



Memorandum

DATE: December 5, 2014
TO: City Council
FROM: Robert Hartwig, Administrative Services Director *RAW*
RE: 2014 Third Quarter Financial Report

Attached you will find the City's 2014 third quarter financial report.

The General Fund received \$21.98 million. This is \$0.52 million (2.4%) above the year-ago level.

General Fund expenditures were \$22.36 million, \$0.48 million (2.1%) below the year-ago level. This is because King County did not send two months worth of Police contract invoices. Had these invoices been received on time third quarter 2014 expenditures would be \$1.28 million (5.6%) above the year-ago level. The main reason for this increase relates to increased jail costs. Other details regarding the results for the first three quarters of 2014 are discussed on page 14 of the report.

Street Fund revenues including transfers in totaled \$1.57 million, \$6,371 (0.4%) below the year-ago level. Expenditures including transfers out totaled \$1.16 million, \$0.25 million (17.5%) below the year-ago level. The main reason for this decrease relates to electrical costs. Details appear on page 15 of the report.

Surface Water Utility Fund (SWM) revenues totaled \$2.03 million, \$0.03 million (1.4%) below the year-ago level. Expenditures totaled \$2.90 million, \$0.33 million (12.8%) above the year-ago level due to the timing of construction schedules. Details appear on page 16 of the report.

Real Estate Excise Tax (REET) revenue receipts through September totaled \$1.46 million, \$0.24 million (19.8%) above the year-ago level due to an upturn in the real estate industry. Details appear on page 19 of the report.

Receipts and expenditures in the General Capital Fund are less than the year-ago level by \$3.48 million (81.0%) and \$2.56 million (62.7%), respectively. This is attributable to the bond issue and expenditures related to the acquisition of the Brugger's Bog maintenance facility in 2013. Details appear on page 17 of the report.

Please let us know if you have any questions after reviewing the attached information.



2014 THIRD QUARTER FINANCIAL REPORT

November 2014

PERFORMANCE AT A GLANCE

GENERAL FUND REVENUES	COMPARED TO 2014 PROJECTIONS	REFERENCE
Property Tax Revenue	◀NEUTRAL▶	Page 4
Sales Tax Revenue	▲ POSITIVE ▲	Pages 5-6
Utility Tax Revenue	▲ POSITIVE ▲	Page 10
Development Revenue	▲ POSITIVE ▲	Page 11
Park and Recreation Revenue	▲ POSITIVE ▲	Page 12
Investment Income	▲ POSITIVE ▲	Page 13
EXPENDITURES		
General Fund Expenditures	▲ POSITIVE ▲	Page 14
NON-GENERAL FUND REVENUES		
Surface Water Fees	● WARNING ●	Page 16
Fuel Tax	◀NEUTRAL▶	Page 19
Real Estate Excise Tax	▲ POSITIVE ▲	Page 19

Key to revenue trend indicators:

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

CITY FINANCIAL OVERVIEW

EXECUTIVE SUMMARY

General Fund receipts are higher than the year-ago level by \$519,366, or 2.4% General Fund expenditures are lower than the year-ago level by \$474,892, or 2.1%.

Street Fund receipts, including transfers in, totaling \$1,566,171 are \$6,371, or 0.4%, less than the year-ago level. Street Fund expenditures, including transfers out, totaling \$1,162,633 are \$246,708, or 17.5%, lower than the year-ago level.

Surface Water Utility (SWM) Fund receipts totaling \$2,030,265 are \$29,627, or 1.4%, less than the year-ago level. SWM Fund expenditures totaling \$2,900,616 are \$329,452, or 12.8%, higher than the year-ago level.

Real Estate Excise Tax receipts through September in the amount of \$1,460,906 are \$241,576, or 19.8%, higher than the year-ago level.

Street Fund Fuel Tax receipts, in the amount of \$813,935, are \$2,803, or 0.3%, higher than the year-ago level.

Revenues by Fund	2014 Current Budget	2014 Third Quarter Actual	2014 % of Current Budget	2013 Current Budget	2013 Third Quarter Actual	2013 % of Current Budget	2014 v. 2013 \$ Change	2014 v. 2013 % Change
General Fund	\$36,843,013	\$21,982,266	59.7%	\$34,877,599	\$21,462,900	61.5%	\$519,366	2.4%
Street Fund	\$1,999,037	\$1,566,264	78.4%	\$2,217,696	\$1,572,635	70.9%	-\$6,371	-0.4%
Code Abatement Fund	\$100,000	\$11,646	11.6%	\$100,000	\$5,847	5.8%	\$5,799	99.2%
State Drug Enforcement Fund	\$13,800	\$44,363	321.5%	\$13,800	\$69,736	505.3%	-\$25,373	-36.4%
Public Arts Fund	\$55,051	\$4,670	8.5%	\$70,000	\$1,102	1.6%	\$3,568	323.8%
Federal Drug Enforcement Fund	\$20,750	\$49,826	240.1%	\$20,750	\$37,536	180.9%	\$12,290	32.7%
Property Tax Equalization Fund	\$0	\$830	N/A	\$0	\$1,418	N/A	-\$588	-41.5%
Federal Crime Forfeitures Fund	\$316,310	\$1,246	0.4%	\$147,000	\$1,206,070	820.5%	-\$1,204,824	-99.9%
Revenue Stabilization Fund	\$0	\$0	0%	\$0	\$2,804	N/A	-\$2,804	-100.0%
Unltd Tax GO Bond Fund	\$1,710,000	\$930,901	54.4%	\$1,705,050	\$823,591	48.3%	\$107,310	13.0%
Limited Tax GO Bond 2009 Fund	\$1,662,567	\$1,469,382	88.4%	\$1,660,567	\$1,251,933	75.4%	\$217,449	17.4%
Limited Tax GO Bond 2013 Fund	\$260,823	\$103,979	39.9%	\$0	\$0	0%	\$103,979	N/A
General Capital Fund	\$4,878,471	\$813,761	16.7%	\$5,974,435	\$4,290,977	71.8%	-\$3,477,216	-81.0%
City Facility-Major Maint. Fund	\$115,392	\$52,637	45.6%	\$218,797	\$52,815	24.1%	-\$178	-0.3%
Roads Capital Fund	\$23,642,942	\$11,042,496	46.7%	\$20,410,625	\$3,942,867	19.3%	\$7,099,629	180.1%
Surface Water Utility Fund	\$5,602,951	\$2,030,265	36.2%	\$5,208,387	\$2,059,892	39.5%	-\$29,627	-1.4%
Vehicle Operations/ Maint. Fund	\$245,273	\$230,397	93.9%	\$213,635	\$198,597	93.0%	\$31,800	16.0%
Equipment Replacement Fund	\$482,666	\$272,100	56.4%	\$516,696	\$379,568	73.5%	-\$107,468	-28.3%
Unemployment Fund	\$17,500	\$13,170	75.3%	\$17,500	\$13,182	75.3%	-\$12	-0.1%
Totals	\$77,966,546	\$40,620,199	52.1%	\$73,372,537	\$37,373,470	50.9%	\$3,246,729	8.7%
Transportation Benefit District	\$788,613	\$544,123	69.0%	\$919,200	\$539,217	58.7%	\$4,906	0.9%

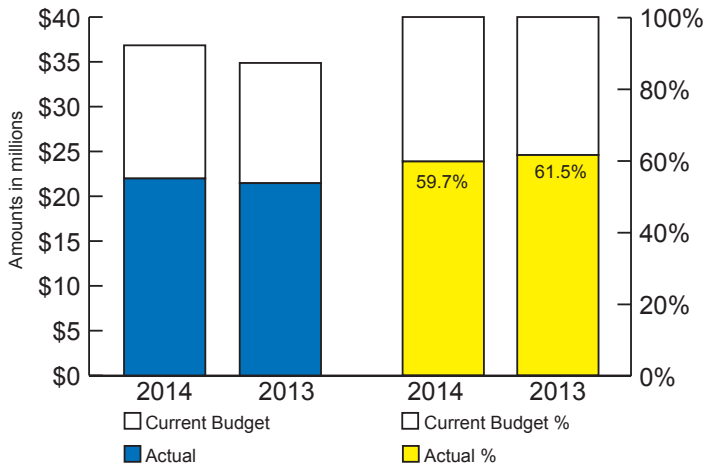
Expenditures by Fund	2014 Current Budget	2014 Third Quarter Actual	2014 % of Current Budget	2013 Current Budget	2013 Third Quarter Actual	2013 % of Current Budget	2014 v. 2013 \$ Change	2014 v. 2013 % Change
General Fund	\$36,843,013	\$22,355,031	60.7%	\$34,877,601	\$22,829,923	65.5%	-\$474,892	-2.1%
Street Fund	\$1,999,037	\$1,162,633	58.2%	\$2,217,696	\$1,409,341	63.5%	-\$246,708	-17.5%
Code Abatement Fund	\$100,000	\$10,230	10.2%	\$100,000	\$4,375	4.4%	\$5,855	133.8%
State Drug Enforcement Fund	\$13,800	\$12,517	90.7%	\$13,800	\$1,346	9.8%	\$11,171	829.9%
Public Arts Fund	\$55,051	\$26,557	48.2%	\$70,000	\$29,504	42.1%	-\$2,947	-10.0%
Federal Drug Enforcement Fund	\$20,750	\$5,172	24.9%	\$20,750	\$1,400	6.7%	\$3,772	269.4%
Property Tax Equalization Fund	\$0	\$0	0%	\$0	\$0	0%	\$0	0%
Federal Crime Forfeitures Fund	\$316,310	\$11,454	3.6%	\$147,000	\$36,952	25.1%	-\$25,498	-69.0%
Revenue Stabilization Fund	\$0	\$0	0%	\$0	\$0	0%	\$0	0%
Unltd Tax GO Bond Fund	\$1,709,050	\$228,327	13.4%	\$1,705,050	\$252,326	14.8%	-\$23,999	-9.5%
Limited Tax GO Bond 2009 Fund	\$1,662,567	\$591,013	35.5%	\$1,660,567	\$597,986	36.0%	-\$6,973	-1.2%
Limited Tax GO Bond 2013 Fund	\$260,823	\$103,979	39.9%	\$0	\$0	0%	\$103,979	N/A
General Capital Fund	\$4,878,471	\$1,518,804	31.1%	\$5,974,435	\$4,074,281	68.2%	-\$2,555,477	-62.7%
City Facility-Major Maint. Fund	\$90,000	\$6,023	6.7%	\$218,797	\$146,853	67.1%	-\$140,830	-95.9%
Roads Capital Fund	\$23,603,999	\$11,454,378	48.5%	\$20,410,625	\$3,290,707	16.1%	\$8,163,671	248.1%
Surface Water Utility Fund	\$5,602,951	\$2,900,616	51.8%	\$5,208,387	\$2,571,164	49.4%	\$329,452	12.8%
Vehicle Operations/ Maint. Fund	\$245,273	\$115,504	47.1%	\$213,635	\$93,489	43.8%	\$22,015	23.5%
Equipment Replacement Fund	\$269,253	\$128,831	47.8%	\$244,090	\$81,716	33.5%	\$47,115	57.7%
Unemployment Fund	\$17,500	\$3,754	21.5%	\$17,500	\$776	4.4%	\$2,978	383.8%
Totals	\$77,687,848	\$40,634,823	52.3%	\$73,099,933	\$35,422,139	48.5%	\$5,212,684	14.7%
Transportation Benefit District	\$788,613	\$634,340	80.4%	\$919,200	\$907,827	98.8%	-\$273,487	-30.1%

GENERAL FUND REVENUE DETAIL

Revenue Source	2014 Current Budget	2014 Third Quarter Actual Revenue	2014 % of Current Budget Received	2013 Current Budget	2013 Third Quarter Actual Revenue	2013 % of Current Budget Received	2014 v. 2013 \$ Change
Budgeted Fund Balance	\$2,536,444	\$0	0.0%	\$1,573,515	\$0	0.0%	\$0
Property Tax	\$10,245,815	\$5,640,499	55.1%	\$9,409,277	\$5,297,281	56.3%	\$343,218
Sales Tax	\$6,739,000	\$5,012,744	74.4%	\$6,574,800	\$4,920,532	74.8%	\$92,212
Local Criminal Justice	\$1,224,532	\$936,890	76.5%	\$1,171,779	\$870,774	74.3%	\$66,116
Utility Tax and Franchise Fee Revenue							
<i>Natural Gas</i>	\$889,590	\$602,928	67.8%	\$966,946	\$571,723	59.1%	\$31,205
<i>Garbage</i>	\$528,086	\$264,107	50.0%	\$497,977	\$259,049	52.0%	\$5,058
<i>Cable TV</i>	\$1,658,749	\$1,016,139	61.3%	\$1,531,846	\$990,787	64.7%	\$25,352
<i>Telecommunications</i>	\$1,569,095	\$873,442	55.7%	\$1,704,878	\$880,684	51.7%	-\$7,242
<i>Storm Drainage</i>	\$207,697	\$123,508	59.5%	\$201,648	\$113,363	56.2%	\$10,145
<i>Water</i>	\$754,197	\$376,313	49.9%	\$715,327	\$369,430	51.6%	\$6,883
<i>Sewer</i>	\$809,711	\$606,000	74.8%	\$786,127	\$588,000	74.8%	\$18,000
Utility Tax and Franchise Fee Revenue Subtotal	\$6,417,125	\$3,862,437	60.2%	\$6,404,749	\$3,773,036	58.9%	\$89,401
SCL Contract Payment	\$1,912,728	\$1,159,468	60.6%	\$1,829,501	\$1,121,244	61.3%	\$38,224
Gambling Tax Revenue	\$1,569,125	\$865,467	55.2%	\$1,755,451	\$1,123,626	64.0%	-\$258,159
Development Revenue	\$1,211,750	\$1,247,973	103.0%	\$1,090,055	\$1,116,338	102.4%	\$131,635
Park and Recreation Revenue	\$1,537,541	\$1,317,955	85.7%	\$1,503,960	\$1,269,354	84.4%	\$48,601
Intergovernmental Revenue	\$865,015	\$585,709	67.7%	\$906,181	\$503,771	55.6%	\$81,938
Grant Revenue	\$308,306	\$70,345	22.8%	\$367,931	\$164,825	44.8%	-\$94,480
Fines and Licenses	\$835,053	\$178,537	21.4%	\$887,245	\$209,499	23.6%	-\$30,962
Miscellaneous Revenue	\$431,479	\$354,031	82.1%	\$427,110	\$366,066	85.7%	-\$12,035
Investment Income	\$30,000	\$23,386	78.0%	\$30,000	\$17,021	56.7%	\$6,365
Operating Transfers In	\$979,100	\$726,825	74.2%	\$946,045	\$709,533	75.0%	\$17,292
Total General Fund Revenue	\$36,843,013	\$21,982,266	59.7%	\$34,877,599	\$21,462,900	61.5%	\$519,366

GENERAL FUND REVENUE ANALYSIS:

TOTAL GENERAL FUND REVENUE

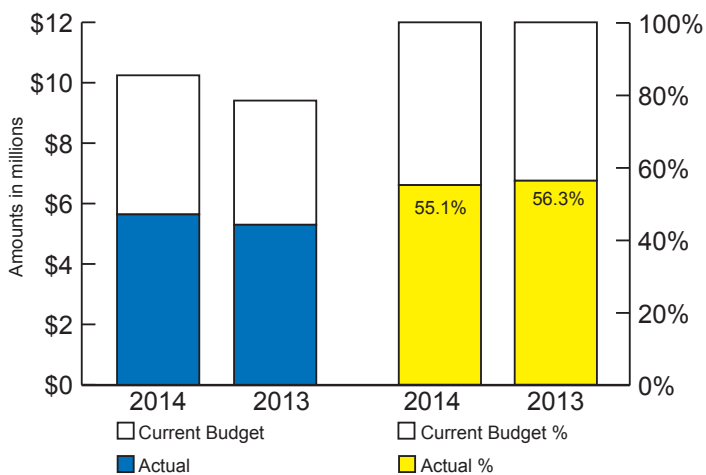


2014 Current Budget	\$36,843,013
2014 Third Quarter Actual Revenue	\$21,982,266
2014 % of Current Budget Received	59.7%
2013 Current Budget	\$34,877,599
2013 Third Quarter Actual Revenue	\$21,462,900
2013 % of Current Budget Received	61.5%
2014 v. 2013 Third Quarter \$ Change	\$519,366
2014 v. 2013 Third Quarter % Change	2.4%

Total general fund revenue received through the third quarter of 2014 totals \$21,982,266 and reflects a year-over-year increase of \$519,366, or 2.4%. The following highlights the most important details of this report:

- The largest part of the year-over-year change (\$343,218) is due to the higher property tax levy for 2014.
- The year-over-year variance for utility tax and franchise fee revenue receipts would be up by \$65,758, or 1.7%, had payments been received on time in the natural gas category in 2013.
- Collections from sales tax are up by \$92,212, or 1.9%.
- Criminal justice sales tax revenues are also up by \$66,116, or 7.6%, a sign that countywide sales tax activity continues to improve.
- Pull-tab and card room gambling activity declined year-over-year. The cessation of activity at Drift on Inn last year through part of this year contributed to the additional loss of revenue.
- The year-over-year increase in development revenue receipts is attributable to higher-than-anticipated receipts for building permits, plan check fees, electrical permits, mechanical fees/permits, and land use fees/permits. Overall development permit activity is higher throughout all of the categories as compared to the same period in 2013.
- The year-over-year change for intergovernmental revenue receipts is largely due to receipts from the distribution of liquor excise taxes, which were not distributed during the first three quarters of 2013.

PROPERTY TAX

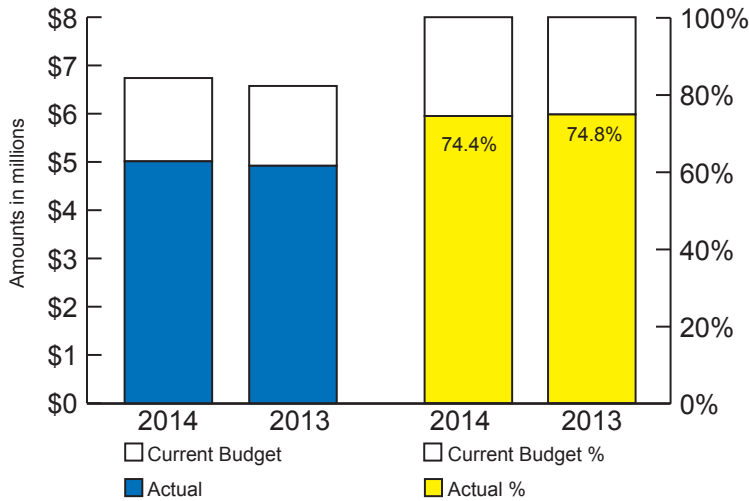


2014 Current Budget	\$10,245,815
2014 Third Quarter Actual Revenue	\$5,640,499
2014 % of Current Budget Received	55.1%
2013 Current Budget	\$9,409,277
2013 Third Quarter Actual Revenue	\$5,297,281
2013 % of Current Budget Received	56.3%
2014 v. 2013 Third Quarter \$ Change	\$343,218
2014 v. 2013 Third Quarter % Change	6.5%

In addition to the year-over-year change noted above, property tax receipts are greater than the year-to-date projection by \$43,449, or 0.8%. During the first three quarters of 2014 the City has received \$138,780 in delinquent taxes from previous years that were not factored into the budget projection.

GENERAL FUND REVENUE ANALYSIS (continued):

SALES TAX



Sales tax revenue: December - July

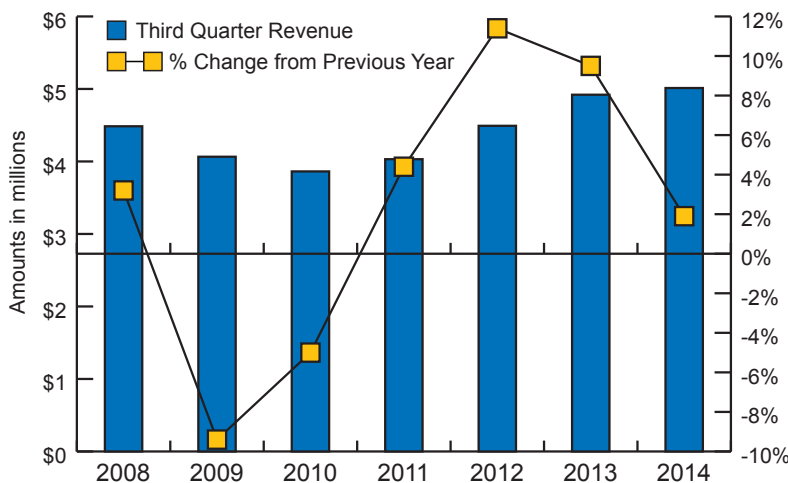
Sales Activity	2013	2014
December (prior year)	\$695,645	\$712,174
January	\$547,817	\$554,366
February	\$561,895	\$533,674
March	\$587,503	\$609,471
April	\$596,554	\$587,117
May	\$612,901	\$616,693
June	\$620,742	\$674,044
July	\$697,475	\$725,205
Year to date	\$4,920,532	\$5,012,744
\$ Change		\$92,212
% Change		1.9%

Sales Tax receipts through September reflect activity from December 2013 through July 2014 and total \$5,012,744. Receipts are above the revised year-to-date projection by \$213,667, or 4.5%, and above 2013 collections by \$92,212, or 1.9%. The variance from the projection is largely due to one-time activity in the Construction sector. Staff's projection for the third quarter did not factor in the impact of one-time activity.

Receipts from the Construction sector are lower than the year-ago level by 18.3%. Of the amount collected through September, one-time activity accounted for \$111,687, or 15.3%, in 2014, \$402,424, or 45.0%, in 2013 and \$462,893, or 59.7%, in 2012. It is anticipated there will be year-over-year decreases in future months as one-time projects come to an end. Removing one-time activity from the construction calculation reveals a year-over-year increase of 26.0%.

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

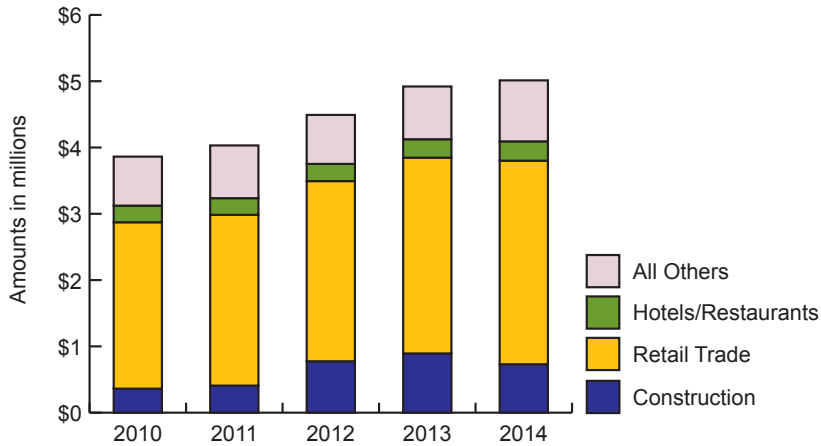
Third Quarter Sales Tax Revenue Comparison



Year	Third Quarter Revenue	% Change from Previous Year
2008	\$4,485,280	3.2%
2009	\$4,065,145	-9.4%
2010	\$3,862,545	-5.0%
2011	\$4,031,175	4.4%
2012	\$4,491,651	11.4%
2013	\$4,920,532	9.5%
2014	\$5,012,744	1.9%

GENERAL FUND REVENUE ANALYSIS (continued):

SALES TAX BY CATEGORY - Third Quarter 2014

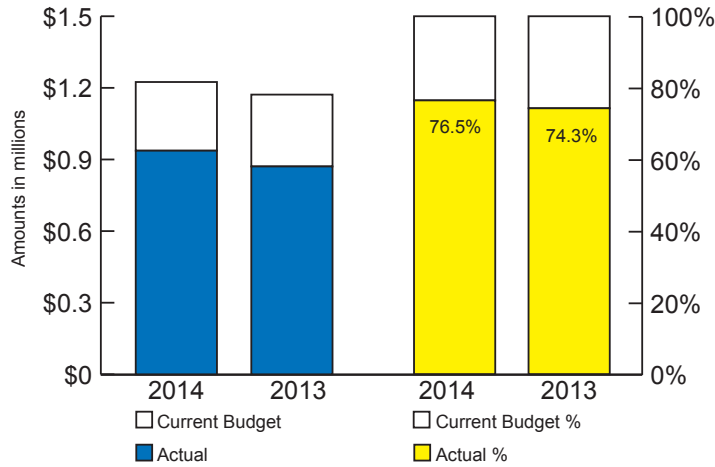


RETAIL SECTOR	2010	2011	2012	2013	2014
Construction	\$362,466	\$408,110	\$774,897	\$893,412	\$730,341
Retail Trade	\$2,509,883	\$2,576,739	\$2,718,554	\$2,953,139	\$3,070,639
Hotel and Restaurant	\$250,327	\$250,929	\$259,067	\$278,075	\$291,617
All Others	\$739,869	\$795,397	\$739,133	\$795,906	\$920,148
Total	\$3,862,545	\$4,031,175	\$4,491,651	\$4,920,532	\$5,012,744
\$ Change from previous year	-\$202,600	\$168,630	\$460,476	\$428,881	\$92,212
% Change from previous year	-5.0%	4.4%	11.4%	9.5%	1.9%

SALES TAX BY CATEGORY									
Retail Trade	2010 Dec-July	2011 Dec-July	2011 v. 2010 \$ Change	2012 Dec-July	2012 v. 2011 \$ Change	2013 Dec-July	2013 v. 2012 \$ Change	2014 Dec-July	2014 v. 2013 \$ Change
Motor Vehicle/Parts Dealer	\$541,888	\$590,409	\$48,521	\$654,268	\$63,859	\$746,634	\$92,366	\$822,454	\$75,820
Furniture, Home Furnishings	\$34,538	\$37,053	\$2,515	\$33,283	-\$3,770	\$39,321	\$6,038	\$40,825	\$1,504
Electronics and Appliances	\$49,716	\$55,884	\$6,168	\$65,340	\$9,456	\$61,754	-\$3,586	\$75,820	\$14,066
Building Materials, Garden	\$389,413	\$373,166	-\$16,247	\$393,535	\$20,369	\$450,716	\$57,181	\$462,927	\$12,211
Food and Beverage Stores	\$174,179	\$169,113	-\$5,066	\$173,336	\$4,223	\$177,363	\$4,027	\$169,482	-\$7,881
Health/Personal Care Store	\$85,161	\$85,342	\$181	\$99,870	\$14,528	\$108,266	\$8,396	\$111,766	\$3,500
Gasoline Stations	\$45,077	\$47,362	\$2,285	\$48,951	\$1,589	\$50,587	\$1,636	\$50,560	-\$27
Clothing and Accessories	\$19,349	\$24,205	\$4,856	\$29,311	\$5,106	\$31,144	\$1,833	\$32,768	\$1,624
Sporting Goods, Hobby, Books	\$54,742	\$53,300	-\$1,442	\$50,898	-\$2,402	\$50,167	-\$731	\$54,260	\$4,093
General Merchandise Stores	\$901,434	\$903,839	\$2,405	\$921,732	\$17,893	\$970,204	\$48,472	\$966,945	-\$3,259
Miscellaneous Store Retailers	\$156,362	\$168,768	\$12,406	\$168,526	-\$242	\$170,290	\$1,764	\$170,683	\$393
Nonstore Retailers	\$58,024	\$68,298	\$10,274	\$79,504	\$11,206	\$96,694	\$17,190	\$112,150	\$15,456
Total Revenue	\$2,509,883	\$2,576,739	\$66,856	\$2,718,554	\$141,815	\$2,953,139	\$234,585	\$3,070,639	\$117,500

GENERAL FUND REVENUE ANALYSIS (continued):

LOCAL CRIMINAL JUSTICE SALES TAX

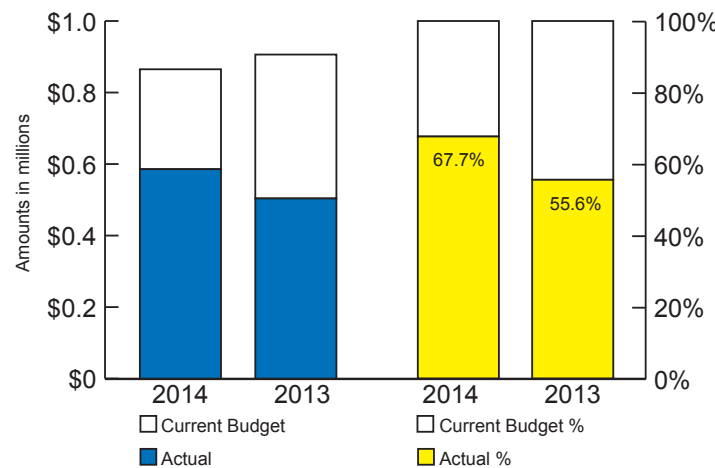


2014 Current Budget	\$1,224,532
2014 Third Quarter Actual Revenue	\$936,890
2014 % of Current Budget Received	76.5%
2013 Current Budget	\$1,171,779
2013 Third Quarter Actual Revenue	\$870,774
2013 % of Current Budget Received	74.3%
2014 v. 2013 Third Quarter \$ Change	\$66,116
2014 v. 2013 Third Quarter % Change	7.6%

Local Criminal Justice Sales Tax receipts through September, in the amount of \$936,890, are \$66,116, or 7.6%, more than the year-ago level. Thus far this year 76.5% of the amount budgeted has been received as compared to 74.3% received during the same period last year. Receipts are \$34,853, or 3.9%, more than the revised year-to-date projection.

The result for Local Criminal Justice Sales Tax receipts is not commensurate with the result for Sales Tax receipts because the distribution of Local Criminal Justice Sales Tax is based on the city's population and the amount of sales tax collected throughout all of King County.

INTERGOVERNMENTAL REVENUE

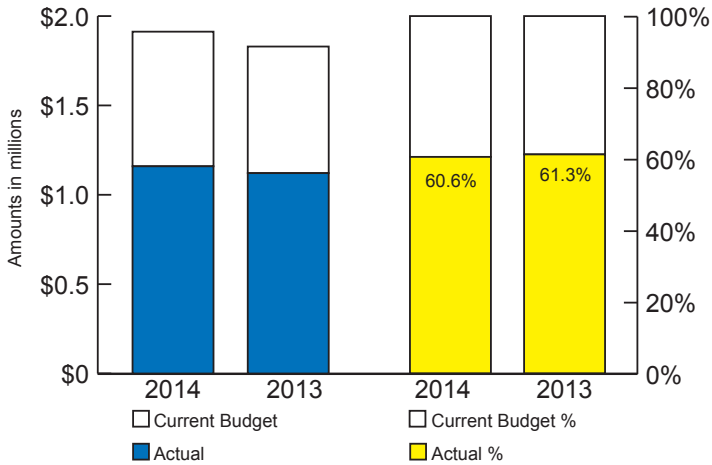


2014 Current Budget	\$865,015
2014 Third Quarter Actual Revenue	\$585,709
2014 % of Current Budget Received	67.7%
2013 Current Budget	\$906,181
2013 Third Quarter Actual Revenue	\$503,771
2013 % of Current Budget Received	55.6%
2014 v. 2013 Third Quarter \$ Change	\$81,938
2014 v. 2013 Third Quarter % Change	16.3%

Intergovernmental revenue sources are comprised primarily of funding for criminal justice programs, liquor excise tax, and liquor board profits. Receipts through September, in the amount of \$585,709, are \$81,938, or 16.3%, more than the year-ago level and \$4,639, or 0.8%, more than the revised year-to-date projection. The year-over-year change is largely due to receipts from the distribution of liquor excise taxes, which were not distributed in January, April or July 2013.

GENERAL FUND REVENUE ANALYSIS (continued):

SEATTLE CITY LIGHT CONTRACT PAYMENT

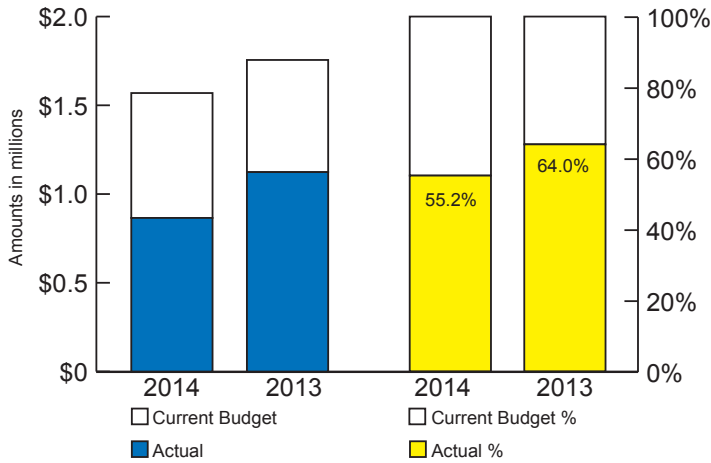


2014 Current Budget	\$1,912,728
2014 Third Quarter Actual Revenue	\$1,159,468
2014 % of Current Budget Received	60.6%
2013 Current Budget	\$1,829,501
2013 Third Quarter Actual Revenue	\$1,121,244
2013 % of Current Budget Received	61.3%
2014 v. 2013 Third Quarter \$ Change	\$38,224
2014 v. 2013 Third Quarter % Change	3.4%

Receipts through September, in the amount of \$1,159,468, are \$38,224, or 3.4%, more than the year-ago level. Receipts are \$76,962, or 6.2%, less than the year-to-date projection.

GENERAL FUND REVENUE ANALYSIS (continued):

GAMBLING TAX REVENUE



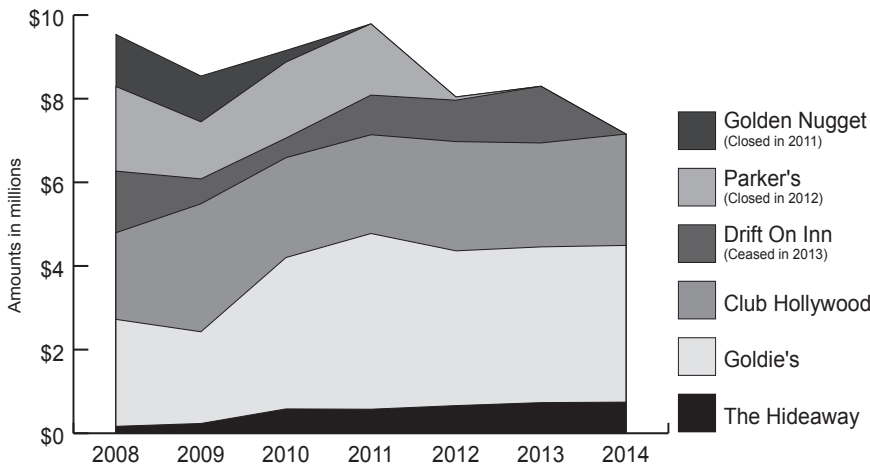
2014 Current Budget	\$1,569,125
2014 Third Quarter Actual Revenue	\$865,467
2014 % of Current Budget Received	55.2%
2013 Current Budget	\$1,755,451
2013 Third Quarter Actual Revenue	\$1,123,626
2013 % of Current Budget Received	64.0%
2014 v. 2013 Third Quarter \$ Change	-\$258,159
2014 v. 2013 Third Quarter % Change	-23.0%

Total receipts, inclusive of taxes on gambling activity and payments on promissory notes, in the amount of \$865,467, are lower than 2013 collections by \$258,159, or 23.0%, and the revised year-to-date projection by \$66,584, or 7.1%. Receipts attributable to taxes on gambling activity reported through the third quarter, in the amount of \$773,975, exhibit a year-over-year decrease of \$174,885, or 18.4%, and are \$67,336, or 8.0%, less than the revised projection. One-time revenue resulting from promissory notes through the third quarter totaled \$91,492.

Pull-tab and card room activity declined year-over-year. All activity ceased at Drift on Inn last year, which contributed to the additional loss of revenue; however, pull-tab activity returned in the second quarter of 2014. One-time revenue projected to be received based on promissory notes in 2014 totals \$95,236.

Gambling tax receipts presented in this report largely reflect only those taxes calculated on first and second quarter gambling activity, since third quarter gambling tax returns are not due to the City until October 30, and monthly payments as required by certain promissory notes. Card rooms pay ten percent of gross yearly receipts over \$10,000. The chart below exhibits the last seven years of gross receipts reported by card rooms in Shoreline.

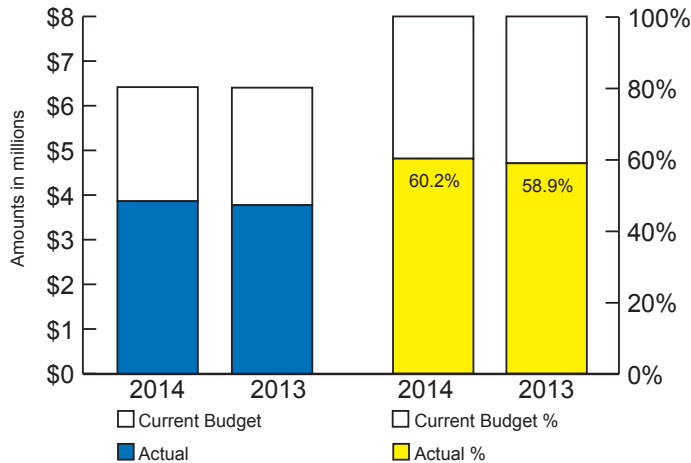
CARD ROOM RECEIPTS 2008-2014



Year	Receipts (Millions)	% Change from Previous Year
2008	\$9,535,200	-10.6%
2009	\$8,541,250	-10.4%
2010	\$9,153,159	7.2%
2011	\$9,789,449	7.0%
2012	\$8,041,424	-17.9%
2013	\$8,296,289	3.2%
2014	\$7,153,931	-13.8%

GENERAL FUND REVENUE ANALYSIS (continued):

UTILITY TAX AND FRANCHISE FEE



2014 Current Budget	\$6,417,125
2014 Third Quarter Actual Revenue	\$3,862,437
2014 % of Current Budget Received	60.2%
2013 Current Budget	\$6,404,749
2013 Third Quarter Actual Revenue	\$3,773,036
2013 % of Current Budget Received	58.9%
2014 v. 2013 Third Quarter \$ Change	\$89,401
2014 v. 2013 Third Quarter % Change	2.4%

Overall Utility Tax and Franchise Fee receipts, in the amount of \$3,862,437, are \$89,401, or 2.4%, more than the year-ago level and \$80,524, or 2.1%, more than the revised year-to-date projection. Had Puget Sound Energy's August 2013 payment discussed below been received on time, receipts would be \$65,758, or 1.7%, higher than the year-ago level.

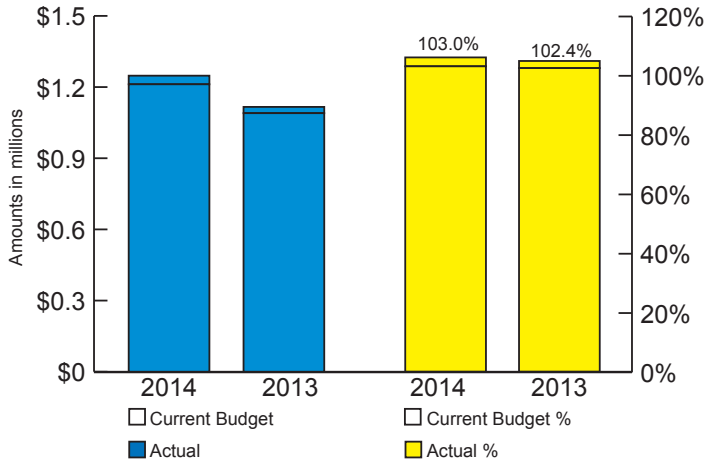
Natural gas tax receipts are 5.5% higher than those collected during the same period in 2013 because Puget Sound Energy's August 2013 payment was not received until October. Had that payment been received on time receipts through the third quarter of 2014 would be 1.3% higher than the year-ago level. Garbage tax receipts are 2.0% higher than those collected during the same period in 2013. Cable television tax receipts are 2.6% higher than those collected during the same period in 2013. Telecommunications tax receipts decreased from 2013 collections by 0.8% and are behind the revised year-to-date projection by 0.8%. Telecommunications tax receipts fell each year from 2010 through 2014. Water franchise fee receipts are 1.9% higher than those collected during the same period in 2013.

It is important to note that activity through the third quarter of 2014 and 2013 presented in this report does not reflect third quarter payments for the garbage utility tax and water and cable franchise fees. Third quarter payments for these items are typically received in late October.

Revenue Source	2014 Current Budget	2014 Third Quarter Actual Revenue	2014 % of Current Budget Received	2013 Current Budget	2013 Third Quarter Actual Revenue	2013 % of Current Budget Received	2014 v. 2013 \$ Change	2014 v. 2013 % Change
Natural gas	\$889,590	\$602,928	67.8%	\$966,946	\$571,723	59.1%	\$31,205	5.5%
Garbage	\$528,086	\$264,107	50.0%	\$497,977	\$259,049	52.0%	\$5,058	2.0%
Cable TV	\$1,658,749	\$1,016,139	61.3%	\$1,531,846	\$990,787	64.7%	\$25,352	2.6%
Telecommunications	\$1,569,095	\$873,442	55.7%	\$1,704,878	\$880,684	51.7%	-\$7,242	-0.8%
Storm Drainage	\$207,697	\$123,508	59.5%	\$201,648	\$113,363	56.2%	\$10,145	8.9%
Water	\$754,197	\$376,313	49.9%	\$715,327	\$369,430	51.6%	\$6,883	1.9%
Sewer	\$809,711	\$606,000	74.8%	\$786,127	\$588,000	74.8%	\$18,000	3.1%
Utility Tax and Franchise Fee Revenue Subtotal	\$6,417,125	\$3,862,437	60.2%	\$6,404,749	\$3,773,036	58.9%	\$89,401	2.4%

GENERAL FUND REVENUE ANALYSIS (continued):

DEVELOPMENT REVENUE



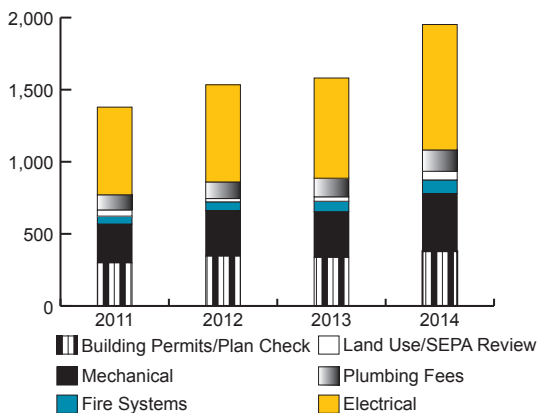
2014 Current Budget	\$1,211,750
2014 Third Quarter Actual Revenue	\$1,247,973
2014 % of Current Budget Received	103.0%
2013 Current Budget	\$1,090,055
2013 Third Quarter Actual Revenue	\$1,116,338
2013 % of Current Budget Received	102.4%
2014 v. 2013 Third Quarter \$ Change	\$131,635
2014 v. 2013 Third Quarter % Change	11.8%

Development revenue receipts, in the amount of \$1,247,973, are \$131,423, or 11.8%, more than the year-to-date projection and exhibit a year-over-year increase of \$131,635, or 11.8%. The year-over-year increase in receipts is attributable to higher-than-anticipated receipts for building permits, plan check fees, electrical permits, mechanical fees/permits, and land use fees/permits.

Issued building permits came in at \$34.67 million valuation through September, comprised of 54.6% residential and 45.4% non-residential. Projects worth noting in the non-residential category are: the North City Water District's 3,200 square foot pump station and associated site work valued at \$4.0 million, the Washington State Public Health Labs project valued at \$1.8 million, the Evergreen School Cedar Building project valued at \$2.8 million, and the Washington State Department of Transportation's office building valued at \$2.5 million.

Thus far in 2014, there have been 14 more permits issued for single-family residences, with a value that is \$544,000 more, as compared to the year-ago level. There have been six more permits issued for non-residential construction, with a value that is \$4.2 million more, than the year-ago level. This positive trend is also seen in the number of permits issued throughout all of the categories as compared to the same period in 2013.

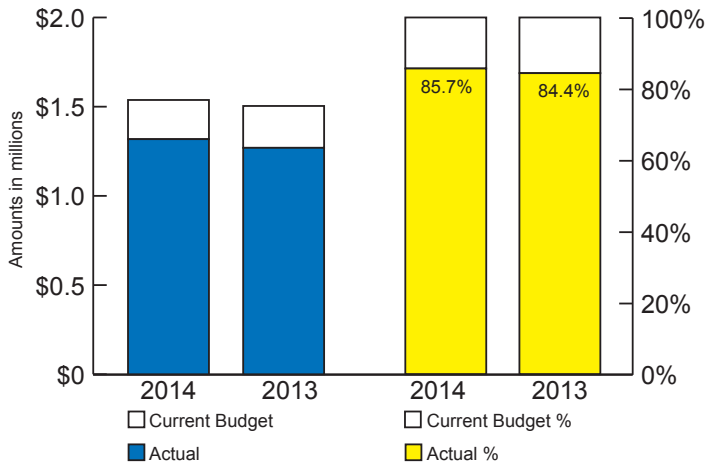
PERMITS BY TYPE January through June 2011–2014



PERMIT TYPE	2011	2012	2013	2014	# Change	% Change
Building Permits/Plan Check	300	347	338	380	42	12.4%
Mechanical	268	315	316	400	84	26.6%
Fire Systems	55	60	72	94	22	30.6%
Land Use/SEPA Review	43	23	31	60	29	93.5%
Plumbing	105	115	129	148	19	14.7%
Electrical	608	674	695	870	175	25.2%
Total	1,379	1,534	1,581	1,952	371	23.5%

GENERAL FUND REVENUE ANALYSIS (continued):

PARK AND RECREATION REVENUE

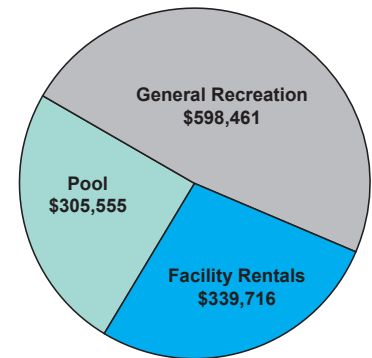


2014 Current Budget	\$1,537,541
2014 Third Quarter Actual Revenue	\$1,317,955
2014 % of Current Budget Received	85.7%
2013 Current Budget	\$1,503,960
2013 Third Quarter Actual Revenue	\$1,269,354
2013 % of Current Budget Received	84.4%
2014 v. 2013 Third Quarter \$ Change	\$48,601
2014 v. 2013 Third Quarter % Change	3.8%

Park and Recreation revenue receipts, in the amount of \$1,317,955, are \$48,601, or 3.8%, higher than the year-ago level and \$58,889, or 4.7%, higher than the revised year-to-date projection. Compared to the first three quarters of 2013, the same period of 2014 witnessed an increase in revenues from the pool by 10.2% and recreation programs by 8.0%. Pool receipts for the second quarter of 2013 were affected by the pool closure during the month of May 2013 while a new boiler was being installed. General Recreation receipts increased due to increased participation in preschool sports skills and youth programs. Facility rental receipts declined 6.4%. The decrease in facility rental revenue is largely due to fewer rentals of athletic fields and the Spartan Gym.

Recreation Revenue by Program Area: January - September 2007 - 2014*

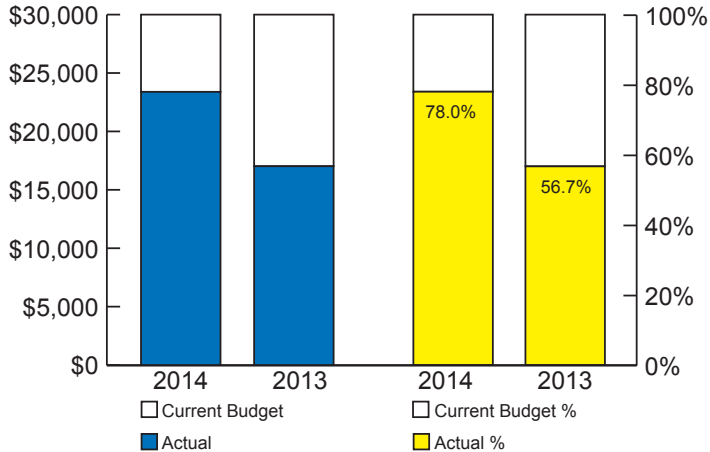
Year	General Recreation*	General Recreation % of Total	Pool	Pool % of Total	Facility Rentals	Facility Rentals % of Total	Total Revenue
2007	\$478,033	47.7%	\$298,734	29.8%	\$226,207	22.6%	\$1,002,974
2008	\$525,183	47.7%	\$322,138	29.3%	\$253,907	23.1%	\$1,101,228
2009	\$497,791	44.6%	\$306,312	27.4%	\$313,236	28.0%	\$1,117,339
2010	\$526,076	46.1%	\$298,031	26.1%	\$316,357	27.7%	\$1,140,464
2011	\$563,480	45.9%	\$310,388	25.3%	\$352,868	28.8%	\$1,226,736
2012	\$545,789	46.0%	\$299,268	25.2%	\$340,917	28.7%	\$1,185,974
2013	\$554,059	46.4%	\$277,292	23.2%	\$362,871	30.4%	\$1,194,222
2014	\$598,461	48.1%	\$305,555	24.6%	\$339,716	27.3%	\$1,243,732



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

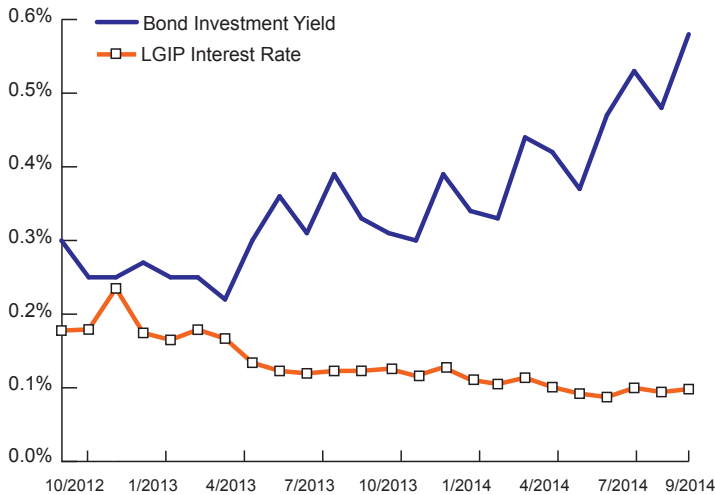
GENERAL FUND REVENUE ANALYSIS (continued):

INVESTMENT INCOME



2014 Current Budget	\$30,000
2014 Third Quarter Actual Revenue	\$23,386
2014 % of Current Budget Received	78.0%
2013 Current Budget	\$30,000
2013 Third Quarter Actual Revenue	\$17,021
2013 % of Current Budget Received	56.7%
2014 v. 2013 Third Quarter \$ Change	\$6,365
2014 v. 2013 Third Quarter % Change	37.4%

Investment earnings through September totaled \$23,386 and are higher than the year-ago level by \$6,365, or 37.4%. The City is diversifying and laddering its portfolio, moving methodically into longer term securities earning higher interest rates.

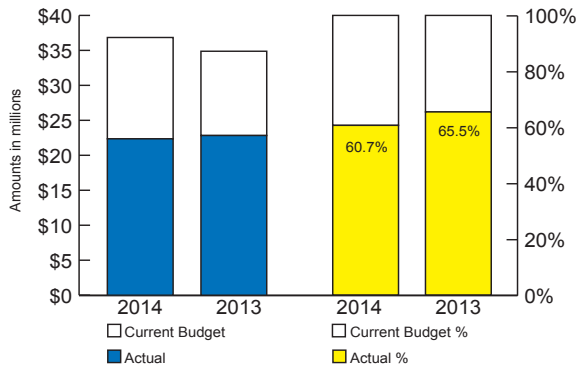


Month	LGIP Interest Rate*	Bond Investment Yield
10/31/12	0.1777%	0.3000%
11/30/12	0.1792%	0.2500%
12/31/12	0.2350%	0.2500%
1/31/13	0.1745%	0.2700%
2/29/13	0.1650%	0.2500%
3/31/13	0.1789%	0.2500%
4/30/13	0.1669%	0.2200%
5/31/13	0.1341%	0.3000%
6/30/13	0.1229%	0.3600%
7/31/13	0.1196%	0.3100%
8/31/13	0.1229%	0.3900%
9/30/13	0.1230%	0.3300%
10/31/13	0.1258%	0.3100%
11/30/13	0.1162%	0.3000%
12/31/13	0.1277%	0.3900%
1/31/14	0.1110%	0.3400%
2/28/14	0.1051%	0.3300%
3/31/14	0.1137%	0.4400%
4/31/14	0.1009%	0.4200%
5/28/14	0.0921%	0.3700%
6/31/14	0.0874%	0.4700%
7/31/14	0.0999%	0.5300%
8/31/14	0.0943%	0.4800%
9/30/14	0.0982%	0.5800%
24 Mo. Avg.	0.1322%	0.3517%

*Local Government Investment Pool

EXPENDITURE ANALYSIS

GENERAL FUND EXPENDITURES



2014 Current Budget	\$36,843,011
2014 Third Quarter Actual Expenditures	\$22,355,031
2014 % of Current Budget Expended	60.7%
2013 Current Budget	\$34,877,601
2013 Third Quarter Actual Expenditures	\$22,829,923
2013 % of Current Budget Expended	65.5%
2014 v. 2013 Third Quarter \$ Change	-\$474,892
2014 v. 2013 Third Quarter % Change	-2.1%

Through the third quarter of 2014 expenditures as a percentage of the budget are as follows:

- 58.5% of the General Fund departmental budget, which excludes transfers out, and
- 60.7% of the budget including transfers.

This is less than the 65.0% and 65.5% expended through the third quarter of 2013, respectively, largely because King County did not send two months worth of invoices for the Police contract. Had these invoices been received on time third quarter 2014 expenditures would have accounted for 63.7% and 65.4% of the budget, respectively.

General Fund departmental expenditures through the third quarter of 2014, in the amount of \$19,992,469, are \$1,086,588, or 5.2%, less than the year-ago level. Had the Police contract invoices been received on time, General Fund departmental expenditures would be 3.2% higher than the year-ago level. General Fund expenditures including transfers out, of \$22,355,031 are \$474,892, or 2.1%, less than the year-ago level. Had the Police contract invoices been received on time total expenditures would be 5.6% higher than the year-ago level. The increased level of expenditures can largely be attributable to the following:

- Higher jail housing costs resulting from the shift from Snohomish County Jail to King County Jail through September, and
- One-time transfers to the Roads Capital Fund of \$300,000 to establish a grant matching pool and \$500,000 for annual roads surface maintenance support.

In addition to the year-over-year change, General Fund departmental expenditures are \$2,610,546, or 11.5% , less than the revised year-to-date projection. Had the Police contract invoices been received on time, General Fund departmental expenditures would be 3.8% less than the revised projection. Expenditures including transfers out are 10.5% below the year-to-date projection. Had the Police contract invoices been received on time, expenditures including transfers out would be 3.5% less than the revised projection.

Department	2014 Current Budget	2014 Third Quarter Actual Expenditures	2014 % of Current Budget Expended	2013 Current Budget	2013 Third Quarter Actual Expenditures	2013 % of Current Budget Expended	2014 v. 2013 \$ Change	2014 v. 2013 % Change
City Council	\$221,089	\$162,761	73.6%	\$191,075	\$142,460	74.6%	\$20,301	14.3%
City Manager's Office ¹	\$2,158,535	\$1,308,374	60.6%	\$2,023,139	\$1,367,023	67.6%	-\$58,649	-4.3%
City Attorney	\$593,787	\$403,250	67.9%	\$584,847	\$360,343	61.6%	\$42,907	11.9%
Community Services ²	\$1,564,288	\$942,863	60.3%	\$1,525,487	\$901,401	59.1%	\$41,462	4.6%
Administrative Services ³	\$4,128,892	\$2,638,237	63.9%	\$3,869,369	\$2,407,534	62.2%	\$230,703	9.6%
Citywide	\$1,832,230	\$713,139	38.9%	\$1,768,964	\$1,334,721	75.5%	-\$621,582	-46.6%
Human Resources	\$442,810	\$333,143	75.2%	\$426,251	\$314,317	73.7%	\$18,825	6.0%
Police	\$10,703,332	\$5,205,410	48.6%	\$10,607,317	\$7,001,183	66.0%	-\$1,795,773	-25.6%
Criminal Justice	\$2,340,706	\$1,720,573	73.5%	\$2,109,968	\$1,161,859	55.1%	\$558,714	48.1%
Parks, Recreation & Cultural Services	\$5,020,693	\$3,424,952	68.2%	\$4,983,154	\$3,350,140	67.2%	\$74,812	2.2%
Planning & Community Development	\$2,705,095	\$1,724,324	63.7%	\$2,555,379	\$1,557,442	60.9%	\$166,882	10.7%
Public Works	\$2,442,806	\$1,415,444	57.9%	\$1,768,369	\$1,180,636	66.8%	\$234,808	19.9%
Departmental Expenditures	\$34,154,264	\$19,992,469	58.5%	\$32,413,319	\$21,079,057	65.0%	-\$1,086,588	-5.2%
Operating Transfers Out	\$2,688,749	\$2,362,562	87.9%	\$2,464,282	\$1,750,866	71.0%	\$611,696	34.9%
Total Expenditures	\$36,843,013	\$22,355,031	60.7%	\$34,877,601	\$22,829,923	65.5%	-\$474,892	-2.1%

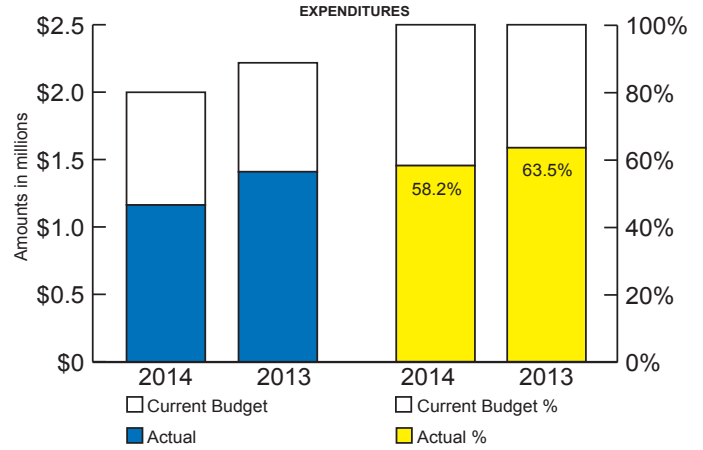
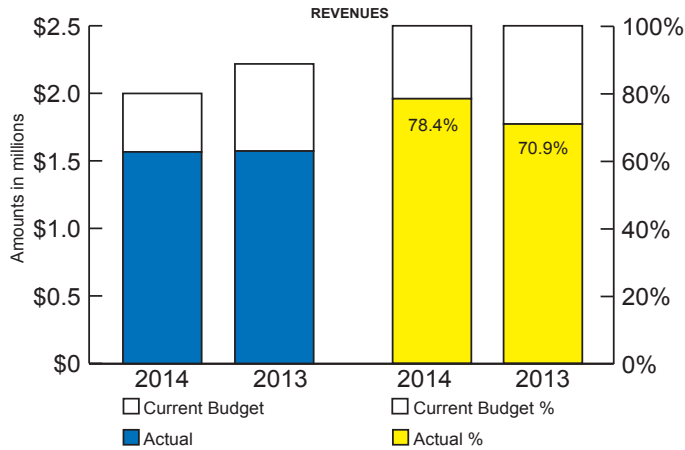
¹ City Manager's Office includes City Manager's Office, City Clerk, Communications, Intergovernmental Relations, Economic Development and Property Management.

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

³ Administrative Services includes Finance, Purchasing, Information Systems, and Fleet & Facilities.

OTHER FUNDS REVENUE AND EXPENDITURE ANALYSIS:

STREET FUND



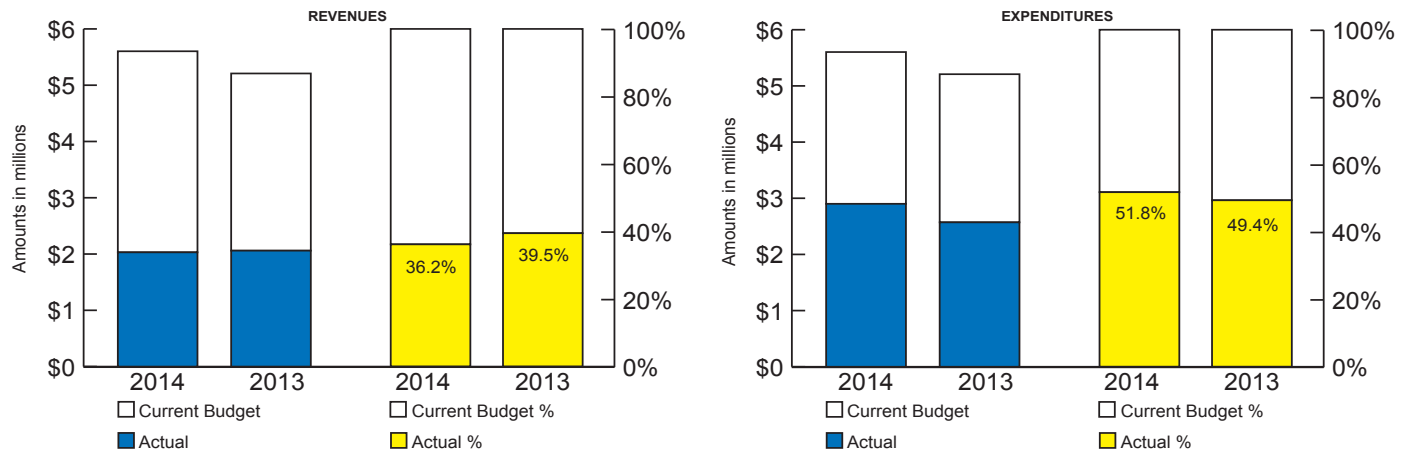
	Revenue	Expenditures
2014 Current Budget	\$1,999,037	\$1,999,037
2014 Third Quarter Actual	\$1,566,264	\$1,162,633
2014 % of Current Budget	78.4%	58.2%
2013 Current Budget	\$2,217,696	\$2,217,696
2013 Third Quarter Actual	\$1,572,635	\$1,409,341
2013 % of Current Budget	70.9%	63.5%
2014 v. 2013 Third Quarter \$ Change	-\$6,371	-\$246,708
2014 v. 2013 Third Quarter % Change	-0.4%	-17.5%

Receipts, including transfers in, through September totaled \$1,566,264 and are \$6,371, or 0.4%, lower than the year-ago level. Revenues totaled \$1,572,635 through the third quarter of 2013.

Expenditures, including transfers out, through September totaled \$1,162,633 and are \$246,708, or 17.5%, less than the year-ago level. The decrease in expenditures is primarily because expenditures for streetlight and traffic signal electricity were moved to another program in 2014. Expenses totaled \$1,409,341 through the third quarter of 2013.

OTHER FUNDS REVENUE AND EXPENDITURE ANALYSIS (cont.):

SURFACE WATER UTILITY FUND



	Revenue	Expenditures
2014 Current Budget	\$5,602,951	\$5,602,951
2014 Third Quarter Actual	\$2,030,265	\$2,900,616
2014 % of Current Budget	36.2%	51.8%
2013 Current Budget	\$5,208,387	\$5,208,387
2013 Third Quarter Actual	\$2,059,892	\$2,571,164
2013 % of Current Budget	39.5%	49.4%
2014 v. 2013 Third Quarter \$ Change	-\$29,627	\$329,452
2014 v. 2013 Third Quarter % Change	-1.4%	12.8%

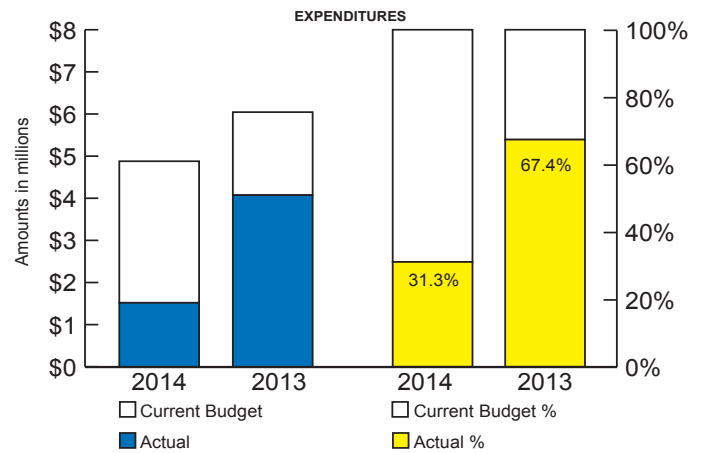
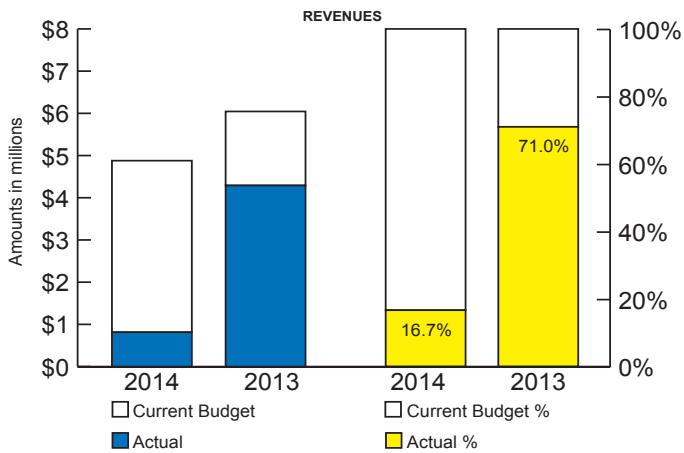
The Surface Water Utility Fund (SWM) includes on-going operational programs and capital projects with both being reflected in the total expenditures and revenues for the fund.

Receipts through September, in the amount of \$2,030,265, are \$29,627, or 1.4%, lower than the year-ago level and \$90,825, or 4.7%, higher than the year-to-date projection. SWM ongoing revenues include storm drainage fees and investment interest earnings. Storm Drainage Fees totaled \$1,964,091 and are \$150,379, or 8.3%, above the year-ago level. This increase is partially due to the 3% fee increase and also due to the Shoreline School District receiving a lower fee credit than anticipated.

Expenditures, including transfers out, through September totaled \$2,900,616 and are \$329,452, or 12.8%, more than the year-ago level. Furthermore, expenditures are \$226,271, or 8.5%, ahead of the year-to-date projection. Expenditures are impacted by the timing of construction schedules.

OTHER FUNDS REVENUE AND EXPENDITURE ANALYSIS (cont.):

GENERAL CAPITAL FUND



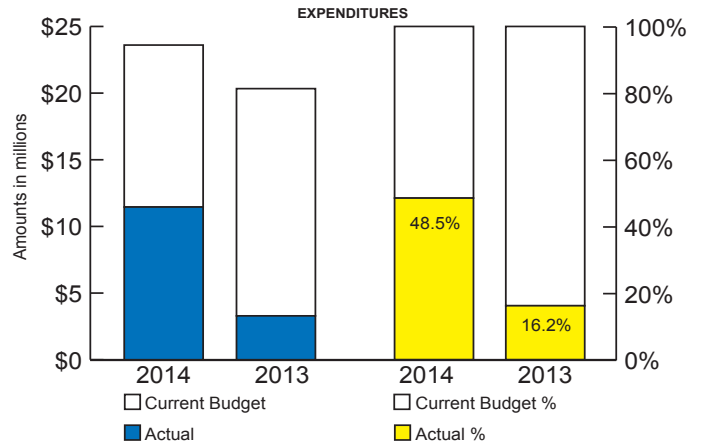
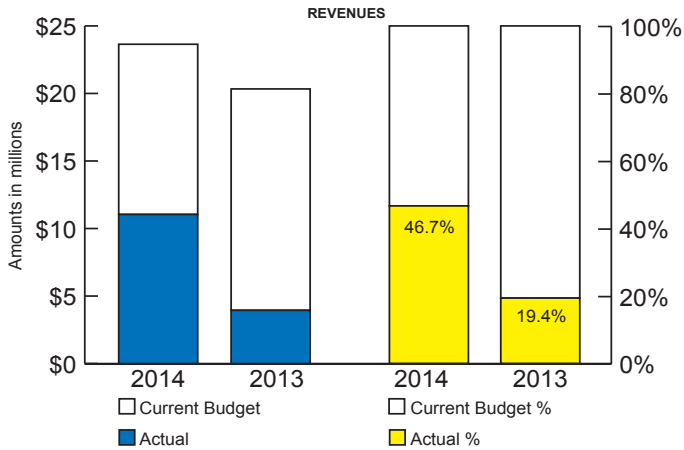
	Revenue	Expenditures
2014 Current Budget	\$4,878,471	\$4,878,471
2014 Third Quarter Actual	\$813,761	\$1,518,804
2014 % of Current Budget	16.7%	31.1%
2013 Current Budget	\$5,974,435	\$5,974,435
2013 Third Quarter Actual	\$4,290,977	\$4,074,281
2013 % of Current Budget	71.8%	68.2%
2014 v. 2013 Third Quarter \$ Change	-\$3,477,216	-\$2,555,477
2014 v. 2013 Third Quarter % Change	-81.0%	-62.7%

Receipts through September, in the amount of \$813,761, are \$3,477,216, or 81.0%, less than the year-ago level. The difference between 2013 and 2014 is due to the bond issued for the acquisition of the North Maintenance Facility in 2013. Investment earnings totaled \$1,999 which is \$12,912, or 86.6%, below the projection.

Expenditures through September, including transfers out, totaled \$1,518,804 and are \$2,555,477, or 62.7%, less than the same period in 2013. Expenditures are impacted by the timing of construction schedules. The difference between 2013 and 2014 is attributed to the acquisition of North Maintenance Facility in 2013.

OTHER FUNDS REVENUE AND EXPENDITURE ANALYSIS (cont.):

ROADS CAPITAL FUND



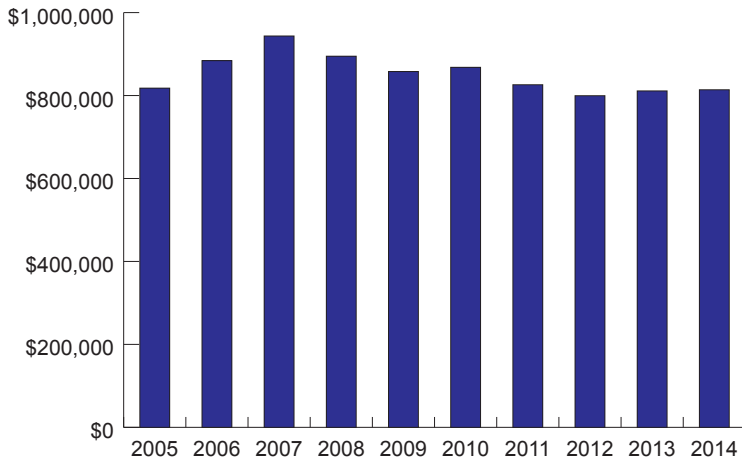
	<i>Revenue</i>	<i>Expenditures</i>
2014 Current Budget	\$23,642,942	\$23,603,999
2014 Third Quarter Actual	\$11,042,496	\$11,454,378
2014 % of Current Budget	46.7%	48.5%
2013 Current Budget	\$20,410,625	\$20,410,625
2013 Third Quarter Actual	\$3,942,867	\$3,290,707
2013 % of Current Budget	19.3%	16.1%
2014 v. 2013 Third Quarter \$ Change	\$7,099,629	\$8,163,671
2014 v. 2013 Third Quarter % Change	180.1%	248.1%

Receipts through September, in the amount of \$11,042,496, are \$7,099,629, or 180.1%, higher than the year-ago level. For this same period in 2013, a total of \$3,942,867 had been collected with the Aurora Avenue Improvements project contributing over \$2.1 million or 53% of the total. In 2014, the Aurora project has collected nearly \$8 million from grants and utility reimbursements which accounts for 72% of the total revenue.

Expenditures through June, in the amount of \$11,454,378, are \$8,163,671, or 248.1%, higher than the year-ago level. Again, the difference between 2013 and 2014 is mostly due to the Aurora project. Through September, expenditures on the Aurora project totaled \$9.5 million or 83% of the total.

NON-GENERAL FUND REVENUE ANALYSIS:

STREET FUND - FUEL TAX

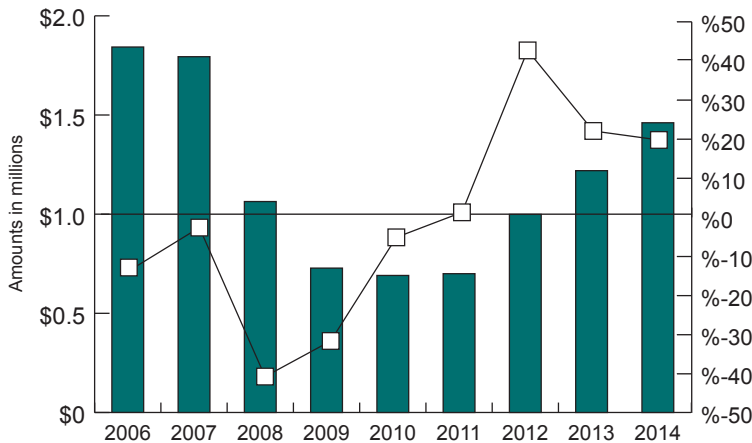


Fuel Tax: Historical Third Quarter 2005-2014

2005	\$817,843
2006	\$884,160
2007	\$943,554
2008	\$894,832
2009	\$857,894
2010	\$868,022
2011	\$826,043
2012	\$799,607
2013	\$811,132
2014	\$813,935

The Motor Vehicle Fuel Excise Tax, commonly referred to as Gas Tax, is levied by the State on a per gallon basis, distributed monthly on a per capita basis to the City of Shoreline, and placed in the Street Fund. Fuel Tax revenue receipts through September totaled \$813,935 and are \$2,803, or 0.3%, higher than the year-ago level. In addition to the budget variance, receipts are \$143, or 0.02%, greater than the year-to-date projection.

REAL ESTATE EXCISE TAX (REET)



REET: Third Quarter Collected 2006-2014

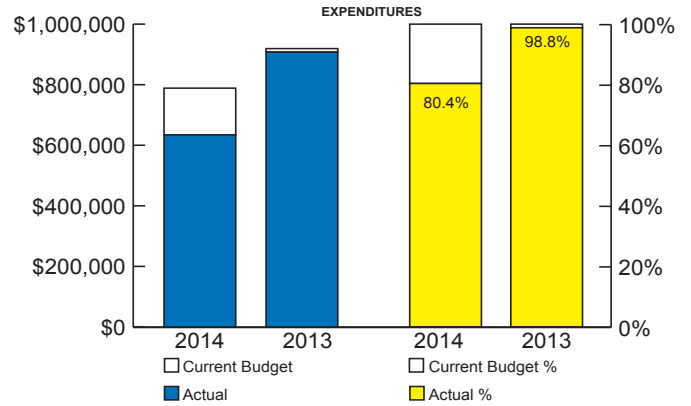
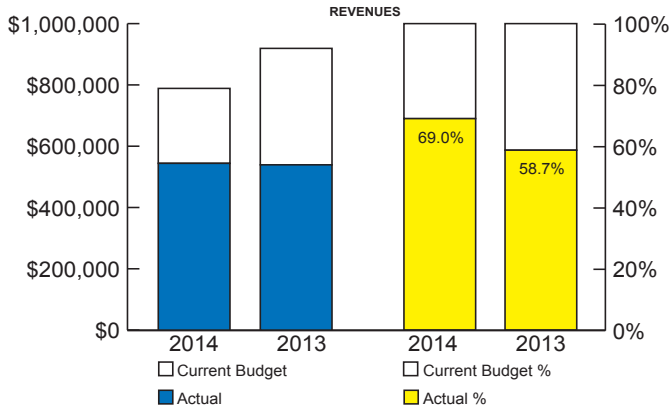
	Revenue	\$ Change from Previous Year	% Change from Previous Year
2006	\$1,842,392	-\$272,894	-12.9%
2007	\$1,794,000	-\$48,392	-2.6%
2008	\$1,063,630	-\$730,370	-40.7%
2009	\$727,984	-\$335,646	-31.6%
2010	\$690,928	-\$37,056	-5.1%
2011	\$699,857	\$8,929	1.3%
2012	\$998,901	\$299,044	42.7%
2013	\$1,219,330	\$220,429	22.1%
2014	\$1,460,906	\$241,576	19.8%

Real Estate Excise Tax (REET) revenue receipts through September totaled \$1,460,906 and are \$241,576, or 19.8%, more than receipts for the same period in 2013. There were 48 more real estate transactions through the third quarter of 2014 than in the same period of 2013, and the total value of all transactions was \$272.8 million, or 12.1%, more than in 2013.

The difference in the value of real estate transactions is attributable to: (i) there being more transactions in 2014 (679 total) than in 2013 (631 total), (ii) there being 22 high-value (\$1 million or more) transactions through the third quarter of 2014, one more than in the same period of 2013, and (iii) the average value of transaction increased by \$16,194 in 2014 to \$401,812.

OTHER FUNDS REVENUE AND EXPENDITURE ANALYSIS (cont.):

TRANSPORTATION BENEFIT DISTRICT



	Revenue	Expenditures
2014 Current Budget	\$788,613	\$788,613
2014 Third Quarter Actual	\$544,123	\$634,340
2014 % of Current Budget	69.0%	80.4%
2013 Current Budget	\$919,200	\$919,200
2013 Third Quarter Actual	\$539,217	\$907,827
2013 % of Current Budget	58.7%	98.8%
2014 v. 2013 Third Quarter \$ Change	\$4,906	-\$273,487
2014 v. 2013 Third Quarter % Change	0.9%	-30.1%

Through the first nine months of 2014, TBD vehicle license fees totaled \$543,898 which is \$4,784, or 0.9%, more than collections over the same period in 2013. Including the LGIP investment interest, total third quarter revenues equal \$544,123. In addition to the year-over-year comparison, 2014 second quarter receipts were \$51,697, or 10.5 %, more than the year-to-date projection.

Expenditures, mostly consisting of charges for services by the Annual Road Surface Maintenance program, totaled \$634,340, which is \$273,487 or 30.1% less than the same period in 2013. The difference between the years is mainly due to an adjustment to transfers to the Annual Road Surface Maintenance Program in the fourth quarter of 2013 to reflect the actual level of expenditures that occurred during the year.

INVESTMENT REPORT - Third Quarter June 30, 2014

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 current yield to maturity 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 September 30, 2014, the City's investment portfolio, excluding the State Investment Pool, had a current weighted average rate of return of 0.9487%. This is 85 basis points better than the State Investment Pool's current rate of return of 0.0982%. Total investment interest earnings through September were \$36,784 which is about 40% of total budgeted 2014 investment earnings of \$92,505.

Over the past few years, we have seen interest rates decline significantly. The average yield on two year government agency bonds was 5.34% in January 2007. By the end of 2008 this rate was down to 1.1%. Rates continued to decline reaching a low of 0.39% at the end of December 2013.

We are now starting to see some recovery in interest rates as the rate at the end of March 2014 was 0.44% and at the end of September 2014 was 0.58%. The City continued to implement a ladder philosophy in its investment portfolio over the last year. This resulted in the City being able to hold some securities at a higher interest rate during the declining interest rate environment. For example an instrument purchased in September 2014 is yielding 1.24% and will not mature until September 2017. This rate of return is projected to be above the average projected rate of return from the State Pool over the same period. A ladder portfolio approach helps assure that the City will, in the long run, receive a market average rate of return.

As of September 2014, the City's investment portfolio had a fair value of nearly \$28.60 million. Approximately 21% of the investment portfolio was held in U.S. government instrumentality securities, and 79% was held in the Washington State Investment Pool. The City's investment portfolio valued at cost as of September 30, 2014, was slightly over \$28.59 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 par value 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.

One of the major investment instruments used in the United States and throughout the rest of the world is "mortgage-backed securities". Mortgage-backed securities are mortgages that have been sold by banks to investment banks or federally sponsored agencies such as Federal National Mortgage Association (FNMA – Fannie Mae), Federal Home Loan Mortgage Corporation (FHLMC – Freddie Mac), or Federal Home Loan Banks (FHLCB), 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 Federal Home Loan Banks.

INVESTMENT REPORT (continued):

LGIP Cash and Investment Balances September 30, 2014

Instrument Type

	CUSPID #	Broker	Settlement Date	Maturity Date	Par Value	Investment Cost	Yield To Maturity	Unrecognized Gain/(Loss)	Market Value 9/30/12
FHLB 0.375	3133834R9	ProEquities	06/26/13	06/24/16	\$1,000,000	\$986,541	0.8310%	\$10,946	\$997,487
FFCB 0.87	3133ED2Z4	ProEquities	09/27/13	09/26/16	1,000,000	1,000,450	0.8550%	-1,785	998,665
FHLB 0.78	3130A0HZ6	Multi-Bank Security	12/30/13	12/30/16	1,000,000	999,000	0.8140%	894	999,894
FHLB 0.75	3130A16D5	Financial Northwestern	03/26/14	03/24/17	1,000,000	994,000	0.9537%	1,798	995,798
FHLMC 1.0	3137EADH9	Financial Northwestern	06/14/14	06/29/17	1,000,000	1,000,000	1.0000%	-1,078	998,922
FHLMC 1.22	3133EDV74	Financial Northwestern	09/26/14	09/18/17	1,000,000	999,500	1.2371%	-702	998,798
Sub Total Investments					6,000,000	5,979,491		10,073	5,989,564
State Investment Pool						22,608,101	0.0982%		22,608,101
Total LGIP + Investments						\$28,587,592		\$10,073	\$28,597,665

Current Average Maturity Excluding the State Investment Pool (days)	695
Current Weighted Average Yield to Maturity Excluding the State Pool	0.9487%
Current Yield to Maturity State Investment Pool	0.0982%
Basis Points in Excess (Below) Benchmark	85

Portfolio Diversification

Instrument Type	Percentage	Amount at Market Value	Amount at Cost	Broker	Percentage	Amount at Cost
FHLB	10.5%	2,993,179	2,979,541	ProEquities	7.0%	1,986,991
FFCB	3.5%	998,665	1,000,450	Multi-Bank Security	3.5%	999,000
FHLMC	7.0%	1,997,720	1,999,500	Financial Northwestern	10.5%	2,993,500
State Investment Pool	79.1%	22,608,101	22,608,101	State Investment Pool	79.1%	22,608,101
Total LGIP + Investments	100%	\$28,597,665	\$28,587,592	Total Investments	100%	\$28,587,592

Investments by Fund

Fund	Investments at Cost as of 9/30/2014	LGIP State Investment Pool as of 9/30/2014	Total LGIP + Investments at Cost by Fund as of 9/30/2014	Unrecognized Gain/(Loss) as of 9/30/2014	Total Market Value of Investments by Fund as of 9/30/2014	Investment Earnings Budget 2014	Investment Earnings Actual 2014	Over/(Under) Budget
001 General	1,044,200	7,589,391	8,633,591	2,073	8,635,664	26,500	21,478	-5,022
101 Street	250,000	1,048,660	1,298,660	2,774	1,301,434	5,000	1,172	-3,828
107 Code Abatement	0	151,462	151,462	0	151,462	550	116	-434
108 Asset Seizure	0	177,643	177,643	0	177,643	0	113	113
109 Public Arts	0	217,731	217,731	0	217,731	500	170	-330
112 Fed Drug Enforcement	0	216,300	216,300	0	216,300	50	138	88
114 Transportation Benefit Dist.	0	322,829	322,829	0	322,829	60	225	165
115 Property Tax Equalization	0	1,140,782	1,140,782	0	1,140,782	0	830	830
116 Fed Crim Forfeit	0	1,670,860	1,670,860	0	1,670,860	845	1,246	401
190 Revenue Stabilization	3,598,750	1,539,197	5,137,947	0	5,137,947	0	0	0
301 General Capital	0	2,358,526	2,358,526	0	2,358,526	17,392	1,999	-15,393
312 City Fac-Mjr Maint	0	224,527	224,527	0	224,527	1,360	137	-1,223
330 Roads Capital	0	1,997,195	1,997,195	0	1,997,195	25,943	1,685	-24,258
401 Surface Water Utility Fund	0	2,412,720	2,412,720	0	2,412,720	6,055	2,219	-3,836
501 Vehicle Oper/Maint	0	218,370	218,370	0	218,370	250	125	-125
503 Equip Dep Replace	1,086,541	1,249,495	2,336,036	5,226	2,341,262	8,000	5,086	-2,914
505 Unemployment	0	72,413	72,413	0	72,413	0	45	45
Total Investments	\$5,979,491	\$22,608,101	\$28,587,592	\$10,073	\$28,597,665	\$92,505	\$36,784	-\$55,721