



# 2013 SECOND QUARTER FINANCIAL REPORT

September 2013

## PERFORMANCE AT A GLANCE

	YEAR TO DATE TREND	COMPARED TO PROJECTIONS	REFERENCE
<b>GENERAL FUND REVENUES</b>			
Property Tax Revenue	▲ POSITIVE ▲	3.3%	Page 4
Sales Tax Revenue	▲ POSITIVE ▲	5.9%	Pages 5-6
Utility Tax Revenue	▼ NEGATIVE ▼	-8.4%*	Page 9
Development Revenue	▲ POSITIVE ▲	17.0%	Page 10
Gambling Tax Revenue	▲ POSITIVE ▲	9.7%	Page 11
Park and Recreation Revenue	● WARNING ●	-1.2%	Page 12
Interest Income	● WARNING ●	-3.0%	Page 13
Investment Report			Page 20
<b>EXPENDITURES</b>			
General Fund Expenditures			Page 14
<b>NON-GENERAL FUND REVENUES</b>			
Surface Water Fees	▲ POSITIVE ▲	9.3%	Page 16
Fuel Tax Revenue	◀ NEUTRAL ▶	-0.4%	Page 18
Real Estate Excise Tax Revenue	▲ POSITIVE ▲	6.1%	Page 18

\*As discussed on page 9, this was caused by a timing difference and would be neutral without that difference.

### 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 Revenue received through the second quarter, in the amount of \$14,888,443, is above the revised projection of \$14,589,328 by \$299,115, or 2.1%. General Fund expenditures through the second quarter, in the amount of \$14,349,901, are less than the revised projection of \$14,466,974 by \$117,073, or 0.8%.

Street Fund revenues through the second quarter, including transfers in, totaling \$1,026,812 are \$1,991, or 0.2%, below the revised projection. Street Fund expenditures through the second quarter, including transfers out, totaling \$949,600 are \$3,752, or 0.4%, behind the revised projection.

Surface Water Utility Fund (SWM) revenues through the second quarter, in the amount of \$1,798,507, are \$152,920, or 9.3%, above the revised projection. SWM expenditures through the second quarter of \$1,733,184 are \$101,467, or 6.2%, more than the revised projection.

Real Estate Excise Tax revenue receipts through June of \$705,296 are \$40,435, or 6.1%, more than the projection for the first half of the year.

Street Fund Fuel Tax revenue receipts through the second quarter, in the amount of \$518,862, are \$2,075, or 0.4%, less than the projection.

Revenues by Fund	2013 Current Budget	2013 Second Quarter Projected	2013 Second Quarter Actual	\$ Variance Actual v. Projected	% Variance Actual v. Projected
General Fund	\$34,877,599	\$14,589,328	\$14,888,443	\$299,115	2.1%
Street Fund	\$2,217,696	\$1,028,803	\$1,026,812	-\$1,991	-0.2%
Code Abatement Fund	\$100,000	\$40,275	\$117	-\$40,158	-99.7%
State Drug Enforcement Fund	\$13,800	\$6,900	\$66,810	\$59,910	868.3%
Public Arts Fund	\$70,000	\$250	\$192	-\$58	-23.2%
Federal Drug Enforcement Fund	\$20,750	\$10,375	\$30,379	\$20,004	192.8%
Property Tax Equalization Fund	\$0	\$0	\$916	\$916	0%
Federal Crime Forfeitures Fund	\$147,000	\$12,500	\$1,205,361	\$1,192,861	9542.9%
Revenue Stabilization Fund	\$0	\$0	\$1,859	\$1,859	0%
Unltd Tax GO Bond Fund	\$1,705,050	\$785,636	\$788,897	\$3,261	0.4%
Limited Tax GO Bond 2009 Fund	\$1,660,567	\$830,284	\$875,854	\$45,571	5.5%
General Capital Fund	\$5,974,435	\$411,421	\$322,363	-\$89,058	-21.6%
City Facility-Major Maint. Fund	\$218,797	\$37,433	\$35,211	-\$2,222	-5.9%
Roads Capital Fund	\$20,410,625	\$3,021,525	\$3,067,608	\$46,083	1.5%
Surface Water Utility Fund	\$5,208,385	\$1,645,587	\$1,798,507	\$152,920	9.3%
Vehicle Operations/Maint. Fund	\$213,635	\$198,510	\$198,487	-\$23	0.0%
Equipment Replacement Fund	\$516,696	\$366,681	\$362,406	-\$4,275	-1.2%
Unemployment Fund	\$17,500	\$8,750	\$8,784	\$34	0.4%
<b>Totals</b>	<b>\$73,372,535</b>	<b>\$22,994,258</b>	<b>\$24,679,006</b>	<b>\$1,684,748</b>	<b>7.3%</b>
Transportation Benefit District	\$919,200	\$362,734	\$328,248	-\$34,486	-9.5%

Expenditures by Fund	2013 Current Budget	2013 Second Quarter Projected	2013 Second Quarter Actual	\$ Variance Actual v. Projected	% Variance Actual v. Projected
General Fund	\$34,877,601	\$14,466,974	\$14,349,901	-\$117,073	-0.8%
Street Fund	\$2,217,696	\$953,352	\$949,600	-\$3,752	-0.4%
Code Abatement Fund	\$100,000	\$50,000	\$2,175	-\$47,825	-95.7%
State Drug Enforcement Fund	\$13,800	\$6,900	\$725	-\$6,175	-89.5%
Public Arts Fund	\$70,000	\$35,000	\$4,990	-\$30,010	-85.7%
Federal Drug Enforcement Fund	\$20,750	\$10,375	\$569	-\$9,806	-94.5%
Property Tax Equalization Fund	\$0	\$0	\$0	\$0	0.0%
Federal Crime Forfeitures Fund	\$147,000	\$73,500	\$9,904	-\$63,596	-86.5%
Revenue Stabilization Fund	\$0	\$0	\$0	\$0	0.0%
Unltd Tax GO Bond Fund	\$1,705,050	\$252,025	\$252,326	\$301	0.1%
Limited Tax GO Bond 2009 Fund	\$1,660,567	\$597,034	\$597,986	\$952	0.2%
General Capital Fund	\$5,974,435	\$509,539	\$529,039	\$19,500	3.8%
City Facility-Major Maint. Fund	\$218,797	\$41,297	\$12,635	-\$28,662	-69.4%
Roads Capital Fund	\$20,410,625	\$2,304,764	\$2,181,810	-\$122,954	-5.3%
Surface Water Utility Fund	\$5,208,385	\$1,631,717	\$1,733,184	\$101,467	6.2%
Vehicle Operations/Maint. Fund	\$213,635	\$106,818	\$58,664	-\$48,154	-45.1%
Equipment Replacement Fund	\$244,090	\$51,586	\$27,768	-\$23,818	-46.2%
Unemployment Fund	\$17,500	\$4,375	\$8	-\$4,367	-99.8%
<b>Totals</b>	<b>\$73,099,931</b>	<b>\$21,095,256</b>	<b>\$20,711,284</b>	<b>-\$383,973</b>	<b>-1.8%</b>
Transportation Benefit District	\$919,200	\$659,136	\$696,859	\$37,723	5.7%

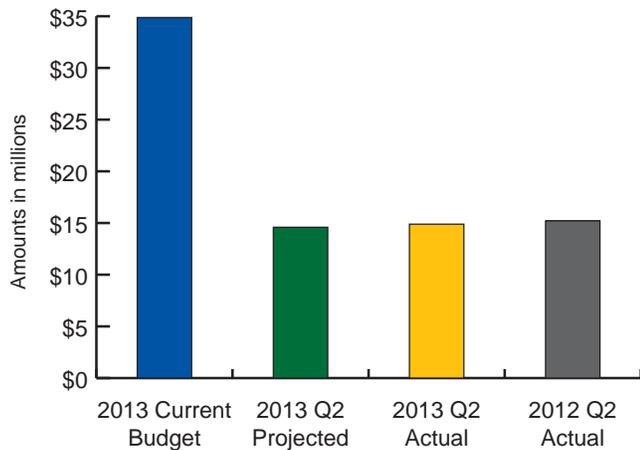
# GENERAL FUND REVENUE DETAIL

Revenue Source	2013 Current Budget	2013 Projected Revenue	2013 Second Quarter Projected	2013 Second Quarter Actual	\$ Variance Actual v. Projected	% Variance Actual v. Projected	2012 Second Quarter Actual
Budgeted Fund Balance	\$1,573,515	\$0	\$0	\$0	\$0	0.0%	\$0
Property Tax	\$9,409,277	\$9,409,277	\$4,911,858	\$5,073,258	\$161,400	3.3%	\$5,302,387
Sales Tax	\$6,574,800	\$6,995,820	\$2,821,898	\$2,989,414	\$167,516	5.9%	\$2,686,899
Local Criminal Justice	\$1,171,779	\$1,171,779	\$573,397	\$565,986	-\$7,411	-1.3%	\$522,019
<b>Utility Tax &amp; Franchise Fee Revenue</b>							
<i>Natural gas</i>	\$966,946	\$889,590	\$503,601	\$440,998	-\$62,603*	-12.4%	\$546,156
<i>Garbage</i>	\$497,977	\$517,732	\$127,830	\$127,911	\$81	0.1%	\$118,691
<i>Cable TV</i>	\$1,531,846	\$1,658,749	\$544,070	\$567,331	\$23,261	4.3%	\$547,409
<i>Telecommunications</i>	\$1,704,878	\$1,569,095	\$550,573	\$508,978	-\$41,595	-7.6%	\$540,907
<i>Storm Drainage</i>	\$201,648	\$201,648	\$109,320	\$109,236	-\$84	-0.1%	\$104,321
<i>Water</i>	\$715,327	\$726,877	\$178,725	\$56,157	-\$122,568*	-68.6%	\$192,919
<i>Sewer</i>	\$786,127	\$786,127	\$391,473	\$392,000	\$527	0.1%	\$380,500
<b>Utility Tax &amp; Franchise Fee Revenue Subtotal</b>	<b>\$6,404,749</b>	<b>\$6,349,818</b>	<b>\$2,405,593</b>	<b>\$2,202,611</b>	<b>-\$202,982</b>	<b>-8.4%</b>	<b>\$2,430,903</b>
SCL Contract Payment	\$1,829,501	\$1,829,501	\$738,736	\$741,166	\$2,430	0.3%	\$731,220
Gambling Tax Revenue	\$1,755,451	\$1,835,982	\$611,008	\$670,411	\$59,403	9.7%	\$561,297
Development Revenue	\$1,090,055	\$1,241,258	\$596,128	\$697,758	\$101,630	17.0%	\$835,968
Park Revenue	\$1,511,160	\$1,522,033	\$706,092	\$697,332	-\$8,760	-1.2%	\$665,118
Intergovernmental Revenue	\$906,181	\$871,589	\$332,765	\$332,571	-\$194	-0.1%	\$510,677
Grant Revenue	\$367,931	\$469,764	\$35,170	\$35,170	\$0	0.0%	\$100,070
Fines and Licenses	\$887,245	\$880,464	\$161,182	\$151,827	-\$9,355	-5.8%	\$161,414
Miscellaneous Revenue	\$419,910	\$463,356	\$211,281	\$247,052	\$35,771	16.9%	\$179,418
Interest Income	\$30,000	\$30,000	\$11,199	\$10,865	-\$334	-3.0%	\$19,694
Operating Transfers In	\$946,045	\$946,045	\$473,022	\$473,022	\$0	0.0%	\$499,544
<b>Total General Fund Revenue</b>	<b>\$34,877,599</b>	<b>\$34,016,686</b>	<b>\$14,589,328</b>	<b>\$14,888,443</b>	<b>\$299,115</b>	<b>2.1%</b>	<b>\$15,206,628</b>

\*As discussed on page 9, this was caused by timing differences.

# GENERAL FUND REVENUE ANALYSIS:

## TOTAL GENERAL FUND REVENUE

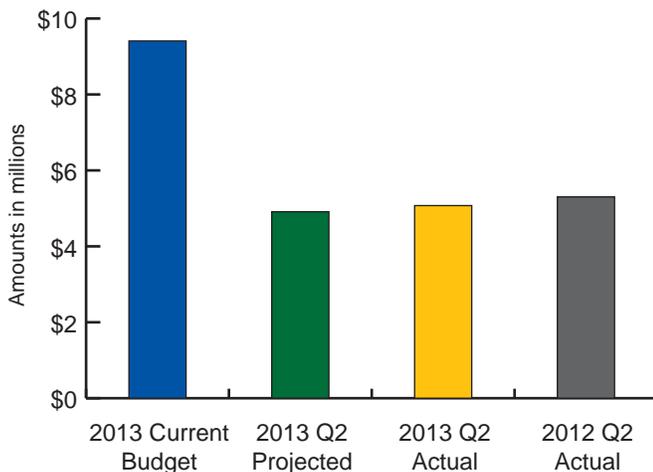


2013 Current Budget	\$34,877,599
2013 Projected	\$34,016,686
2013 Second Quarter Projected	\$14,589,328
2013 Second Quarter Actual	\$14,888,443
2013 Second Quarter \$ Variance	\$299,115
2013 Second Quarter % Variance	2.1%
2012 Second Quarter Actual	\$15,206,628
% Change from 2012 Second Quarter	-2.1%

Total General Fund revenue received in the second quarter of 2013, in the amount of \$14,888,443, is above the revised projection by \$299,115, or 2.1%, and reflects a year-over-year decrease of \$318,185, or 2.1%. The following highlights the most important details of this report:

- There is a higher-than-anticipated level of sales tax activity, mostly attributable to one-time projects in the construction sector, strong growth in new car sales in the retail trade sector, and increases in the construction of single-family residences and residential remodels.
- A couple of the Utility Tax & Franchise Fee Revenue sources are behind projections due to late payments received after the second quarter closed. Had these payments been received on time, total General Fund revenue would exceed the projection by \$503,662, or 3.5%, but still be less than 2012 collections by \$113,638, or 0.8%.
- In the Intergovernmental Revenue category, the interplay between ESHB 2823 and adoption of the state budget will result in a total loss for Shoreline of approximately \$220,000 in 2013. This equates to nearly a full year's loss when compared to the amounts of \$263,780 and \$256,708 received in 2010 and 2011, respectively.
- Overall development permit activity is higher throughout all of the categories as compared to the same period in 2012.
- Receipts attributable to taxes on gambling activity are 10.3% more than the original projection and exhibit a year-over-year increase of 12.4%. Drift on Inn reported to the Washington State Gambling Commission that its doors closed in late July. While this does not negatively affect the results presented in this report, it is likely the level of activity will decrease in future quarters.

## PROPERTY TAX

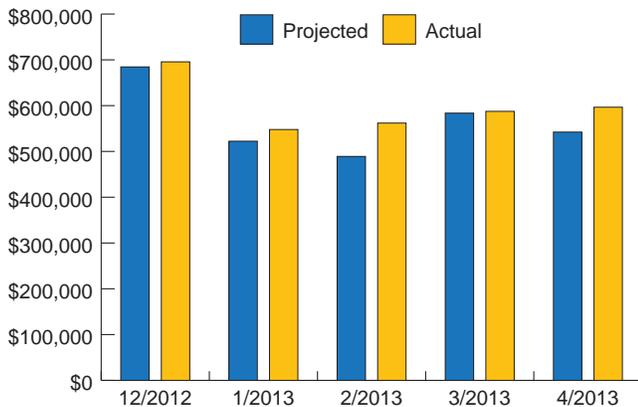


2013 Current Budget	\$9,409,277
2013 Projected	\$9,409,277
2013 Second Quarter Projected	\$4,911,858
2013 Second Quarter Actual	\$5,073,258
2013 Second Quarter \$ Variance	\$161,400
2013 Second Quarter % Variance	3.3%
2012 Second Quarter Actual	\$5,302,387
% Change from 2012 Second Quarter	-4.3%

Property Tax receipts, in the amount of \$5,073,258, are more than the projection by \$161,400, or 3.3%, but 4.3% less than those collected during the same period in 2012. During the first two quarters of 2013, the City has received \$121,300 in delinquent taxes from previous years that were not factored into the budget.

# GENERAL FUND REVENUE ANALYSIS (continued):

## SALES TAX



2013 Current Budget	\$6,574,800	
2013 Projected Revenue	\$6,995,820	
Sales tax revenue: December 2012 through April 2013		
	<i>Projected</i>	<i>Actual</i>
December 2012	\$684,583	\$695,645
January 2013	\$522,314	\$547,817
February 2013	\$489,065	\$561,895
March 2013	\$583,659	\$587,503
April 2013	\$542,277	\$596,554
<b>Year to date</b>	<b>\$2,821,898</b>	<b>\$2,989,414</b>
\$ Variance (December-April)	\$167,516	
% Variance (December-April)	5.9%	

Sales tax receipts through June reflect activity from December 2012 through April 2013. The adopted budget of \$6,574,800 projects \$2,652,071 to be collected during the first half of the year. Actual receipts total \$2,989,414 and are above the original projection by \$337,343, or 12.7%, and 2012 receipts by \$302,515, or 11.3%. Both variances are mostly attributable to one-time projects in the construction sector, strong growth in new car sales in the retail trade sector, and increases in the construction of single-family residences and residential remodels. In light of the higher-than-anticipated revenue, the year-end estimate has been increased to \$6,995,820. The revised projection through June totals \$2,821,898 and, when compared to the revised projection, actual receipts are higher by \$167,516, or 5.9%.

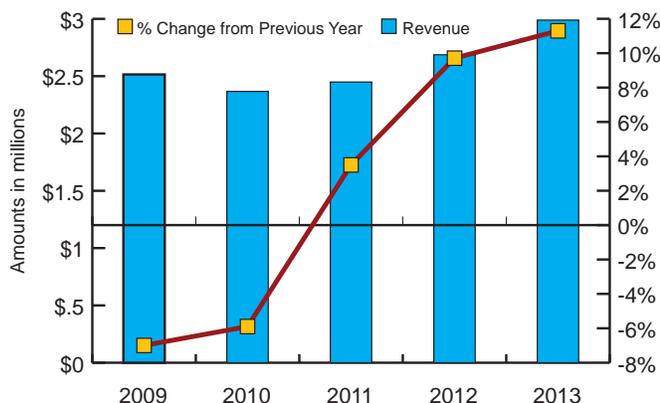
As noted above, the Retail Trade sector was up 9.0% as compared to the same period of 2012. Leading this trend are sales at new car dealers (+15.3%), building material and garden stores (+22.4%), and general merchandise stores (+7.4%). Over half of the sales tax receipts in the Retail Trade sector came from new car dealers and general merchandise stores.

The Construction sector is up 20.8% as compared to the same period of 2012. Thus far in both years, the majority of the receipts have come from one-time activity, specifically from construction of the Shorewood and Shorecrest high schools and Ballinger Way Portal Site of the Brightwater Conveyance System. By September 2013 construction will be completed at Shorewood High School and the Ballinger Way Portal Site. This leaves work on the main academic building at Shorecrest High School (which is on schedule for its anticipated completion in February 2014), and the North City Family Apartments. Removing one-time activity for the aforementioned one-time projects from the calculation reveals a more relevant year-over-year increase of 77.2%.

The upcoming closure of Haggen should have a minimal effect on tax revenues. Most grocery sales are exempt from sales tax.

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.

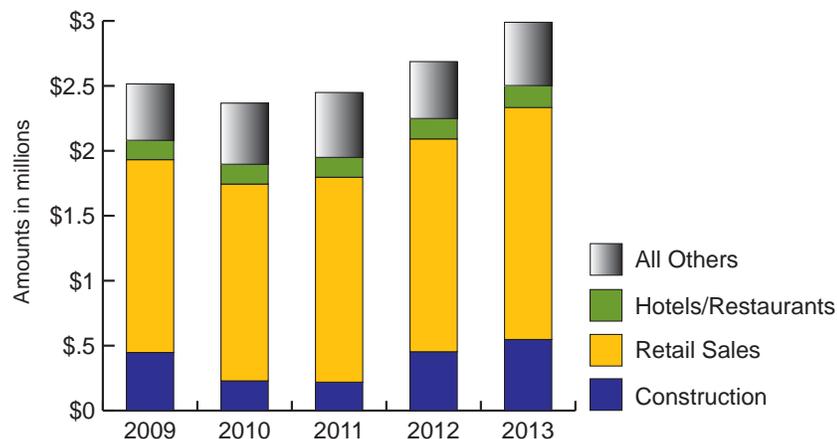
## Second Quarter Sales Tax Revenue Comparison



Second Quarter Sales Tax Revenue		
Year	Revenue: December-April	% Change from Previous Year
2009	\$2,514,978	-7.0%
2010	\$2,367,206	-5.9%
2011	\$2,449,079	3.5%
2012	\$2,686,899	9.7%
2013	\$2,989,414	11.3%

# GENERAL FUND REVENUE ANALYSIS (continued):

## Sales Tax by Category



### Retail Sales Tax by Sector - Second Quarter

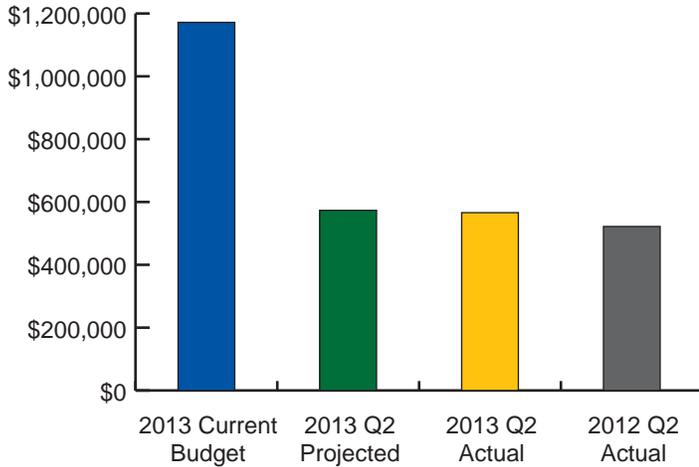
Sector	2009	2010	2011	2012	2013
Construction	\$447,513	\$228,892	\$219,122	\$453,298	\$547,618
Retail Sales	\$1,484,381	\$1,515,147	\$1,577,560	\$1,638,357	\$1,785,747
Hotel/Restaurant	\$148,961	\$152,594	\$152,741	\$157,154	\$169,076
All Others	\$434,123	\$470,573	\$499,656	\$438,090	\$486,973
<b>Total</b>	<b>\$2,514,978</b>	<b>\$2,367,206</b>	<b>\$2,449,079</b>	<b>\$2,686,899</b>	<b>\$2,989,414</b>
\$ Variance to previous year	-\$190,168	-\$147,772	\$81,873	\$237,820	\$302,515
% Variance to previous year	-7.0%	-5.9%	3.5%	9.7%	11.3%

### Retail Sales Tax by Trade - Second Quarter

Retail Trade	2009 Dec-April	2010 Dec-April	2010 v. 2009 \$ Variance	2011 Dec-April	2011 v. 2010 \$ Variance	2012 Dec-April	2012 v. 2011 \$ Variance	2013 Dec-April	2013 v. 2012 \$ Variance
Motor Vehicle and Parts Dealer	\$320,789	\$337,491	\$16,702	\$383,068	\$45,577	\$412,438	\$29,370	\$459,052	\$46,614
Furniture, Home Furnishings	\$13,803	\$19,889	\$6,086	\$25,366	\$5,477	\$21,743	-\$3,623	\$22,525	\$782
Electronics and Appliances	\$30,380	\$27,897	-\$2,483	\$29,136	\$1,239	\$41,521	\$12,385	\$37,660	-\$3,861
Building Materials, Garden	\$202,009	\$216,855	\$14,846	\$198,431	-\$18,424	\$204,228	\$5,797	\$249,927	\$45,699
Food and Beverage Stores	\$117,711	\$106,147	-\$11,564	\$105,677	-\$470	\$105,847	\$170	\$105,461	-\$386
Health and Personal Care Store	\$52,420	\$53,328	\$908	\$53,691	\$363	\$63,890	\$10,199	\$67,751	\$3,861
Gasoline Stations	\$25,370	\$26,358	\$988	\$28,490	\$2,132	\$29,406	\$916	\$29,686	\$280
Clothing and Accessories	\$10,898	\$12,136	\$1,238	\$15,358	\$3,222	\$19,090	\$3,732	\$20,486	\$1,396
Sporting Goods, Hobby, Books	\$39,937	\$36,161	-\$3,776	\$35,510	-\$651	\$35,445	-\$65	\$33,821	-\$1,624
General Merchandise Stores	\$531,621	\$539,995	\$8,374	\$546,464	\$6,469	\$543,082	-\$3,382	\$583,267	\$40,185
Miscellaneous Store Retailers	\$106,773	\$99,237	-\$7,536	\$109,607	\$10,370	\$107,380	-\$2,227	\$110,388	\$3,008
Nonstore Retailers	\$32,670	\$39,653	\$6,983	\$46,762	\$7,109	\$54,287	\$7,525	\$65,723	\$11,436
<b>Total Revenue</b>	<b>\$1,484,381</b>	<b>\$1,515,147</b>	<b>\$30,766</b>	<b>\$1,577,560</b>	<b>\$62,413</b>	<b>\$1,638,357</b>	<b>\$60,797</b>	<b>\$1,785,747</b>	<b>\$147,390</b>

# GENERAL FUND REVENUE ANALYSIS (continued):

## LOCAL CRIMINAL JUSTICE SALES TAX



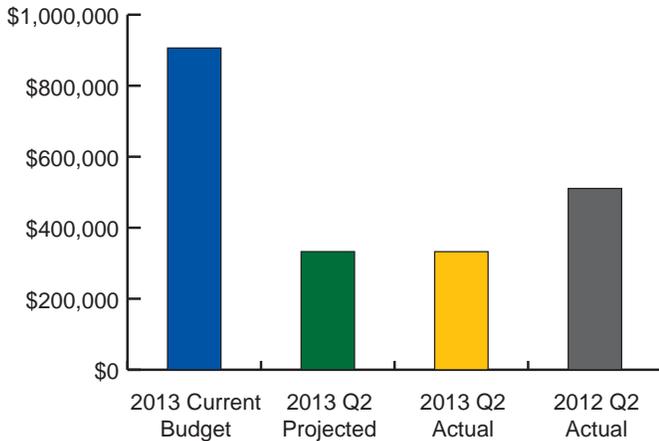
2013 Current Budget	\$1,171,779
2013 Projected	\$1,171,779
2013 Second Quarter Projected	\$573,397
2013 Second Quarter Actual	\$565,986
2013 Second Quarter \$ Variance	-\$7,411
2013 Second Quarter % Variance	-1.3%
2012 Second Quarter Actual	\$522,019
% Change from 2012 Second Quarter	8.4%

Local Criminal Justice Sales Tax receipts, in the amount of \$565,986, are \$7,411, or 1.3%, less than the projection, but are \$43,967, or 8.4%, above 2012 collections.

In contrast to the increase in Sales Tax receipts noted above, Local Criminal Justice Sales Tax receipts exhibited a year-over-year increase of 8.4%. 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. This continues to indicate that sales tax activity is recovering within King County.

# GENERAL FUND REVENUE ANALYSIS (continued):

## INTERGOVERNMENTAL REVENUE



2013 Current Budget	\$906,181
2013 Projected	\$871,589
2013 Second Quarter Projected	\$332,765
2013 Second Quarter Actual	\$332,571
2013 Second Quarter \$ Variance	-\$194
2013 Second Quarter % Variance	-0.1%
2012 Second Quarter Actual	\$510,677
% Change from 2012 Second Quarter	-34.9%

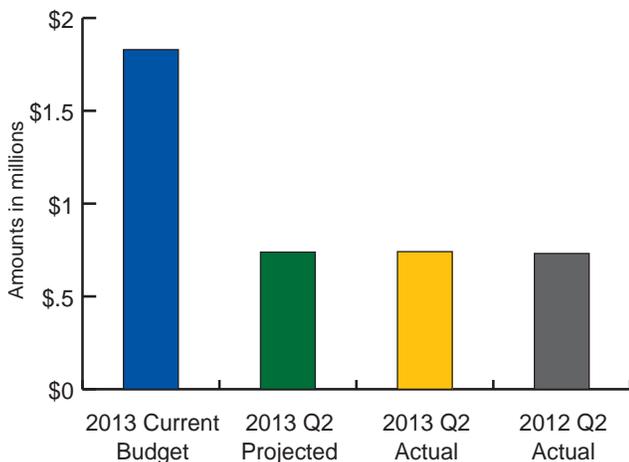
Intergovernmental revenue sources are comprised primarily of funding for criminal justice programs, liquor excise tax, and liquor board profits. Receipts through the second quarter, in the amount of \$332,571, are \$194, or 0.1%, less than the revised projection, discussed below.

The original projection reflected ESHB 2823 wherein there would be no distributions of liquor excise taxes in January 2013, April 2013, and July 2013. It also reflected that, in addition to this one-time loss, beginning with the October 2013 distribution \$2.5 million a quarter would be transferred from the liquor excise tax fund to the state general fund. During the first two quarters of 2013, Shoreline's loss of the January and April distributions totals approximately \$130,000.

The year-end projection has been reduced from the current budget of \$906,181 to \$871,589. This reduction is primarily due to adoption of the State's 2013-2015 budget, which increased the share of liquor taxes deposited into the state general fund from 65.0% to 82.5%, thereby reducing the share going to the liquor excise tax fund for distribution to cities and counties from 35.0% to 17.5%. This means that the share going to the liquor excise tax fund will be reduced by 50.0% from the original projection.

The interplay between ESHB 2823 and adoption of the state budget will result in a reduction for Shoreline of approximately \$220,000 in 2013. This reduction compares to receipts of \$263,780 and \$256,708 in 2010 and 2011, respectively.

## SEATTLE CITY LIGHT CONTRACT PAYMENT

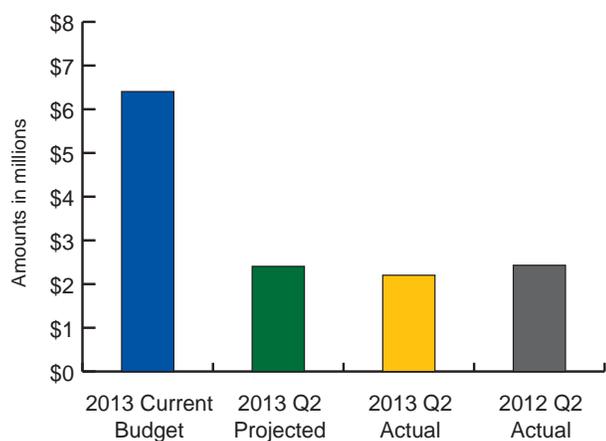


2013 Current Budget	\$1,829,501
2013 Projected	\$1,829,501
2013 Second Quarter Projected	\$738,736
2013 Second Quarter Actual	\$741,166
2013 Second Quarter \$ Variance	\$2,430
2013 Second Quarter % Variance	0.3%
2012 Second Quarter Actual	\$731,220
% Change from 2012 Second Quarter	1.4%

Receipts for the first two quarters of 2013, in the amount of \$741,166, are \$2,430, or 0.3%, more than the projection.

# GENERAL FUND REVENUE ANALYSIS (continued):

## UTILITY TAX AND FRANCHISE FEE



2013 Current Budget	\$6,404,749
2013 Projected	\$6,349,818
2013 Second Quarter Projected	\$2,405,593
2013 Second Quarter Actual	\$2,202,611
2013 Second Quarter \$ Variance	-\$202,982
2013 Second Quarter % Variance	-8.4%
2012 Second Quarter Actual	\$2,430,903
% Change from 2012 Second Quarter	-9.4%

Overall Utility Tax and Franchise Fee receipts, in the amount of \$2,202,611, are \$202,982, or 8.4%, less than the revised projection and exhibit a year-over-year decrease of \$228,292, or 9.4%. Had payments been received on time, as discussed in more detail below, receipts would be \$1,565, or 0.0%, more than the revised projection and \$23,745, or 1.0%, less than 2012 collections.

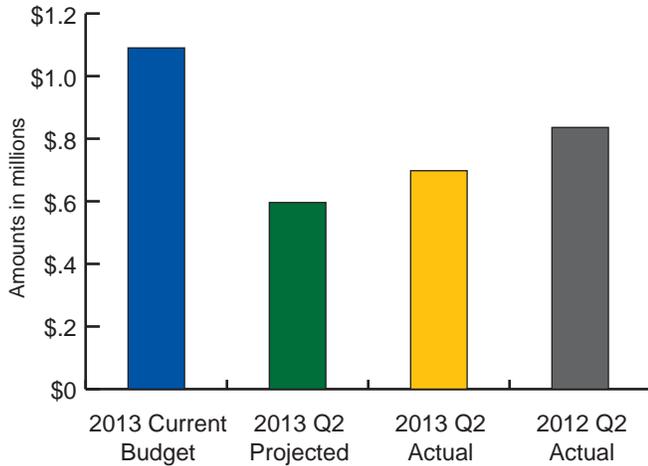
Natural gas tax receipts are behind the projection and 2012 collections because Puget Sound Energy's May 2013 payment, which was due in June, was received in July. Had this payment been received on time this year, receipts for this category would be lower than the revised projection by \$5,550, or 1.1%, and 2012 collections by \$48,105, or 8.8%. The projection factored in a warmer first quarter for 2013 as compared to 2012. Cable television tax receipts are ahead of the projection by \$23,261, or 4.3%, and 2012 collections by \$19,922, or 3.6%. Water franchise fee receipts are behind the projection and 2012 collections because Seattle's first quarter payment was received in July. Had this payment been received on time this year, receipts for this category would be higher than the revised projection by \$24,926, or 14.0%, and 2012 collections by \$10,732, or 5.6%. Telecommunications tax receipts are \$41,595, or 7.6%, behind the projection and down from 2012 collections by \$31,929, or 5.9%. Much of the variance from the projection is due to the timing of receipts. Removing that variable from the equation reveals that receipts in 2013 are 1.9% and 6.8% less than 2012 and 2011, respectively. It is anticipated that the telecommunications portion will continue to decline.

It is important to note that activity through the second quarter of 2013 and 2012 presented in this report does not reflect second quarter payments for the garbage utility tax and water and cable franchise fees. Second quarter payments for these items are typically received in late July.

Revenue Source	2013 Current Budget	2013 Projected Revenue	2013 Q2 Projected Revenue	2013 Q2 Actual Revenue	\$ Variance Actual v. Projected	% Variance Actual v. Projected	2012 Q2 Actual Revenue	% of Utility Revenue Total
Natural gas	\$966,946	\$889,590	\$503,601	\$440,998	-\$62,603	-12.4%	\$546,156	20.0%
Garbage	\$497,977	\$517,732	\$127,830	\$127,911	\$81	0.1%	\$118,691	5.8%
Cable TV	\$1,531,846	\$1,658,749	\$544,070	\$567,331	\$23,261	4.3%	\$547,409	25.8%
Telecommunications	\$1,704,878	\$1,569,095	\$550,573	\$508,978	-\$41,595	-7.6%	\$540,907	23.1%
Storm Drainage	\$201,648	\$201,648	\$109,320	\$109,236	-\$84	-0.1%	\$104,321	5.0%
Water	\$715,327	\$726,877	\$178,725	\$56,157	-\$122,568	-68.6%	\$192,919	2.5%
Sewer	\$786,127	\$786,127	\$391,473	\$392,000	\$527	0.1%	\$380,500	17.8%
<b>Utility Tax and Franchise Fee Revenue Subtotal</b>	<b>\$6,404,749</b>	<b>\$6,349,818</b>	<b>\$2,405,593</b>	<b>\$2,202,611</b>	<b>-\$202,982</b>	<b>-\$1</b>	<b>\$2,430,903</b>	<b>100.0%</b>

# GENERAL FUND REVENUE ANALYSIS (continued):

## DEVELOPMENT REVENUE

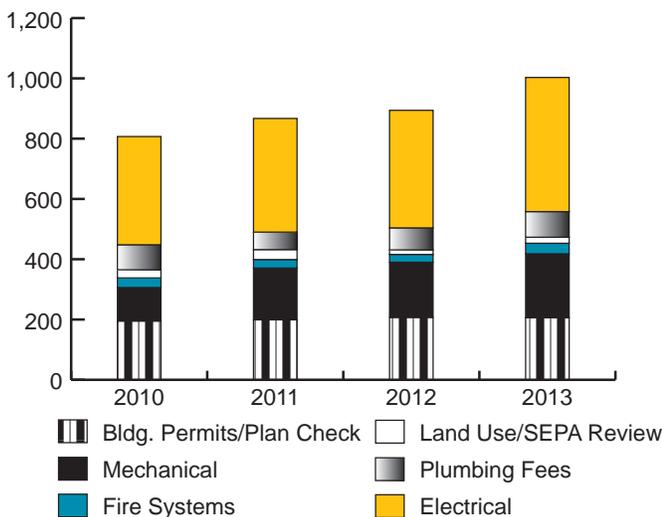


2013 Current Budget	\$1,090,055
2013 Projected	\$1,241,258
2013 Second Quarter Projected	\$596,128
2013 Second Quarter Actual	\$697,758
2013 Second Quarter \$ Variance	\$101,630
2013 Second Quarter % Variance	17.0%
2012 Second Quarter Actual	\$835,968
% Change from 2012 Second Quarter	-16.5%

The projection for development revenue receipts has been increased from the current budget of \$1,090,055 to \$1,241,258. Development revenue receipts, in the amount of \$697,758, are \$101,630, or 17.0%, more than the revised projection but exhibit a year-over-year decrease of \$138,210, or 16.5%. The year-over-year decrease in receipts is attributable to the fact that approximately \$168,000 of revenue in the first two quarters of 2012 came from permits and plan check fees that were paid for the Shorewood and Shorecrest high school construction projects. There was also approximately \$164,000 of revenue for permits related to construction of the North City Family Apartments. Removing the receipts attributable to these large projects from the calculation reveals a more relevant year-over-year increase of \$185,994, or 36.8%.

The projection for the 2013 budget factored in an increase in the number of housing permits issued. Thus far in 2013, there have been seven more permits for new single-family residences issued, with a value that is \$1.83 million more, as compared to 2012. A permit has also been issued for the construction of apartments at the site of the mobile home park that was located at N. 152nd Street. This positive trend is also seen in the number of permits issued throughout all of the categories as compared to the same period in 2012.

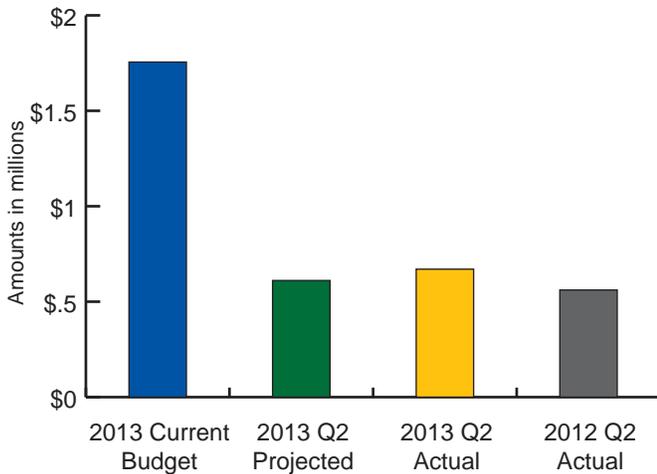
## PERMITS BY TYPE: January through June 2010 – 2013



PERMIT TYPE	2010	2011	2012	2013
Building Permits/Plan Check	195	199	207	206
Mechanical	111	172	183	212
Fire Systems	32	28	26	35
Land Use/SEPA Review	27	33	15	20
Plumbing	83	58	73	85
Electrical	359	377	390	445
<b>Total</b>	<b>807</b>	<b>867</b>	<b>894</b>	<b>1,003</b>

# GENERAL FUND REVENUE ANALYSIS (continued):

## GAMBLING TAX REVENUE



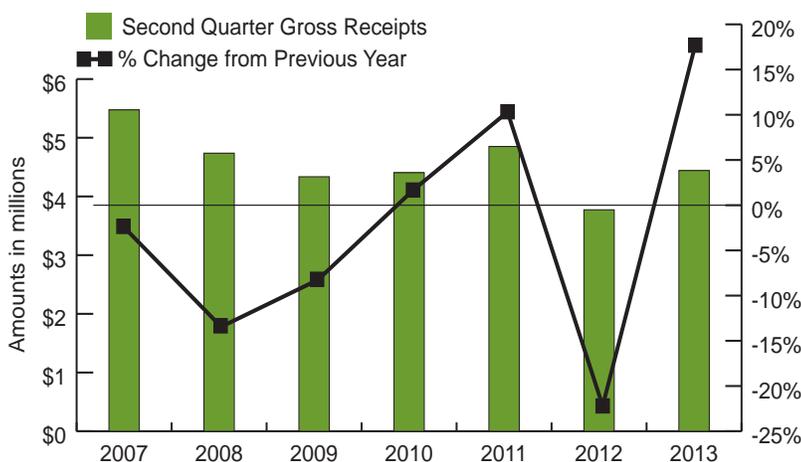
2013 Current Budget	\$1,755,451
2013 Projected	\$1,835,982
2013 Second Quarter Projected	\$611,008
2013 Second Quarter Actual	\$670,411
2013 Second Quarter \$ Variance	\$59,403
2013 Second Quarter % Variance	9.7%
2012 Second Quarter Actual	\$561,297
% Change from 2012 Second Quarter	19.4%

Total receipts, inclusive of taxes on gambling activity and payments on promissory notes, in the amount of \$670,411, are higher than the projection by \$59,403, or 9.7%, and 2012 collections by \$109,114, or 19.4%. Receipts attributable to taxes on gambling activity reported through the second quarter, in the amount of \$544,669, are \$50,826, or 10.3%, more than the original projection and exhibit a year-over-year increase of \$60,147, or 12.4%.

Staff's original projection did not anticipate receiving much from Drift on Inn and, while activity for the first two quarters exceeded the original projection, it appears that there will be no more activity through the year. Drift on Inn reported to the Washington State Gambling Commission that its doors closed in late July. Nonetheless, the projection was increased from the current budget of \$1,755,451 to \$1,835,982 to account for higher-than-anticipated activity reported for the card rooms at Goldie's Shoreline Casino and The Hideaway, as well as new promissory notes with The Hideaway and Shay's Restaurant. The total 2013 one-time revenue that will be received based on promissory notes will be \$209,717.

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

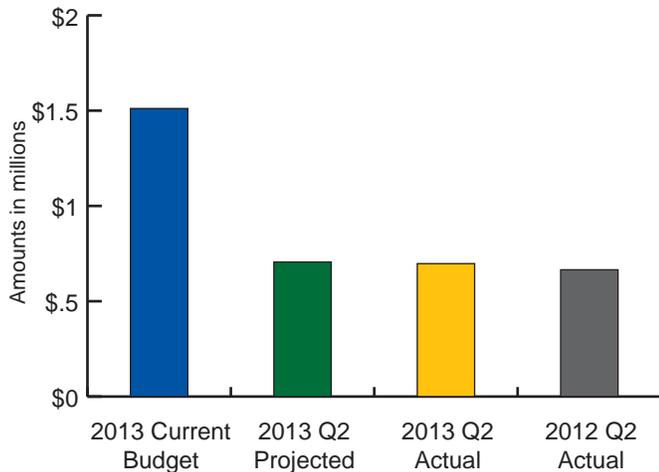
## CARD ROOM RECEIPTS 2007-2013



Card Room Gross Receipts Second Quarter 2007-2013		
Year		% Change from Previous Year
2007	\$5,475,339	-2.2%
2008	\$4,737,431	-13.5%
2009	\$4,335,807	-8.5%
2010	\$4,404,379	1.6%
2011	\$4,850,692	10.1%
2012	\$3,772,590	-22.2%
2013	\$4,440,992	17.7%

# GENERAL FUND REVENUE ANALYSIS (continued):

## PARK AND RECREATION REVENUE



2013 Current Budget	\$1,511,160
2013 Projected	\$1,522,033
2013 Second Quarter Projected	\$706,092
2013 Second Quarter Actual	\$697,332
2013 Second Quarter \$ Variance	-\$8,760
2013 Second Quarter % Variance	-1.2%
2012 Second Quarter Actual	\$665,118
% Change from 2012 Second Quarter	4.8%

The projection for Park and Recreation revenue receipts has been slightly increased from the current budget of \$1,511,160 to \$1,522,033. Receipts, in the amount of \$697,332, are \$8,760, or 1.2%, less than the revised projection and exhibit a year-over-year increase of \$32,214, or 4.8%. Compared to the first half of 2012, the first half of 2013 witnessed increased participation in lessons at the Shoreline Pool, rentals of athletic fields and Spartan Gym, and higher-than-anticipated participation in many recreation programs.

## RECREATION REVENUE BY PROGRAM

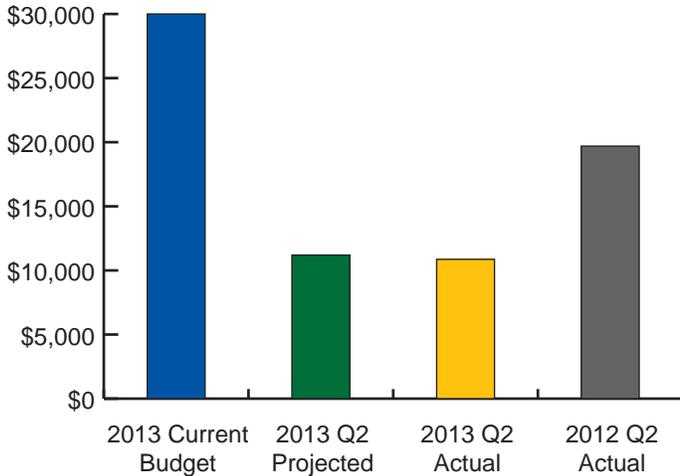
Revenue by Program: January through June 2006-2013\*

Year	General Recreation	Gen. Rec. % of Total	Pool	Pool % of Total	Facility Rentals	Fac. Rentals % of Total	Total Revenue
2006	\$325,732	51.0%	\$209,183	32.8%	\$103,238	16.2%	\$638,153
2007	\$209,934	37.0%	\$196,133	34.6%	\$160,620	28.3%	\$566,687
2008	\$235,679	38.2%	\$222,352	36.0%	\$159,599	25.8%	\$617,630
2009	\$218,921	34.1%	\$212,571	33.1%	\$211,292	32.9%	\$642,784
2010	\$269,102	39.4%	\$203,074	29.7%	\$211,343	30.9%	\$683,519
2011	\$268,804	37.2%	\$214,604	29.7%	\$238,778	33.1%	\$722,186
2012	\$255,050	38.7%	\$178,782	27.1%	\$224,922	34.1%	\$658,754
<b>2013</b>	<b>\$227,077</b>	<b>33.7%</b>	<b>\$203,264</b>	<b>30.2%</b>	<b>\$243,169</b>	<b>36.1%</b>	<b>\$673,510</b>

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

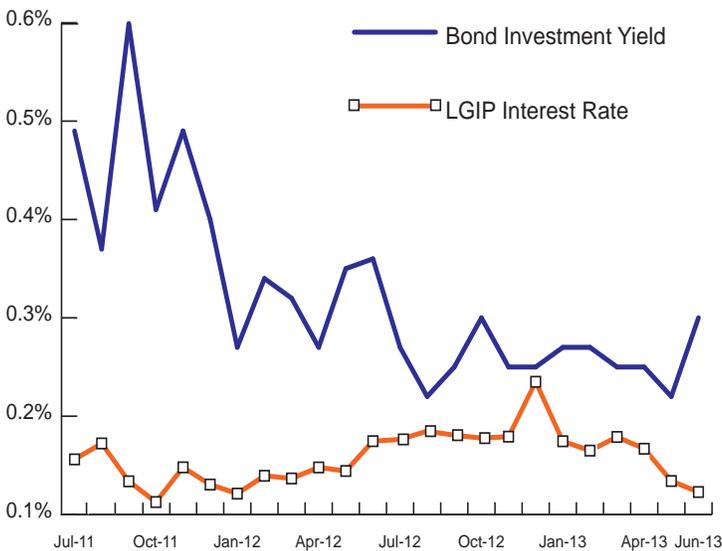
# GENERAL FUND REVENUE ANALYSIS (continued):

## INTEREST INCOME



2013 Current Budget	\$30,000
2013 Projected	\$30,000
2013 Second Quarter Projected	\$11,199
2013 Second Quarter Actual	\$10,865
2013 Second Quarter \$ Variance	-\$334
2013 Second Quarter % Variance	-3.0%
2012 Second Quarter Actual	\$19,694
% Change from 2012 Second Quarter	-44.8%

Interest income through June totaled \$10,865 and is below the projection by \$334, or 3.0%. Earnings were \$8,829, or 44.8%, less than those for the same period of 2012.



Month	LGIP Interest Rate*	Bond Investment Yield
7/31/11	0.1561%	0.4900%
8/31/11	0.1723%	0.3700%
9/30/11	0.1338%	0.5990%
10/31/11	0.1127%	0.4100%
11/30/11	0.1480%	0.4900%
12/31/11	0.1305%	0.4000%
1/31/12	0.1213%	0.2700%
2/28/12	0.1394%	0.3400%
3/31/12	0.1367%	0.3200%
4/30/12	0.1479%	0.2700%
5/31/12	0.1443%	0.3500%
6/30/12	0.1746%	0.3600%
7/31/12	0.1764%	0.2700%
8/31/12	0.1848%	0.2200%
9/30/12	0.1807%	0.2500%
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%
2/28/13	0.1650%	0.2700%
3/31/13	0.1789%	0.2500%
4/30/13	0.1669%	0.2500%
5/31/13	0.1341%	0.2200%
6/30/13	0.1229%	0.3000%
<b>Average</b>	<b>0.1581%</b>	<b>0.3237%</b>

\*Local Government Investment Pool

# EXPENDITURE ANALYSIS

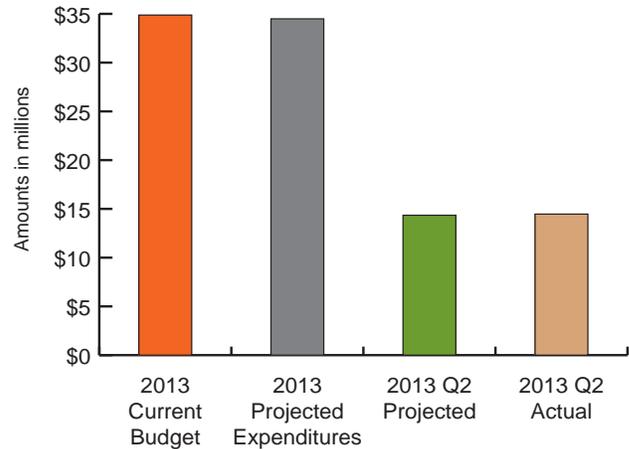
## GENERAL FUND EXPENDITURES

As a result of a thorough review of the expenditure data in preparation for the 2014 budget process, 2013 year-end projections have been developed. The mid-year expenditure review also included analysis of the actual expenditure experience through the second quarter. This process generates two outlooks; one that deals with the year-end projection and one that strictly looks at the second quarter. Year-end 2013 projections are estimated to be \$386,416 or 1.1% less than the 2013 current budget of \$34,877,601. The following items are the primary reasons leading to the projected year-end savings:

- Approximately \$460,487 of the Citywide contingencies will not be needed this year.
- The City Manager's Office plans to save \$36,441, or 1.8%, as a result of savings in rent due to the move of the Westside Storefront to City Hall and fewer repairs at the Highland Park Center.
- The City Attorney's Office will exceed its budget by a net amount of \$12,467, or 2.2%, mostly due to a new legal services contract for the Ronald Wastewater District lawsuit.
- Community Services plans to increase its budget by a net amount of \$59,359, or 3.9%. Emergency Management Planning has received an Emergency Management Performance Grant totaling \$61,235. A budget amendment to add this to the 2013 budget will be presented to the City Council for adoption in November.
- The Administrative Services Department plans to realize savings due to the following: (1) approximately \$14,500 in savings in the banking services contract that will be covered by interest earnings; (2) approximately \$93,000 in salary and benefit savings due to position vacancies in the Information Technology and Central Services divisions.
- The Criminal Justice budget is projected to exceed its budget by \$97,192, or 4.6%, due to the following expenditures that are higher-than-anticipated: Jail Services level of activity (increase of \$67,471); District Court expenses mostly due to the contract reconciliation for 2012 (increase of \$15,397); and, use of Public Defense services (increase of \$14,324).
- Public Works plans to increase its budget by a net amount of \$82,678, or 4.7%. It is anticipated that there will be a higher level of activity in the Right-of-Way program this year. These additional expenditures are supported by right-of-way fees.

General Fund expenditures in the first half of 2013, in the amount of \$14,349,901, are \$117,073, or 0.8%, less than projected expenditures of \$14,466,974. Most of the departments are spending below projections with the following few exceptions:

- The City Attorney's Office is below projections due to staff time being charged to the Aurora Corridor Improvements and salary savings from the Assistant City Attorney position vacancy.
- The Administrative Services Department is below projections due to a delayed payment for the annual maintenance of the financial system awaiting the final upgrade; work continuing into the second half of the year for the implementation of the Asset Management system; and salary savings from the vacant Central Services and IT Manager positions.
- The Human Resources Department paid a higher-than-anticipated 2013 service fee for the City's participation in the AWC Workers' Compensation Retro program based on prior year experience.
- The Criminal Justice budget is experiencing a higher level of activity year-to-date as compared to the same period in 2012. While the number of bookings has decreased by 4.1%, the number of jail housing days has increased 16.6%. There has also been a 13.8% increase in Public Defense costs, which is mostly attributable to an increase in the use of screening and conflict public defense services.



## GENERAL FUND EXPENDITURES ANALYSIS (continued):

Department	2013 Current Budget	2013 Projected Expenditures	2013 Second Quarter Projected Expenditures	2013 Second Quarter Actual Expenditures	\$ Variance Actual v. Projected	% Variance Actual v. Projected	2012 Second Quarter Actual
City Council	\$191,075	\$191,765	\$103,344	\$96,770	-\$6,574	-6.4%	\$100,272
City Manager's Office <sup>1</sup>	\$2,023,139	\$1,986,698	\$912,417	\$919,516	\$7,099	0.8%	\$871,994
City Attorney	\$584,847	\$597,494	\$258,452	\$227,707	-\$30,745	-11.9%	\$268,571
Community Services <sup>2</sup>	\$1,523,978	\$1,583,336	\$607,187	\$592,257	-\$14,930	-2.5%	\$600,440
Administrative Services <sup>3</sup>	\$3,867,515	\$3,769,205	\$1,699,615	\$1,582,784	-\$116,831	-6.9%	\$1,540,042
Citywide	\$1,775,686	\$1,348,000	\$851,879	\$855,696	\$3,817	0.4%	\$700,057
Human Resources	\$426,251	\$434,830	\$195,146	\$217,066	\$21,919	11.2%	\$187,074
Police	\$10,607,317	\$10,537,562	\$4,399,232	\$4,401,987	\$2,755	0.1%	\$48,896
Criminal Justice	\$2,109,968	\$2,207,160	\$510,924	\$592,017	\$81,093	15.9%	\$544,654
Parks, Recreation & Cultural Services	\$4,983,154	\$4,969,342	\$2,090,011	\$2,025,226	-\$64,786	-3.1%	\$1,961,515
Planning & Community Development	\$2,552,020	\$2,533,657	\$1,034,405	\$1,043,639	\$9,234	0.9%	\$1,020,333
Public Works	\$1,768,369	\$1,851,047	\$713,548	\$704,422	-\$9,125	-1.3%	\$703,774
Operating Budget Expenditures	\$32,413,319	\$32,010,096	\$13,376,162	\$13,259,088	-\$117,073	-0.9%	\$8,547,621
Operating Transfers Out	\$2,464,282	\$2,481,089	\$1,090,812	\$1,090,812	\$0	0.0%	\$1,551,020
<b>Total Expenditures</b>	<b>\$34,877,601</b>	<b>\$34,491,185</b>	<b>\$14,466,974</b>	<b>\$14,349,901</b>	<b>-\$117,073</b>	<b>-0.8%</b>	<b>\$10,098,642</b>

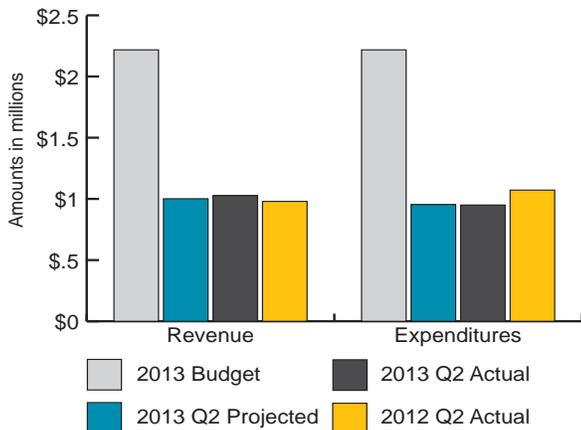
<sup>1</sup> City Manager's Office includes City Manager's Office, City Clerk, Communications, Intergovernmental Relations, Economic Development and Property Management.

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

<sup>3</sup> Administrative Services includes Finance, Purchasing, Information Systems and Facilities.

# OTHER FUNDS REVENUE ANALYSIS:

## STREET FUND

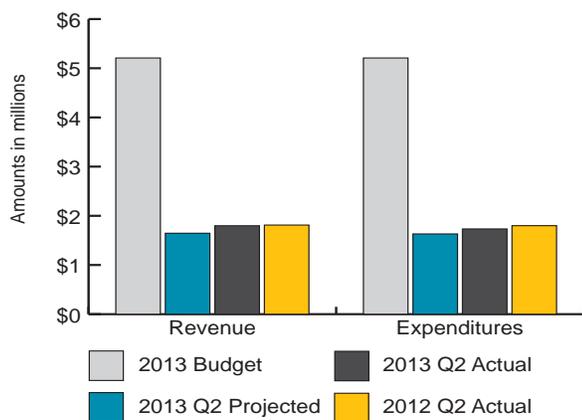


Street Fund		
	Revenue	Expenditures
2013 Current Budget	\$2,217,696	\$2,217,696
2013 Projected	\$2,155,941	\$2,125,451
2013 Second Quarter Projected	\$1,028,803	\$953,352
2013 Second Quarter Actual	\$1,026,812	\$949,600
\$ Variance	-\$1,991	-\$3,752
% Variance	-0.2%	-0.4%
2012 Second Quarter Actual	\$979,436	\$1,071,717

Motor vehicle fuel tax revenue receipts for the first half of 2013, in the amount of \$518,862, are \$2,075, or 0.4% less than the lowered projection. The 2013 projection for fuel tax has been reduced from \$1,099,493 to \$1,092,035 based on state's revised per capita projection. Investment Interest receipts for the first half of 2013, in the amount of \$655, are \$596 less than the projection of \$1,251. In sum, Street Fund revenues through the first half of 2013, including transfers in, totaling \$1,026,812 are \$1,991, or 0.2%, below the revised projection.

Expenditures, including transfers out totaling \$949,600 are \$3,752 or 0.4% behind the projection. A portion of the savings is due to staff vacancies as the Operations Manager position has been vacant since early May 2013.

## SURFACE WATER UTILITY FUND



Surface Water Utility Fund		
	Revenue	Expenditures
2013 Current Budget	\$5,208,385	\$5,208,385
2013 Projected	\$4,105,869	\$4,962,180
2013 Second Quarter Projected	\$1,645,587	\$1,631,717
2013 Second Quarter Actual	\$1,798,507	\$1,733,184
\$ Variance	\$152,920	\$101,467
% Variance	9.3%	6.2%
2012 Second Quarter Actual	\$1,812,049	\$1,799,304

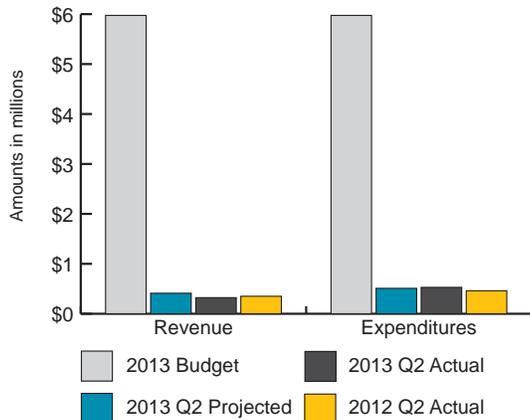
The Surface Water Utility Fund (SWM) includes both on-going operational programs and capital projects with both being reflected in the total expenditures and revenues for the fund.

Revenue receipts for the first half of 2013, in the amount of \$1,798,507, are \$152,920, or 9.3% above the projection. SWM ongoing revenues include storm drainage fees and investment interest earnings. Storm Drainage Fees totaled \$1,744,932, which is \$152,030, or 8.5%, above the projection. Investment interest earnings totaled \$2,628, which is \$890 above the projection.

Year to date expenditures in the amount of \$1,733,184 are \$101,467, or 6.2%, ahead of the projection. Capital projects are \$121,835 ahead of the projection as the Pump Station 25 project was completed ahead of schedule. The operating programs are \$20,369, or 1.9%, below the projection.

# OTHER FUNDS REVENUE ANALYSIS (continued):

## GENERAL CAPITAL FUND



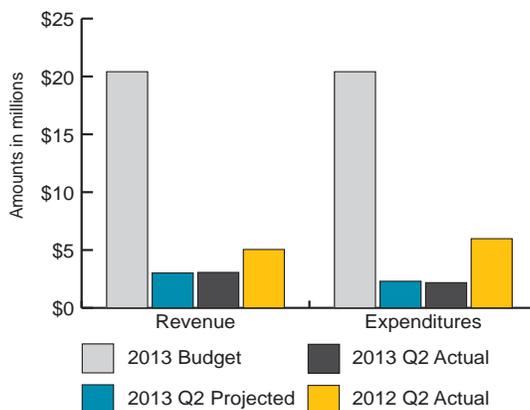
General Capital Fund		
	Revenue	Expenditures
2013 Current Budget	\$5,974,435	\$5,974,435
2013 Projected	\$4,768,945	\$5,358,246
2013 Second Quarter Projected	\$411,421	\$509,539
2013 Second Quarter Actual	\$322,363	\$529,039
\$ Variance	-\$89,058	\$19,500
% Variance	-21.7%	3.8%
2012 Second Quarter Actual	\$350,586	\$460,764

Second quarter 2013 revenue collections for this fund totaled \$444,929; however, the City had to repay \$122,586 to the Department of Energy for an Energy Efficiency Community Block Grant (EECBG) that was used in prior years for the inclusion of energy efficiency improvements in City Hall that did not meet all of the requirements of the grant. We have been allowed to reprogram the use of the grant funds during 2013 to purchase solar garbage/recycling units and expect that the reimbursement will soon be received. Real estate excise tax (REET) collections which totaled \$352,648 are \$20,217, or 6.1% above the revised projection. Investment earnings totaled \$2,062 which is \$226, or 12.3% above the projection. Receipts from the King County Trail Levy totaling \$56,234 are above the projection by \$4,079, or 7.8%.

Second quarter 2013 revenue projections reflect those that will be included in the proposed 2014-2019 Capital Improvement Plan (CIP), but do not include any use of fund balance. The 2013 current budget includes the planned use of approximately \$725,000 of fund balance.

Expenditures during the first half of 2013 totaled \$529,039, which is \$19,500, or 3.8% above projected expenditures. Expenditures are impacted by the timing of construction schedules. In addition, Council should be aware that this report does not reflect the \$2.9 million expenditure to purchase the Brugger's Bog Maintenance Facility as that expenditure was incurred in July. By the end of the year we expect expenditures to be on target. Projected expenditures have also been adjusted to reflect the proposed CIP.

## ROADS CAPITAL FUND



Roads Capital Fund		
	Revenue	Expenditures
2013 Current Budget	\$20,410,625	\$20,410,625
2013 Projected	\$5,299,816	\$5,402,047
2013 Second Quarter Projected	\$3,021,525	\$2,304,764
2013 Second Quarter Actual	\$3,067,608	\$2,181,810
\$ Variance	\$46,083	-\$122,954
% Variance	1.5%	-5.3%
2012 Second Quarter Actual	\$5,049,810	\$5,981,000

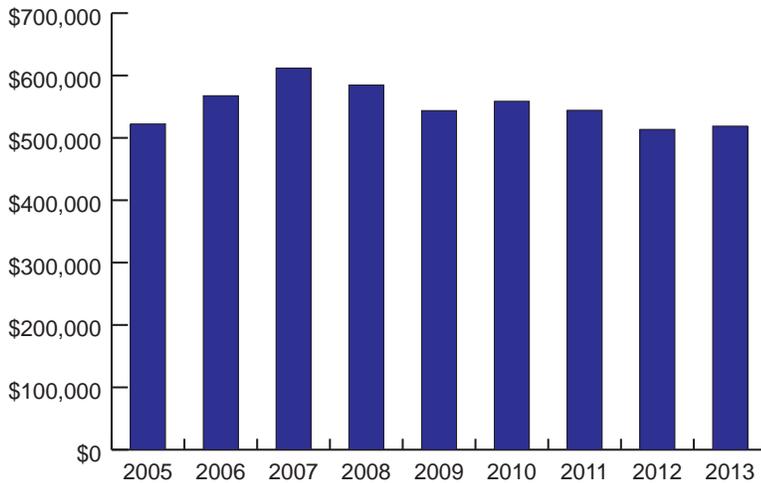
The Aurora Avenue project has been delayed until 2014, which is why the projection was revised downward to \$5,299,816. Revenues during the first half of 2013 totaled \$3,067,608, which was above the revised projection of \$3,021,525 by \$46,083 or 1.5%. This variance is due to better than expected REET collections and vehicle license fees transferred from the Transportation Benefit District.

Revenue projections for 2013 reflect those included in the Adopted 2014-2019 Capital Improvement Plan (CIP), but do not include any use of fund balance. The adopted budget includes the use of approximately \$102,000 of fund balance.

Expenditures during the first half of 2013 totaled \$2,181,810, which is \$122,454 or 5.3%, below the revised projection of \$2,304,764. Expenditures are impacted by the timing of construction schedules. By the end of the year we expect expenditures to be on target. Projected expenditures have also been adjusted to reflect the CIP.

# NON-GENERAL FUND REVENUE ANALYSIS:

## STREET FUND FUEL TAX

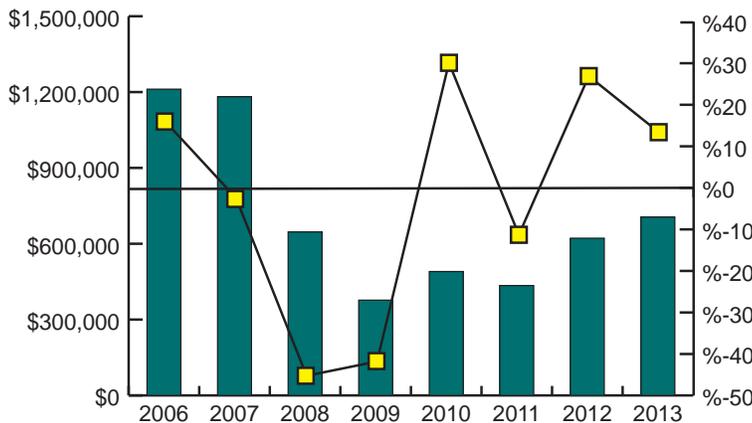


**Fuel Tax: Historical Second Quarter Comparison - Street Fund**

2005	\$522,371
2006	\$567,577
2007	\$611,951
2008	\$584,780
2009	\$543,744
2010	\$558,745
2011	\$544,273
2012	\$513,598
2013	\$518,862

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 for the first half of 2013, in the amount of \$518,862, are \$2,075 or 0.4%, less than the projection and exhibit a year-over-year increase of \$5,264, or 1.0%.

## REAL ESTATE EXCISE TAX (REET)



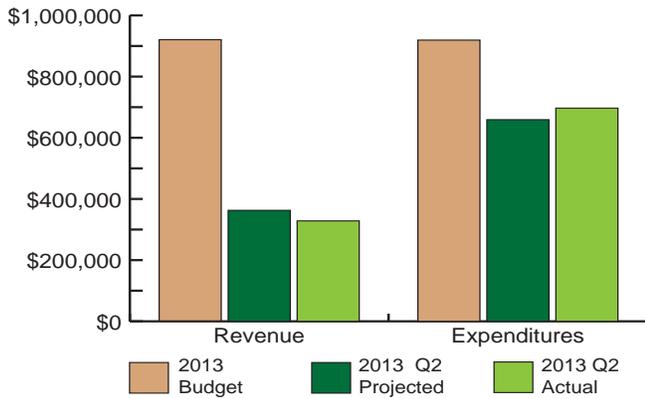
**REET: Annual First Half Collected for 2006-2013**

Year	Revenue	% Change from Previous Year
2006	\$1,211,482	15.9%
2007	\$1,181,604	-2.5%
2008	\$646,678	-45.3%
2009	\$376,842	-41.7%
2010	\$490,104	30.1%
2011	\$434,516	-11.3%
2012	\$621,962	26.9%
2013	\$705,296	13.4%

Real Estate Excise Tax (REET) revenue receipts for the first half of 2013, in the amount of \$705,296 are \$83,334 or 13.4% more than receipts for the same period in 2012. So far in the first half of 2013, there have been 47 more real estate transactions, with a total value that is \$27.40 million, or 24.5%, more than those for the same period of 2012. The 2013 projections for REET have been increased from \$1,161,082 to \$1,381,530 based upon year to date activity.

The difference in the value of real estate transactions is largely attributable to the fact that the first half of 2013 had more high-value (> \$1 million) single family home transactions with a total sales value nearly double of those in 2012 (\$12.6 million). The total value of high-value commercial properties was down slightly from the same period in 2012.

# TRANSPORTATION BENEFIT DISTRICT



Transportation Benefit District		
	Revenue	Expenditures
2013 Current Budget	\$919,200	\$919,200
2013 Projected	\$701,200	\$919,200
2013 Second Quarter Projected	\$362,734	\$659,136
2013 Second Quarter Actual	\$328,250	\$696,859
\$ Variance	-\$34,484	\$37,723
% Variance	-9.51%	5.72%
2012 Second Quarter Actual	\$310,973	\$472,371

Through the first six months of 2013, TBD vehicle license fees totaled \$328,146 which is \$34,554 or 9.5% behind projections. Collections for the same period of 2012 totaled \$310,973. Expenditures, mostly consisting of transfers to the Annual Road Surface Maintenance program, totaled \$696,859. Vehicle license fee revenue is transferred to the capital program on a monthly basis as it is received. Revenue collected by the state during December 2012, was recorded as 2012 revenue but was not received in time to transfer until early in 2013.

## Second Quarter INVESTMENT REPORT June 30, 2013

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

Our yield objectives are very important and, pursuant to policy, the basis used by the City to determine whether the market yields are being achieved is through the use of a comparable benchmark. Our benchmark has been identified as the annual average of the Washington State Local Government Investment Pool, which had been the City's primary mode of investment prior to adopting our Investment Policy. As of June 30, 2013, the City's investment portfolio, excluding the State Investment Pool, had a weighted average rate of return of 0.831%. This is better than the State Investment Pool twelve month average of 0.173%. Total investment interest earnings through June were \$22,756 which is about 36% of total budgeted 2013 investment earnings of \$62,856.

Investment rates have been declining since 2007. The average yield on a two year government agency bonds was 5.34% in January 2007. At the end of 2008 this rate was down to 1.1% and by the end of 2009 the rate was 1.07%. This decline continued during 2010 as at the end of December the rate was only 0.651%. Subsequently the rate at the end of December 2011 was 0.40% and at the end of 2012 was only 0.25%. There has been some recovery during 2013 as the rate was 0.30% at the end of June 2013.

As of June 2013, the City's investment portfolio had a fair value of nearly \$30,697,810. Approximately 3% of the investment portfolio was held in U.S. government instrumentality securities, and 97% was held in the Washington State Investment Pool. The City's investment portfolio valued at cost as of June 30, 2013, was \$30,696,524. The difference between the cost and the market value of the portfolio represents either the loss or the gain of the portfolio if the City were to liquidate investments as of the day that the market value is stated. This would only be done if the City needed to generate cash. The City holds all of its investments until the scheduled maturity date, and therefore when the investments mature the principal market value should equal the cost of the investment. The City also holds sufficient investments within the State Pool to allow for immediate cash liquidation if needed. Investments within the State Pool can be liquidated on any given day with no penalty.

The City continued to implement a ladder philosophy in its investment portfolio over the last year. This 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 June 2013 is yielding 0.831% and will not mature until 6/24/2016. This rate of return is projected to be above the average projected rate of return from the State Pool over the same period. A laddered portfolio approach helps assure that the City will, in the long run, receive a market average rate of return. Because there is a need for cash to purchase Brugger's Bog Maintenance Facility until bond financing can be secured, the City temporarily suspended its investment activities awaiting the final closing date in July 2013.

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. This instrument has been purchased from Federal Home Loan Banks.

# INVESTMENT REPORT (continued):

## LGIP Cash and Investment Balances June 30, 2013

Instrument Type	CUSPID #	Broker	Settlement Date	Maturity Date	Par Value	Investment Cost	Yield To Maturity	Unrecognized Gain/(Loss)	Market Value 6/30/2013
FHLB 0.375	3133834R9	ProEquities	06/26/13	06/24/16	\$1,000,000	\$986,541	0.8310%	\$1,286	\$987,827
Sub Total - Investments					\$1,000,000	\$986,541		\$1,286	\$987,827
State Investment Pool						\$29,709,983	0.1730%		\$29,709,983
<b>Total LGIP + Investments</b>						<b>\$30,696,524</b>		<b>\$1,286</b>	<b>\$30,697,810</b>

Current Average Maturity Excluding the State Investment Pool (days)	1,090
Current Weighted Average Yield to Maturity Excluding the State Pool	0.8310%
Current Yield to Maturity State Investment Pool	0.1730%
Basis Points in Excess (Below) Benchmark	66

### Portfolio Diversification

Instrument Type	Percentage	Amount at Market Value	Amount at Cost	Broker
FHLB 0.375	3%	\$2,001,734	\$1,998,750	ProEquities
State Investment Pool	97%	\$26,094,515	\$26,094,515	State Investment Pool
<b>Total LGIP + Investments</b>	<b>100%</b>	<b>\$30,697,810</b>	<b>\$30,696,524</b>	

### Investments by Fund

Fund	Investments at Cost as of 6/30/2013	LGIP State Investment Pool as of 6/30/2013	Total LGIP + Investments at Cost by Fund as of 6/30/2013	Unrecognized Gain/(Loss) as of 6/30/2013	Total Market Value of Investments by Fund as of 6/30/2013	Investment Earnings Budget 2013	Investment Earnings Actual 2013	Over/(Under) Budget
001 General	0	\$10,800,781	\$10,800,781	0	\$10,800,781	\$26,500	\$9,977	-\$16,523
101 Street	250,000	594,747	844,747	326	845,073	5,000	654	-4,346
107 Code Abatement	0	158,126	158,126	0	158,126	550	117	-433
108 Asset Seizure	0	137,769	137,769	0	137,769	0	70	70
109 Public Arts	0	255,763	255,763	0	255,763	500	192	-308
112 Fed. Drug Enforcement	0	160,539	160,539	0	160,539	50	101	51
114 Transportation Benefit District	0	49	49	0	49	60	103	43
115 Property Tax Equalization	0	1,143,528	1,143,528	0	1,143,528	0	916	916
116 Fed. Crim. Forfeit.	0	1,517,958	1,517,958	0	1,517,958	0	491	491
190 Revenue Stabilization	250,000	2,315,882	2,565,882	326	2,566,208	0	0	0
301 General Capital	0	2,508,774	2,508,774	0	2,508,774	3,617	2,062	-1,555
312 City Fac.-Mjr. Maint.	0	303,015	303,015	0	303,015	834	211	-623
330 Roads Capital	0	4,258,809	4,258,809	0	4,258,809	6,243	3,447	-2,796
401 Surface Water Utility Fund	0	3,505,452	3,505,452	0	3,505,452	7,402	2,626	-4,776
501 Vehicle Oper./Maint.	0	188,251	188,251	0	188,251	250	103	-147
503 Equip. Dep. Replace	486,541	1,810,336	2,296,877	634	2,297,511	11,850	1,651	-10,199
505 Unemployment	0	50,203	50,203	0	50,203	0	34	34
<b>Total Investments</b>	<b>\$986,541</b>	<b>\$29,709,983</b>	<b>\$30,696,524</b>	<b>\$1,286</b>	<b>\$30,697,810</b>	<b>\$62,856</b>	<b>\$22,756</b>	<b>-\$40,100</b>