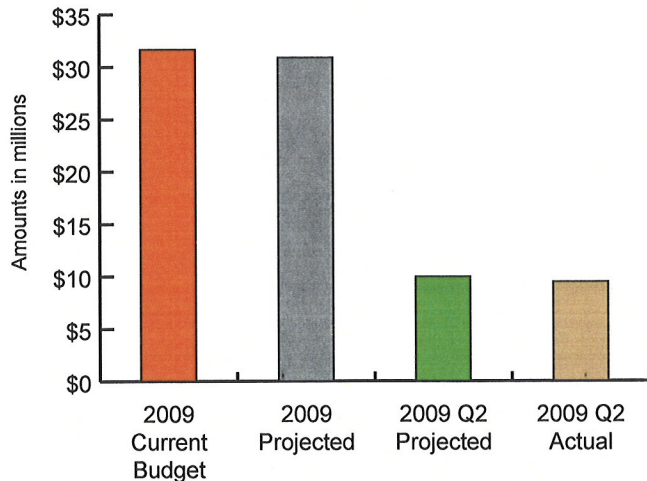


# EXPENDITURE ANALYSIS:

## GENERAL FUND EXPENDITURES



Departmental expenditures during the first half of 2009 were \$8,285,499, under projected expenditures of \$8,767,200 by \$481,701 or 5.5%. Most of this under-expenditure is in the City Attorney, Finance, Citywide and Public Works departments.

The City Attorney's Office is under projections by \$36,547 or 13.6% due to savings in the professional services for outside counsel. Finance is under projections by \$110,221 or 7.9% as expenditures related to the upgrade of the City's financial system and desktop operating systems will occur later in the year. Citywide is \$110,845 or 13.2% under projections as a result large expenditures for the City Hall move and election costs which will occur later in the year. Criminal Justice is under projections by \$86,598 or 17.8% due to lower than expected costs for Jail services. So far jail days used by

Shoreline inmates are running 20% below projected levels. Some of this decrease is due to the increase in the use of the alternative sentencing strategy of stay-at-home monitoring. With this form of sentencing there is no cost to the City and it also results in fewer jail days being used. At this time we believe the City will have budget savings from criminal justice at the end of the year. Public Works is under projections by \$92,158 or 13.9%. Their budget includes funding for janitorial and other maintenance costs for the new City Hall which will occur later in the year.

Total General Fund expenditures, including transfers, are below projected expenditures by 4.85% or \$481,701.

Department	2009 Current Budget	2009 Projected	2009 Q2 Projected	2009 Q2 Actual	\$ Variance	% Variance	2008 Q2 Actual
City Council	\$166,962	\$166,962	\$91,475	\$85,893	-\$5,582	-6.1%	\$99,792
City Manager's Office <sup>1</sup>	\$1,479,064	\$1,479,064	\$704,595	\$674,523	-\$30,072	-4.3%	\$613,002
City Clerk	\$473,375	\$473,375	\$225,319	\$220,413	-\$4,906	-2.2%	\$191,583
City Attorney	\$575,211	\$575,211	\$269,096	\$232,549	-\$36,547	-13.6%	\$237,193
Community Services <sup>2</sup>	\$1,584,912	\$1,584,912	\$700,120	\$732,888	\$32,768	4.7%	\$689,532
Finance/IS	\$2,849,586	\$2,849,586	\$1,389,088	\$1,278,867	-\$110,221	-7.9%	\$1,297,330
Citywide	\$1,777,673	\$972,673	\$839,417	\$728,573	-\$110,845	-13.2%	\$892,501
Human Resources	\$408,073	\$408,073	\$197,594	\$200,068	\$2,474	1.3%	\$175,949
Police	\$9,400,030	\$9,400,030	\$85,759	\$87,170	\$1,411	1.6%	\$81,886
Criminal Justice	\$1,575,039	\$1,575,039	\$485,779	\$399,181	-\$86,598	-17.8%	\$397,501
Parks	\$4,365,988	\$4,365,988	\$1,790,055	\$1,764,574	-\$25,481	-1.4%	\$1,818,475
Planning and Development Services	\$2,691,261	\$2,691,261	\$1,327,543	\$1,311,598	-\$15,945	-1.2%	\$1,296,513
Public Works	\$1,469,692	\$1,469,692	\$661,361	\$569,203	-\$92,158	-13.9%	\$625,602
Department Totals	\$28,816,865	\$28,011,865	\$8,767,200	\$8,285,499	-\$481,701	-5.5%	\$8,416,858
General Transfers Out	\$2,830,949	\$2,830,949	\$1,168,679	\$1,168,679	\$0	0.0%	\$2,476,666
<b>General Fund Total</b>	<b>\$31,647,815</b>	<b>\$30,842,815</b>	<b>\$9,935,879</b>	<b>\$9,454,178</b>	<b>-\$481,701</b>	<b>-4.85%</b>	<b>\$10,893,524</b>

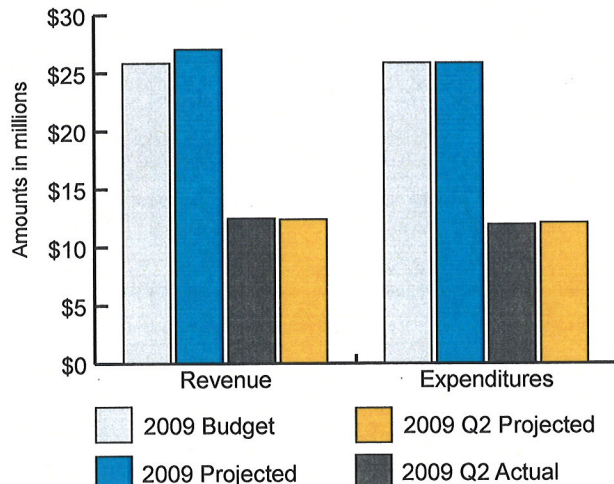
<sup>1</sup> City Manager includes Economic Development, Communications & Intergovernmental Relations

<sup>2</sup> Community Services includes Emergency Management Planning, Neighborhoods, Human Services and CRT



## OTHER FUNDS REVENUE ANALYSIS:

### STREET FUND



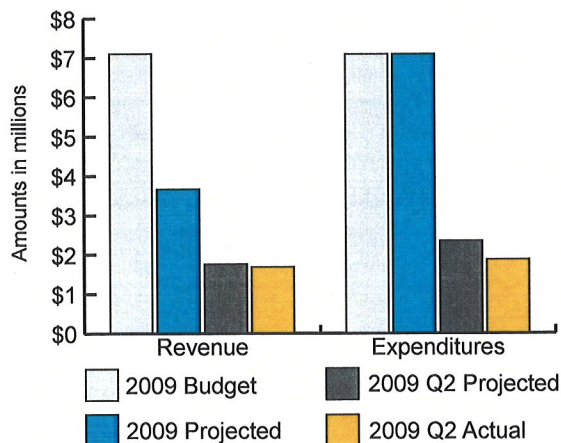
#### Street Fund

	Revenue	Expenditures
2009 Budget	\$2,582,164	\$2,582,164
2009 Projected	\$2,701,037	\$2,582,164
2009 Q2 Projected	\$1,244,891	\$1,191,534
2009 Q2 Actual	\$1,235,225	\$1,206,177
\$ Variance	-\$9,666	\$14,643
% Variance	-0.78%	1.23%

First half 2009 actual revenue collections of \$1,235,225 are \$9,666 or 0.78% below projected first half revenue of \$1,244,891 due to lagging revenues from the fuel tax and investment interest. On a positive note right-of-way fees were \$15,596 or 22% better than expected.

Actual first half expenditures of \$1,206,177 are \$14,643 or 1.2% ahead of projected expenditures of \$1,191,534. This is due to expenses related to the winter storm that occurred early in the year.

### SURFACE WATER UTILITY FUND



#### Surface Water Utility Fund

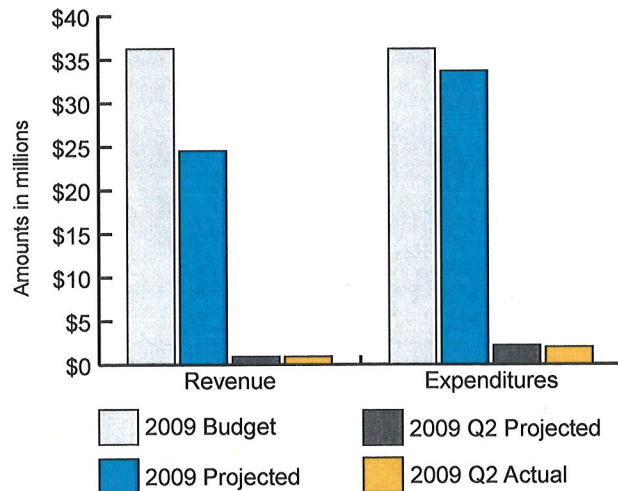
	Revenue	Expenditures
2009 Budget	\$7,086,314	\$7,086,314
2009 Projected	\$3,663,244	\$7,086,314
2009 Q2 Projected	\$1,750,531	\$2,337,097
2009 Q2 Actual	\$1,684,039	\$1,869,092
\$ Variance	-\$66,491	-\$726,280
% Variance	-3.80%	-31.08%

First half 2009 actual revenue collections of \$1,684,039 are \$66,491 or 3.8% below projected revenue of \$1,750,531. Storm drainage fees are below projections by \$16,160 or 0.99%. Interest earning are below projections by \$50,331 or 61.3%.

Actual first half total expenditures of \$1,869,092 are \$726,280 or 31% below projected expenditures of \$2,337,097. Operating expenditures totaled \$849,622 which was ahead of projections by \$8,548 or 1%. Capital expenditures totaled \$469,144 below projections of \$1,095,697 by \$626,553 or 57%.

## OTHER FUNDS REVENUE ANALYSIS (continued):

### GENERAL CAPITAL FUND



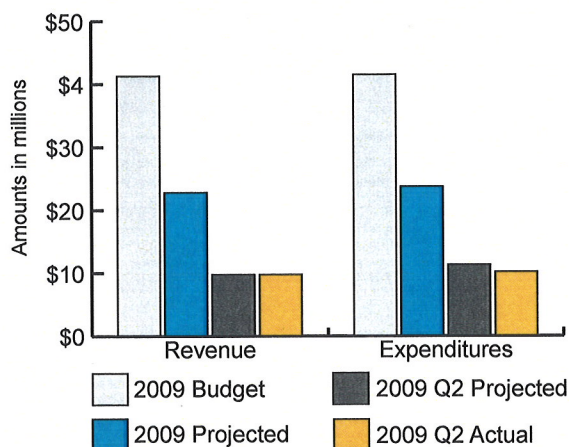
#### General Capital Fund

	Revenue	Expenditures
2009 Budget	\$36,165,554	\$36,165,556
2009 Projected	\$24,503,178	\$33,630,030
2009 2Q Projected	\$891,640	\$2,127,616
2009 2Q Actual	\$875,954	\$1,939,407
\$ Variance	-\$15,686	\$188,209
% Variance	-1.76%	8.85%

Revenues totaled \$875,954 during the first half of 2009 which is \$15,686 or 1.8% below projected revenues of \$891,640. This is mostly due to interest earnings which are \$27,552 or 28.55% below projections. Real estate excise taxes are \$5,504 or 3% ahead of lowered projections and proceeds from the King County Trail levy are ahead of projections by \$6,363 or 12.2%.

Expenditures during the first half of the year totaled \$1,923,049 which is \$188,210 or 2.9% below projected expenditures.

### ROADS CAPITAL FUND



#### Roads Capital Fund

	Revenue	Expenditures
2009 Budget	\$41,189,313	\$41,189,313
2009 Projected	\$22,762,606	\$23,684,727
2009 2Q Projected	\$9,747,012	\$11,253,833
2009 2Q Actual	\$9,716,545	\$10,152,727
\$ Variance	-\$30,467	-\$1,101,106
% Variance	-0.31%	-9.78%

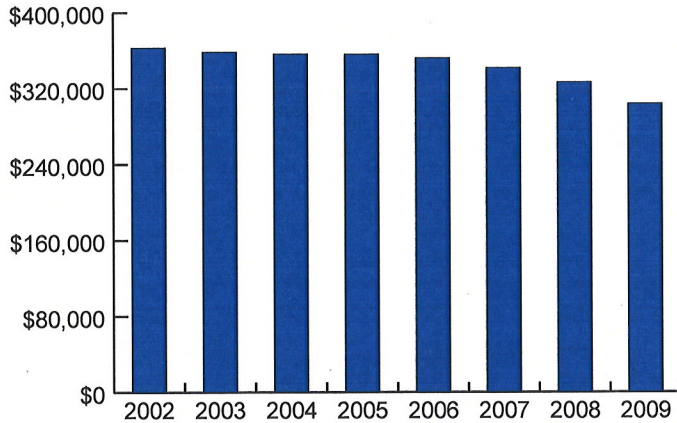
Revenues during the first half of 2009 totaled \$9,716,545 which were below projected revenues of \$9,747,012 by \$30,467 or 0.31%. Most of this represents grant revenue received as project work is completed. Real estate excise tax receipts are ahead of reduced projections by \$5,504 or 3%. Motor vehicle fuel tax collections totaled \$240,226 below projections of \$252,438 by \$12,212 or 4.8%. Investment earnings totaled \$24,109 down from projections of \$40,557 by \$16,448 or 40.6%.

Expenditures during the first half of 2009 totaled \$10,152,727 below projected expenditures of \$11,253,833 by \$1,101,105 or 9.78%.



# NON-GENERAL FUND REVENUE ANALYSIS:

## STREET FUND FUEL TAX

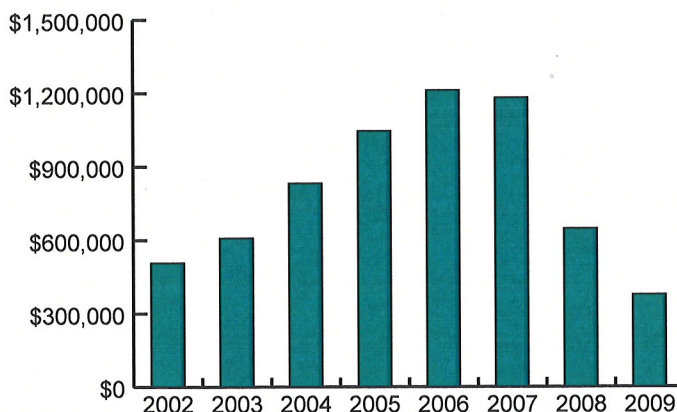


**Fuel Tax: Historical Second Quarter Comparison - Street Fund**

2002	\$363,001
2003	\$358,298
2004	\$356,204
2005	\$355,943
2006	\$351,948
2007	\$341,591
2008	\$326,424
2009	\$303,518

Motor Vehicle Fuel taxes are received and used in both the City's Street Fund and Roads Capital Fund. For second quarter 2009 fuel tax revenue is \$29,991 or 5.23 below projected revenue.

## REAL ESTATE EXCISE TAX (REET)



**REET: Annual First Half Collected for 2002-2009**

2002	\$506,242
2003	\$607,366
2004	\$831,504
2005	\$1,044,946
2006	\$1,211,482
2007	\$1,181,604
2008	\$646,678
2009	\$376,842

Real estate excise tax is collected in the General Capital and Roads Capital Funds. Actual REET collections of \$376,842 are above projections by \$11,008 or 3.01%. Compared to 2008, REET revenue fell by \$269,836 or 42%. The number of transactions decreased by 48 or 8.6% and the value of the transactions decreased by \$53,059,185 or 40.2%.

Last quarter we asked, "What Does an Economic Recession Look Like in King County and the Puget Sound Region?" We ask this again this quarter but with hope that conditions are beginning to improve.

What did we find? Three of the five indicators have moved back in the right direction but are still well below pre-recession levels. The good news comes from:

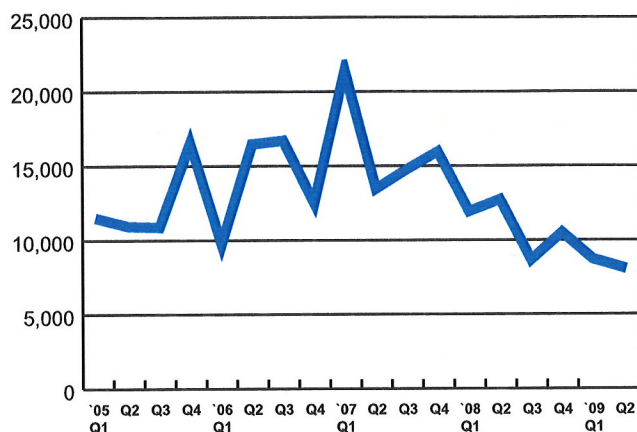
- King County per Capita Income
- King County Percentage Change in Retail Sales
- Puget Sound Home Sales

The bad news:

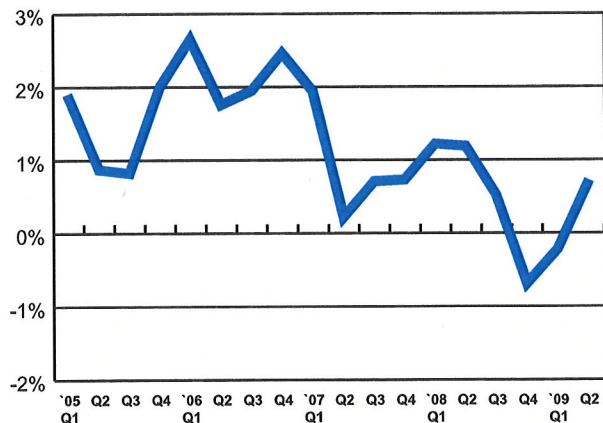
- King County Unemployment Rates increased significantly from last quarter
- New Housing Permits dropped from last quarter

What this tells us and what we hear from regional economic experts is this: the recession is not over but there are signs that the Puget Sound economy is no longer free falling and key indicators are showing signs of life. As we move into the second half of 2009 can the economy sustain these small improvements or will unemployment and a sluggish new housing sector be too big of a burden to overcome? Certainly in Shoreline the sluggish construction sector continues to hamper the City's development revenue and we expect this trend to continue through the remainder of 2009.

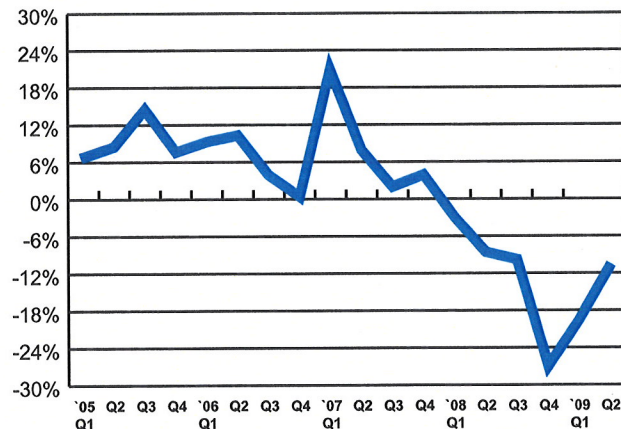
## KING COUNTY NEW HOUSING PERMITS BY QUARTER 2005-2009



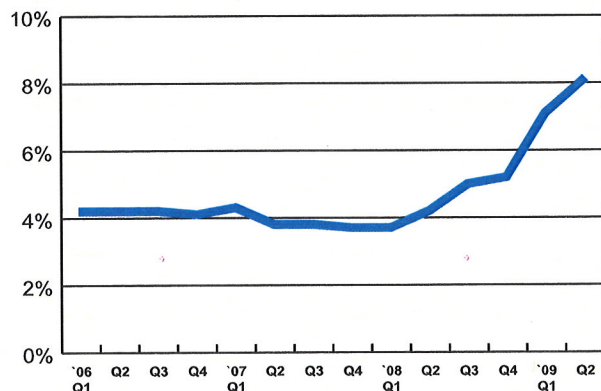
## KING COUNTY PER CAPITA INCOME CHANGE BY QUARTER 2005-2009



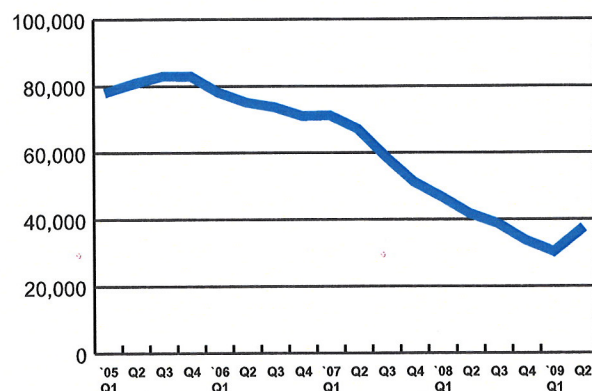
## KING COUNTY CHANGE IN RETAIL SALES BY QUARTER 2005-2009



## KING COUNTY UNEMPLOYMENT RATES 2006-2009



## PUGET SOUND HOME SALES PER QUARTER 2005-2009





## INVESTMENT REPORT June 30, 2009:

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 June 30, 2009, the City's investment portfolio, excluding the State Investment Pool, had a weighted average rate of return of 0.7396%. This is better than the State Investment Pool twelve month average of 1.5946%. Total investment interest earnings for the first half of the year were \$157,837 which was below the projections.

During 2007 investment interest rates began to decline. The average yield on a two year government agency bonds was 5.34% in January 2007. At the end of 2008 this rate was down to 1.81%. By the end of March 2009 it was down to 1.03% and at the end of June 2009 the rate was 0.74%. The rate reflected on the opposite page represents the twelve month average for the State Investment Pool. Assuming a \$50 million investment portfolio, this drop in interest rate represents a reduction in annual investment earnings of nearly \$2.3 million.

As of June 30, 2009 the City's investment portfolio had a fair value of \$43.178 million. Approximately 7% of the investment portfolio was held in U.S. government instrumentality securities, 5% in Certificates of Deposit and 88% was held in the Washington State Investment Pool. The City's investment portfolio valued at cost as of June 30, 2009, was \$43.2 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 February 2008 is yielding 2.836% and will not mature until 2010. This is well above the average rate of return from the State Pool over the same period. 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).