

## CITY COUNCIL AGENDA ITEM

### CITY OF SHORELINE, WASHINGTON

<b>AGENDA TITLE:</b> 2006 Fourth Quarter Financial Report <b>DEPARTMENT:</b> Finance <b>PRESENTED BY:</b> Debbie Tarry, Finance Director
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#### **PROBLEM/ISSUE STATEMENT:**

Attached is the 2006 fourth quarter financial report. This report summarizes the financial activities during 2006 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.

#### **FINANCIAL IMPACT:**

The table on page 2 provides a summary of the financial results for all City funds for 2006.

#### **RECOMMENDATION**

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

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

#### **ATTACHMENTS**

Attachment A – 2006 Fourth Quarter Financial Report

Revenues						Expenditures					
Fund	2006 Budget	2006 Projected	2006 Actuals	Variance Actuals v. Projected	% Variance	2006 Budget	2006 Projected	2006 Actuals	2006 Carryovers	Variance Actuals v. Projected	% Variance
General Fund	\$29,982,403	\$27,026,611	\$27,759,897	\$733,286	2.7%	\$29,980,663	\$29,317,268	\$28,813,988	\$398,158	-\$105,122	-0.4%
Streets	\$2,582,151	\$2,530,230	\$2,604,567	\$74,337	2.9%	\$2,583,023	\$2,513,556	\$2,302,169	\$134,442	-\$76,945	-3.1%
SWM Utility Fund	\$9,028,097	\$3,885,297	\$3,362,009	-\$523,288	-13.5%	\$6,925,911	\$3,069,833	\$1,944,059	\$747,828	-\$377,946	-12.3%
General Capital	\$24,683,489	\$23,078,761	\$23,160,431	\$81,670	0.4%	\$24,608,489	\$22,946,342	\$11,493,904	\$11,458,623	\$6,185	0.0%
Roads Capital	\$35,867,497	\$28,121,540	\$21,999,448	-\$6,122,092	-21.8%	\$35,867,498	\$33,386,861	\$24,459,963	\$8,464,515	-\$462,383	-1.4%
General Reserve Fund	\$38,350	\$122,301	\$114,516	-\$7,785	-6.4%	\$0	\$0	\$0	\$0	\$0	0.0%
Code Abatement Fund	\$102,500	\$49,212	\$55,858	\$6,646	13.5%	\$100,000	\$100,000	\$2,325	\$0	-\$97,675	-97.7%
Asset Seizure Fund	\$23,500	\$18,803	\$5,674	-\$13,129	-69.8%	\$23,000	\$6,694	\$9,152	\$0	\$2,458	36.7%
Unltd Tax GO Bond Fund	\$199,498	\$0	\$59,717	\$59,717	100.0%	\$199,498	\$0	\$0	\$0	\$0	0.0%
Public Arts Fund	\$149,667	\$49,148	\$33,458	-\$15,690	-31.9%	\$115,775	\$115,775	\$72,072	\$0	-\$43,703	0.0%
Vehicle Operations Fund	\$96,217	\$100,782	\$99,095	-\$1,687	-1.7%	\$96,217	\$88,717	\$93,081	\$0	\$4,364	4.9%
Facility - Major Maintenance Fund	\$74,680	\$76,429	\$80,265	\$3,836	5.0%	\$60,000	\$60,000	\$51,913	\$0	-\$8,087	-13.5%
Equipment Replacement Fund	\$324,308	\$336,810	\$364,967	\$28,157	8.4%	\$163,180	\$118,000	\$132,666	\$0	\$14,666	12.4%
Unemployment	\$30,450	\$32,300	\$13,319	-\$18,981	-58.8%	\$30,000	\$30,000	\$20,603	\$0	-\$9,397	-31.3%
Totals	\$103,182,807	\$85,428,224	\$79,713,221	-\$5,715,003	-6.7%	\$100,753,254	\$91,753,046	\$69,395,895	\$21,203,566	-\$1,153,585	-1.3%



# **2006 Year End Financial Report**

Prepared by the Finance Department

*For*

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

## **Table of Contents**

<b>Executive Summary</b>	<b>3</b>
<b>General Fund Revenue</b>	<b>8</b>
Property Tax	9
Sales Tax	10
Criminal Justice Sales Tax	12
State Shared Revenue	13
Utility Tax and Franchise Fees	14
Electricity Contract Payment	15
Parks and Recreation Revenue	16
Gambling Tax Revenue	17
Permit Revenue	18
<b>General Fund Expenditures</b>	<b>19</b>
<b>Street Fund</b>	<b>21</b>
<b>Surface Water Utility Fund</b>	<b>22</b>
<b>General Capital Fund</b>	<b>24</b>
<b>Roads Capital Fund</b>	<b>25</b>
<b>Cash and Investment Report</b>	<b>26</b>

## **EXECUTIVE SUMMARY**

### **General Fund**

2006 actual General Fund revenue totaled \$27,759,897 which was greater than 2006 projected revenue of \$27,026,611 by \$733,286 or 2.7%. This is a decrease of 0.08% over total 2005 revenues of \$27,779,704, primarily a result of lower gambling tax collections. The 2006 variance in actual revenue collections compared to projections can primarily be attributed to better than expected revenue from property tax of \$107,739, natural gas utility tax revenue of \$104,535, telecommunications utility tax revenue of \$171,575 and investment interest of \$150,673. These revenue sources make up 73% of the revenue over projections. As staff was preparing the 2007 revenue budget we were aware of the upward trends of these revenue sources and took these trends into account when projecting 2007 revenue estimates.

The 2006 actual expenditures were \$28,813,988 and the 2006 carryovers were \$398,158 for a total 2006 expenditure of \$29,212,146. This is \$105,122 or 0.36% below projected expenditures of \$29,317,268.

The net result of revenues exceeding projections by \$733,286 and expenditures being \$105,122 below projections is \$838,408 in one-time savings. This money can remain in the General Fund reserves or can be allocated for one-time expenditures.

### **Street Fund**

Actual revenues for 2006 were \$2,604,567, just \$74,337 or 2.94% above projected revenue. Right-of-way fee revenue was above projections by \$42,334 or 37.98% due to increased activity. Fuel tax collections were below projections by \$7,206. Interest earnings were above projections by \$16,283.

The 2006 actual expenditures were \$2,302,169 and the 2006 carryovers were \$134,442 for a total 2006 expenditure of \$2,436,611. This is \$211,387 or 12% below projected expenditures of \$2,513,556.

The 2006 ending fund balance is \$946,524. This includes all revenue and expenditure activity and the requested carryovers. This is \$134,442 greater than was originally projected.

### **Surface Water Utility Fund**

Actual revenues for 2006 were \$3,362,009 this was \$523,288 or 13.47% less than projected revenue of \$3,885,297. Storm drainage fees were \$29,846 (-1.19%) less than projected. The primary difference between actual and projected revenues is that the amount of Public Works Trust Fund Loan (PWTFL) used was \$287,906 less than anticipated. This PWTFL is for the Ronald Bog Drainage Improvements.

The 2006 actual expenditures were \$1,944,059 and the 2006 carryovers were \$747,828 for a total 2006 expenditure of \$2,691,887. This is \$1,125,774 or 36.67%

below projected expenditures of \$3,069,833. Reasons for the difference between actual and projected expenditures include the following:

- The repayment of PWTFL principal (\$319,344) is budgeted for management purposes, but for accounting purposes the expenditure is reduced to zero at the end of the year.
- Expenditures for intergovernmental services for drainage services were approximately \$110,000 less than anticipated.
- The Midvale Ave. Drainage project (\$127,000) has been rolled into the East Boeing Creek Drainage, and therefore the East Boeing Creek Drainage budget is sufficient to complete the project.
- General Engineering is under projections by approximately \$95,000 primarily due to salary and benefit savings.

The projected 2006 ending fund balance is \$6,526,879. This includes all revenue and expenditure activity and the requested carryovers. This is \$439,522 more in fund balance than was originally projected.

## **Capital Improvement Funds**

### **General Capital**

Actual revenues for 2006 were \$23,160,431 this is \$81,670 or 0.4% above projected revenues of \$23,078,761. Real Estate Excise Tax (REET) collections were \$432,681 above projections. Grant revenue was below projections by \$568,508 due to the timing of completion of projects. Investment earnings were over projections by \$97,999. The excess REET collections will be used to off-set the purchase of the Kimm property for future civic center expansion.

The 2006 actual expenditures were \$11,493,904 and the 2006 carryovers were \$11,458,623 for a total 2006 expenditure of \$22,952,527. This is only \$6,185 over projected expenditures of \$22,946,342.

The projected 2006 ending fund balance is \$13,421,089. This includes all revenue and expenditure activity and the requested carryovers. This is \$1,188,099 more in fund balance than was originally projected, primarily as a result of the excess REET collections and delay in some projects. The General Capital ending fund balance includes \$6.3 million for City Hall.

The City has seen substantial growth in REET revenue since 2004. This is reflective of the "hot" real estate market and high number of home purchases that has occurred during this time period. This trend has been experienced throughout most of the United States until 2006, when sales nationally began to slow dramatically. Locally, we have seen a gradual slow down, but values have remained high. In 2006 we saw the number of transactions decrease from 2005 by 11.6% to 2,164 sales. Total value of the real estate sales decreased by 7.1% to \$545,032,417.

### **Roads Capital**

Actual revenues for 2006 were \$21,999,448. This is \$6,122,092 or 21.8% below projected revenues of \$28,121,540. This revenue decrease is due primarily to grant revenue not being received as projected since roads projects were not completed as scheduled. However, these grants are expected to be received in 2007 as the project work continues. Staff has requested that \$5,703,306 in grant revenue be carried over into 2007. REET collections were \$182,681 ahead of projections for the same reason that REET collections exceeded projections in the General Capital Fund. Investment earnings were below projections by \$281,269 due to the delay in grant revenues. Fuel tax revenue was \$64,554 below projections as consumption decreased.

The 2006 actual expenditures were \$24,459,963 and the 2006 carryovers were \$8,464,515 for a total 2006 expenditure of \$32,924,478. This is \$462,383 or only 1.4% below projected expenditures of \$33,386,861. The projected 2006 ending fund balance is \$10,689,850. This includes all revenue and expenditure activity and the requested carryovers. This is \$2,761,209 more in fund balance than was originally projected.

## All Funds Summary

The following table provides a summary of the financial results for all City funds for 2006 and includes the 2006 carryover. The second chart shows the estimated ending fund balances or 2006:

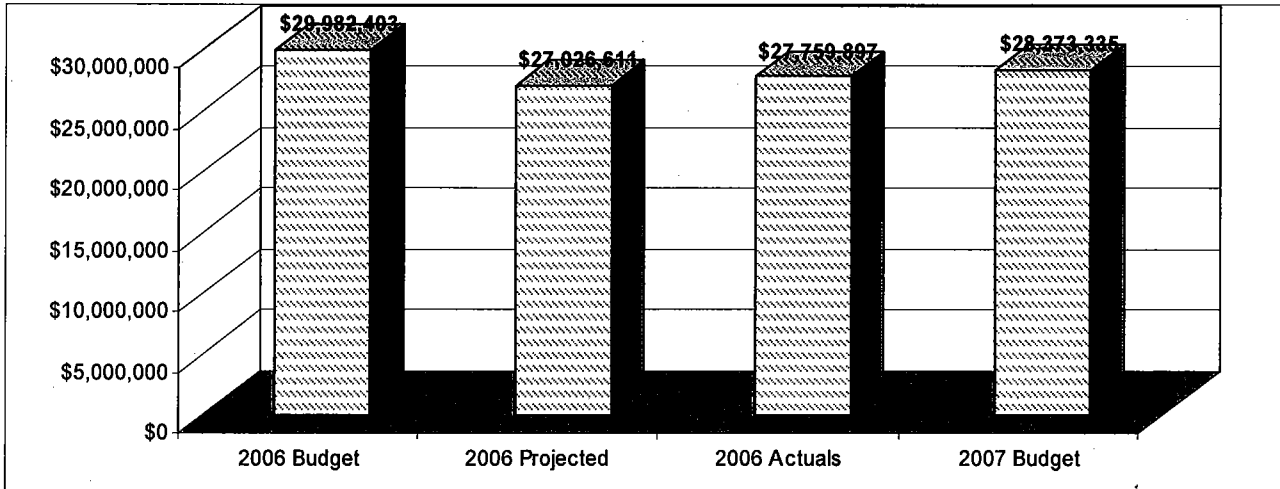
Revenues						Expenditures					
Fund	2006 Budget	2006 Projected	2006 Actuals	Variance Actuals v. Projected	% Variance	2006 Budget	2006 Projected	2006 Actuals	2006 Carryovers	Variance Actuals v. Projected	% Variance
General Fund	\$29,982,403	\$27,026,611	\$27,759,897	\$733,286	2.7%	\$29,980,663	\$29,317,268	\$28,813,988	\$398,158	-\$105,122	-0.4%
Streets	\$2,582,151	\$2,530,230	\$2,604,567	\$74,337	2.9%	\$2,583,023	\$2,513,556	\$2,302,169	\$134,442	-\$76,945	-3.1%
SWM Utility Fund	\$9,028,097	\$3,885,297	\$3,362,009	-\$523,288	-13.5%	\$6,925,911	\$3,069,833	\$1,944,059	\$747,828	-\$377,946	-12.3%
General Capital	\$24,683,489	\$23,078,761	\$23,160,431	\$81,670	0.4%	\$24,608,489	\$22,946,342	\$11,493,904	\$11,458,623	\$6,185	0.0%
Roads Capital	\$35,867,497	\$28,121,540	\$21,999,448	-\$6,122,092	-21.8%	\$35,867,498	\$33,386,861	\$24,459,963	\$8,464,515	-\$462,383	-1.4%
General Reserve Fund	\$38,350	\$122,301	\$114,516	-\$7,785	-6.4%	\$0	\$0	\$0	\$0	\$0	0.0%
Code Abatement Fund	\$102,500	\$49,212	\$55,858	\$6,646	13.5%	\$100,000	\$100,000	\$2,325	\$0	-\$97,675	-97.7%
Asset Seizure Fund	\$23,500	\$18,803	\$5,674	-\$13,129	-69.8%	\$23,000	\$6,694	\$9,152	\$0	\$2,458	36.7%
Unltd Tax GO Bond Fund	\$199,498	\$0	\$59,717	\$59,717	100.0%	\$199,498	\$0	\$0	\$0	\$0	0.0%
Public Arts Fund	\$149,667	\$49,148	\$33,458	-\$15,690	-31.9%	\$115,775	\$115,775	\$72,072	\$0	-\$43,703	0.0%
Vehicle Operations Fund	\$96,217	\$100,782	\$99,095	-\$1,687	-1.7%	\$96,217	\$88,717	\$93,081	\$0	\$4,364	4.9%
Facility - Major Maintenance Fund	\$74,680	\$76,429	\$80,265	\$3,836	5.0%	\$60,000	\$60,000	\$51,913	\$0	-\$8,087	-13.5%
Equipment Replacement Fund	\$324,308	\$336,810	\$364,967	\$28,157	8.4%	\$163,180	\$118,000	\$132,666	\$0	\$14,666	12.4%
Unemployment	\$30,450	\$32,300	\$13,319	-\$18,981	-58.8%	\$30,000	\$30,000	\$20,603	\$0	-\$9,397	-31.3%
<b>Totals</b>	<b>\$103,182,807</b>	<b>\$85,428,224</b>	<b>\$79,713,221</b>	<b>-\$5,715,003</b>	<b>-6.7%</b>	<b>\$100,753,254</b>	<b>\$91,753,046</b>	<b>\$69,395,895</b>	<b>\$21,203,566</b>	<b>-\$1,153,585</b>	<b>-1.3%</b>



## Fund Balance Overview

All City Funds	2006 Beginning Fund Balance	2006 Actual Revenue	2006 Actual Expenditures	Ending Fund Balance	Net Carryovers	2006 Projected Ending Fund Balance
General Fund	\$9,685,010	\$27,759,897	\$28,813,988	\$8,630,919	\$148,794	\$8,482,125
Streets	\$778,568	\$2,604,567	\$2,302,169	\$1,080,966	\$134,442	\$946,524
SWM Utility Fund	\$5,548,451	\$3,362,009	\$1,944,059	\$6,966,401	\$439,522	\$6,526,879
General Capital	\$12,100,573	\$23,160,431	\$11,493,904	\$23,767,100	\$10,346,011	\$13,421,089
Roads Capital	\$13,150,365	\$21,999,448	\$24,459,963	\$10,689,850	\$2,761,209	\$7,928,641
General Reserve Fund	\$2,160,346	\$114,516	\$0	\$2,274,862	\$0	\$2,274,862
Code Abatement Fund	\$118,916	\$55,858	\$2,325	\$172,449	\$0	\$172,449
Asset Seizure Fund	\$21,722	\$5,674	\$9,152	\$18,244	\$0	\$18,244
Unltd Tax GO Bond Fund	\$0	\$59,717	\$0	\$59,717	\$0	\$59,717
Public Arts Fund	\$278,867	\$33,458	\$72,072	\$240,253	\$0	\$240,253
Vehicle Operations Fund	\$47,572	\$99,095	\$93,081	\$53,586	\$0	\$53,586
Facility - Major Maintenance Fund	\$160,723	\$80,265	\$51,913	\$189,075	\$0	\$189,075
Equipment Replacement Fund	\$1,251,262	\$364,967	\$132,666	\$1,483,563	\$0	\$1,483,563
Unemployment	\$69,958	\$13,319	\$20,603	\$62,674	\$0	\$62,674
Totals	\$45,372,333	\$79,713,221	\$69,395,895	\$55,689,659	\$13,829,978	\$41,859,681

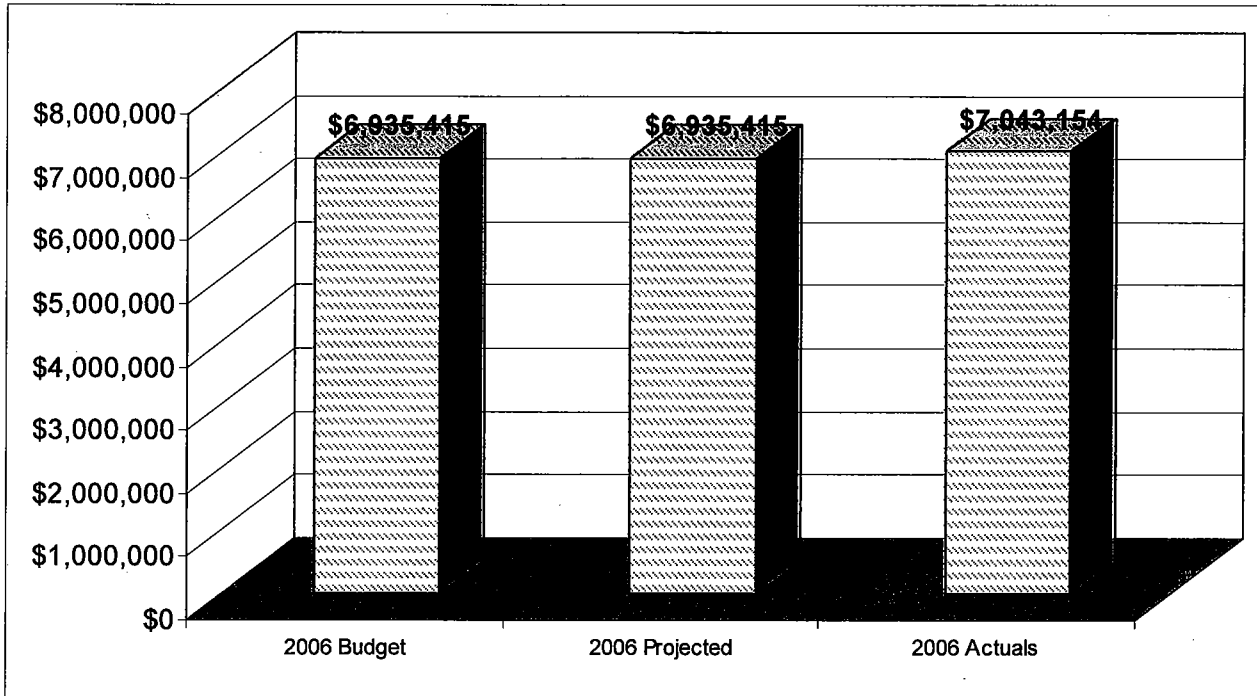
## General Fund Revenue



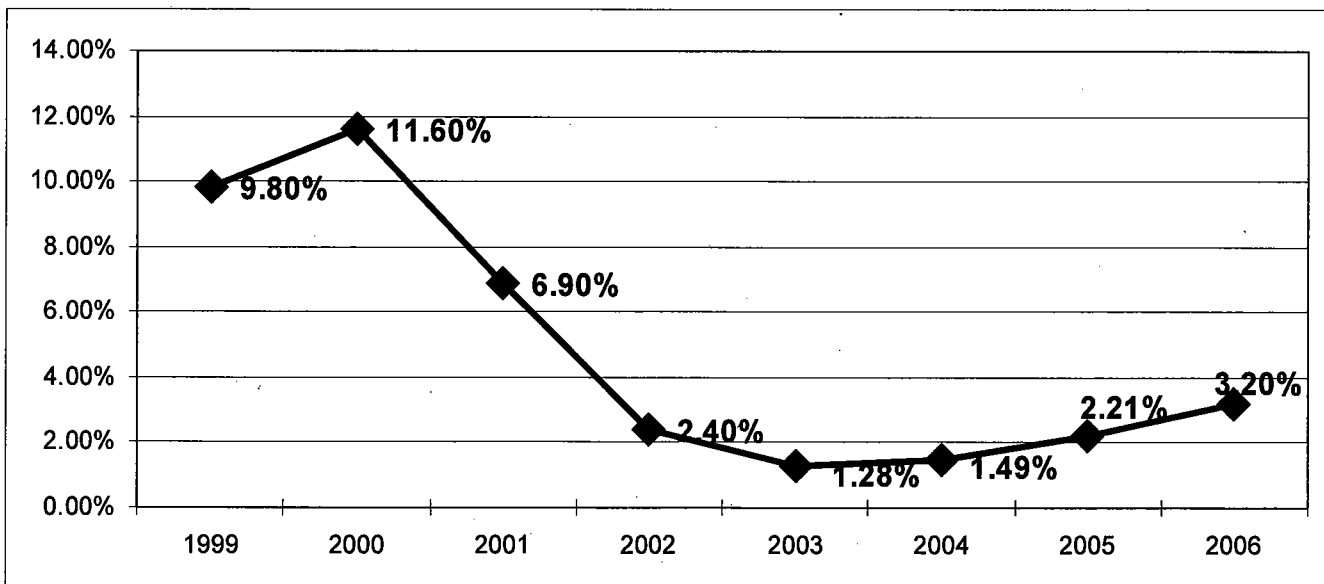
2006 actual General Fund revenue totaled \$27,759,897 which was greater than 2006 projected revenue of \$27,026,611 by \$733,286 or 2.7%. This is a decrease of 0.08% over total 2005 revenues of \$27,779,704, primarily a result of lower gambling tax collections. The 2006 variance in actual revenue collections compared to projections can primarily be attributed to better than expected revenue from property tax of \$107,739, natural gas utility tax revenue of \$104,535, telecommunications utility tax revenue of \$171,575 and investment interest of \$150,673. These revenue sources make up 73% of the revenue over projections. As staff was preparing the 2007 revenue budget we were aware of the upward trends of these revenue sources and took these trends into account. The table below compares budget, projected, and actual general fund revenue collections for 2006. Specific details about these revenues can be found later in this report.

Revenue Source	2006 Budget	2006 Projected	2006 Actuals	\$\$ Variance Actuals v. Projected	% Variance	2007 Budget
<b>Budgeted Fund Balance</b>	\$2,562,577	\$0	\$0	NA	NA	\$671,500
<b>Property Tax</b>	\$6,935,415	\$6,935,415	\$7,043,154	\$107,739	1.6%	\$7,066,510
<b>Sales Tax</b>	\$5,785,500	\$6,086,402	\$6,091,513	\$5,111	0.1%	\$6,250,000
<b>Criminal Justice Sale Tax</b>	\$1,100,687	\$1,150,687	\$1,189,798	\$39,111	3.4%	\$1,224,500
<b>Utility Tax/Franchise Fee Category</b>						
Natural Gas Utility Tax	\$850,000	\$850,000	\$954,535	\$104,535	12.3%	\$1,045,000
Sanitation Utility Tax	\$331,000	\$331,000	\$329,312	-\$1,688	-0.5%	\$340,000
Cable TV Utility Tax	\$96,000	\$96,000	\$98,883	\$2,883	3.0%	\$98,000
Telephone/Cell Utility Tax	\$1,480,000	\$1,480,000	\$1,651,575	\$171,575	11.6%	\$1,555,000
Water Franchise Fee	\$500,000	\$610,000	\$663,417	\$53,417	8.8%	\$565,000
Sewer Franchise Fee	\$636,500	\$636,500	\$640,000	\$3,500	0.5%	\$655,595
Storm Drainage Utility Tax	\$162,500	\$162,500	\$158,956	-\$3,544	-2.2%	\$177,000
Cable TV Franchise Fee	\$480,000	\$529,767	\$535,502	\$5,735	1.1%	\$533,767
<b>Utility Tax/Franchise Fee Subtotal</b>	<b>\$4,536,000</b>	<b>\$4,695,767</b>	<b>\$5,032,180</b>	<b>\$336,413</b>	<b>7.2%</b>	<b>\$4,969,362</b>
<b>Electricity Contract Payment</b>	\$850,000	\$1,000,000	\$1,032,436	\$32,436	3.2%	\$1,000,000
<b>Gambling Tax</b>	\$2,930,500	\$2,053,800	\$2,020,244	-\$33,556	-1.6%	\$2,134,500
<b>State Revenue</b>	\$720,593	\$676,283	\$692,255	\$15,972	2.4%	\$744,304
<b>Permit Revenue</b>	\$1,305,155	\$1,278,742	\$1,347,050	\$68,308	5.3%	\$1,293,935
<b>Parks &amp; Recreation Revenue</b>	\$950,828	\$1,064,027	\$1,098,256	\$34,229	3.2%	\$1,128,506
<b>Fines &amp; Licenses</b>	\$35,530	\$37,381	\$39,720	\$2,339	6.3%	\$34,530
<b>Grants</b>	\$361,252	\$298,333	\$221,545	-\$76,788	-25.7%	\$231,316
<b>Investment Interest</b>	\$320,000	\$320,000	\$470,673	\$150,673	47.1%	\$411,355
<b>Miscellaneous Revenue</b>	\$384,525	\$225,933	\$277,232	\$51,299	22.7%	\$166,570
<b>Transfers-In</b>	\$1,203,841	\$1,203,841	\$1,203,841	\$0	0.0%	\$1,046,447
<b>Total General Fund Revenue</b>	<b>\$29,982,403</b>	<b>\$27,026,611</b>	<b>\$27,759,897</b>	<b>\$733,286</b>	<b>2.7%</b>	<b>\$28,373,335</b>

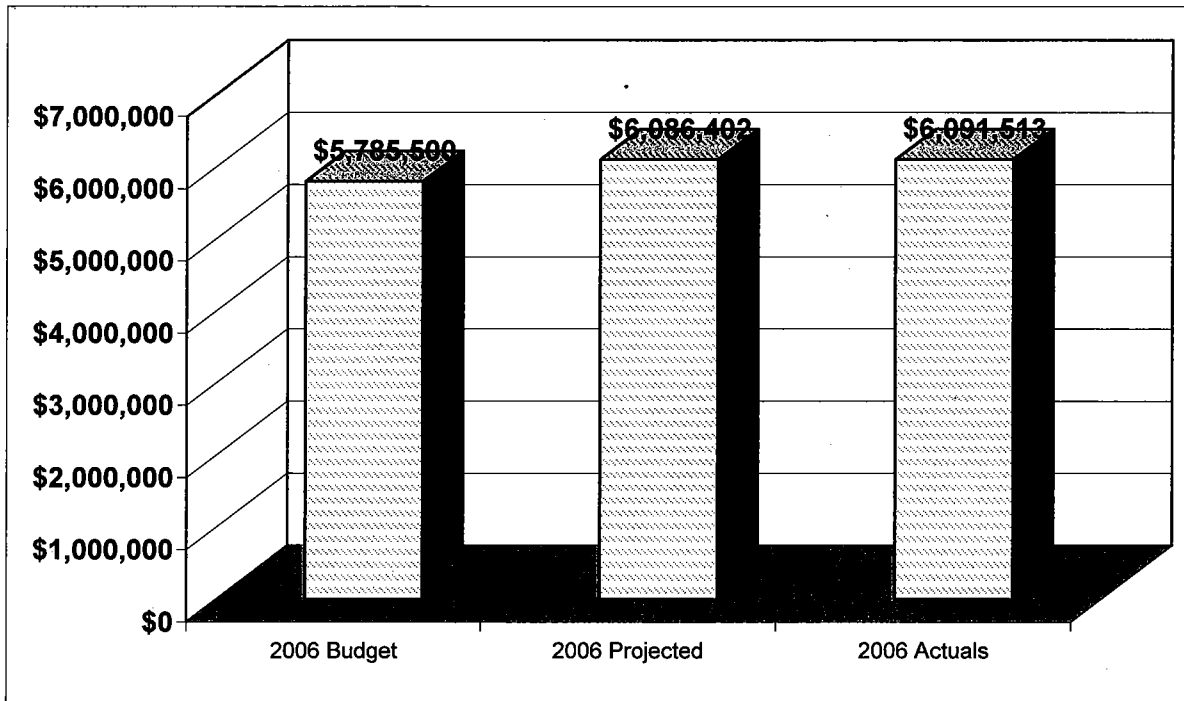
## Property Tax Revenue



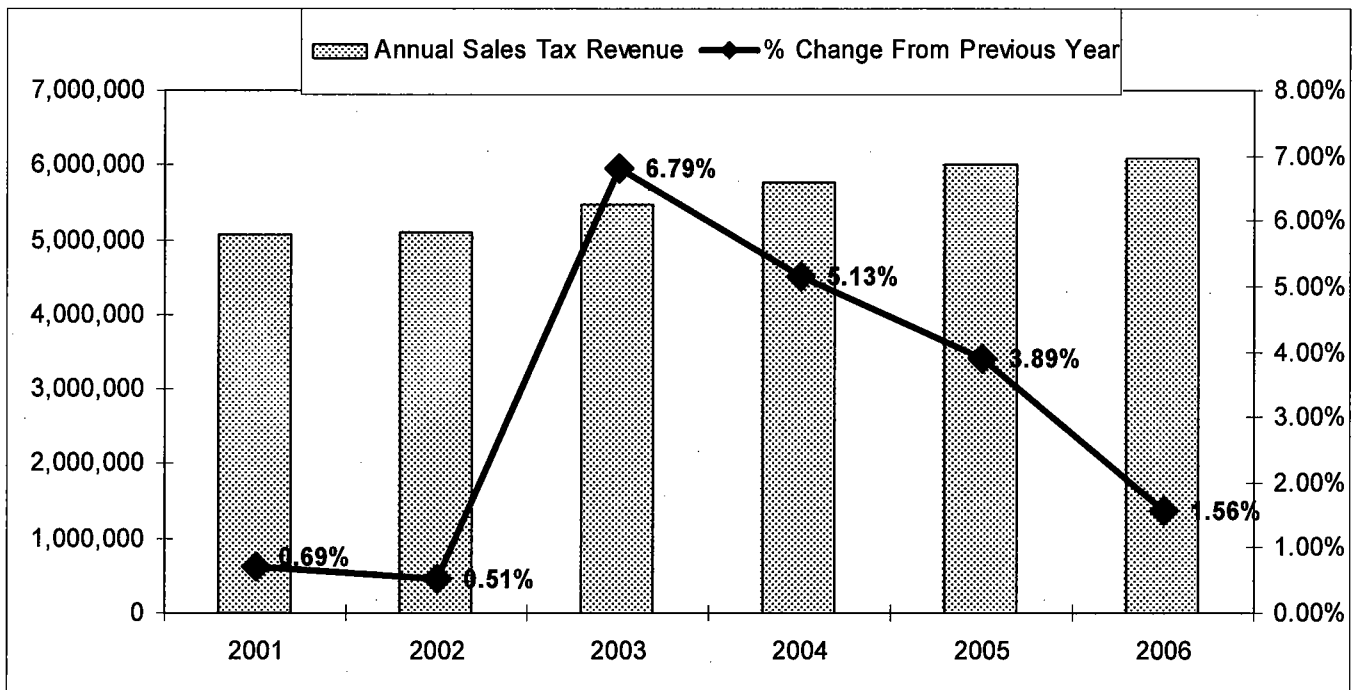
Property tax collections of \$7,043,154 were above projections by \$107,739 or 1.55%. This is an increase of \$220,283 or 3.2% over 2005 collections. The graph below highlights the annual percentage change in property tax revenue since 1999. The trend line for this revenue is showing a small but consistent increase that begins in 2004. This increase is due to greater than expected payments from delinquent accounts and an overall decrease in the number of late and/or delinquent accounts. Historically property tax revenue was budgeted assuming a 2.0% rate of delinquent accounts; in 2007 a 1% rate has been used.



## Sales Tax Revenue



Sales tax revenue came in at \$6,091,513, which is only a \$5,111 or 0.1% increase over adjusted 2006 projections of \$6,086,402. 2006 revenue is \$95,068 or 1.56% above 2005 collections. The chart immediately shows sales tax revenue changes from 2001 – 2006. As the graph illustrates the rate of sales tax growth has decreased steadily since 2003.

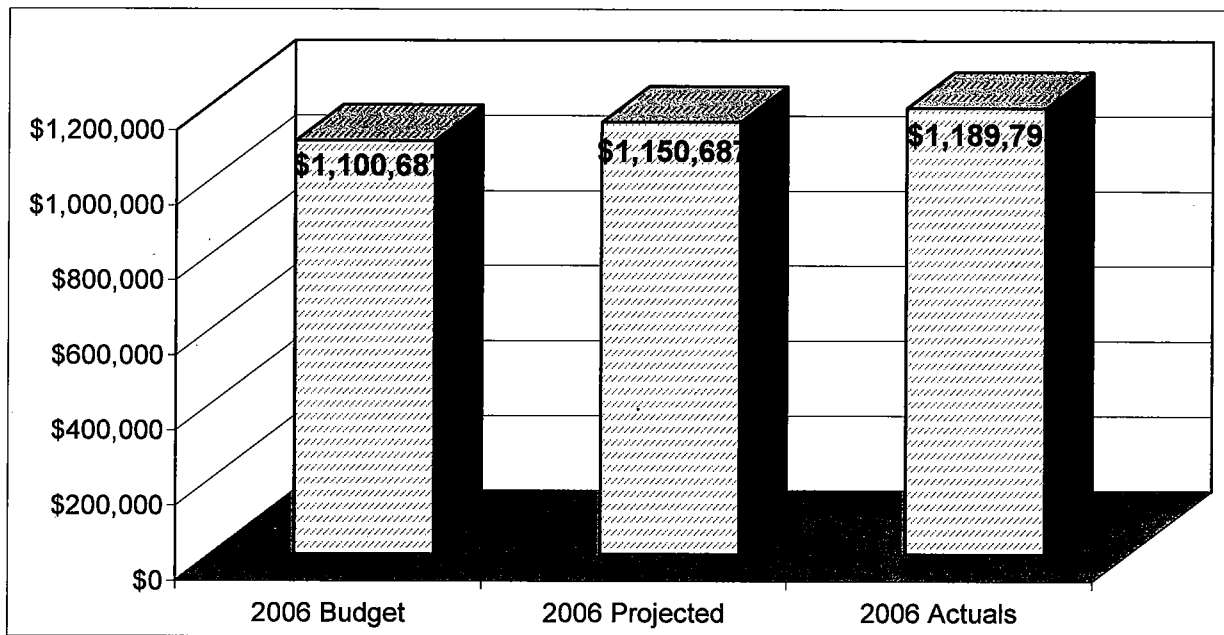


It is important to analyze sales tax growth by primary business sector to determine if the sales tax growth is a result of increased retail sales, growth in construction, growth in services or a combination. Growth in a single sector, such as construction, could indicate revenue that should be considered one-time growth. On the other hand, growth in retail related sales could indicate a growing demand in on-going sales. In looking at the change in sales tax revenue from 2005 to 2006 by business industry it appears the primary source of growth was related to retail trade. This table shows a comparison of the various business sector retail sales tax collections for 2005 and 2006.

The growth in retail trade of \$132,182 or 3.48% is the primary reason for the City's 1.56% sales tax increase over 2005. Decreases in construction related sales tax activity of \$8,150 or 1.01%, information/telecommunications of \$37,733 or 16.67%, and other services of \$20,379 or 11.4% temper the modest retail trade revenue increase. It is worth noting that of the 21 business sectors identified only seven sectors show a negative variance from 2005.

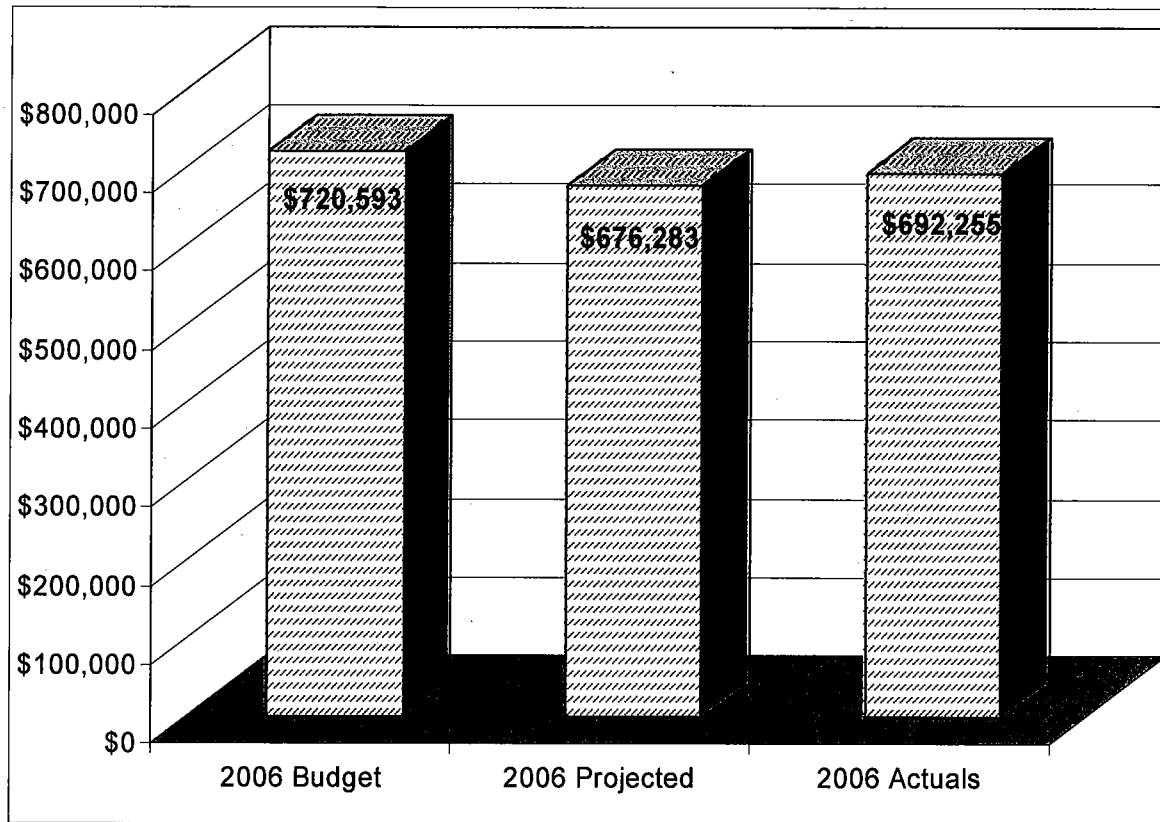
<b>Business Sector (Business Type)</b>	<b>2005</b>	<b>2006</b>	<b>\$ \$ Variance 2005 v. 2006</b>	<b>% Change</b>
Retail Trade	\$3,800,650	\$3,932,832	\$132,182	3.48%
Construction	\$806,931	\$798,781	-\$8,150	-1.01%
Accommodation and Food Services	\$352,711	\$358,175	\$5,464	1.55%
Information/Telecommunications	\$226,378	\$188,645	-\$37,733	-16.67%
Real Estate, Rental, Leasing (Car Rentals, Consumer Rentals and Video Rentals)	\$133,184	\$162,006	\$28,822	21.64%
Other Services (auto repair/maintenance, equipment repair/maintenance, laundry services, beauty salons and cemeteries)	\$178,826	\$158,447	-\$20,379	-11.40%
Wholesale Trade (computer equipment and other commercial equipment)	\$121,176	\$131,253	\$10,077	8.32%
Arts, Entertainment, Recreation (fitness clubs, golf courses, casinos and sports facilities)	\$99,850	\$100,788	\$938	0.94%
Administrative and Support Services (landscaping services, janitorial, carpet cleaning and travel agencies)	\$93,601	\$69,482	-\$24,119	-25.77%
Manufacturing	\$37,218	\$40,585	\$3,367	9.05%
Prof, Sci, Technical Svcs (computer programming, management consultants and veterinary services)	\$65,371	\$34,593	-\$30,778	-47.08%
Unknown (non-classifiable)	\$16,371	\$34,457	\$18,086	110.47%
Finance and Insurance	\$26,066	\$27,376	\$1,310	5.03%
Transportation and Warehousing	\$7,668	\$16,794	\$9,126	119.02%
Health Care Social Assistance	\$11,049	\$13,205	\$2,156	19.52%
Public Administration	\$8,419	\$12,153	\$3,734	44.36%
Educational Services	\$7,942	\$9,441	\$1,499	18.87%
Agriculture, Forestry, Fishing	\$1,325	\$1,242	-\$83	-6.28%
Mining	\$754	\$926	\$172	22.81%
Company Management	\$76	\$213	\$137	180.14%
Utilities	\$879	\$118	-\$761	-86.57%
<b>Totals</b>	<b>\$5,996,445</b>	<b>\$6,091,513</b>	<b>\$95,068</b>	<b>1.56%</b>

## Criminal Justice Sales Tax Revenue



Local criminal justice sales tax collections of \$1,189,798 are above projected revenue of \$1,150,687 by \$39,111 or 3.4%. This is an increase over 2005 of \$77,814 or 7.0%. This shows an increased level of retail sales within King County as a whole. This category differs from sales tax because it represents sales tax collected throughout King County and consequently does not necessarily reflect the sales tax experience within Shoreline. This tax is distributed based on city population.

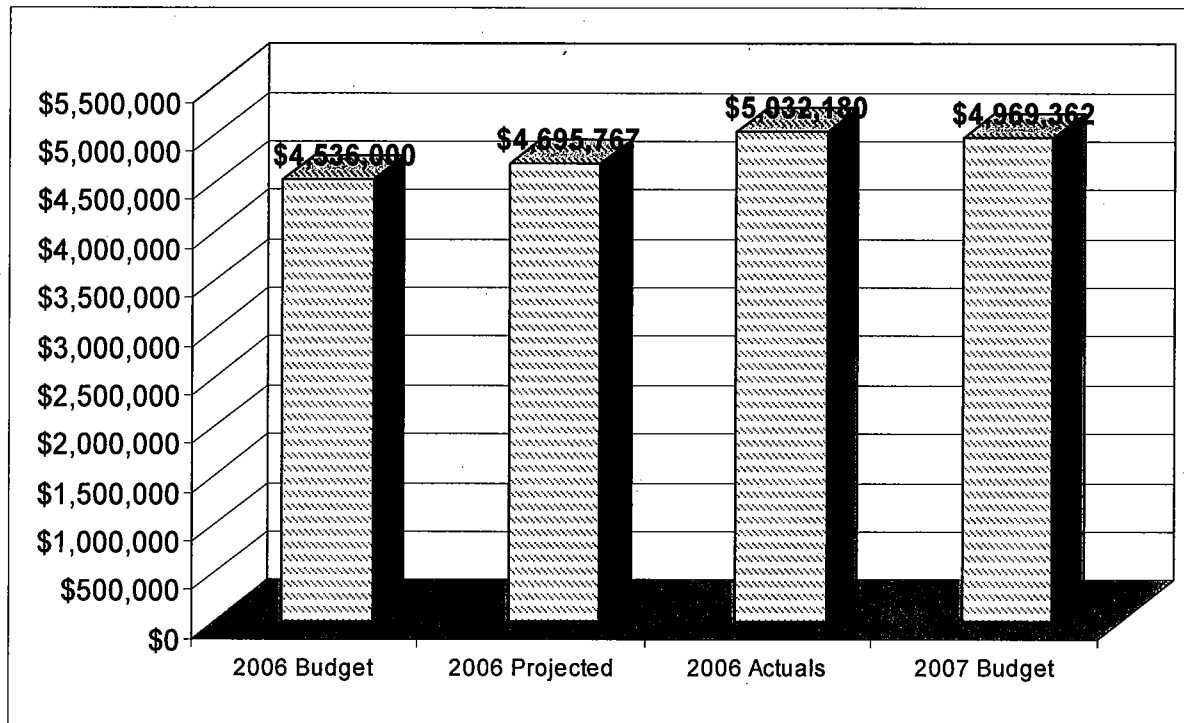
## State Shared Revenue



State Revenues of \$692,255 are just slightly above projected revenue of \$676,283. This is a decrease from the amount of revenue received during 2005 by \$59,524 or 7.92%. This decrease is a result of two things: 2005 was the last year the City received I-695 local government assist revenue a loss of \$36,900 and a \$33,439 decrease in Liquor Board Profit revenue. Revenues from this category have decreased slightly over the past few years as the level of state support for criminal justice programs has also declined.

This category includes leasehold excise tax, criminal justice funds, liquor board profits and liquor excise tax.

## Utility Tax and Franchise Fee Revenue



Utility tax and franchise fee revenue of \$5,032,180 exceeded projected revenue of \$4,695,767 by \$336,413 or 7.2%. This is an increase over 2005 by \$265,256 or 5.6%. The increase in actual revenue collections as compared to projected revenue for 2006 is due to the following:

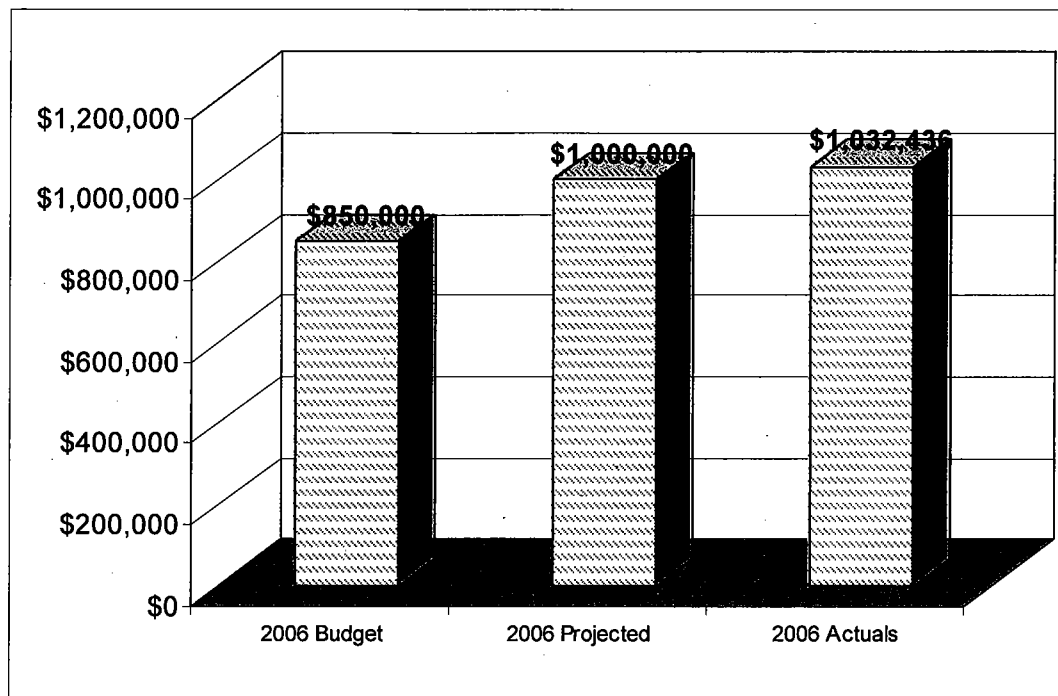
- Cellular and Telephone revenue exceeded projections by \$171,575 or 11.6%.
- Natural Gas revenue was up from projections by \$104,535 or 12.3% due in part to a rate increase that went into effect in October of 2006.

The table immediately below lists all of the City's utility revenue producers and revenue activity for 2006.

Revenue Source	2005 Actuals	2006 Budget	2006 Projected	2006 Actuals	\$ Variance Actuals v. Projected	% Variance	2007 Budget
Natural Gas Utility Tax	\$837,334	\$850,000	\$850,000	\$954,535	\$104,535	12.3%	\$1,045,000
Sanitation Utility Tax	\$325,538	\$331,000	\$331,000	\$329,312	-\$1,688	-0.5%	\$340,000
Cable TV Utility Tax	\$90,029	\$96,000	\$96,000	\$98,883	\$2,883	3.0%	\$98,000
Telephone/Cell Utility Tax	\$1,649,406	\$1,480,000	\$1,480,000	\$1,651,575	\$171,575	11.6%	\$1,555,000
Water Franchise Fee	\$610,943	\$500,000	\$610,000	\$663,417	\$53,417	8.8%	\$565,000
Sewer Franchise Fee	\$621,000	\$636,500	\$636,500	\$640,000	\$3,500	0.5%	\$655,595
Storm Drainage Utility Tax	\$145,749	\$162,500	\$162,500	\$158,956	-\$3,544	-2.2%	\$177,000
Cable TV Franchise Fee	\$486,925	\$480,000	\$529,767	\$535,502	\$5,735	1.1%	\$533,767
Utility Tax/Franchise Fee Subtotal	\$4,766,924	\$4,536,000	\$4,695,767	\$5,032,180	\$336,413	7.2%	\$4,969,362



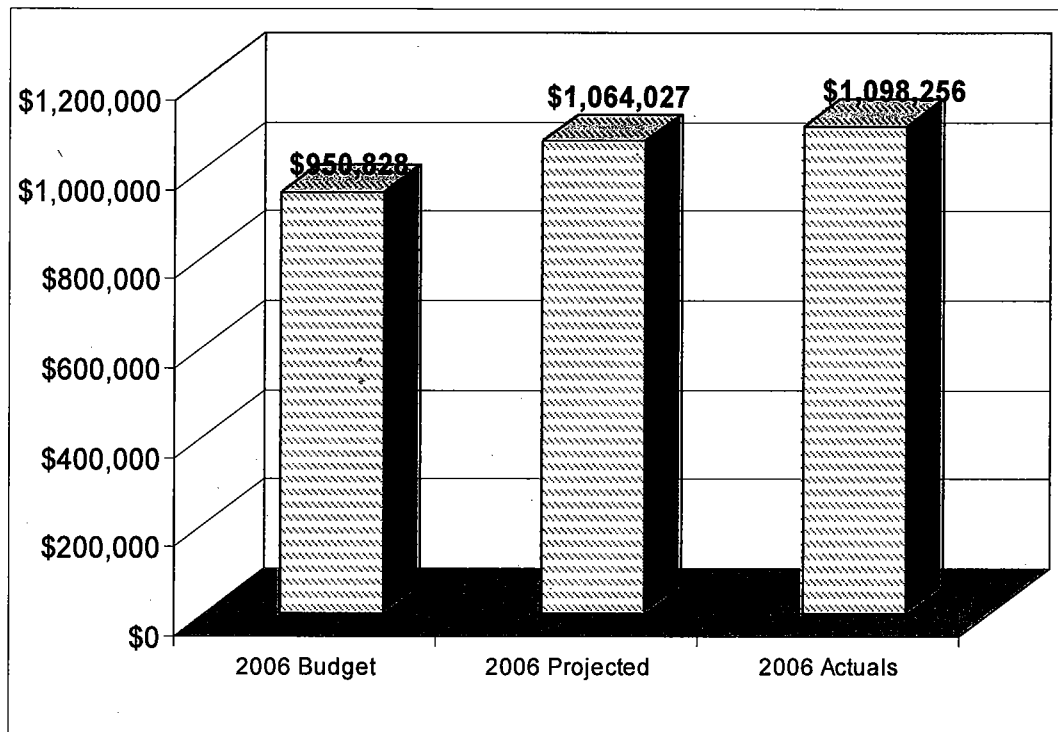
## Electricity Contract Payment



The City has an agreement with Seattle City Light that provides for the payment of 6% of the revenue earned from the power portion of electric revenues from Shoreline rate payers. Electric rates are composed of power costs and distribution costs. The power costs represent approximately 65% of the electric rate revenues.

Total collections in 2006 of \$1,032,436 exceeded projections of \$1,000,000 by \$32,436 or 3.2%. Total collections in 2005 were \$1,032,547 and it is anticipated that revenue from this source will remain flat through 2007. At the time that the 2006 Budget was adopted, we anticipated SCL to reduce electricity rates. This did not occur and therefore the projected revenue was increased in mid-year.

## Parks and Recreation Fee Revenue



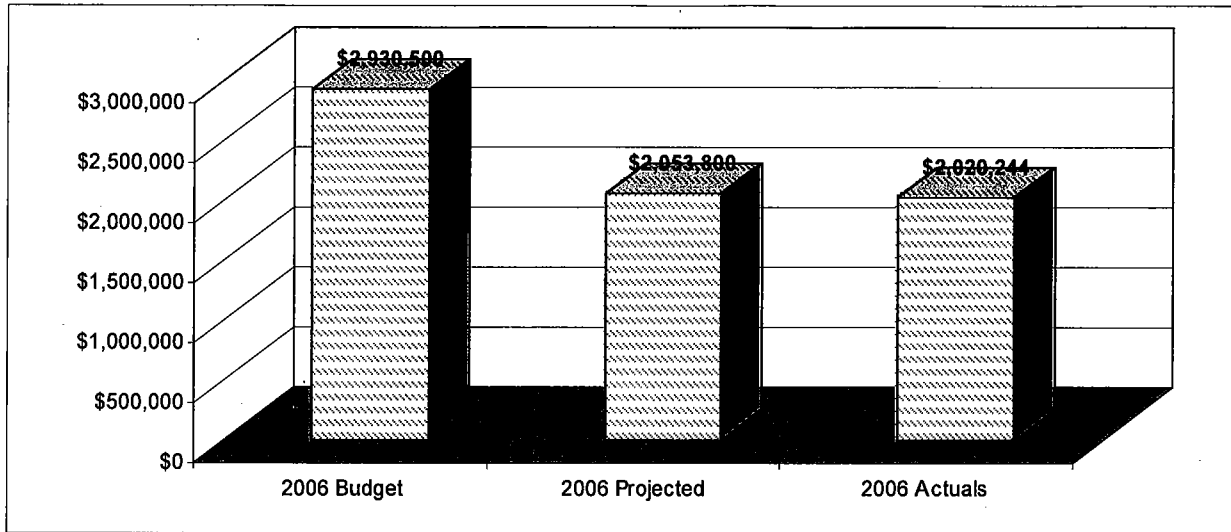
Parks' revenue collections of \$1,098,256 exceeded projected revenue of \$1,064,027 by \$34,229 or 3.22%. 2006 revenue exceeded 2005 revenue by \$153,317 or 16.23%.

This category includes revenue generated by the Shoreline pool, general recreation classes and programs which includes all preschool, youth and adult programming, athletic field and facility rentals, teen programming and activities, Spartan Gym drop-in and monthly passes and vending machine and merchandise sales.

The difference in actual revenue collections compared to projections is primarily a result of the following:

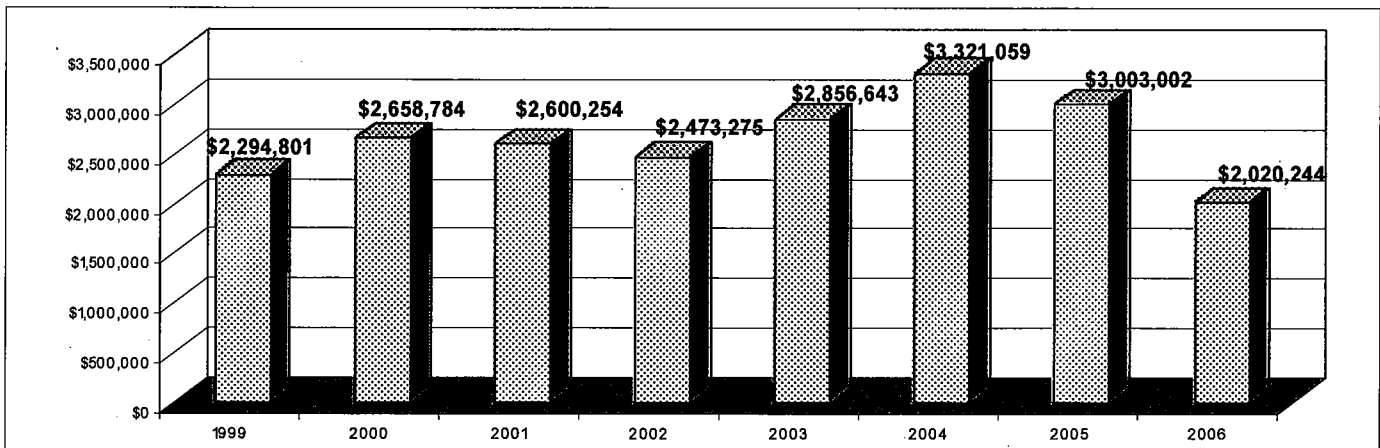
- General recreation revenues (revenue generated from class and sport fees) totaled \$499,742 in 2006. Projected revenue in this category was \$489,134 and the original 2006 budget totaled \$363,700. At the same time that revenue growth occurred, the use of the City's scholarship program increased, with \$31,826 in scholarships provided in 2006.
- Park facility rental revenue totaled \$240,027 in 2006 and exceeded projected revenue by \$25,327 or 11.80%.
- Aquatic related revenue totaled \$358,487 which was only \$436 greater than projections.

## Gambling Tax Revenue

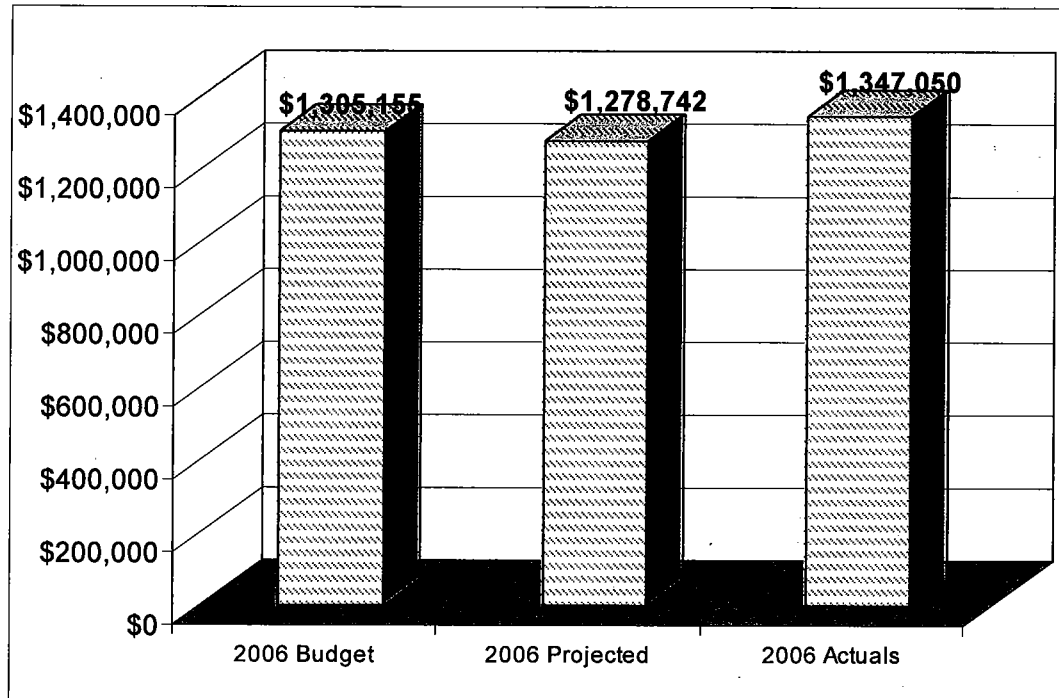


Gambling tax revenue of \$2,020,244 was \$33,556 or 1.63% below projected revenue. Revenue has been adversely affected by a 17.49% reduction in card game activity. The drop in activity levels can be attributed to the smoking ban, competition from tribal casinos and the affects of the Aurora Corridor construction. In addition to the drop in activity levels the reduction in the card room tax rate from 10% to 7% was in effect for the third and fourth quarter of 2006, which resulted in a \$321,129 drop in revenue. Pull tab and bingo revenue have also decreased on an annual basis; pull-tab revenue by 40% since 2005 and bingo revenue by 70%. (The City's only bingo hall closed in 2006) The card room tax rate is scheduled to move back to 10% on April 1, 2007.

Gambling tax revenue is generated from three primary sources: card rooms, pull tabs, and bingo. The following table compares the revenue collections from each of these sources for 2004 through 2006. Overall gambling tax revenue from all three sources decreased by \$982,760 or 32.73% from 2005. The table immediately below highlights gambling revenue trends over the past eight years.



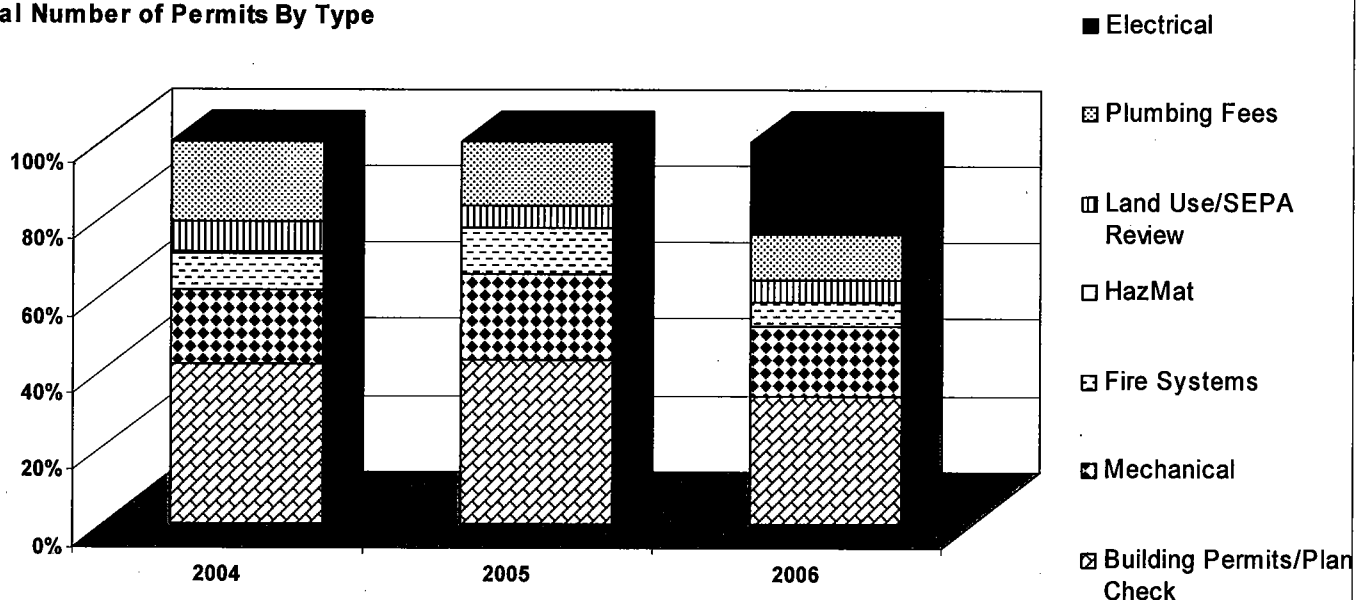
## Permit Revenue



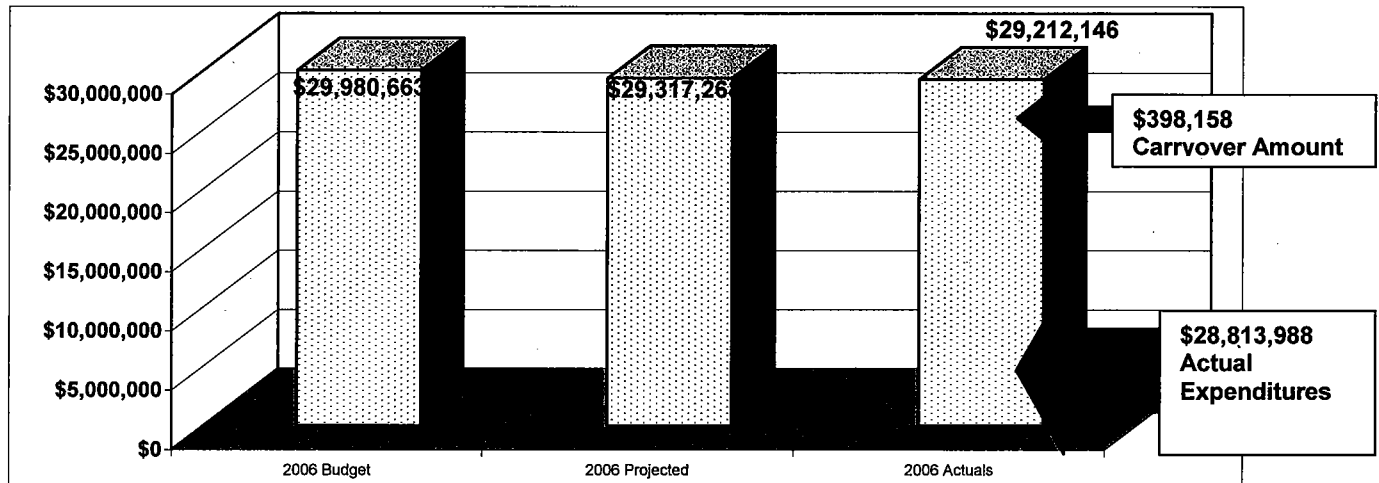
Permit revenue of \$1,347,050 was \$68,308 or 5.34% above projected revenue. 2006 revenue just slightly exceeded 2005 revenue by \$8,023 or 0.60%.

The number of permits issued in 2006 increased by 248 or 19.68% over 2005. At the same time permit revenue increased by only \$8,023 or 0.60%. The reason for this variance is that the City began issuing electrical permits in August of 2006 (364 Electrical Permits were issued in 2006) and this permit type generates only \$14 per permit. Essentially the City serves as a pass through agent for the State Department of Labor & Industries, which requires minimal City staff time to process.

## Annual Number of Permits By Type



## General Fund Expenditures



The 2006 actual expenditures were \$28,813,988 and the 2006 carryovers were \$398,158 for a total 2006 expenditure of \$29,212,146. This is \$105,122 or 0.36% below projected expenditures of \$29,317,268. The following table displays the 2006 expenditure results of each department within the General Fund including carryovers.

Department	2006 Current Budget	2006 Projected	2006 Actual Expenditures	2006 Carryover	Actual Expenditures + Carryovers	\$\$ Variance	% Variance
City Council	\$167,738	\$173,123	\$176,254	\$0	\$176,254	\$3,131	1.81%
City Manager's Office	\$945,814	\$879,464	\$810,597	\$83,131	\$893,728	\$14,264	1.62%
City Clerks Office	\$387,158	\$371,393	\$355,094	\$0	\$355,094	-\$16,299	-4.39%
C&IR	\$582,164	\$560,082	\$530,603	\$13,653	\$544,256	-\$15,826	-2.83%
City Attorney	\$427,267	\$400,040	\$427,949	\$0	\$427,949	\$27,909	6.98%
Human Services	\$587,208	\$576,397	\$553,387	\$7,130	\$560,517	-\$15,880	-2.76%
Finance	\$2,392,028	\$2,382,568	\$2,326,814	\$0	\$2,326,814	-\$55,754	-2.34%
Citywide	\$1,530,974	\$1,002,660	\$1,018,749	\$0	\$1,018,749	\$16,089	1.60%
Human Resources	\$370,328	\$369,218	\$354,183	\$0	\$354,183	-\$15,035	-4.07%
Jail Services	\$839,000	\$1,200,300	\$1,222,637	\$0	\$1,222,637	\$22,337	1.86%
District Court Contract	\$0	\$0	\$21,968	\$0	\$21,968	\$21,968	0.00%
Prosecuting Attorney	\$153,000	\$153,000	\$153,250	\$0	\$153,250	\$250	0.16%
Public Defense	\$134,104	\$148,100	\$141,645	\$0	\$141,645	-\$6,455	-4.36%
Police	\$8,096,426	\$7,994,168	\$7,983,657	\$0	\$7,983,657	-\$10,511	-0.13%
Parks	\$3,989,755	\$3,872,473	\$3,720,326	\$90,396	\$3,810,722	-\$61,751	-1.59%
Economic Development	\$294,521	\$296,205	\$225,984	\$31,707	\$257,691	-\$38,514	-13.00%
PADS	\$2,436,799	\$2,290,797	\$2,153,088	\$0	\$2,153,088	-\$137,709	-6.01%
CRT	\$425,446	\$420,267	\$410,907	\$2,500	\$413,407	-\$6,860	-1.63%
Public Works	\$1,612,073	\$1,609,995	\$1,373,300	\$169,641	\$1,542,941	-\$67,054	-4.16%
Department Totals	\$25,371,801	\$24,700,250	\$23,960,394	\$398,158	\$24,358,552	-\$341,698	-1.38%
General Transfers Out	\$4,608,862	\$4,617,018	\$4,853,594	\$0	\$4,853,594	\$236,576	5.12%
<b>General Fund Total</b>	<b>\$29,980,663</b>	<b>\$29,317,268</b>	<b>\$28,813,988</b>	<b>\$398,158</b>	<b>\$29,212,146</b>	<b>-\$105,122</b>	<b>-0.36%</b>

City Attorney has exceeded projections by \$27,909 or 6.98% due to additional need to contract Professional Legal Services.

City Clerks Office is under projections by \$16,299 or 4.39% primarily as a result of fewer hearing examiner services needed, only 2 hearings out of 10 budgeted.

Communications & Government Relations (C&IR) is under projections by \$15,826 or 2.83% due to savings in printing and contracted services including the cost of the citizen survey.

Economic Development is under projections by \$38,514 or 13% primarily due to the 6-month delay on the beginning date of the Community Capital Development contract.

Finance is under projections by \$55,754 or 2.34% primarily as a result of one of the budget analyst positions remaining unfilled for six months.

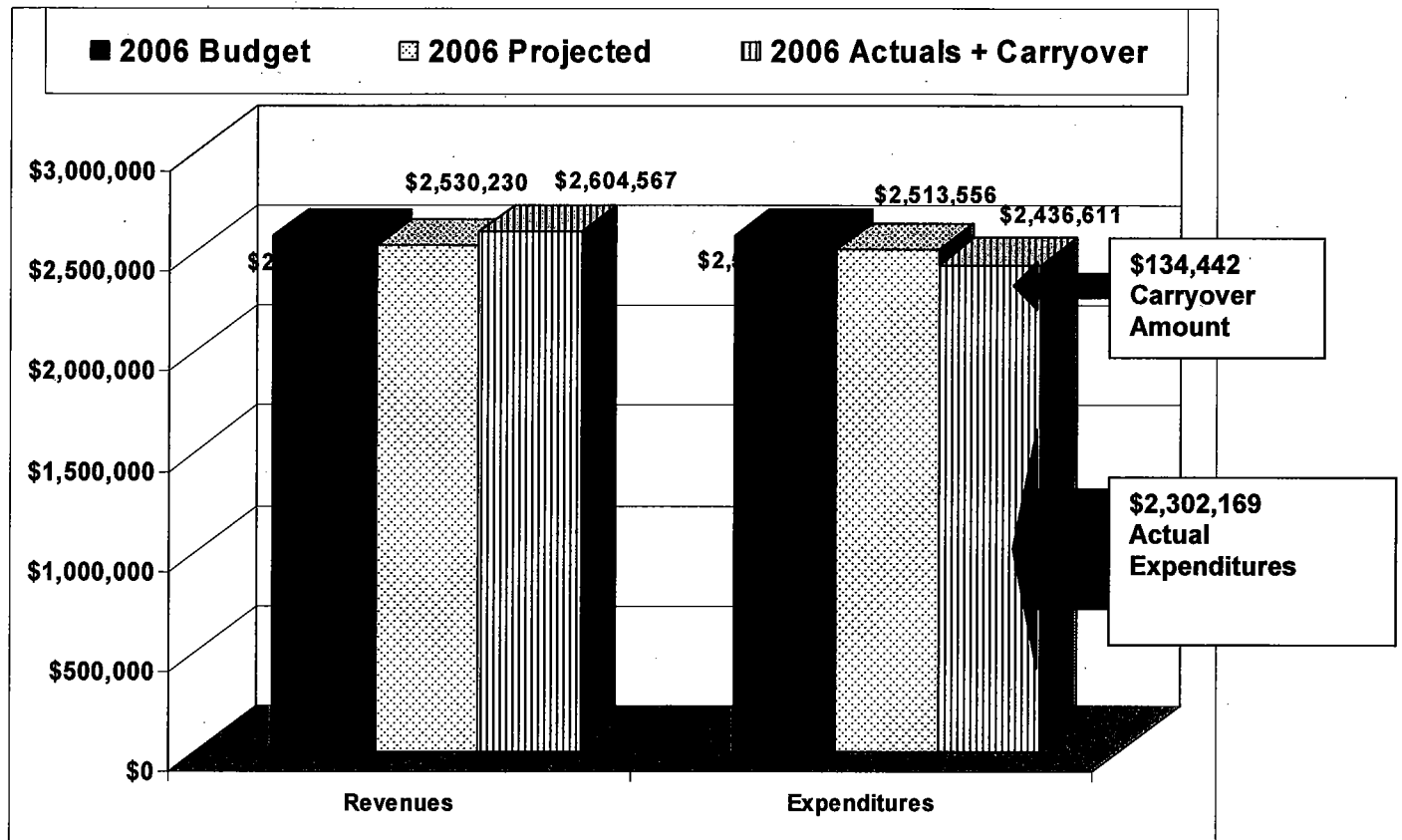
Human Resources is under projections by \$15,035 or 4.07% due to savings in advertising and professional services.

Jail Services has exceeded projections by \$22,337 or 1.86% and has exceeded original budget of \$839,000 by \$383,637 or 45.73% due to increasing jail activity.

Planning & Development Services is under projections by \$137,709 or 3.01%, the primary contributing factor to this is staff vacancies. The two Development Review Engineer positions were each vacant during for a period of time in 2006.

Public Works is under spent by \$67,054 or 4.16%, the primary factor to this was the purchase of the City Hall Annex property resulting in operating, rental & lease savings.

## Street Fund

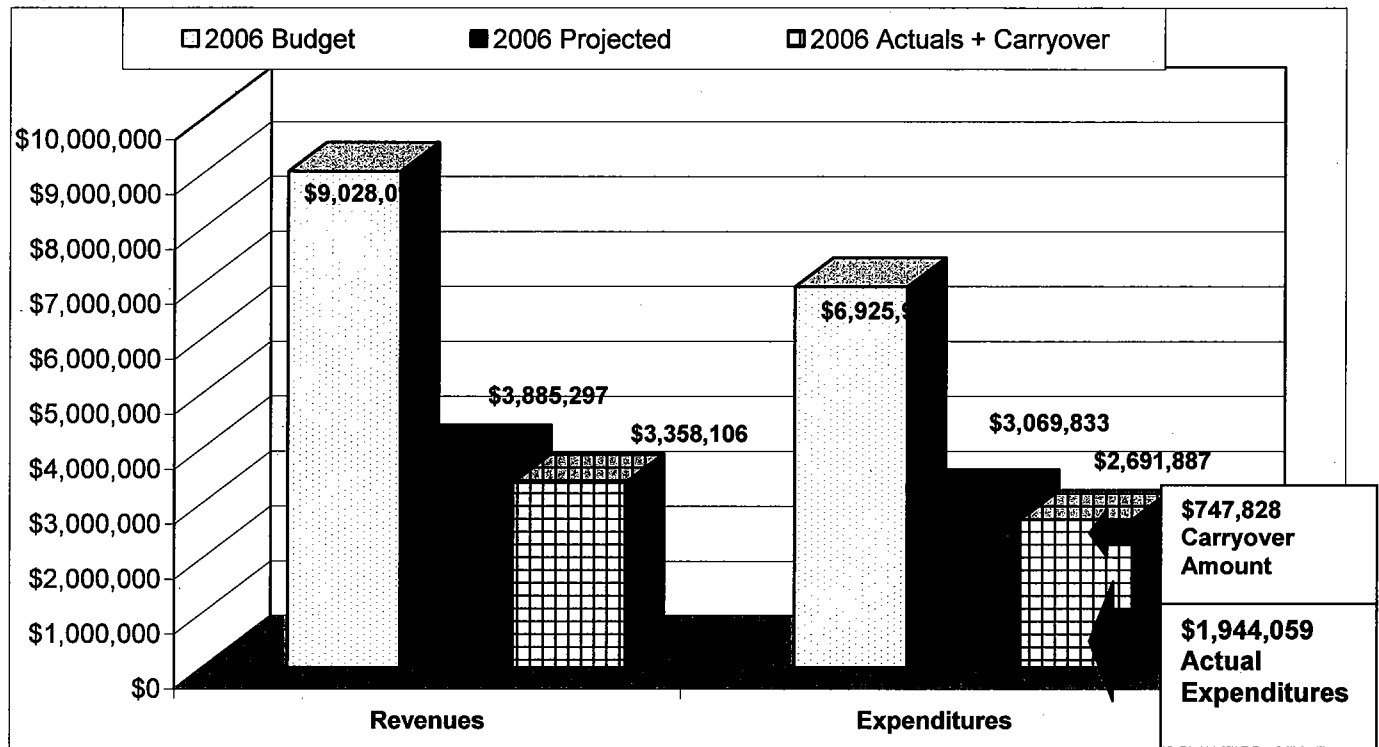


Actual revenues for 2006 were \$2,604,567, just \$74,337 or 2.94% above projected revenue. Right-of-way fee revenue was above projections by \$42,334 or 37.98% due to increased activity. Fuel tax collections were below projections by \$7,206. Interest earnings were above projections by \$16,283.34

The 2006 actual expenditures were \$2,302,169 and the 2006 carryovers were \$134,442 for a total 2006 expenditure of \$2,436,611. This is \$211,387 or 12% below projected expenditures of \$2,513,556.

The 2006 ending fund balance is \$946,524. This includes all revenue and expenditure activity and the requested carryovers. This is \$134,442 greater than was originally projected.

## Surface Water Utility Fund



Actual revenues for 2006 were \$3,362,009 this was \$523,288 or 13.47% less than projected revenue of \$3,885,297. Storm drainage fees were \$29,846 (-1.19%) less than projected. The primary difference between actual and projected revenues is that the amount of Public Works Trust Fund Loan (PWTFL) used was \$287,906 less than anticipated. This PWTFL is for the Ronald Bog Drainage Improvements.

The original 2006 budgeted expenditures included transfers between the Surface Water Management Fund and the Surface Water Capital Fund. During 2006 these two funds were combined to properly account for the surface water activity in an enterprise fund, eliminating the need for the inter-fund transfers. This is the primary reason for the large variances between budget and projected revenues and expenditures.

The 2006 actual expenditures were \$1,944,059 and the 2006 carryovers were \$747,828 for a total 2006 expenditure of \$2,691,887. This is \$1,125,774 or 36.67% below projected expenditures of \$3,069,833. Reasons for the difference between actual and projected expenditures include the following:

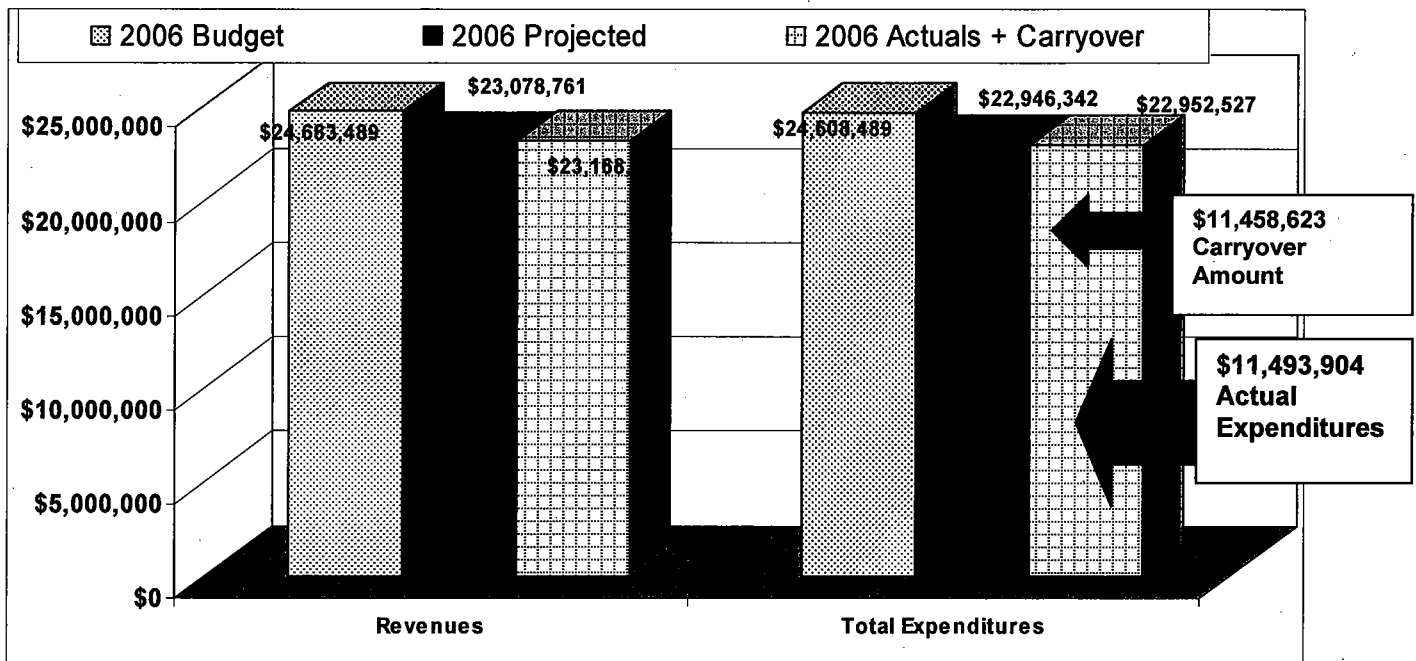
- The repayment of PWTFL principal (\$319,344) is budgeted for management purposes, but for accounting purposes the expenditure is reduced to zero at the end of the year.
- Expenditures for intergovernmental services for drainage services were approximately \$110,000 less than anticipated.



- The Midvale Ave. Drainage project (\$127,000) has been rolled into the East Boeing Creek Drainage, and therefore the East Boeing Creek Drainage budget is sufficient to complete the project.
- General Engineering is under projections by approximately \$95,000 primarily due to salary and benefit savings.

The projected 2006 ending fund balance is \$6,526,879. This includes all revenue and expenditure activity and the requested carryovers. This is \$439,522 more in fund balance than was originally projected.

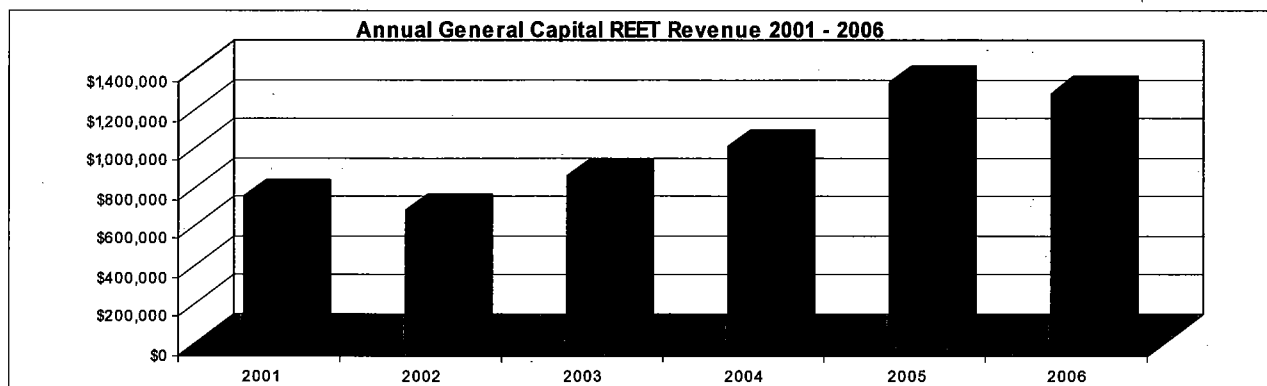
## General Capital Fund



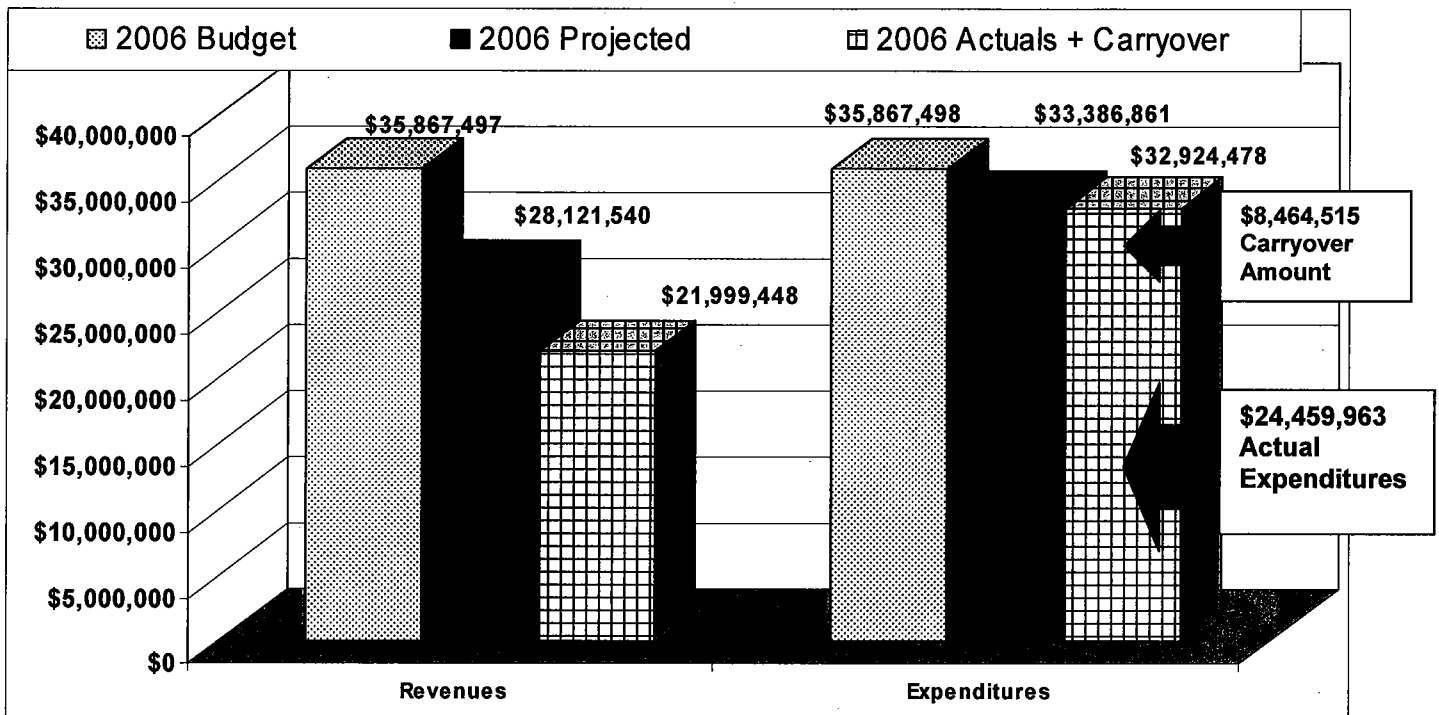
Actual revenues for 2006 were \$23,160,431 this is \$81,670 or 0.4% above projected revenues of \$23,078,761. Real Estate Excise Tax (REET) collections were \$432,681 above projections. Grant revenue was below projections by \$568,508 due to the timing of completion of projects. Investment earnings were over projections by \$97,999.

The 2006 actual expenditures were \$11,493,904 and the 2006 carryovers were \$11,458,623 for a total 2006 expenditure of \$22,952,527. This is only \$6,185 over projected expenditures of \$22,946,342. The projected 2006 ending fund balance is \$13,421,089. This includes all revenue and expenditure activity and the requested carryovers. This is \$1,188,099 more in fund balance than was originally projected. The General Capital ending fund balance includes \$6.3 million for City Hall.

The City has seen substantial growth in REET revenue since 2004. This is reflective of the "hot" real estate market and high number of home purchases that has occurred during this time period. This trend has been experienced throughout most of the United States until 2006, when sales nationally began to slow dramatically. Locally, we have seen a gradual slow down, but values have remained high. In 2006 we saw the number of transactions decreased from 2005 by 11.6% to 2,164 sales. Total value of the real estate sales decreased by 7.1% to \$545,032,417.

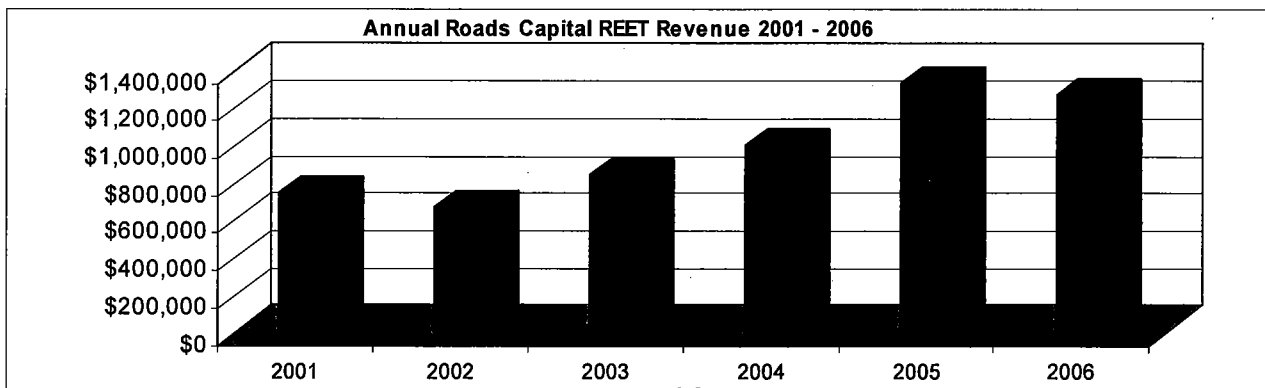


## Roads Capital Fund



Actual revenues for 2006 were \$21,999,448. This is \$6,122,092 or 21.8% below projected revenues of \$28,121,540. This revenue decrease is due primarily to grant revenue not being received as projected since roads projects were not completed as scheduled. However, these grants are expected to be received in 2007 as the project work continues. Staff has requested that \$5,703,306 in grant revenue be carried over into 2007. REET collections were \$182,681 ahead of projections for the same reason that REET collections exceeded projections in the General Capital Fund. Investment earnings were below projections by \$281,269 due to the delay in grant revenues. Fuel tax revenue was \$64,554 below projections as consumption decreased.

The 2006 actual expenditures were \$24,459,963 and the 2006 carryovers were \$8,464,515 for a total 2006 expenditure of \$32,924,478. This is \$462,383 or only 1.4% below projected expenditures of \$33,386,861. The projected 2006 ending fund balance is \$10,689,850. This includes all revenue and expenditure activity and the requested carryovers. This is \$2,761,209 more in fund balance than was originally projected.



**City of Shoreline**  
Investment Report  
December 31, 2006

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

Our yield objectives are very important and, pursuant to policy, the basis used by the City to determine whether the market yields are being achieved is through the use of a comparable benchmark. Our benchmark has been identified as the annual average of the Washington State Local Government Investment Pool, which had been the City's primary mode of investment prior to adopting our Investment Policy. As of December 31, 2006, the City's investment portfolio, excluding the State Investment Pool, had a weighted average rate of return of 4.52%. This is less than the 2006 average rate of return from the State Investment Pool of 4.89% by 37 basis points. Total investment interest earnings for 2006 were \$2,084,716, \$909,328 greater than budgeted.

Throughout 2006 investment interest rates continued to increase. In January 2006 the State Investment Pool rate of return was 4.22%. By December 2006 the State Investment Pool rate of return rose to 5.2%.

As of December 31, 2006, the City's investment portfolio had a fair value of \$55,019,593. Approximately 44% of the investment portfolio was held in U.S. government instrumentality securities and 56% was held in the Washington State Investment Pool. The City's investment portfolio valued at cost as of December 31, 2006, was \$55,030,623. 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 throughout 2006 as maturities were matched with our future cash flow projections. A ladder portfolio approach helps assure that the City will, in the long run, receive a market average rate of return.

The following page provides a summary of the City's investment portfolio as of December 31, 2006.

**LGIP Cash and Investment Balances  
December 31, 2006**

Instrument Type	Settlement Date	Maturity Date	Investment Cost	Yield To Maturity	Market Value	Unrealized Gain/(Loss)
					12/31/2006	as of 12/31/06
FHLMC (Freddie Mac)	01/05/06	02/15/07	3,956,800	4.6300%	3,992,560	35,760
FNMA (Fannie Mae)	05/27/05	05/16/07	2,499,000	4.0610%	2,489,850	(9,150)
FHLB (Fed Home Loan Bank)	05/24/05	05/24/07	2,000,000	3.2500%	2,000,000	0
FHLB (Fed Home Loan Bank)	07/25/05	07/13/07	1,990,200	4.2620%	1,986,260	(3,940)
FHLB (Fed Home Loan Bank)	07/27/05	07/27/07	2,000,000	3.7650%	1,998,048	(1,952)
FHLMC (Freddie Mac)	01/05/06	10/05/07	1,994,600	4.7840%	1,990,700	(3,900)
FHLB (Fed Home Loan Bank)	01/05/06	11/21/07	2,003,400	4.7930%	1,995,620	(7,780)
FHLB (Fed Home Loan Bank)	01/06/06	01/28/08	4,000,000	4.8990%	3,988,750	(11,250)
FHLB (Fed Home Loan Bank)	10/03/06	10/02/08	2,003,200	5.2070%	1,999,380	(3,820)
FNMA (Fannie Mae)	12/15/06	11/20/08	1,000,000	5.2450%	998,440	(1,560)
FHLB (Fed Home Loan Bank)	12/26/06	12/26/08	1,000,000	5.1000%	996,563	(3,438)
State Investment Pool			30,583,423	5.2134%	30,583,423	0
<b>Sub Total</b>			<b>55,030,623</b>		<b>55,019,593</b>	<b>(11,030)</b>

Average Maturity Excluding the  
State Investment Pool (days) 686

Weighted Average Yield to  
Maturity Excluding the State  
Pool 4.5198%

Average Yield to Maturity State  
Investment Pool 4.8865%

Basis Points in Excess (Below)  
Benchmark (37)

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

Portfolio Diversification

Instrument Type	Percentage	Amount at	Amount at Cost	Broker	Percentage	Amount at
		Market Value				Cost
Certificate of Deposit	0%	0	0	Bank of America	28%	15,447,200
FHLMC (Freddie Mac)	11%	5,983,260	5,951,400	Piper Jaffray	16%	9,000,000
FNMA (Fannie Mae)	6%	3,488,290	3,499,000	Gilford Securities	0%	0
FHLB (Fed Home Loan Bank)	27%	14,964,621	14,996,800	Shorebank	0%	0
State Investment Pool	56%	30,583,423	30,583,423	State Investment Pool	56%	30,583,423
<b>Total Investments</b>	<b>100%</b>	<b>55,019,593</b>		<b>Total Investments</b>	<b>100%</b>	<b>55,030,623</b>

Investments by Fund

Fund	Investments at	State Investment	Total Investments	Investment Earnings	Investment	Over/(Under)
	Fair Value as	Pool as of	by Fund as of		Earnings	
	12/31/06	12/31/06	12/31/06	Budget 2006	Actual 2006	Budget
001 General	5,776,632	3,705,780	9,482,411	300,000	443,891	143,891
101 Street	792,262	303,127	1,095,390	22,000	44,043	22,043
104 Reserve	1,782,884	464,823	2,247,707	-	114,515	114,515
107 Code Abatement	54,000	91,605	145,605	2,500	6,968	4,468
108 Asset Seizure	8,681	9,413	18,095	500	1,047	547
109 Public Arts	85,810	151,423	237,233	-	17,772	17,772
301 General Capital	5,495,390	19,056,812	24,552,202	225,847	631,738	405,891
312 City Fac-Mjr Maint	69,848	119,065	188,913	4,680	10,264	5,584
330 Roads Capital	4,256,465	1,552,269	5,808,734	388,875	242,388	(146,487)
401 SWM-Enterprise	4,969,474	4,679,851	9,649,325	214,286	482,137	267,851
501 Vehicle Oper/Maint	23,017	382,247	405,264	1,250	12,479	11,229
503 Equip Dep Replace	1,095,008	30,238	1,125,247	15,000	74,156	59,156
505 Unemployment	26,698	36,769	63,468	450	3,319	2,869
<b>Total Investments</b>	<b>24,436,171</b>	<b>30,583,423</b>	<b>55,019,593</b>	<b>1,175,388</b>	<b>2,084,716</b>	<b>909,328</b>

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