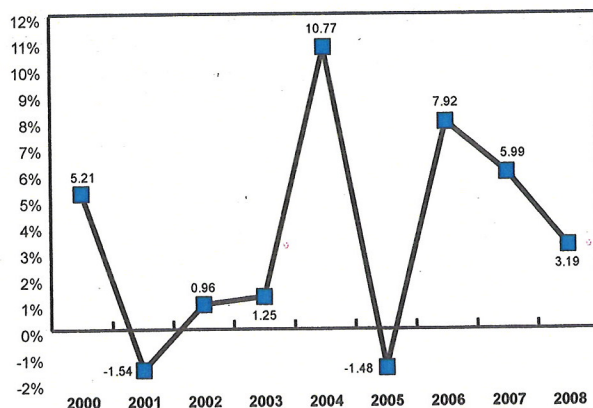
- Savings related to Economic Development contracts for professional service.
- City Attorney was under projections by 7.8% due to savings in professional service contracts for outside legal services for unanticipated events.
- Continued savings in advertising costs for vacant staff positions in Human Resources as they have been utilizing other methods of advertising.
- Lower than projected jail day usage resulting in jail costs being lower than projected.
- Planning and Development Services expenditures were under projections by 3.3% due to a decrease in the need to use on-call services for building inspection and geo-technical reviews.
- Public Works is under projections by 8.2% due to savings in facility repairs and maintenance; rentals and leases; and operating supplies.

The Surface Water Utility Fund (SWM) revenue collections finished the year \$126,444 or 3.3% ahead of projections due to stronger than expected investment earnings and unanticipated reimbursements from the Federal Emergency Management Agency (FEMA). Surface water fee collections which made up 76% of all 2008 SWM revenues finished the year right at projected levels. Expenditures, including carryovers, were \$523,757 or 5.3% less than projected due mostly to delays in capital projects.

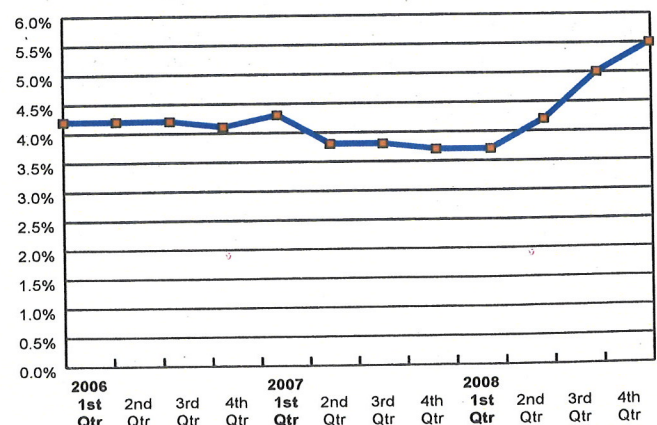
The Street fund revenue collections of \$2,324,111 are just 0.73% ahead of projections and are mostly due to better than expected revenue from right-of-way fees. Expenditures are \$195,910 or 7.14% below projections.

The City's General Capital and Roads Capital Funds are supported by revenue generated from Real Estate Excise Tax (REET). Total REET revenue was \$1,271,030 which was \$860,386 or 40% less than 2007 and \$128,970 or 9.2% below 2008 projections. The original 2008 REET revenue projection was \$1,683,000.

KING COUNTY PER CAPITA PERSONAL INCOME ANNUAL CHANGE



KING COUNTY UNEMPLOYMENT RATES Quarterly 2006-2008

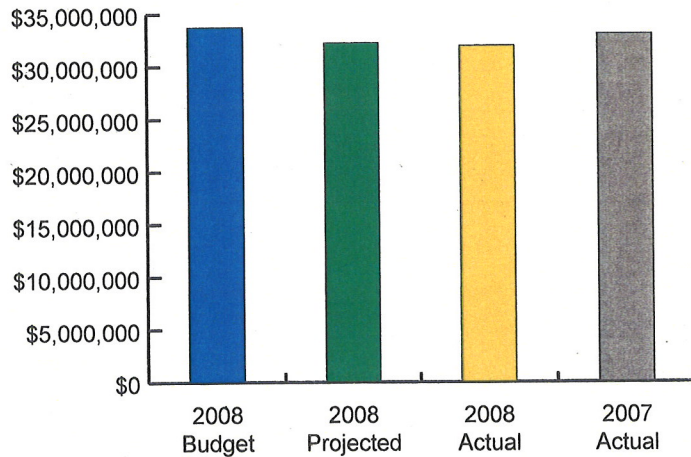


GENERAL FUND REVENUE DETAIL

Revenue Source	2008 Budget	2008 Projected Revenue	2008 Actual	2008 Carryover	2008 Actual + Carryovers	\$ Variance Actual v. Projected	% Variance Actual v. Projected	2007 Actual
Use of Fund Balance	\$3,215,079	\$1,610,079	\$1,610,079	\$0	\$1,610,079	\$0	0%	\$3,323,561
Property Tax	\$7,236,228	\$7,236,228	\$7,244,499	\$0	\$7,244,499	\$8,271	0.1%	\$7,118,240
Sales Tax	\$6,550,000	\$6,790,000	\$6,640,619	\$0	\$6,640,619	(\$149,381)	-2.2%	\$6,635,051
Local Criminal Justice	\$1,293,050	\$1,320,440	\$1,265,506	\$0	\$1,265,506	(\$54,934)	-4.2%	\$1,297,341
Utility Tax and Franchise Fee Revenue								
Natural gas	\$944,143	\$993,821	\$1,024,205	\$0	\$1,024,205	\$30,384	3.1%	\$1,053,645
Garbage	\$400,000	\$400,000	\$416,419	\$0	\$416,419	\$16,419	4.1%	\$336,983
Cable TV	\$1,195,400	\$1,380,000	\$1,397,387	\$0	\$1,397,387	\$17,387	1.3%	\$1,011,191
Telecommunications	\$1,800,000	\$1,800,000	\$1,800,424	\$0	\$1,800,424	\$424	0.0%	\$1,752,641
Storm Drainage	\$182,310	\$182,310	\$175,146	\$0	\$175,146	(\$7,164)	-3.9%	\$173,560
Water	\$565,000	\$600,000	\$611,708	\$0	\$611,708	\$11,708	2.0%	\$606,442
Sewer	\$675,263	\$675,263	\$679,000	\$0	\$679,000	\$3,737	0.6%	\$659,000
Utility Tax and Franchise Fee Revenue Subtotal	\$5,762,116	\$6,031,394	\$6,104,289	\$0	\$6,104,289	\$72,895	1.2%	\$5,593,462
SCL Contract Payment	\$1,240,000	\$1,100,000	\$1,096,774	\$0	\$1,096,774	(\$3,226)	-0.3%	\$1,010,382
Gambling Tax Revenue	\$2,265,500	\$2,020,500	\$1,916,451	\$0	\$1,916,451	(\$104,049)	-5.1%	\$1,998,002
Permit Revenue	\$1,394,100	\$1,409,450	\$1,106,770	\$0	\$1,106,770	(\$302,680)	-21.5%	\$1,508,057
Park Revenue	\$1,241,948	\$1,328,019	\$1,338,214	\$0	\$1,338,214	\$10,195	0.8%	\$1,283,266
State Revenue	\$767,962	\$770,494	\$752,975	\$0	\$752,975	(\$17,519)	-2.3%	\$760,723
Grant Revenue	\$633,649	\$520,248	\$504,138	\$110,760	\$614,898	(\$16,110)	-3.1%	\$464,384
Fines and Licenses	\$30,250	\$49,317	\$69,102	\$0	\$69,102	\$19,785	40.1%	\$149,097
Miscellaneous Revenue	\$433,192	\$380,242	\$407,044	\$0	\$407,044	\$26,802	7.0%	\$211,946
Interest Income	\$415,366	\$374,000	\$481,287	\$0	\$481,287	\$107,287	28.7%	\$606,795
Operating Transfers In	\$1,257,236	\$1,257,236	\$1,257,236	\$0	\$1,257,236	\$0	0.0%	\$1,046,447
Total General Fund Revenue	\$33,735,676	\$32,197,647	\$31,794,983	\$110,760	\$31,905,743	-\$291,904	-0.91%	\$33,006,754

GENERAL FUND REVENUE ANALYSIS:

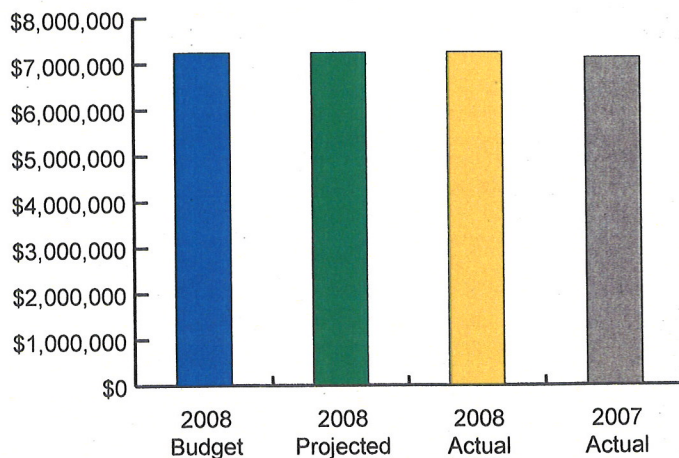
TOTAL GENERAL FUND REVENUE



2008 Budget	\$33,735,676
2008 Projected	\$32,197,647
2008 Actual + Carryover	\$31,905,743
\$\$ Variance	-\$291,904
% Variance	-0.91%
2007 Actual	\$33,006,754
Change from 2007	-3.7%

Actual General Fund Revenue of \$31,794,983 plus carryovers of \$110,760 total \$31,905,743 which is under projected revenue of \$32,197,647 by \$291,904 or 0.91%. The revenue variance is the result of weaker than expected sales tax revenue; permit revenue is down by \$302,680 or 21.5% due to a 20% decrease in permit activity and a gambling revenue is down by \$104,049 or 5.1%. On the positive side utility tax and franchise fee revenue was \$72,895 or 1.2% above projections and investment interest income was \$107,287 or 28.7% above projections.

PROPERTY TAX

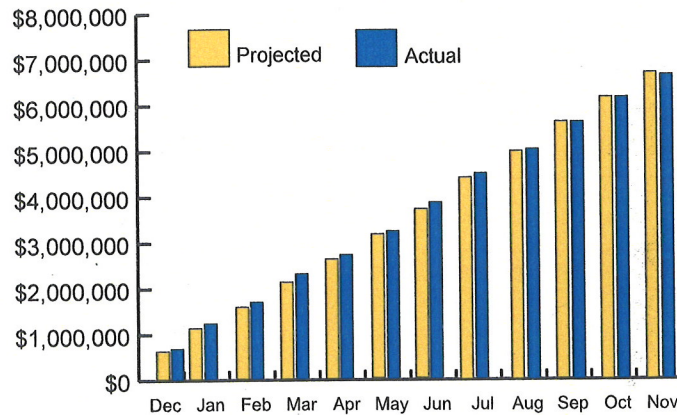


2008 Budget	\$7,236,228
2008 Projected	\$7,236,228
2008 Actual	\$7,244,499
\$\$ Variance	\$8,271
% Variance	0.1%
2007 Actual	\$7,118,240
Change from 2007	1.7%

Property tax collections of \$7,244,499 exceeded projections of \$7,236,228 by \$8,271 or .01%.

GENERAL FUND REVENUE ANALYSIS (continued):

SALES TAX



2008 Budget

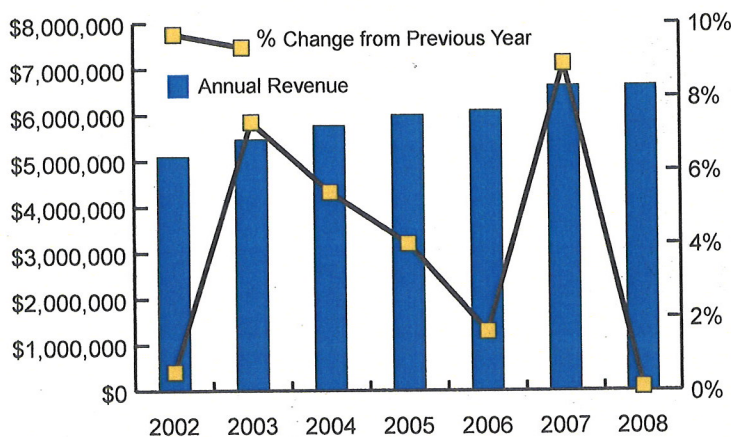
\$6,550,000

Sales tax revenue: December 2007 - November 2008

Sales Activity	Projected	Actual
December 2007	\$659,458	\$686,834
January 2008	\$1,166,021	\$1,216,626
February 2008	\$1,641,376	\$1,678,268
March 2008	\$2,212,664	\$2,291,745
April 2008	\$2,731,439	\$2,705,145
May 2008	\$3,278,243	\$3,221,712
June 2008	\$3,874,623	\$3,846,322
July 2008	\$4,509,605	\$4,485,276
August 2008	\$5,081,838	\$5,026,430
September 2008	\$5,703,694	\$5,623,095
October 2008	\$6,262,769	\$6,155,506
November 2008	\$6,788,584	\$6,640,614

Actual 2008 sales tax revenue finished the year \$149,381 or 2.23% below projected revenue of \$6,790,000. This shortfall was the result of less than expected revenue from retail sales which declined by \$111,605 or 2.8% from 2007. The economic downturn began to affect the retail sector of the Shoreline economy in April of this year and became even more acute as the year progressed. August through November retail sales tax revenue was \$123,641 or 5.4% below projections. 2008 also represents the largest negative variance in sales tax revenue compared to projections in the City's history. Especially hard hit were the building material, new vehicles and general merchandise sectors. Given the continuing difficult economic times confronting the United States and the Puget Sound region we are concerned that the retail economy may continue to struggle well into 2009.

Annual Sales Tax Revenue Comparison

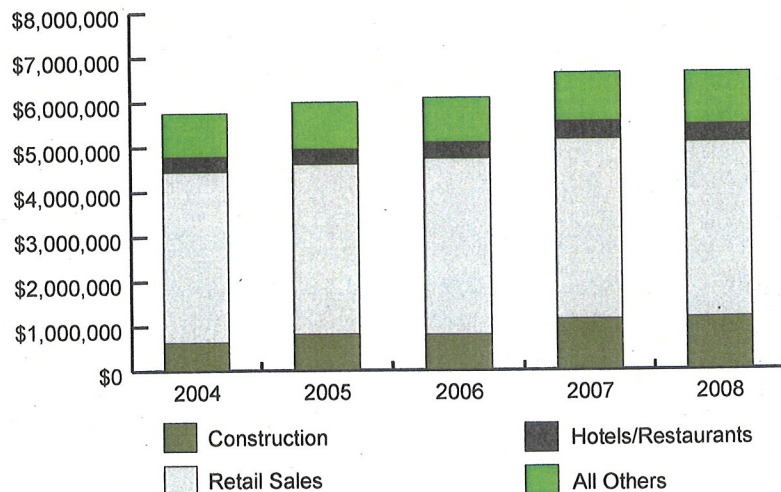


Annual Sales Tax Revenue

Year	Revenue	% Change from Previous Year
2002	\$5,095,811	0.5%
2003	\$5,467,148	7.3%
2004	\$5,763,203	5.4%
2005	\$5,996,445	4.0%
2006	\$6,091,545	1.6%
2007	\$6,635,062	8.9%
2008	\$6,640,559	0.1%

GENERAL FUND REVENUE ANALYSIS (continued):

SALES TAX BY CATEGORY



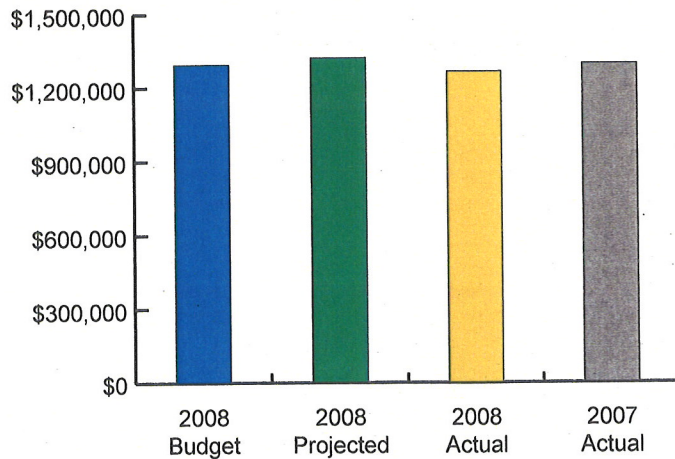
Construction related sales tax revenue finished \$33,542 ahead of 2007 but given the decrease in permitting activity we are anticipating construction sales tax revenue to decrease significantly in 2009.

Hotel and Restaurant retail tax declined \$4,884 from 2007 to 2008. Even though this is the case 2007 and 2008 are relatively higher than previous years. The *All Others* category includes service industries such as repair and maintenance businesses. The strength of this sector in 2008 may indicate consumer movement into repairing and maintaining items rather than buying new.

	2004	2005	2006	2007	2008
Construction	\$635,032	\$809,500	\$800,820	\$1,140,163	\$1,173,705
Retail Sales	\$3,810,461	\$3,801,795	\$3,932,820	\$4,019,160	\$3,907,555
Hotels/Restaurants	\$331,108	\$331,720	\$358,189	\$389,660	\$384,776
All Others	\$986,602	\$1,053,430	\$999,716	\$1,086,079	\$1,174,523
Total	\$5,763,203	\$5,996,445	\$6,091,545	\$6,635,062	\$6,640,559

GENERAL FUND REVENUE ANALYSIS (continued):

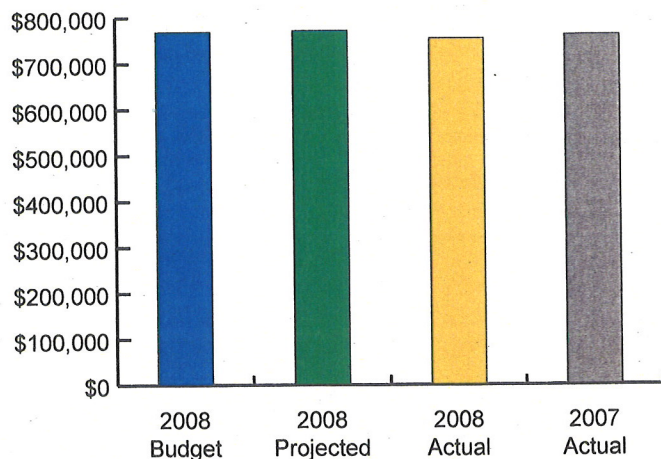
LOCAL CRIMINAL JUSTICE



2008 Budget	\$1,293,050
2008 Projected	\$1,320,440
2008 Actual	\$1,265,506
\$\$ Variance	-\$54,934
% Variance	-4.2%
2007 Actual	\$1,297,341
Change from 2007	-2.5%

Local criminal justice sales tax collections of \$1,265,506 finished \$54,934 or 4.2% below projected revenue of \$1,320,440. Local criminal justice sales tax differs from retail sales tax in that the distribution is based on a city's population and the amount of sales tax collected through all of King County.

STATE REVENUE

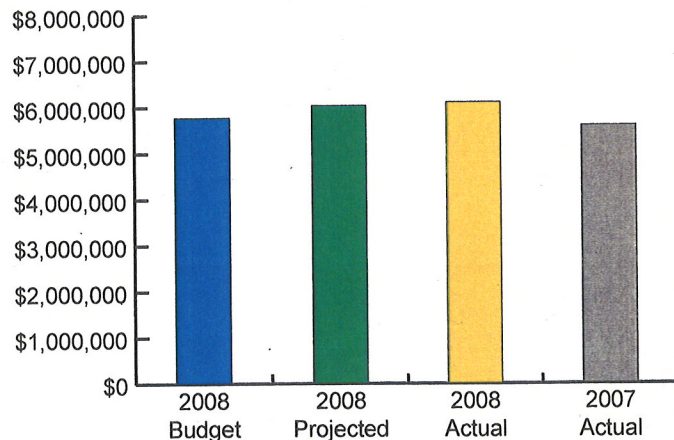


2008 Budget	\$767,962
2008 Projected	\$770,494
2008 Actual	\$752,975
\$\$ Variance	-\$17,519
% Variance	-2.27%
2007 Actual	\$760,723
Change from 2007	-1.0%

State Revenues are comprised primarily of funding for criminal justice programs, liquor excise tax and liquor board profits. Actual revenue for 2008 of \$752,975 finished \$17,519 or 2.27% behind projected revenue. The decline in revenue is the result of less than expected revenue from liquor sales.

GENERAL FUND REVENUE ANALYSIS (continued):

UTILITY TAX AND FRANCHISE FEE

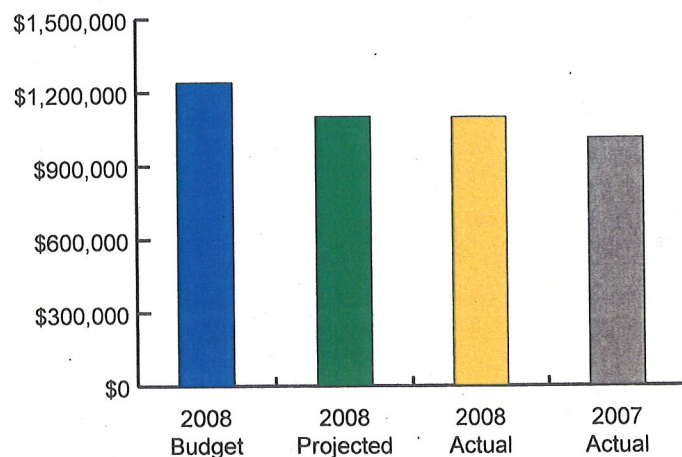


2008 Budget	\$5,762,116
2008 Projected	\$6,031,394
2008 Actual	\$6,104,289
\$\$ Variance	\$72,895
% Variance	1.2%
2007 Actual	\$5,593,462
Change from 2007	9.1%

Utility tax and franchise fee revenue of \$6,104,289 finished above projected revenue of \$6,031,394 by \$72,895 or 1.2%. The primary reason for this increase is as follows:

- Natural Gas was \$30,384 or 3.1% above projections. This increase is due in part to an average rate increase of 5% which took effect in October of 2008.
- Cable was \$17,387 or 1.3% above projections.
- Garbage was \$16,419 or 4.1% above projections.

ELECTRICAL CONTRACT



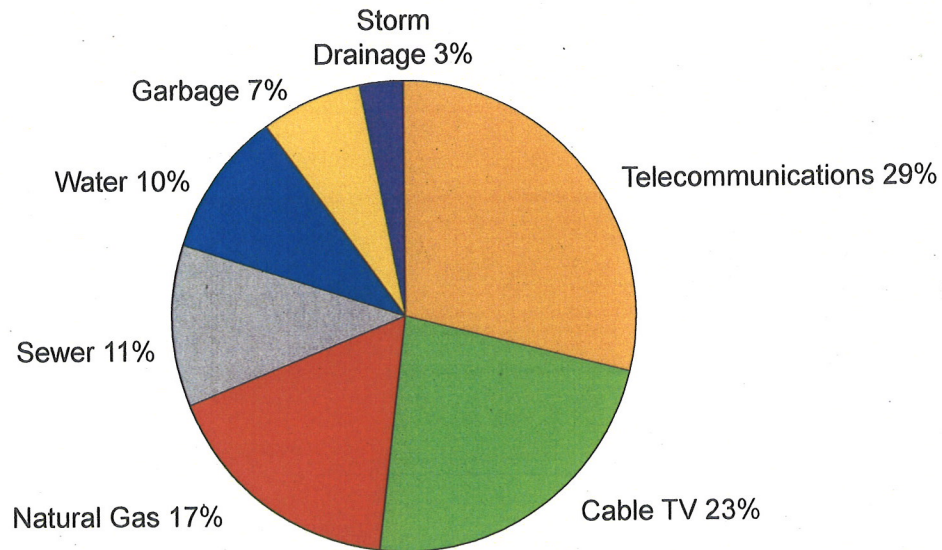
2008 Budget	\$1,240,000
2008 Projected	\$1,100,000
2008 Actual	\$1,096,774
\$\$ Variance	-\$3,226
% Variance	-0.3%
2007 Actual	\$1,010,382
Change from 2007	8.6%

The electrical contract payments from Seattle City Light (SCL) were slightly under projection. In 2008 the City's electrical contract payments included 3% of distribution revenues for approximately seven months of the year. In 2008 SCL also completed a reconciliation for 2005 through 2007 which lowered 2008 revenues by \$98,000.

GENERAL FUND REVENUE ANALYSIS (continued):

UTILITY TAX AND FRANCHISE FEE (continued)

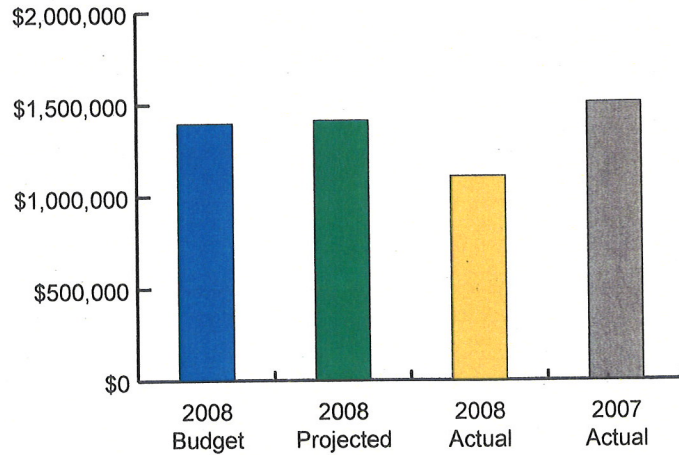
BY UTILITY



Revenue Source	2008 Budget	2008 Projected	2008 Actual	\$\$ Variance 2008 Actual v. 2008 Projected	% Variance 2008 Actual v. 2008 Projected	2007 Actual
Natural gas	\$944,143	\$993,821	\$1,024,205	\$30,384	3.1%	\$1,053,645
Garbage	\$400,000	\$400,000	\$416,419	\$16,419	4.1%	\$336,983
Cable TV	\$1,195,400	\$1,380,000	\$1,397,387	\$17,387	1.3%	\$1,011,191
Telecommunications	\$1,800,000	\$1,800,000	\$1,800,424	\$424	0.0%	\$1,752,641
Storm Drainage	\$182,310	\$182,310	\$175,146	-\$7,164	-3.9%	\$173,560
Water	\$565,000	\$600,000	\$611,708	\$11,708	2.0%	\$606,442
Sewer	\$675,263	\$675,263	\$679,000	\$3,737	0.6%	\$659,000
Utility Tax and Franchise Fee Revenue Subtotal	\$5,762,116	\$6,031,394	\$6,104,289	\$72,895	1.2%	\$5,593,462

GENERAL FUND REVENUE ANALYSIS (continued):

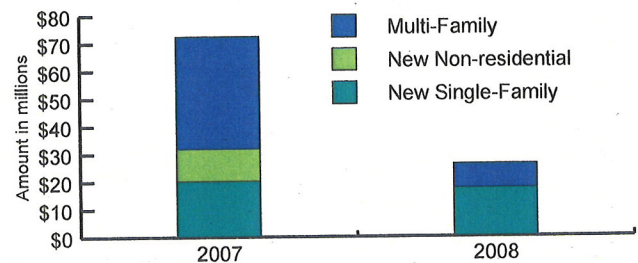
PERMIT REVENUE



2008 Budget	\$1,394,100
2008 Projected	\$1,409,450
2008 Actual	\$1,106,770
\$\$ Variance	-\$302,680
% Variance	-21.5%
2007 Actual	\$1,508,057
Change from 2007	-26.6%

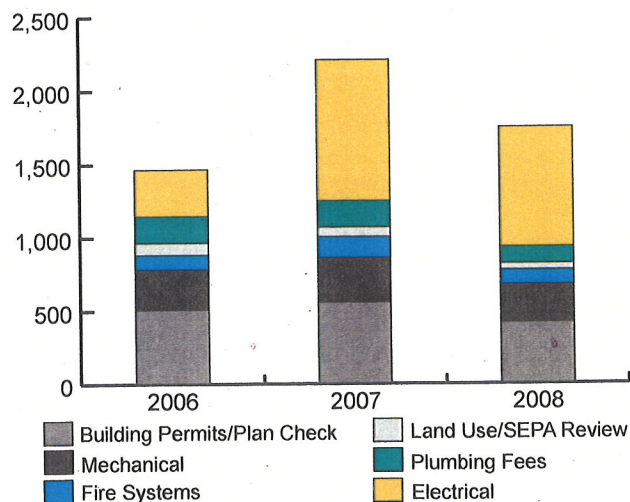
New Permit Valuation by Type 2007-2008

Permit Type	2007	2008
New Single-Family	\$20,148,056	\$17,513,198
New Non-Residential	\$11,615,850	\$8,688,517
Multi-Family	\$40,602,076	\$0
Total	\$72,365,982	\$26,201,715



Permit revenue of \$1,106,770 is below projected revenue of \$1,409,450 by \$302,680 or 21.5%. Activity in 2008 fell by 20.8% or 461 permits from 2007 levels. More striking was the decline in the value of the new construction projects permitted between 2008 and 2007: 2008 valuation fell by 63% or \$46 million. This will be reflected in lower new construction values in future years. The current economic recession and financial crisis has severely impacted the level of property tax new construction development in Shoreline.

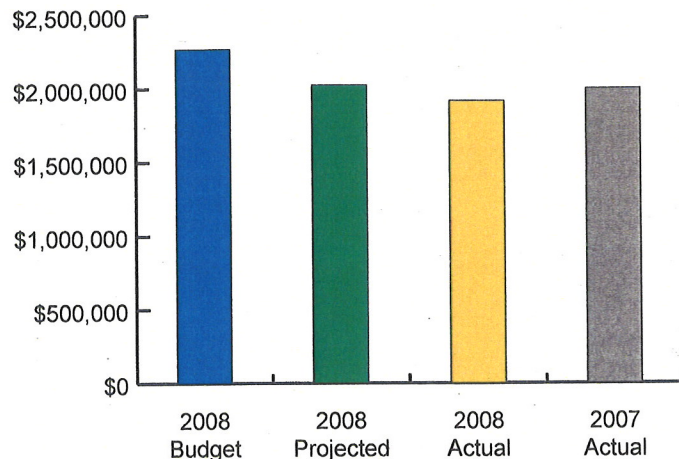
PERMITS BY TYPE January through December 2006 – 2008



PERMIT TYPE	2006	2007	2008
Building Permits/Plan Check	506	555	416
Mechanical	273	303	259
Fire Systems	101	144	100
Land Use/SEPA Review	82	65	44
Plumbing Fees	182	179	114
Electrical	319	962	814
TOTAL NUMBER OF PERMITS	1,463	2,208	1,747

GENERAL FUND REVENUE ANALYSIS (continued):

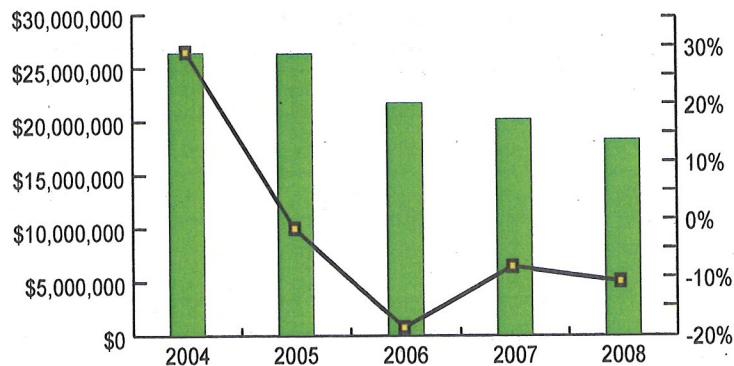
GAMBLING TAX REVENUE



2008 Budget	\$2,265,500
2008 Projected	\$2,020,500
2008 Actual	\$1,916,451
\$\$ Variance	-\$104,049
% Variance	-5.1%
2007 Actual	\$1,998,002
Change from 2007	-4.1%

Gambling revenue came in at \$1,916,451 or 5.1% below projections. The reason for the decrease is the decline in card room activity which is down by 9.5% from 2007 and when compared to 2004 it is down by 30.7%. Card room gambling tax makes up 95% of all gambling revenue. Consequently changes in card room activity have significant impacts on gambling revenue.

CARD ROOM RECEIPTS - ANNUALLY 2004-2008

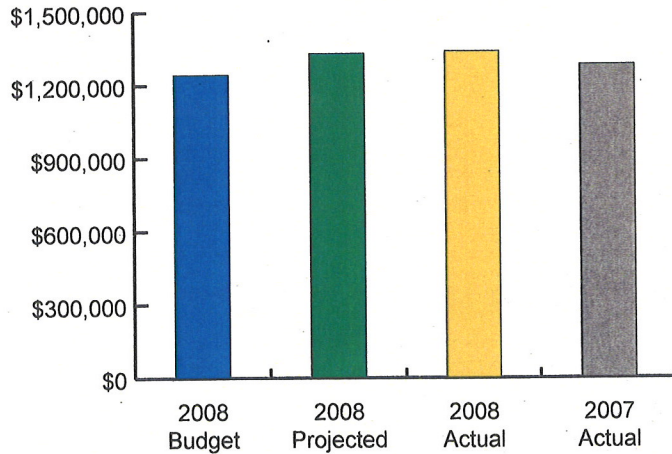


Card Room Gross Receipts
Annually 2004-2008

Year		% Change from Previous Year
2004	\$26,413,373	30.3
2005	\$26,337,937	-0.3
2006	\$21,732,592	-17.5
2007	\$20,232,133	-6.9
2008	\$18,316,594	-9.5

GENERAL FUND REVENUE ANALYSIS (continued):

PARK AND RECREATION REVENUE

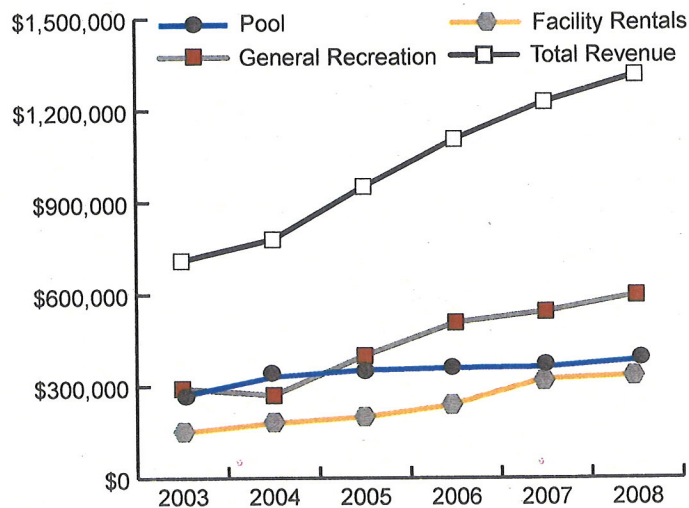


2008 Budget	\$1,241,948
2008 Projected	\$1,328,019
2008 Actual	\$1,338,214
\$\$ Variance	\$10,195
% Variance	0.8%
2007 Actual	\$1,283,266
Change from 2007	4.3%

Park revenue of \$1,338,214 is ahead of revised projected revenue of \$1,328,019 by \$10,195 or 0.8%. The stronger than expected revenue is due to increased participation in the City's pool programming and facility rentals.

Parks revenue continues to grow, increasing by \$605,067 or 85% since 2003 - a testament to the popularity of the City's recreational programming.

RECREATION REVENUE BY PROGRAM



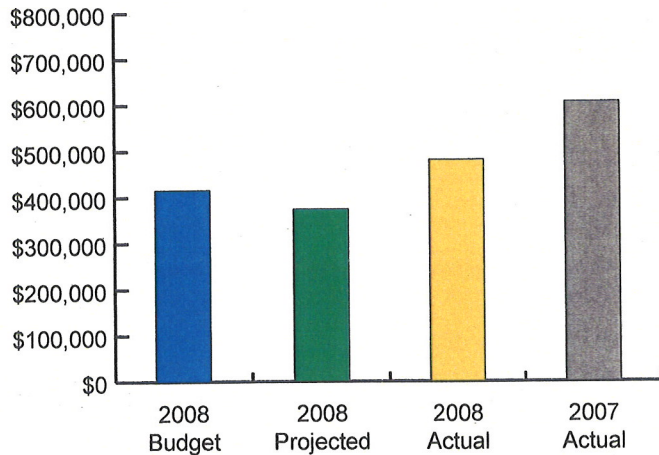
Annual Revenue by Source 2003-2008

	Pool	General Recreation	Facility Rentals	Total Revenue
2003	\$269,100	\$292,045	\$149,404	\$710,549
2004	\$329,464	\$270,637	\$179,352	\$779,453
2005	\$351,507	\$400,386	\$200,189	\$952,082
2006	\$358,487	\$507,651	\$240,027	\$1,106,165
2007	\$361,540	\$543,568	\$322,704	\$1,227,812*
2008	\$383,681	\$597,634	\$334,301	\$1,315,616*

*Excludes non program revenue such as cell tower rental fees and special event sponsorships.

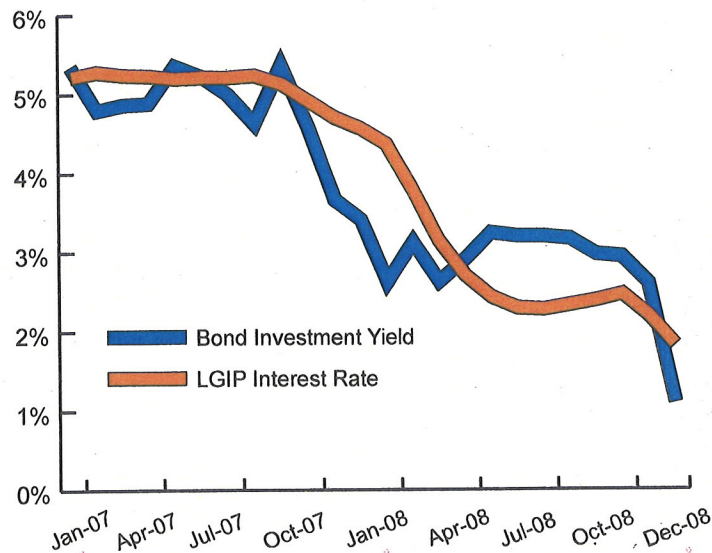
GENERAL FUND REVENUE ANALYSIS (continued):

INVESTMENT INCOME



2008 Budget	\$415,366
2008 Projected	\$374,000
2008 Actual	\$481,287
\$\$ Variance	\$107,287
% Variance	28.7%
2007 Actual	\$606,795
Change from 2007	-20.7%

Investment interest is ahead of lowered projections by \$107,287 or 28.7%. The increase is the result of interest revenue earned on the revenue stabilization fund being credited to the General Fund and not a product of increasing interest rates. In fact interest rates have declined since 2007.

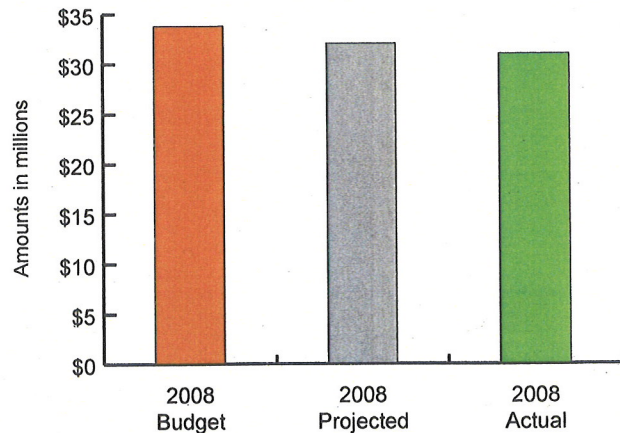


Month	LGIP Interest Rate*	Bond Investment Yield
Jan-07	5.2113%	5.340%
Feb-07	5.2768%	4.790%
Mar-07	5.2372%	4.860%
Apr-07	5.2260%	4.880%
May-07	5.1936%	5.350%
Jun-07	5.2068%	5.220%
Jul-07	5.2053%	4.990%
Aug-07	5.2265%	4.620%
Sep-07	5.1232%	5.350%
Oct-07	4.9108%	4.580%
Nov-07	4.6985%	3.660%
Dec-07	4.5607%	3.410%
Jan-08	4.3596%	2.620%
Feb-08	3.7871%	3.125%
Mar-08	3.1375%	2.625%
Apr-08	2.6998%	2.910%
May-08	2.4281%	3.240%
Jun-08	2.2933%	3.200%
Jul-08	2.2758%	3.200%
Aug-08	2.3328%	3.170%
Sep-08	2.3892%	2.970%
Oct-08	2.4652%	2.940%
Nov-08	2.1903%	2.600%
Dec-08	1.8183%	1.100%
Average	3.8856%	3.7813%

*Local Government Investment Pool

EXPENDITURE ANALYSIS:

GENERAL FUND EXPENDITURES



The 2008 actual expenditures were \$30,968,820 and the 2008 carryovers were \$302,690 for a total 2008 expenditure of \$31,271,510. This is \$728,626 or 2.28% below projected expenditures.

General Fund 2008 Expenditure Highlights:

The City Manager's Office is \$120,816 under projections due to savings in the Economic Development program for professional services and savings in training and registration.

City Attorney is under projection by \$42,917 due to savings in professional service costs related to additional contracted legal work.

Human Resources are under projections by \$29,238 due to savings in advertising costs for job announcements.

Criminal Justice is under budget by \$121,216 or 8.6% due to jail savings of \$131,579. The number of jail days was below anticipated levels by 4.9% or 494 days. A large portion of this

decrease is the result of an increase in alternative sentencing. For 2008 stay at home detention increased from previous years resulting in significant budget savings.

Parks is under projections by \$110,777 due to savings in water for parks irrigation, on-call emergency services for essential repair work and operating supplies.

Planning and Development Services is under projections by \$91,149 due to savings in contracted building and inspection services as the number of permits declined in 2008 the need to utilize additional resources was not needed.

Public Works is under projections by \$121,228 due to savings in Facilities in operating supplies, rentals and leases and repair and maintenance costs. The Environmental Services program also had savings in professional services.

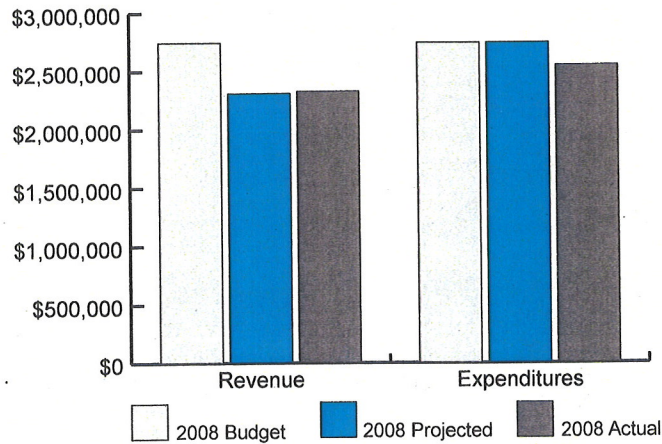
Department	2008 Current Budget	2008 Projected	2008 Actual	2008 Carryover	2008 Actual + Carryovers	\$ Variance	% Variance
City Council	\$176,302	\$175,254	\$182,144	\$0	\$182,144	\$6,890	3.9%
City Manager's Office ¹	\$1,507,414	\$1,428,452	\$1,286,794	\$20,842	\$1,307,636	-\$120,816	-8.5%
City Clerk	\$454,769	\$454,769	\$402,498	\$29,598	\$432,096	-\$22,673	-5.0%
City Attorney	\$575,174	\$549,933	\$507,016	\$0	\$507,016	-\$42,917	-7.8%
Community Services ²	\$1,622,664	\$1,615,648	\$1,560,944	\$37,122	\$1,598,066	-\$17,582	-1.1%
Finance/IS	\$2,982,274	\$2,806,549	\$2,661,353	\$117,911	\$2,779,264	-\$27,285	-1.0%
Citywide	\$1,861,959	\$1,041,100	\$1,034,688	\$0	\$1,034,688	-\$6,412	-0.6%
Human Resources	\$427,237	\$392,610	\$363,372	\$0	\$363,372	-\$29,238	-7.4%
Police	\$8,989,323	\$8,999,765	\$8,975,541	\$0	\$8,975,541	-\$24,224	-0.3%
Criminal Justice	\$1,555,281	\$1,410,031	\$1,288,815	\$0	\$1,288,815	-\$121,216	-8.6%
Parks	\$4,401,125	\$4,229,246	\$4,097,644	\$20,825	\$4,118,469	-\$110,777	-2.6%
Planning and Development Services	\$2,906,280	\$2,747,505	\$2,628,356	\$28,000	\$2,656,356	-\$91,149	-3.3%
Public Works	\$1,533,418	\$1,477,050	\$1,307,430	\$48,392	\$1,355,822	-\$121,228	-8.2%
Department Totals	\$28,993,221	\$27,327,912	\$26,296,596	\$302,690	\$26,599,286	-\$728,626	-2.7%
General Transfers Out	\$4,768,313	\$4,672,224	\$4,672,224	\$0	\$4,672,224	\$0	0.0%
General Fund Total	\$33,761,534	\$32,000,136	\$30,968,820	\$302,690	\$31,271,510	-\$728,626	-2.28%

¹ City Manager includes Economic Development, Communications & Intergovernmental Relations

² Community Services includes Emergency Management Planning, Neighborhoods, Human Services and CRT

OTHER FUNDS REVENUE ANALYSIS:

STREET FUND



Street Fund

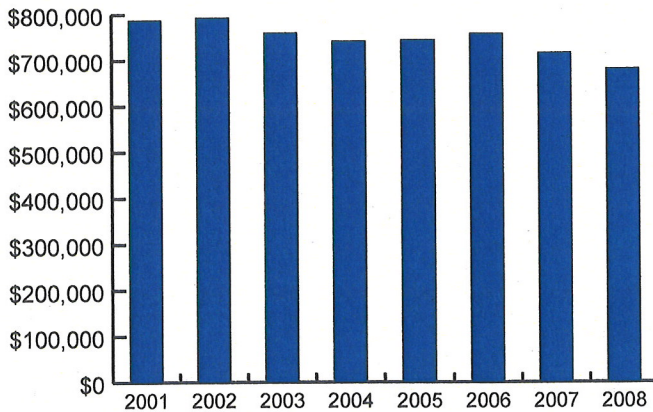
	Revenue	Expenditures
2008 Budget	\$2,744,038	\$2,744,038
2008 Projected	\$2,307,231	\$2,744,018
2008 Actual	\$2,324,111	\$2,548,108
\$ Variance	\$16,880	-\$195,910
% Variance	0.73%	-7.14%

Revenue collections in this fund include fuel tax, right of way fees and investment interest. Fuel tax collections of \$679,804 were below projections by 14,788 or 2.13%. Right of way fees totaling \$189,041 were \$39,041 or 26% ahead of revised projections. Investment earnings of \$44,682 are above lowered projections by \$5,714 or 15%. The original budget for interest was \$48,000.

Expenditures of \$2,548,108 are below projections by \$195,910 or 7.14%.

OTHER FUNDS ANALYSIS (continued):

FUEL TAX

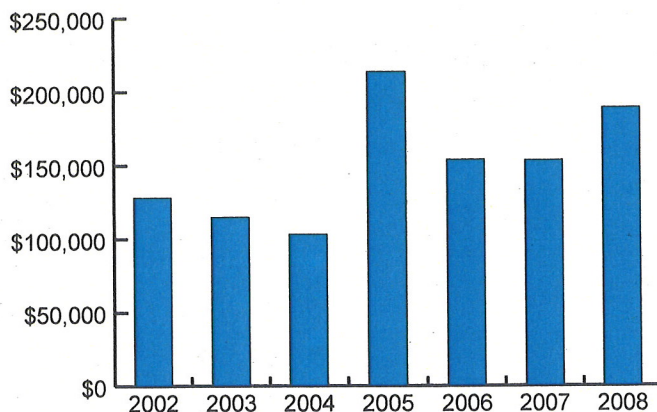


**Fuel Tax Revenue:
Annual 2001-2008**

2001	\$786,749
2002	\$791,512
2003	\$757,773
2004	\$739,943
2005	\$742,371
2006	\$756,583
2007	\$714,550
2008	\$679,804

2008 MV Fuel Tax Revenue collections of \$679,804 is \$14,788 or 2.1% below projected revenue of \$694,592. The Fuel tax is consumption based tax and not a price based tax. As fuel prices increased early in 2008 demand for fuel decreased and consequently so did MV fuel tax revenue.

RIGHT OF WAY REVENUE



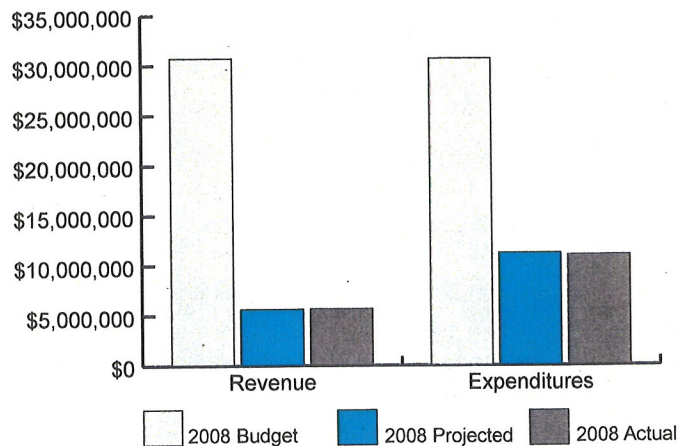
**Right of Way Revenue:
Annual 2002-2008**

2002	\$128,120
2003	\$114,817
2004	\$103,132
2005	\$213,515
2006	\$153,803
2007	\$153,499
2008	\$189,061

Right of Way permit revenue of \$189,041 was \$39,041 or 26.03% above projected revenue of \$150,000.

OTHER FUNDS ANALYSIS (continued):

GENERAL CAPITAL FUND



General Capital Fund

	Revenue	Expenditures
2008 Budget	\$30,648,265	\$30,632,881
2008 Projected	\$5,621,897	\$11,211,627
2008 Actual + Carryover	\$5,654,759	\$11,019,944
\$ Variance	\$32,862	-\$191,683
% Variance	0.6%	-1.7%

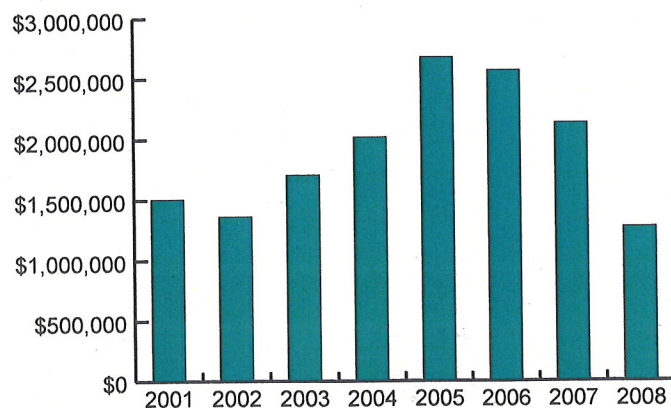
2008 revenues plus carryovers totaled \$5,654,759 which is \$32,862 below projected revenues.

Revenue highlights include:

- Real Estate Excise Tax (REET) totaled \$535,515 which was \$64,484 below lowered projections. The original 2008 budget for REET was \$741,500
- Investment earnings totaled \$456,914 which was down from projections by \$144,452. Interest rates continued to fall throughout 2008.

Expenditures plus carryovers totaled \$11,019,944 which were below projected expenditures of \$11,211,627 by \$191,683.

REAL ESTATE EXCISE TAX (REET)



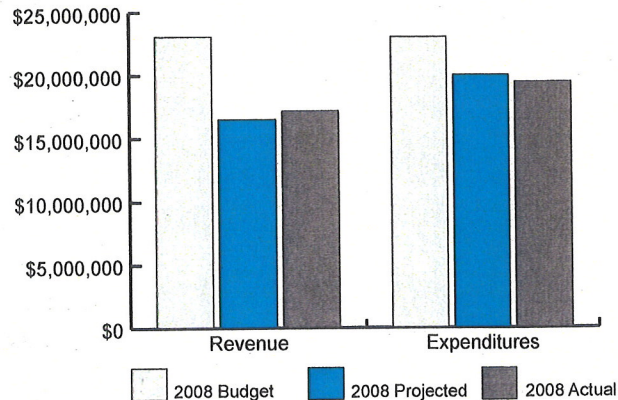
REET: Annual 2001-2008

2001	\$1,502,980
2002	\$1,359,470
2003	\$1,702,914
2004	\$2,016,162
2005	\$2,675,632
2006	\$2,565,362
2007	\$2,131,416
2008	\$1,271,030

Actual REET collections of \$1,271,030 are below projected revenue of \$1,400,000 by \$128,970 or 9.2%. REET revenue continues to decrease dramatically as real estate sales decline. The number of transactions decreased by 30.4% or 472 when compared to 2007 and the value of the transactions decreased by 41.5% or \$180.7 million. 2008 REET revenue was \$860,386 or 40.4% less than 2007 revenue.

OTHER FUNDS ANALYSIS (continued):

ROADS CAPITAL FUND



Roads Capital Fund

	Revenue	Expenditures
2008 Budget	\$23,012,286	\$23,012,286
2008 Projected	\$16,472,781	\$19,979,160
2008 Actual + Carryovers	\$17,142,409	\$19,415,618
\$ Variance	\$669,628	-\$563,542
% Variance	4.1%	-2.8%

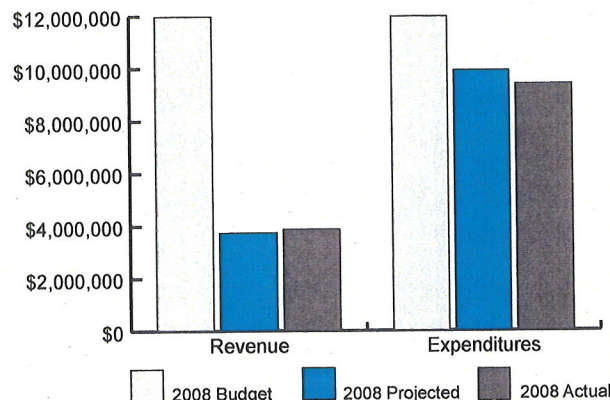
Revenues of \$6,911,533 plus carryovers of \$10,230,876 were above projected revenues of \$16,472,781 by \$669,628. Most of this represents grant revenue that was not received during the year as project work was delayed. This revenue is being requested to be included in the 2008 carryover ordinance.

2008 revenue highlights include:

- Real Estate Excise tax receipts totaled \$735,512 down from the projected amount of \$800,000. The original budget for REET was \$941,500.
- Motor Vehicle Fuel tax collections totaled \$538,046 down from lowered projections of \$545,751 by \$7,705. The original budget for this revenue was \$587,196.
- Investment earnings totaled \$209,399 down from projections of \$266,387.

Expenditures totaled \$7,522,303 which were \$12,456,847 below projections. This primarily represents expenditures for projects that were delayed. The 2008 carryover ordinance will include \$12 million for these projects in 2009.

SURFACE WATER UTILITY FUND



Surface Water Utility Fund

	Revenue	Expenditures
2008 Budget	\$11,949,858	\$11,949,857
2008 Projected	\$3,735,099	\$9,902,930
2008 Actual + Carryover	\$3,861,543	\$9,379,173
\$ Variance	\$126,444	-\$523,757
% Variance	3.3%	-5.3%

The 2008 actual revenues were \$3,812,276 and the requested 2008 revenue carryovers are \$49,267 for a total of \$3,861,543 which was \$126,444 or 3.3% more than projected. SVM fund revenue highlights are listed below:

- Investment interest was \$44,942 or 18.2% above projected revenue of \$247,107 since the fund balance remained at a higher level than originally projected.
- Grant revenue of \$49,267 will be carried over into 2009 to continue work on the NPDES.
- Storm drainage fees were just \$75 less than projected.

The 2008 actual expenditures were \$6,912,650 and the requested 2008 carryovers are \$2,466,523 for a total of \$9,379,173. This is \$523,757 or 5.3% below projected expenditures of \$10,229,405. Broken out between operating and capital as follows:

- SVM operating expenditures were \$170,094 or 11.1% under projections of \$1,538,782, however, a carryover request of \$52,765 has been submitted. There were savings in salaries and benefits totaling \$45,052 and savings of nearly \$71,000 in King County services.
- Capital expenditures including carryovers were \$4,951,531 or 36.5% under projections of \$7,802,257. 2008 carryovers totaling \$2,413,759 have been requested to continue work on capital projects that was not completed during 2008.

INVESTMENT REPORT December 31, 2008:

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 had been the City's primary mode of investment prior to adopting our Investment Policy. As of December 31, 2008, the City's investment portfolio, excluding the State Investment Pool, had a weighted average rate of return of 2.96%. This is slightly more than the State Investment Pool twelve month average of 2.68%. Total investment interest earnings for 2008 were \$1,557,450 which was below the 2008 budget of \$1,611,127.

During 2007 investment interest rates began to decline. As was evident in the General Fund revenue analysis on page 13, the average yield on a two year government agency bonds was 5.34% in January 2007. As of December 2008 this rate is down to 1.1%. Assuming a \$50 million investment portfolio, this drop in interest rate represents a reduction in annual investment earnings of over \$2 million.

As of December 31, 2008, the City's investment portfolio had a fair value of \$42.216 million. Approximately 9% of the investment portfolio was held in U.S. government instrumentality securities, 12% in Certificates of Deposit and 79% was held in the Washington State Investment Pool. The City's investment portfolio valued at cost as of December 31, 2008, was \$42.113 million. 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 City continued to implement a ladder philosophy in its investment portfolio over the last year. This resulted in the City being able to hold some securities at a higher interest rate during the declining interest rate environment. For example an instrument purchased in July 2008 is yielding 3.332% and will not mature until 2010. This is compared to a recent instrument purchased in June 2008 that is yielding 2.745%. A ladder portfolio approach helps assure that the City will, in the long run, receive a market average rate of return.

One of the major investment instruments used in the United States and throughout the rest of the world is "mortgage-backed securities". Mortgage-backed securities are mortgages that have been sold by banks to investment banks or federally sponsored agencies such as Federal National Mortgage Association (FNMA – Fannie Mae) or Federal Home Loan Mortgage Corporation (FHLMC – Freddie Mac), who then rebundle the mortgages and sell them to individual investors or investors in the stock market. Mortgage-backed securities can be a fairly safe investment, if there is little risk that the mortgage borrower will default on the loan, or they can be risky investments if there is a higher risk that the borrower will default, such as the case in sub-prime mortgages. The City has purchased and currently has mortgage backed securities in its investment portfolio. These instruments have been purchased from FNMA, FHLMC, and the Federal Home Loan Bank (FHLB). Earlier this year the federal government actually stepped in to take over both Fannie Mae and Freddie Mac.

INVESTMENT REPORT (continued):

LGIP Cash and Investment Balances December 31, 2008

<u>Instrument Type</u>	<u>BROKER</u>	<u>Settlement Date</u>	<u>Maturity Date</u>	<u>Investment Cost</u>	<u>Yield To Maturity</u>	<u>Market Value 12/31/08</u>	<u>Recognized Gain/(loss) as of 12/31/08</u>	<u>Unrealized Gain/(Loss) as of 12/31/08</u>
FNMA (Fannie Mae) Disc	BA	06/26/08	03/31/09	1,959,072	2.7450%	1,999,600		40,528
FNMA (Fannie Mae)	BA	2/27/2008	09/13/10	1,037,470	2.8360%	1,055,625		18,155
FNMA (Fannie Mae)	BA	07/11/08	06/04/10	1,992,400	3.3320%	2,020,000		27,600
FHLB	PJ	08/07/08	09/18/09	2,044,184	2.9660%	2,061,250		17,066
Certificate of Deposit	Key Bank	12/17/08	02/17/10	2,000,000	3.3000%	2,000,000	0	0
State Investment Pool				33,079,672	2.3892%	33,079,672		0
Sub Total				42,112,798		42,216,147	0	103,349

Average Maturity Excluding the State Investment Pool (days)

547

Weighted Average Yield to Maturity Excluding the State Pool

2.9641%

Average Yield to Maturity State Investment Pool

2.6814%

Basis Points in Excess (Below) Benchmark

28

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

Portfolio Diversification

<u>Instrument Type</u>	<u>Percentage</u>	<u>Amount at Market Value</u>	<u>Amount at Cost</u>	<u>Broker</u>	<u>Percentage</u>	<u>Amount at Cost</u>
Certificate of Deposit	5%	2,000,000	2,000,000	Bank of America	12%	4,988,942
FNMA (Fannie Mae) Disc	5%	1,999,600	1,959,072	Financial Northwest Corp	5%	2,000,000
FHLMC (Freddie Mac)	0%	0	0	Multibank Security	0%	0
FNMA (Fannie Mae)	7%	3,075,625	3,029,870	Piper Jaffray	5%	2,044,184
FHLB	5%	2,061,250	2,044,184			
State Investment Pool	78%	33,079,672	33,079,672	State Investment Pool	79%	33,079,672
Total Investments	100%	42,216,147	42,112,798	Total Investments	100%	42,112,798

Investments by Fund

<u>Fund</u>	<u>Investments at Adjusted Cost as 12/31/2008</u>	<u>Recognized Gain/(Loss)</u>	<u>State Investment Pool as of 12/31/2008</u>	<u>Total Investments by Fund as of 12/31/2008</u>	<u>Investment Earnings Budget 2008</u>	<u>Investment Earnings Actual 2008</u>	<u>Over/(Under) Budget</u>
001 General	961,008	71,407.25	2,733,036	3,765,451	391,366	458,590	67,224
101 Street	517,384	6,103.22	510,495	1,033,982	48,000	44,681	(3,319)
107 Code Abatement	3,104	54.32	155,407	158,566	7,500	4,628	(2,872)
108 Asset Seizure	-	0.00	52,022	52,022	500	680	180
109 Public Arts	5,523	96.64	190,572	196,191	3,645	6,159	2,514
190 Revenue Stabilization	5,826,357	0.00	299,000	6,125,357	96,000	-	(96,000)
201 Unlimited GO Bond			112,360	112,360			
301 General Capital	287,850	5,037.17	14,283,975	14,576,862	334,829	456,914	122,085
312 City Fac-Mjr Maint	4,677	81.85	175,840	180,599	5,852	5,795	(57)
330 Roads Capital	248,477	4,348.17	7,134,871	7,387,696	282,060	209,395	(72,665)
401 Surface Water Utility Fund	154,266	2,699.55	6,583,099	6,740,065	391,125	292,048	(99,077)
501 Vehicle Oper/Maint	-	0.00	69,486	69,486	1,250	3,409	2,159
503 Equip Dep Replace	1,022,950	13,493.84	714,077	1,750,521	46,000	73,122	27,122
505 Unemployment	1,530	26.78	65,432	66,989	3,000	2,028	75
Total Investments	9,033,126	103,349	33,079,672	42,216,147	1,611,127	1,557,450	(52,630)