

2012 Year-End Financial Report

AT A GLANCE:

- **Building Permit revenue ended the year 42% higher than budgeted due to the expansion of a large construction project in the Issaquah Highlands and an increase in Single Family development.**
- **Water Utility Fund revenue exceeded 2012 Budgeted amounts by 9% due to a historical, record dry weather streak.**

INSIDE:

General Fund Performance	2
General Fund Departments	4
General Fund Revenue Sources	7
Utility Funds Expenditures	9
Utility Funds Revenues	10
Economic Update	15

Introduction

The year-end Financial Status Report provides a summary budget-to-actual comparison of revenues and expenditures for the General Fund and Utility Funds through the end of the most recently completed fiscal year.

Revenue and expenditure comparisons are also made to the same period in prior years. Relevant statistical summaries are provided if deemed pertinent.

In addition, an update on the current national and local economic outlook is provided.



Timberlake Park Trail

Performance at a Glance

	Year-End Projections	Compared to Budget
General Fund Expenditure vs. Budget	Positive	-2.6%
General Fund Revenues vs. Estimate	Warning	-1.9%
Tax Performance	Warning	-4.4%
Utility Funds Expenditures vs. Budget	Positive	-2.8%
Utility Funds Revenues vs. Estimate	Neutral	1.2%

Key to Expenditure Trend Indicators

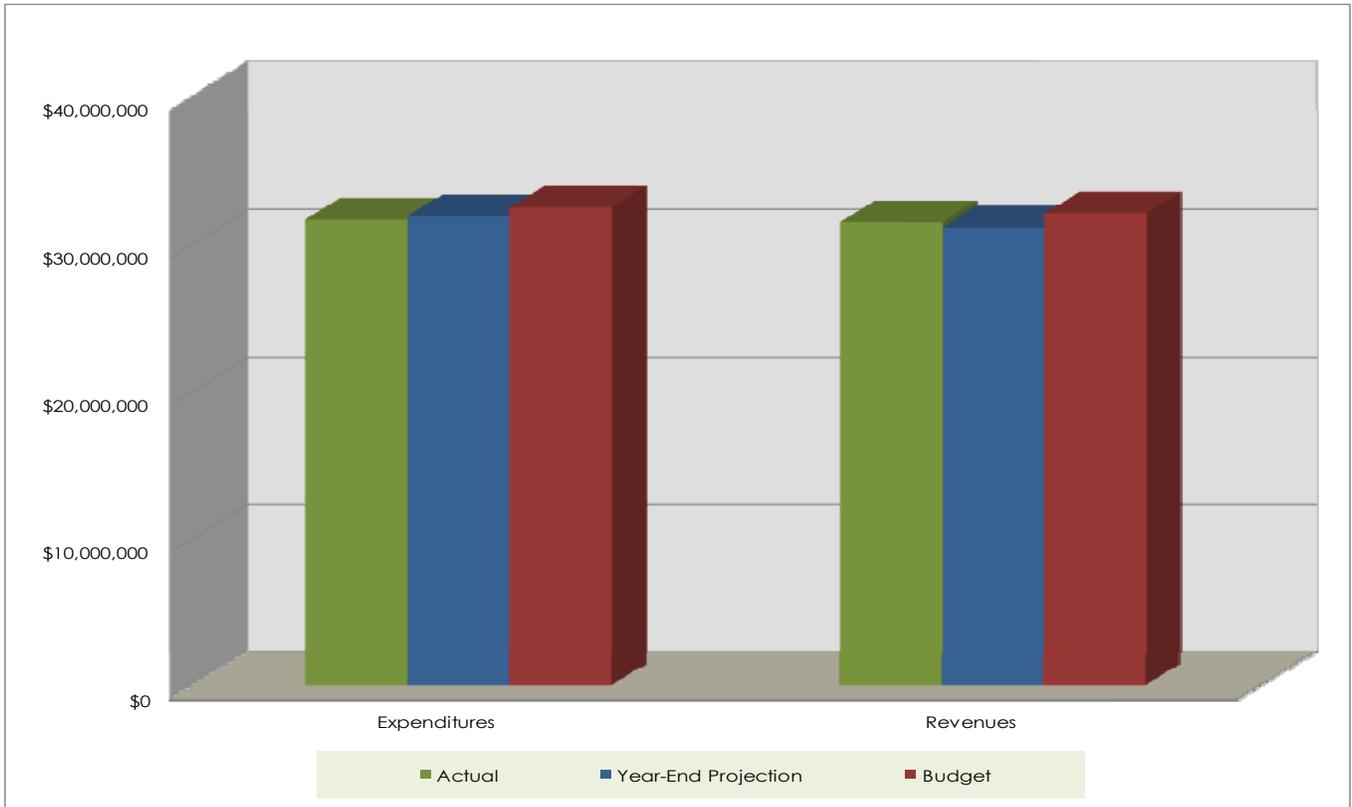
Neutral	= variance of -1.0% to 1.0%
Positive	= variance > -1.0%
Warning	= variance > 1.0%

Key to Revenue Trend Indicators

Neutral	= variance of -1.0% to 1.0%
Positive	= variance > 1.0%
Warning	= variance > -1.0%

General Fund Performance

Year-End Expenditures and Revenue



Year-End Expenditures and Revenue: Budget to Actual

General Fund	4th Quarter Actual	Total Year-to-Date Actual	Year- End Projection	Total Budget	% of Total Budget Used
Total Expenditures	\$ 8,477,282	\$31,730,001	\$31,952,271	\$32,542,475	97.5%
Total Revenues	\$ 9,704,362	\$31,550,374	\$31,191,843	\$32,142,175	98.2%

Three-Year Comparison of Actual Expenditures for the Fiscal Year

General Fund	2010 Actual	2011 Actual	% Change From 2010	2012 Actual	% Change From 2011
Expenditures	\$ 29,098,457	\$ 29,873,968	2.7%	\$ 31,730,001	6.2% ¹
Revenues	\$ 30,552,541	\$ 31,490,606	3.1%	\$ 31,550,374	0.2%

¹ The majority of this increase is due to a reorganization that reallocated expenditures to the General Fund.

General Fund Year-End Performance

Revenue

2012 year-end General Fund revenues finished at \$31,550,374. This figure is 2 percent (\$591,801) less than the original budgeted revenue amount of \$32,142,175.

The majority of the revenue decrease can be attributed to Sales and Business taxes which ended 10 percent and 8.5 percent, respectively, less than originally budgeted.

The deficit in sales tax is mainly attributable to major decreases in construction and retail sales related taxes.

Lower retail sales tax also negatively affected Business taxes. We will monitor 2013 construction activity to determine if receipts were mainly delayed.

Also contributing to the revenue shortfall was Municipal Court revenue which ended 21 percent less than budgeted, although actual revenue was consistent with prior years.

The revenue decreases in these categories were offset by Building Permit revenue that ended 42 percent higher than budgeted.

Expenditures

Expenditures finished at \$31,730,001, 2.6 percent less than the adjusted expenditure budget of \$32,542,475. This will result in a positive differential of \$812,474.

The City began 2012 with \$8,910,428 in cash reserves and finished with \$8,595,918, providing a 27 percent expenditure coverage ratio .

“Year-end Revenue ended \$591,801 less than budgeted for 2012”

“4th Quarter

Building

Permit

revenue

\$240,013

higher than

forecasted.”

Fourth Quarter Highlights

Overall fourth quarter revenues ended at \$9,704,362, which is \$950,102, or 11 percent greater than forecasted.

Despite a \$59,909 (12 percent) reduction in

Recreation Fees and 26 percent (\$86,481) in Municipal Court fees, higher than projected Building Permit revenue - \$240,013 (103 percent) higher than estimated - helped to offset the

deficits.

Fourth quarter expenditures ended at \$8,477,282, 3 percent (\$268,178) more than the \$8,209,104 originally projected for the quarter.

Cost Containment Actions



With the continued uncertainty of the economic recovery (see economic environment update), the City carried forward into 2012 cost containment measures begun in 2009, offering

early separations packages for employees in addition to layoffs.

Discretionary spending was reduced and expenditures were deferred where possible.

General Fund Departments: Annual Comparisons

Three-Year Comparison of Actual Expenditures Through Fiscal Year-End

Department Name	2010 Actual	2011 Actual	% Change From 2010	2012 Actual	% Change From 2011
Council	\$ 74,678	\$ 69,934	-6.4%	\$ 75,550	8.0%
Municipal Court	535,610	566,505	5.8%	683,840	20.7% ¹
Executive	924,234	878,085	-5.0%	988,423	12.6% ²
Human Resources	566,881	584,228	3.1%	453,053	-22.5% ³
City Clerk	285,435	288,008	0.9%	305,460	6.1%
Economic Development	-	-	0.0%	209,827	0.0%
Information Technology	873,471	904,277	3.5%	949,042	5.0%
Finance	828,333	861,443	4.0%	914,988	6.2%
Legal	426,026	443,137	4.0%	509,628	15.0% ⁴
Police	7,030,090	7,401,867	5.3%	7,806,366	5.5%
Fire Control	4,568,272	4,609,986	0.9%	4,707,133	2.1%
Community Services	433,165	437,108	0.9%	443,842	1.5%
Planning	1,462,392	1,483,950	1.5%	1,496,203	0.8%
Building	1,547,404	1,587,182	2.6%	1,805,315	13.7% ⁵
Parks	6,289,994	6,487,367	3.1%	6,855,738	5.7%
Other Governmental	3,252,472	3,270,891	0.6%	3,525,594	7.8%
Total GF Departments	\$ 29,098,457	\$ 29,873,968	2.7%	\$ 31,730,001	6.2%

¹ Increase represents the addition of a Probation Officer approved during the 2012 Budget process.

² Increase represents executive recruitment services required due to retirements and City reorganization

³ Decrease represents the reduction of the Human Resources Director position during the 2012 Budget process.

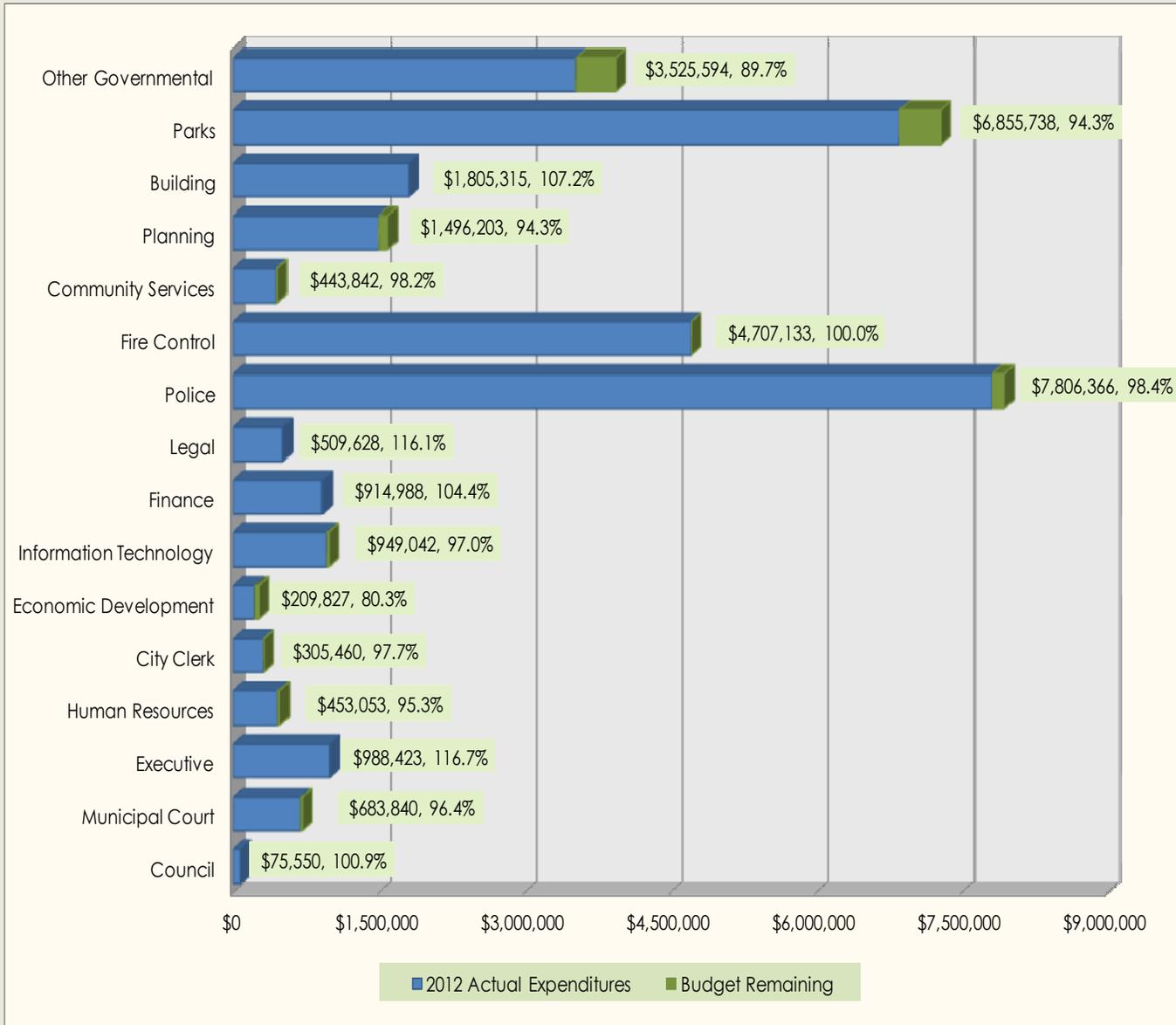
³ Expenditure activity for the Economic Development Department began July 1, 2012.

⁴ The City is currently defending a claim that was file for repayment of telephone utility tax by New Cingular Wireless , resulting in higher than expected legal service expenditures. Also, The City had a number of projects during 2012 that required consultation with the City Attorney including the Central Issaquah Plan, franchise agreements and contract reviews.

⁵ Increase in the Building Department is offset by corresponding revenue as a result of increased permit activity.

General Fund Departments: Performance

2012 Actual Expenditure Totals and Percent of Annual Budget Expended



General Fund Departments: Performance

2012 Actual Expenditures vs. Budget Projections

Department Name	Actual	Year-End Projection	Budget	% Over/Under Budget	\$ Over/Under Budget
Council	\$ 75,550	\$ 74,110	\$ 74,900	0.9%	\$ 650
Municipal Court	\$ 683,840	\$ 711,760	\$ 709,062	-3.7%	\$ (25,222)
Executive	\$ 988,423	\$ 985,287	\$ 847,138	14.3% ¹	\$ 141,285
Human Resources	\$ 453,053	\$ 447,750	\$ 475,327	-4.9%	\$ (22,274)
City Clerk	\$ 305,460	\$ 309,500	\$ 312,607	-2.3%	\$ (7,147)
Economic Development	\$ 209,827	\$ 252,500	\$ 261,440	-24.6% ²	\$ (51,613)
Information Technology	\$ 949,042	\$ 902,600	\$ 978,335	-3.1%	\$ (29,293)
Finance	\$ 914,988	\$ 859,600	\$ 876,120	4.2%	\$ 38,868
Legal	\$ 509,628	\$ 462,000	\$ 439,000	13.9% ³	\$ 70,628
Police	\$ 7,806,366	\$ 7,829,712	\$ 7,932,401	-1.6%	\$ (126,035)
Fire Control	\$ 4,707,133	\$ 4,707,133	\$ 4,707,133	0.0%	\$ (0)
Community Services	\$ 443,842	\$ 450,560	\$ 452,170	-1.9%	\$ (8,328)
Planning	\$ 1,496,203	\$ 1,521,115	\$ 1,587,402	-6.1%	\$ (91,199)
Building	\$ 1,805,315	\$ 1,703,541	\$ 1,684,108	6.7%	\$ 121,207
Parks	\$ 6,855,738	\$ 6,894,910	\$ 7,273,498	-6.1%	\$ (417,760)
Other Governmental	\$ 3,525,594	\$ 3,840,193	\$ 3,931,834	-11.5% ⁴	\$ (406,240)
Total GF Departments	\$ 31,730,001	\$ 31,952,271	\$ 32,542,475	-2.6%	\$ (812,474)

¹ The budget overage occurred due to department salaries and benefits being under budgeted as well as unplanned expenditures of \$47,000 for executive recruitment services.

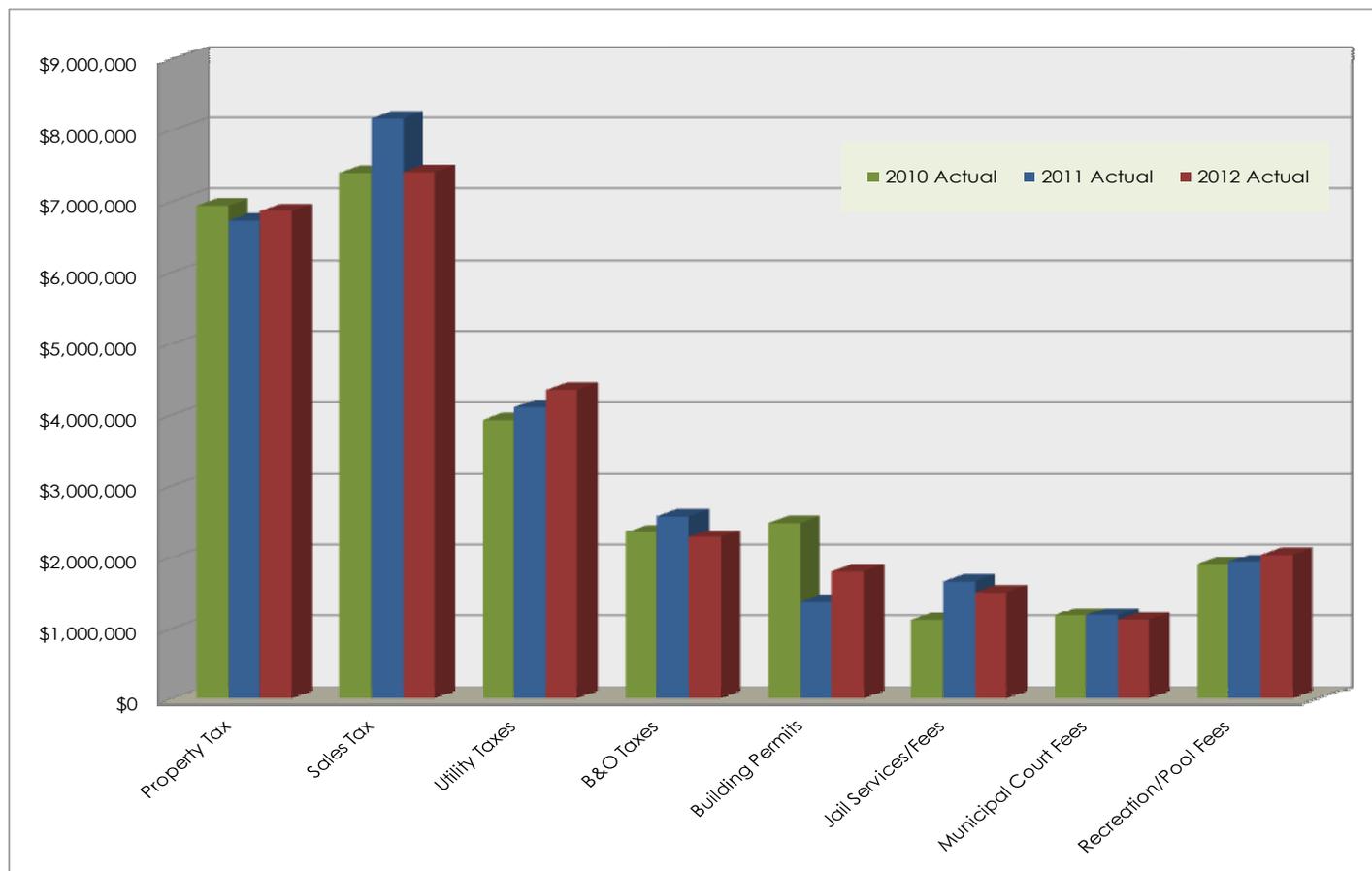
² Expenditure budget was estimated on creation of the Economic Development Department July, 2012.

³ The budget overage includes legal fees associated with defending a claim filed by New Cingular Wireless in addition to a number of projects during 2012 that required consultation with the City Attorney including the Central Issaquah Plan, franchise agreements and contract reviews.

⁴ Expenditures were less than budgeted due primarily to an operating transfer not occurring.

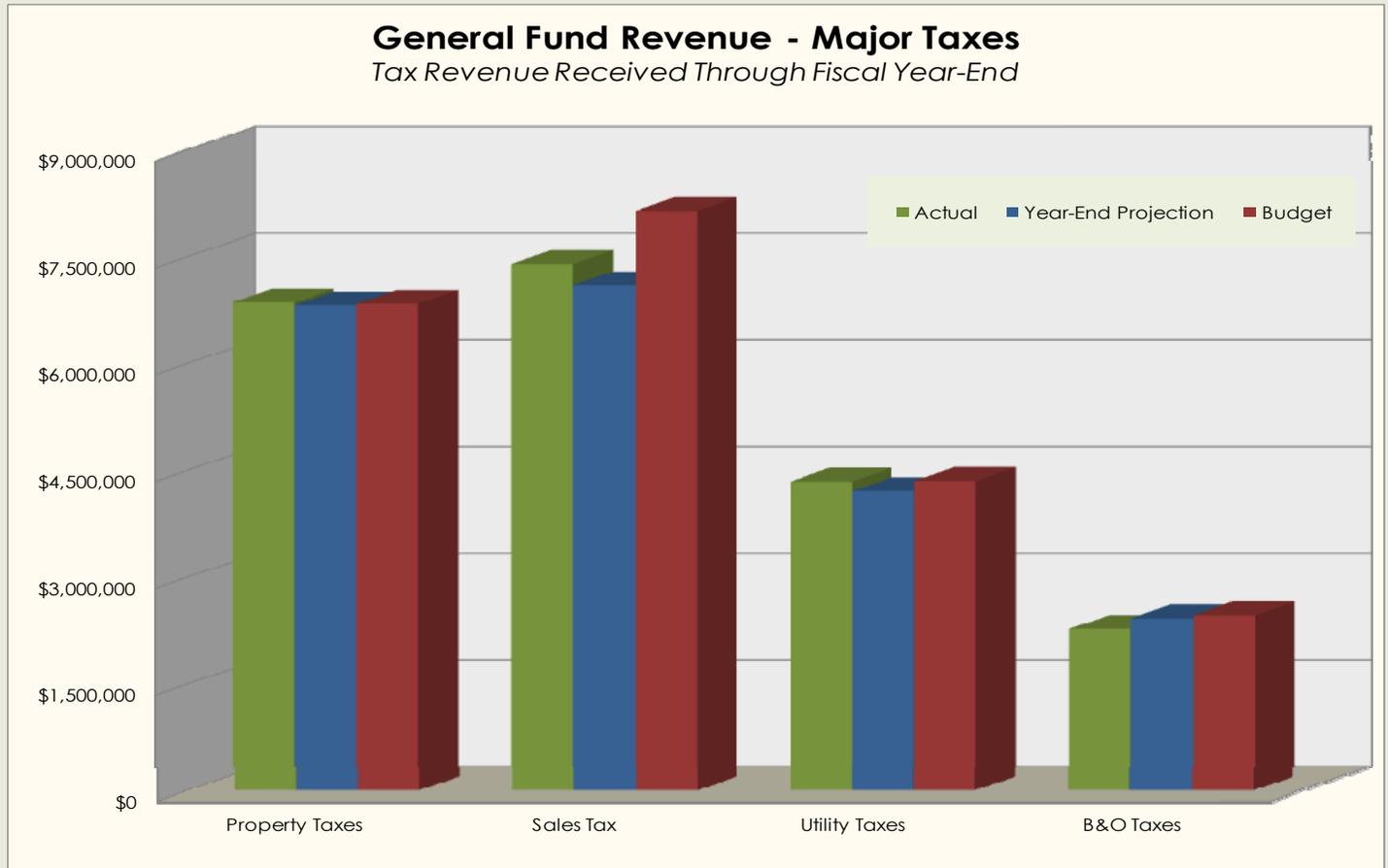
General Fund: Major Revenue Sources

Three-Year Comparison of Actual Revenue Received Through Fiscal Year-End



Major Revenue Sources	2010 Actual	2011 Actual	% Change From 2010	2012 Actual	% Change From 2011
Property Tax	\$ 6,942,152	\$ 6,723,762	-3.1%	\$ 6,865,806	2.1%
Sales Tax	\$ 7,397,875	\$ 8,161,009	10.3%	\$ 7,406,695	-9.2%
Utility Taxes	\$ 3,929,381	\$ 4,101,625	4.4%	\$ 4,351,315	6.1%
B&O Taxes	\$ 2,351,454	\$ 2,569,882	9.3%	\$ 2,281,628	-11.2%
Building Permits	\$ 2,482,083	\$ 1,371,194	-44.8%	\$ 1,797,869	31.1%
Jail Services/Fees	\$ 1,113,339	\$ 1,664,787	49.5%	\$ 1,498,083	-10.0%
Municipal Court Fees	\$ 1,180,929	\$ 1,183,986	0.3%	\$ 1,119,031	-5.5%
Recreation/Pool Fees	\$ 1,900,244	\$ 1,933,525	1.8%	\$ 2,036,235	5.3%

General Fund Revenue: Major Taxes Analysis

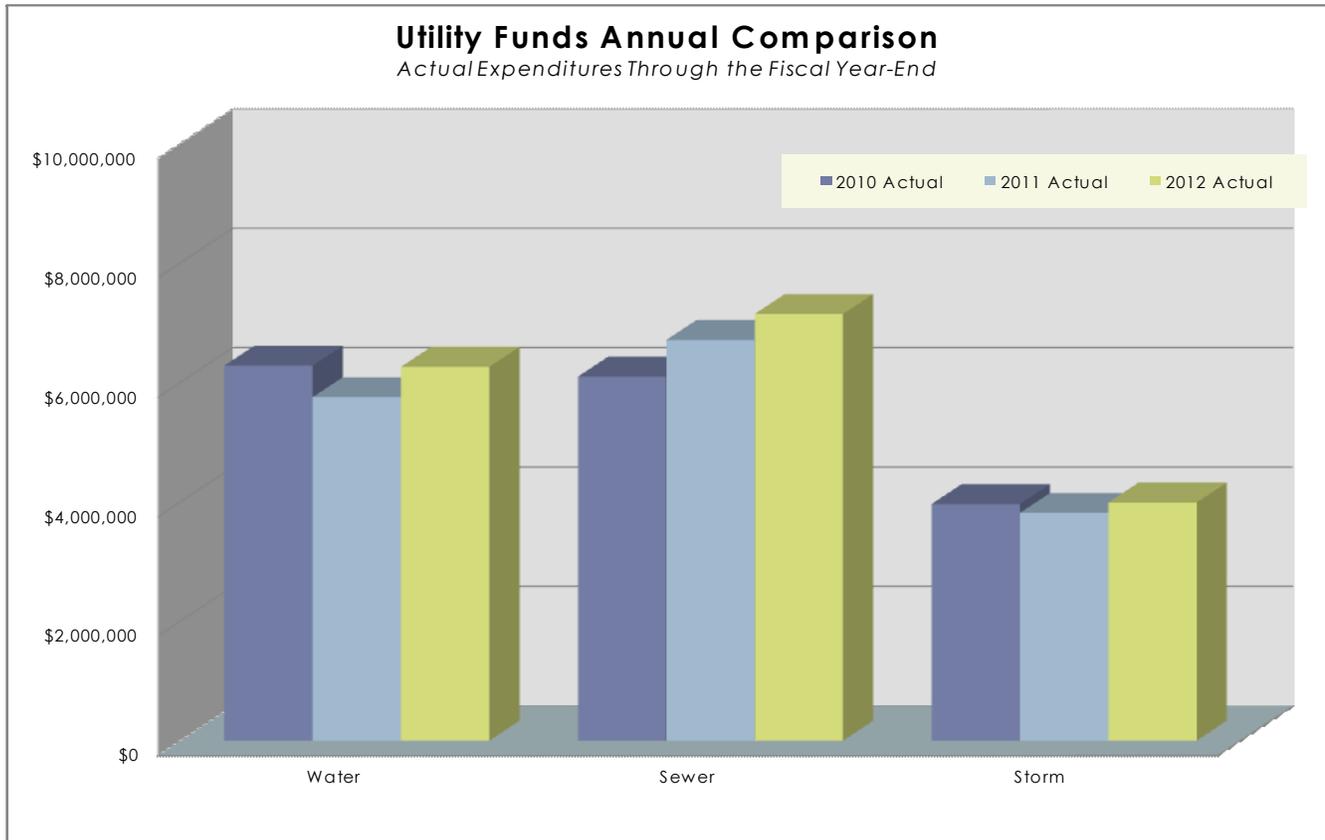


Major Tax Revenue Source	Actual	Year-End Projection	Budget	% Over/Under Budget	\$ Over/Under Budget
Property Taxes	\$ 6,865,806	\$ 6,826,551	\$ 6,847,848	0.3%	\$ 17,958
Sales Tax	\$ 7,406,695	\$ 7,108,494	\$ 8,150,000	-10.0% ¹	\$ (743,305)
Utility Taxes	\$ 4,351,315	\$ 4,217,602	\$ 4,360,000	-0.2%	\$ (8,685)
B&O Taxes	\$ 2,281,628	\$ 2,433,387	\$ 2,475,000	-8.5% ¹	\$ (193,372)
Total Major Tax Revenue	\$ 20,905,444	\$ 20,586,034	\$ 21,832,848	-4.4%	\$ (927,404)

¹ The deficit in sales tax is mainly attributable to major decreases in construction and retail sales related taxes. Lower retail sales tax also negatively affected Business taxes.

Utility Funds Performance: Expenditures

Three-Year Comparison of Actual Expenditures Through Fiscal Year-End



Utility Type	2010 Actual	2011 Actual	% Change from 2010	2012 Actual	% Change from 2011
Water ¹	\$ 6,282,119	\$ 5,754,053	-8.4%	\$ 6,263,076	8.8%
Sewer ²	\$ 6,097,558	\$ 6,711,605	10.1%	\$ 7,147,078	6.5%
Stormwater	\$ 3,963,142	\$ 3,814,554	-3.7%	\$ 3,988,286	4.6%

Utility Funds Actual Expenditures vs. Budget & Year –End Projections

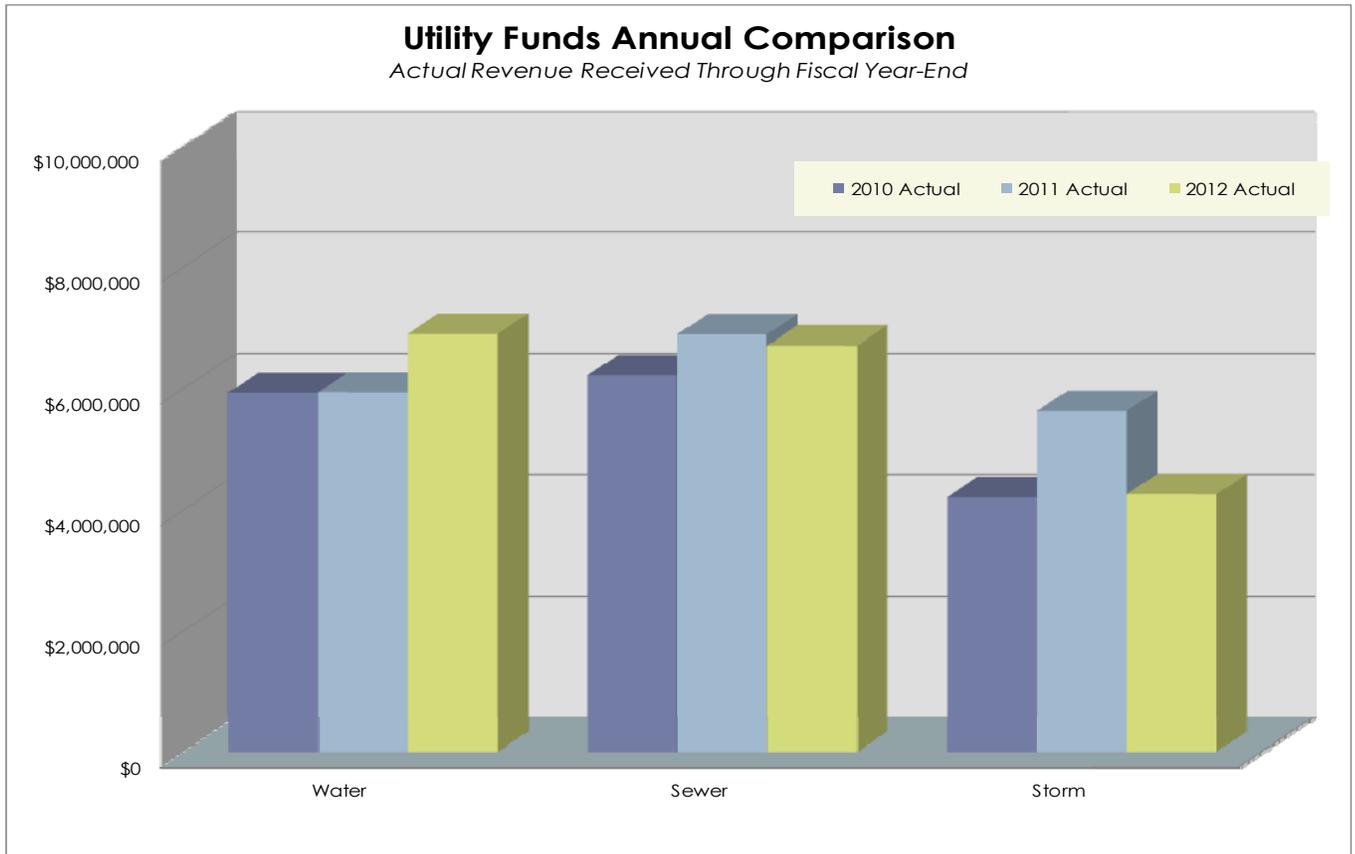
Utility Type	Actual	Year-End Projection	Budget	% Over/Under Budget	\$ Over/Under Budget
Water	\$ 6,263,076	\$ 6,053,826	\$ 6,171,108	-1.9%	\$ (117,282)
Sewer	\$ 7,147,078	\$ 6,885,120	\$ 7,198,505	-4.6%	\$ (313,385)
Stormwater	\$ 3,988,286	\$ 3,966,067	\$ 4,002,860	-0.9%	\$ (36,793)

¹ 9% Rate increase began with February 2012 Utility Bill

² 2011 Includes METRO pass-through increase of 13.2%

Utility Funds Performance: Revenue

Three-Year Comparison of Actual Revenue Received Through Fiscal Year-End



Utility Type	2010 Actual	2011 Actual	% Change from 2010	2012 Actual	% Change from 2011
Water ¹	\$ 5,931,692	\$ 5,938,964	0.1%	\$ 6,898,551	16.2% ³
Sewer ²	\$ 6,224,543	\$ 6,893,402	10.7%	\$ 6,713,425	-2.6%
Stormwater	\$ 4,206,204	\$ 4,127,565	-1.9%	\$ 4,257,350	3.1%

¹ 9% Rate increase began with February 2012 Utility Bill

² 2011 and 2012 include METRO pass-through increase of 13.2%

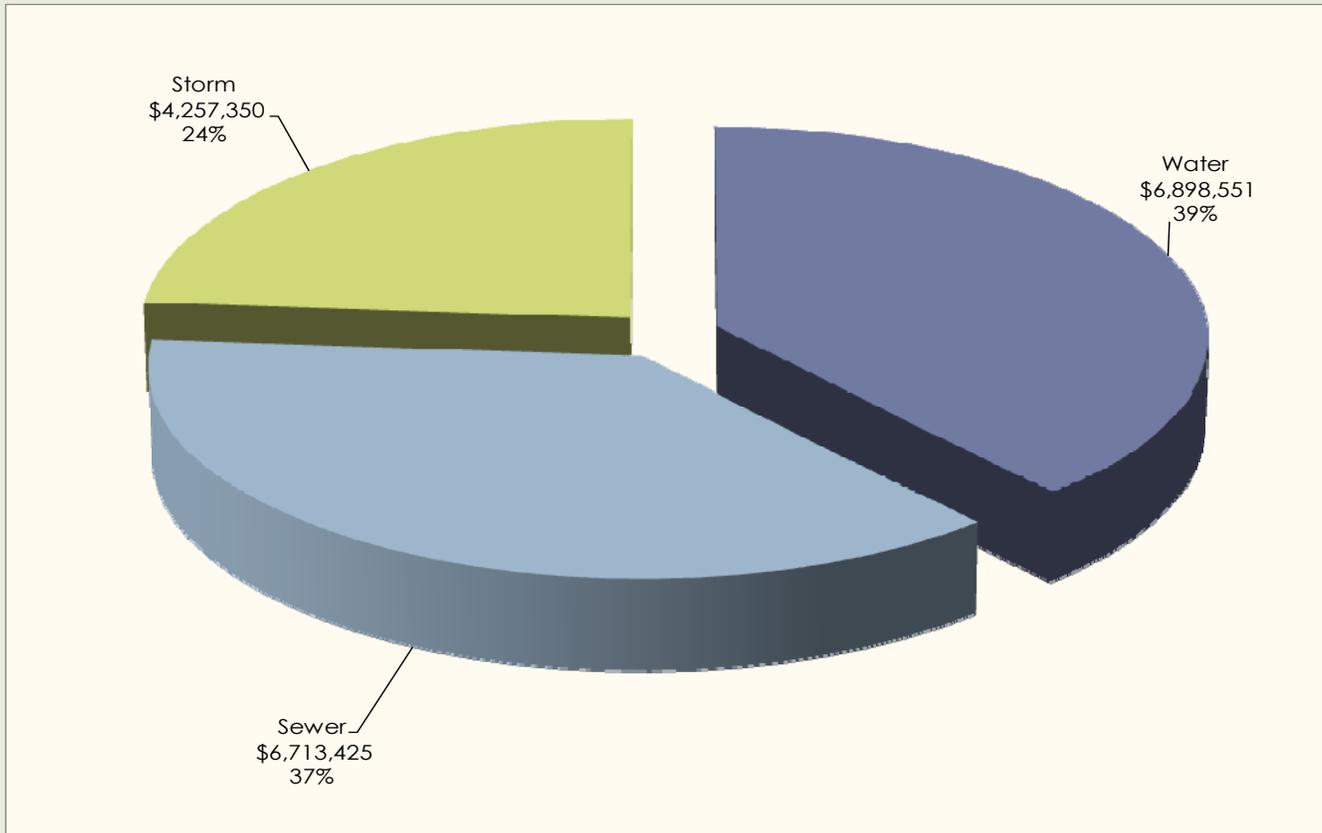
³ 2012 Water revenue was affected by a historical, record dry weather streak.

Utility Funds Actual Revenue Received vs. Budget & Year-end Projections

Utility Type	Actual	Year-End Projection	Budget	% Over/Under Budget	\$ Over/Under Budget
Water	\$ 6,898,551	\$ 6,230,000	\$ 6,282,275	8.9%	\$ 616,276
Sewer	\$ 6,713,425	\$ 7,000,000	\$ 7,171,689	-6.8% ¹	\$ (458,264)
Stormwater	\$ 4,257,350	\$ 4,266,938	\$ 4,194,300	1.5%	\$ 63,050

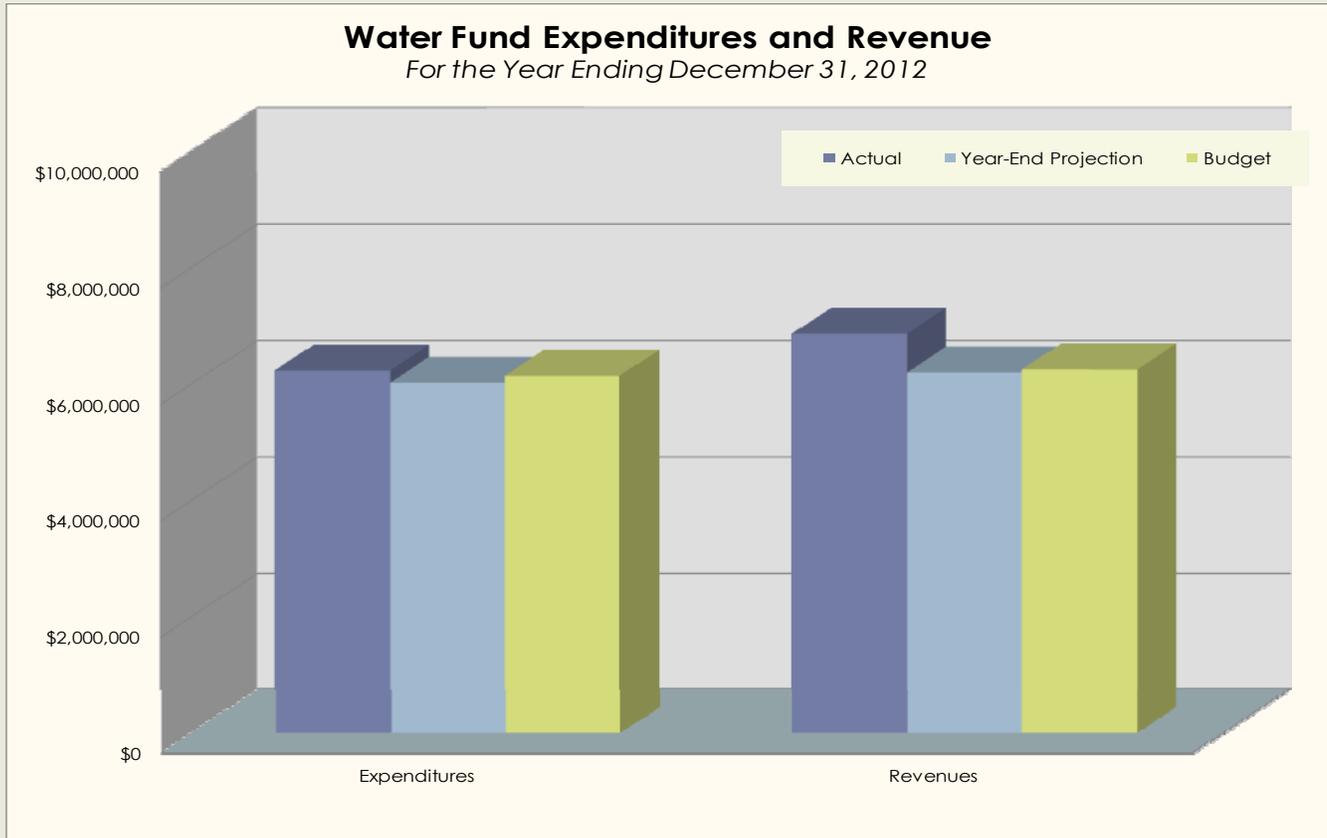
¹ Revenue related to METRO was under budget estimates.

Actual Revenue Received Fiscal Year-End: Distribution by Utility



Individual Utility Funds Performance

Individual Utility Fund Performance: Expenditures vs. Revenue

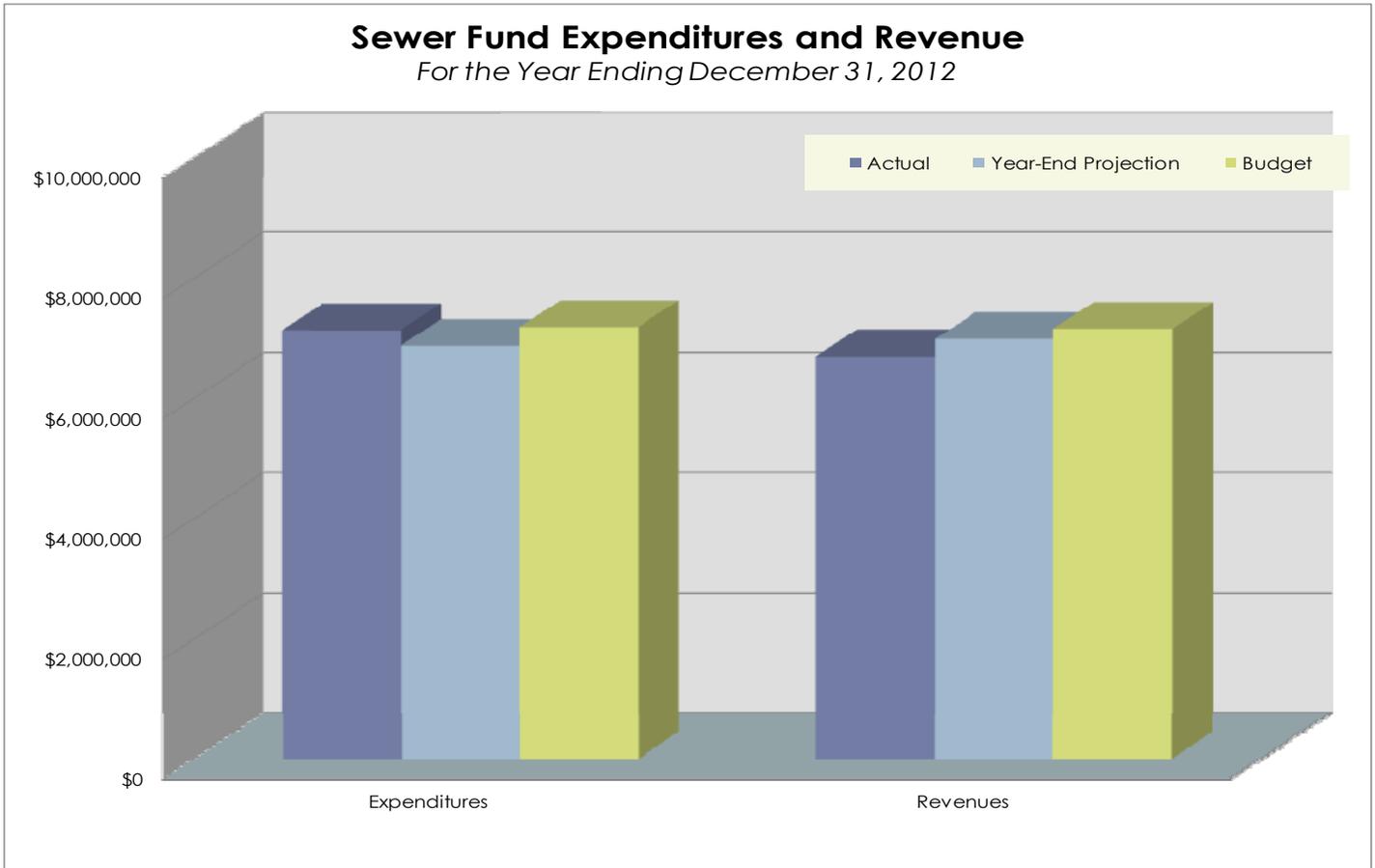


Water Fund	Actual	Year-End Projection	Budget	% Over/Under Budget	\$ Over/Under Budget
Expenditures	\$ 6,263,076	\$ 6,053,826	\$ 6,171,108	1.5%	\$ 91,968
Revenue	\$ 6,898,551	\$ 6,230,000	\$ 6,282,275	8.9%	\$ 616,276

The Water Utility Fund revenue exceeded 2012 Budgeted amounts due to a historical, record dry weather streak.

Sewer Fund Expenditures and Revenue

For the Year Ending December 31, 2012



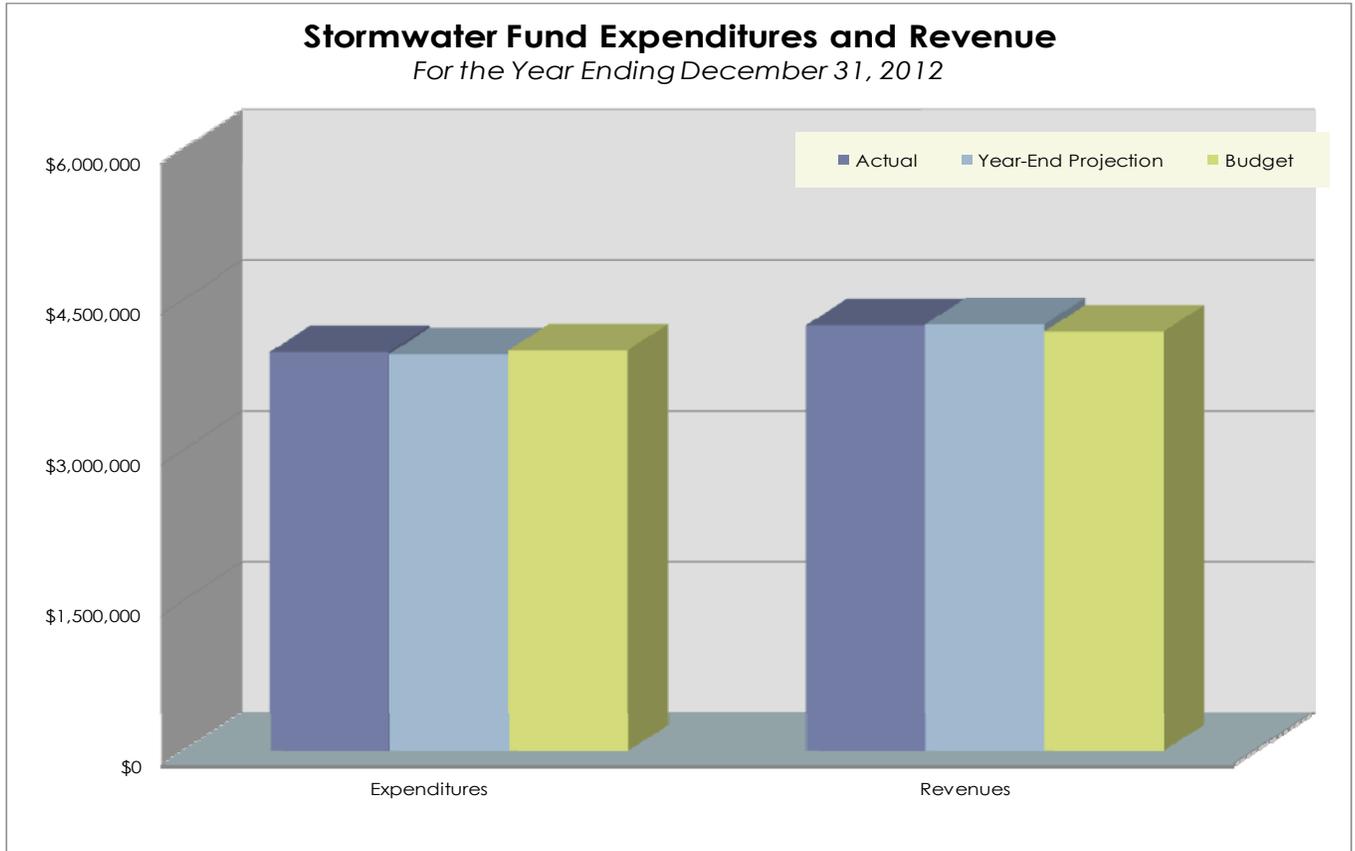
Sewer Fund	Actual	Year-End Projection	Budget	% Over/Under Budget	\$ Over/Under Budget
Expenditures	\$ 7,147,078	\$ 6,885,120	\$ 7,198,505	-0.7%	\$ (51,427)
Revenue	\$ 6,713,425	\$ 7,000,000	\$ 7,171,689	-6.8%	\$ (458,264)

The majority of Sewer Fund revenues and expenses are directly related to a King County METRO Sewer pass-through

KC Metro Sewer	2010 Actual	2011 Actual	% Change from 2010	2012 Actual	% Change from 2011
Expenses	\$ 4,303,555	\$ 4,869,814	13.2%	\$ 5,144,713	5.6%
% of Total Expenses	70.6%	72.6%		72.0%	
Revenue	\$ 4,330,911	\$ 4,934,646	13.9%	\$ 4,781,111	-3.1%
% of Total Revenue	69.6%	71.6%		71.2%	
Sewer Fund Revenue	2010 Actual	2011 Actual	% Change from 2010	2012 Actual	% Change from 2011
METRO	\$ 4,330,911	\$ 4,934,646	13.9%	\$ 4,781,111	-3.1%
City Sewer	\$ 1,886,462	\$ 1,900,505	0.7%	\$ 1,910,337	0.5%

2011 and 2012 Include METRO pass-through increase of 13.2%

Individual Utility Fund Performance: Expenditures vs. Revenue (cont.)



Stormwater Fund	Actual	Year-End Projection	Budget	% Over/Under Budget	\$ Over/Under Budget
Expenditures	\$ 3,988,286	\$ 3,966,067	\$ 4,002,860	-0.4%	\$ (14,574)
Revenue	\$ 4,257,350	\$ 4,266,938	\$ 4,194,300	1.5%	\$ 63,050

Economic Environment Update

Economic Outlook

United States

U.S. economic activity continues to see slow growth, stagnant employment and weak consumer confidence. Despite the relatively small changes in the economic forecast, the level of downside uncertainty in the baseline remains high.

Major threats to the U.S. and Washington economies remain the sovereign debt crisis in Europe, slowing Asian economies (especially China), and the uncertainty surrounding U.S. tax and budget policy, including the sequester.

Europe is experiencing weak economic activity and high unemployment rates. Weakness in Eurozone economies means reduced demand for U.S. exports as well as continued difficulties in addressing their sovereign debt crisis. If the debt crisis leads to a European banking crisis, this would negatively affect the U.S. financial sector and the broader U.S. economy as well.

The weakness in both Europe and the U.S. has contributed to a slowdown in Asia as well. Recent data suggest slower growth in China. If this is not managed properly and the Chinese economy experiences a hard landing, it could create another global recession.

The "fiscal cliff" was

largely avoided or postponed by legislation passed in January, 2013. However, there was significant fiscal tightening as the payroll tax cut expired and some personal income taxes were raised.

Washington State and Local

While the Washington economy continues to grow at a moderate pace, the "fiscal cliff" deal is expected to have an impact on Washington personal income that is similar to its impact on U.S. personal income. The higher taxes beginning in January will lower Washington disposable personal income in 2013 by an estimated \$3.469 billion.

Export growth weakened but remained positive in 2012. Total Washington exports rose 16.6 percent from the fourth quarter of 2011 to the fourth quarter of 2012. The continued strong growth in exports was mostly due to acceleration in exports

of transportation equipment (mostly aircraft). Outside of transportation equipment, exports struggled to maintain positive growth, slowing from 24.6 percent in 2011 to just 1.7 percent in 2012.

The federal Bureau of Labor Statistics (BLS) estimates from December 2011 to December 2012 show

	<u>Dec. 2012</u>	<u>Dec. 2011</u>
United States		
Unemployment Rate	7.8%	8.5%
Washington		
Unemployment Rate	7.6%	8.6%
Resident Labor Force	3,463,300	3,492,400
Unemployed	262,500	300,000
Seattle/Bellevue/Everett		
Unemployment Rate	6.5%	7.7%
Resident Labor Force	1,494,500	1,501,900
Unemployed	97,500	115,800

Source: Washington State Employment Security Department, Monthly Labor Report, December 2012.

(Continued on page 16)

(Continued from page 15)

a total not seasonally adjusted job gain of 42,100 for the state. Over the year the private sector added 42,600 jobs while the public sector lost an estimated 500 jobs.

Housing construction continues to strengthen. Most of the housing recovery to date has been in the multi-family segment, which has mostly recovered from historic lows. However, the Economic and Revenue Forecast Council predicts the housing recovery will be increasingly led by single-family construction spurred by record affordability.

This prediction is born out in Issaquah by the three-year comparison table below of Issaquah annual permit statistics provided by the Development Services Department:

Permit Type	2010	2011	2012
Single Family:			
New	83	124	216
Alterations	82	86	57
Multi-family:			
New	26	5	5
Alterations	78	33	29
Commercial:			
New	11	8	9
Alterations	114	119	103

According to the S&P/Case-Shiller Home Price Indices, seasonally adjusted Seattle area home prices have risen in eight of the last nine months and, as of November, are now 7.5 percent higher than the previous November.

Prior to the recent upturn, Seattle home prices had not registered a year-over-year gain since December 2007. Even with the recent gains, Seattle area home prices are 25.6% lower than their 2007 peak.

(Source: State of Washington Economic & Revenue Forecast Council, March 2013 Report)

Consumer Price Index

As of December 2012, the all items Seattle CPI was up just 1.4 percent over the previous December, down from 2.4 percent inflation in October.

Seattle core inflation in December 2012 was 1.6 percent, down from 3.0 percent just six months earlier. The main reason for the reduction in inflation was shelter costs.

On an annual average basis, Seattle inflation slowed to 2.5 percent in 2012 from 2.7 percent in 2011.

The Seattle index is calculated bi-monthly.

(Source: U.S. Bureau of Labor Statistics)

Consumer Confidence

After three straight months of increases and a four-year high of 73.1 reached in October, the Conference Board index of consumer confidence decreased by 6.4 points, from 71.5 in November to 65.1 in December. The decrease was driven by a large drop in views regarding the economic outlook over the next six months, as consumers worried about higher taxes and the impact of the fiscal cliff.

The drop in consumer confidence is also the largest since the nation's credit rating was lowered in August of last year.

An index of 90 indicates a stable economy and one at or above 100 indicates growth.

(Source: The Conference Board Research Center, December, 2012)

Number of Active Issaquah Business Licenses	
2010	4,646
2011	4,331
2012	4,715

Source: City of Issaquah Finance Department