



# 2013 THIRD QUARTER FINANCIAL REPORT

November 2013

## PERFORMANCE AT A GLANCE

	YEAR TO DATE TREND	COMPARED TO PROJECTIONS	REFERENCE
<b>GENERAL FUND REVENUES</b>			
Property Tax Revenue	▲ POSITIVE ▲	4.0%	Page 4
Sales Tax Revenue	▲ POSITIVE ▲	5.6%	Pages 5-6
Utility Tax Revenue	◀ NEUTRAL ▶	-0.6%	Page 9
Development Revenue	▲ POSITIVE ▲	21.5%	Page 10
Gambling Tax Revenue	◀ NEUTRAL ▶	2.0%	Page 11
Park and Recreation Revenue	◀ NEUTRAL ▶	0.9%	Page 12
Interest Income	▲ POSITIVE ▲	83.0%	Page 13
Investment Report			Page 19-20
<b>EXPENDITURES</b>			
General Fund Expenditures			Page 14
<b>NON-GENERAL FUND REVENUES</b>			
Surface Water Fees	▲ POSITIVE ▲	3.9%	Page 15
Fuel Tax Revenue	◀ NEUTRAL ▶	0.7%	Page 17
Real Estate Excise Tax Revenue	▲ POSITIVE ▲	15.0%	Page 17

### 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 receipts, in the amount of \$21,462,894, are above the revised projection by \$684,699, or 3.3%, and reflect a year-over-year increase of \$13,679, or 0.1%. General Fund expenditures, in the amount of \$22,829,923, are \$489,724, or 2.1%, less than the projected expenditures of \$23,319,647.

Street Fund revenue receipts including transfers in totaling \$1,572,637 are \$46,195, or 3.0%, above the revised projection. Street Fund expenditures including transfers out totaling \$1,409,343 are \$56,552, or 3.9%, behind the projection.

Surface Water Utility Fund (SWM) revenue receipts in the amount of \$2,059,893 are \$76,774, or 3.9%, above the projection. SWM expenditures totaling \$2,571,178 are \$78,315, or 3.1%, ahead of the projection.

Real Estate Excise Tax (REET) revenue receipts totaling \$1,219,330 are \$159,114, or 15.0%, more than the revised projection and \$220,429, or 22.1%, above the year-ago levels.

Street Fund Fuel Tax revenue receipts, in the amount of \$811,132, are \$5,716, or 0.7%, more than the projection and exhibit an increase of \$11,525, or 1.4%, from the year-ago levels.

Revenues					
Fund	2013 Budget	2013 Third Quarter Projected	2013 Third Quarter Actual	\$ Variance Actual v. Projected	% Variance Actual v. Projected
General Fund	\$34,877,599	\$20,778,195	\$21,462,894	\$684,699	3.3%
Street Fund	\$2,217,696	\$1,526,442	\$1,572,637	\$46,195	3.0%
Code Abatement Fund	\$100,000	\$60,413	\$5,847	-\$54,566	-90.3%
State Drug Enforcement Fund	\$13,800	\$10,350	\$69,736	\$59,386	573.8%
Public Arts Fund	\$70,000	\$375	\$1,102	\$727	193.9%
Federal Drug Enforcement Fund	\$20,750	\$15,563	\$37,536	\$21,974	141.2%
Property Tax Equalization Fund	\$0	\$0	\$1,418	\$1,418	0
Federal Crime Forfeitures Fund	\$147,000	\$18,750	\$1,206,070	\$1,187,320	6332.4%
Revenue Stabilization Fund	\$0	\$0	\$2,804	\$2,804	0
Unltd Tax GO Bond Fund	\$1,705,050	\$814,232	\$823,591	\$9,359	1.1%
Limited Tax GO Bond 2009 Fund	\$1,660,567	\$1,245,425	\$1,251,933	\$6,508	0.5%
General Capital Fund	\$5,974,435	\$4,224,846	\$4,189,917	-\$34,929	-0.8%
City Facility-Major Maint. Fund	\$218,797	\$56,150	\$52,815	-\$3,335	-5.9%
Roads Capital Fund	\$20,410,625	\$4,209,253	\$3,942,865	-\$266,388	-6.3%
Surface Water Utility Fund	\$5,208,385	\$1,983,119	\$2,059,893	\$76,774	3.9%
Vehicle Operations/ Maint. Fund	\$213,635	\$198,573	\$198,567	-\$6	0.0%
Equipment Replacement Fund	\$516,696	\$369,644	\$379,568	\$9,924	2.7%
Unemployment Fund	\$17,500	\$13,125	\$13,182	\$57	0.4%
<b>Totals</b>	<b>\$73,372,535</b>	<b>\$35,524,454</b>	<b>\$37,272,375</b>	<b>\$1,747,921</b>	<b>4.9%</b>
Transportation Benefit District	\$919,200	\$362,734	\$539,217	\$176,483	48.7%

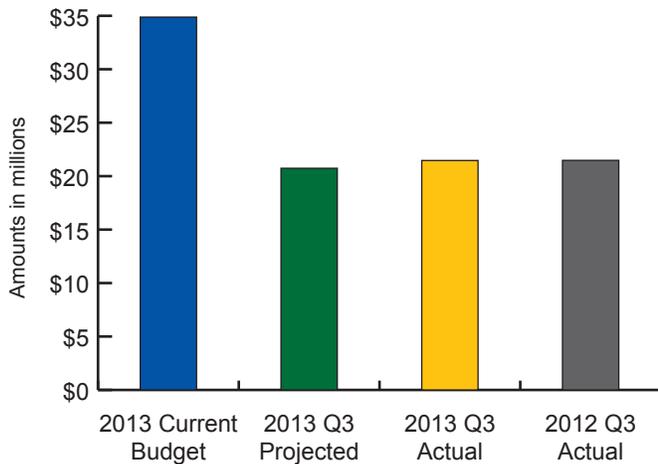
Expenditures					
Fund	2013 Budget	2013 Third Quarter Projected	2013 Third Quarter Actual	\$ Variance Actual v. Projected	% Variance Actual v. Projected
General Fund	\$34,877,601	\$23,319,647	\$22,829,923	-\$489,724	-2.1%
Street Fund	\$2,217,696	\$1,465,895	\$1,409,343	-\$56,552	-3.9%
Code Abatement Fund	\$100,000	\$75,000	\$4,375	-\$70,625	-94.2%
State Drug Enforcement Fund	\$13,800	\$10,350	\$1,346	-\$9,004	-87.0%
Public Arts Fund	\$70,000	\$52,500	\$29,504	-\$22,996	-43.8%
Federal Drug Enforcement Fund	\$20,750	\$15,563	\$1,400	-\$14,163	-91.0%
Property Tax Equalization Fund	\$0	\$0	\$0	\$0	0.0%
Federal Crime Forfeitures Fund	\$147,000	\$110,250	\$36,952	-\$73,298	-66.5%
Revenue Stabilization Fund	\$0	\$0	\$0	\$0	0.0%
Unltd Tax GO Bond Fund	\$1,705,050	\$252,775	\$252,326	-\$449	-0.2%
Limited Tax GO Bond 2009 Fund	\$1,660,567	\$598,159	\$597,986	-\$173	0.0%
General Capital Fund	\$5,974,435	\$3,970,299	\$4,074,283	\$103,984	2.6%
City Facility-Major Maint. Fund	\$218,797	\$164,098	\$146,853	-\$17,245	-10.5%
Roads Capital Fund	\$20,410,625	\$3,340,596	\$3,387,147	\$46,551	1.4%
Surface Water Utility Fund	\$5,208,385	\$2,492,863	\$2,571,178	\$78,315	3.1%
Vehicle Operations/ Maint. Fund	\$213,635	\$160,226	\$93,489	-\$66,737	-41.7%
Equipment Replacement Fund	\$244,090	\$183,068	\$81,716	-\$101,352	-55.4%
Unemployment Fund	\$17,500	\$8,750	\$776	-\$7,974	-91.1%
<b>Totals</b>	<b>\$73,099,931</b>	<b>\$36,220,038</b>	<b>\$35,518,597</b>	<b>-\$701,441</b>	<b>-1.9%</b>
Transportation Benefit District	\$919,200	\$659,136	\$907,828	\$248,692	37.7%

# GENERAL FUND REVENUE DETAIL

Revenue Source	2013 Current Budget	2013 Projected Revenue	2013 Third Quarter Projected	2013 Third Quarter Actual	\$ Variance Actual v. Projected	% Variance Actual v. Projected	2012 Third Quarter Actual
Budgeted Fund Balance	\$1,573,515	\$0	\$0	\$0	\$0	0.0%	\$0
Property Tax	\$9,409,277	\$9,409,277	\$5,094,336	\$5,297,281	\$202,945	4.0%	\$5,487,568
Sales Tax	\$6,574,800	\$6,995,820	\$4,660,763	\$4,920,532	\$259,769	5.6%	\$4,491,651
Local Criminal Justice	\$1,171,779	\$1,171,779	\$873,846	\$870,774	-\$3,072	-0.4%	\$807,263
<b>Utility Tax &amp; Franchise Fee Revenue</b>							
<i>Natural gas</i>	\$966,946	\$889,590	\$634,377	\$571,723	-\$62,654	-9.9%	\$667,930
<i>Garbage</i>	\$497,977	\$517,732	\$257,466	\$259,049	\$1,583	0.6%	\$245,847
<i>Cable TV</i>	\$1,531,846	\$1,658,749	\$949,423	\$990,787	\$41,364	4.4%	\$958,609
<i>Telecommunications</i>	\$1,704,878	\$1,569,095	\$935,646	\$880,684	-\$54,962	-5.9%	\$935,647
<i>Storm Drainage</i>	\$201,648	\$201,648	\$113,523	\$113,363	-\$160	-0.1%	\$108,779
<i>Water</i>	\$715,327	\$726,877	\$316,402	\$369,430	\$53,028	16.8%	\$344,662
<i>Sewer</i>	\$786,127	\$786,127	\$587,210	\$588,000	\$790	0.1%	\$570,750
<b>Utility Tax &amp; Franchise Fee Revenue Subtotal</b>	<b>\$6,404,749</b>	<b>\$6,349,818</b>	<b>\$3,794,047</b>	<b>\$3,773,036</b>	<b>-\$21,011</b>	<b>-0.6%</b>	<b>\$3,832,224</b>
SCL Contract Payment	\$1,829,501	\$1,829,501	\$1,159,842	\$1,121,244	-\$38,598	-3.3%	\$1,127,282
Gambling Tax Revenue	\$1,755,451	\$1,835,982	\$1,101,877	\$1,123,627	\$21,750	2.0%	\$1,085,075
Development Revenue	\$1,090,055	\$1,241,258	\$918,463	\$1,116,338	\$197,875	21.5%	\$1,187,376
Park Revenue	\$1,511,160	\$1,522,033	\$1,262,797	\$1,274,599	\$11,802	0.9%	\$1,237,959
Intergovernmental Revenue	\$906,181	\$871,589	\$502,787	\$503,771	\$984	0.2%	\$743,700
Grant Revenue	\$367,931	\$469,764	\$164,575	\$164,575	\$0	0.0%	\$175,979
Fines and Licenses	\$887,245	\$880,464	\$193,346	\$194,325	\$979	0.5%	\$234,352
Miscellaneous Revenue	\$419,910	\$463,356	\$324,145	\$360,614	\$36,469	11.3%	\$290,333
Interest Income	\$30,000	\$30,000	\$17,839	\$32,645	\$14,806	83.0%	\$26,495
Operating Transfers In	\$946,045	\$946,045	\$709,533	\$709,533	\$0	0.0%	\$749,316
<b>Total General Fund Revenue</b>	<b>\$34,877,599</b>	<b>\$34,016,686</b>	<b>\$20,778,195</b>	<b>\$21,462,894</b>	<b>\$684,699</b>	<b>3.3%</b>	<b>\$21,476,573</b>

# GENERAL FUND REVENUE ANALYSIS:

## TOTAL GENERAL FUND REVENUE

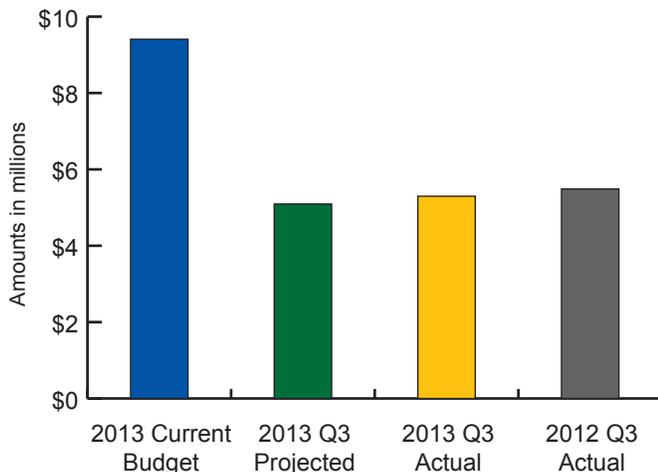


2013 Current Budget	\$34,877,599
2013 Projected	\$34,016,686
2013 Third Quarter Projected	\$20,778,195
2013 Third Quarter Actual	\$21,462,894
2013 Third Quarter \$ Variance	\$684,699
2013 Third Quarter % Variance	3.3%
2012 Third Quarter Actual	\$21,476,573
% Change from 2012 Third Quarter	-0.1%

Total General Fund revenue received through the third quarter of 2013, in the amount of \$21,462,894, is above the revised projection by \$684,699, or 3.3%, and reflects a year-over-year decrease of \$13,679, or 0.1%. 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 and continued strong growth in new car sales in the retail trade sector.
- 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 \$730,539, or 3.5%, and 2012 collections by \$32,161, or 0.2%.
- New construction valuation through the third quarter of 2013 is \$48.3 million, or 57.0%, less than it was at this time last year. That is because the valuation in 2012 included Shorecrest High School (\$39.8 million) and North City Family Apartments (\$26.9 million). Removing the valuation for these one-time projects in 2012 and that for the Shoreline Star Apartments (\$16.1 million) in 2013, reveals a more relevant year-over-year increase of \$2.3 million, or 12.7%.
- Receipts attributable to taxes on gambling activity are slightly higher as compared to the same period of 2012. 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

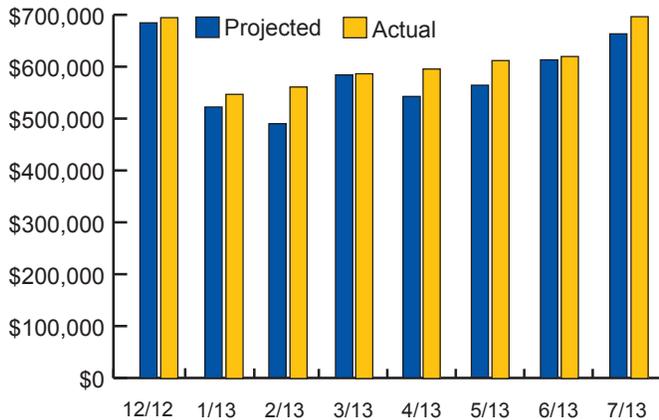


2013 Current Budget	\$9,409,277
2013 Projected	\$9,409,277
2013 Third Quarter Projected	\$5,094,336
2013 Third Quarter Actual	\$5,297,281
2013 Third Quarter \$ Variance	\$202,945
2013 Third Quarter % Variance	4.0%
2012 Third Quarter Actual	\$5,487,568
% Change from 2012 Third Quarter	-3.5%

Property Tax receipts, in the amount of \$5,297,281, are more than the projection by \$202,945, or 4.0%, but 3.5% less than those collected during the same period in 2012. During the first three quarters of 2013, the City has received \$138,017 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 - July 2013	

Sales Activity	Projected	Actual
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
May 2013	\$563,114	\$612,901
June 2013	\$613,247	\$620,742
July 2013	\$662,504	\$697,475
Year to date	\$4,660,763	\$4,920,532
<b>\$ Variance (December-July)</b>		<b>\$259,769</b>
<b>% Variance (December-July)</b>		<b>5.6%</b>

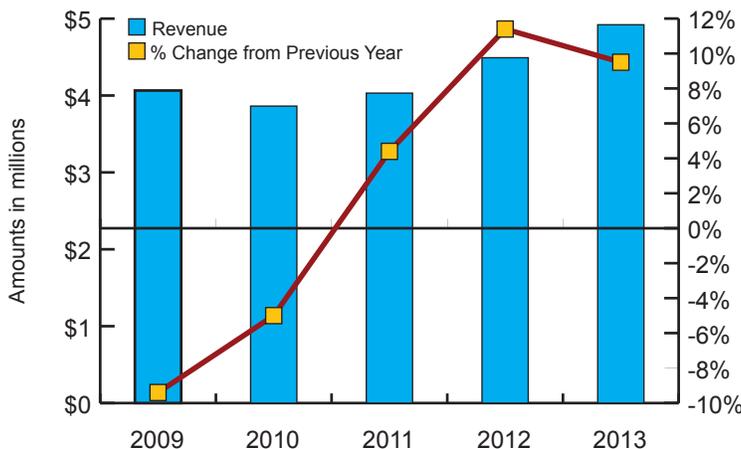
Sales tax receipts through September reflect activity from December 2012 through July 2013. The adopted budget of \$6,574,800 projects \$4,380,271 to be collected during the first three quarters. Actual receipts total \$4,920,532 and are above the original projection by \$540,261, or 12.3%, and 2012 receipts by \$428,879, or 9.6%. Both variances continue to be 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 was increased to \$6,995,820. The revised projection through September totals \$4,660,763 and, when compared to the revised projection, actual receipts are higher by \$259,769, or 5.6%.

As noted above, the Retail Trade sector was up 8.6% as compared to the same period of 2012. Leading this sales tax trend are new car dealers (+18.5%), building material and garden stores (+14.5%), and general merchandise stores (+5.3%). 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 15.3% 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. At the end of September 2013 construction is mostly 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 projects from the calculation reveals a more relevant year-over-year increase of 57.4%.

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.

## Annual Sales Tax Revenue Comparison

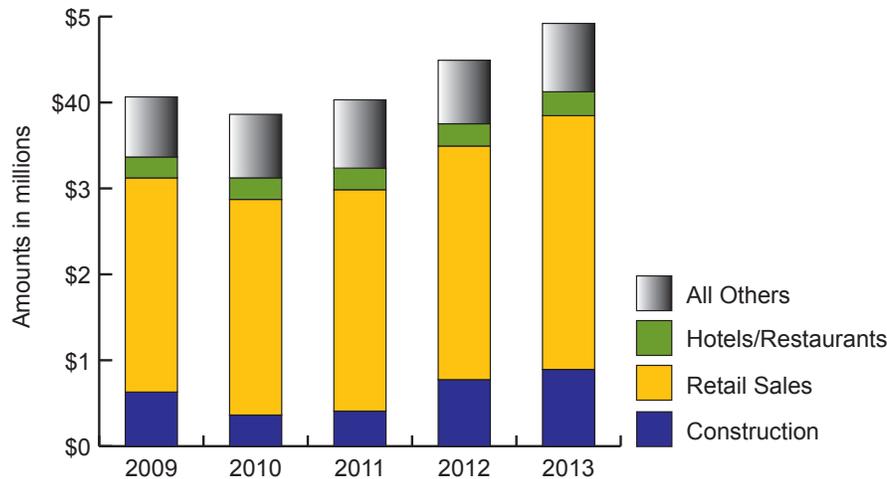


### Third Quarter Sales Tax Revenue Comparison

Year	Actual Revenue: December - July	% Change from Previous Year
2009	\$4,065,145	-9.4%
2010	\$3,862,545	-5.0%
2011	\$4,031,175	4.4%
2012	\$4,491,651	11.4%
2013	\$4,920,532	9.5%

# GENERAL FUND REVENUE ANALYSIS (continued):

## SALES TAX BY CATEGORY



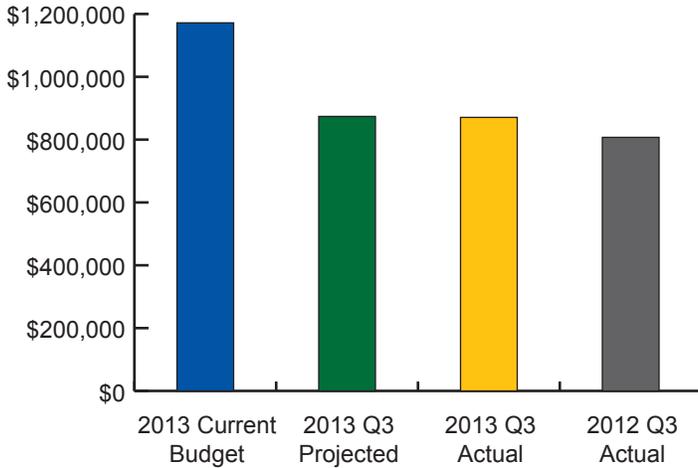
### Retail Sales Tax by Sector - Third Quarter 2009-2013

Sector	2009	2010	2011	2012	2013
Construction	\$629,819	\$362,466	\$408,110	\$774,897	\$893,412
Retail Sales	\$2,492,502	\$2,509,883	\$2,576,739	\$2,718,554	\$2,953,139
Hotel/Restaurant	\$243,202	\$250,327	\$250,929	\$259,067	\$278,075
All Others	\$699,622	\$739,869	\$795,397	\$739,133	\$795,906
<b>Total</b>	<b>\$4,065,145</b>	<b>\$3,862,545</b>	<b>\$4,031,175</b>	<b>\$4,491,651</b>	<b>\$4,920,532</b>
\$ Variance to previous year	-\$419,834	-\$202,600	\$168,630	\$460,476	\$428,881
% Variance to previous year	-9.4%	-5.0%	4.4%	11.4%	9.5%

Retail Trade	2009 Dec-July	2010 Dec-July	2010 v. 2009 \$ Variance	2011 Dec-July	2011 v. 2010 \$ Variance	2012 Dec-July	2012 v. 2011 \$ Variance	2013 Dec-July	2013 v. 2012 \$ Variance
Motor Vehicle and Parts Dealer	\$529,565	\$541,888	\$12,323	\$590,409	\$48,521	\$654,268	\$63,859	\$746,634	\$92,366
Furniture, Home Furnishings	\$24,498	\$34,538	\$10,040	\$37,053	\$2,515	\$33,283	-\$3,770	\$39,321	\$6,038
Electronics and Appliances	\$50,713	\$49,716	-\$997	\$55,884	\$6,168	\$65,340	\$9,456	\$61,754	-\$3,586
Building Materials, Garden	\$384,416	\$389,413	\$4,997	\$373,166	-\$16,247	\$393,535	\$20,369	\$450,716	\$57,181
Food and Beverage Stores	\$187,456	\$174,179	-\$13,277	\$169,113	-\$5,066	\$173,336	\$4,223	\$177,363	\$4,027
Health and Personal Care Store	\$84,488	\$85,161	\$673	\$85,342	\$181	\$99,870	\$14,528	\$108,266	\$8,396
Gasoline Stations	\$42,255	\$45,077	\$2,822	\$47,362	\$2,285	\$48,951	\$1,589	\$50,587	\$1,636
Clothing and Accessories	\$17,916	\$19,349	\$1,433	\$24,205	\$4,856	\$29,311	\$5,106	\$31,144	\$1,833
Sporting Goods, Hobby, Books	\$58,180	\$54,742	-\$3,438	\$53,300	-\$1,442	\$50,898	-\$2,402	\$50,167	-\$731
General Merchandise Stores	\$897,725	\$901,434	\$3,709	\$903,839	\$2,405	\$921,732	\$17,893	\$970,204	\$48,472
Miscellaneous Store Retailers	\$167,705	\$156,362	-\$11,343	\$168,768	\$12,406	\$168,526	-\$242	\$170,290	\$1,764
Nonstore Retailers	\$47,585	\$58,024	\$10,439	\$68,298	\$10,274	\$79,504	\$11,206	\$96,694	\$17,190
<b>Total Revenue</b>	<b>\$2,492,502</b>	<b>\$2,509,883</b>	<b>\$17,381</b>	<b>\$2,576,739</b>	<b>\$66,856</b>	<b>\$2,718,554</b>	<b>\$141,815</b>	<b>\$2,953,139</b>	<b>\$234,585</b>

# GENERAL FUND REVENUE ANALYSIS (continued):

## LOCAL CRIMINAL JUSTICE SALES TAX



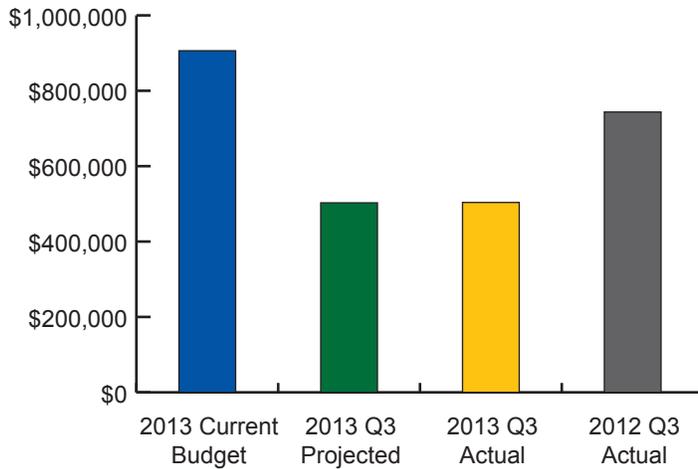
2013 Current Budget	\$1,171,779
2013 Projected	\$1,171,779
2013 Third Quarter Projected	\$873,846
2013 Third Quarter Actual	\$870,774
2013 Third Quarter \$ Variance	-\$3,072
2013 Third Quarter % Variance	-0.4%
2012 Third Quarter Actual	\$807,263
% Change from 2012 Third Quarter	7.9%

Local Criminal Justice Sales Tax receipts, in the amount of \$870,774, are \$3,072, or 0.4%, less than the projection, but are \$63,511 or 7.9% 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 7.9%. 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 be an indication 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 Third Quarter Projected	\$502,787
2013 Third Quarter Actual	\$503,771
2013 Third Quarter \$ Variance	\$984
2013 Third Quarter % Variance	0.2%
2012 Third Quarter Actual	\$743,700
% Change from 2012 Third Quarter	-32.3%

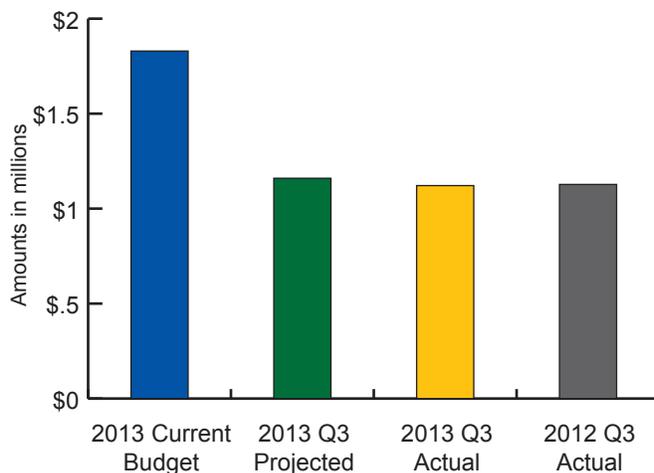
Intergovernmental revenue sources are comprised primarily of funding for criminal justice programs, liquor excise tax, and liquor board profits. Receipts through the third quarter, in the amount of \$503,771, are \$984, or 0.2%, more than the revised projection, discussed below.

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 per quarter would be transferred from the liquor excise tax fund to the state general fund.

The year-end projection was 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 was reduced by 50.0% from the original projection.

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 reduction compares to receipts totaling \$263,780 and \$256,708 received in 2010 and 2011, respectively.

## SEATTLE CITY LIGHT CONTRACT PAYMENT

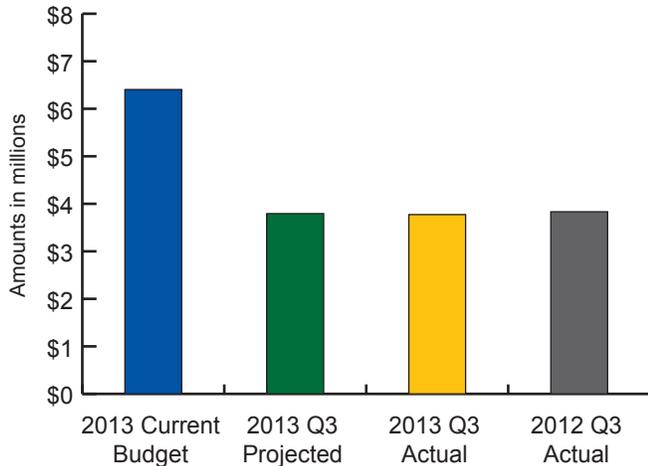


2013 Current Budget	\$1,829,501
2013 Projected	\$1,829,501
2013 Third Quarter Projected	\$1,159,842
2013 Third Quarter Actual	\$1,121,244
2013 Third Quarter \$ Variance	-\$38,598
2013 Third Quarter % Variance	-3.3%
2012 Third Quarter Actual	\$1,127,282
% Change from 2012 Third Quarter	-0.5%

Receipts for the first three quarters of 2013, in the amount of \$1,121,244, are \$38,598, or 3.3%, less 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 Third Quarter Projected	\$3,794,047
2013 Third Quarter Actual	\$3,773,036
2013 Third Quarter \$ Variance	-\$21,011
2013 Third Quarter % Variance	-0.6%
2012 Third Quarter Actual	\$3,832,224
% Change from 2012 Third Quarter	-1.5%

Overall Utility Tax and Franchise Fee receipts, in the amount of \$3,773,036, are \$21,011, or 0.6%, less than the revised projection and exhibit a year-over-year decrease of \$59,188, or 1.5%. Had payments been received on time, as discussed in more detail below, receipts would be \$24,829, or 0.7%, more than the revised projection and \$13,348, or 0.4%, less than 2012 collections.

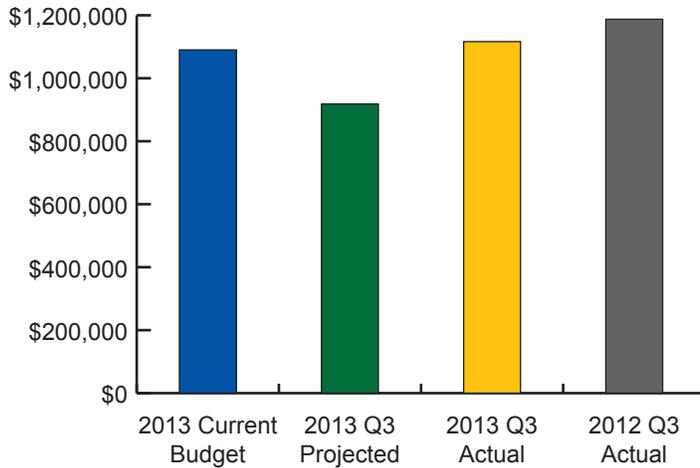
Natural gas tax receipts are behind the projection and 2012 collections because Puget Sound Energy's August 2013 payment, which was due in September, was received in October. Had this payment been received on time this year, receipts for this category would be lower than the revised projection by \$39,011, or 6.2%, and 2012 collections by \$72,564, or 10.9%. The projection factored in a warmer first quarter for 2013 as compared to 2012. Cable television tax receipts are ahead of the projection by \$41,364, or 4.4%, and 2012 collections by \$32,178, or 3.4%. Water franchise fee receipts are ahead of the revised projection by \$53,028, or 16.8%, and 2012 collections by \$24,768, or 7.2%. Telecommunications tax receipts are \$54,962, or 5.9%, behind the projection and down from 2012 collections. Much of the variance from the projection is due to the timing of receipts, in this case a late payment from T-Mobile. Had this payment been received on time this year, receipts for this category would be lower than the revised projection by \$32,765, or 3.5%. Nonetheless, it is anticipated that this revenue source will continue to decline.

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

Revenue Source	2013 Current Budget	2013 Projected	2013 Third Quarter Projected	2013 Third Quarter Actual	\$ Variance Actual v. Projected	% Variance Actual v. Projected	2012 Third Quarter Actual	% of Utility Revenue Total
Natural gas	\$966,946	\$889,590	\$634,377	\$571,723	-\$62,654	-9.9%	\$667,930	15.2%
Garbage	\$497,977	\$517,732	\$257,466	\$259,049	\$1,583	0.6%	\$245,847	6.9%
Cable TV	\$1,531,846	\$1,658,749	\$949,423	\$990,787	\$41,364	4.4%	\$958,609	26.3%
Telecommunications	\$1,704,878	\$1,569,095	\$935,646	\$880,684	-\$54,962	-5.9%	\$935,647	23.3%
Storm Drainage	\$201,648	\$201,648	\$113,523	\$113,363	-\$160	-0.1%	\$108,779	3.0%
Water	\$715,327	\$726,877	\$316,402	\$369,430	\$53,028	16.8%	\$344,662	9.8%
Sewer	\$786,127	\$786,127	\$587,210	\$588,000	\$790	0.1%	\$570,750	15.6%
<b>Utility Tax and Franchise Fee Revenue Subtotal</b>	<b>\$6,404,749</b>	<b>\$6,349,818</b>	<b>\$3,794,047</b>	<b>\$3,773,036</b>	<b>-\$21,011</b>	<b>-0.6%</b>	<b>\$3,832,224</b>	<b>100.0%</b>

# GENERAL FUND REVENUE ANALYSIS (continued):

## DEVELOPMENT REVENUE

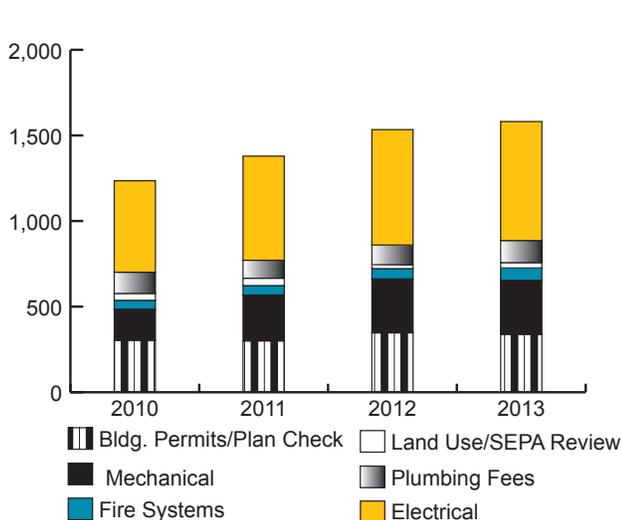


2013 Current Budget	\$1,090,055
2013 Projected	\$1,241,258
2013 Third Quarter Projected	\$918,463
2013 Third Quarter Actual	\$1,116,338
2013 Third Quarter \$ Variance	\$197,875
2013 Third Quarter % Variance	21.5%
2012 Third Quarter Actual	\$1,187,376
% Change from 2012 Third Quarter	-6.0%

The projection for development revenue receipts was increased from the current budget of \$1,090,055 to \$1,241,258. Development revenue receipts, in the amount of \$1,116,338, are \$197,875, or 21.5%, more than the revised projection but exhibit a year-over-year decrease of \$71,038, or 6.0%. The year-over-year decrease in receipts is attributable to the fact that approximately \$172,000 of revenue in the first three 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 \$189,000 of revenue for permits related to construction of the North City Family Apartments and \$21,000 related to the Shoreline Star Apartments. Removing the receipts attributable to these large projects from the calculation reveals a more relevant year-over-year increase of \$198,129, or 24.5%.

New construction valuation through the third quarter of 2013 is \$48.3 million, or 57.0%, less than it was at this time last year. That is because the valuation in 2012 included Shorecrest High School (\$39.8 million) and North City Family Apartments (\$26.9 million). Removing the valuation for these one-time projects in 2012 and that for the Shoreline Star Apartments (\$16.1 million) in 2013, reveals a more relevant year-over-year increase of \$2.3 million, or 12.7%. The projection for the 2013 budget factored in an increase in the number of housing permits issued. Thus far in 2013, there have been 16 more permits for new single-family residences issued, with a value that is \$5.68 million more, as compared to 2012.

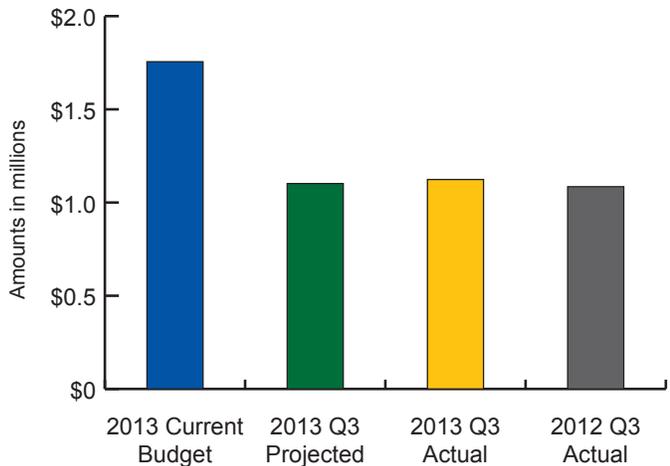
## PERMITS BY TYPE: January through September 2010–2013



PERMIT TYPE	2010	2011	2012	2013	# Variance 2013 v. 2012	% Variance 2013 v. 2012
Building Permits/Plan Check	303	300	347	338	-9	-2.6%
Mechanical	182	268	315	316	1	0.3%
Fire Systems	52	55	60	72	12	20.0%
Land Use/SEPA Review	40	43	23	31	8	34.8%
Plumbing	124	105	115	129	14	12.2%
Electrical	534	608	674	695	21	3.1%
<b>Total</b>	<b>1,235</b>	<b>1,379</b>	<b>1,534</b>	<b>1,581</b>	<b>47</b>	<b>3.1%</b>

# GENERAL FUND REVENUE ANALYSIS (continued):

## GAMBLING TAX REVENUE



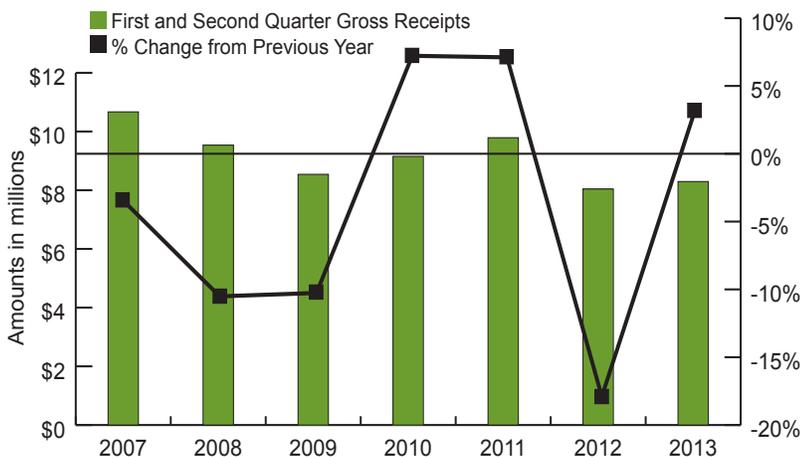
2013 Current Budget	\$1,755,451
2013 Projected	\$1,835,982
2013 Third Quarter Projected	\$1,101,877
2013 Third Quarter Actual	\$1,123,627
2013 Third Quarter \$ Variance	\$21,750
2013 Third Quarter % Variance	2.0%
2012 Third Quarter Actual	\$1,085,075
% Change from 2012 Third Quarter	3.6%

The year-end estimate totaling \$1,835,982 is comprised of tax collections and promissory note revenue. The year-end projection for tax collections totals \$1,626,265 and accounts for higher-than-anticipated activity reported for the card rooms at Goldie's Shoreline Casino and The Hideaway, as well as the closure of the Drift on Inn in late July. Promissory note revenue that will be received in 2013 totals \$209,717 and accounts for notes with Goldie's Shoreline Casino, The Hideaway and Shay's Restaurant.

Third quarter gambling tax returns are not due to the City until October 30; therefore, gambling tax receipts presented in this report largely reflect only those taxes calculated on first and second quarter gambling activity and monthly payments as required by certain promissory notes. Total receipts of \$1,123,627 are comprised of taxes on gambling activity totaling \$948,862 and promissory note payments totaling \$174,765. Total receipts are higher than the revised projection by \$21,750, or 2.0%, and 2012 collections by \$38,552, or 3.6%. Most of the variance is attributable to payments on promissory notes for prior year taxes as tax receipts are \$5,715, or 0.6%, more than those for the same period of 2012.

The chart below exhibits the last seven years of gross receipts for the first and second quarters reported by card rooms in Shoreline.

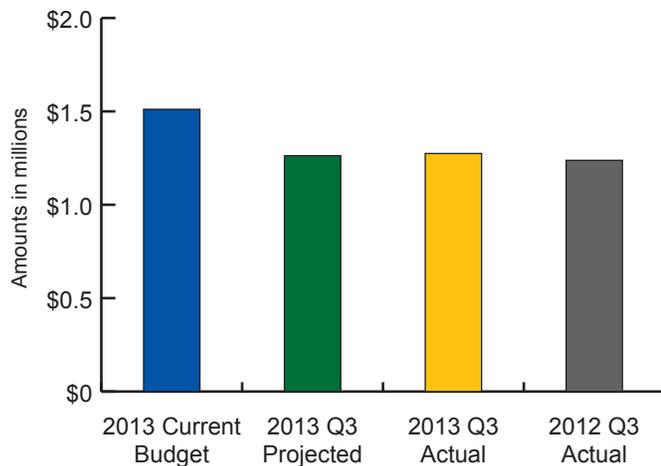
## CARD ROOM RECEIPTS: First and Second Quarters 2007-2013



Year	Amount	% Change from Previous Year
2007	\$10,669,855	-3.3%
2008	\$9,535,200	-10.6%
2009	\$8,541,250	-10.4%
2010	\$9,153,159	7.2%
2011	\$9,789,449	7.0%
2012	\$8,041,424	-17.9%
2013	\$8,296,289	3.2%

# GENERAL FUND REVENUE ANALYSIS (continued):

## PARK AND RECREATION REVENUE



2013 Current Budget	\$1,511,160
2013 Projected	\$1,522,033
2013 Third Quarter Projected	\$1,262,797
2013 Third Quarter Actual	\$1,274,599
2013 Third Quarter \$ Variance	\$11,802
2013 Third Quarter % Variance	0.9%
2012 Third Quarter Actual	\$1,237,959
% Change from 2012 Third Quarter	3.0%

The projection for Park and Recreation revenue receipts was slightly increased from the current budget of \$1,511,160 to \$1,522,033. Receipts, in the amount of \$1,274,599, are \$11,802, or 0.9%, more than the revised projection and exhibit a year-over-year increase of \$36,640, or 3.0%. Compared to the projection, there has been higher-than-anticipated participation in preschool arts classes (+47.2%), attendance at the summer playground (+7.3%), and rentals of the Spartan Gym (+26.2%). Pool revenue came in under the revised projection as a result of the pool closure during the month of May while a new boiler was being installed.

## RECREATION REVENUE BY PROGRAM

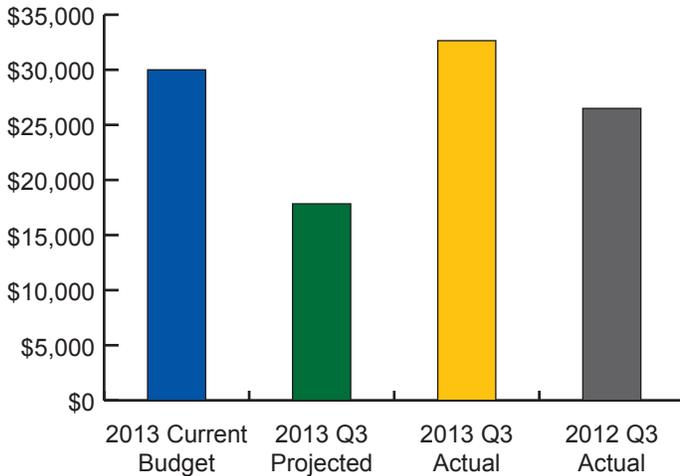
Revenue by Program: January through September 2006-2013\*

Year	General Recreation	Gen. Rec. % of Total	Pool	Pool % of Total	Facility Rentals	Fac. Rentals % of Total	Total Revenue
2006	\$448,309	49.1%	\$298,989	32.8%	\$165,042	18.1%	\$912,340
2007	\$478,033	47.7%	\$298,734	29.8%	\$226,207	22.6%	\$1,002,974
2008	\$525,183	47.7%	\$322,138	29.3%	\$253,907	23.1%	\$1,101,228
2009	\$497,791	44.6%	\$306,312	27.4%	\$313,236	28.0%	\$1,117,339
2010	\$526,076	46.1%	\$298,031	26.1%	\$316,357	27.7%	\$1,140,464
2011	\$563,480	45.9%	\$310,388	25.3%	\$352,868	28.8%	\$1,226,736
2012	\$545,789	46.0%	\$299,268	25.2%	\$340,917	28.7%	\$1,185,974
2013	\$522,411	43.7%	\$308,940	25.9%	\$362,871	30.4%	\$1,194,222

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

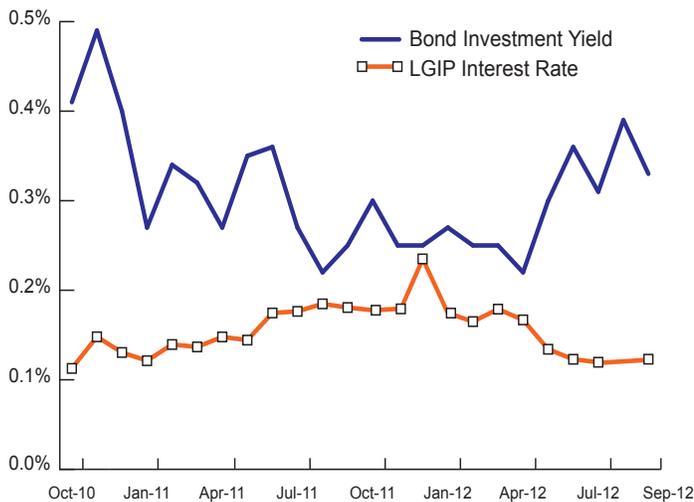
# GENERAL FUND REVENUE ANALYSIS (continued):

## INTEREST INCOME



2013 Current Budget	\$30,000
2013 Projected	\$30,000
2013 Third Quarter Projected	\$17,839
2013 Third Quarter Actual	\$32,645
2013 Third Quarter \$ Variance	\$14,806
2013 Third Quarter % Variance	83.0%
2012 Third Quarter Actual	\$26,495
% Change from 2012 Third Quarter	23.2%

Interest income through September totaled \$32,645 and is above the projection by \$14,806, or 83.0%. Earnings were \$6,150, or 23.2%, more than those for the same period of 2012.



Month	LGIP* Interest Rate	Bond Investment Yield	Bond Maturity Date
Oct-11	0.1127%	0.4100%	Oct-13
Nov-11	0.1480%	0.4900%	Nov-13
Dec-11	0.1305%	0.4000%	Dec-13
Jan-12	0.1213%	0.2700%	Dec-13
Feb-12	0.1394%	0.3400%	Jan-14
Mar-12	0.1367%	0.3200%	Jan-14
Apr-12	0.1479%	0.2700%	Apr-14
May-12	0.1443%	0.3500%	Jun-14
Jun-12	0.1746%	0.3600%	Jun-14
Jul-12	0.1764%	0.2700%	Jul-14
Aug-12	0.1848%	0.2200%	Aug-14
Sep-12	0.1807%	0.2500%	Sep-14
Oct-12	0.1777%	0.3000%	Oct-14
Nov-12	0.1792%	0.2500%	Nov-14
Dec-12	0.2350%	0.2500%	Dec-14
Jan-13	0.1745%	0.2700%	Jan-15
Feb-13	0.1650%	0.2500%	Feb-15
Mar-13	0.1789%	0.2500%	Mar-15
Apr-13	0.1669%	0.2200%	Apr-15
May-13	0.1341%	0.3000%	May-15
Jun-13	0.1229%	0.3600%	Jun-15
Jul-13	0.1196%	0.3100%	Apr-15
Aug-13	0.1229%	0.3900%	May-15
Sep-13	0.1230%	0.3300%	Jun-15
<b>24 Month Ave.</b>	<b>0.1540%</b>	<b>0.3096%</b>	

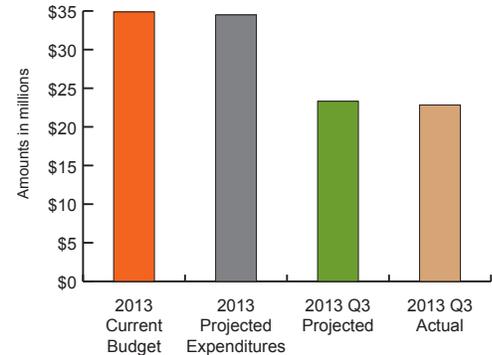
\*Local Government Investment Pool

# EXPENDITURE ANALYSIS:

## GENERAL FUND EXPENDITURES

General Fund departmental expenditures through the third quarter of 2013, in the amount of \$21,079,057, are \$489,724, or 2.3%, less than projected expenditures of \$21,568,781. At this time last year, expenditures were \$614,975, or 3.0%, below the projection. Many of the departments are again spending below the projection; however, by the end of this year it is anticipated expenditures will come in close to the year-end projection for most departments due to tighter budgeting. The larger third quarter variances are as follows:

- The City Attorney's Office is below projections due to staff time being charged to the Aurora Corridor Improvements project and salary savings from the Assistant City Attorney vacancy.
- Community Services is below projections due to the delay in receiving the Community Development Block Grant (CDBG) agreement from King County. Without the agreement in place the City was unable to contract with and pay CDBG funded programs. The agreements have been executed and payments to the agencies for three quarters worth of services have been made in the fourth quarter.
- The Administrative Services Department is below projections due to 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.
- Parks, Recreation & Cultural Services experienced savings resulting from the cancellation of the original landscaping contract. The new contract was not awarded until later in March which resulted in contract savings for the January through March period. There is also salary savings as a result of the pool closure during the month of May while a new boiler was being installed. The department has also experienced savings in operating and program supplies as well as overtime.
- 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 slightly increased (0.8%), the number of jail housing days has increased 13.6%. The use of work release has more than doubled over the prior year which has resulted in savings of approximately \$9,300.



Department	2013 Current Budget	2013 Projected Expenditures	2013 Third Quarter Projected Expenditures	2013 Third Quarter Actual Expenditures	\$ Variance Actual v. Projected	% Variance Actual v. Projected	2012 Third Quarter Actual Expenditures
City Council	\$191,075	\$191,765	\$144,240	\$142,460	-\$1,780	-1.2%	\$142,136
City Manager's Office <sup>1</sup>	\$2,023,139	\$1,986,698	\$1,386,236	\$1,367,023	-\$19,214	-1.4%	\$1,303,226
City Attorney	\$584,847	\$597,494	\$403,559	\$360,343	-\$43,217	-10.7%	\$396,944
Community Services <sup>2</sup>	\$1,525,487	\$1,583,336	\$992,803	\$901,401	-\$91,402	-9.2%	\$999,063
Administrative Svcs. <sup>3</sup>	\$3,869,369	\$3,769,205	\$2,520,938	\$2,407,534	-\$113,404	-4.5%	\$2,300,413
Citywide	\$1,768,964	\$1,348,000	\$1,308,191	\$1,334,721	\$26,529	2.0%	\$837,273
Human Resources	\$426,251	\$434,830	\$307,229	\$314,317	\$7,088	2.3%	\$287,413
Police	\$10,607,317	\$10,537,562	\$7,014,465	\$7,001,183	-\$13,283	-0.2%	\$6,795,890
Criminal Justice	\$2,109,968	\$2,207,160	\$1,140,272	\$1,161,859	\$21,587	1.9%	\$1,048,898
PRCS	\$4,983,154	\$4,969,342	\$3,501,346	\$3,350,140	-\$151,206	-4.3%	\$3,186,797
PCDS	\$2,555,379	\$2,533,657	\$1,606,839	\$1,557,442	-\$49,397	-3.1%	\$1,511,707
Public Works	\$1,768,369	\$1,851,047	\$1,242,661	\$1,180,636	-\$62,025	-5.0%	\$1,031,663
<b>Department Expenditures</b>	<b>\$32,413,319</b>	<b>\$32,010,096</b>	<b>\$21,568,781</b>	<b>\$21,079,057</b>	<b>-\$489,724</b>	<b>-2.3%</b>	<b>\$19,841,422</b>
Operating Transfers Out	\$2,464,282	\$2,481,089	\$1,750,866	\$1,750,866	\$0	0.0%	\$2,222,174
<b>General Fund Total</b>	<b>\$34,877,601</b>	<b>\$34,491,185</b>	<b>\$23,319,647</b>	<b>\$22,829,923</b>	<b>-\$489,724</b>	<b>-2.1%</b>	<b>\$22,063,596</b>

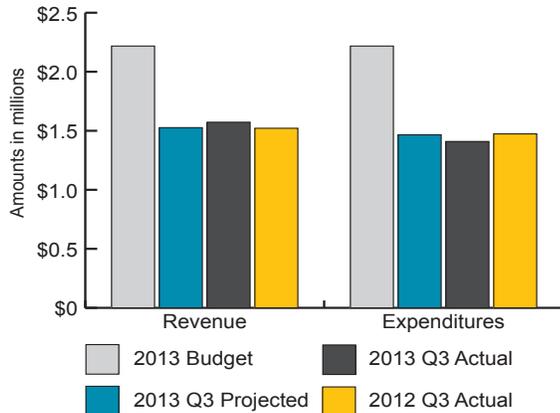
<sup>1</sup> City Manager's Office includes City Manager's Office, City Clerk, Communications, Intergovernmental Relations, Economic Development, and Property Management.

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

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

# OTHER FUNDS REVENUE ANALYSIS:

## STREET FUND

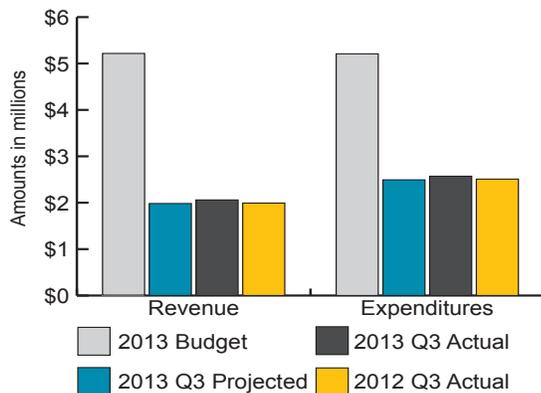


Street Fund		
	Revenue	Expenditures
2013 Budget	\$2,217,696	\$2,217,696
2013 Projected	\$2,055,941	\$2,125,451
2013 Third Quarter Projected	\$1,526,442	\$1,465,895
2013 Third Quarter Actual	\$1,572,637	\$1,409,343
\$ Variance	\$46,195	-\$56,552
% Variance	3.0%	-3.9%
2012 Third Quarter Actual	\$1,521,308	\$1,473,754

Motor vehicle fuel tax revenue receipts through the third quarter of 2013, in the amount of \$811,132, are \$5,716, or 0.7%, more than the revised projection. Investment Interest receipts for this period, in the amount of \$909, are \$765 less than the projection of \$1,674. In sum, Street Fund revenues, including transfers in, totaling \$1,572,637 are \$46,195, or 3.0%, above the revised projection.

Expenditures, including transfers out totaling \$1,409,343 are \$56,552, or 3.9%, behind the projection. Most of the savings is due the vacancy of the Operations Manager position which has been vacant since early May 2013.

## SURFACE WATER UTILITY FUND



Surface Water Utility Fund		
	Revenue	Expenditures
2013 Budget	\$5,208,384	\$5,208,387
2013 Projected	\$4,156,774	\$4,962,180
2013 Third Quarter Projected	\$1,983,119	\$2,492,863
2013 Third Quarter Actual	\$2,059,893	\$2,571,178
\$ Variance	\$76,774	\$78,315
% Variance	3.9%	3.1%
2012 Third Quarter Actual	\$1,992,319	\$2,509,284

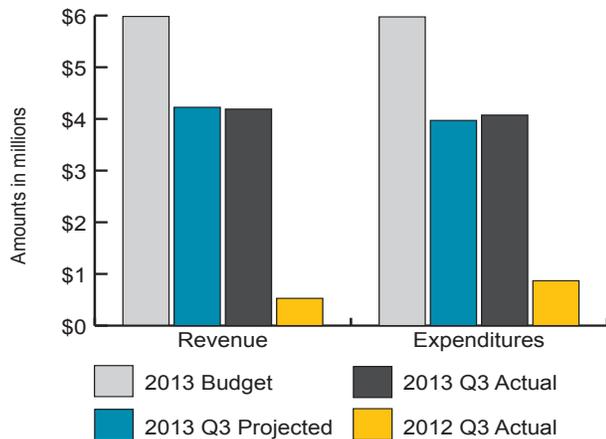
The Surface Water Utility Fund (SWM) includes both on-going operational programs and capital projects with both being reflected in the total expenditures and revenues for the fund.

Revenue receipts for the three quarters of 2013, in the amount of \$2,059,893, are \$76,774 or 3.9%, above the projection. SWM ongoing revenues include storm drainage fees and investment interest earnings. Storm Drainage Fees totaled \$2,014,316, which is \$102,743, or 5.4%, above the projection. Investment interest earnings totaled \$4,096, which is \$1,901 below the projection.

Year to date expenditures in the amount of \$2,571,178 are \$78,315, or 3.1%, ahead of the projection. Capital project expenditures are \$72,195 ahead of the projection as the Pump Station 25 was completed ahead of schedule and the Meridian Park Wetland projects is also occurring faster than anticipated. The operating programs are \$6,119, or 0.4%, above the projection.

# OTHER FUNDS REVENUE ANALYSIS (continued):

## GENERAL CAPITAL FUND



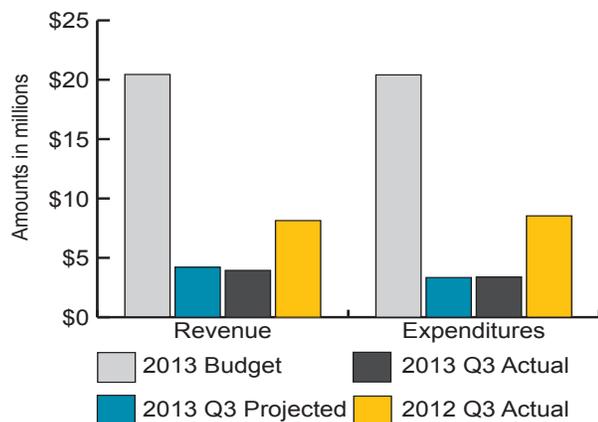
General Capital Fund		
	Revenue	Expenditures
2013 Budget	\$5,974,435	\$5,974,435
2013 Projected	\$4,768,945	\$5,164,796
2013 Third Quarter Projected	\$4,224,846	\$3,970,299
2013 Third Quarter Actual	\$4,189,917	\$4,074,283
\$ Variance	-\$34,929	\$103,984
% Variance	-0.8%	2.6%
2012 Third Quarter Actual	\$527,801	\$868,781

Revenue collections through the third quarter total \$4,189,917 and are running slightly behind the revised projection by \$34,929, or 0.8%. Real Estate Excise Tax (REET) collections total \$609,665 and are \$79,557, or 15.0%, above the revised projection. Investment earnings total \$3,083 and are \$55 below the projection. Receipts from the King County Trail Levy totaling \$57,489 are above the projection by \$353, or 0.6%. This report reflects \$3.565 million in bond financing for acquisition and improvements of the Brugger's Bog Maintenance Facility.

Third quarter 2013 revenue projections reflect those that were 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 \$1.9 million of fund balance.

Expenditures, including transfers out, total \$4,074,283 and are \$103,984, or 2.6%, above projected expenditures. Capital project expenditures are running slightly behind the projection by \$15,854, or 0.5%. These expenditures are impacted by the timing of construction schedules. Transfers out are ahead of the projection by \$119,838, or 23.2%, due to increased collections of REET, which is transferred to the City Hall debt service fund. In addition, this report reflects the \$2.9 million expenditure to purchase the Brugger's Bog Maintenance Facility. It is anticipated that expenditures will be on target by the end of the year.

## ROADS CAPITAL FUND



Roads Capital Fund		
	Revenue	Expenditures
2013 Budget	\$20,410,625	\$20,410,625
2013 Projected	\$5,214,972	\$5,407,047
2013 Third Quarter Projected	\$4,209,253	\$3,340,596
2013 Third Quarter Actual	\$3,942,865	\$3,387,147
\$ Variance	-\$266,388	\$46,551
% Variance	-6.3%	1.4%
2012 Third Quarter Actual	\$8,137,948	\$8,536,493

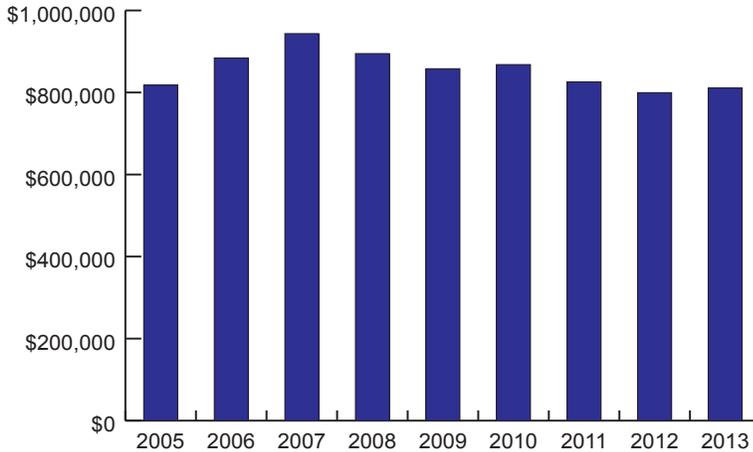
The Aurora Avenue project has been delayed until 2014, which is why the revenue projection was revised downward to \$5,214,972. Revenues during the first three quarters of 2013 totaled \$3,942,865, which was below the revised projection of \$4,209,253 by \$266,388, or 6.3%. This variance is mostly due to the timing of the receipt of grant revenue as some projects have been delayed. Real Estate Excise Tax (REET) collections total \$609,665 and are \$79,557, or 15.0%, above the revised projection.

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 \$831,587 of fund balance.

Expenditures total \$3,387,147 and are \$46,551, or 1.4%, ahead of the revised projection of \$3,340,596. 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

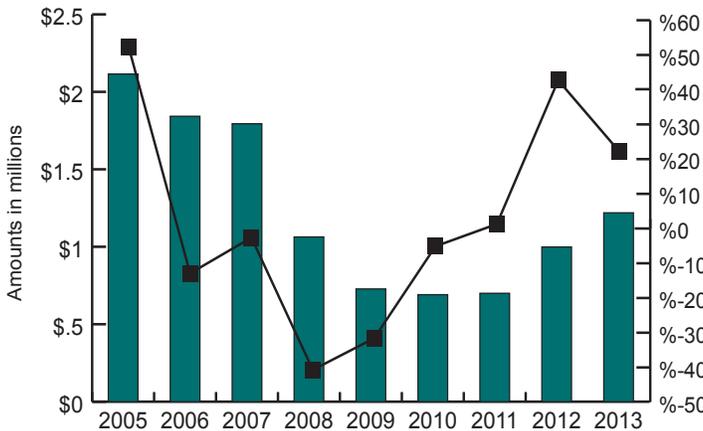


**Fuel Tax: Third Quarter Historical Comparison 2005-2013**

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

The Motor Vehicle Fuel Excise Tax, commonly referred to as Gas Tax, is levied by the state on a per gallon basis, distributed monthly on a per capita basis to the City of Shoreline, and placed in the Street Fund. Fuel Tax revenue receipts through the third quarter of 2013, in the amount of \$811,132, are \$5,716, or 0.7%, more than the projection and exhibit a year-over-year increase of \$11,525, or 1.4%.

## REAL ESTATE EXCISE TAX (REET)



**REET: January-September 2005-2013**

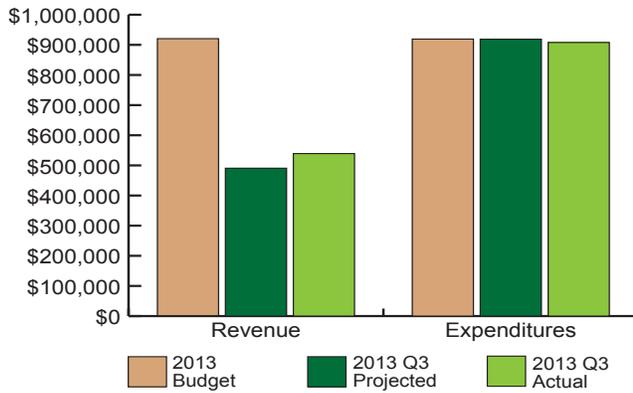
YEAR	Third Quarter Actual	% Change from Previous Year
2005	\$2,115,286	52.2%
2006	\$1,842,392	-12.9%
2007	\$1,794,000	-2.6%
2008	\$1,063,630	-40.7%
2009	\$727,984	-31.6%
2010	\$690,928	-5.1%
2011	\$699,857	1.3%
2012	\$998,901	42.7%
2013	\$1,219,330	22.1%

Real Estate Excise Tax (REET) revenue receipts through the third quarter of 2013, in the amount of \$1,219,330 are \$159,114, or 15.0%, more than the revised projection and \$220,429, or 22.1%, more than receipts for the same period in 2012. So far in 2013, there have been 121 more real estate transactions, with a total value that is \$72.56 million, or 42.5%, more than those for the same period of 2012.

The difference in the value of real estate transactions is largely attributable to the fact that there were six (75.0%) more high-value (> \$1 million) single family home transactions with a total sales value that was \$13.61 million (126.7%) more than those that occurred during the same period of 2012. The total value of high-value commercial properties are up slightly (\$451,164; 2.6%) from the same period in 2012.

# OTHER FUNDS REVENUE ANALYSIS (continued):

## TRANSPORTATION BENEFIT DISTRICT



Transportation Benefit District		
	Revenue	Expenditures
2013 Budget	\$919,200	\$919,200
2013 Projected	\$701,200	\$919,200
2013 Third Quarter Projected	\$490,709	\$918,900
2013 Third Quarter Actual	\$539,219	\$907,828
\$ Variance	\$48,510	-\$11,072
% Variance	9.9%	-1.2%
2012 Third Quarter Actual	\$531,901	\$529,887

Through the first three quarters of 2013, TBD vehicle license fees totaled \$539,219, which is \$48,510, or 9.9%, ahead of the projection. Collections for the same period of 2012 totaled \$525,170. Expenditures, mostly consisting of transfers to the Annual Road Surface Maintenance program, totaled \$907,828. 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.

## Third Quarter Investment Report September 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 current yield to maturity of the Washington State Local Government Investment Pool, which had been the City's primary mode of investment prior to adopting our Investment Policy. As of September 30, 2013, the City's investment portfolio, excluding the State Investment Pool, had a current weighted average rate of return of 0.8431%. This is better than the State Investment Pool's current rate of return of 0.1230%. Total investment interest earnings through September were \$35,452 which is about 56% of total budgeted 2013 investment earnings of \$62,856. As noted earlier in the report, we have lowered projected investment earning in many of the City's funds based upon current interest rates.

During 2007 investment interest rates began to decline. The average yield on 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%. The rate at the end of December 2011 was 0.40% and continued to fall to 0.25% at the end of 2012. The current rate at the end of September 2013 has rebounded slightly to 0.33%.

As of September 2013, the City's investment portfolio had a fair value of nearly \$30.658 million. Approximately 6% of the investment portfolio was held in U.S. government instrumentality securities, and 94% was held in the Washington State Investment Pool. The City's investment portfolio valued at cost as of September 30, 2013, was slightly over \$30.648 million. The difference between the cost and the market value of the portfolio represents either the loss or the gain of the portfolio if the City were to liquidate investments as of the day that the market value is stated. This would only be done if the City needed to generate cash. The City holds all of its investments until the scheduled maturity date, and therefore when the investments mature the principal market value should equal the cost of the investment. The City also holds sufficient investments within the State Pool to allow for immediate cash liquidation if needed. Investments within the State Pool can be liquidated on any given day with no penalty.

The City continued to implement a ladder philosophy in its investment portfolio over the last year. This resulted in the City being able to hold some securities at a higher interest rate during the declining interest rate environment. For example an instrument purchased in September 2013 is yielding 0.855% and will not mature until 9/27/2016. 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.

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 September 30, 2013

Instrument Type	CUSIP #	BROKER	Settlement Date	Maturity Date	Par Value	Investment Cost	Yield To Maturity	Unrecognized Gain/(Loss)	Market Value 9/30/2013
FHLB 0.375	3133834R9	ProEquities	06/26/13	06/24/16	\$1,000,000	\$986,541	0.8310%	\$7,848	\$994,389
FFCB 0.87	3133ED2Z4	ProEquities	09/27/13	09/26/16	\$1,000,000	\$1,000,450	0.8550%	\$1,493	\$1,001,943
Sub Total - Investments					\$2,000,000	\$1,986,991		\$9,341	\$1,996,332
State Investment Pool						\$28,661,325	0.1230%		\$28,661,325
<b>Total LGIP + Investments</b>						<b>\$30,648,316</b>		<b>\$9,341</b>	<b>\$30,657,657</b>

Current Average Maturity Excluding the State Investment Pool (days) 1,045

Current Weighted Average Yield to Maturity Excluding the State Pool 0.8431%

Current Yield to Maturity State Investment Pool 0.1230%

Basis Points in Excess (Below) Benchmark 72

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

### Portfolio Diversification

Instrument Type	Percentage	Amount at Market Value	Amount at Cost	Broker	Percentage	Amount at Cost
FHLB 0.375	3%	\$994,389	\$986,541			
FFCB 0.87	3%	\$1,001,943	\$1,000,450	ProEquities	6%	\$1,986,991
State Investment Pool	93%	\$28,661,325	\$28,661,325	State Investment Pool	94%	\$28,661,325
<b>Total Investments</b>	<b>100%</b>	<b>\$30,657,657</b>	<b>\$30,648,316</b>		<b>100%</b>	<b>\$30,648,316</b>

Investments by Fund	Investments at Cost as of 9/30/2013	LGIP State Investment Pool as of 9/30/2013	Total LGIP + Investments at Cost by Fund as of 9/30/2013	Unrecognized Gain/(Loss) as of 9/30/2013	Total Market Value of Investments by Fund as of 9/30/2013	Investment Earnings Budget 2013	Investment Earnings Actual 2013	Over/(Under) Budget
001 General	\$300,450	\$8,526,131	\$8,826,581	\$448	\$8,827,029	\$26,500	\$15,262	-\$11,238
101 Street	\$250,000	\$682,879	\$932,879	\$1,989	\$934,868	\$5,000	\$908	-\$4,092
107 Code Abatement	0	\$156,458	\$156,458	0	\$156,458	\$550	\$186	-\$364
108 Asset Seizure	0	\$141,167	\$141,167	0	\$141,167	0	\$131	131
109 Public Arts	0	\$233,750	\$233,750	0	\$233,750	\$500	\$302	-\$198
112 Federal Drug Enforcement	0	\$170,240	\$170,240	0	\$170,240	\$50	\$172	\$122
114 Transportation Benefit District	0	\$42	\$42	0	\$42	\$60	\$103	\$43
115 Property Tax Equalization	0	\$1,177,767	\$1,177,767	0	\$1,177,767	0	\$1,418	\$1,418
116 Federal Criminal Forfeiture	0	\$1,791,194	\$1,791,194	0	\$1,791,194	0	\$1,200	\$1,200
190 Revenue Stabilization	\$600,000	\$2,038,015	\$2,638,015	\$2,511	\$2,640,526	0	0	0
301 General Capital	0	\$2,859,229	\$2,859,229	0	\$2,859,229	\$3,617	\$3,083	-\$534
312 City Fac-Mjr. Maint	0	\$190,584	\$190,584	0	\$190,584	\$834	\$315	-\$519
330 Roads Capital	0	\$6,046,625	\$6,046,625	0	\$6,046,625	\$6,243	\$5,594	-\$649
401 Surface Water Utility Fund	0	\$2,943,960	\$2,943,960	0	\$2,943,960	\$7,402	\$4,095	-\$3,307
501 Vehicle Oper./Maint.	0	\$159,955	\$159,955	0	\$159,955	\$250	\$183	-\$67
503 Equip Dep. Replace	\$836,541	\$1,485,358	\$2,321,899	\$4,393	\$2,326,291	\$11,850	\$2,444	-\$9,406
505 Unemployment	0	\$57,972	\$57,972	0	\$57,972	0	\$57	\$57
<b>Total Investments</b>	<b>\$1,986,991</b>	<b>\$28,661,325</b>	<b>\$30,648,316</b>	<b>\$9,341</b>	<b>\$30,657,657</b>	<b>\$62,856</b>	<b>\$35,452</b>	<b>-\$27,404</b>