

CITY COUNCIL AGENDA ITEM

CITY OF SHORELINE, WASHINGTON

AGENDA TITLE: 2007 Second Quarter Financial Report
DEPARTMENT: Finance
PRESENTED BY: Debbie Tarry, Finance Director

PROBLEM/ISSUE STATEMENT:

The purpose of this agenda item is to summarize the second quarter financial activities for the City's major funds: General, Streets, Surface Water Utility, General Capital, and Roads Capital. The second quarter report is provided to keep the Council informed of the financial issues and the financial position of the City.

Revenue Section


Fund	Revenues					
	2007 Budget	2007 Projected	2nd Quarter Projected	2nd Quarter Actuals	\$ Variance Actuals v. Projected	% Variance
General Fund	\$28,712,699	\$29,466,646	\$12,243,179	\$12,694,832	\$451,653	3.69%
Streets	\$2,422,087	\$2,450,173	\$1,105,688	\$1,122,410	\$16,722	1.51%
SWM Utility Fund	\$6,277,263	\$4,698,146	\$1,767,726	\$1,772,801	\$5,075	0.29%
General Capital	\$24,803,835	\$12,889,810	\$772,219	\$1,057,811	\$285,592	36.98%
Roads Capital	\$13,066,740	\$14,309,438	\$2,024,563	\$2,046,321	\$21,758	1.07%
General Reserve Fund	\$58,546	\$58,546	\$29,273	\$39,967	\$10,694	36.53%
Code Abatement Fund	\$100,000	\$100,000	\$50,000	\$3,102	-\$46,898	-93.80%
Asset Seizure Fund	\$23,500	\$23,500	\$11,750	\$3,489	-\$8,261	-70.31%
Unltd Tax GO Bond Fund	\$1,800,000	\$1,800,000	\$907,917	\$907,917	\$0	0.00%
Public Arts Fund	\$0	\$5,053	\$0	\$5,053	\$5,053	0.00%
Vehicle Operations Fund	\$139,988	\$143,152	\$139,000	\$143,152	\$4,152	2.99%
Facility - Major Maintenance Fund	\$110,000	\$90,000	\$33,000	\$33,642	\$642	1.95%
Equipment Replacement Fund	\$315,569	\$315,569	\$296,000	\$302,878	\$6,878	2.32%
Unemployment	\$10,500	\$10,500	\$10,250	\$11,278	\$1,028	10.03%
Totals	\$77,840,727	\$66,360,533	\$19,390,564	\$20,144,653	\$754,089	3.89%

Expenditure Section

Fund	Expenditures					
	2007 Budget	2007 Projected	2nd Quarter Projected	2nd Quarter Actuals	Variance Actuals v. Projected	% Variance
General Fund	\$29,016,399	\$28,382,882	\$11,963,039	\$8,822,715	\$3,140,324	-26.3%
Streets	\$2,556,529	\$2,532,552	\$1,107,537	\$967,989	-\$139,548	-12.6%
SWM Utility Fund	\$6,742,785	\$4,295,343	\$1,710,929	\$1,220,100	-\$490,829	-28.7%
General Capital	\$35,349,846	\$13,917,119	\$7,595,525	\$7,177,789	-\$417,736	-5.5%
Roads Capital	\$16,358,554	\$14,364,165	\$5,772,775	\$5,172,887	-\$599,888	-10.4%
General Reserve Fund	\$0	\$0	\$0	\$0	\$0	0.0%
Code Abatement Fund	\$100,000	\$100,000	\$50,000	\$0	-\$50,000	-100.0%
Asset Seizure Fund	\$23,500	\$23,500	\$11,750	\$9,076	-\$2,674	-22.8%
Unltd Tax GO Bond Fund	\$1,636,227	\$1,636,227	\$348,034	\$348,034	\$0	0.0%
Public Arts Fund	\$84,000	\$84,000	\$42,000	\$15,544	-\$26,456	-63.0%
Vehicle Operations Fund	\$139,988	\$139,988	\$58,795	\$34,879	-\$23,916	-40.7%
Facility - Major Maintenance Fund	\$110,000	\$90,000	\$45,000	\$33,953	-\$11,047	-24.5%
Equipment Replacement Fund	\$100,000	\$100,000	\$50,000	\$48,983	-\$1,017	-2.0%
Unemployment	\$10,000	\$10,000	\$5,000	\$1,111	-\$3,889	-77.8%
Totals	\$92,227,828	\$65,675,776	\$28,760,384	\$23,853,060	\$4,907,324	-17.1%

RECOMMENDATION

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

Approved By: City Manager  City Attorney _____

ATTACHMENTS

Attachment A – 2007 Second Quarter Financial Report



2007 Second Quarter Financial Report

Prepared by the Finance Department

for the

Fiscal Year January 1, 2007 – December 31, 2007

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EXECUTIVE SUMMARY

General Fund

Actual revenue collections of \$12,694,832 through the second quarter of 2007 were \$451,654 or 3.69% above revised projections of \$12,243,179. The General Fund is projected to collect \$753,947 or 2.6% more revenue than originally budgeted for 2007 as projected revenue is \$29,466,646 up from budgeted revenue of \$28,712,699.

Departmental expenditures during the first half of 2007 were \$8,822,715; less than projected expenditures of \$11,963,039 by \$3,140,324 or 26%. The primary reason for expenditures being less than projected is because Kind County billed for Police contracted services later than in previous years. If this had not been the case, the actual expenditures would have been \$3 million greater.

Street Fund

Street Fund revenue through the first half of 2007 was \$1,122,410, over revised projections of \$1,105,688 by \$16,722, a 1.5% variance. Projected revenues for 2007 have been increased by \$28,086 to include a grant from the Washington Traffic Safety Council (WTSC) for \$37,500, increased investment earnings of \$2,171, unanticipated Superior Court Restitution of \$1,807 and other miscellaneous revenue of \$1,350. Projected fuel tax revenue has been decreased by \$14,742.

Street Fund expenditures of \$967,989 are below projections of \$1,107,537 by \$139,548 or 16.6% due to salary savings from staff vacancies and delayed billing for streetlights and other King County services.

Surface Water Utility Fund

Revenues in the Surface Water Utility Fund of \$1,772,801 are behind projections of \$1,767,726 by \$5,075 or 0.29%. Storm drainage fees are slightly behind projections by \$7,647 or 0.49%. Investment earnings are slightly ahead of projections by \$2,572 or 1.23%.

Total projected 2007 expenditures are expected to be well below the 2007 budget. Operating expenditures are projected to be \$77,681 under budget due to staff vacancies and capital expenditures are expected to be \$2,369,761 less than budget due to changes in project schedules. Year to date operating expenditures are \$106,528 or 11.67% under projections mainly due to staffing vacancies and the timing of special projects in the professional services category. Capital expenditures are \$391,268 or 67.87% behind projections.

Capital Funds

In the General Capital Fund, the major sources of revenue are contributions from the General Fund, real estate excise tax and investment earnings. Funding from the General Fund is on target and real estate excise tax collections are ahead of projections by \$132,301 or 30.3%. Investment earnings also exceeded projections by \$153,291 or 53.6%. Projected 2007 revenue from real estate excise taxes has been increased by \$517,000 over the adopted budget. 2007 projected revenues have been adjusted to reflect the delay of debt financing for the Civic Center project until 2008. Through the first half of 2007, \$7,177,789 has been spent, which is under projections of \$7,595,525 by \$417,736 or 5.51%. Overall, 2007 projected expenditures have been decreased to match the recently adopted Capital Improvement Plan. The Civic Center/City Hall project is the largest project that impacts this projection.

In the Roads Capital Fund, year-to-date revenues of \$2,046,321 are above projected revenue of \$2,024,563 by \$21,758 or 1.07%. Overall projected revenues for 2007 have been increased from a budget of \$13,066,740 to \$14,309,438 to reflect the recently adopted CIP.

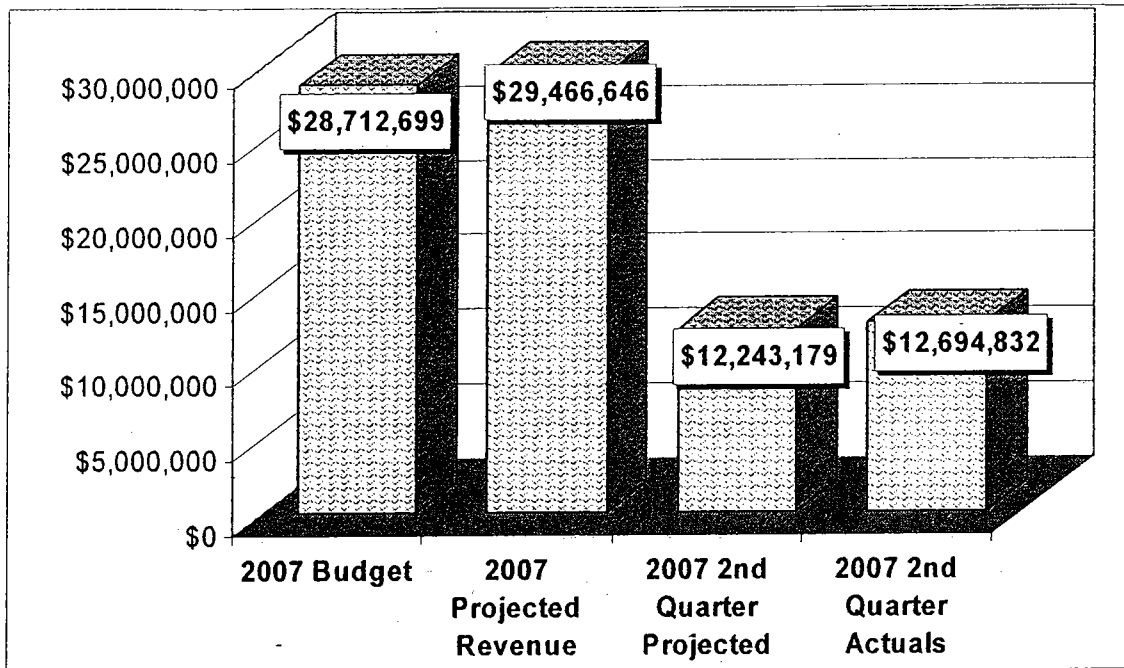
Projected 2007 expenditures have been lowered from the original budget of \$16,358,554 to \$14,364,165. This change reflects the projections included in the 2008 – 2013 CIP. The majority of this revision is related to the delay in the Richmond Beach Overcrossing project. Expenditures through June totaling \$5,172,887 are under projections of \$5,772,775 by \$599,888 or 10.4%.

Summary of Key Operating Funds

The following table provides a summary of the financial results for each City fund for first half of 2007.

Revenues						
Fund	2007 Budget	2007 Projected	2nd Quarter Projected	2nd Quarter Actuals	\$\$ Variance Actuals v. Projected	% Variance
General Fund	\$28,712,699	\$29,466,646	\$12,243,179	\$12,694,832	\$451,653	3.69%
Streets	\$2,422,087	\$2,450,173	\$1,105,688	\$1,122,410	\$16,722	1.51%
SWM Utility Fund	\$6,277,263	\$4,698,146	\$1,767,726	\$1,772,801	\$5,075	0.29%
General Capital	\$24,803,835	\$12,889,810	\$772,219	\$1,057,811	\$285,592	36.98%
Roads Capital	\$13,066,740	\$14,309,438	\$2,024,563	\$2,046,321	\$21,758	1.07%
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Code Abatement Fund	\$100,000	\$100,000	\$50,000	\$3,102	-\$46,898	-93.80%
Asset Seizure Fund	\$23,500	\$23,500	\$11,750	\$3,489	-\$8,261	-70.31%
Unltd Tax GO Bond Fund	\$1,800,000	\$1,800,000	\$907,917	\$907,917	\$0	0.00%
Public Arts Fund	\$0	\$5,053	\$0	\$5,053	\$5,053	0.00%
Vehicle Operations Fund	\$139,988	\$143,152	\$139,000	\$143,152	\$4,152	2.99%
Facility - Major Maintenance Fund	\$110,000	\$90,000	\$33,000	\$33,642	\$642	1.95%
Equipment Replacement Fund	\$315,569	\$315,569	\$296,000	\$302,878	\$6,878	2.32%
Unemployment	\$10,500	\$10,500	\$10,250	\$11,278	\$1,028	10.03%
Totals	\$77,840,727	\$66,360,533	\$19,390,564	\$20,144,653	\$754,089	3.89%
Expenditures						
Fund	2007 Budget	2007 Projected	2nd Quarter Projected	2nd Quarter Actuals	Variance Actuals v. Projected	% Variance
General Fund	\$29,016,399	\$28,382,882	\$11,963,039	\$8,822,715	\$3,140,324	-26.3%
Streets	\$2,556,529	\$2,532,552	\$1,107,537	\$967,989	-\$139,548	-12.6%
SWM Utility Fund	\$6,742,785	\$4,295,343	\$1,710,929	\$1,220,100	-\$490,829	-28.7%
General Capital	\$35,349,846	\$13,917,119	\$7,595,525	\$7,177,789	-\$417,736	-5.5%
Roads Capital	\$16,358,554	\$14,364,165	\$5,772,775	\$5,172,887	-\$599,888	-10.4%
General Reserve Fund	\$0	\$0	\$0	\$0	\$0	0.0%
Code Abatement Fund	\$100,000	\$100,000	\$50,000	\$0	-\$50,000	-100.0%
Asset Seizure Fund	\$23,500	\$23,500	\$11,750	\$9,076	-\$2,674	-22.8%
Unltd Tax GO Bond Fund	\$1,636,227	\$1,636,227	\$348,034	\$348,034	\$0	0.0%
Public Arts Fund	\$84,000	\$84,000	\$42,000	\$15,544	-\$26,456	-63.0%
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Unemployment	\$10,000	\$10,000	\$5,000	\$1,111	-\$3,889	-77.8%
Totals	\$92,227,828	\$65,675,776	\$28,760,384	\$23,853,060	\$4,907,324	-17.1%

General Fund Revenue



Actual revenue collections of \$12,694,832 through the second quarter of 2007 were \$451,654 or 3.69% above revised projections of \$12,243,179. The General Fund is projected to collect \$753,947 or 2.6% more revenue than originally budgeted for 2007 as projected revenue is \$29,466,646, up from budgeted revenue of \$28,712,699.

The revenue increase is a result of the following:

- the utility tax rate increase (1% to 6%) on cable television will generate an additional \$250,000
- rate increases in natural gas will result in an additional estimated revenue of \$125,000 of utility tax
- increases in telephone/cell phone usage and costs generate an additional \$169,660 in utility tax
- significant increases in permit activity will generate an additional \$149,162 in permit fee revenue
- revenue from Shoreline A & B soccer fields as a result of both increased fees and usage following capital improvements
- increased participation in the City's special recreation programming will generate an additional \$53,170

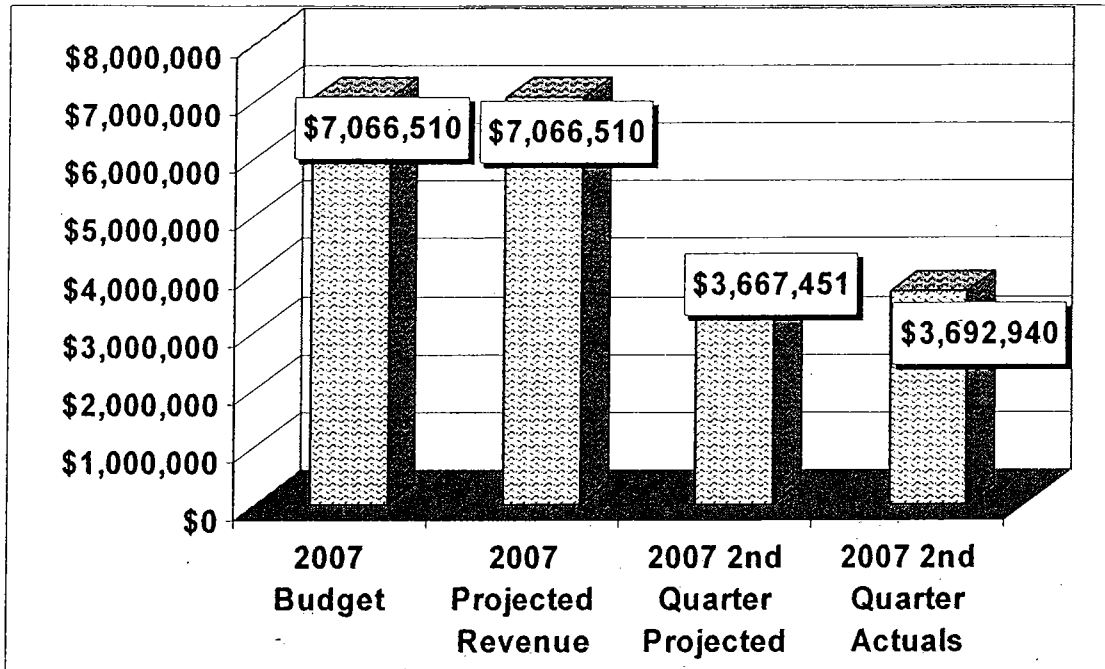
Tempering the good news on the general fund revenue, is the flattening of the City's other primary revenue sources namely property tax, sales tax and gambling tax. Gambling tax revenue is estimated to be \$31,000 under budget estimates due to the declining pull tab market. For the second quarter sales tax revenue is ahead of projected amounts, but the increase is due almost entirely to construction related sales tax. Given the one-time nature of construction and the intense building schedules, the sales tax growth exhibited through the second quarter is not anticipated to last through 2007. More detail about specific general fund revenues follows later in this report.

The following chart details each revenue category for the General Fund for first half of 2007. The first column is the adopted 2007 revenue budget. The second column represents the revised annual projection, if applicable, for each category. The third column displays the projected revenue through the first half of the year. The fourth column displays the actual revenues through June. The fifth column shows the variance between second quarter projections and actual collections. The last column displays the variance in percentage terms.

General Fund Revenue Detail

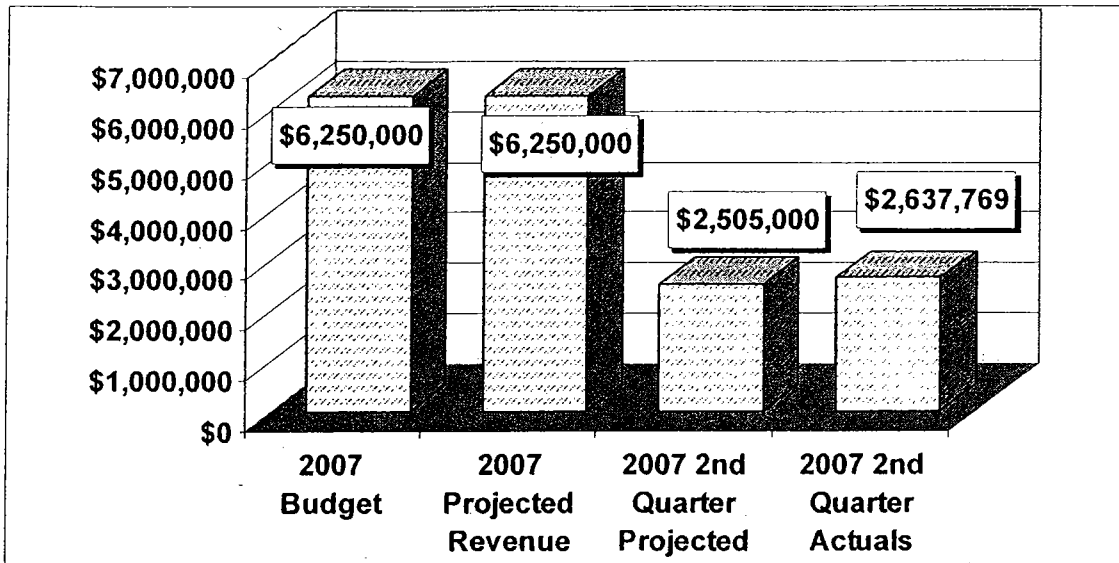
Revenue Source	2007 Budget	2007 Projected Revenue	2007 2nd Quarter Projected	2007 2nd Quarter Actuals	\$\$ Variance Actuals v. Projected	% Variance
Budgeted Fund Balance	\$671,500	\$671,500	\$0	\$0	\$0	0.00%
Property Tax	\$7,066,510	\$7,066,510	\$3,667,451	\$3,692,940	\$25,489	0.70%
Sales Tax	\$6,250,000	\$6,250,000	\$2,505,000	\$2,637,769	\$132,769	5.30%
Criminal Justice Sale Tax	\$1,224,500	\$1,224,500	\$600,361	\$616,482	\$16,121	2.69%
Utility Tax/Franchise Fee Category						
Natural Gas Utility Tax	\$1,045,000	\$1,170,400	\$595,734	\$616,862	\$21,128	3.55%
Sanitation Utility Tax	\$340,000	\$340,000	\$137,360	\$136,726	-\$634	-0.46%
Cable TV Utility Tax	\$98,000	\$348,000	\$36,554	\$45,679	\$9,125	24.96%
Telephone/Cell Utility Tax	\$1,555,000	\$1,724,660	\$593,283	\$619,751	\$26,468	4.46%
Water Franchise Fee	\$565,000	\$565,000	\$137,578	\$138,252	\$675	0.49%
Sewer Franchise Fee	\$655,595	\$655,595	\$326,486	\$328,001	\$1,515	0.46%
Storm Drainage Utility Tax	\$177,000	\$177,000	\$91,861	\$93,486	\$1,625	1.77%
Cable TV Franchise Fee	\$533,767	\$583,767	\$146,160	\$144,903	-\$1,257	0.00%
Utility Tax/Franchise Fee Subtotal	\$4,969,362	\$5,564,422	\$2,065,016	\$2,123,660	\$58,644	2.84%
Electricity Contract Payment	\$1,000,000	\$1,000,000	\$437,000	\$417,660	-\$19,340	-4.43%
Gambling Tax	\$2,134,500	\$2,103,500	\$408,935	\$422,243	\$13,308	3.25%
State Revenue	\$729,448	\$729,448	\$379,573	\$397,256	\$17,683	4.66%
Permit Revenue	\$1,293,935	\$1,443,097	\$741,577	\$798,485	\$56,908	7.67%
Parks & Recreation Revenue	\$1,203,964	\$1,257,134	\$544,689	\$615,420	\$70,731	12.99%
Fines & Licenses/Forfeitures	\$34,530	\$34,530	\$10,170	\$50,990	\$40,820	401.38%
Grants & Misc. Revenue	\$676,648	\$664,203	\$148,999	\$170,390	\$21,391	14.36%
Investment Interest	\$411,355	\$411,355	\$211,186	\$228,313	\$17,127	8.11%
Transfers-In	\$1,046,447	\$1,046,447	\$523,224	\$523,224	\$0	0.00%
Total General Fund Revenue	\$28,712,699	\$29,466,646	\$12,243,179	\$12,694,832	\$451,654	3.69%

Property Tax Revenue



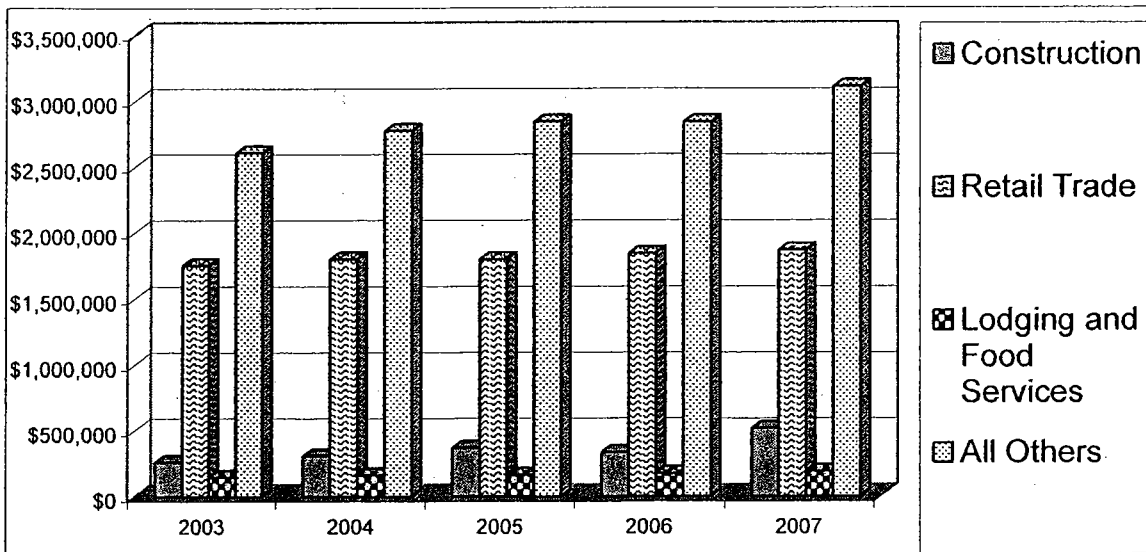
Property tax collections of \$3,692,940 exceeded projections of \$3,667,451 by \$25,489 or 0.7%. No change has been made in the 2007 projected revenue in this category as the adopted budget for this tax is based upon the property tax levy adopted by Council. Only 98% of the levy is expected to be collected due to an anticipated 2% rate of delinquencies. Through the first half of each year, the City typically receives about 52% of the annual collections.

Sales Tax Revenue

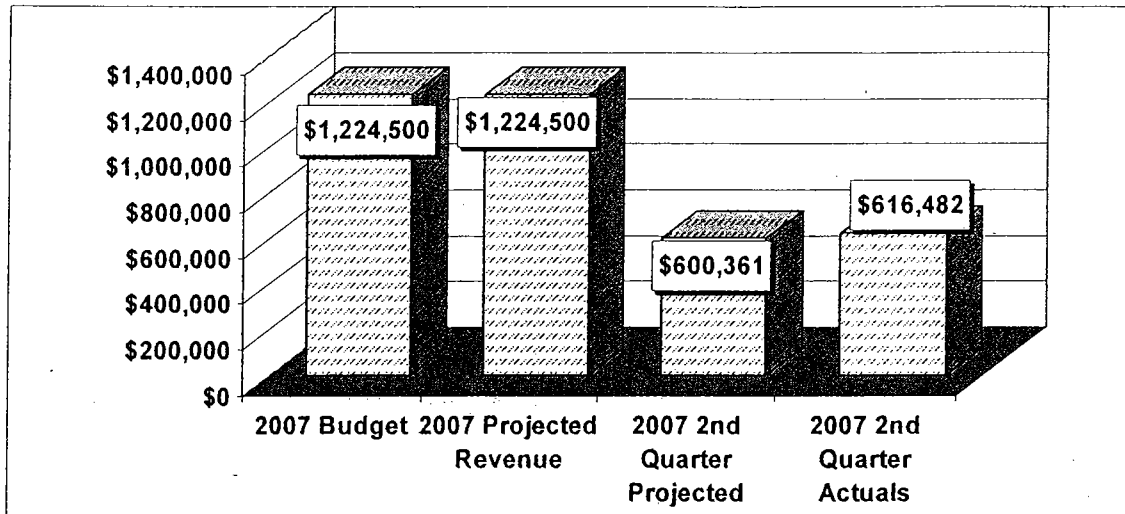


Sales tax collections of \$2,637,769 are ahead of projections of \$2,505,000 by \$132,769 or 5.3%. Sales tax revenue is tracking above budgeted levels due to strong revenue activity from construction. Compared to June 2006 construction related sales tax revenue is \$182,717 higher. Due to the one-time nature of construction activity we are cautious in adjusting the year long trend. General retail sales are only \$25,512 ahead of 2006 which is only a 1% increase.

The chart immediately below illustrates the top business sectors that generate sales tax revenue and to highlight the subtle changes in the City's revenue pattern five years of history are shown. The three largest contributors to the City's sales tax revenue are retail sales, construction, and lodging and food which have for the past five years represented between 82-83% of the total sales tax base. Construction revenue has shown the largest increase growing by 49.9% or \$259,466. Retail sales have grown by only 6.64% or \$116,551 a rate of increase that does not keep up with inflation.

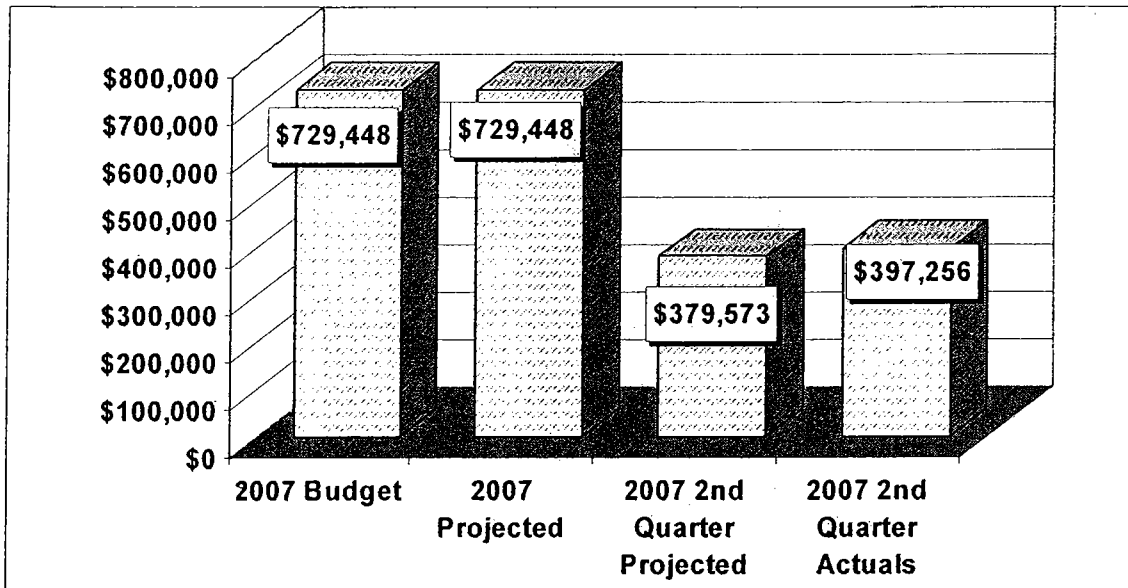


Criminal Justice Sales Tax Revenue



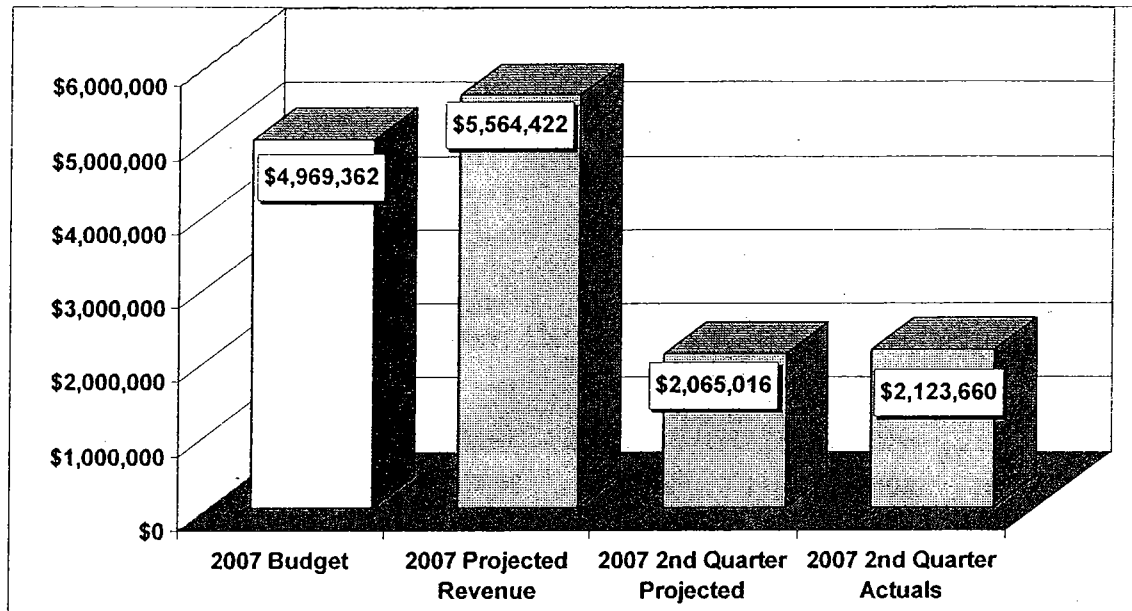
Local Criminal Justice Sales Tax of \$616,482 is ahead of projected revenue of \$600,361 by \$16,121 or 2.7%. This category differs from sales tax because it results from a distribution by the County and is collected on a countywide basis. The distribution amount is based on a city's population and the amount of sales tax collected through all of King County.

State Revenue



State Revenue of \$397,256 was above projected revenue of \$379,573 by \$17,683 or 4.7%. Criminal justice funding is ahead of projections by \$14,117, liquor board profits are below projections by \$1,530 and liquor excise tax collections are ahead of projections by \$5,095.

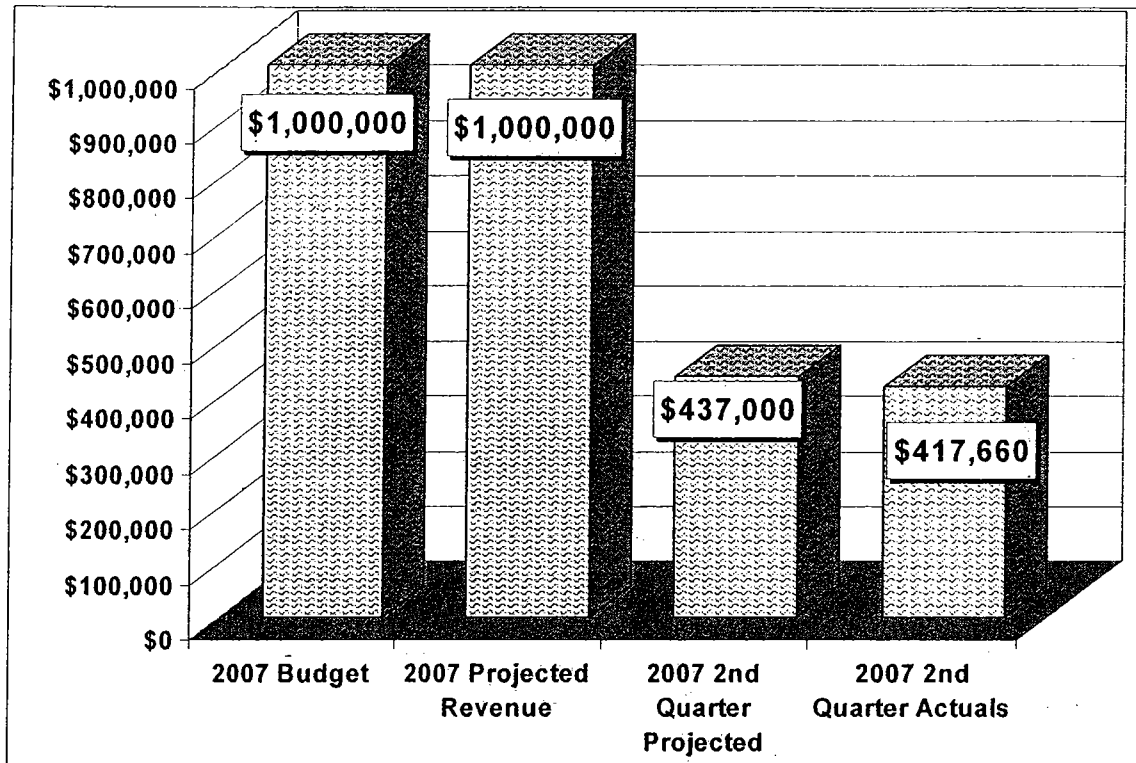
Utility Tax and Franchise Fee Revenue



Utility tax and franchise fee revenue of \$2,123,652 is above projected revenue of \$2,065,016 by \$58,644 or 2.8%. So far through 2007, most of the utility revenues are ahead of projections. Collections from natural gas are ahead of projections by \$21,128 or 3.55%. This is due to rate increases by Puget Sound Energy. Projected revenue in this category has been increased by \$125,400 for the year. Activity in the telecommunications category continues to grow. Through the first half of the year, this category exceeded projections by \$26,468 or 4.5%. Total 2007 projected revenue for this category has been increased by \$169,660. Projected revenue from cable television utility tax has been increased to reflect the increase in the tax rate from 1% to 6%. This tax did not become effective until July 1, 2007. To date, that category is already running ahead of projections by \$9,125 or 25% due to rate increases and increased activity. Projected revenues from the cable television franchise fee are being increased by \$50,000 to reflect actual payments. Only one quarterly payment had been received by June 30, but after receiving a payment in July, this category warranted an increase.

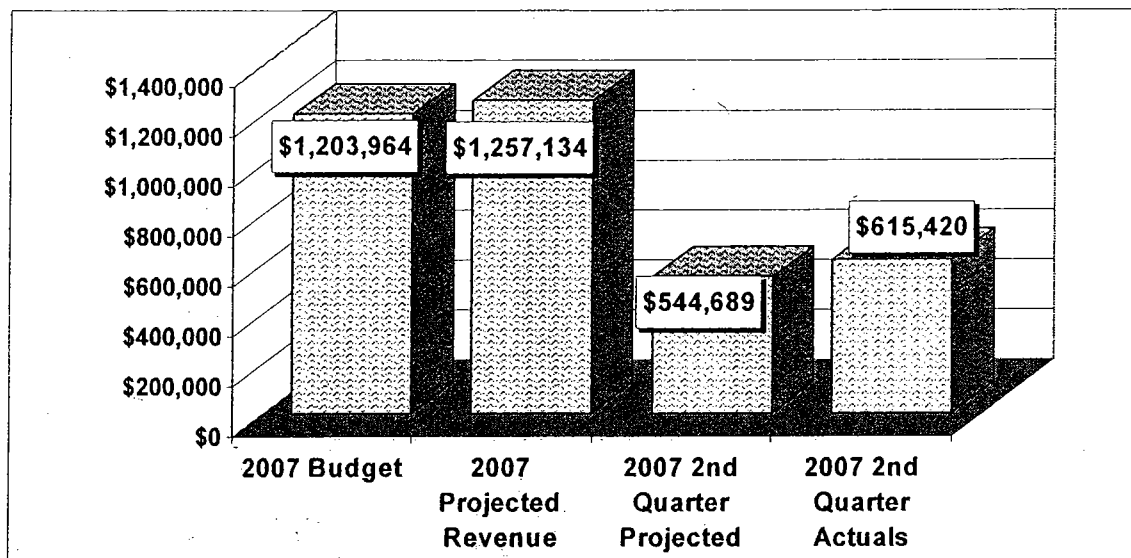
Utility Tax and Franchise Fees	2007 Budget	2007 Projected Revenue	2007 2nd Quarter Projected	2007 2nd Quarter Actuals	\$\$ Variance Actuals v. Projected	% Variance
Natural Gas Utility Tax	\$1,045,000	\$1,170,400	\$595,734	\$616,862	\$21,128	3.55%
Sanitation Utility Tax	\$340,000	\$340,000	\$137,360	\$136,726	-\$634	-0.46%
Cable TV Utility Tax	\$98,000	\$348,000	\$36,554	\$45,679	\$9,125	24.96%
Telephone/Cell Utility Tax	\$1,555,000	\$1,724,660	\$593,283	\$619,751	\$26,468	4.46%
Water Franchise Fee	\$565,000	\$565,000	\$137,578	\$138,252	\$675	0.49%
Sewer Franchise Fee	\$655,595	\$655,595	\$326,486	\$328,001	\$1,515	0.46%
Storm Drainage Utility Tax	\$177,000	\$177,000	\$91,861	\$93,486	\$1,625	1.77%
Cable TV Franchise Fee	\$533,767	\$583,767	\$146,160	\$144,903	-\$1,257	100.00%
Total Utility Revenue	\$4,969,362	\$5,564,422	\$2,065,016	\$2,123,660	\$58,644	2.84%

Seattle City Light Contract Payments



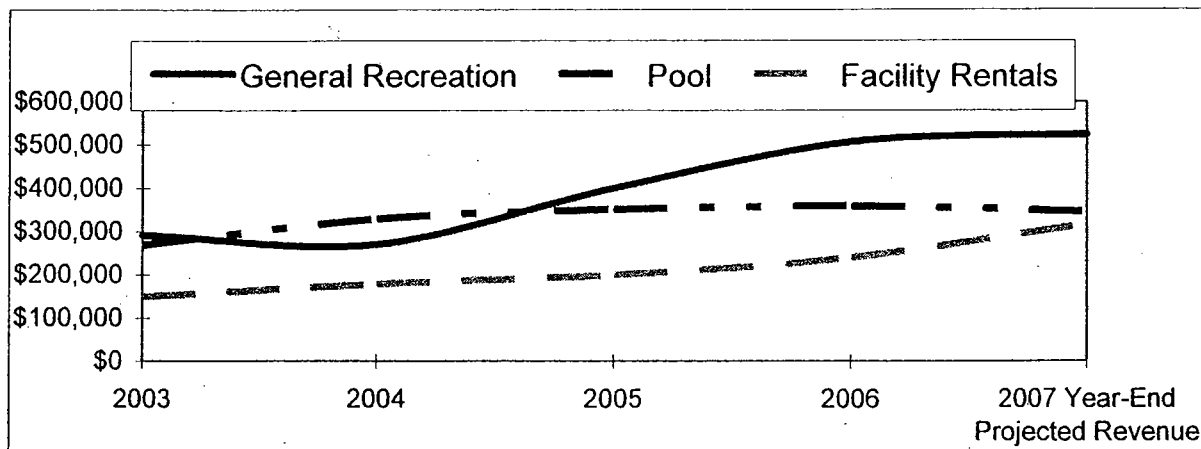
Seattle City Light contract payment revenue of \$417,660 is below projected revenue of \$437,000 by \$19,340 or 4.4%. We anticipate that revenue collections through the remainder of the year will meet the budget.

Parks and Recreation Fee Revenue

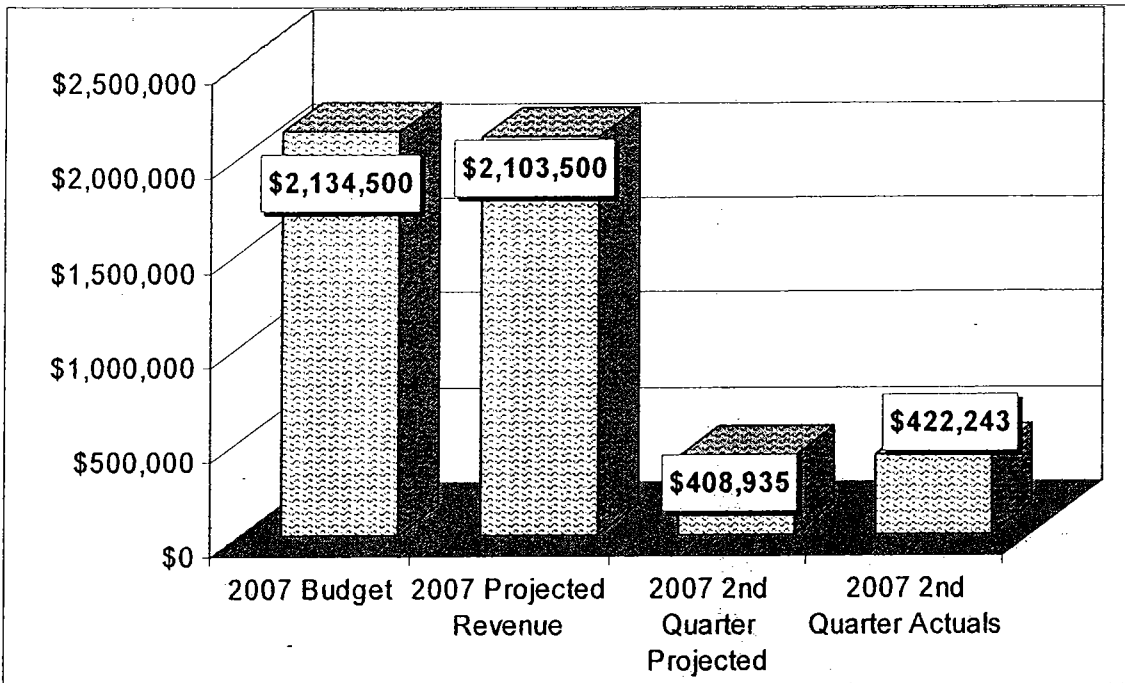


Parks fee revenue of \$615,420 is above projections by \$70,731 or 13%. At this time, we are increasing 2007 Parks projected revenue by \$53,170 or 4%. The additional revenue is due to better than expected field rental revenue from the full operation of Shoreline A and B soccer fields and dramatic increases in revenue from special recreation classes and programs. Revenues for the pool are running just slightly under budget due to the closing of the pool for several days of bad weather and the extended 2006 – 2007 school year cut short several popular swimming programs.

The chart immediately below illustrates the growth patterns for the three primary revenue producers General Recreation, Pool and Facility rentals. In the five year study period (2003 to 2007 Year-end estimates) all three programs areas saw significant revenue expansion General Recreation grew by 79% or \$233,111; Pool by 28% or \$77,575 and facility rentals by 113% or \$169,356. The chart illustrates the effect Shoreline A & B have had on facility rental revenue.

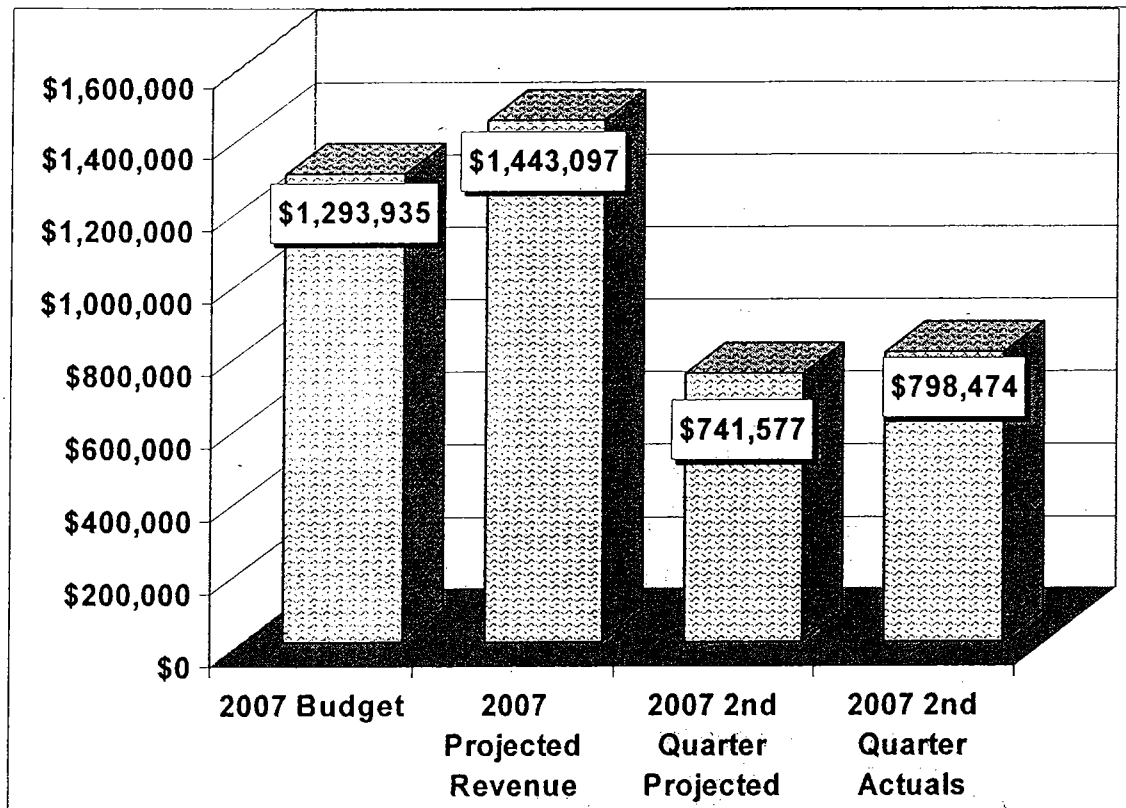


Gambling Tax Revenue



Given the timing of the second quarter report the revenue reported includes only the first quarter gambling tax filings. Second quarter gambling revenue is not due to the City until the end of July. The 2007 projected gambling tax revenues have been reduced by \$31,000 for 2007 in the pull tabs category. Activity continues to decline in this area. Based on the reduced projections gambling tax collections of \$422,243 are just slightly ahead of projected revenue by \$13,308 or 3.3%.

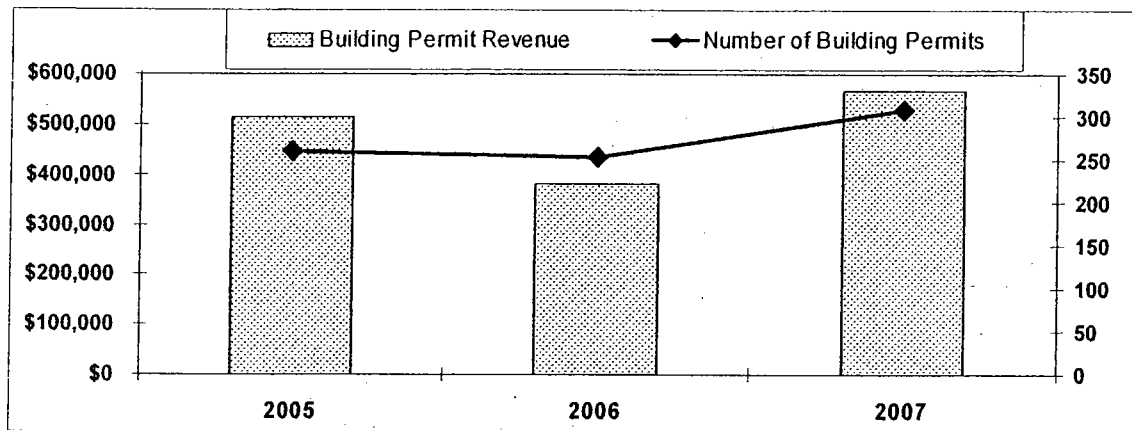
Permit Revenue



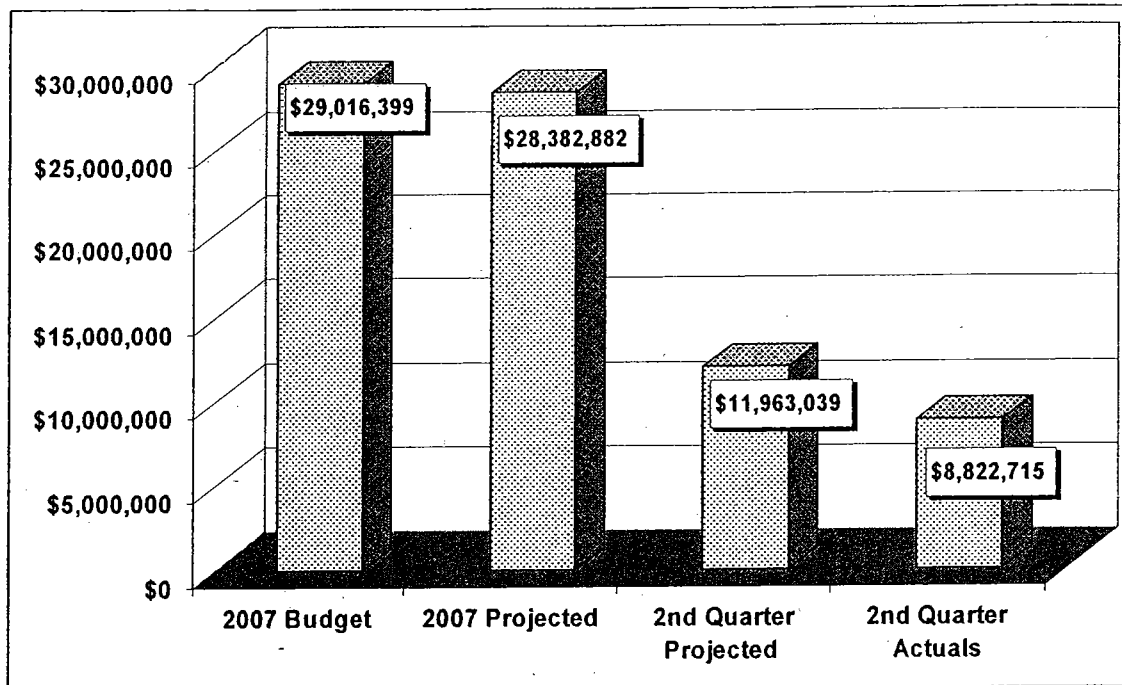
Permit revenue of \$798,474 is ahead of projected revenue of \$741,577 by \$56,908 or 7.7%. Total 2007 projected revenue has been increased by \$149,162. The largest increase of \$145,800 is in the plan check fee category. Other categories being increased are building permits (\$19,200), environmental review (\$5,650), mechanical permits (\$4,750), plumbing inspections (\$3,100), and plumbing permits (\$1,800). Projections in a few categories have been reduced: electrical permits (-\$19,135), land use fee (-\$12,000), and fire system permits (-\$400).

Through the first half of the year, building permits are ahead of projections by \$38,204 or 16% and plan check fees are ahead by \$13,595. Plumbing, electrical, mechanical, and fire system permits are slightly ahead of projections; plumbing inspections are ahead; land use and environmental reviews are under projections. During this period, 308 building permits have been issued compared with 254 during the same period last year.

The graph immediately below illustrates the number of building permits and the revenue generated by building permits at the mid-year point for 2005 – 2007.



General Fund Expenditures



Departmental expenditures during the first half of 2007 were \$8,822,715, under projected expenditures of \$11,963,039 by \$3,140,324 or 26%. Most of this under-expenditure is in the police contract. Billings from King County for police services were received later than in previous years. Typically, the City would have paid for the first few months of services by the end of June. This year only invoices for some special services were received and paid during the first half of the year. All outstanding invoices for police services have now been received and paid. The 2007 budget does not include the new street crimes officer that is budgeted for half of 2007. A budget amendment will be included on a future council agenda. Parks expenditures are running above projections due to increased utility costs in water and gas for operations and the swimming pool. In response to these increases Parks has been able to identify expenditure savings in other areas namely professional services and extra help to off-set the utility cost increase. As a result Parks is estimated to come in under budget.

Other expenditure trends of note: the City Attorney is trending above budget as a result of professional legal services. Criminal Justice, namely jail services, is under spending through second quarter. Unfortunately this is just a matter of the timing of billings with King County running unexpectedly behind schedule. Jail costs are projected to be right at budget at the end of the year.

Projected 2007 expenditures for Public Works include costs associated with the management and operation of the Highland Plaza and Highland Park Center buildings. These costs were not included in the original 2007 budget since the City had not yet completed the acquisitions. A budget amendment will be presented to Council this Fall to add these costs and the corresponding lease income to the current budget.

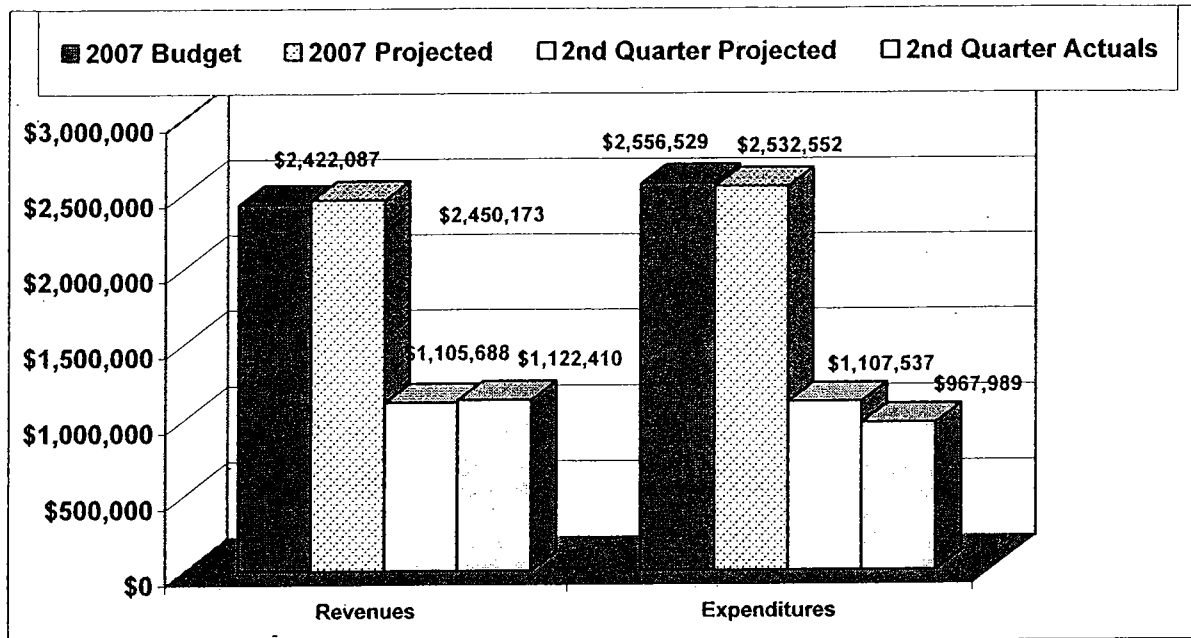
This year all City departments completed their year-end cost estimates before the submittal of the second quarter report. As a result, the 2007 year-end estimates are included in this report and show-up in the 2007 projected column in the table that

follows. However, the two variance columns included in this report are comparing the results of second quarter only. Overall for year-end 2007 the general fund is projected to be \$633,517 or 2.2% under budget but this number includes roughly \$251,647 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 \$155,258 or just a 0.54% savings.

General Fund Expenditure Detail

Department	2007 Budget	2007 Projected	2nd Quarter Projected	2nd Quarter Actuals	\$\$ Variance 2nd Qtr Actuals v. 2nd Qtr Projected	% Variance 2nd Qtr Actuals v. 2nd Qtr Projected
City Council	\$172,914	\$169,406	\$97,595	\$83,552	-\$14,043	-14.4%
City Manager ¹	\$1,414,533	\$1,352,903	\$663,130	\$616,577	-\$46,553	-7.0%
City Clerk	\$404,493	\$386,693	\$185,046	\$170,471	-\$14,575	-7.9%
Community Services ²	\$1,623,357	\$1,595,295	\$674,685	\$652,082	-\$22,603	-3.4%
City Attorney	\$547,803	\$671,909	\$237,232	\$248,289	\$11,057	4.7%
Finance	\$2,469,917	\$2,409,224	\$1,133,291	\$1,154,575	\$21,284	1.9%
Citywide	\$1,268,333	\$790,074	\$748,079	\$726,889	-\$21,190	-2.8%
Human Resources	\$391,787	\$366,880	\$187,948	\$176,924	-\$11,024	-5.9%
Police	\$8,553,531	\$8,629,204	\$3,095,494	\$104,098	-\$2,991,396	-96.6%
Criminal Justice	\$1,379,426	\$1,379,326	\$538,322	\$456,137	-\$82,185	-15.3%
Parks	\$4,052,719	\$4,037,215	\$1,655,959	\$1,688,821	\$32,862	2.0%
Planning and Development Services	\$2,791,866	\$2,602,404	\$1,192,590	\$1,176,731	-\$15,859	-1.3%
Public Works	\$1,391,597	\$1,438,226	\$616,480	\$630,380	\$13,900	2.3%
Transfers Out	\$2,554,123	\$2,554,123	\$937,189	\$937,189	\$0	0.0%
General Fund Total	\$29,016,399	\$28,382,882	\$11,963,039	\$8,822,715	-\$3,140,324	-26.3%
¹ City Manager includes Economic Development, Communications & Intergovernmental Relations						
² Community Services includes Emergency Management Planning, Neighborhoods, Human Services & CRT						

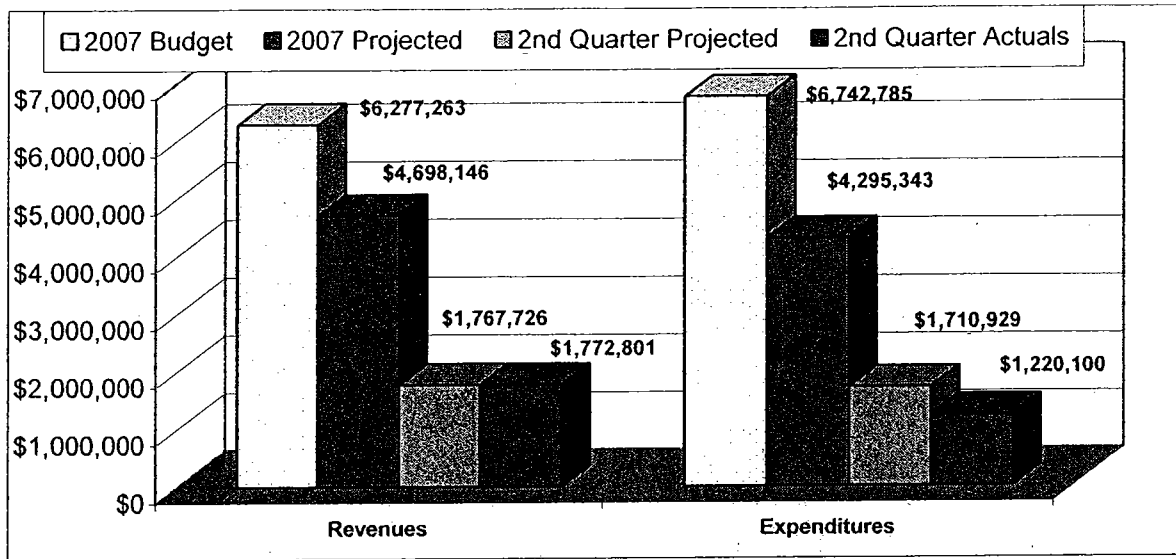
Street Fund



Street Fund revenue through the first half of 2006 was \$1,122,410, over revised projections of \$1,105,688 by \$16,722, a 1.5% variance. Projected revenues for 2007 have been increased by \$28,086 to include a grant from the Washington Traffic Safety Council (WTSC) for \$37,500, increased investment earnings of \$2,171, unanticipated Superior Court Restitution of \$1,807 and other miscellaneous revenue of \$1,350. Projected fuel tax revenue has been reduced by \$14,742 as consumption levels have decreased as the price per gallon has increased. Year to date, fuel tax collections are running behind by \$4,605 or 1.33%; interest earnings are ahead by \$3,384; and right of way permits are ahead of projections by \$17,932 or 28.77%.

Street Fund expenditures for the entire year are projected to be under budget by \$23,977 due to staffing vacancies and other savings. Through the first half of the year, expenditures of \$967,989 are below projections of \$1,107,537 by \$139,548 or 12.6%. The expenditure variance is primarily due in large part to delayed billings from King County for street maintenance and street lighting services and salary savings generated by vacant positions in Street Operations. Expenditures in Traffic Services are also under projections due to the timing of billings. A major project was completed and billed in July.

Surface Water Utility Fund

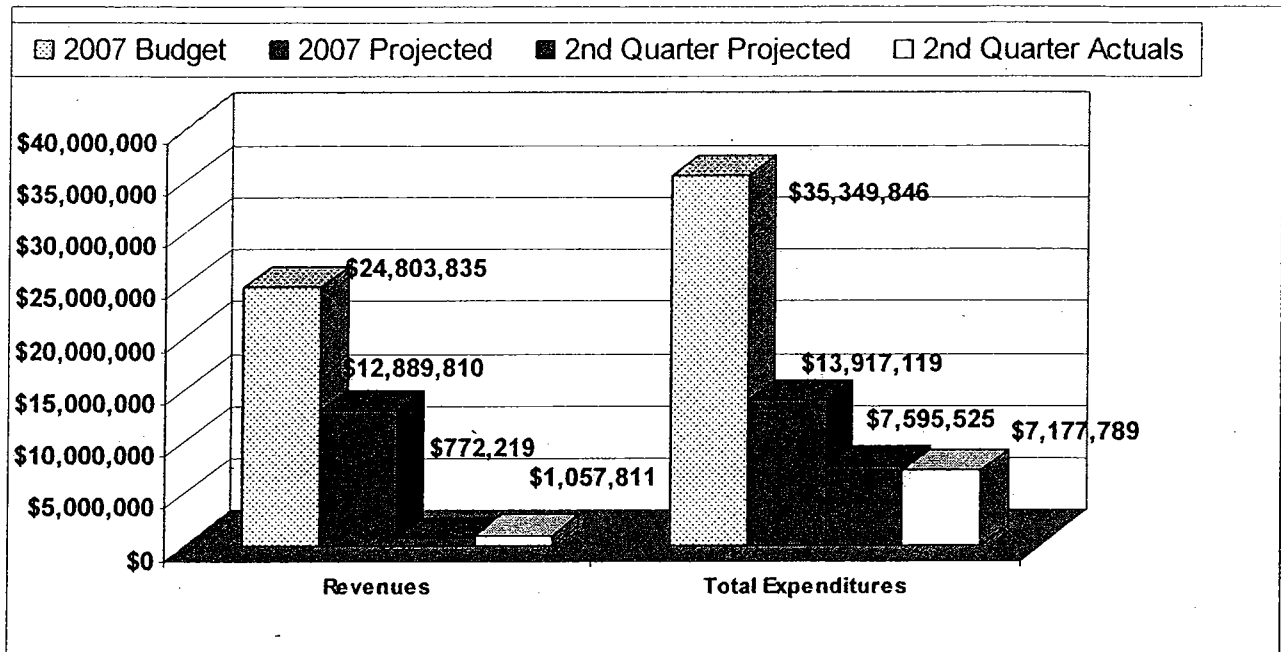


The surface water utility fund accounts for both day-to-day operations of the utility and capital improvements to the utility system.

Revenues in the Surface Water Utility Fund of \$1,772,801 are behind projections of \$1,767,726 by \$5,075 or 0.29%. Storm Drainage fees are slightly behind projections by \$7,647 or 0.49%. Investment earnings are slightly ahead of projections by \$2,572 or 1.23%.

Total projected 2007 expenditures are expected to be well below the 2007 budget. Operating expenditures are projected to be \$77,681 under budget and capital expenditures are expected to be \$2,369,761 less than budget. Year to date operating expenditures are \$106,528 or 11.67% under projections mainly due to staffing vacancies and the timing of special projects in the professional services category. Capital expenditures are \$391,268 or 67.87% behind projections. We assume that by the end of the year, capital expenditures will be at or very near the revised projections. These changes have been made to the 2007 surface water capital projects as included in the recently adopted 2008 – 2013 CIP.

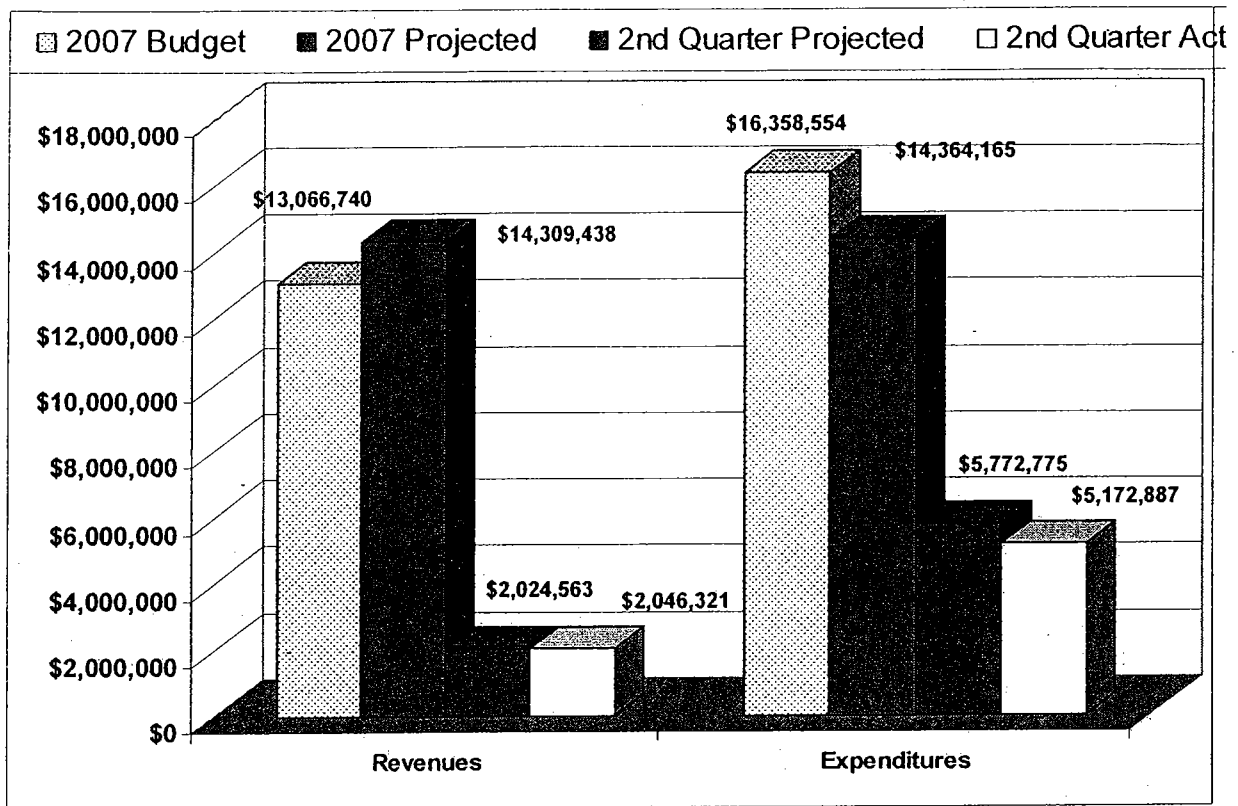
General Capital Fund



Total revenues for 2007 are expected to be \$12,889,810 under a budget of \$24,803,835 by \$11,914,025. This is mostly due to the expectation that bond financing for the Civic Center project of \$12,750,000 will not occur this year. Other changes include increasing projected real estate excise taxes by \$517,000, reducing projected grant revenues by \$372,025 as project work will occur in 2008, adding anticipated lease savings and rental income, and adding anticipated mitigation funds from the Brightwater and Hidden Lake projects. Revenues collected through June total \$1,057,811 ahead of revised projected revenue of \$772,219 by \$285,592 or 36.98%. Real estate excise tax collections are ahead of revised projections by \$132,301 or 30.34%. Investment earnings also exceeded projections by \$153,291 or 53.56%.

Through the first half of 2007, \$7,177,789 has been spent, which is under projections of \$7,595,525 by \$417,736 or 5.51%. Overall, 2007 projected expenditures have been decreased to match the recently adopted CIP. The Civic Center/City Hall project is the largest project that impacts this projection.

Roads Capital Fund



2007 projected revenue has been revised to match the recently adopted 2008-2013 CIP. Total revenues for the year are expected to be \$14,309,438, which is above budget by \$1,242,698. Projected real estate excise taxes have been increased by \$92,000; projected grant revenues have been reduced by \$2,903,446; and interest earnings have been increased by \$184,653. Year-to-date revenues of \$2,046,321 are above projected revenue of \$2,024,563 by \$21,758 or 1.07%. Real estate excise tax collections are ahead of revised projections by \$132,301 or 28.86%. Grant revenue is ahead of projections by \$23,806; fuel tax revenue is down by \$9,212; interest earnings are behind by \$120,208.

Projected 2007 expenditures have been lowered from the original budget of \$16,358,554 to \$14,364,165 a reduction of \$1,994,389. This change reflects the projections included in the 2008 – 2013 CIP. The major change is a delay in the Richmond Beach Overcrossing project. Project work will continue into 2008. Expenditures through June totaling \$5,172,887 are under projections of \$5,772,775 by \$599,888 or 10.39%. Final billings for the Aurora 145th to 165th project will be received and paid during the third quarter.

Cash and Investments
June 30, 2007

The City's investment policy adheres to strict standards prescribed by federal law, state statutes, and local ordinances. It 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. As of June 30, 2007, the City's investment portfolio, excluding the State Investment Pool, had a weighted average rate of return of 4.93%. This was below the 12 month average rate of return from the State Investment Pool of 5.21% by 28 basis points. Investment earnings through June 30, 2007, total \$1,073,697.

As of June 30, 2007, the City's investment portfolio had a fair market value of \$54,857,570. Approximately 43% of the investment portfolio was held government instrumentality securities and 57% was held in the Washington State Investment Pool. The city's investment portfolio valued at cost as of June 30, 2007, was \$54,868,934. 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.

Interest rates stayed fairly level during the first six months of 2007. The State Investment Pool monthly rate of return during the first half of the year has averaged 5.2253% with a low of 5.1936% in May and a high of 5.2372% in March. This is a range of only 4 basis points. During that same time period, the City has invested in 6 new instruments with an average rate of return of 5.2674% which is above the State pool average. Instruments from prior years with lower yields will mature during the remainder of the year. The City has invested a larger portion of the investment portfolio in the State Investment Pool during this time period to provide additional liquidity for anticipated capital expenditures. As more certainty has been developed on the timing of these projects, staff will be reviewing the City's investment strategy for the remainder of 2007 in order to maximize investment earnings.

The following page provides a summary of the City's investment portfolio as of June 30, 2007.

**LGIP Cash and Investment Balances
June 30, 2007**

Instrument Type	Settlement	Maturity Date	Investment Cost	Yield To Maturity	Market Value	Unrealized
	Date				6/30/07	Gain/(Loss) as of 6/30/07
FHLB (Fed Home Loan B:	07/25/05	07/13/07	1,990,200	4.2620%	1,999,380	9,180
FHLB (Fed Home Loan B:	01/05/06	11/21/07	2,003,400	4.7930%	1,996,880	(6,520)
FHLB (Fed Home Loan B:	10/03/06	10/02/08	2,003,200	5.3750%	1,999,380	(3,820)
FHLB (Fed Home Loan B:	02/16/07	07/11/08	999,650	5.2720%	998,724	(926)
FHLB (Fed Home Loan B:	02/16/07	08/25/08	1,199,641	5.1510%	1,201,319	1,678
FHLB (Fed Home Loan B:	07/27/05	07/27/07	2,000,000	3.7650%	1,999,592	(408)
FHLB (Fed Home Loan B:	01/06/06	01/28/08	4,000,000	5.0000%	3,990,000	(10,000)
FHLB (Fed Home Loan B:	12/26/06	12/26/08	1,000,000	5.1000%	995,938	(4,063)
FHLMC (Freddie Mac)	01/26/07	06/23/08	1,183,920	5.2464%	1,188,240	4,320
FHLMC (Freddie Mac)	01/05/06	10/05/07	1,994,600	4.7840%	1,995,960	1,360
FHLMC (Freddie Mac)	02/22/07	08/22/08	1,000,000	5.3000%	1,000,000	0
FNMA (Fannie Mae)	12/15/06	11/20/08	1,000,000	5.2500%	998,750	(1,250)
FNMA (Fannie Mae)	06/08/07	06/15/08	2,498,625	5.3050%	2,498,450	(175)
FNMA (Fannie Mae)	01/26/07	01/29/09	790,000	5.3300%	789,259	(741)
State Investment Pool			31,205,698	5.2068%	31,205,698	0
Sub Total			\$ 54,868,934		\$ 54,857,570	\$ (11,364)

Average Maturity Excluding the State 638
 Weighted Average Yield to Maturity 4.9317%
 Average Yield to Maturity State 5.2113%
 Basis Points in Excess (Below) (28)

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

Portfolio Diversification

Instrument Type	Percentage	Amount at		Broker	Percentage	Amount at	
		Market Value	Amount at Cost			Cost	
Certificate of Deposit	0%	0	0	Bank of America	25%	13,673,945	
FHLMC (Freddie Mac)	8%	4,184,200	4,178,520	Piper Jaffray	16%	8,989,641	
FNMA (Fannie Mae)	8%	4,286,459	4,288,625	Bear Stearns	2%	999,650	
FHLB (Fed Home Loan B:	28%	15,181,212	15,196,091				
State Investment Pool	57%	31,205,698	31,205,698	State Investment P	57%	31,205,698	
Total Investments	100%	\$ 54,857,570	\$ 54,868,934	Total Investments	100%	\$ 54,868,934	

Investments by Fund

Fund	Investments	Realized	State	Total Investments	Investment	Investment
	at Adjusted	Market Value	Investment Pool		Earnings	Earnings
	Cost as	Adjustment as	as of	by Fund as of	Budget 2007	Actual 2007
	06/30/2007	of 06/30/2007	06/30/2007	06/30/2007		
001 General	4,315,099	(4,126)	8,758,420.23	13,077,646	391,355	215,856
101 Street	412,724	(472)	809,082.39	1,222,279	35,000	22,817
104 Reserve	1,530,805	(3,743)	755,021.38	2,289,569	58,546	39,967
107 Code Abatement	98,321	(188)	48,566.53	147,075	2,500	3,101
108 Asset Seizure	12,563	(23)	35.26	12,622	500	245
109 Public Arts	157,546	(469)	67,449.70	225,465	-	5,053
201 Unlimited GO Bond			570,220.03	570,220		
301 General Capital	4,492,731	(9,745)	14,280,525.25	18,783,000	685,555	439,509
312 City Fac-Mjr Maint	124,878	(235)	45,316.46	170,429	7,972	3,642
330 Roads Capital	5,353,446	(4,206)	976,712.94	6,334,365	350,191	103,862
401 Surface Water Utility F	6,000,214	(11,981)	3,983,043.01	9,995,238	372,500	206,546
501 Vehicle Oper/Maint	51,243	(73)	99,823.94	151,140	1,250	2,452
503 Equip Dep Replace	1,030,714	(2,302)	695,322.09	1,728,338	46,000	29,372
505 Unemployment	45,312	(77)	23,964.26	69,353	500	1,277
605 Agency Fund Admin			92,194.54	92,195		
Total Investments	\$23,625,597	\$ (37,640)	\$ 31,205,698	\$ 54,868,934	\$ 1,951,869	\$ 1,073,697