
CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	2012 Fourth Quarter Financial Report		
DEPARTMENT:	Administrative Services		
PRESENTED BY:	Robert Hartwig, Administrative Services Director		
ACTION:	<input type="checkbox"/> Ordinance	<input type="checkbox"/> Resolution	<input type="checkbox"/> Motion
	<input checked="" type="checkbox"/> Discussion	<input type="checkbox"/> Public Hearing	

PROBLEM/ISSUE STATEMENT:

Attached is the 2012 fourth quarter financial report. This report summarizes the financial activities during 2012 for all City funds with detailed information provided on the General Fund, Street Fund, Surface Water Utility Fund, General Capital Fund and Roads Capital Fund. It is provided to keep the Council informed of the financial issues and the financial position of the City.

RESOURCE/FINANCIAL IMPACT:

The table on page 2 of the financial report provides a summary of the financial results for all City funds for 2012.

RECOMMENDATION

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

Approved By: City Manager **JU** City Attorney **IS**

ATTACHMENTS

Attachment A – 2012 Year End Financial Report

2012 Financial Results Summary for all City Funds

Revenues					
Fund	2012 Budget	2012 4th Qtr Proj	2012 4th Qtr Act	\$ \$ Variance Actual v. Projected	% Variance Actuals v. Projected
General Fund	\$34,784,704	\$33,935,293	\$35,056,568	\$1,121,275	3.3%
Street Fund	\$2,240,455	\$2,012,286	\$2,021,512	\$9,226	0.5%
Code Abatement Fund	\$100,000	\$80,100	\$3,374	-\$76,726	-95.8%
State Drug Enforcement Fund	\$19,458	\$12,311	\$76,982	\$64,671	525.3%
Public Arts Fund	\$76,511	\$3,650	\$13,276	\$9,626	263.7%
Federal Drug Enforcement Fund	\$5,050	\$22,142	\$125,014	\$102,872	464.6%
Property Tax Equalization Fund	\$398,000	\$398,886	\$399,747	\$861	0.2%
Federal Crime Forfeitures Fund	\$207,000	\$419,230	\$420,000	\$770	0.2%
Revenue Stabilization Fund	\$0	\$1,458	\$2,507	\$1,049	71.9%
Unltd Tax GO Bond Fund	\$1,702,603	\$1,702,603	\$1,688,764	-\$13,839	-0.8%
Limited Tax GO Bond 2009 Fund	\$1,660,022	\$1,660,022	\$1,660,023	\$1	0.0%
General Capital Fund	\$3,217,531	\$733,686	\$884,711	\$151,025	20.6%
City Facility-Major Maint. Fund	\$164,857	\$164,232	\$164,359	\$127	0.1%
Roads Capital Fund	\$14,701,352	\$13,838,452	\$9,630,183	-\$4,208,269	-30.4%
Surface Water Utility Fund	\$5,588,153	\$3,898,830	\$3,630,437	-\$268,393	-6.9%
Vehicle Operations/ Maint. Fund	\$197,250	\$185,971	\$195,970	\$9,999	5.4%
Equipment Replacement Fund	\$552,329	\$519,153	\$524,878	\$5,725	1.1%
Unemployment Fund	\$89,546	\$67,782	\$67,781	-\$1	0.0%
Totals	\$65,704,821	\$59,656,087	\$56,566,086	-\$3,090,001	-5.2%
Transportation Benefit District	\$601,200	\$601,200	\$750,609	\$149,409	24.9%

Expenditures					
Fund	2012 Budget	2012 4th Qtr Proj	2012 4th Qtr Act	\$ \$ Variance Actual v. Projected	% Variance Actuals v. Projected
General Fund	\$34,784,703	\$33,454,438	\$31,901,588	-\$1,552,850	-4.6%
Street Fund	\$2,240,455	\$2,167,343	\$2,093,119	-\$74,224	-3.4%
Code Abatement Fund	\$100,000	\$100,000	\$2,454	-\$97,546	-97.5%
State Drug Enforcement Fund	\$19,458	\$19,458	\$19,322	-\$136	-0.7%
Public Arts Fund	\$76,511	\$72,510	\$26,432	-\$46,078	-63.5%
Federal Drug Enforcement Fund	\$5,050	\$4,620	\$4,914	\$294	6.4%
Property Tax Equalization Fund	\$0	\$0	\$0	\$0	0.0%
Federal Crime Forfeitures Fund	\$207,000	\$92,919	\$41,290	-\$51,629	-55.6%
Revenue Stabilization Fund	\$0	\$0	\$0	\$0	0.0%
Unltd Tax GO Bond Fund	\$1,702,603	\$1,702,603	\$1,702,603	\$0	0.0%
Limited Tax GO Bond 2009 Fund	\$1,660,022	\$1,660,022	\$1,660,022	\$0	0.0%
General Capital Fund	\$3,217,531	\$2,580,284	\$1,630,553	-\$949,731	-36.8%
City Facility-Major Maint. Fund	\$60,000	\$17,000	\$0	-\$17,000	-100.0%
Roads Capital Fund	\$14,701,352	\$15,562,900	\$10,357,531	-\$5,205,369	-33.4%
Surface Water Utility Fund	\$5,588,153	\$5,382,517	\$3,968,189	-\$1,414,328	-26.3%
Vehicle Operations/ Maint. Fund	\$197,250	\$197,250	\$183,166	-\$14,084	-7.1%
Equipment Replacement Fund	\$340,675	\$340,675	\$44,970	-\$295,705	-86.8%
Unemployment Fund	\$89,546	\$89,546	\$42,764	-\$46,782	-52.2%
Totals	\$64,990,309	\$63,444,085	\$53,678,917	-\$9,765,168	-15.4%
Transportation Benefit District	\$601,200	\$601,200	\$600,000	-\$1,200	-0.2%



2012 YEAR END FINANCIAL REPORT

April 2013

PERFORMANCE AT A GLANCE

	YEAR TO DATE TREND	COMPARED TO PROJECTIONS	REFERENCE
GENERAL FUND REVENUES			
Property Tax Revenue	◀NEUTRAL▶	0.5%	Page 4
Sales Tax Revenue	▲POSITIVE▲	6.7%	Pages 5-6
Utility Tax Revenue	▲POSITIVE▲	2.1%	Page 9
Development Revenue	▲POSITIVE▲	16.5%	Page 10
Gambling Tax Revenue	▲POSITIVE▲	17.6%	Page 11
Park and Recreation Revenue	▲POSITIVE▲	7.0%	Page 12
Investment Income	▲POSITIVE▲	30.4%	Page 13
EXPENDITURES			
General Fund Expenditures		-4.6%	Page 14
NON-GENERAL FUND REVENUES			
Surface Water Fees	◀NEUTRAL▶	0.03%	Page 15
Fuel Tax	◀NEUTRAL▶	-0.03%	Page 17
Real Estate Excise Tax	▲POSITIVE▲	34.9%	Page 17

Key to revenue 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

General Fund Revenue totaled \$35,056,568 in 2012, which was above projections by \$1,121,275, or 3.3%, and reflects a year-over-year increase of \$1,971,851, or nearly 6%. General Fund expenditures totaled \$31,901,588 in 2012, were \$1,552,850 or 4.6% less than projected expenditures. Street Fund revenues for 2012, including transfers in, totaled \$2,021,512 and were \$9,226, or 0.5%, above projections. Street Fund expenditures including transfers out, totaled \$2,093,121 were \$74,224, or 3.4%, below projections.

Surface Water Utility Fund (SWM) revenues for 2012 were \$3,630,437 which was \$268,393, or 6.9%, below projections. SWM expenditures of \$3,968,189 were \$1,414,328 or 26.3% below projections.

Real Estate Excise Tax (REET) revenue receipts for 2012 totaling \$1,302,282 were \$337,044 or 34.9% ahead of projections and \$415,727 more than receipts for 2011.

Street Fund fuel tax revenue receipts for 2012, in the amount of \$1,087,126, are \$282 or 0.3%, less than the projection and exhibit a year-over-year decrease of \$30,171, or 2.7%.

Revenues	2012 Budget	2012 Projected	2012 Actual	\$ Variance Actual v. Projected	% Variance Actual v. Projected
General Fund	\$34,784,704	\$33,935,293	\$35,056,568	\$1,121,275	3.3%
Street Fund	\$2,240,455	\$2,012,286	\$2,021,512	\$9,226	0.5%
Code Abatement Fund	\$100,000	\$80,100	\$3,374	-\$76,726	-95.8%
State Drug Enforcement Fund	\$19,458	\$12,311	\$76,982	\$64,671	525.3%
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Property Tax Equalization Fund	\$398,000	\$398,886	\$399,747	\$861	0.2%
Federal Crime Forfeitures Fund	\$207,000	\$419,230	\$420,000	\$770	0.2%
Revenue Stabilization Fund	\$0	\$1,458	\$2,507	\$1,049	71.9%
Unltd. Tax GO Bond Fund	\$1,702,603	\$1,702,603	\$1,688,764	-\$13,839	-0.8%
Limited Tax GO Bond 2009 Fund	\$1,660,022	\$1,660,022	\$1,660,023	\$1	0.0%
General Capital Fund	\$3,217,531	\$733,686	\$884,711	\$151,025	20.6%
City Facility-Major Maint. Fund	\$164,857	\$164,232	\$164,359	\$127	0.1%
Roads Capital Fund	\$14,701,352	\$13,838,452	\$9,630,183	-\$4,208,269	-30.4%
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Vehicle Operations/Maint. Fund	\$197,250	\$185,971	\$195,970	\$9,999	5.4%
Equipment Replacement Fund	\$552,329	\$519,153	\$524,878	\$5,725	1.1%
Unemployment Fund	\$89,546	\$67,782	\$67,781	-\$1	0.0%
Totals	\$65,704,821	\$59,656,087	\$56,566,086	-\$3,090,001	-5.2%
Transportation Benefit District	\$601,200	\$601,200	\$750,609	\$149,409	24.9%

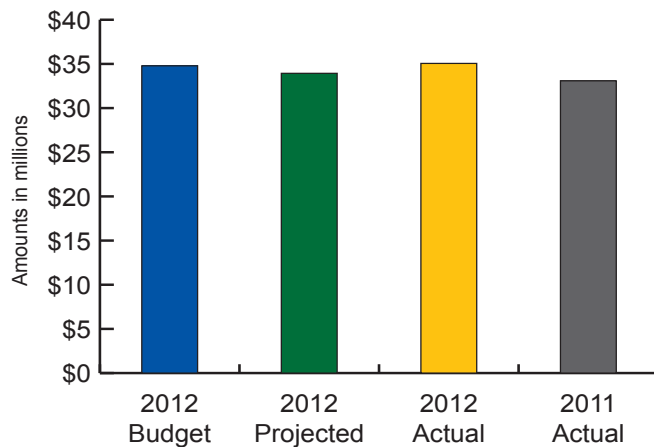
Expenditures	2012 Budget	2012 Projected	2012 Actual	\$ Variance Actual v. Projected	% Variance Actual v. Projected
General Fund	\$34,784,703	\$33,454,438	\$31,901,588	-\$1,552,850	-4.6%
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Code Abatement Fund	\$100,000	\$100,000	\$2,454	-\$97,546	-97.5%
State Drug Enforcement Fund	\$19,458	\$19,458	\$19,322	-\$136	-0.7%
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Property Tax Equalization Fund	\$0	\$0	\$0	\$0	0.0%
Federal Crime Forfeitures Fund	\$207,000	\$92,919	\$41,290	-\$51,629	-55.6%
Revenue Stabilization Fund	\$0	\$0	\$0	\$0	0.0%
Unltd. Tax GO Bond Fund	\$1,702,603	\$1,702,603	\$1,702,603	\$0	0.0%
Limited Tax GO Bond 2009 Fund	\$1,660,022	\$1,660,022	\$1,660,022	\$0	0.0%
General Capital Fund	\$3,217,531	\$2,580,284	\$1,630,553	-\$949,731	-36.8%
City Facility-Major Maint. Fund	\$60,000	\$17,000	\$0	-\$17,000	-100.0%
Roads Capital Fund	\$14,701,352	\$15,562,900	\$10,357,531	-\$5,205,369	-33.4%
Surface Water Utility Fund	\$5,588,153	\$5,382,517	\$3,968,189	-\$1,414,328	-26.3%
Vehicle Operations/Maint. Fund	\$197,250	\$197,250	\$183,166	-\$14,084	-7.1%
Equipment Replacement Fund	\$340,675	\$340,675	\$44,970	-\$295,705	-86.8%
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Totals	\$64,990,309	\$63,444,085	\$53,678,917	-\$9,765,168	-15.4%
Transportation Benefit District	\$601,200	\$601,200	\$600,000	-\$1,200	-0.2%

GENERAL FUND REVENUE DETAIL

Revenue Source	2012 Current Budget	2012 Projected Revenue	2012 Actual Revenue	\$ Variance Actual v. Projected Revenue	% Variance Actual v. Projected Revenue	2011 Annual Actual Revenue	Change from 2011
Budgeted Fund Balance	\$1,459,714	\$0	\$0	\$0	0.0%	\$0	\$0
Property Tax	\$10,051,000	\$10,051,000	\$10,096,971	\$45,971	0.5%	\$9,846,551	\$250,420
Sales Tax	\$6,301,418	\$6,500,000	\$6,932,874	\$432,874	6.7%	\$6,014,244	\$918,630
Local Criminal Justice	\$1,113,330	\$1,113,330	\$1,099,931	-\$13,399	-1.2%	\$1,070,172	\$29,759
Utility Tax & Franchise Fee Revenue							
Natural Gas	\$950,000	\$950,000	\$924,083	-\$25,917	-2.7%	\$1,020,096	-\$96,013
Garbage	\$489,250	\$489,250	\$502,652	\$13,402	2.7%	\$482,823	\$19,829
Cable TV	\$1,505,000	\$1,505,000	\$1,658,748	\$153,748	10.2%	\$1,617,395	\$41,353
Telecommunications	\$1,675,000	\$1,675,000	\$1,569,124	-\$105,876	-6.3%	\$1,642,160	-\$73,036
Storm Drainage	\$195,775	\$195,775	\$192,509	-\$3,266	-1.7%	\$188,306	\$4,203
Water	\$690,000	\$690,000	\$791,255	\$101,255	14.7%	\$716,522	\$74,733
Sewer	\$763,230	\$763,230	\$764,000	\$770	0.1%	\$742,000	\$22,000
Utility Tax & Franchise Fee Revenue Subtotal	\$6,268,255	\$6,268,255	\$6,402,371	\$134,116	2.1%	\$6,409,302	-\$6,931
SCL Contract Payment	\$1,854,704	\$1,800,690	\$1,734,959	-\$65,731	-3.7%	\$1,744,854	-\$9,895
Gambling Tax Revenue	\$1,823,771	\$1,749,559	\$2,057,956	\$308,397	17.6%	\$1,649,911	\$408,045
Development Revenue	\$850,600	\$1,297,390	\$1,511,141	\$213,751	16.5%	\$1,119,873	\$391,268
Park and Recreation Revenue	\$1,434,927	\$1,416,839	\$1,515,943	\$99,104	7.0%	\$1,510,801	\$5,142
Intergovernmental Revenue	\$870,348	\$979,608	\$961,250	-\$18,358	-1.9%	\$909,185	\$52,065
Grant Revenue	\$406,159	\$394,967	\$322,439	-\$72,528	-18.4%	\$500,523	-\$178,084
Fines and Licenses	\$898,347	\$891,000	\$936,517	\$45,517	5.1%	\$902,330	\$34,187
Miscellaneous Revenue	\$359,042	\$430,895	\$429,472	-\$1,423	-0.3%	\$400,767	\$28,705
Interest Income	\$94,000	\$42,671	\$55,656	\$12,985	30.4%	\$41,730	\$13,926
Operating Transfers In	\$999,089	\$999,089	\$999,088	-\$1	0.0%	\$964,472	\$34,616
Total General Fund Revenue	\$34,784,704	\$33,935,293	\$35,056,568	\$1,121,275	3.3%	\$33,084,717	\$1,971,851
2012 Actual + Carryovers			\$35,162,707	\$1,227,414	3.6%		

GENERAL FUND REVENUE ANALYSIS:

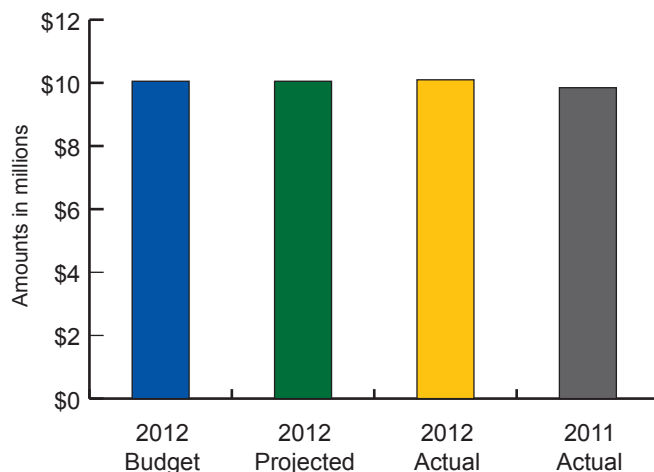
TOTAL GENERAL FUND REVENUE



2012 Budget	\$34,784,704
2012 Projected	\$33,935,293
2012 Actual	\$35,056,568
\$ Variance	\$1,121,275
% Variance	3.3%
2011 Actual	\$33,084,717
\$ Change from 2011	\$1,971,851
% Change from 2011	6.0%

In 2012, General Fund revenue, in the amount of \$35,056,568, is above the projection by \$1,121,275, or 3.3%, and reflects a year-over-year increase of \$1,971,851, or 6.0%.

PROPERTY TAX

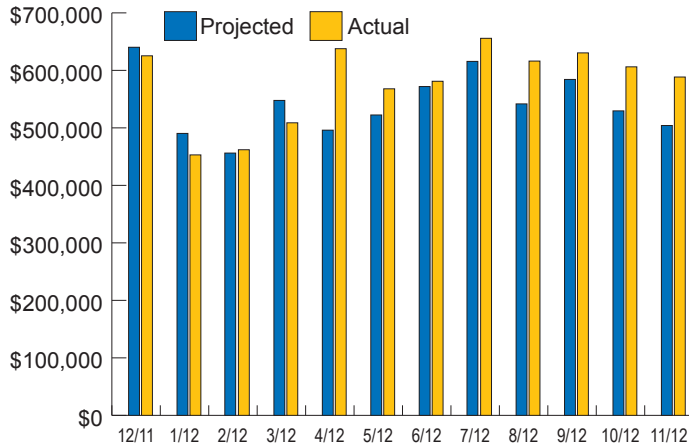


2012 Budget	\$10,051,000
2012 Projected	\$10,051,000
2012 Actual	\$10,096,971
\$ Variance	\$45,971
% Variance	0.5%
2011 Actual	\$9,846,551
\$ Change from 2011	\$250,420
% Change from 2011	2.5%

The 2012 property tax levy revenue was projected to be \$10,051,000. Actual receipts totaled \$10,096,971, which is \$45,971, or 0.5%, more than the projection. The positive variance is partially the result of payments from delinquent accounts from past years.

GENERAL FUND REVENUE ANALYSIS (continued):

SALES TAX



2012 Budget **\$6,301,418**

Sales tax revenue: December 2011 - November 2012

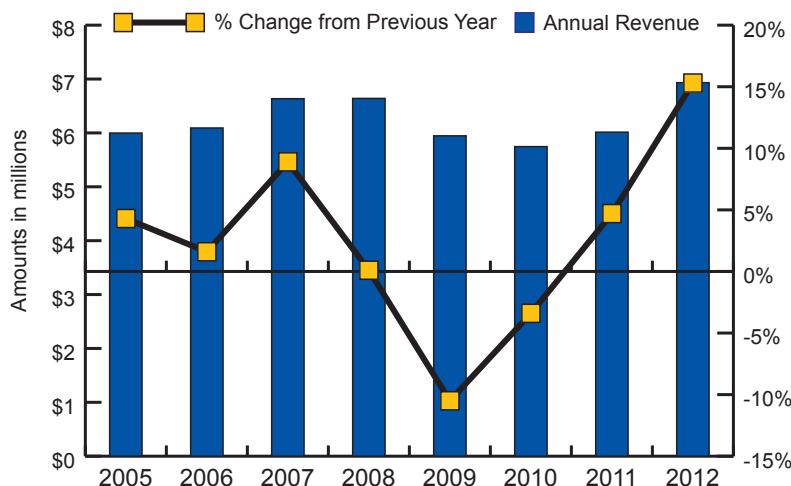
Sales Activity	Projected	Actual
December 2011	\$640,188	\$625,352
January 2012	\$490,346	\$453,002
February 2012	\$456,177	\$461,981
March 2012	\$547,731	\$508,829
April 2012	\$496,006	\$637,735
May 2012	\$522,432	\$567,950
June 2012	\$571,871	\$581,049
July 2012	\$615,614	\$655,753
August 2012	\$541,721	\$616,176
September 2012	\$584,221	\$630,430
October 2012	\$529,580	\$606,172
November 2012	\$504,113	\$588,445
Year to date	\$6,500,000	\$6,932,874
\$ Variance		\$432,874
% Variance		6.7%

Activity for the month of November represented the eighth monthly year-over-year increase in a row since March. Receipts for the year, which reflect activity from December 2011 through November 2012, total \$6,932,874 and are above the revised projection by \$432,874, or 6.7%, and above receipts for 2011 by \$918,631, or 15.3%. The year-over-year increase has largely been due to growth in the Retail Trade sector (+7.4%) and one-time activity in the Construction sector (+104.8%).

The tables on the following page help illustrate the performance of various sectors. The first table presents a condensed view of the four primary categories of Construction; Retail Trade; Hotels and Restaurants; and, All Others. The second table presents a breakdown of the Retail Trade category and highlights specific industry economic performance in comparison to previous years.

In the construction sector, there were five major projects underway in 2012, including: Market Square Apartments, Shorecrest High School, Shorewood High School, Ballinger Way Portal site's odor control facility for the Brightwater Conveyance System, and North City Family Apartments. These projects, as well as a couple others wrapping up from 2011, have generated approximately \$778,000 in one-time sales tax revenue. Staff does not believe that this level of construction activity will continue into 2013 once work is completed on the high schools and the Ballinger Way Portal site. During the same period in 2011, construction of three major projects generated approximately \$112,000 in one-time sales tax receipts. Removal of the revenue receipts for the one-time construction projects reveals a more relevant year-over-year increase in sales tax receipts of \$252,657, or 4.3%. This level of increase in the base used for our projection is a positive sign because the 2013 Adopted Budget projects a 4.3% increase over the current year's original projection of \$6.3 million.

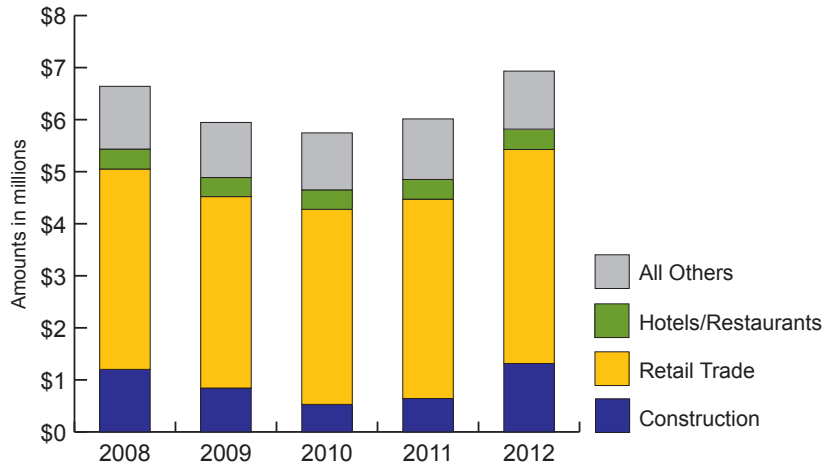
Annual Sales Tax Revenue Comparison



Annual Sales Tax Revenue Comparison		
Year	Annual Revenue	% Change from Previous Year
2005	\$5,997,611	4.3%
2006	\$6,091,545	1.6%
2007	\$6,635,062	8.9%
2008	\$6,640,320	0.1%
2009	\$5,946,181	-10.5%
2010	\$5,745,755	-3.4%
2011	\$6,014,243	4.7%
2012	\$6,932,874	15.3%

GENERAL FUND REVENUE ANALYSIS (continued):

SALES TAX BY CATEGORY

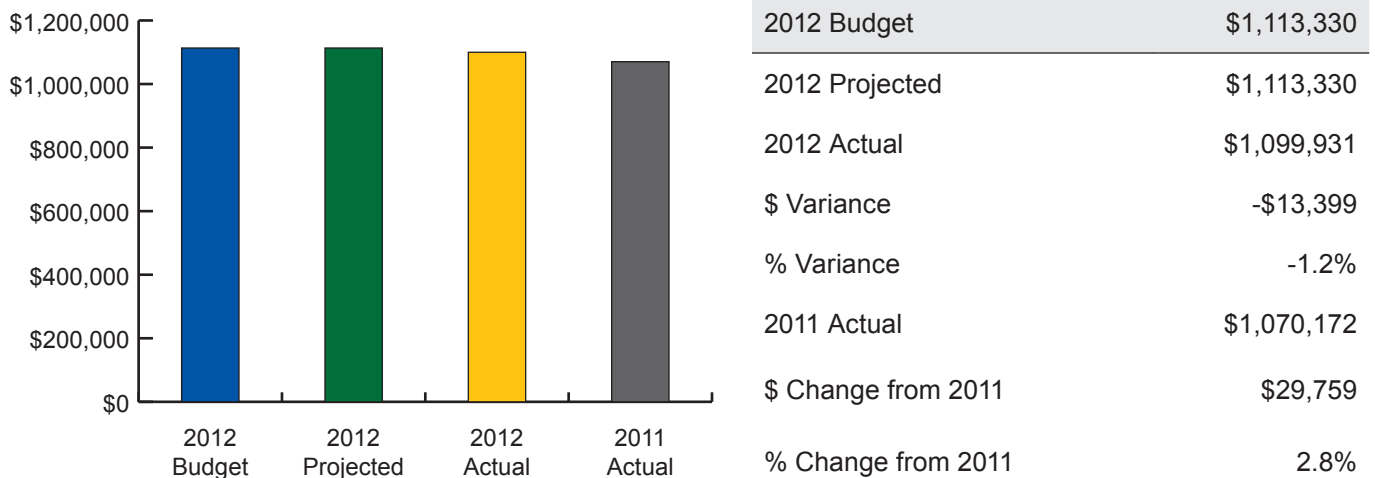


RETAIL SECTOR	2008	2009	2010	2011	2012
Construction	1,201,970	843,240	528,762	642,326	1,315,397
Retail Trade	3,848,945	3,678,181	3,748,091	3,829,648	4,111,726
Hotel and Restaurant	383,804	366,269	373,794	379,096	390,912
All Others	1,205,601	1,058,491	1,095,108	1,163,173	1,114,839
Total	\$6,640,320	\$5,946,181	\$5,745,755	\$6,014,243	\$6,932,874
\$ Variance to previous year	5,268	-694,139	-200,426	268,488	918,631
% Variance to previous year	0.1%	-10.5%	-3.4%	4.7%	15.3%

SALES TAX BY CATEGORY									
Retail Trade	2008 Dec-Nov	2009 Dec-Nov	2009 v. 2008 \$ Variance	2010 Dec-Nov	2010 v. 2009 \$ Variance	2011 Dec-Nov	2011 v. 2010 \$ Variance	2012 Dec-Nov	2012 v. 2011 \$ Variance
Motor Vehicle/Parts Dealer	\$830,505	\$816,328	-\$14,177	\$830,699	\$14,371	\$886,376	\$55,677	\$1,016,944	\$130,568
Furniture, Home Furnishings	\$36,708	\$36,959	\$251	\$51,290	\$14,331	\$54,955	\$3,665	\$52,391	-\$2,564
Electronics and Appliances	\$84,936	\$70,266	-\$14,670	\$82,643	\$12,377	\$86,164	\$3,521	\$89,633	\$3,469
Building Materials, Garden	\$680,216	\$563,297	-\$116,919	\$566,978	\$3,681	\$568,887	\$1,909	\$594,639	\$25,752
Food and Beverage Stores	\$291,388	\$276,246	-\$15,142	\$266,587	-\$9,659	\$255,851	-\$10,736	\$263,322	\$7,471
Health/Personal Care Store	\$122,106	\$124,382	\$2,276	\$127,731	\$3,349	\$127,062	-\$669	\$148,724	\$21,662
Gasoline Stations	\$60,258	\$63,110	\$2,852	\$68,173	\$5,063	\$70,763	\$2,590	\$73,646	\$2,883
Clothing and Accessories	\$21,414	\$26,143	\$4,729	\$29,806	\$3,663	\$36,724	\$6,918	\$44,684	\$7,960
Sporting Goods, Hobby, Books	\$97,488	\$85,278	-\$12,210	\$80,967	-\$4,311	\$79,641	-\$1,326	\$75,232	-\$4,409
General Merchandise Stores	\$1,330,686	\$1,295,736	-\$34,950	\$1,314,807	\$19,071	\$1,306,756	-\$8,051	\$1,375,538	\$68,782
Miscellaneous Store Retailers	\$230,109	\$248,464	\$18,355	\$242,941	-\$5,523	\$254,677	\$11,736	\$255,055	\$378
Nonstore Retailers	\$63,136	\$71,967	\$8,831	\$85,466	\$13,499	\$101,792	\$16,326	\$121,918	\$20,126
Total Revenue	\$3,848,950	\$3,678,176	-\$170,774	\$3,748,088	\$69,912	\$3,829,648	\$81,560	\$4,111,726	\$282,078

GENERAL FUND REVENUE ANALYSIS (continued):

LOCAL CRIMINAL JUSTICE SALES TAX

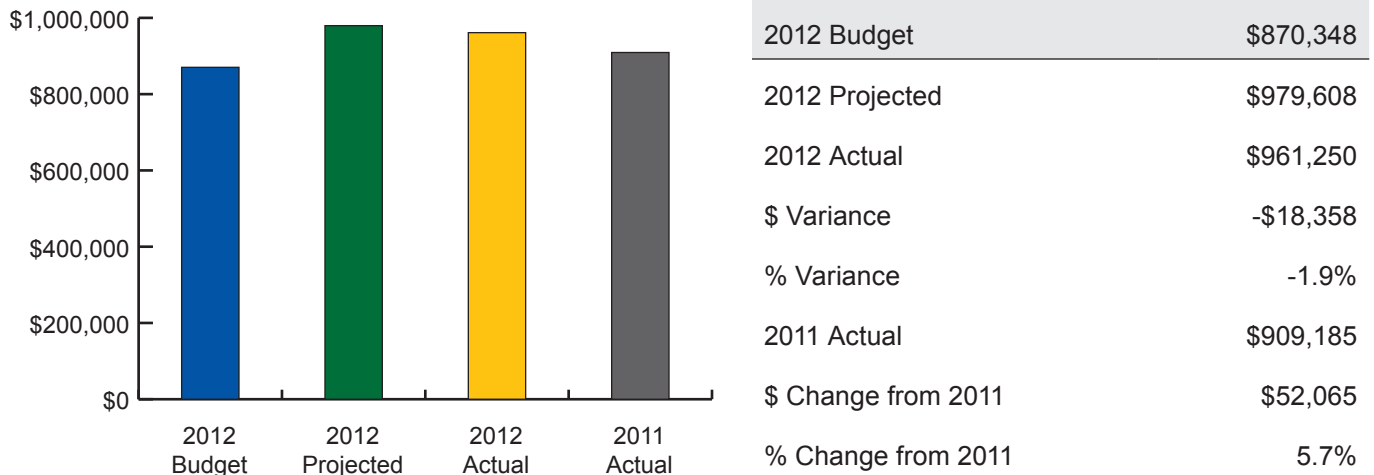


Local Criminal Justice Sales Tax receipts for 2012 total \$1,099,931, which is \$13,399, or 1.2%, less than the projection.

In contrast to the increase in Sales Tax receipts noted above, Local Criminal Justice Sales Tax receipts exhibited a year-over-year increase of 2.8%. The result for Local Criminal Justice Sales Tax receipts is not commensurate with the result for Sales Tax receipts because the distribution of Local Criminal Justice Sales Tax is based on the city's population and the amount of sales tax collected throughout all of King County. This may be an indication that sales tax activity has not fully recovered within King County due to the lingering effects of the recession; however, this marks the first year since 2007 that receipts have been higher than the prior year's receipts.

GENERAL FUND REVENUE ANALYSIS (continued):

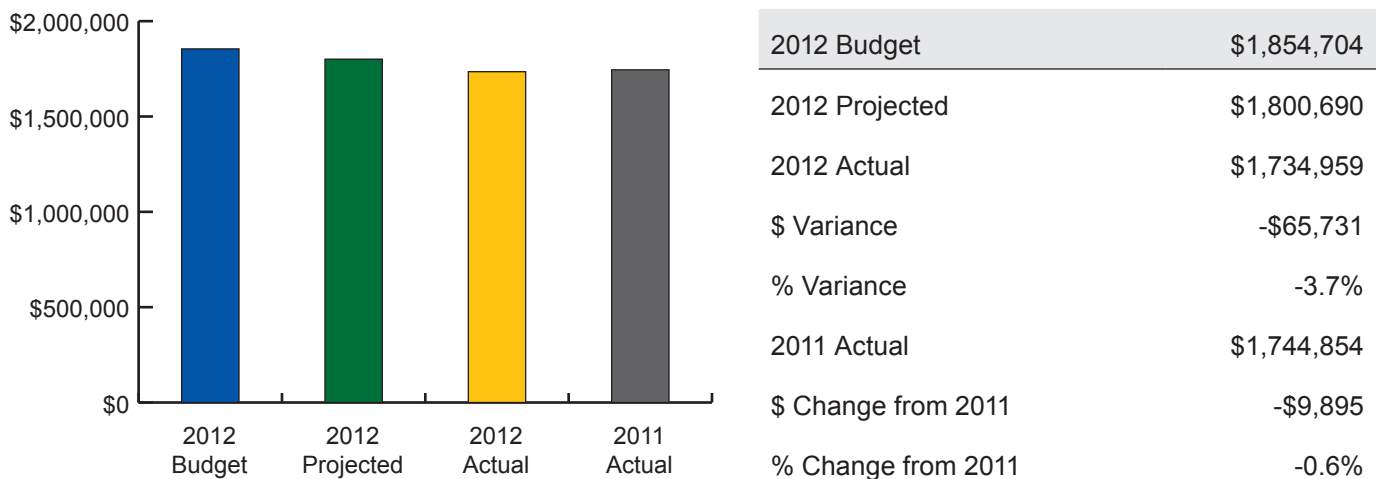
INTERGOVERNMENTAL REVENUE



Intergovernmental revenue sources are comprised primarily of funding for criminal justice programs, liquor excise tax, and liquor board profits. The year-end projection for Intergovernmental Revenue was increased from the current budget of \$870,348 to \$979,608 to include one-time revenues received related to the state's sale of its distribution center and auction of its liquor stores, as well as the loss of the October 2012 distribution of \$70,586 in liquor excise tax due to the passage of ESHB 2823.

Receipts for 2012 in this category, in the amount of \$961,250, are \$18,358, or 1.9%, less than the revised projection. This is mostly due to environmental grant awards from King County that will be received during 2013. The remainder of the grant awards will be included in the 2012 carryover budget amendment.

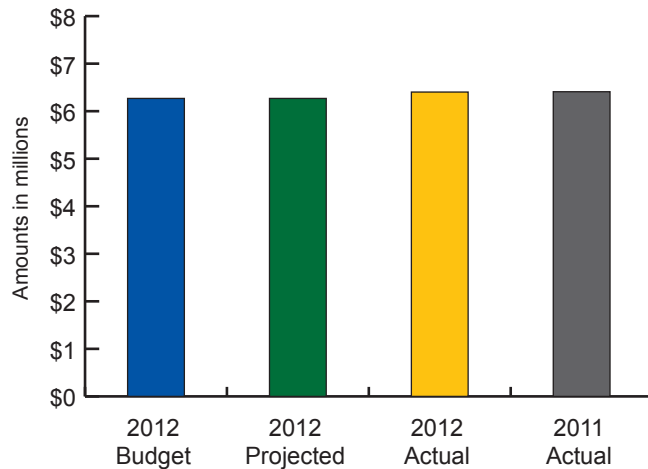
SEATTLE CITY LIGHT CONTRACT PAYMENT



The 2012 Adopted Budget projected \$1,854,704 in Seattle City Light (SCL) contract payments. The year-end estimate was revised to \$1,800,690 during the second quarter in light of lower-than-anticipated revenue received during the early months of 2012. The revised projection was based upon 2011 actual collections adjusted by SCL's 3.25% rate increase that was effective January 1, 2012. Receipts for 2012, in the amount of \$1,734,959, are \$65,731, or 3.7%, less than the lowered projection.

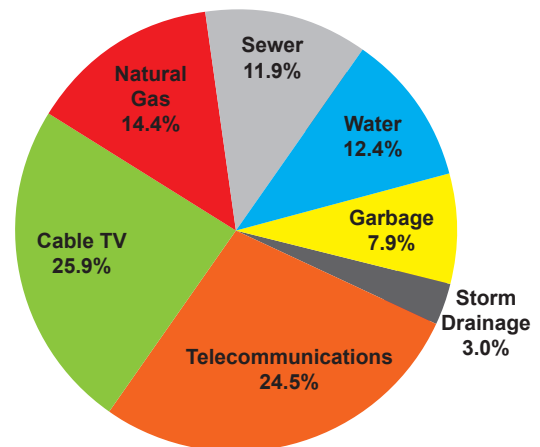
GENERAL FUND REVENUE ANALYSIS (continued):

UTILITY TAX AND FRANCHISE FEE



2012 Budget	\$6,268,255
2012 Projected	\$6,268,255
2012 Actual	\$6,402,371
\$ Variance	\$134,116
% Variance	2.1%
2011 Actual	\$6,409,302
\$ Change from 2011	-\$6,931
% Change from 2011	-0.1%

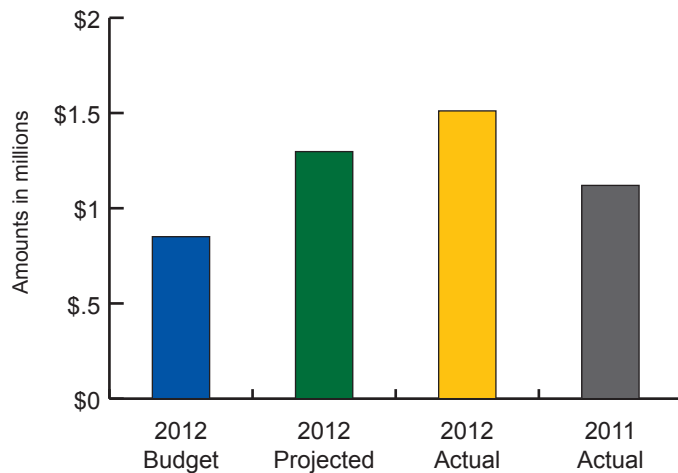
Overall Utility Tax and Franchise Fee receipts, in the amount of \$6,402,371, are \$134,116, or 2.1%, more than the projection and exhibit a year-over-year decrease of \$6,931, or 0.1%. Utility taxes from natural gas are \$25,917, or 2.7%, less than the projection and \$96,013, or 9.4%, below 2011 collections. There was no measurable rate reduction by Puget Sound Energy during 2012. Utility taxes from garbage and recycling are \$13,402, or 2.7%, above the projection and \$19,829, or 4.1%, above 2011 collections. CleanScapes increased rates by an average of 7% in March of 2012. Revenues from cable television are ahead of the projection by \$153,748, or 10.2%, and above 2011 collections by \$41,353, or 2.6%. Revenues from telecommunications continues to decline and is \$105,876, or 6.3%, behind the projection and down from 2011 collections by \$73,036, or 4.5%. Telephone activity has fallen each year since 2009, while revenue from cable has grown. Collections in the Water category are ahead of the projection by \$101,255, or 14.7%, and above 2011 collections by \$74,733, or 10.4%.



Revenue Source	2012 Budget	2012 Projected Revenue	2012 Actual Revenue	\$ Variance Actual v. Projected	% Variance Actual v. Projected	2011 Actual Revenue
Natural gas	950,000	950,000	924,083	-25,917	-2.7%	1,020,096
Garbage	489,250	489,250	502,652	13,402	2.7%	482,823
Cable TV	1,505,000	1,505,000	1,658,748	153,748	10.2%	1,617,395
Telecommunications	1,675,000	1,675,000	1,569,124	-105,876	-6.3%	1,642,160
Storm Drainage	195,775	195,775	192,509	-3,266	-1.7%	188,306
Water	690,000	690,000	791,255	101,255	14.7%	716,522
Sewer	763,230	763,230	764,000	770	0.1%	742,000
Utility Tax and Franchise Fee Revenue Subtotal	\$6,268,255	\$6,268,255	\$6,402,371	\$134,116	2.1%	\$6,409,302

GENERAL FUND REVENUE ANALYSIS (continued):

DEVELOPMENT REVENUE



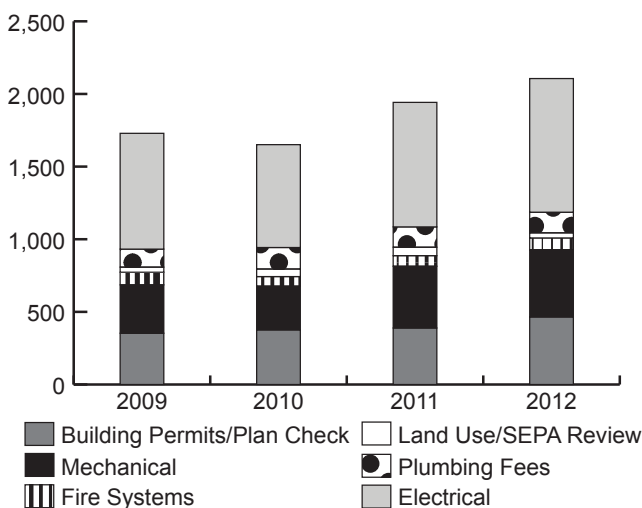
2012 Budget	\$850,600
2012 Projected	\$1,297,390
2012 Actual	\$1,511,141
\$ Variance	\$213,751
% Variance	16.5%
2011 Actual	\$1,119,873
\$ Change from 2011	\$391,268
% Change from 2011	34.9%

The projection for Development revenue receipts was increased from the current budget of \$850,600 to \$1,297,390. Receipts for 2012, in the amount of \$1,511,141, are \$213,751, or 16.5%, more than the revised projection and exhibit a year-over-year increase of \$391,268, or 34.9%.

The first half of 2011 realized a significant amount of Plan Check Fees as a result of the initiation of the two Shoreline School District high school construction projects. Building permits were pulled in the second half of 2011 and first half of 2012, with actual construction beginning in 2012. The first half of 2012 also realized Building Permit revenues for construction of the storm water facility for the North City Family Apartments. Removing development revenue receipts attributable to these projects from the calculation reveals a more relevant year-over-year increase of \$280,578, or 32.5%. In sum, overall permit activity is higher as compared to the same period in 2011 and the year-over-year revenue increase is the result of increases throughout the permit categories and an increased amount of investment in infrastructure by various utilities that requires Right of Way permits.

The 2011 Year End Financial Report highlighted how important the construction industry's return to pre-recession levels is to Shoreline's economic health. In 2011, the City received 36 new construction permits with a total value of \$70.9 million, of which the two permits for the high school projects accounted for \$62.6 million of the value. In 2012, the City received 47 new construction permits with a total value of \$85.9 million, of which one new permit for one of the high school projects accounted for \$39.7 million of the value and two permits for the North City Family Apartments accounted for \$26.9 million of the value. Removing the values for these projects from the calculation reveals a more relevant year-over-year increase of \$10.9 million in value.

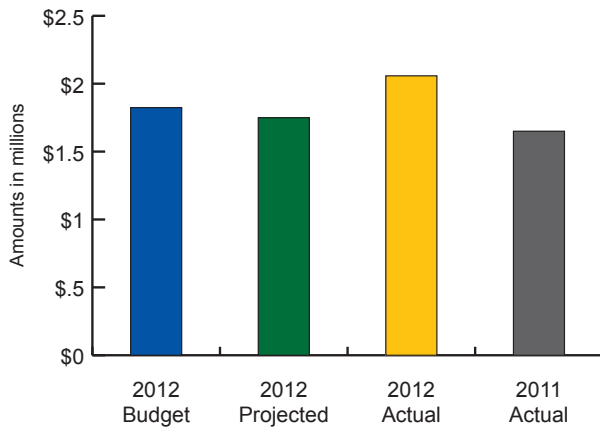
PERMITS BY TYPE January through December 2009–2012



PERMIT TYPE	2009	2010	2011	2012	# Variance 2012 v. 2011	% Variance 2012 v. 2011
Building Permits/ Plan Check	353	376	389	465	76	19.5%
Mechanical	333	301	425	463	38	8.9%
Fire Systems	87	66	73	81	8	11.0%
Land Use/ SEPA Review	35	52	58	35	-23	-39.7%
Plumbing	124	148	140	142	2	1.4%
Electrical	797	708	857	920	63	7.4%
Total	1,729	1,651	1,942	2,106	164	8.4%

GENERAL FUND REVENUE ANALYSIS (continued):

GAMBLING TAX REVENUE



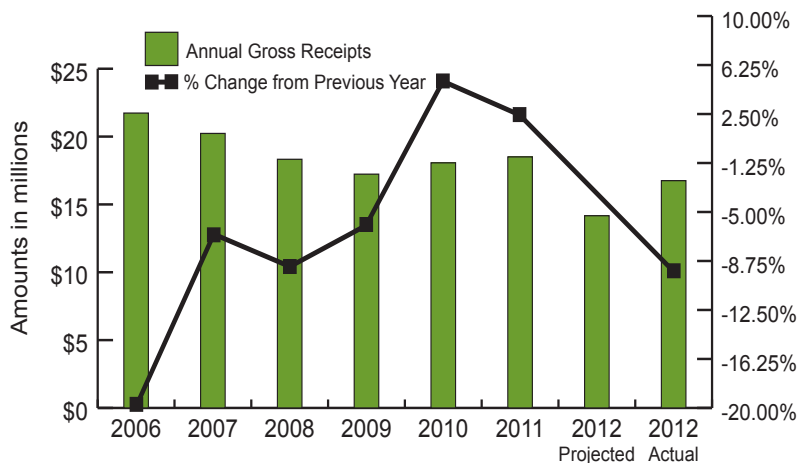
2012 Budget	\$1,823,771
2012 Projected	\$1,749,559
2012 Actual	\$2,057,956
\$ Variance	\$308,397
% Variance	17.6%
2011 Actual	\$1,649,911
\$ Change from 2011	\$408,045
% Change from 2011	24.7%

The projection for Gambling Tax receipts was decreased from the current budget of \$1,823,771 to \$1,749,559 due to projected losses of taxes and promissory note payments when Parker's Sports Bar & Casino ceased operations in mid-April 2012. Receipts for 2012 total \$2,057,956 and are \$308,397, or 17.6%, more than the revised projection and exhibit a year-over-year increase of \$408,045, or 24.7%.

Revenues collected from the remaining casinos more than offset the projected loss of revenues noted above. The majority of the variance is the result of timely payments of new promissory notes for Goldie's Shoreline Casino and Jersey's Great Food & Spirits, as well as higher-than-anticipated activity reported by Drift on Inn. Revenues for card rooms and pull-tabs each ended the year with a net gain of \$281,825 (17.5%) and \$26,508 (19.1%), respectively.

The chart below exhibits the last seven years of gross receipts reported by card rooms in Shoreline. Staff projected that the closure of Parker's Sports Bar & Casino would result in a projected loss of \$2.92 million of taxable card room gross receipts; however, it was anticipated that the remaining casinos would capture \$1.69 million of that activity. Actual taxable card room gross receipts exceeded the 2012 projection by \$2.59 million, but are \$1.75 million, or 9.5%, less than gross receipts reported for 2011.

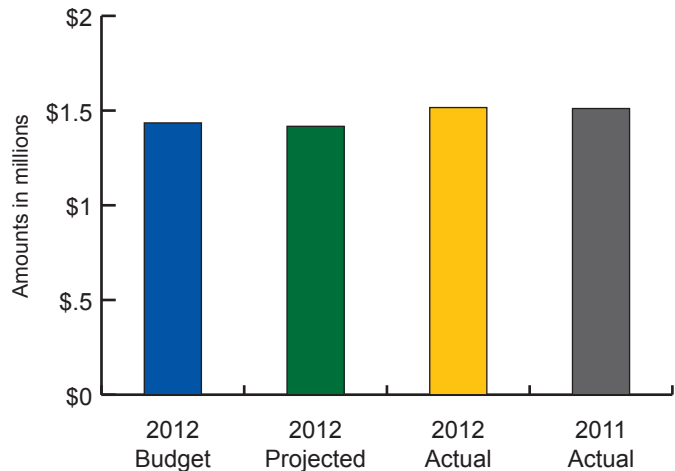
CARD ROOM RECEIPTS 2006-2012



Year	Annual Gross Receipts	% Change from Previous Year
2006	\$21,732,592	-19.6%
2007	\$20,232,133	-6.9%
2008	\$18,326,645	-9.4%
2009	\$17,230,142	-6.0%
2010	\$18,065,061	4.9%
2011	\$18,502,782	2.4%
2012 Projection	\$14,167,310	-9.5%
2012 Actual	\$16,751,880	-9.5%

GENERAL FUND REVENUE ANALYSIS (continued):

PARK AND RECREATION REVENUE



2012 Budget	\$1,434,927
2012 Projected	\$1,416,839
2012 Actual	\$1,515,943
\$ Variance	\$99,104
% Variance	7.0%
2011 Actual	\$1,510,801
\$ Change from 2011	\$5,142
% Change from 2011	0.3%

The projection for Park and Recreation revenue receipts was decreased from the current budget of \$1,434,927 to \$1,416,839 due to a lower level of participation than originally expected. Receipts for 2012, in the amount of \$1,515,943, are \$99,104, or 7.0%, more than the revised projection and exhibit a year-over-year increase of \$5,142, or 0.3%. The increase is mostly attributable to higher-than-anticipated participation in teen trips and class offerings for preschool, youth, and special recreation, as well as higher rentals of City Hall meeting rooms, picnic shelters, and the Spartan Gym than was anticipated.

RECREATION REVENUE BY PROGRAM

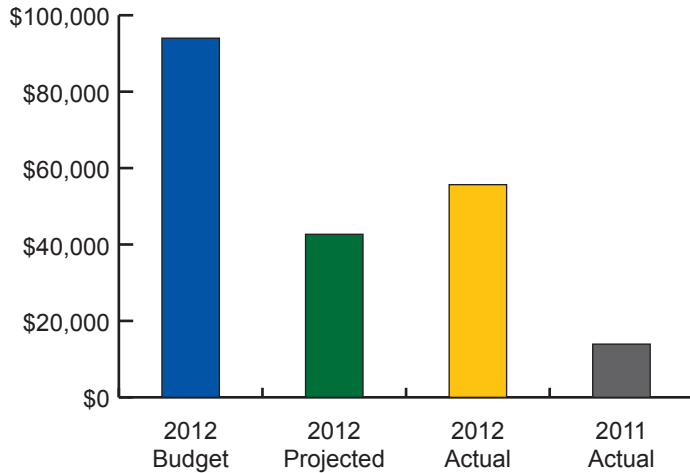
Annual Recreation Revenue by Program Area 2005-2012*

Year	General Recreation*	General Recreation % of Total	Pool	Pool % of Total	Facility Rentals	Facility Rentals % of Total	Total Revenue
2005	\$400,386	42.1%	\$351,507	36.9%	\$200,189	21.0%	\$952,082
2006	\$507,651	45.9%	\$358,487	32.4%	\$240,027	21.7%	\$1,106,165
2007	\$543,568	44.3%	\$361,540	29.4%	\$322,704	26.3%	\$1,227,812
2008	\$597,402	45.4%	\$383,260	29.1%	\$334,301	25.4%	\$1,314,963
2009	\$556,951	41.2%	\$372,035	27.5%	\$423,021	31.3%	\$1,352,007
2010	\$600,004	42.8%	\$380,502	27.2%	\$420,608	30.0%	\$1,401,114
2011	\$636,844	43.1%	\$388,307	26.3%	\$450,994	30.6%	\$1,476,145
2012	\$562,735*	39.6%	\$409,711	28.9%	\$446,884	31.5%	\$1,419,330*
\$ Variance 2012-2011	-\$74,109		21,404		-\$4,110		-\$56,815
% Variance 2012-2011	-11.6%		5.5%		-0.9%		-3.8%

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

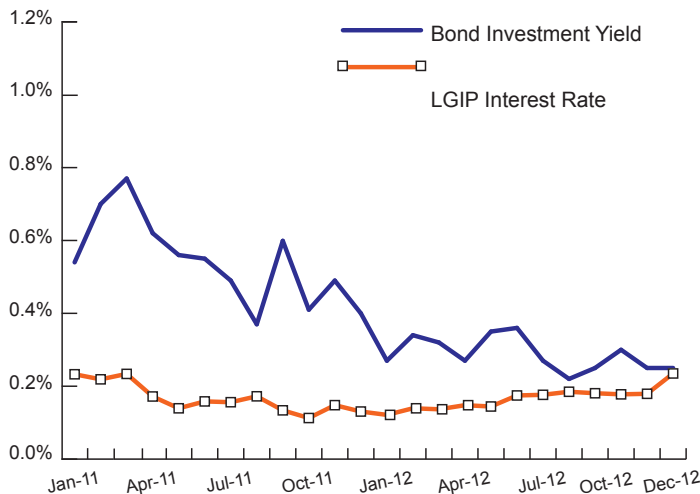
GENERAL FUND REVENUE ANALYSIS (continued):

INVESTMENT REVENUE



2012 Budget	\$94,000
2012 Projected	\$42,671
2012 Actual	\$55,656
\$ Variance	\$12,985
% Variance	30.4%
2011 Actual	\$41,730
\$ Change from 2011	\$13,926
% Change from 2011	33.4%

Projected revenue in this category was reduced from the 2012 budget of \$94,000 to \$42,671 based on the continued decline in interest rates. Investment earnings for 2012 totaled \$55,656, which is above the revised projection by \$12,985, or 30.4%. Revenues are \$13,926, or 33.4%, more than those collected in 2011.



Month	LGIP Interest Rate*	Bond Investment Yield
1/31/11	0.2328%	0.5400%
2/28/11	0.2189%	0.7000%
3/31/11	0.2338%	0.7700%
4/30/11	0.1718%	0.6200%
5/31/11	0.1394%	0.5600%
6/30/11	0.1583%	0.5500%
7/31/11	0.1561%	0.4900%
8/31/11	0.1723%	0.3700%
9/30/11	0.1338%	0.5990%
10/31/11	0.1127%	0.4100%
11/30/11	0.1480%	0.4900%
12/31/11	0.1305%	0.4000%
1/31/12	0.1213%	0.2700%
2/28/12	0.1394%	0.3400%
3/31/12	0.1367%	0.3200%
4/30/12	0.1479%	0.2700%
5/31/12	0.1443%	0.3500%
6/30/12	0.1746%	0.3600%
7/31/12	0.1764%	0.2700%
8/31/12	0.1848%	0.2200%
9/30/12	0.1807%	0.2500%
10/31/12	0.1777%	0.3000%
11/30/12	0.1792%	0.2500%
12/31/12	0.2350%	0.2500%
Average	0.1669%	0.4145%

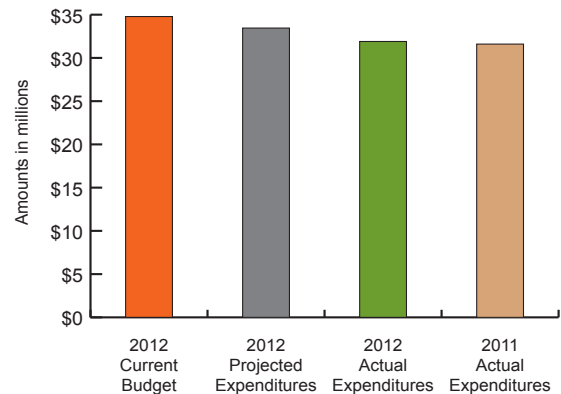
*Local Government Investment Pool

EXPENDITURE ANALYSIS

GENERAL FUND EXPENDITURES

General Fund departmental expenditures for 2012, in the amount of \$29,019,669, are \$1,044,559, or 3.5%, less than projected expenditures of \$30,064,228. Many of the departments are again spending below the projection as each continues to look for efficiencies and holds the line on spending. The larger expenditure variances are as follows:

- The City Attorney's Office has realized savings in the amount allocated to backfill for an employee's extended leave.
- Community Services' expenditures are below the projection by \$72,267, or 4.6%, largely due to the timing of \$35,720 in expenditures allowable under the Emergency Management Program Grant (EMPG) that will be carried over to 2013.
- Administrative Services' expenditures are 9.0% below the projection. Expenditures pertaining to the purchase of the Asset Management Software (\$140,000), as well as related maintenance costs (\$40,000) were not incurred in 2012. The timing of the upgrade of the financial system has also been pushed back and will occur in 2013. The Budget/Financial Plan and Purchasing divisions have realized savings due to position vacancies.
- Expenditures in the Citywide category are \$87,754, or 9.6%, above the projection due to a large settlement of \$100,000 paid out in 2012.
- Within the Criminal Justice budget, expenditures reflect the timely receipt and payment of invoices for jail services and the City's primary Public Defender contract. While Housing Days activity and costs increased 37.0% and 34.5%, respectively as compared to 2011, nearly all of the activity has shifted to the cheaper alternative (Snohomish County). Overall, expenditures ended the year \$63,170 under the projection.
- Parks, Recreation and Cultural Services expenditures are 4.1% below the projection. The department experienced savings in electricity usage in Parks Operations; natural gas usage at the Shoreline Pool; professional services contracts for instructors in Recreation and for the landscaping contract in Parks Operations; and salary and benefit savings due to staff vacancies and hiring of less extra help in Parks Operations and Recreation.
- Planning and Community Development's expenditures are 7.5% below the projection. This variance is largely attributable to salary and benefit savings resulting from vacancies due to internal promotions and restructuring of the department, as well as savings in professional services contracts and travel and training.
- Public Works' expenditures are 10.8% below the projection. Environmental Services' work on the Climate Action Plan continues and unspent funds will be carried over to 2013. Facilities is realizing savings in electricity costs, due to the efficiency of City Hall and having received a renewable energy credit. Maintenance costs are lower because more repairs have been performed in-house as a result of hiring an additional full-time Facilities Maintenance Worker. Traffic Services realized savings due to a position vacancy.



Transfers from the General Fund to other funds are less than the projection. Transfers to the Roads Capital Fund due to higher-than-anticipated Gambling Tax receipts were offset by reduced transfers to the Debt Service Fund. Debt Service received higher-than-anticipated Real Estate Excise Tax revenues. Finally, monies slated to be transferred to the Roads Capital Fund for sidewalks will be carried over to 2013 as the project continues. General Fund expenditures by departments, including transfers out, of \$31,901,588 are below the projection by \$1,552,850, or 4.6%.

Department	2012 Current Budget	2012 Projected Expenditures	2012 Actual Expenditures	\$ Variance Actual v. Projected	% Variance Actual v. Projected	2011Q4 Actual Expenditures
City Council	\$183,420	\$183,249	\$186,775	\$3,526	1.9%	\$166,858
City Manager's Office ¹	\$1,471,263	\$1,427,631	\$1,433,137	\$5,506	0.4%	\$1,347,074
City Attorney	\$612,744	\$607,396	\$564,419	-\$42,977	-7.1%	\$577,306
Community Services ²	\$1,583,155	\$1,575,143	\$1,502,876	-\$72,267	-4.6%	\$1,488,925
Administrative Services ³	\$3,336,816	\$3,260,446	\$2,967,158	-\$293,288	-9.0%	\$2,911,732
Citywide	\$1,726,896	\$918,167	\$1,005,921	\$87,754	9.6%	\$878,483
Human Resources	\$406,847	\$404,025	\$397,277	-\$6,748	-1.7%	\$401,556
Police	\$10,506,781	\$10,159,339	\$10,120,176	-\$39,163	-0.4%	\$9,992,045
Criminal Justice	\$2,095,224	\$2,170,018	\$2,106,848	-\$63,170	-2.9%	\$1,781,965
Parks, Recreation and Cultural Services	\$4,719,460	\$4,662,464	\$4,469,172	-\$193,292	-4.1%	\$4,292,300
Planning and Community Development	\$2,353,319	\$2,334,598	\$2,159,220	-\$175,378	-7.5%	\$2,629,847
Public Works	\$2,398,568	\$2,361,752	\$2,106,691	-\$255,061	-10.8%	\$1,471,750
Department Expenditures	\$31,394,493	\$30,064,228	\$29,019,669	-\$1,044,559	-3.5%	\$27,939,842
Operating Transfers Out	\$3,390,210	\$3,390,210	\$2,881,919	-\$508,291	-15.0%	\$3,660,010
Total Expenditures	\$34,784,703	\$33,454,438	\$31,901,588	-\$1,552,850	-4.6%	\$31,599,852
2012 Actual + Carryovers			\$32,433,580	-\$1,020,858	-3.1%	

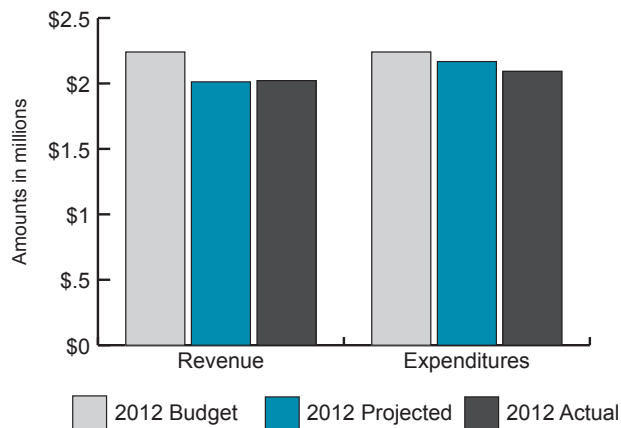
¹ City Manager's Office includes Economic Development, Communications and Intergovernmental Relations.

² Community Services includes Emergency Management Planning, Neighborhoods, Human Services and the Customer Response Team.

³ Administrative Services includes Finance, Purchasing, Information Systems and City Clerk.

OTHER FUNDS REVENUE ANALYSIS:

STREET FUND



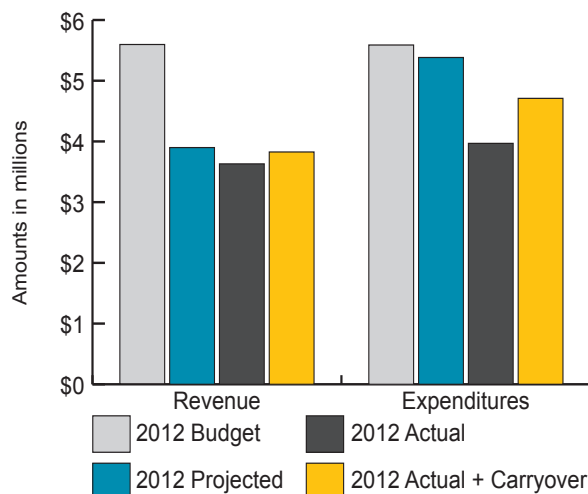
Street Fund

	Revenue	Expenditures
2012 Budget	\$2,240,455	\$2,240,455
2012 Projected	\$2,012,286	\$2,167,343
2012 Actual	\$2,021,512	\$2,093,119
\$ Variance	\$9,226	-\$74,224
% Variance	0.5%	-3.4%

Revenue for 2012 totaled \$2,021,512, which was \$9,226, or 0.5%, above projections. The City received reimbursements from the Federal Emergency Management Agency (FEMA) and the state for expenses incurred during the January snow and ice event which were not included in the original budget.

Expenditures in 2012 totaled \$2,093,119, which were below projections by \$74,224, or 3.4%. The majority of the savings was in operating supplies and materials and the cost of right of way maintenance.

SURFACE WATER UTILITY FUND



Surface Water Utility Fund

	Revenue	Expenditures
2012 Budget	\$5,588,153	\$5,588,153
2012 Projected	\$3,898,830	\$5,382,517
2012 Actual	\$3,630,437	\$3,968,189
\$ Variance	-\$268,393	-\$1,414,328
% Variance	-6.9%	-26.3%
2012 Actual + Carryover	\$3,826,309	\$4,709,344

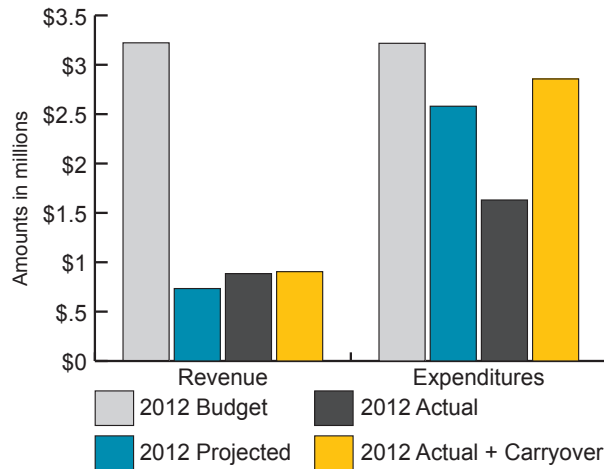
The Surface Water Utility Fund (SWM) includes both on-going operational programs and capital projects and both are reflected in the total expenditures and revenues.

In 2012, actual revenues were \$3,630,437, which was \$268,393, or 6.9%, lower than projections. Most of the revenue variance is due to capital project grant revenue not being received. Project work will continue into 2013 and the revenue is recognized as expenditures are incurred. This fund is requesting to carryover \$195,872 in grant revenue in support of capital projects. SWM ongoing operating revenues include storm drainage fees and investment interest earnings. In 2012 storm water drainage fees totaled \$3,211,007 and finished the year just \$935, or 0.03%, above projections. Investment interest earnings totaled \$10,769 and finished \$4,921, or 31.4%, below projections.

Expenditures of \$3,968,189 finished the year \$1,414,328, or 26.3%, below projections. The majority of this variance is from capital projects. The operational side of the SWM fund finished the year \$229,257, or 10.3%, under projections due to salary and benefit savings of \$76,118 due to staff vacancies; savings in repair and maintenance costs on the City's surface water infrastructure; and, additional savings in contract costs associated with general maintenance. This fund is requesting to carryover \$76,058 to complete operational projects and \$665,097 to continue work on capital projects.

OTHER FUNDS REVENUE ANALYSIS (continued):

GENERAL CAPITAL FUND

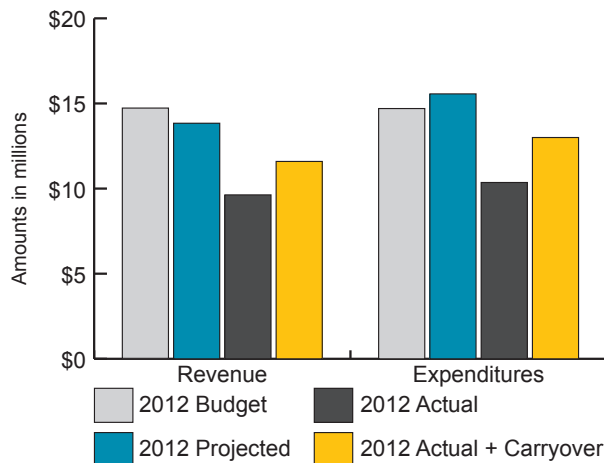


General Capital Fund

	Revenue	Expenditures
2012 Budget	\$3,217,531	\$3,217,531
2012 Projected	\$733,686	\$2,580,284
2012 Actual	\$884,711	\$1,630,553
\$ Variance	\$151,025	-\$949,731
% Variance	20.6%	-36.8%
2012 Actual + Carryover	\$904,711	\$2,856,423

Revenues for this fund totaled \$884,711, which was \$151,025, or 20.6%, above projections mainly as a result of the Real Estate Excise Tax (REET) totaling \$651,141, which was \$168,522, or 34.9%, above projections. Expenditures during 2012 totaled \$1,630,553, which was \$949,731, or 36.8%, below projected expenditures. While the variance between revenues and expenditures totals \$745,842, the Adopted Budget included the use of \$2.0 million of fund balance. As you can see only \$745,000 of this amount was needed. However, most of the remaining amount will be part of the 2013 carryover request to complete important projects that were not complete at the end of 2012.

ROADS CAPITAL FUND



Roads Capital Fund

	Revenue	Expenditures
2012 Budget	\$14,701,352	\$14,701,352
2012 Projected	\$13,838,452	\$15,562,900
2012 Actual	\$9,630,183	\$10,357,531
\$ Variance	-\$4,208,269	-\$5,205,369
% Variance	-30.4%	-33.4%
2012 Actual + Carryover	\$11,594,061	\$12,999,522

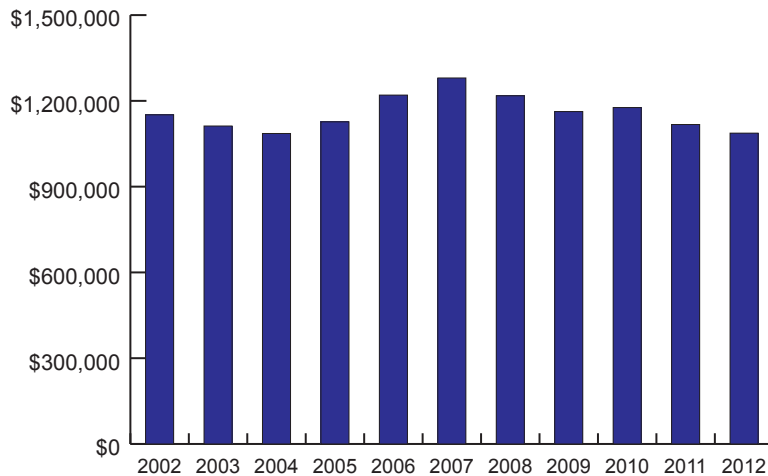
Revenues of \$9,630,183 finished the year \$4,208,269, or 30.4%, below projections. The two on-going revenue sources are highlighted below:

- Real Estate Excise Tax (REET) collections of \$651,141 were \$168,522, or 34.9%, above projections.
- Investment earnings totaled \$5,186 and finished the year \$186, or 3.7%, above projections.

Expenditures of \$10,357,531 finished the year \$5,205,369, or 33.4%, below projections. Most of the variance for revenues and expenditures is due to capital project grant revenue not being received. Project work for the Aurora Corridor is being carried over into 2013 to align with the updated construction schedule and the revenue will be recognized as expenditures are incurred.

NON-GENERAL FUND REVENUE ANALYSIS:

STREET FUND FUEL TAX

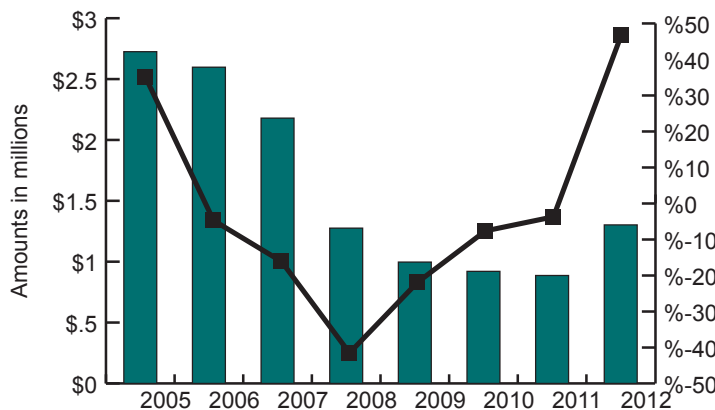


Fuel Tax: Historical Annual Comparison - Street Fund

2002	\$1,151,156
2003	\$1,112,083
2004	\$1,085,914
2005	\$1,126,668
2006	\$1,220,213
2007	\$1,280,096
2008	\$1,217,850
2009	\$1,162,565
2010	\$1,176,559
2011	\$1,117,297
2012	\$1,087,126

Fuel tax revenue for 2012 in the Street Fund totaled \$1,087,126, which was \$282, or 0.03%, below projected revenue. This level is down from 2011 by \$30,171, or 2.7%. This tax is assessed on a per gallon basis and is dependent upon consumption. As prices rise and people reduce their consumption, the amount of tax received declines.

REAL ESTATE EXCISE TAX (REET)



REET: Annual Collected 2005-2012

	Revenue	% Change from Previous Year
2005	\$2,725,162	35.1%
2006	\$2,597,703	-4.7%
2007	\$2,179,332	-16.1%
2008	\$1,275,597	-41.5%
2009	\$996,805	-21.9%
2010	\$920,596	-7.6%
2011	\$886,555	-3.7%
2012	\$1,302,282	46.9%

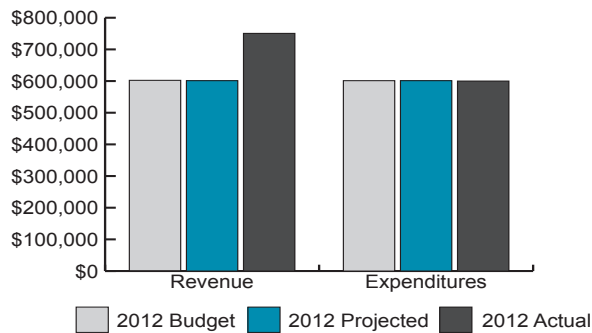
Earlier in the year, the 2012 projections for REET were lowered from \$1,018,588 to \$965,238 based on early receipts. Revenue collections for 2012 totaling \$1,302,282 exceeded the revised projection by \$337,044, or 34.9%, and are also \$415,727, or 46.9%, more than receipts for the same period in 2011. By the end of 2012, the total number of real estate sales transactions was 699, which is up from 501 in 2011 and 521 in 2010. Transactions for a January through December period have not exceeded 600 since 2008, which totaled 610. The sales value of the transactions in 2012 totaled \$264.7 million, which is up from \$177.1 million in 2011 and \$184.1 million in 2010. The total sales value for a January through December period has not exceeded \$200.0 million since 2008, which totaled \$255.1 million.

Real Estate Excise Tax 2012

2012 Budget	\$1,018,588
2012 Projected	\$965,238
2012 Actual	\$1,302,282
\$ Variance	\$337,044
% Variance	34.9%

OTHER FUNDS REVENUE ANALYSIS (continued):

TRANSPORTATION BENEFIT DISTRICT



Transportation Benefit District

	<i>Revenue</i>	<i>Expenditures</i>
2012 Budget	\$601,200	\$601,200
2012 Projected	\$601,200	\$601,200
2012 Actual	\$750,609	\$600,000
\$ Variance	\$149,409	-\$1,200
% Variance	24.9%	-0.2%

The Transportation Benefit District (TBD) was created in 2009 and began operation in 2010. The TBD generates revenue via a \$20 per vehicle fee for registered vehicles in Shoreline. The revenue is transferred to the Roads Capital Fund and is used to help fund the annual road surface maintenance program. This fund will also generate a small amount of interest revenue. The expenditures in the TBD include a transfer to the Roads Capital Fund and an annual insurance payment.

The 2012 revenue for the TBD was \$750,609 which is \$149,409 or 24.9% above projected revenue of \$601,200. During 2012, vehicle license fees totaled \$750,431, down slightly from 2011 collections of \$761,398.

On the expenditure side \$595,000 was transferred to the Roads Capital fund and the annual insurance payment of \$5,000 was made as planned.

Fourth Quarter INVESTMENT REPORT December 31, 2012:

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, 2012, the City's investment portfolio, excluding the State Investment Pool, had a weighted average rate of return of 0.5810%. This is better than the State Investment Pool twelve month average of 0.2350%. Total investment interest earnings through December were \$90,906, which is about 48% of total budgeted 2012 investment earnings of \$190,260. As noted earlier in the report, we lowered projected investment earnings in all of the City's funds to \$75,695. Earnings were much better than the revised projection, but still much lower than originally budgeted.

During 2007 investment interest rates began to decline. The average yield on two year government agency bonds was 5.34% in January 2007. At the end of 2008 this rate was down to 1.1% and by the end of 2009 the rate was 1.07%. This decline continued during 2010 as at the end of December the rate was only 0.651%. The rate at the end of December 2011 was 0.40% and continued to fall to 0.25% at the end of December 2012.

As of December 2012, the City's investment portfolio had a fair value of nearly \$27,824,740. Approximately 7% of the investment portfolio was held in U.S. government instrumentality securities, and 93% was held in the Washington State Investment Pool. The City's investment portfolio valued at cost as of December 31, 2012, was 27,819,938. 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 June 2012 is yielding 0.581% and will not mature until 6/18/2015. This rate of return is projected to be above the average projected 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. Two investments valued at over \$4 million were called during the fourth quarter of 2012. Normally, we would reinvest those funds into another long term investment, but because negotiations were underway with King County to purchase the Brugger's Bog Maintenance Facility, we decided to move the funds into the state investment pool in order to have cash available for the property purchase until another funding source was secured. We intend to resume our normal investment approach in 2013.

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), Federal Home Loan Mortgage Corporation (FHLMC – Freddie Mac), or Federal Farm Credit Banks (FFCB), 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. This instrument has been purchased from Federal Farm Credit Banks.

INVESTMENT REPORT (continued):

LGIP Cash and Investment Balances December 31, 2012

<u>Instrument Type</u>	<u>CUSPID #</u>	<u>Broker</u>	<u>Settlement Date</u>	<u>Maturity Date</u>	<u>Par Value</u>	<u>Investment Cost</u>	<u>Yield To Maturity</u>	<u>Unrecognized Gain/(Loss)</u>	<u>Market Value 12/31/12</u>
FFCB 0.56	3133EAK2	ProEquities	06/21/12	06/18/15	2,000,000	1,998,750	0.5810%	4,802	2,003,552
Sub Total - Investments					2,000,000	1,998,750		4,802	2,003,552
State Investment Pool						25,821,188	0.2350%		25,821,188
Sub Total						\$27,819,938		\$4,802	\$27,824,740

Current Average Maturity Excluding the State Investment Pool (days)	899
Current Weighted Average Yield to Maturity Excluding the State Pool	0.5810%
Current Yield to Maturity State Investment Pool	0.2350%
Basis Points in Excess (Below) Benchmark	35

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>
FFCB	7%	2,003,552	1,998,750	ProEquities	7%	1,998,750
State Investment Pool	93%	25,821,188	25,821,188	State Investment Pool	93%	25,821,188
Total LGIP + Investments	100%	27,824,740	27,819,938	Total Investments	100%	27,819,938

<u>Investments by Fund</u>	<u>Investments at Cost as of 12/31/2012</u>	<u>LGIP State Investment Pool as of 12/31/2012</u>	<u>Total LGIP + Investments at Cost by Fund as of 12/31/2012</u>	<u>Unrecognized Gain/(Loss) as of 12/31/2012</u>	<u>Total Market Value of Investments by Fund as of 12/31/2012</u>	<u>Investment Earnings Budget 2012</u>	<u>Investment Earnings Actual 2012</u>	<u>Over/(Under) Budget</u>
001 General	998,750	9,274,958	10,273,708	3,000	10,276,708	90,500	51,594	-38,906
101 Street	250,000	592,067	842,067	601	842,668	10,000	2,655	-7,345
107 Code Abatement	0	156,768	156,768	0	156,768	550	320	-230
108 Asset Seizure	0	75,180	75,180	0	75,180	0	74	74
109 Public Arts	0	251,970	251,970	0	251,970	1,050	535	-515
112 Fed Drug Enforcement	0	38,012	38,012	0	38,012	50	63	13
114 Transportation Benefit Dist.	0	303,096	303,096	0	303,096	60	179	119
115 Property Tax Equalization	0	1,155,225	1,155,225	0	1,155,225	0	1,747	1,747
116 Fed Crim Forfeit	0	558,419	558,419	0	558,419	0	1,149	1,149
190 Revenue Stabilization	250,000	870,110	1,120,110	0	1,120,110	0	0	0
301 General Capital	0	2,826,049	2,826,049	0	2,826,049	21,978	5,953	-16,025
312 City Fac-Mjr Maint	0	277,317	277,317	0	277,317	825	327	-498
330 Roads Capital	0	4,314,498	4,314,498	0	4,314,498	23,404	5,185	-18,219
401 Surface Water Utility Fund	0	3,764,626	3,764,626	0	3,764,626	29,693	10,768	-18,925
501 Vehicle Oper/Maint	0	82,677	82,677	0	82,677	250	233	-17
503 Equip Dep Replace	500,000	1,235,221	1,735,221	1,201	1,736,423	11,850	10,075	-1,775
505 Unemployment	0	44,996	44,996	0	44,996	50	49	-1
Total Investments	\$1,998,750	\$25,821,188	\$27,819,938	\$4,802	\$27,824,740	\$190,260	\$90,906	-\$99,354

Real Estate Excise Tax (REET) – Further Analysis

First and Second Quarter:

The number of Real Estate Excise Tax (REET) transactions through the first four months of 2012 presented a promising picture of the REET revenue that could have been collected except the value of the transactions was less than anticipated. By April, there were 38 more transactions as compared to the same period in 2011, but the value of the sales was lower by nearly \$600,000. REET revenue collections totaling \$249,956 were \$39,582 or 13.7%, below the Adopted Budget's projection for this period.

A closer look at 97 transactions for single-family homes that occurred between January and April revealed that there were 24 single-family homes that could be considered distressed, which means that a foreclosure was noted in the King County Real Property database. Since some homes were previously sold more than 15 years ago, staff analyzed the prices of 70 homes, 19 of which were distressed, that had repeat sales since 2000 to see if the presence of distressed home sales in the market may be affecting prices of non-distressed homes. In fact, many distressed homes sold for a significant amount less than the sale price prior to the foreclosure action, but the overall average price change for all single-family residences through this period was flat at 0.01%. It appeared that the presence of distressed homes in the market may have somewhat affected home prices overall or at least kept many sellers on the sidelines. The result of the analysis of the transactions through April resulted in a reduction of the year-end projection from \$1,018,588 to \$965,238.

It appeared that revenue collections could be back on track to meet the Adopted Budget's year-end projection as the result of two residential and five commercial transactions that occurred in May and June, including the sale of the old YMCA site (future site of North City Family Apartments) and the mobile home park located at 152nd Street (future site of a proposed multifamily development). Through the second quarter there were 12 \$1.0 million+ transactions (four residential and eight commercial) that accounted for \$23.4 million, or 8.9%, of the sales value for the year. Revenue collections for this period totaling \$551,562 were above the Adopted Budget's projection for this period by \$56,613, or 11.4%, as well as the revised projection by \$82,537 or 17.6%.

Third Quarter:

At the beginning of the third quarter it became more evident that collections could exceed the Adopted Budget's projection as the result of three \$1.0 million+ residential sales in July. Revenue collections were exceeding the Adopted Budget's projection through July by 9.2%, as well as the revised projection by 15.2%. With one other \$1.0 million+ residential sale in September, there were 16 \$1.0 million+ transactions (eight residential and eight commercial) that occurred in the first three quarters which account for \$28.0 million, or 10.6%, of the sales value for the year. Revenue collections through September totaling \$837,760 were above the Adopted Budget's projection by \$48,766, or 6.2%, as well as the revised projection by \$90,091, or 12.0%.

Fourth Quarter:

The greatest impacts to revenue collections came from the transactions that occurred during the fourth quarter of 2012. Revenue collections were exceeding the Adopted Budget's projection through October by 19.5% due to one \$16.0 million commercial transaction (the sale of the Haggen parking lot). The ten \$1.0 million+ transactions (six residential and four commercial) that occurred in the fourth quarter account for \$39.1 million, or 14.8%, of the sales value for the whole year. Revenue collections for 2012 totaling \$1,302,282 were above the Adopted Budget's projection by \$283,694 or 27.9%, as well as the revised projection by \$337,044, or 34.9%. This higher-than-anticipated amount of collections will allow the REET collected by the General Capital Fund to cover more of the City Hall debt service payments, thus reducing the requirement for additional support from the General Fund. In the Roads Capital Fund this will allow the fund to rebuild some of the fund balance used over the past few years as REET collections fell.

By the end of 2012, the total number of real estate sales transactions was 699, which is up from 501 in 2011 and 521 in 2010. Transactions for a January through December period have not exceeded 600 since 2008, which totaled 610. The sales value of the transactions in 2012 totaled \$264.7 million, which is up from \$177.1 million in 2011 and \$184.1 million in 2010. The total sales value for a January through December period has not exceeded \$200.0 million since 2008, which totaled \$255.1 million.

In 2012, there was a total of 26 \$1.0 million+ transactions (14 residential and 12 commercial) that account for \$67.1 million, or 25.4%, of the sales value for the whole year. In 2011, there was a total of 23 \$1.0 million+ transactions (15 residential and eight commercial) that accounted for \$38.6 million, or 21.8%, of the sales value. As compared to 2011, 2012 ended with a total of 198 more real estate transactions and a total value that is \$87.6 million, or 49.5%, more. Of the 198 transactions, three were \$1.0 million+ transactions with a value that was \$28.5 million, or 73.8%, higher and the value of the remainder was \$59.1 million, or 42.7%, higher.

Real Estate Excise Tax (REET) – Further Analysis (cont.)

Real Estate Excise Tax (REET) Activity

January through December 2012 (Running Totals)

2012 Adopted Budget \$1,018,588**2012 Projected Revenue \$965,237**

Month	2012 Actual	2012 Budget Projection	\$ Variance Actual v. Budget	% Variance Actual v. Budget	2012 Revised Projection	\$ Variance Actual v. Revised	% Variance Actual v. Revised
January	\$26,620	\$53,158	-\$26,538	-49.9%	\$50,373	-\$23,753	-47.2%
February	\$86,464	\$118,724	-\$32,260	-27.2%	\$112,506	-\$26,042	-23.1%
March	\$166,938	\$202,350	-\$35,412	-17.5%	\$191,752	-\$24,814	-12.9%
April	\$249,956	\$289,538	-\$39,582	-13.7%	\$274,373	-\$24,417	-8.9%
May	\$423,750	\$383,584	\$40,166	10.5%	\$363,493	\$60,257	16.6%
June	\$551,562	\$494,949	\$56,613	11.4%	\$469,025	\$82,537	17.6%
July	\$654,676	\$599,676	\$55,000	9.2%	\$568,267	\$86,409	15.2%
August	\$760,664	\$701,380	\$59,284	8.5%	\$664,644	\$96,020	14.4%
September	\$837,760	\$788,994	\$48,766	6.2%	\$747,669	\$90,091	12.0%
October	\$1,042,452	\$872,082	\$170,370	19.5%	\$826,405	\$216,047	26.1%
November	\$1,154,090	\$939,425	\$214,665	22.9%	\$890,221	\$263,869	29.6%
December	\$1,302,282	\$1,018,588	\$283,694	27.9%	\$965,238	\$337,044	34.9%

Real Estate Excise Tax (REET) Sales (\$ in millions)

Month	2012		2011		2012 v. 2011		
	No. of Sales	Sales Value	No. of Sales	Sales Value	No. of Sales	\$ Var.	% Var.
January	21	\$5.5	28	\$10.0	-7	-\$4.5	-45.0%
February	44	\$12.1	24	\$8.7	20	\$3.4	39.1%
March	52	\$16.2	44	\$20.2	8	-\$4.0	-19.8%
Jan. - Mar.	117	\$33.8	96	\$38.9	21	-\$5.1	-13.1%
April	55	\$17.4	38	\$12.9	17	\$4.5	34.9%
May	82	\$35.0	48	\$18.3	34	\$16.7	91.3%
June	72	\$25.8	51	\$16.6	21	\$9.2	55.4%
Jan. - June	326	\$112.0	233	\$86.7	93	\$25.3	29.2%
July	61	\$21.3	43	\$16.5	18	\$4.8	29.1%
August	71	\$21.8	59	\$22.3	12	-\$0.5	-2.2%
September	52	\$15.7	43	\$14.2	9	\$1.5	10.6%
Jan. - Sept.	510	\$170.8	378	\$139.7	132	\$31.1	22.3%
October	71	\$41.4	47	\$12.8	24	\$28.6	223.4%
November	56	\$22.3	37	\$12.0	19	\$10.3	85.8%
December	62	\$30.2	39	\$12.6	23	\$17.6	139.7%
Jan. - Dec.	699	\$264.7	501	\$177.1	198	\$87.6	49.5%

Real Estate Excise Tax (REET) Sales > \$1 Million (\$ in millions)

Month	2012		2011		2012 v. 2011		
	No. of Sales	Sales Value	No. of Sales	Sales Value	No. of Sales	\$ Var.	% Var.
January	0	\$0.0	1	\$1.4	-1	-\$1.4	-100.0%
February	1	\$1.4	1	\$1.6	0	-\$0.2	-12.5%
March	2	\$2.9	5	\$8.6	-3	-\$5.7	-66.3%
Jan. - Mar.	3	\$4.3	7	\$11.6	-4	-\$7.3	-62.9%
April	2	\$4.0	1	\$3.6	1	\$0.4	11.1%
May	5	\$11.2	3	\$3.4	2	\$7.8	229.4%
June	2	\$3.9	2	\$2.8	0	\$1.1	39.3%
Jan. - June	12	\$23.4	13	\$21.4	-1	\$2.0	9.3%
July	3	\$3.5	2	\$4.6	1	-\$1.1	-23.9%
August	0	\$0.0	5	\$5.8	-5	-\$5.8	-100.0%
September	1	\$1.1	1	\$2.2	0	-\$1.1	-50.0%
Jan. - Sept.	16	\$28.0	21	\$34.0	-5	-\$6.0	-17.6%
October	2	\$20.1	0	\$0.0	2	\$20.1	0.0%
November	4	\$6.5	1	\$1.6	3	\$4.9	306.3%
December	4	\$12.5	1	\$3.0	3	\$9.5	316.7%
Jan. - Dec.	26	\$67.1	23	\$38.6	3	\$28.5	73.8%