

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE: 2 nd Quarter 2008 Financial Report
DEPARTMENT: Finance
PRESENTED BY: Debbie Tarry, Finance Director

PROBLEM/ISSUE STATEMENT:

The 2008 second quarter financial report will be presented to the City Council this evening. Staff is in the process of completing the report, and therefore the actual report will be distributed later this week, but will be available prior to the City Council meeting of August 25, 2008.

FINANCIAL IMPACT:

This report will outline current trends in both revenues and expenditures. This analysis is used as a basis to evaluate projections for the remainder of 2008 and as staff prepares the 2009 budget and updates the City's six year financial forecast.

Although the report is still being finalized, overall General Fund revenues are approximately 1.5% ahead of projections as of June 30, 2008, while General Fund expenditures are approximately 2% below projections. The primary revenues that show positive trends through the second quarter include property tax, utility taxes and recreation revenues. Within the General Fund, gambling tax is below projections, while sales tax revenues are trending slightly higher than projections, at least through the end of the second quarter.

Of the non-General Fund revenues, real estate excise tax (REET) is falling significantly below 2008 budget and significantly below historical collections. This is a reflection of the difficulties in the real estate market. REET revenues are legally restricted to be used for capital purposes, and therefore are accounted for in the General and Roads Capital funds.

More detailed revenue and expenditure information will be available within the financial report that will be distributed prior to the City Council meeting.

RECOMMENDATION

No action will be required by the Council, as the report is for discussion purposes

Approved By: City Manager  City Attorney ____



2008 SECOND QUARTER FINANCIAL REPORT

AUGUST 2008

PERFORMANCE AT A GLANCE

	YEAR TO DATE TREND	COMPARED TO PROJECTIONS	REFERENCE
GENERAL FUND REVENUES			
Property Tax Revenue	◀NEUTRAL▶	1.6%	Page 4
Sales Tax Revenue	▲ POSITIVE ▲	3.5%	Page 5
Utility Tax Revenue	▲ POSITIVE ▲	3.9%	Page 7, 8
Permit Revenue	WARNING	-2.1%	Page 10
Gambling Tax Revenue	▼ NEGATIVE ▼	-14.3%	Page 11
Interest Revenue	WARNING	-1.2%	Page 13
EXPENDITURES			
General Fund Expenditures		-2.05%	Page 14
NON-GENERAL FUND REVENUES			
Real Estate Excise Tax Revenue	▼ NEGATIVE ▼	-33%	Page 15
Fuel Tax Revenue	▲ POSITIVE ▲	3.2%	Page 15
Surface Water Fees	▼ NEGATIVE ▼	-5.3%	Page 16

Key to trend indicators:

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

August 25, 2008

CITY FINANCIAL OVERVIEW

EXECUTIVE SUMMARY

Through the first half of 2008 the City's General Fund is stable, revenues are slightly ahead of projections and expenditures are trending below projected levels. Although this is the case, as staff looks towards the remainder of 2008 we have started to see economic conditions negatively impacting some of the City's primary operating revenue sources. Specific areas of concern are:

- Gambling revenue down 14.3% from projections due to declining card room activity through March 2008. Card room gambling tax returns for April through June are not remitted to the City until July 30, 2008, but a review of those returns continue to show declining activity
- Interest revenue is 1.2% below projections due to falling interest rates. We do not anticipate that interest rates will begin to climb until mid to late 2009.
- Permit revenue falling behind projections by 2.1% as construction related activity has been slower than originally projected.
- Sales tax revenue is 3.5% above projected revenue but the City's largest retailers show zero growth through the first two quarters of 2008. Construction related sales tax revenue is down by 2.98% when compared to 2007. Additionally we are starting to see retail sales tax activity throughout King County slowing, which will impact future remittance of the Criminal Justice sales tax revenues.

There is some good news to report from the General Fund utility tax revenue is ahead of projections by 3.9% with revenue generated from natural gas and cable television primarily leading the increase. Recreation revenues are also ahead of projections as activity levels continue to increase.

General fund expenditures are below projections by 1.7% as of June 30, 2008. Some of the major areas of savings include:

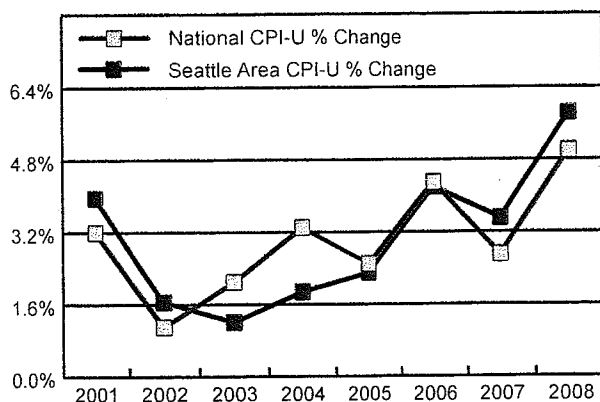
- Salary and benefit savings from the vacant Economic Development Manager position.
- Continued savings in advertising costs for vacant staff positions. Human Resources has been utilizing more effective advertising methods resulting in expenditures being below budget in this area.
- Lower than projected jail day usage resulting in jail costs being lower than projected for the first half of 2008.
- Environmental events such as Clean Sweep and other events having expenditures recorded after the end of the second quarter.

The Surface Water Utility Fund revenue collections are below projections by 6% due to investment earnings being 12.7% below projections and surface water fees below projections by 5.3%. Staff is reviewing surface water fee collections to determine if fees are coming in later than historical trends. Expenditures in this fund are 3.6% below projections mostly due to delays in capital projects.

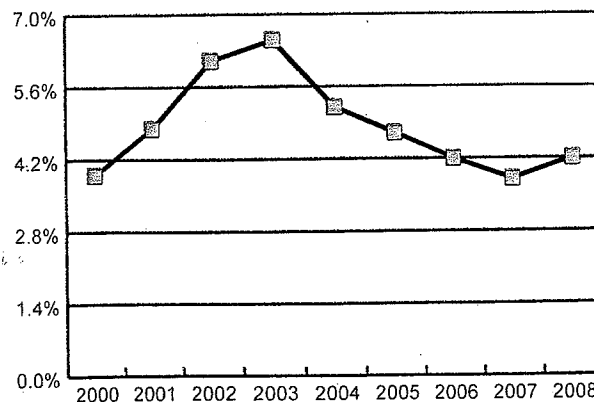
The Street fund revenue collections are 2.6% ahead of projections due to better than expected revenue from right-of-way fees. Expenditures are 9.9% below projections but we expect this variance to fall as the year progresses.

The City's capital funds are supported by revenue generated from Real Estate Excise Tax (REET) and as of June 30, 2008, this revenue source is 33% below projections. This is a result of the slowing real estate market. The year-end REET projection has already been reduced from the budget of \$1,683,000 to \$1,550,000. Collections have continued to decline since the end of the second quarter and therefore it is likely that staff will reduce projections in this area further.

NATIONAL AND LOCAL CPI-U



KING COUNTY UNEMPLOYMENT RATES

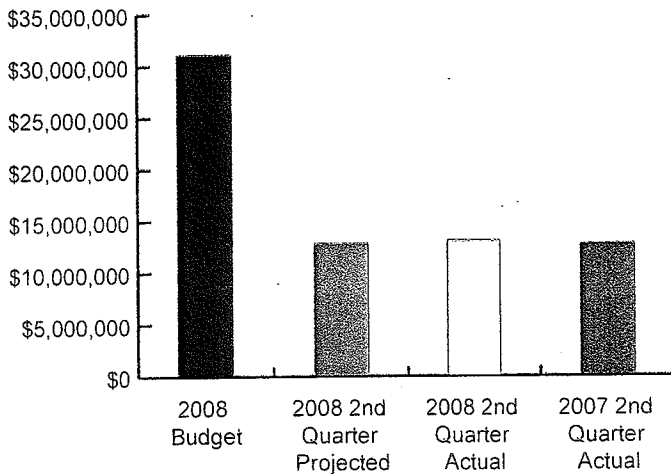


GENERAL FUND REVENUE DETAIL

Revenue Source	2008 Budget	2008 Projected Revenue	2008 2nd Quarter Projected	2008 2nd Quarter Actual	\$ \$ Variance Actual v. Projected	% Variance Actual v. Projected	2007 2nd Quarter Actual
Budgeted Fund Balance	\$2,301,760	\$0	\$0	\$0	\$0	0%	\$0
Property Tax	\$7,236,228	\$7,236,228	\$3,679,622	\$3,738,572	\$58,950	1.6%	\$3,692,940
Sales Tax	\$6,550,000	\$6,550,000	\$2,613,450	\$2,705,145	\$91,695	3.5%	\$2,637,769
Local Criminal Justice	\$1,293,050	\$1,293,050	\$558,598	\$632,066	\$73,468	13.2%	\$616,482
Utility Tax and Franchise Fee Revenue							
Natural gas	\$944,143	\$944,143	\$547,603	\$605,857	\$58,254	10.6%	\$616,862
Garbage	\$400,000	\$400,000	\$152,400	\$44,839	-\$107,561	-70.6%	\$136,726
Cable TV	\$1,195,400	\$1,195,400	\$382,570	\$467,347	\$84,777	22.2%	\$190,582
Telecommunications	\$1,800,000	\$1,800,000	\$599,400	\$644,855	\$45,455	7.6%	\$619,751
Storm Drainage	\$182,310	\$182,310	\$95,439	\$94,483	-\$956	-1.0%	\$93,486
Water	\$565,000	\$565,000	\$141,250	\$149,308	\$8,058	0.0%	\$138,252
Sewer	\$675,263	\$675,263	\$337,632	\$338,000	\$369	0.1%	\$328,001
Utility Tax and Franchise Fee Revenue Subtotal	\$5,762,116	\$5,762,116	\$2,256,294	\$2,344,689	\$88,395	3.9%	\$2,123,660
SCL Contract Payment	\$1,240,000	\$1,240,000	\$496,000	\$386,398	-\$109,602	-22.1%	\$417,660
Gambling Tax Revenue	\$2,265,500	\$2,265,500	\$577,162	\$494,688	-\$82,474	-14.3%	\$422,243
Permit Revenue	\$1,394,100	\$1,394,100	\$699,530	\$684,732	-\$14,798	-2.1%	\$798,485
Park Revenue	\$1,241,948	\$1,300,000	\$605,731	\$644,141	\$38,410	6.3%	\$615,420
State Revenue	\$801,072	\$801,072	\$372,974	\$393,808	\$20,834	5.6%	\$397,256
Grant Revenue	\$507,612	\$507,612	\$23,000	\$23,564	\$564	2.5%	\$170,390
Fines and Licenses	\$30,250	\$30,250	\$56,388	\$57,938	\$1,550	2.7%	\$50,990
Miscellaneous Revenue	\$308,940	\$308,940	\$101,988	\$131,530	\$29,542	29.0%	\$80,430
Interest Income	\$415,366	\$415,366	\$187,485	\$185,261	-\$2,224	-1.2%	\$228,313
Operating Transfers In	\$1,257,236	\$1,257,236	\$628,618	\$628,618	\$0	0.0%	\$523,224
Total General Fund Revenue	\$32,605,178	\$30,361,470	\$12,856,470	\$13,051,150	\$194,311	1.5%	\$12,775,262

GENERAL FUND REVENUE ANALYSIS:

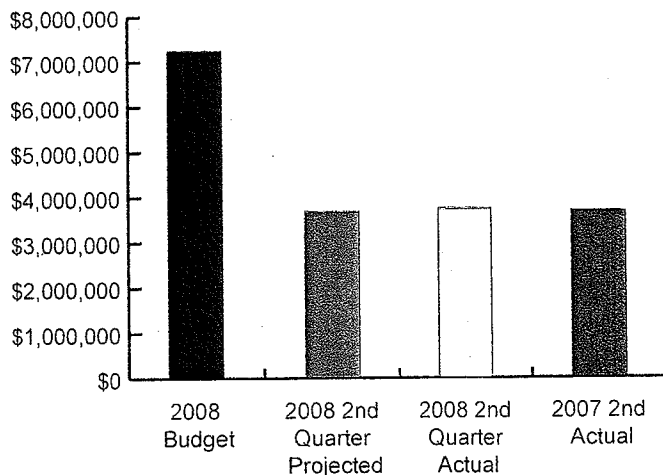
TOTAL GENERAL FUND REVENUE



2008 Budget	\$32,605,178
2008 2nd Quarter Projected	\$12,856,839
2008 2nd Quarter Actual	\$13,051,150
2nd Quarter \$\$ Variance	\$194,311
2nd Quarter % Variance	1.5%
2007 2nd Quarter Actual	\$12,775,262
Change from 2007	2.8%

General Fund Revenue through the first two quarters of 2008 is 1.5% ahead of projections.

PROPERTY TAX

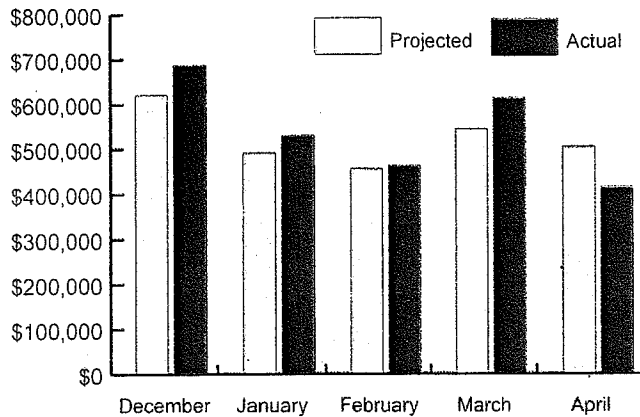


2008 Budget	\$7,236,228
2008 2nd Quarter Projected	\$3,679,622
2008 2nd Quarter Actual	\$3,738,572
2nd Quarter \$\$ Variance	\$58,950
2nd Quarter % Variance	1.6%
2007 2nd Quarter Actual	\$3,692,940
Change from 2007	1.2%

Through the first half of each year the City typically receives about 51% of the annual collections. Property tax collections of \$3,738,572 exceeded projections of \$3,679,622 by \$58,950 or 1.67%. No change has been made in the 2008 projected revenue in this category as the adopted budget for this tax is based upon the property tax levy adopted by Council. Variances in property tax revenues are possible as the City uses 99% of the budgeted levy due to an expected 1% delinquency rate.

GENERAL FUND REVENUE ANALYSIS (continued):

SALES TAX



2008 Budget

\$6,550,000

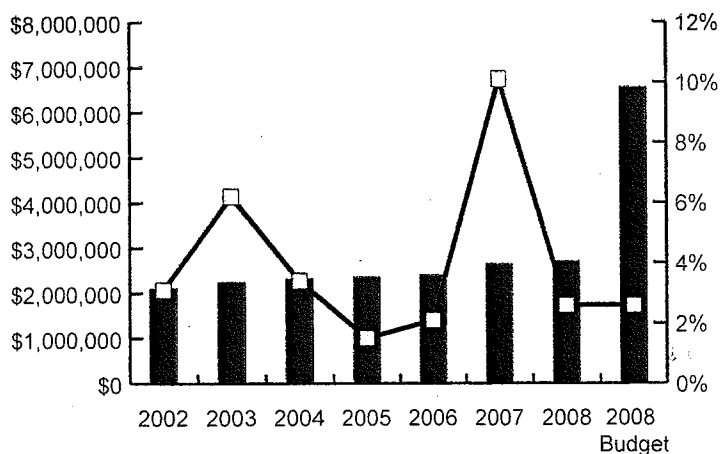
Sales tax revenue: December 2007 through April 2008		
Sales Activity	Projected	Actual
December 2007	\$618,609	\$686,834
January 2008	\$489,615	\$529,792
February 2008	\$453,744	\$461,642
March 2008	\$542,228	\$613,477
April 2008	\$501,569	\$413,400

Sales tax revenue is \$91,695 or 3.5% ahead of projected revenue through the first half of 2008. Given the difficult economic times confronting the United States and the Puget Sound region we are encouraged that sales tax revenue is trending positive. Sales tax revenue is primarily made up by retail sales (61%) and construction (15%). All other categories combined account for the remaining 24%.

For 2008, retail sales are running \$32,000 ahead of last year due to stronger than expected automobile sales of \$22,000. Within this category it is important to note that the City's four "big box" retailers actually had a very small decrease of \$689 when compared to 2007. Given that historically these four retailers have consistently shown positive growth there is reason to be concerned about the overall health of Shoreline's retail base. Other segments of taxable sales showed revenue growth during this time period, namely health care of \$13,000, repair and maintenance services of \$17,000 and \$15,000 in the wholesale sector.

Construction related sales tax revenue decreased by \$12,000 or 2.98% compared to 2007.

In reviewing sales tax revenue it is helpful to know that revenue is received by the City two months after sales actually occur and the tax is paid by the consumer. Therefore, for example, December revenue is actually received by the City in February.

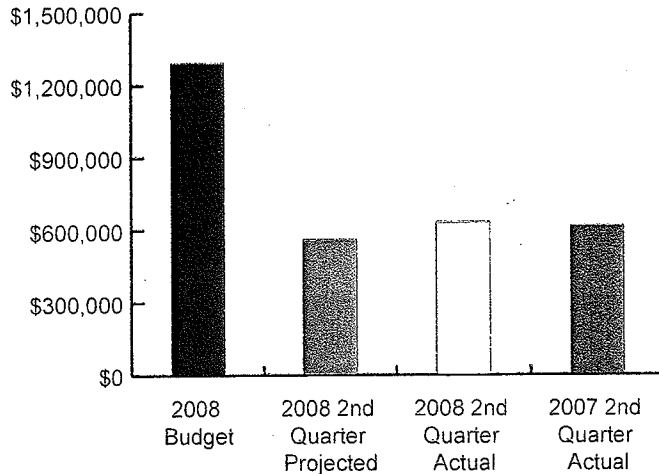


Sales Tax Revenue

Year	Revenue for December and April	% Change from Previous Year
2002	\$2,105,168	3.1%
2003	\$2,234,713	6.2%
2004	\$2,310,734	3.4%
2005	\$2,345,268	1.5%
2006	\$2,394,883	2.1%
2007	\$2,637,769	10.1%
2008	\$2,705,145	2.6%

GENERAL FUND REVENUE ANALYSIS (continued):

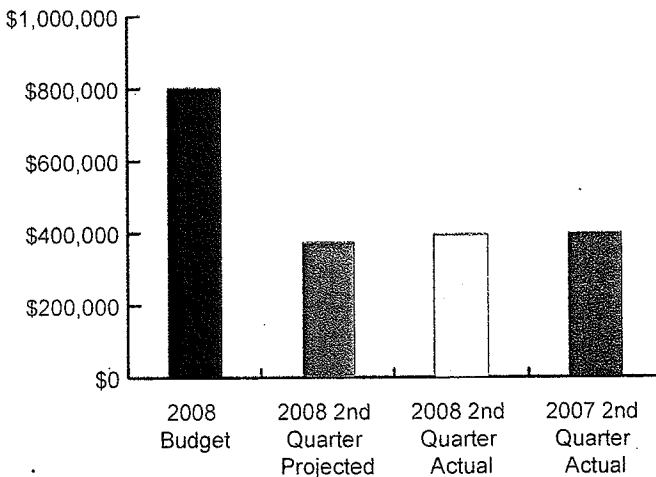
LOCAL CRIMINAL JUSTICE



2008 Budget	\$1,293,050
2008 2nd Quarter Projected	\$558,598
2008 2nd Quarter Actual	\$632,066
2nd Quarter \$\$ Variance	\$73,468
2nd Quarter % Variance	13.2%
2007 2nd Quarter Actual	\$616,482
Change from 2007	2.5%

Local criminal justice sales tax differs from retail sales tax in that the distribution is based on a city's population and the amount of sales tax collected through all of King County. Despite the 13.2% positive variance, we are anticipating that criminal justice sales tax collections will not exceed budget by year end. We have seen collections fall during the past four months at levels less than 2007 - a sign that overall sales tax activity in King County is down.

STATE REVENUE

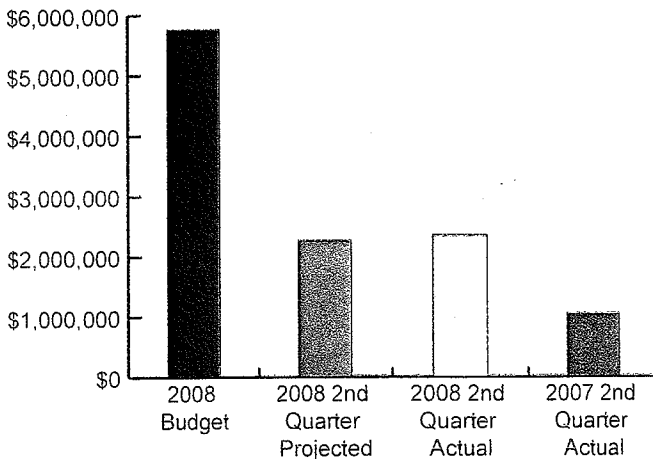


2008 Budget	\$801,072
2008 2nd Quarter Projected	\$372,974
2008 2nd Quarter Actual	\$393,808
\$\$ Variance 2008 Actual v. 2008 Projected	\$20,834
% Variance 2008 Actual v. 2008 Projected	5.6%
2007 2nd Quarter Actual	\$397,256
Change from 2007	-0.09%

State Revenues are comprised primarily of funding for criminal justice programs, liquor excise tax and liquor board profits. Second quarter revenues are \$20,834 or 5.6% ahead of projections. This modest increase is due to better than expected revenue from liquor board profits.

GENERAL FUND REVENUE ANALYSIS (continued):

UTILITY TAX AND FRANCHISE FEE



2008 Budget	\$5,762,116
2008 2nd Quarter Projected	\$2,256,294
2008 2nd Quarter Actual	\$2,344,689
2nd Quarter \$\$ Variance	\$88,395
2nd Quarter % Variance	3.9%
2007 2nd Quarter Actual	\$2,123,660
Change from 2007	10.4%

Utility tax and franchise fee revenue of \$2,344,689 is above projected revenue of \$2,256,294 by \$88,395 or 3.9%. So far through 2008 most of the utility revenues are ahead of projections.

Collections from natural gas utility taxes are ahead of projections by \$58,254 or 10.6%. This is due to increased usage as a result of colder than normal weather during the early months of the year. Given that this increase is due to weather and weather is by nature unpredictable we are not increasing the projected revenue at this time.

Collections from utility tax on garbage services are running behind projections by \$107,561, however this is due to a late payment which was received after the close of the second quarter. We expect this category to be at or very near budget by year end.

Cable TV utility tax revenue is also trending ahead of projections by \$84,777 or 22.2%, at this time we will continue to monitor collections. If this trend continues for one more quarter we will increase the projection for the year.

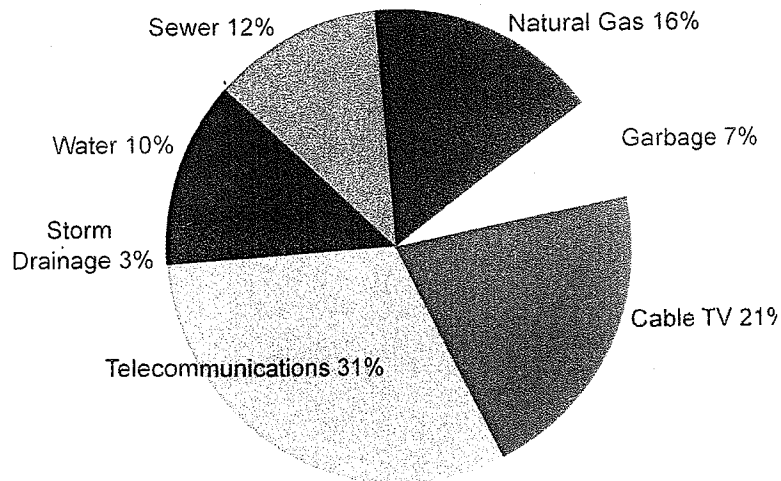
Activity in the telecommunications category continues to grow. Through the first half of the year, this category exceeded projections by \$45,455 or 7.6%.

Franchise fee collections from storm drainage, water and sewer are very close to projections through the second quarter.

GENERAL FUND REVENUE ANALYSIS (continued):

UTILITY TAX AND FRANCHISE FEE (continued)

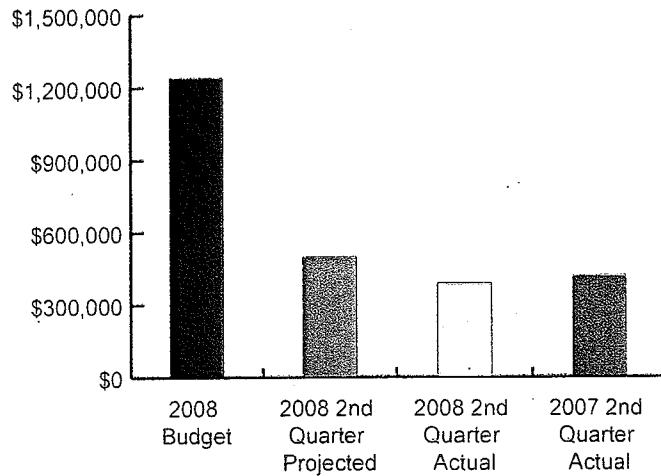
BY UTILITY



Revenue Source	2008 Budget	2008 2nd Quarter Projected	2008 2nd Quarter Actual	\$\$ Variance 2008 Actual v. 2008 Projected	% Variance 2008 Actual v. 2008 Projected	2007 2nd Quarter Actual
Natural gas	\$944,143	\$547,603	\$605,857	\$58,254	10.6%	\$616,862
Garbage	\$400,000	\$152,400	\$44,839	-\$107,561	-70.6%	\$136,726
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Storm Drainage	\$182,310	\$95,439	\$94,483	-\$956	-1.0%	\$93,486
Water	\$565,000	\$141,250	\$149,308	\$8,058	0.0%	\$138,252
Sewer	\$675,263	\$337,632	\$338,000	\$369	0.1%	\$328,0001
Utility Tax and Franchise Fee Revenue Subtotal	\$5,762,116	\$2,256,294	\$2,344,689	\$88,395	3.9%	\$2,123,660

GENERAL FUND REVENUE ANALYSIS (continued):

ELECTRICAL CONTRACT

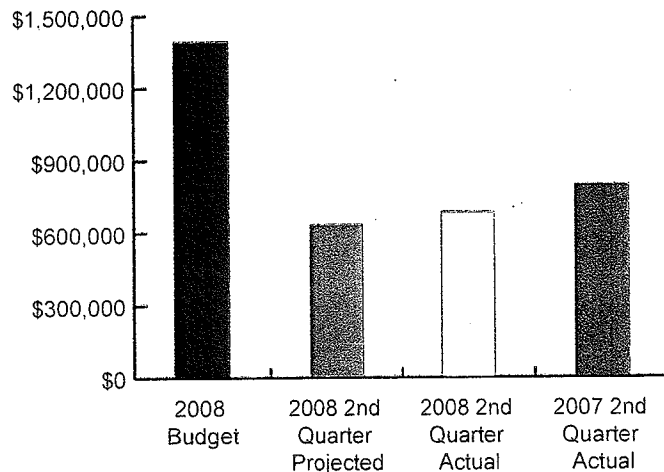


2008 Budget	\$1,240,000
2008 2nd Quarter Projected	\$496,000
2008 2nd Quarter Actual	\$386,398
2nd Quarter \$\$ Variance	-\$109,602
2nd Quarter % Variance	-22.10%
2007 2nd Quarter Actual	\$417,660
Change from 2007	7.5%

Seattle City Light contract payment revenue of \$386,398 is below projected revenue of \$496,000 by \$109,602 or 22.2%. This variance is the result of a late payment from Seattle City Light. We fully anticipate that revenue collections through the remainder of the year will meet budget projections.

GENERAL FUND REVENUE ANALYSIS (continued):

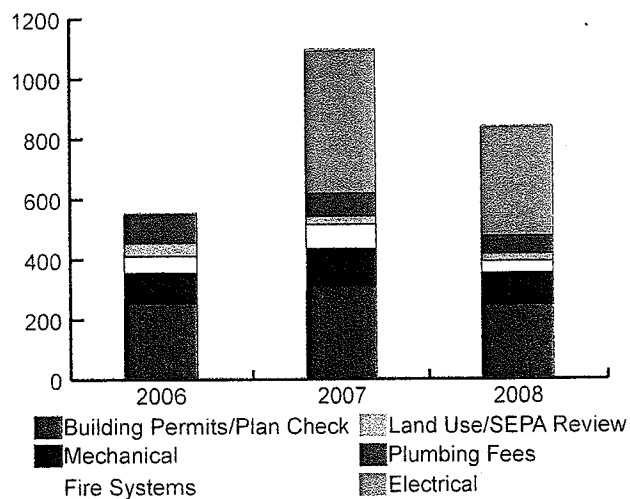
PERMIT REVENUE



2008 Budget	\$1,394,100
2008 2nd Quarter Projected	\$699,530
2008 2nd Quarter Actual	\$684,732
2nd Quarter \$\$ Variance	-\$14,798
2nd Quarter % Variance	-2.1%
2007 2nd Quarter Actual	\$798,485
Change from 2007	14.2%

Permit revenue of \$684,732 is below projected revenue of \$699,530 by \$14,798 or 2.1%. Building activity is running behind 2007 levels through the first half of the year. In 2007 the City processed 308 building permits this year only 247; in 2007 the City processed 29 land use and SEPA reviews this year 25. At this point we are not adjusting the 2008 projected revenue for this revenue source as staff is continuing to monitor permit activity to see if a change will need to be made later in the year.

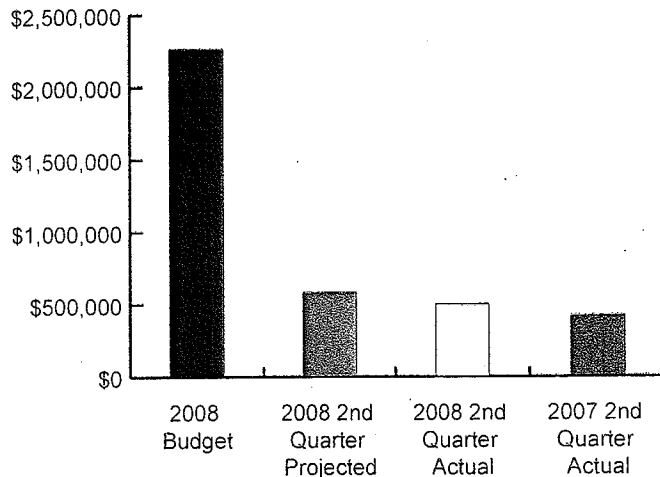
PERMITS BY TYPE January through June 2006 – 2008



PERMIT TYPE	2006	2007	2008
Building Permits/Plan Check	254	308	247
Mechanical	102	128	106
Fire Systems	55	79	39
Land Use/SEPA Review	45	29	25
Plumbing Fees	96	75	58
Electrical	0	474	362
TOTAL NUMBER OF PERMITS	552	1,093	837

GENERAL FUND REVENUE ANALYSIS (continued):

GAMBLING TAX REVENUE



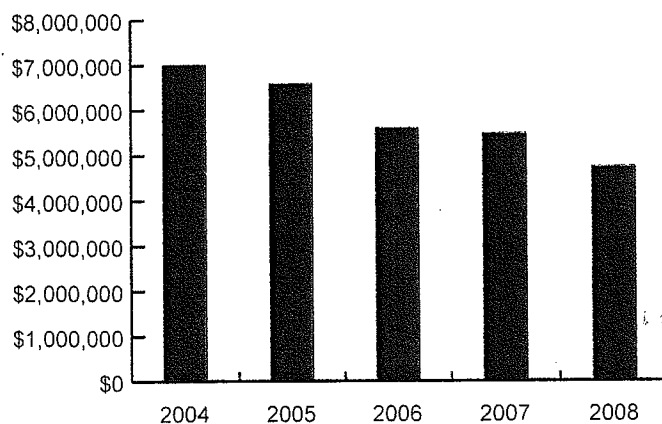
2008 Budget	\$2,265,500
2008 2nd Quarter Projected	\$577,162
2008 2nd Quarter Actual	\$494,688
2nd Quarter \$\$ Variance	-\$72,445
2nd Quarter % Variance	-14.64%
2007 2nd Quarter Actual	\$422,243
Change from 2007	17.2%

Gambling revenue came in at \$72,445 or 14.64% below projections. The reason for the decrease is the sharp decline in card room activity which is down by 10.5% from 2007; compared to 2004 it is down by 32%. Card room gambling tax makes up 95% of all gambling revenue. Consequently changes in card room activity have significant impacts on gambling revenue. We will be monitoring this revenue closely throughout 2008 to determine if actual revenue will be able to meet its target.

Please note that second quarter gambling revenue includes only the first quarter card room activity. Due to timing constraints only first quarter tax returns are received by the City before the report deadline.

In 2007 the card room tax rate was 7% for the first quarter, while in 2008 the rate is 10%. On April 1, 2007 the rate reverted back to 10%.

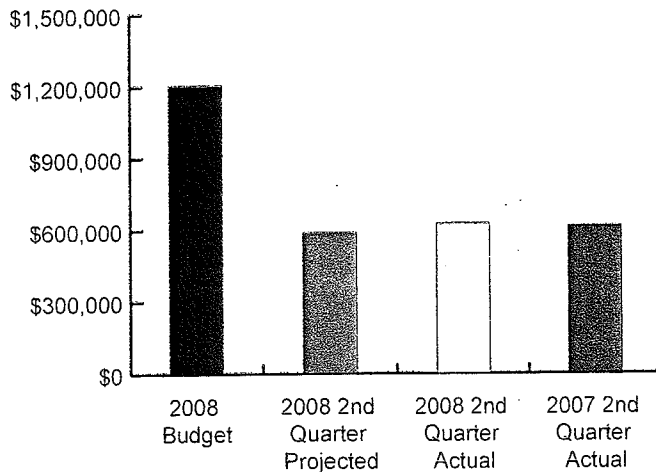
CARD ROOM RECEIPTS - FIRST HALF 2004-2008



Card Room Gross Receipts 2004-2008	
2004	\$7,008,825
2005	\$6,587,011
2006	\$5,596,446
2007	\$5,475,339
2008	\$4,737,431

GENERAL FUND REVENUE ANALYSIS (continued):

PARK AND RECREATION REVENUE

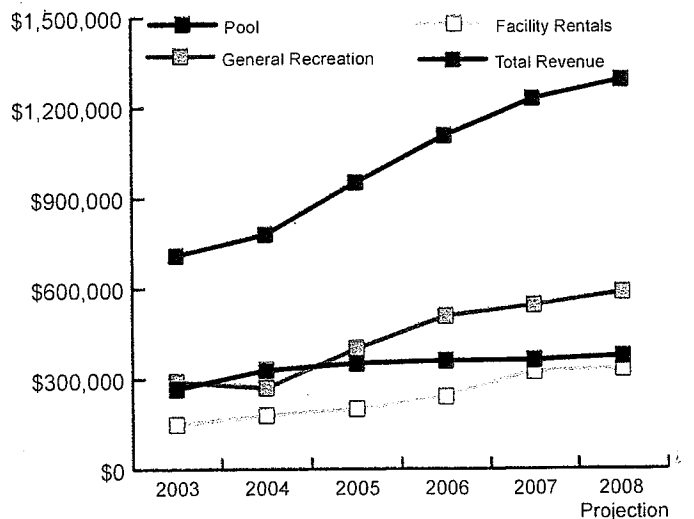


2008 Budget	\$1,203,756
2008 2nd Quarter Projected	\$586,635
2008 2nd Quarter Actual	\$625,092
2nd Quarter \$\$ Variance	\$38,457
2nd Quarter % Variance	6.6%
2007 2nd Quarter Actual	\$615,420
Change from 2007	1.6%

Park revenue of \$644,141 is ahead of projected revenue of \$605,731 by \$38,410 or 6.3%. The stronger than expected revenue is due to increased participation in the City's recreation summer camps, swimming lessons and pool attendance.

At this time, based on the revenue trend lines, we are increasing 2008 parks and recreation projected revenue to \$1,300,000 an increase of \$58,052 or 4.7%.

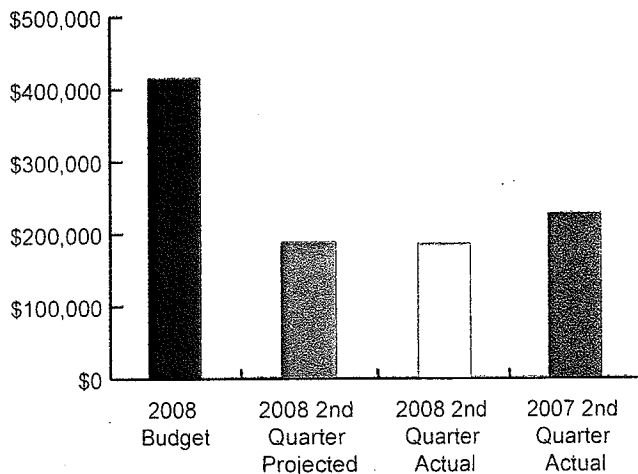
RECREATION REVENUE BY PROGRAM



Annual Revenue by Source 2003-2006				
	Pool	General Recreation	Facility Rentals	Total Revenue
2003	\$269,100	\$292,045	\$149,404	\$710,549
2004	\$329,464	\$270,637	\$179,352	\$779,453
2005	\$351,507	\$400,386	\$200,189	\$952,082
2006	\$358,487	\$507,651	\$240,027	\$1,106,165
2007	\$361,540	\$543,568	\$322,704	\$1,227,812
2008 Projection	\$373,512	\$586,093	\$331,300	\$1,290,905

GENERAL FUND REVENUE ANALYSIS (continued):

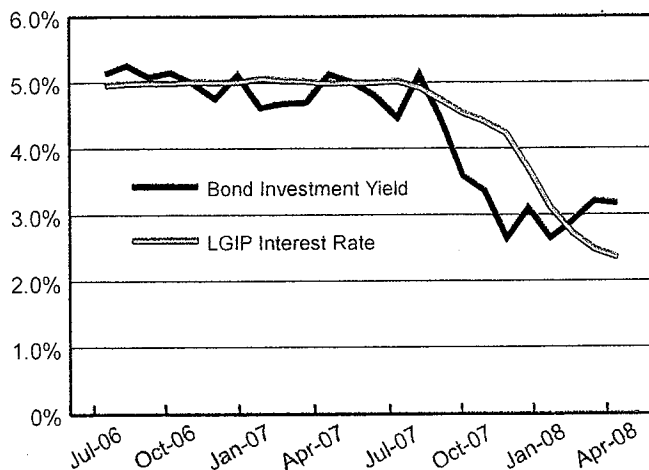
INVESTMENT INCOME



2008 Budget	\$415,366
2008 2nd Quarter Projected	\$187,485
2008 2nd Quarter Actual	\$185,261
2nd Quarter \$\$ Variance	-\$2,224
2nd Quarter % Variance	-1.2%
2007 2nd Quarter Actual	\$228,313
Change from 2007	18.9%

Investment interest is under performing due to a significant drop in interest rates. Since August of 2007 interest rates have decreased dramatically.

There is a detailed discussion of interest earnings at the end of this report.

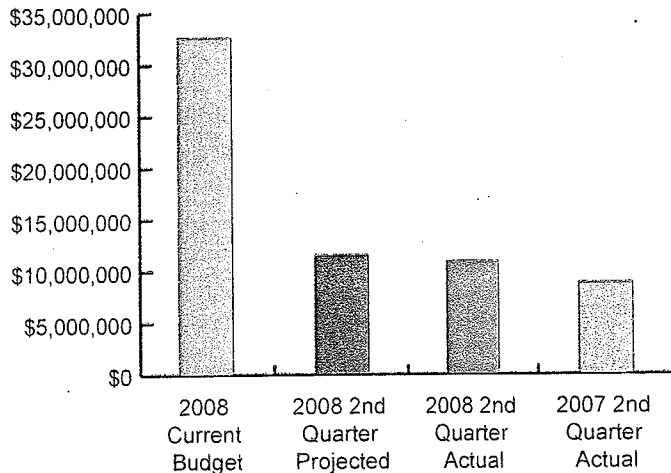


Month	LGIP Interest Rate*	Bond Investment Yield
July-06	5.1637%	5.3600%
Aug-06	5.1883%	5.5000%
Sep-06	5.2023%	5.3000%
Oct-06	5.1931%	5.3800%
Nov-06	5.2229%	5.2000%
Dec-06	5.2134%	4.9400%
Jan-07	5.2113%	5.3400%
Feb-07	5.2768%	4.7900%
Mar-07	5.2372%	4.8600%
Apr-07	5.2260%	4.8800%
May-07	5.1936%	5.3500%
Jun-07	5.2068%	5.2200%
July-07	5.2053%	4.9900%
Aug-07	5.2265%	4.6200%
Sep-07	5.1232%	5.3500%
Oct-07	4.9108%	4.5800%
Nov-07	4.6985%	3.6600%
Dec-07	4.5607%	3.4100%
Jan-08	4.3596%	2.6200%
Feb-08	3.7871%	3.1250%
Mar-08	3.1375%	2.6250%
Apr-08	2.6998%	2.9100%
May-08	2.4281%	3.2400%
Jun-08	2.2933%	3.2000%
Average	4.6236%	4.4354%

*Local Government Investment Pool

EXPENDITURE ANALYSIS:

GENERAL FUND EXPENDITURES



Departmental expenditures during the first half of 2008 were \$8,416,858, under projected expenditures of \$8,954,293 by \$537,434 or 2.0%. Most of this under-expenditure is in the City Manager's Office, Criminal Justice, Parks and Public Works.

The City Manager's Office is under projections by \$102,098 or 14.3% due to savings in the Economic Development program for salaries and benefits due to the vacancy of the Economic Development Manager. This has also resulted in savings in professional services. Criminal Justice is under projections by \$133,602 or 25.2% due to lower than expected costs as fewer jail days are being used. So far in 2008, jail costs are down by 6%. Parks is under projections by \$86,527 or 4.5% due to billing delays for service contracts in Parks Operations.

Also there are salary and benefit savings in the Pool and Parks Operations as a result of vacant positions. Public Works is under projections by \$101,673 or 14.0% due to delays in professional services for work in the Environmental Services program and delay in billings in Public Facilities operating rental and leases. For Public Works, despite the mid-year under projections we anticipate they will fully expend there budget.

This year all City departments completed their year-end cost estimates before the submittal of the second quarter report. As a result, the 2008 year-end estimates are included in this report and show-up in the 2008 projected column in the table that follows. However, the two variance columns included in this report are comparing the results of second quarter only. Overall for year-end 2008 the general fund is projected to be \$1,294,393 or 4.5% under budget but this number includes roughly \$580,000 in unspent citywide contingency funding and \$255,000 for the City's insurance reserve. When factoring out these two numbers the year-end savings decreases to \$459,393 or just 1.6% savings. Council has authorized \$800,000 in savings to be allocated towards funding the City Hall Project.

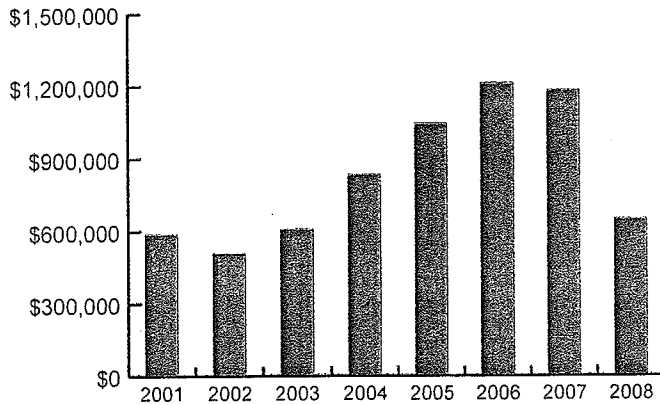
Department	2008 Current Budget	2008 Projected	2008 2nd Quarter Projected	2008 2nd Quarter Actual	\$ Variance	% Variance
City Council	\$176,302	\$175,254	\$87,715	\$99,792	\$12,078	13.8%
City Manager's Office ¹	\$1,507,414	\$1,470,190	\$715,100	\$613,002	-\$102,098	-14.3%
City Clerk	\$425,171	\$454,769	\$211,604	\$191,583	-\$20,021	-9.5%
City Attorney	\$575,174	\$564,933	\$214,223	\$237,193	\$22,970	10.7%
Community Services ²	\$1,582,412	\$1,614,116	\$697,944	\$689,532	-\$8,412	-1.2%
Finance/IS	\$2,879,253	\$2,811,894	\$1,362,750	\$1,297,330	-\$65,420	-4.8%
Citywide	\$1,880,505	\$997,545	\$905,000	\$892,501	-\$12,499	-1.4%
Human Resources	\$423,440	\$399,610	\$197,807	\$175,949	-\$21,858	-11.1%
Police	\$8,989,323	\$8,989,323	\$89,893	\$81,886	-\$8,007	-8.9%
Criminal Justice	\$1,467,029	\$1,417,029	\$531,102	\$397,501	-\$133,602	-25.2%
Parks	\$4,367,266	\$4,249,296	\$1,905,002	\$1,818,475	-\$86,527	-4.5%
Planning and Development Services	\$2,904,561	\$2,742,255	\$1,308,878	\$1,296,513	-\$12,365	-0.9%
Public Works	\$1,484,873	\$1,482,116	\$727,274	\$625,602	-\$101,673	-14.0%
Department Totals	\$28,662,724	\$27,368,330	\$8,954,293	\$8,416,858	-\$537,434	-2.0%
Transfers Out	\$3,968,313	\$3,968,313	\$2,476,666	\$2,476,666	\$0	0.0%
General Fund Total	\$32,631,037	\$31,336,643	\$11,430,959	\$10,893,524	-\$537,434	-1.72%

¹ City Manager includes Economic Development, Communications & Intergovernmental Relations

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

NON-GENERAL FUND REVENUE ANALYSIS:

REAL ESTATE EXCISE TAX (REET)

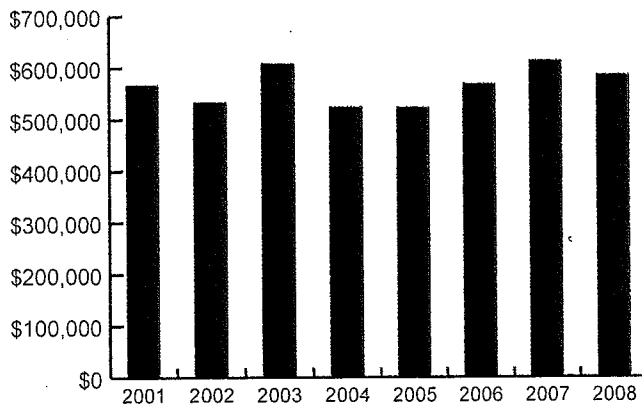


REET: Annual First Half Collected for 2001-2008

2001	\$586,834
2002	\$506,242
2003	\$607,366
2004	\$831,504
2005	\$1,044,946
2006	\$1,211,482
2007	\$1,181,604
2008	\$646,678

Actual REET collections of \$646,678 are below projections of \$967,978 by \$321,300 or 33%. REET revenue continues to decrease dramatically as real estate sales continue to decline both in number of transactions and value of the real estate transactions. The number of transactions has decreased by 35% when compared with 2007 and the value of the transactions decreased by \$109.4 million or 45.3%. Staff has reduced the year-end projection from the original budget of \$1,683,000 to \$1,550,000. Staff will continue to monitor collections to determine if further reductions in projections should be made.

FUEL TAX



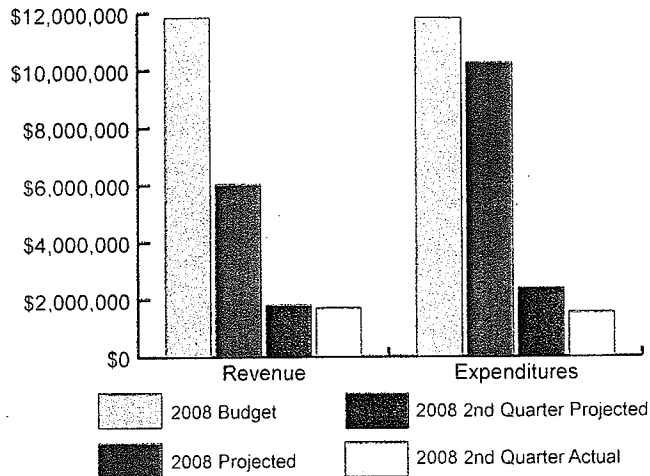
Fuel Tax: Annual First Half Collected for 2001-2008

2001	\$566,572
2002	\$532,728
2003	\$607,367
2004	\$522,751
2005	\$522,371
2006	\$567,577
2007	\$611,951
2008	\$584,780

Motor Vehicle Fuel taxes are received and used in both the City's Street Fund and Roads Capital Fund. Through June the City has received \$584,780 which is \$15,937 or 2.8 % ahead of projections.

OTHER FUNDS REVENUE ANALYSIS:

SURFACE WATER UTILITY FUND



Surface Water Utility Fund

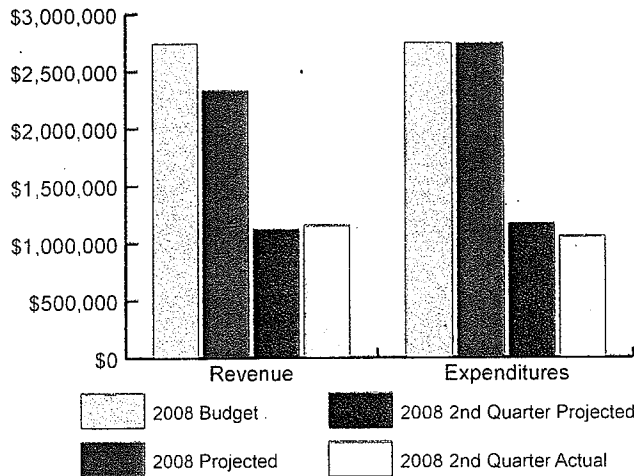
	Revenue	Expenditures
2008 Budget	\$11,814,854	\$11,814,854
2008 Projected	\$6,004,687	\$10,250,294
2008 2Q Projected	\$1,803,804	\$2,393,979
2008 2Q Actual	\$1,695,368	\$1,538,553
\$ Variance	-\$108,436	-\$855,426
% Variance	-6%	-3.6%

Revenues in this fund include surface water fees, mitigation funds from King County for the Hidden Lake project and investment earnings. Through the first half of the year, collections of surface water fees are behind projections by \$86,128 or 5.3%. Investment earnings are under projections by \$22,308 or 12.7%.

Expenditures total \$1,538,553 which is \$855,426 or 35.7% below projections. This is mostly due to delays in capital projects. Many of the projects begun work during the third quarter and will continue through the rest of the year. Expenditures in the operating programs were \$103,019 or 14.6%.

OTHER FUNDS REVENUE ANALYSIS:

STREET FUND



Street Fund	Revenue Expenditures	
	Revenue	Expenditures
2008 Budget	\$2,741,170	\$2,741,170
2008 Projected	\$2,330,598	\$2,741,170
2008 2Q Projected	\$1,120,894	\$1,169,915
2008 2Q Actual	\$1,149,669	\$1,054,383
\$ Variance	\$28,775	-\$115,532
% Variance	2.6%	-9.9%

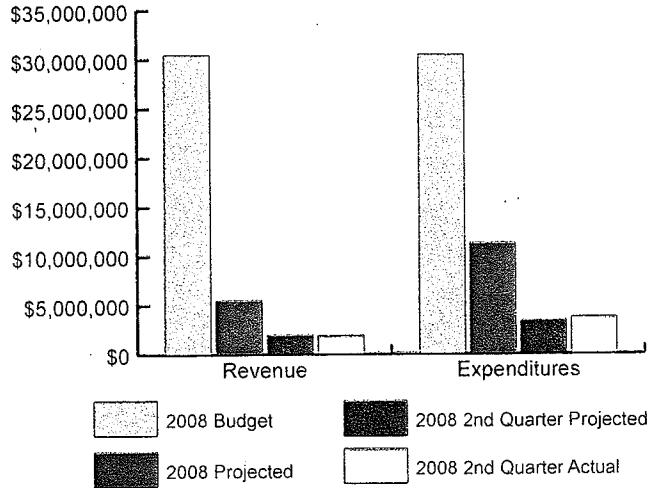
Revenue collections in this fund include fuel tax, right of way fees and investment interest. As previously discussed fuel tax is slightly ahead of projections. Right of way fees totaling \$77,677 are \$18,338 or 315 ahead of projections. Investment earnings of \$16,912 are below projections by \$3,088 or 15.4% as we continue to see interest rates fall.

Recently the City received updated information on the expected distribution of fuel tax for the last six months of 2008 and 2009. Because of the increasing cost of gasoline (40% increase in the last year), the gallons sold has decreased significantly. The revised forecast for 2008 is that statewide collections for fuel tax will be 6.8% less than originally anticipated. As a result, the City's forecast for 2008 has been reduced to \$695,000, a \$53,000 reduction from the original budget of \$747,341. The 2nd Quarter projection reflects the lower projection level.

Expenditures of \$1,054,383 are below projections by \$115,532 or 9.9%. Much of the maintenance activity begins during the second quarter with billings following. We anticipate that the variance will fall as the year progresses.

OTHER FUNDS ANALYSIS (continued):

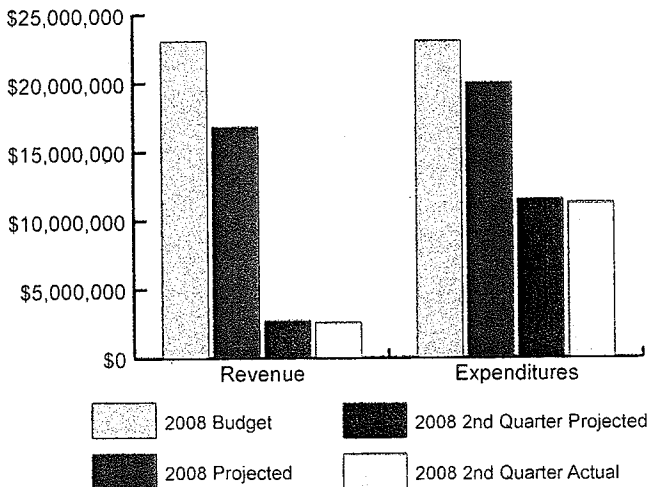
GENERAL CAPITAL FUND



General Capital Fund

	Revenue	Expenditures
2008 Budget	\$30,453,805	\$30,438,421
2008 Projected	\$5,430,360	\$11,211,627
2008 2Q Projected	\$1,925,240	\$3,371,746
2008 2Q Actual	\$1,830,632	\$3,665,659
\$ Variance	-\$94,608	\$293,913
% Variance	-4.9%	8.7%

ROADS CAPITAL FUND



Roads Capital Fund

	Revenue	Expenditures
2008 Budget	\$23,012,286	\$23,012,286
2008 Projected	\$16,795,494	\$19,979,160
2008 2Q Projected	\$2,708,006	\$11,506,143
2008 2Q Actual	\$2,539,105	\$11,226,327
\$ Variance	-\$168,901	-\$279,816
% Variance	-6.2%	-2.4%

INVESTMENT REPORT June 30, 2008:

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

Our yield objectives are very important and, pursuant to policy, the basis used by the City to determine whether the market yields are being achieved is through the use of a comparable benchmark. Our benchmark has been identified as the annual average of the Washington State Local Government Investment Pool, which had been the City's primary mode of investment prior to adopting our Investment Policy. As of June 30, 2008, the City's investment portfolio, excluding the State Investment Pool, had a weighted average rate of return of 4.4%. This is slightly more than the State Investment Pool twelve month average of 4.04%. Total investment interest earnings year-to-date through June 30, 2008 are \$725,322, equating to approximately 45% of total budgeted investment earnings of \$1,611,127 for 2008.

During 2007 investment interest rates began to decline. As was evident in the General Fund revenue analysis on page 13, the average yield on a two year government agency bonds was 5.36% in July 2006. As of June 2008 this rate is down to 3.2%. Assuming a \$50 million investment portfolio, this drop in interest rate represents a reduction in annual investment earnings of over \$1 million.

As of June 30, 2008, the City's investment portfolio had a fair value of \$50.748 million. Approximately 22% of the investment portfolio was held in U.S. government instrumentality securities and 78% was held in the Washington State Investment Pool. The City's investment portfolio valued at cost as of June 30, 2008, was \$50.7 million. The difference between the cost and the market value of the portfolio represents either the loss or the gain of the portfolio if the City were to liquidate investments as of the day that the market value is stated. This would only be done if the City needed to generate cash. The City holds all of its investments until the scheduled maturity date, and therefore when the investments mature the principal market value should equal the cost of the investment. The City also holds sufficient investments within the State Pool to allow for immediate cash liquidation if needed. Investments within the State Pool can be liquidated on any given day with no penalty.

The City continued to implement a ladder philosophy in its investment portfolio over the last year. This has 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 October 2007 is yielding 4.976% and will not mature until 2010. This is compared to a recent instrument purchased in June 2008 that is yielding 2.7%. A ladder portfolio approach helps assure that the City will, in the long run, receive a market average rate of return.

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

Although FNMA, FHLMC, and FHLB are considered federally sponsored agencies, their investment securities are not federally guaranteed. Even though this is the case, it is generally believed that if these agencies were to be in a position of default that the federal government would step in and back all of their investments. This has become very evident with the current federal plans to provide capital to Fannie Mae and Freddie Mac to keep these agencies whole. The City currently has 36% of its investment portfolio in these agency mortgage backed securities. We believe that these are quality investment instruments and that we will receive full payment of our investments at the time of maturity. Staff will continue to monitor the credit and housing market as future investment decisions are made.

INVESTMENT REPORT (continued):

LGIP Cash and Investment Balances June 30, 2008

Instrument Type	BRO KER	Settlement Date	Maturity Date	Investment Cost	Yield To Maturity	Market Value	Recognized	Unrealized
						6/30/08	Gain/(loss) as of 6/30/08	Gain/(Loss) as of 6/30/08
FHLMC (Freddie Mac)	BA	10/01/07	10/01/10	3,000,690	4.9760%	3,015,804	19,020	(3,906)
FNMA (Fannie Mae) Disc	BA	06/26/08	03/31/09	1,959,072	2.7450%	1,960,200		1,128
FNMA (Fannie Mae)	BA	2/27/2008	09/13/08	1,037,470	2.8360%	1,022,500		(14,970)
FNMA (Fannie Mae)	FNC	09/05/07	07/23/08	985,020	4.9601%	1,000,725	8,963	6,742
FHLMC (Freddie Mac)	PJ	07/19/07	07/02/09	1,999,938	5.3750%	2,000,768	13,176	(12,346)
FNMA (Fannie Mae)	PJ	10/15/07	10/15/09	1,999,996	4.8750%	2,013,750	14,379	(625)
State Investment Pool				39,734,952	3.1375%	39,734,952		0
Sub Total				50,717,138		50,748,699	55,538	(23,977)

Average Maturity Excluding the
State Investment Pool (days)

557

Weighted Average Yield to
Maturity Excluding the State
Pool

4.4287%

Average Yield to Maturity State
Investment Pool

4.0359%

Basis Points in Excess (Below)
Benchmark

39

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

Portfolio Diversification

<u>Instrument Type</u>	<u>Percentage</u>	<u>Amount at Market Value</u>	<u>Amount at Cost</u>	<u>Broker</u>	<u>Percentage</u>	<u>Amount at Cost</u>
Certificate of Deposit	0%	0	0	Bank of America	12%	5,997,232
				Financial Northwest		
FNMA (Fannie Mae) Disc	4%	1,960,200	1,959,072	Corp	2%	985,020
FHLMC (Freddie Mac)	10%	5,016,572	5,000,628	Multibank Security	0%	0
FNMA (Fannie Mae)	8%	4,036,975	4,022,486	Piper Jaffray	8%	3,999,934
State Investment Pool	<u>78%</u>	39,734,952	39,734,952	State Investment Pool	<u>78%</u>	39,734,952
Total Investments	100%	50,748,699	50,717,138	Total Investments	100%	50,717,138

Investments by Fund

Fund	Investments at		State Investment		Investment		Over/(Under)
	Adjusted Cost as 6/30/2008	Recognized Gain/(Loss)	Pool as of 06/30/2008	Total Investments by Fund as of 6/30/2008	Earnings Budget 2008	Earnings Actual 2008	
001 General	3,062,235	15,092.68	6,617,238	9,694,566	391,366	173,285	(218,081)
101 Street	373,675	2,348.16	615,801	991,824	48,000	16,912	(31,088)
104 Reserve	0	0.00	0				
107 Code Abatement	46,404	303.80	99,806	146,514	7,500	2,147	(5,353)
108 Asset Seizure	-	0.00	17,385	17,385	500	331	(169)
109 Public Arts	51,739	323.20	117,472	169,534	3,645	3,217	(428)
190 Revenue Stabilization	1,551,916	3,558.71	4,954,472	6,509,947	96,000	-	(96,000)
201 Unlimited GO Bond			712,484	712,484			
301 General Capital	2,298,740	13,430.51	12,826,214	15,138,384	334,829	240,471	(94,358)
312 City Fac-Mjr Maint	45,477	286.60	143,101	188,865	5,852	2,810	(3,042)
330 Roads Capital	973,649	5,116.66	3,965,788	4,944,553	282,060	104,596	(177,464)
401 Surface Water Utility Fund	1,881,126	11,983.69	8,135,158	10,028,268	391,125	152,692	(238,433)
501 Vehicle Oper/Maint	42,937	298.78	87,419	130,654	1,250	1,480	230
503 Equip Dep Replace	635,113	2,670.96	1,305,868	1,943,652	46,000	24,963	(21,037)
505 Unemployment	19,176	124.19	45,305	64,605	3,000	979	75
650 Agency Fund Admin			0				
652 Kruckeberg Garden Trust Fund			91,441	91,441		1,349	
Total Investments	10,982,186	55,538	39,734,952	50,772,676	1,611,127	725,232	(885,148)