



2005 Proposed Budget~in Brief

Shoreline, Washington

January 1, 2005 ~ December 31, 2005



2005 Proposed Budget-in-Brief

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***Prepared by the Finance Department
For Fiscal Year January 1, 2005 - December 31, 2005***

For more detail, copies of the 2005 Proposed Budgets are available on the City's web site, at City Hall, both Neighborhood Police Centers, Shoreline Library and Richmond Beach Library



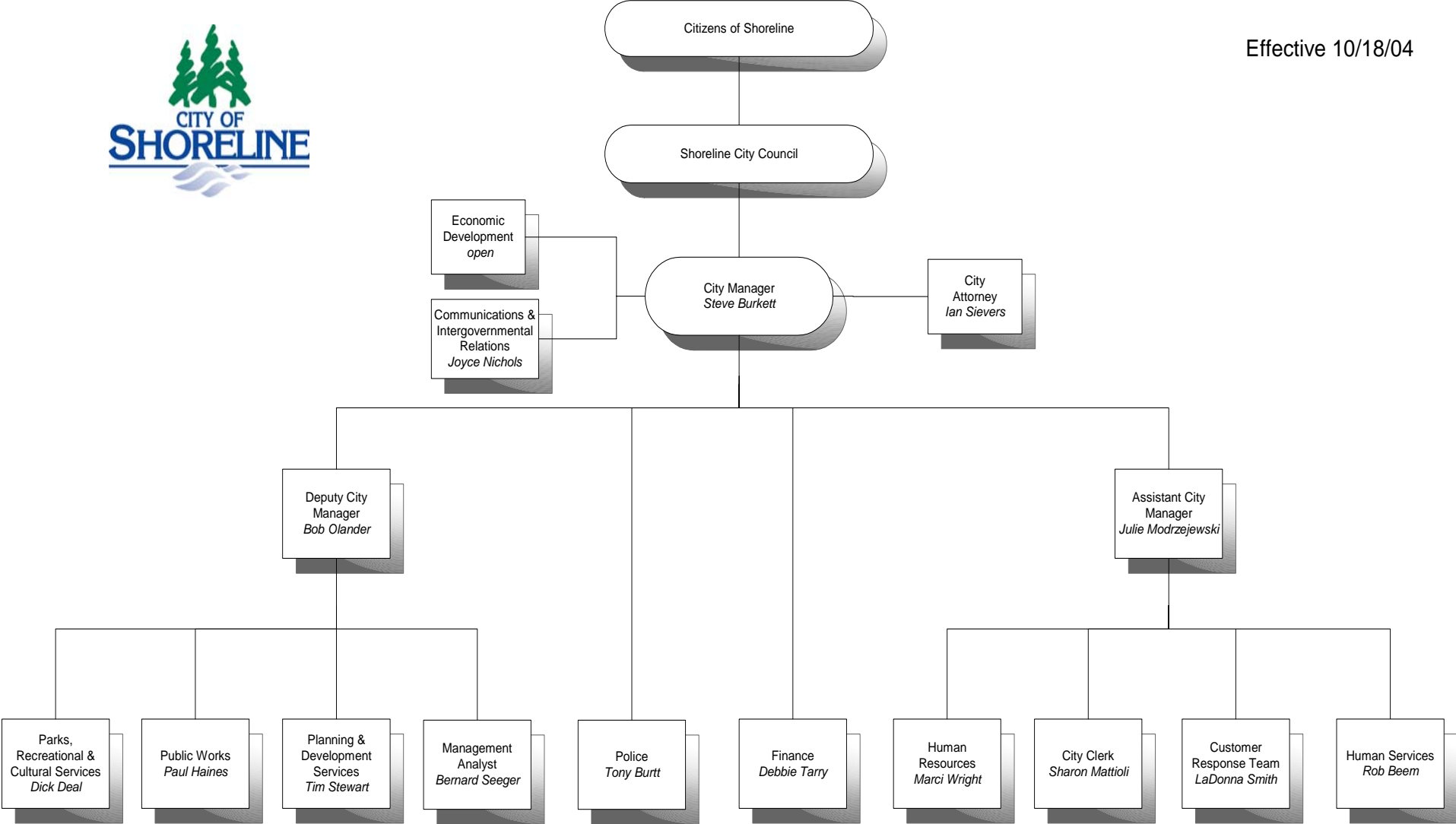
2005 Proposed Budget-in-Brief

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CITY ORGANIZATIONAL CHART



Effective 10/18/04



City of Shoreline - 2005 FTE Summary

Department	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2005 Changes
City Council	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	0.00
City Manager	9.00	9.00	10.00	10.00	9.00	6.00	6.00	6.00	6.00	6.00	0.00
City Clerk	3.00	3.00	3.00	3.00	3.00	4.00	4.00	4.00	4.00	3.80	(0.20)
Economic Development							1.00	1.00	1.00	1.00	0.00
Communications & Inter-Governmental Relations	3.00	3.00	3.00	2.00	2.50	3.50	3.50	3.00	3.50	3.50	0.00
Health and Human Services	2.00	2.00	2.00	2.00	2.00	2.00	2.00	0.00	1.80	1.80	0.00
City Attorney	1.00	1.00	1.00	1.00	1.00	1.00	1.00	2.50	3.50	3.50	0.00
Customer Response Team	0.00	0.00	0.00	0.00	0.00	5.00	5.00	5.00	5.00	5.00	0.00
Finance / Information Services	10.00	12.00	12.00	12.00	14.00	16.63	17.13	17.13	17.33	16.33	(1.00)
Human Resources	1.00	2.00	2.00	2.00	2.50	2.50	2.50	3.00	3.00	3.00	0.00
Police	0.00	0.00	1.00	1.00	1.00	1.00	1.00	1.00	2.00	2.00	0.00
Planning and Development Services	17.00	20.00	24.00	25.00	27.00	28.50	26.00	25.90	25.90	26.90	1.00
Parks, Recreation & Cultural Services	12.50	12.50	16.50	13.00	17.12	21.65	22.02	24.52	23.30	23.30	0.00
Public Works	8.00	10.00	15.00	22.00	28.00	27.50	30.00	33.10	35.60	36.60	1.00
	73.50	81.50	96.50	100.00	114.12	126.28	128.15	133.15	138.93	139.73	0.80

Explanation of 2005 Changes in FTE

City Clerk

The Records and Information Manager position was reduced from 1 FTE to 0.8 FTE.

Finance

A limited-term Project Manager position is no longer included in the Finance budget.

Planning & Development Services

A new Planner 3 position was added for 2005 to assist the Aurora Improvements Corridor Improvements and Interurban Trail projects.

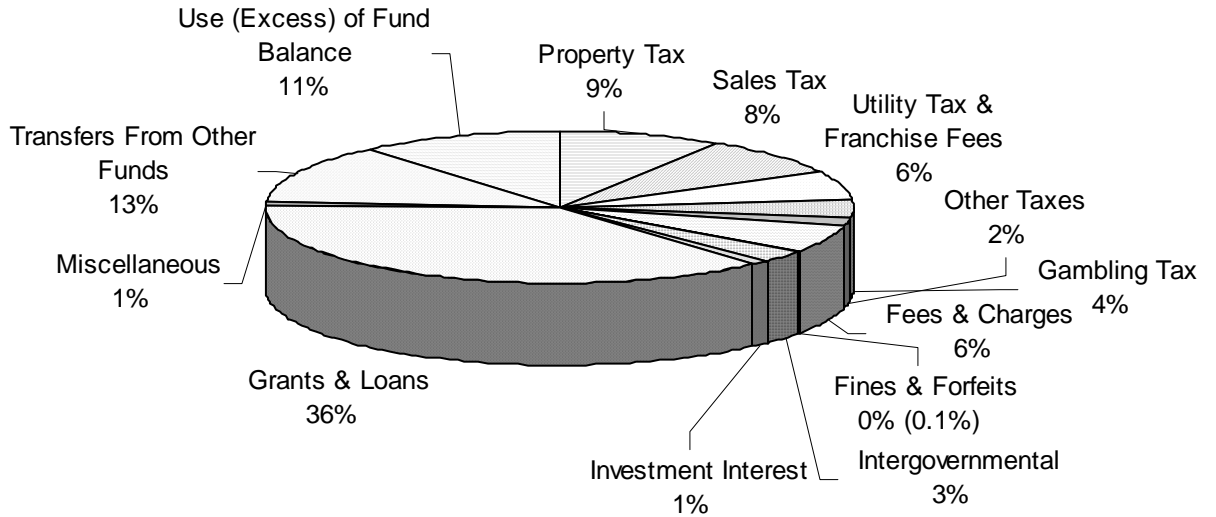
Public Works

A new Associate Traffic Engineer position was added to increase the City's Traffic Services program.

The City Budget

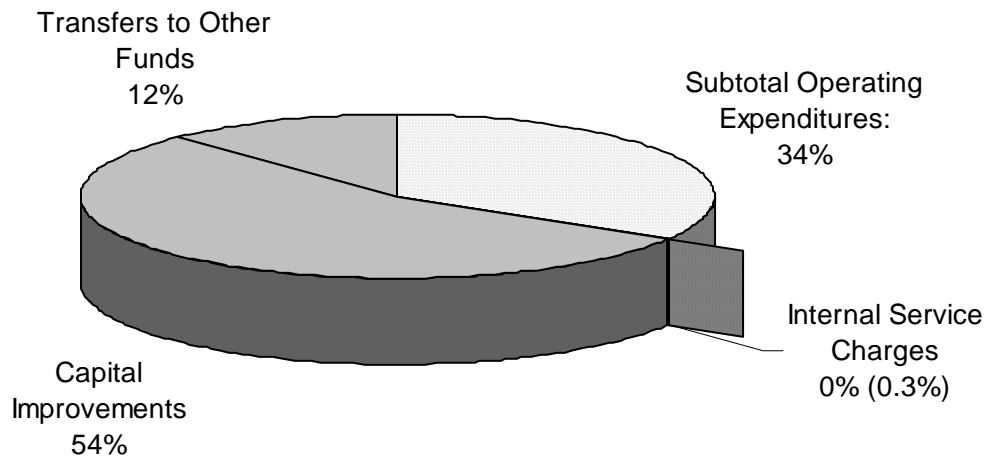
Where the money will come from

2005 City Resources By Category
\$77,395,975



How will the money be spent

2005 City Expenditures By Category
\$77,395,975



2005 Proposed Program Budget Summary

	2005 Proposed Budget	
Programs		
Aquatics	\$ 672,100	
Athletic Field Maintenance & Operations	249,455	
Code Enforcement	240,173	
Domestic Violence Victim Advocacy & Case Management	42,861	
General Recreation Programs	595,935	
Jail	865,000	
Neighborhoods	168,398	
Parks Administration	291,982	
Police Community Storefronts	250,700	
Police Investigations Crime Analysis	500,604	
Police Patrol	3,786,606	
Prosecuting Attorney	118,000	
Public Defender	137,000	
Police Support Services	1,309,464	
Recycling Programs	152,048	
Right-of-Way Permit and Inspection Program	100,968	
Street Crime Investigations	393,332	
Street Operation & Pavement Resurfacing Programs	2,669,862	
Surface Water Management	2,382,105	
Teen Recreation Programs	393,855	
Traffic Services & Neighborhood Traffic Safety	458,764	
Economic Development: Business Attraction and Retention	153,805	
Financial Planning and Accounting Services	703,905	
24 Hour Customer Response Team	293,196	
Building and Inspections Team	580,462	
Information Technology Data Management and Administration	195,864	
Information Technology Operations and Security Administration	762,112	
Legal Services	327,329	
Park and Opens Space Maintenance Program	983,173	
Parks Cultural Services Program	233,487	
Permit Services Team	513,973	
Planning - Long Range Team	246,189	
Planning and Development Operations Support Team	273,071	
Police Administration	620,097	
Police Traffic Enforcement	502,967	
Public Facility & Vehicle Maintenance & Operations	1,124,597	
Public Records & City Council Meeting Management	351,382	
Public Works Administration	258,152	
Purchasing Services	183,838	
Recreation Facility Rental Program	25,318	
City Council	162,969	
Current Planning Team	395,742	
Grant Research & Development	16,816	
Information Technology Strategic Plan Implementation	319,295	
Organization Strategic Planning and Council Policy Support & Implementation	704,705	
Emergency Management Planning	95,336	
Human Services: Support for Social Agencies	475,863	
Intergovernmental Participation	99,991	
Intergovernmental Relations	102,384	
School Resource Officer Program	175,583	
Sister City Relations	7,000	
Communications	244,417	
Employee Recruitment, Compensation Administration & Organizational Development	364,879	
Sub-Total Program Expenditures	<hr/>	\$ 27,277,109
Non-Program Expenditures		
District Court	5,000	
City-Wide:		
Contingencies	633,506	
Supplies, Equipment, & Liability Insurance	612,769	
Code Abatement	100,000	
Asset Seizure	23,000	
Equipment Replacement	189,636	
Unemployment	10,000	
Sub-Total Non-Program Expenditures	<hr/>	1,573,911
Operating Transfers (General Fund & Arterial Streets)		7,636,597
Capital Improvement Program (Less Neighborhood Traffic Safety Program and Road Surface Program)		<hr/> 40,908,358
TOTAL 2005 PROPOSED BUDGET		<hr/> <hr/> \$ 77,395,975

October 25, 2004

Honorable Mayor, City Council, and Shoreline Residents:

I am pleased to present the 2005 Proposed Budget. This document presents the overall plan for allocating the resources of the City to a variety of programs necessary to keep the community safe, enhance the quality of life, and maintain and develop facilities, parks, roads, and storm drainage.

As we have discussed numerous times, the Puget Sound Regional economy was severely affected by the 2000-2001 recession. Most local economists agree that the Puget Sound Region has seen the worst, and in fact has been recovering more quickly than expected. The latest economic projections indicate that the region's employment levels may return to pre-recession levels by 2006.

Despite these economic conditions, the City of Shoreline has been able to maintain service levels to the community and is in excellent financial position. This is primarily a result of the long-term financial focus and conservative budget practices that the City Council has adopted. Although we have been able to maintain our service levels, and in some cases able to improve service levels, our long-range forecasts indicate that this may become more challenging in the future, as revenue growth is anticipated to be below the projected inflation levels for the next several years.

In preparing this budget, it was my goal to continue to allocate our resources to provide services that support the Community Vision, Values and Critical Success Factors, and 2004-2005 Council Work Plan. Consistent with Council direction and input, the budget places primary emphasis on maintaining current services, investing in capital projects to enhance the facility, transportation, and surface water systems throughout the City, and implementing a program to enhance economic development within our community.

Budget Highlights

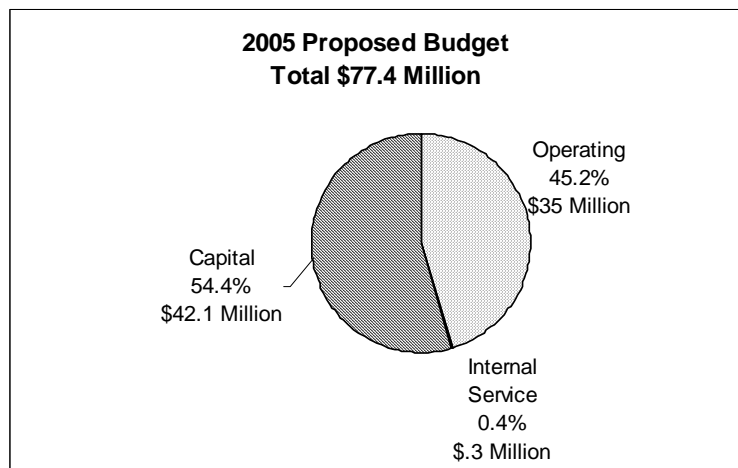
The City's 2005 proposed budget is balanced in all funds and totals \$77.4 million. The 2005 proposed budget is \$11.9 million or 18% more than the 2004 Budget. This is primarily a result of construction starting on the Aurora Avenue project in 2005 and the transfer of \$4 million from general reserves to the capital project fund for City Hall.

The table below summarizes the 2005 budget and provides a comparison to the 2004 current budget by fund. The 2004 budgeted expenditures represent the adopted budget and any budget amendments, such as reappropriations, that have occurred in 2004 through September 2004..

Fund	2005 Proposed Budget			2004 Current Budget		04 - '05 % Change
	Beginning Fund Balance	Revenue	Expenditures	Ending Fund Balance	Expenditures	
Operating Funds:						
General Fund	9,311,273	25,523,818	30,198,736	4,636,355	25,811,781	17.0%
General Reserve	1,952,271	154,193	0	2,106,464	0	n/a
Streets	478,828	2,279,955	2,279,955	478,828	2,535,008	-10.1%
Surface Water Management	2,788,320	2,554,692	2,382,105	2,960,907	1,941,243	22.7%
Development Services	397,308	0	0	397,308	1,765,851	-100.0%
Code Abatement	3,613	162,500	100,000	66,113	100,000	0.0%
Asset Seizure	16,679	23,500	23,000	17,179	23,000	0.0%
Sub-Total Operating Funds	14,948,292	30,698,658	34,983,796	10,663,154	32,176,883	8.7%
Internal Service Funds:						
Equipment Replacement	1,102,541	290,879	189,636	1,203,784	180,050	5.3%
Public Art Fund	206,938	349,603	0	556,541	0	n/a
Unemployment	47,130	11,250	10,000	48,380	10,000	0.0%
Vehicle Operations & Maintenance	45,289	72,074	71,824	45,539	55,300	29.9%
Sub-Total Internal Service Funds	1,401,898	723,806	271,460	1,854,244	245,350	10.6%
Capital Funds:						
Arterial Streets	14,397	353,358	353,358	14,397	348,546	1.4%
General Capital	6,694,271	15,707,500	15,199,693	7,202,078	15,456,034	-1.7%
City Facility-Major Maintenance Fund	0	244,000	124,000	120,000	0	n/a
Roads Capital	11,942,364	20,240,239	24,038,893	8,143,710	14,771,686	62.7%
Surface Water Capital	3,498,837	763,973	2,424,775	1,838,035	2,525,979	-4.0%
Sub-Total Capital Funds	22,149,869	37,309,070	42,140,719	17,318,220	33,102,245	27.3%
Total City Budget	38,500,058	68,731,534	77,395,975	29,835,617	65,524,478	18.1%

The budget can be divided into three parts: Operating, Internal Service and Capital. The City's operating budget represents the cost of providing services to the Shoreline Community on a day-to-day basis. The capital budget represents the cost of making improvements to the City's facilities, parks, transportation, and surface water systems. Internal service funds represent transfers between funds (Vehicle Operations and Equipment Replacement) to fund maintenance and replacement of City equipment.

The 2005 operating budget supports current service levels and can be viewed basically as a "status-quo" budget. The operating budget totals \$35 million. The City's operating expenditures increased by \$2.7 million, or 8.7%, when compared to the 2004 budget. This is primarily a result of the 2005 budget including a \$4 million transfer from the General Fund to the General Capital Projects Fund for the



construction of City Hall, as approved in the adopted 2005-2010 Capital Improvement Program, and the increase in debt service costs in the Surface Water Management fund. The debt service is related to Public Works Trust Fund loans to be used for the 3rd Ave NW

and Ronald Bog drainage projects. Currently we have \$4.1 million in outstanding debt related to these loans.

If the \$4 million in operating transfer, a one-time expense, were not part of the 2005 operating budget, the operating budget would have actually decreased from 2004 to 2005 by \$1.2 million, or 3.7%. The transfer for the City Hall project represents increases in reserves from previous years, as a result of revenues exceeding expenditures, and is consistent with the City's financial policies as monies to be used for one-time expenditures.

The preceding table reflects a 17% increase in the General Fund budget for 2005. This can be misleading because if not for two major items the General Fund budget would have decreased by approximately 2.7%. These items include the \$4 million transfer for City Hall and the movement of development services activities from a separate accounting fund to the General Fund. This is primarily a result of these services being partially funded through direct fees and partially funded through general revenues. Development fees have traditionally recovered direct costs, but have not recovered indirect costs of support services or general support such as providing development and permit information prior to any application for permits. It is much more common for other cities to account for these activities in their General Fund than in a separate accounting fund.

The 2005 General Fund budget actually has on-going revenues in excess of proposed on-going expenditures by \$177,000. Although this is the case, I am not recommending that we increase our expenditures, since our long-term projections show a trend of expenditure growth outpacing revenue growth.

From 2004 to 2005 the City's capital expenditures are projected to increase by \$9 million, or 27.3%. The increase in capital expenditures is related to the construction of City Hall and starting construction on the Aurora Avenue project. The capital budget includes resources that are allocated for completion of projects that enhance the City's facilities, parks, transportation, and surface water management systems.

Major changes within the City's 2005 budget include the following:

- ◆ **Personnel Costs:** The 2005 budget includes an increase of \$547,000, 5.3%, in personnel costs. The major changes in personnel costs include a combination of the following:
 - Salaries and wages are increasing by \$349,000 or 4.3% in 2005. Increases to salaries and wages include:
 - Market salary adjustments and budgeted step increases. The budget includes an overall 2% market adjustment, which equates to approximately \$160,000; and
 - Two new employee positions: An Associate Traffic Engineer position in the Public Works department and a Planner position dedicated to the Aurora and Interurban projects within the Capital Improvement Program. Both positions are being funded by reductions in existing expenditures, professional and intergovernmental services, resulting in no net impact to the budget. The total salary and wages associated with these positions is \$114,000. This accounts for approximately one-third of the increase in salaries and wages in the City's budget; and,
 - Projected benefit cost increases (\$198,000) are related primarily to the anticipated increase in the Washington State Retirement (PERS) employer contribution rate

starting in July of 2005. It is projected that the contribution rate will continue to increase over the next several years. The current employer contribution rate is 1.18%. Currently the rate is projected to increase to 5.26% effective July 1, 2005. This makes an effective rate of 3.2% for 2005. The PERS change accounts for 74%, \$145,000, of the increase in benefit costs. Other increases are a result of increased social security replacement contributions, increased medical premium costs, and a slight increase in worker compensation (Labor & Industry) premiums.

- The City's compensation policy establishes salary ranges that are set at the median of the City's comparable organizations. The City completes a salary survey every three years to make sure that our salaries are within the adopted policy guidelines. The last formal salary survey was completed in 2001. In 2004 we are doing the salary survey for approximately half of the City's positions. Our Human Resources department is still completing the salary survey and we anticipate that during the budget deliberations we will present you with the results of the survey and a revised salary schedule. Based on our preliminary findings from the survey, the 2005 proposed budget includes a \$24,000 contingency to cover anticipated salary schedule changes. The salary schedule currently included in the budget document does *not* reflect the outcomes of this survey.
- ◆ **Police Contract:** Overall, the City's cost for police services is projected to increase by \$393,000 (5.4%). This is primarily a result of increased personnel costs within the King County contract, the exchange of a Deputy for an Administrative Sergeant position, and an increase in the City's share of activity based cost allocations such as the 911 Communications Center.
- ◆ **Jail:** The City's jail contract is expected to increase by approximately \$65,000, 8.1%, in 2005. This is primarily related to the negotiated agreement between the cities contracting with Yakima County to pay for their contracted jail bed days.
- ◆ **2004 Base Budget Adjustments:** The 2004 budget contains approximately \$1.1 million in either one-time expenditures or 2003 carry-over expenditures. These items were removed while preparing the 2005 base budget.
- ◆ **Program Adjustments:** The 2005 budget includes an enhanced level of service related to the increased frequency of the City's newsletter, *Currents*, from seven to ten. The anticipated cost related to this increase is \$24,000.
- ◆ **Establishment of a Capital Facilities Repair & Replacement Fund:** The 2005 proposed budget includes funding to start a major repair and replacement fund for the City's major facilities (police station, recreation centers and pool) and park features such as playground equipment and athletic fields. The annual allocation to this fund is \$120,000.
- ◆ **Debt-Service:** The 2005 budget includes \$345,000 in debt service costs for Public Works Trust Fund loans that are being used to complete the 3rd Avenue NW and the Ronald Bog drainage improvements. The City received the second major installment from the approved loans in 2004. The loans are 20 year loans and at .5% interest rate. The loans are being repaid from surface water management fees. The 2005 debt service allocation is \$293,000 greater than that budgeted in 2004.
- ◆ **Budgeted Contingency Expenditures:** The 2005 budget includes two main types of contingency expenditures: operational and insurance contingency and personnel contingencies related to market adjustments that may come from the current salary survey and additional PERS contributions. These contingency accounts total \$634,000. The largest contingency is the operational and insurance contingency. Per the City's financial policies these contingencies total \$505,000 and are funded by allocating a portion of the existing General Fund Balance. The remaining contingencies represent

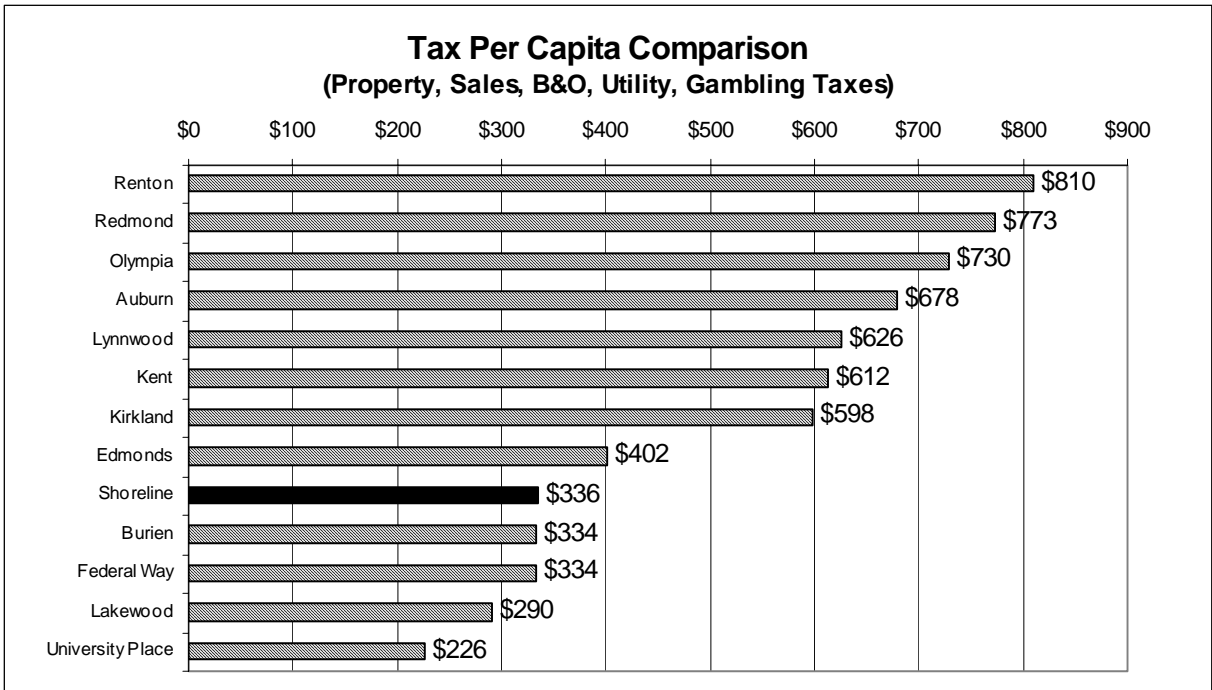
anticipated costs that have not been finalized prior to the development of the proposed budget.

- ◆ **Use of Operating Reserves:** The 2005 operating budget includes \$4.4 million in one-time resource allocations from existing general reserves. The largest is the allocation of \$4 million of savings from prior years for the construction of City Hall, as approved in the 2005-2010 CIP. Other one-time allocations include \$200,000 for the City's road surface program to bring the 2005 annual allocation to \$700,000, \$64,000 for HVAC replacement at the police station, \$60,000 for roof replacement of the City's swimming pool, \$60,000 to provide funding for abatement efforts during 2005, and \$20,000 for events or items related to the City's 10 year anniversary.
- ◆ **Miscellaneous Cost Increases:** Miscellaneous cost increases include anticipated increases in utilities, maintenance contracts, building leases and liability insurance. These increases total approximately \$270,000.
- ◆ **Department 2005 Base Budget Reductions:** As was included in my long-term financial planning recommendations, most departments had their 2005 base budgets reduced by approximately 1%, \$167,000. The Police Department and the Human Services division did not absorb any base budget reductions.
- ◆ **Revenue Increases:** The 2005 proposed budget includes levying a utility tax on the City's surface water utility fees. This is the only utility within the City not subject to either a utility tax, franchise fee, or contract payment equivalent to approximately 6% of the utility fee. This is part of my recommended long-term financial plan for the City. This tax will generate approximately \$150,000 in annual operating revenue. The 2005 budget also includes some increases to our recreation fees and the establishment of a resident discount program. Revenue generated from the increased fees are estimated to generate approximately \$35,000 in annual revenue.
- ◆ **Capital Programs:** The City's capital budget will increase by approximately \$9 million from 2004 to 2005. This is primarily a result of construction of Aurora Avenue improvements that are scheduled to begin in 2005. The 2005 budget reflects the first year of the City's adopted 2005-2010 capital improvement program.

More detailed information regarding changes within the 2005 budget can be found in the individual department sections of the budget.

Fiscal Capacity

As a City, we are challenged by our limited fiscal capacity. We are primarily a residential community, with 87% of our City assessed valuation in residential properties. We also have low sales tax revenue per capita, \$104, as compared to many other jurisdictions of a similar population. This is especially true with those jurisdictions that have much larger retail centers within their communities. The following chart shows a comparison of tax per capita with comparable cities:



Some of these jurisdictions operate their own fire departments. If the City of Shoreline per capita tax collections included the Fire District's property tax collections, the per capita tax collections would be \$480, still significantly below many of the other jurisdictions.

Given this, we have been very conservative and prudent in our financial planning. The City currently does not have any outstanding general obligation debt, which many other jurisdictions have. This table provides a comparison of the per capita general obligation debt of other cities.

	Outstanding GO Debt	Population	Per Capita
Auburn	\$ 7,777,643.00	46,135	\$ 168.58
Burien	\$ 3,270,000.00	31,130	\$ 105.04
Edmonds	\$ 25,435,000.00	39,620	\$ 641.97
Federal Way	\$ 23,247,731.00	83,590	\$ 278.12
Kent	\$ 79,130,953.00	84,560	\$ 935.80
Kirkland	\$ 16,811,494.00	45,800	\$ 367.06
Lakewood	\$ -	59,010	\$ -
Lynnwood	\$ 10,697,241.00	34,540	\$ 309.71
Olympia	\$ 9,775,886.00	43,040	\$ 227.13
Redmond	\$ 10,933,472.00	46,900	\$ 233.12
Renton	\$ 32,245,982.00	55,360	\$ 582.48
Shoreline	\$ -	52,740	\$ -
University Place	\$ 13,397,856.00	30,800	\$ 435.00

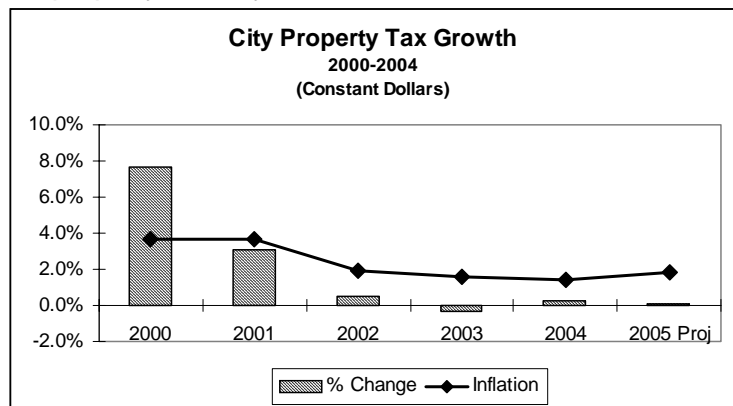
Economic Outlook & Revenue Growth

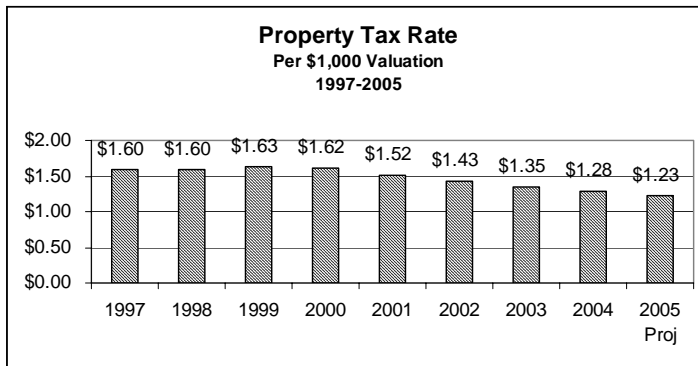
The nation and the Puget Sound region saw a dramatic economic decline in 2001. Although indications are that the national economy is emerging from recession, we continue to see some sputtering in the economic expansion. Local economists agree that the economic recovery in the Puget Sound region will lag behind the national recovery, but we have seen some very positive signs in 2004. Since 2000, the recession has cost the Puget Sound region 80,500 jobs or 4.6 percent of its total employment. Employment in the Puget Sound region is unlikely to return to its pre-recession peak until after 2006. In the first half of 2004 employment growth surged at a 3.5 percent annual rate, creating 29,000 new jobs, one-third of the total employment lost during the recession. Local economists project that employment will expand at an annual rate of 1.7 percent in 2004, 2.5 percent in 2005, and 2.2 percent in 2006. This growth in employment will bring the region's unemployment rate down from 7.2 percent in 2003 to 5.6 percent in 2006.

Annual personal income growth over the next several years is projected to exceed 5.5 percent, closely matching the national forecasts. Housing starts are projected to keep growing at slightly more than 2 percent annually for the next few years and retail sales are projected to grow at approximately 5 percent annually over the same period.

Although the economic outlook for the Puget Sound region is improving, we remain conservative in our revenue forecasting. Overall the City's operating revenues are projected to decrease by 3.1%, \$1 million, from 2004 to 2005. This is actually the result of combining the development services fund with the general fund. As separate activities the general fund would charge overhead to the development services fund which resulted in operating transfers from one fund to the other. As a result of combining the fund activity approximately \$1.7 million in operating transfers have been eliminated. If it were not for the elimination of these operating transfers, operating revenues would actually have increased by approximately 2.3% from 2004 to 2005.

Property taxes represent 22% of the City's operating revenue. The City's property tax collections are projected to increase by 1.9% over 2004 collections to a total of \$6.8 million for 2005. This amount includes a 1% property tax levy increase, with an additional 0.9% of property tax revenue generated from new construction valued at approximately \$35 million. The 1% levy increase is the annual limit allowed by I-747, approved by Washington State voters in 2002. Although the 2005 budget provides for increased property tax revenues on a real basis, when adjusted for inflation, the City has had property tax revenue growth below inflation since 2001.

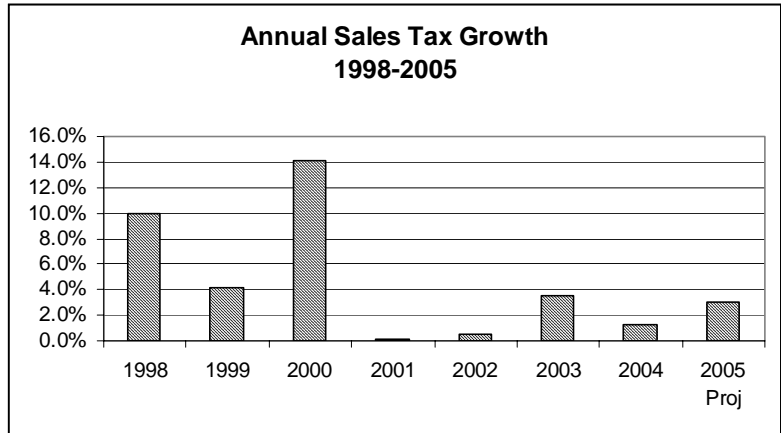




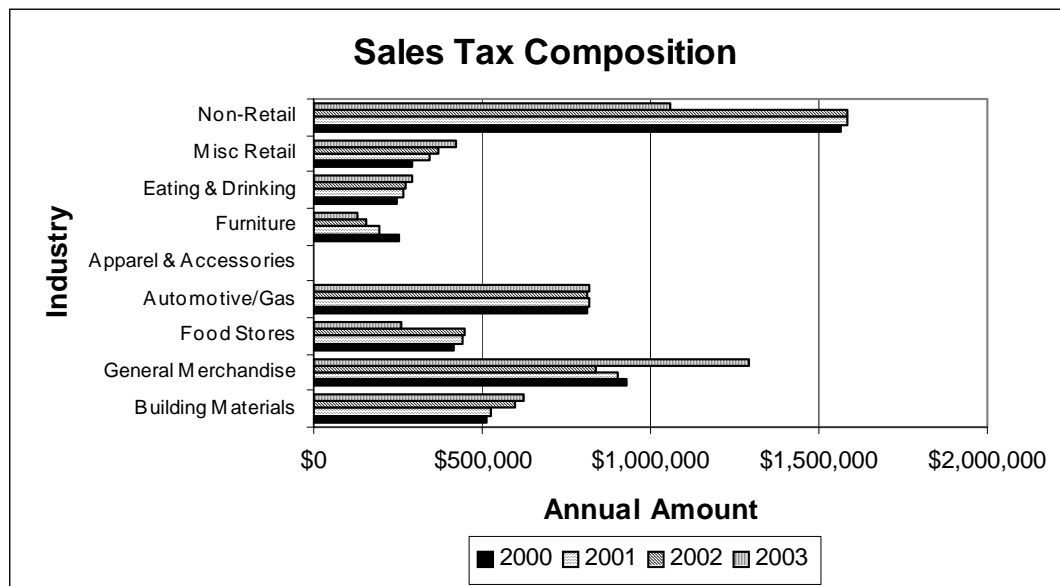
As a result of assessed valuation increases outpacing the increase in property tax levy, the City's property tax rate has fallen every year since 2000. The estimated property tax levy rate for 2005 is \$1.23 per \$1,000 assessed valuation, a reduction from the 2004 rate of \$1.28. Statutorily the City could levy up to a maximum property tax rate of \$1.60 per

\$1,000 assessed valuation. *The owner of a home valued at \$273,500 in 2004 could expect the City portion of their property tax to increase by approximately \$5 in 2005.*

General sales tax, the second largest revenue source for City operations, totals \$5.5 million for 2005. The City is starting to see growth in sales tax collections following years of very little growth. In light of the improving economic picture for the region, the opening of Top Foods, and auditing efforts that have resulted in correcting the remittance of Sears sales tax to the City, the projected 2005 sales tax collections are estimated to increase by 4.4% as compared to the 2004 budget.



Shoreline's tax base consists largely of basic consumer goods, and therefore our sales tax collections have been constant over the last few years. Automobiles are the most significant luxury item in the Shoreline sales tax base, and these sales will need to be monitored throughout the next year. During 2003 we saw a shift in some businesses shifting the categorization of their sales from non-retail to general merchandise.



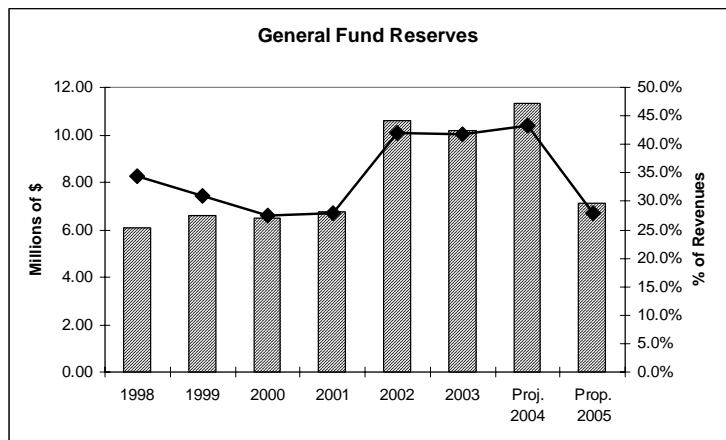
Utility taxes and franchise fees are the third largest source of revenue for the City's operating budget. These revenues are projected to decrease by approximately 2.8% in 2005. The primary reason is that Seattle City Light (SCL) implemented surcharges in their electricity rate structure in 2001 as a result of the sky-rocketing costs to acquire power. The surcharges were to repay monies that were borrowed during this time period. Although it is yet to be finalized, these surcharges are scheduled to be removed in 2004. If this were the case, the City would see a reduction in the contract payment, \$325,000, that we receive from SCL in 2005. The City has been treating the revenue generated from the surcharge as one-time revenues. SCL has been undergoing a review of their rates rise in 2004, and there is now discussion of delaying any rate adjustments until later in 2005. If this is the case the City may continue to receive a higher level of franchise payment in 2005.

Utility taxes from Puget Sound Energy (natural gas) are projected to remain flat, but we may see some additional revenues in 2005. On October 1, 2004, PSE was granted a 17% rate increase. Although this is the case we have not included additional revenues in the 2005 budget at this time. Over the last three years we have seen natural gas rates raise and fall several times. Since rates can fluctuate so extremely we have left our estimates at what we believe is a steady baseline to use for funding on-going programs. Other franchise fees and utility tax sources will remain relatively flat.

Reserves

The City saves a portion of its revenues in reserve funds. These funds are used to continue providing services when the economy weakens, to cover one-time expenditure needs and to meet unforeseen emergencies. To demonstrate prudent financial management, the City Council adopted a policy of maintaining general reserves (General Fund and General Reserve Fund) at 10% of operating revenues. At the end of 2005, the City's general reserves are projected to total \$7.1 million or 28% of projected General Fund operating revenues.

The 2005 budget recommends using \$4.9 million of general reserves. \$505,000 is budgeted for emergency contingencies; \$200,000 will be used on a one-time basis to bring the total road surface program funding for 2005 to \$700,000; \$124,000 for replacement of the roof on the



City's pool and replacement of the HVAC system in the City's police station; \$60,000 for abatement efforts in 2005; and most notably \$4 million for the City Hall project. Even with the use of \$4.9 million of reserves, the City's general reserves will still be in excess of the required 10% policy levels, and will be at the level maintained prior to 2002.

Fee Adjustments

To continue the City Council's 1999 action to systematically review and adjust all service fees, the 2005 budget includes inflationary adjustments to land use and non-building permit fees in the community development and public works areas. The hourly rate used to generate development fees will increase from \$122 to \$124. Building permits are based on

the most recent edition of the Uniform Building Code adopted in the State Building Code, which provides for inflationary increases. Recreation class fees will continue to be based on the cost of providing the class plus an overhead charge. Aquatic fees, facility rental fees, and other general recreation fees have been adjusted based on market comparisons to other jurisdictions. These increases are anticipated to generate approximately \$35,000 in additional revenue. I am also recommending that we implement a resident discount program in which Shoreline residents will receive a 10% discount on recreation fees.

The 2005 fee schedule is included in the Appendix of this budget document.

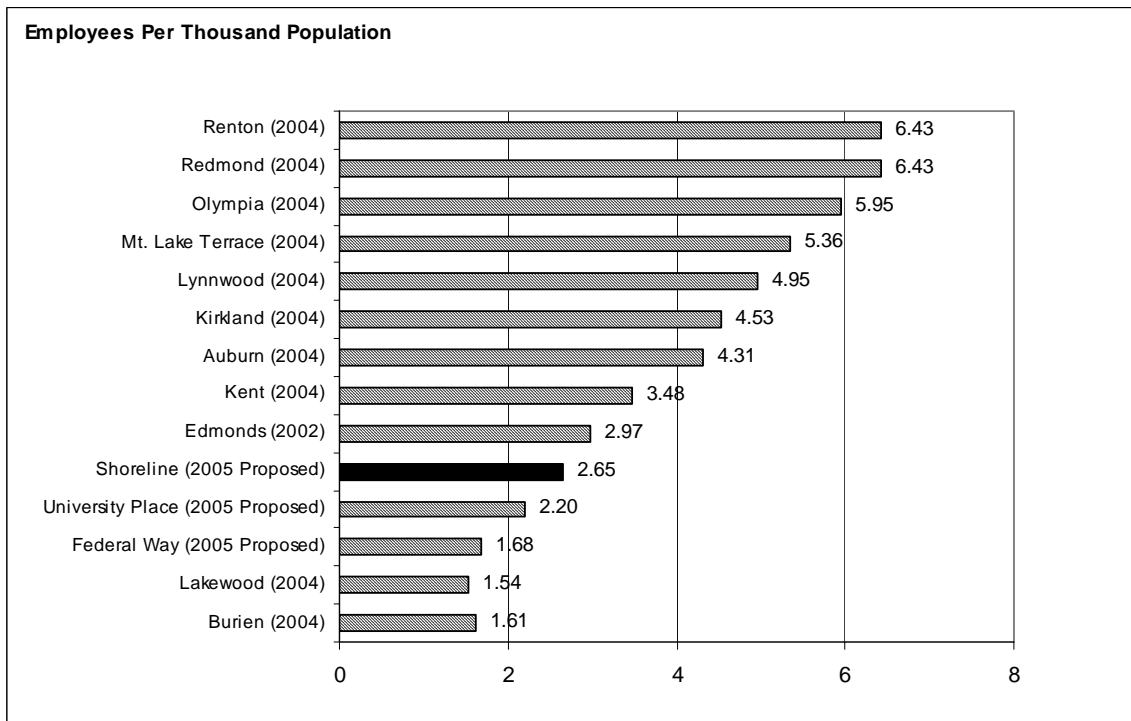
State of Washington and King County Impacts

In 2001 the State Legislature eliminated the Motor Vehicle Excise Tax backfill monies to cities. Shoreline was eligible for approximately \$1.5 million in backfill funds. The Legislature failed to identify an on-going revenue source for the backfill funds, and therefore the City received \$148,000 in 2003, \$55,000 in 2004, and only \$37,000 in 2005. These monies are being treated as one-time revenues.

The County had notified the City that they would terminate our Municipal Court agreement effective December 31, 2004. The City has been working with other jurisdictions to determine the most appropriate way to provide these services. There now appears to be a tentative agreement with the county to extend our court contract although at increased cost. The City may see additional impacts as a result of the State and County budget deficits, but it should be noted that Shoreline residents continue to contribute a large part of their tax dollars to the County and State.

Staffing

The 2005 budget provides funding for 139.72 regular full-time equivalent (FTE) positions. Of these, 2 FTEs represent new positions: an Associate Traffic Engineer and a Capital Project Planner. The addition of these two positions, brings the City’s ratio of employees per 1,000 population to 2.6. As the graph below depicts, a comparison of staffing to population still shows the City of Shoreline staffing levels significantly below comparable cities.



These ratios have been adjusted to **exclude** fire, police, special program and utility personnel from comparable cities.

One-Time Expenditures

The 2005 operating budget includes \$4.4 million in one-time expenditures, excluding any monies budgeted for contingencies. The largest portion is the allocation of \$4 million from general reserves to the City Hall project, as was approved in the 2005-2010 CIP. Other one-time expenditures include \$200,000 in general reserves to bring the monies budgeted for the City’s road surfacing program to \$700,000 for 2005, \$64,000 for replacement of the Heating Ventilation and Air Conditioning unit at the Police Station, \$60,000 for replacement of the roof at the swimming pool, \$60,000 for code abatement efforts, and \$20,000 for community celebrations related to the City’s 10 year anniversary.

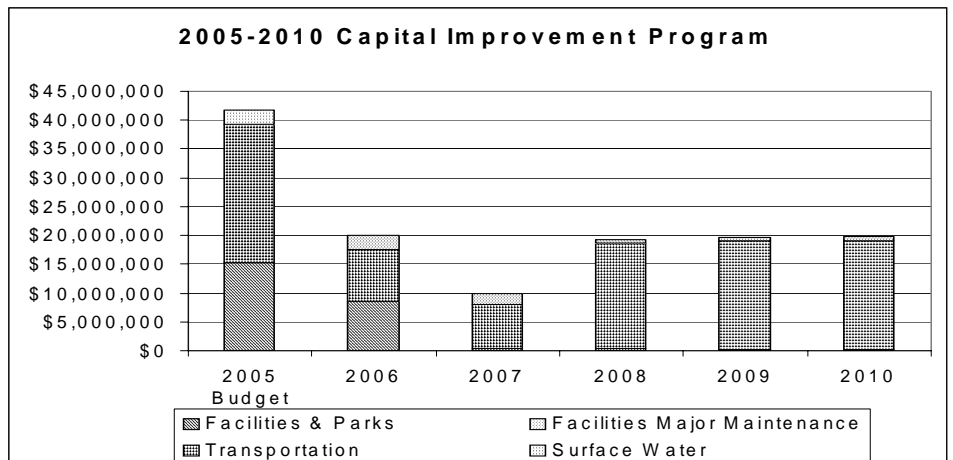
Capital Budget

The City Council adopted the 2005-2010 Capital Improvement Program (CIP) in July of this year. The total CIP budget for 2005 is \$41.8 million, and for the 2005-2010 CIP is \$130.6 million. The 2005 budget is approximately \$156,000 greater than the anticipated 2005 expenditures in the adopted 2005-2010 CIP. The primary reason for this difference includes the following:

- ◆ *Facilities Major Maintenance Fund:* The 2005 budget recommends establishing a fund to accumulate resources for major repair and replacement of existing City facilities. This was not included in the 2005-2010 CIP adopted by Council earlier this year. The 2005 budget includes \$124,000 for major work at the City’s pool and police station.
- ◆ *General Services Overhead:* Since the adoption of the 2005-2010 CIP, staff has been able to update the City’s overhead allocation model that charges service delivery activities for general support services such as Finance, City Council, City Attorney, etc. This update resulted in slightly different costs than estimated in the 2005-2010 CIP.
- ◆ *Engineering:* Final calculation of staff time allocated to capital projects was slightly higher than estimated in the 2005-2010 CIP.

The CIP covers projects over \$10,000 and includes buildings, land acquisition, park facilities, road and transportation projects, and drainage system improvements. Much of the capital improvement activity is funded through contributions from the General Fund, Real Estate Excise Tax (REET), federal grants, and Public Works Trust Fund loans.

This chart provides a breakdown of the allocation of capital dollars for 2005 through 2010. The change in capital dollars can vary significantly from year to year based on available resources to complete projects and the impact of completed capital projects on the City’s operating budget.



Following are highlights from the 2005-2010 CIP projects that are either in progress or will be completed in 2005. Additional information on the CIP may be found in the Capital Improvement Program section of this budget document.

- ◆ The 2005-2010 CIP includes funding for the acquisition of a City Hall. The current estimated project cost is \$20 million. This is a preliminary estimate, as the project is still in the early planning stages. It is anticipated that a property acquisition agreement will be completed in 2004, with design beginning in 2005 and construction beginning in early 2006.
- ◆ Construction of the Dayton Triangle Gateway site. A total of \$355,000 was provided in the CIP for construction of City gateway sites, with \$103,000 allocated for 2005.
- ◆ Complete the renovation of the Spartan Gym through a joint agreement with the Shoreline School District. The total expected project costs to the City are \$783,000.
- ◆ Develop a master plan for improvements to Cromwell Park. Projected total improvement costs will be \$455,000 with \$47,000 being expended in 2005.
- ◆ Initiate a Master Plan for Richmond Beach Saltwater Park. Total cost for developing the master plan is estimated at \$166,000. Funding for project implementation is not included in the 2005-2010 CIP.
- ◆ Annual preservation projects for roads, sidewalks, and traffic small works projects are funded at \$1 million for 2005 and \$800,000 in future years.
- ◆ The most significant transportation projects continue to be the Interurban Trail and Aurora Corridor.
 - The Interurban Trail project totals \$11.4 million with \$5 million funded in 2005. Approximately 74%, \$8.5 million, of the project is projected to be funded through grants and other agency participation. During 2004 many of the sections of the trail were completed, with the north central segment and pedestrian bridges crossing at Aurora and 155th to be completed in 2005.
 - The Aurora Corridor, 145th-165th project, totals \$25 million with the expectation that \$10.2 million will be funded in 2005. Of the total \$25 million, approximately \$21.7 million will be funded through grants and other agency participation, with the remaining \$3.3 million funded from City resources.
 - Planning and design work is scheduled to start on the second phase of the Aurora Corridor project, 165th – 205th, in 2005. The total estimated cost for this project is \$60 million, with \$49 million being funded through grants and other agency participation. The 2005 budget includes \$1.2 million for planning and design work in 2005.
- ◆ The 2005 budget provides for the continuation of the Neighborhood Traffic Safety Program with approximately \$170,000 funded annually for capital improvements and \$50,000 funded within the operating budget for increased police traffic enforcement.
- ◆ The City has two major surface water drainage improvement projects: Ronald Bog and 3rd Avenue NW. These projects will be funded with Public Works Trust Fund loans with repayment coming from the surface water fees assessed on all property owners in the City.
 - The Ronald Bog Drainage Improvement project is expected to total \$5.4 million, with \$400,000 funded in 2005. This project should be completed in 2007.
 - The 3rd Avenue NW Drainage Improvement project is expected to total \$3.5 million with \$1.5 million funded in 2005. This project should be completed in 2006.

More detailed information about the projects within the City's 2005-2010 CIP can be obtained with a copy of the Adopted 2005-2010 CIP.

Other Budget Issues

One of the major efforts that we have undertaken during 2004 is the update of the City's comprehensive plan and the development of our transportation, surface water, and parks and open space master plans. The Council will be adopting these master plans in late 2004 or early 2005. These plans will establish our 20 year priorities for capital projects. These plans will be used to develop our capital improvement program starting in 2005. As we evaluate the capital projects to be completed over the next 20 years we will have to evaluate how the most appropriate way to fund the improvements and evaluate the effect the projects may have on our operating budget.

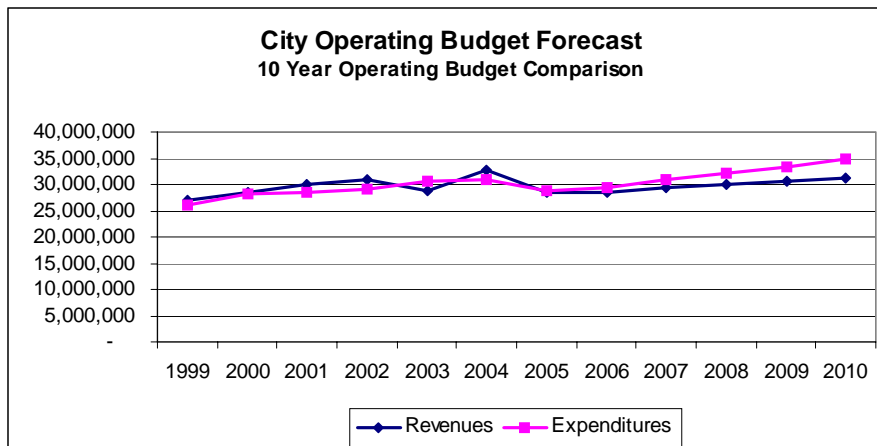
The Surface Water Master plan will not only include recommended capital improvements to the City's drainage system, but will include a recommended operational plan. Since this is a utility, the plan will include a recommended fee structure to implement the master plan. As the Council deliberates on the plan and comes to final adoption, the City's surface water utility rate structure may change to reflect the 20 year plan.

In 2004, Tim Eyman circulated petitions to gather signatures for another property tax reduction initiative. This initiative proposed a 25% reduction in local property tax levies. The initiative did not receive enough signatures to appear on the November ballot, but Mr. Eyman has indicated that he intends to bring forth a similar initiative in 2005 with the hopes of placing the initiative on the November 2005 state-wide election. We will continue to monitor any such initiatives.

One initiative that will be up for voter approval in the November state-wide election is I-892. This initiative proposes a reduction in the state property tax and proposes to replace the lost revenue with enhanced gambling tax revenues that will be distributed to the state. The approval of the initiative would allow a more wide spread use of electronic gambling devices. Since the City still receives approximately \$240,000 a year in gambling tax from pull tabs, we would need to monitor the impacts of I-892, if approved, of any decline in pull tab activity as electronic gambling devices become more available. As the initiative is currently written, the City would not receive any gambling tax revenues from revenues of the electronic devices.

Our Financial Condition and Future Challenges

The City's current financial condition is excellent. Over the last five years, the City's revenue collections have exceeded expenditures as a result of conservative financial planning, efficient management, restraint from using budget savings as a way to fund on-going



operations and modest budget increases. The City is well positioned to respond to changes in the economy, but at the same time, a prolonged decline in revenues would require the City to reevaluate its service levels in order to maintain a strong financial position.

Although the City reviews the long-term position of all funds, the primary focus is on the long-term financial position of the City's operating budget. The City is entering a time-period in which annual expenditure growth is projected to outpace annual revenue growth, therefore resulting in future budget gaps between annual operating revenues and expenditures. Based on the assumptions that the City uses in its long-term financial planning, the previous graph depicts the projected budget gaps between annual operating revenues and expenditures in the future.

The City's budget policies and state law dictate that the operating budget must be balanced on an annual basis with on-going revenue sources, unless a policy decision is made to use reserves in an emergency or as a one-time event. One of the advantages of doing long-term financial planning is that we can anticipate the need to either reduce expenditures, increase revenues, or do both. It also allows us to anticipate the need for future policy changes.

In light of the long-term forecasts, our focus over the last few years has been on cost containment, expenditure reductions and improving service efficiencies and I believe we have been very successful in this effort. Some of our successes include:

- In 2003 an employee group developed an alternative health benefit policy resulting in annual savings of \$160,000.
- We have reduced annual jail costs by \$105,000 through an interlocal agreement with other cities to use the Yakima County jail for some misdemeanants.
- We have changed the way we pay for Police Department canine services by purchasing this on a call-out basis instead of a dedicated unit. This has resulted in annual savings of \$100,000.
- In 2003 we rebid janitorial contracts and used savings to enhance right-of-way maintenance.
- In development of the 2005 proposed budget we asked departments to absorb a \$167,000 in baseline budget reductions.

For the last three years we have been able to reduce expenses with only minor service reduction impacts. I do not anticipate that we will be able to continue this in the future. In the past, Council has asked us to balance the budget without increasing tax rates or implementing new revenue sources. If this continues to be the Council direction, our primary options would be to: 1) reduce the amount of general fund revenue transferred to support our Capital Improvement Program and 2) reduce or eliminate low priority services.

During 2004 we initiated a dialogue with you the Council, and our community regarding City service priorities. This will provide us information on the services that people believe are the most important for the City to provide. We will continue this dialogue with the community as we explore the funding level of services and funding alternatives that our community may support. Additionally I have provided the Council with a recommendation that I believe helps us plan for a stable financial future. My recommendation is summarized in the following table:

Action	Effective Year		
	2005	2006	2007
Reduce department base budgets by 1% and review low priority services for elimination			
Implement a utility tax on our surface water utility			
Increase recreation fees by approximately 10% and enhance the City's scholarship program			
Implement a revenue generating regulatory business license program			
Seattle City Light franchise fee (6%) on the distribution portion of the electric utility fees			
Property tax levy lid lift			

As is part of my long-term financial strategy recommendation, the 2005 proposed budget includes base budget reductions by departments (\$167,000), the implementation of a surface water utility tax (\$150,000), and an increase in the City's recreation fees (\$35,000). We will continue to monitor our expenditure and revenue trends. As we see the economy continuing to improve, we will monitor how this may change our long-term forecast. As always we will continue to look for ways to make our service delivery to residents as efficient as possible. Lastly we will continue to seek input from our community so that we can provide you with feedback on the needs and desires of our community.

I am very confident, given our past conservative financial planning and spending policies that we will develop a long-term financial strategic plan that will support our City vision of making Shoreline the best place to live, learn, work and play.

Conclusion

This budget is an effort to comprehensively address the City's service and capital investment needs for 2005. It is a budget that continues to provide current service levels, but it does not satisfy all the demands placed on the City. The 2005 proposed budget addresses the top priorities identified by the Council. It does this through conservative revenue estimates, proposing a property tax levy within the confines of I-747, and limiting expenditure growth. The budget provides employees with a compensation package in line with policies established by the City Council.

In presenting the budget to the Council, I would like to acknowledge and express appreciation to the City Leadership Team and their staff for their willingness to submit realistic budget requests and develop alternatives to meet the Council priorities. I would also like to thank the Finance Department for its assistance in preparing this budget. Finally, I would like to thank you, the Council, for the policy direction you have provided for service delivery to our community.

Respectfully submitted,



Steven C. Burkett
City Manager

City Budget Summary

Listed below are the resources and expenditures for all City funds. City Resources shows all revenue by category. City Expenditures lists the operating uses by department and functional area. The Operating Budget represents expenses necessary to run the City government on a daily basis. Contingencies represent funding that set aside for potential or unforeseen expenditures that may occur. Capital Improvements are the purchase land, construction of a building, major street construction or reconstruction, or drainage system improvements. Transfers to Other Funds represent transfers of appropriations from one City fund to another City fund for services or the transfer of funds for capital purposes from the operating funds to the capital funds. Revenue and expenditures are recorded in both funds. Ending Fund Balance represents the reserves that are available to the City at the end of any given year. These reserves represent both reserves for unanticipated events and reserves designated for future capital purposes.

	2003 Actual	Current 2004 Budget	2004 Projected	2005 Proposed Budget	\$ Change From 2004 Budget	% Change From 2005 Budget
Resources:						
Beginning Fund Balance	37,662,263	32,524,403	41,160,152	38,500,058	5,975,655	18.4%
Revenues:						
Property Tax	6,577,321	6,686,088	6,686,088	6,814,672	128,584	1.9%
Sales Tax	6,481,115	6,266,836	6,500,000	6,540,000	273,164	4.4%
Utility Tax & Franchise Fees	4,988,192	4,785,252	4,785,252	4,651,857	(133,395)	(2.8%)
Gambling Tax	2,855,281	2,500,000	3,332,568	2,982,500	482,500	19.3%
Other Taxes	1,708,519	1,371,000	1,801,000	1,403,400	32,400	2.4%
Fees & Charges	4,464,505	4,383,497	4,460,894	4,513,422	129,925	3.0%
Fines & Forfeits	173,668	101,000	105,022	111,000	10,000	9.9%
Intergovernmental	2,058,620	1,994,588	2,059,163	1,966,441	(28,147)	(1.4%)
Investment Interest	344,547	878,937	613,805	850,125	(28,812)	(3.3%)
Grants & Loans	2,545,513	15,150,589	10,153,362	28,472,503	13,321,914	87.9%
Miscellaneous	420,052	458,400	370,607	569,476	111,076	24.2%
Sub-Total Revenues	32,617,333	44,576,187	40,867,761	58,875,396	14,299,209	32.1%
Transfers From Other Funds*	10,467,256	7,238,631	7,445,759	9,856,138	2,617,507	36.2%
Total Revenues	43,084,589	51,814,818	48,313,520	68,731,534	16,916,716	32.6%
Total Resources	80,746,852	84,339,221	89,473,672	107,231,591	22,892,371	27.1%
Uses:						
Operating Expenditures:						
City Council	135,798	159,718	162,436	162,969	3,251	2.0%
City Manager	693,797	697,311	686,171	704,704	7,393	1.1%
City Clerk	310,897	358,461	343,151	358,382	(79)	(0.0%)
Community & Govt. Relations	430,497	528,076	510,610	515,198	(12,878)	(2.4%)
Human Services	453,235	495,173	480,744	475,863	(19,310)	(3.9%)
City Attorney	378,292	479,259	474,445	488,189	8,930	1.9%
Finance	3,068,850	3,376,016	3,249,637	3,026,696	(349,320)	(10.3%)
Human Resources	344,584	360,263	360,263	364,879	4,616	1.3%
Customer Response Team	376,171	392,149	388,412	399,098	6,949	1.8%
Police	6,641,699	7,348,976	7,364,090	7,741,806	392,830	5.3%
Criminal Justice	859,189	952,890	939,000	1,007,000	54,110	5.7%
Parks & Recreation	2,692,235	2,935,223	2,940,190	3,360,060	424,837	14.5%
Planning & Development Services	2,010,209	2,388,698	2,285,961	2,245,306	(143,392)	(6.0%)
Economic Development	152,541	153,628	134,323	153,805	177	0.1%
Public Works	4,562,852	4,661,036	4,886,718	4,406,229	(254,807)	(5.5%)
Contingencies		782,910		633,506	(149,404)	(19.1%)
Subtotal Operating Expenditures:	23,110,846	26,069,787	25,206,151	26,043,690	(26,097)	(0.1%)
Internal Service Charges	235,484	242,370	245,442	239,202	(3,168)	(1.3%)
Capital Improvements	5,778,012	32,156,940	18,269,513	41,601,923	9,444,983	29.4%
Transfers to Other Funds	10,467,256	7,055,381	7,252,509	9,511,160	2,455,779	34.8%
Total Expenditures	39,591,598	65,524,478	50,973,615	77,395,975	11,871,497	18.1%
Ending Fund Balance	41,155,254	18,814,743	38,500,057	29,835,617	11,020,874	58.6%
Use (Excess) of Fund Balance	(3,492,991)	13,709,660	2,660,095	8,664,441	(5,045,219)	(36.8%)

*The difference between transfers in and transfers out represents the transfer of monies from the City's capital funds to the Public Arts Fund. The expenditure of these funds is incorporated within the project costs as opposed to being shown as an operating transfer.

Ending Fund Balances

The following table and graph illustrate the City's ending fund balances between 2002 and 2005. The fund balances are segregated into three major components: unreserved/undesignated, reserved, and designated.

	2002 Actuals	2003 Actuals	2004 Current Budget	2004 Projected	2005 Proposed
Reserved:					
General Capital Fund	4,260,437	7,337,406	5,768,968	6,694,271	7,202,078
City Facility -Major Maintenance Fund	-	-	-	-	120,000
Roads Capital Fund	15,662,529	15,394,028	8,876,754	11,942,364	8,143,710
Surface Water Capital Fund	2,468,014	3,503,597	2,775,453	3,498,837	1,838,035
Development Services Fund	376,528	422,167	270,968	397,308	397,308
Street Fund	814,688	677,763	359,729	478,827	478,827
Arterial Street Fund	-	15,164	-	14,397	14,397
Surface Water Management Fund	2,370,539	2,399,475	2,686,857	2,788,320	2,960,907
Subtotal Reserved	25,952,735	29,749,600	20,738,729	25,814,324	21,155,262
Designated:					
Equipment Replacement Fund	832,166	995,186	1,164,334	1,102,541	1,203,784
Vehicle Maintenance & Operations	70,593	61,366	56,872	45,288	45,538
Unemployment Fund	64,584	67,130	64,584	47,130	48,380
Code Abatement Fund	72,666	48,313	48,166	3,613	66,113
Asset Seizure Fund	27,638	17,157	20,025	16,679	17,179
Public Art Fund	-	23,438	183,250	206,938	556,541
Subtotal Designated	1,067,647	1,212,590	1,537,231	1,422,189	1,937,535
Unreserved/Undesignated:					
General Fund	9,040,152	8,428,580	5,138,069	9,311,273	4,636,355
General Reserve	1,601,729	1,769,382	1,941,988	1,952,271	2,106,464
Subtotal Unreserved/Undesignated	10,641,881	10,197,962	7,080,057	11,263,544	6,742,819
	37,662,263	41,160,152	29,356,017	38,500,057	29,835,616

Unreserved/Undesignated Fund Balances

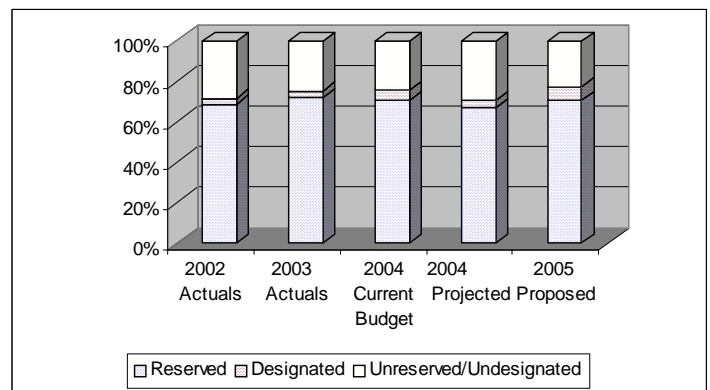
The unreserved/undesignated fund balance is the balance of net financial resources that are available for discretionary appropriations. The Proposed 2005 Budget estimates unreserved/undesignated fund balance of \$6,742,819 at the end of 2005.

Reserved Ending Fund Balances

The second component of ending fund balance is those funds reserved for a specific purpose. These funds are not available for appropriation because they are legally restricted. These reserves primarily represent monies allocated for capital and specific maintenance purposes. The reserved fund balances are estimated to be \$21,155,262 at the end of 2005.

Designated Ending Fund Balances

The third component of ending fund balances, totaling \$1,937,535 in 2005, are those moneys that have been earmarked for specific purposes (equipment replacement, unemployment, etc.). Although designated for specific purposes, there is the ability to appropriate some of these funds for other purposes since the original source of the funds was general revenues from the General Fund.



Change in Ending Fund Balance 2005 Adopted Budget Compared to 2004 Projected

	2004 Projected	2005 Proposed	% Change
General Fund	9,311,273	4,636,355	-50%
Street Fund	478,827	478,827	0%
Arterial Street Fund	14,397	14,397	0%
Surface Water Management Fund	2,788,320	2,960,907	6%
General Reserve	1,952,271	2,106,464	8%
Development Services Fund	397,308	397,308	0%
Code Abatement Fund	3,613	66,113	1730%
Asset Seizure Fund	16,679	17,179	3%
Public Arts Fund	206,938	556,541	169%
General Capital Fund	6,694,271	7,202,078	8%
City Facility -Major Maintenance Fund	-	120,000	
Roads Capital Fund	11,942,364	8,143,710	-32%
Surface Water Capital Fund	3,498,837	1,838,035	-47%
Vehicle Operations Fund	45,288	45,538	1%
Equipment Replacement Fund	1,102,541	1,203,784	9%
Unemployment Fund	47,130	48,380	3%
	38,500,057	29,835,616	-23%

Explanation of Changes in Fund Balance Greater Than 10%

General Fund - The proposed 2005 ending fund balance is \$4,674,918 less than the projected 2004 ending fund balance. The 2005 budget includes the use of \$4,347,100 from the General Fund fund balance for one-time expenditures to complete the City Hall project (\$4,000,000), increase the funding level for the Annual Road Surface Maintenance project (\$200,000), fund the replacement of the roof at the Shoreline Pool (\$60,000) and the HVAC system at the police station (\$64,000), and replenish the Code Abatement Fund (\$60,000). The 2005 budget also includes \$505,000 in operational and insurance contingencies that uses the remaining portion of the fund balance.

Code Abatement Fund – The proposed 2005 ending balance is \$62,500 higher than the projected 2004 ending fund balance. This is due in part to a transfer from the General Fund (\$60,000 to replenish the fund balance.

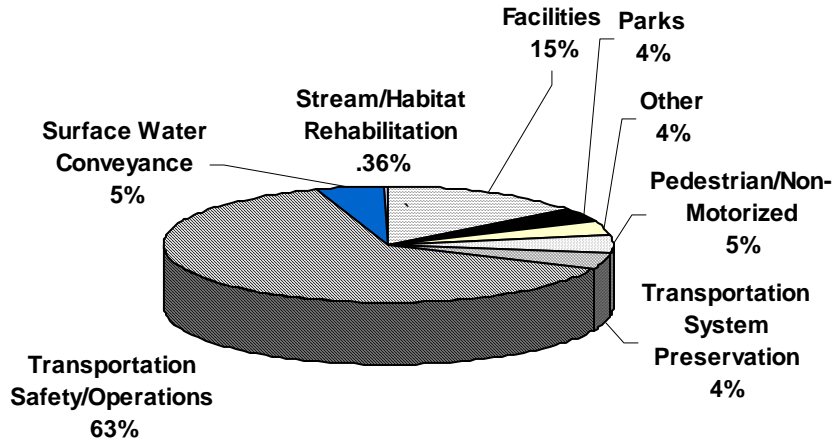
Public Arts Fund – The fund balance is continuing to build in this fund and is projected to increase during 2005 by \$349,603. No expenditures have been included in the 2005 proposed budget. Contributions from various capital projects have been budgeted as a revenue source. The fund balance will continue to grow and will be used for future art projects. Expenditures will be appropriated at a later date as art projects are designed and approved by the City Council.

Roads Capital Fund – The majority of the fund balance being appropriated (\$3,798,654) will be used for the North City Business District Improvements project, the Aurora Corridor Improvements 145th – 165th project, and Dayton Avenue Retaining Wall project. These funds have been set aside in prior years to be used for future transportation improvement projects.

Surface Water Capital Fund – The City has received Public Works Trust Fund loans from the state. As these loans are received they become part of the fund balance. As the Ronald Bog and 3rd Avenue Drainage projects proceed these monies will be spent from the fund balance. The ending fund balance is projected to decrease by \$1,660,802 during 2005.

2005-2010 Capital Projects by Category

\$130.5 Million



2005-2010 Capital Resources by Category

\$130.5 Million

