2011 Second Quarter Financial Report

AT A GLANCE:

- **2011 Sales Tax revenue continues positive trend**
- **General Fund revenue ahead of the same period in 2010 by 8.2%**
- **Water consumption continues downward trend despite increased number of customers**

INSIDE:

Introduction

The Quarterly 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 quarter.

Zephyr Art Piece

Revenue and expenditure comparisons are also made to the same period in prior years.

Relevant statistical summaries are provided if deemed pertinent.

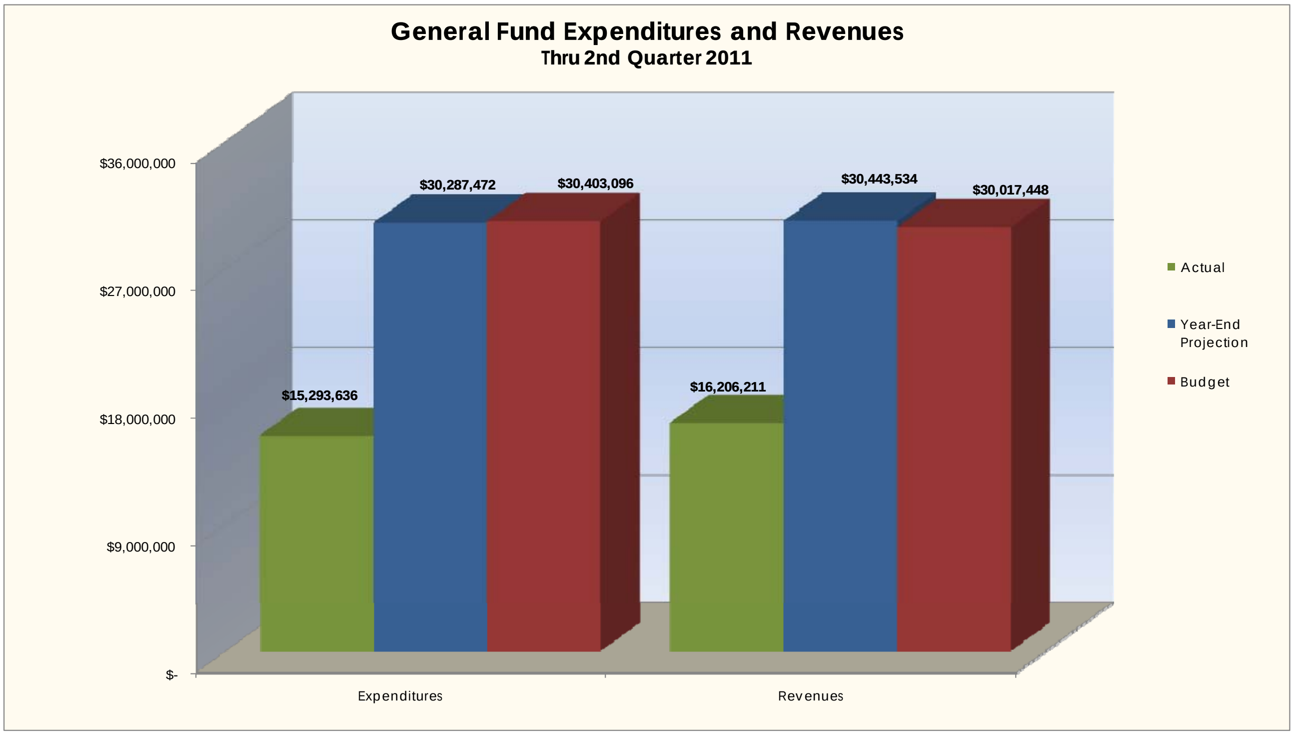
In addition, an update on the current national and local economic outlook is provided.

Performance at a Glance

	Year-to-Date Trend	Compared to Projections
General Fund Expenditure vs. Budget	Neutral	-0.4%
General Fund Revenues vs. Estimate	Positive	1.4%
Tax Performance	Warning	-2.9%
Utility Funds Expenditures vs. Budget	Positive	-2.1%
Utility Funds Revenues vs. Estimate	Warning	-1.5%

Prepared July 22, 2011

General Fund Performance



Year-to-Date Expenditures and Revenues: Budget to Actual

General Fund	2nd Quarter 2011 Actual	2011 Year End Estimate	2011 Total Budget	Estimated % of 2011 Budget Used
Total Expenditures	$ 15,293,636	$ 30,287,472	$ 30,403,096	*99.6%*
Total Revenues	$ 16,206,211	$ 30,443,534	$ 30,017,448	*101.4%*

Year-End Estimates

Revenue

Through June, 2011 year-end revenues are estimated at $30,443,534. This estimate includes $0 of funds from the Guaranty Fund transfer (down from the original budget transfer of $700,000).

The estimate is at 1.4% ($426,086) greater than the original budgeted revenue amount of $30,017,448.

Expenditures

Expenditures are estimated at $30,287,472. This is 0.4% ($11,624) less than the original 2011 expenditure budget of $30,403,096. This positive differential of $115,624 was used to lower the estimated transfer-in from the LID Guaranty Fund.

The goal was to use positive differentials to reduce the need to utilize LID Guaranty Fund reserves ($700,000 in original Budget) and General Fund cash reserves ($385,648 in original Budget).

This total target of $1,085,648 has been surpassed and fund reserves are building up based on the June year-end estimate ($7,449,839). The City started the year with $7,293,777 in cash reserves.

"Year-end Revenues estimated to be $426,086 greater than budgeted revenues for 2011"

June Highlights

June monthly revenues were $272,828 above the forecasted June numbers due mainly to increases in:

- Sales tax revenue of $227,297
- Jail fees of $39,514
- Municipal Court fees of $30,330

June monthly expenditures were $60,878 below the forecasted amount.

Cost Containment in Action

With the continued uncertainty of the economic recovery, the City's cost containment measures begun in 2009 are continuing into 2011.

Containment efforts include holding some vacant positions open, reducing discretionary spending, and deferring expenses.

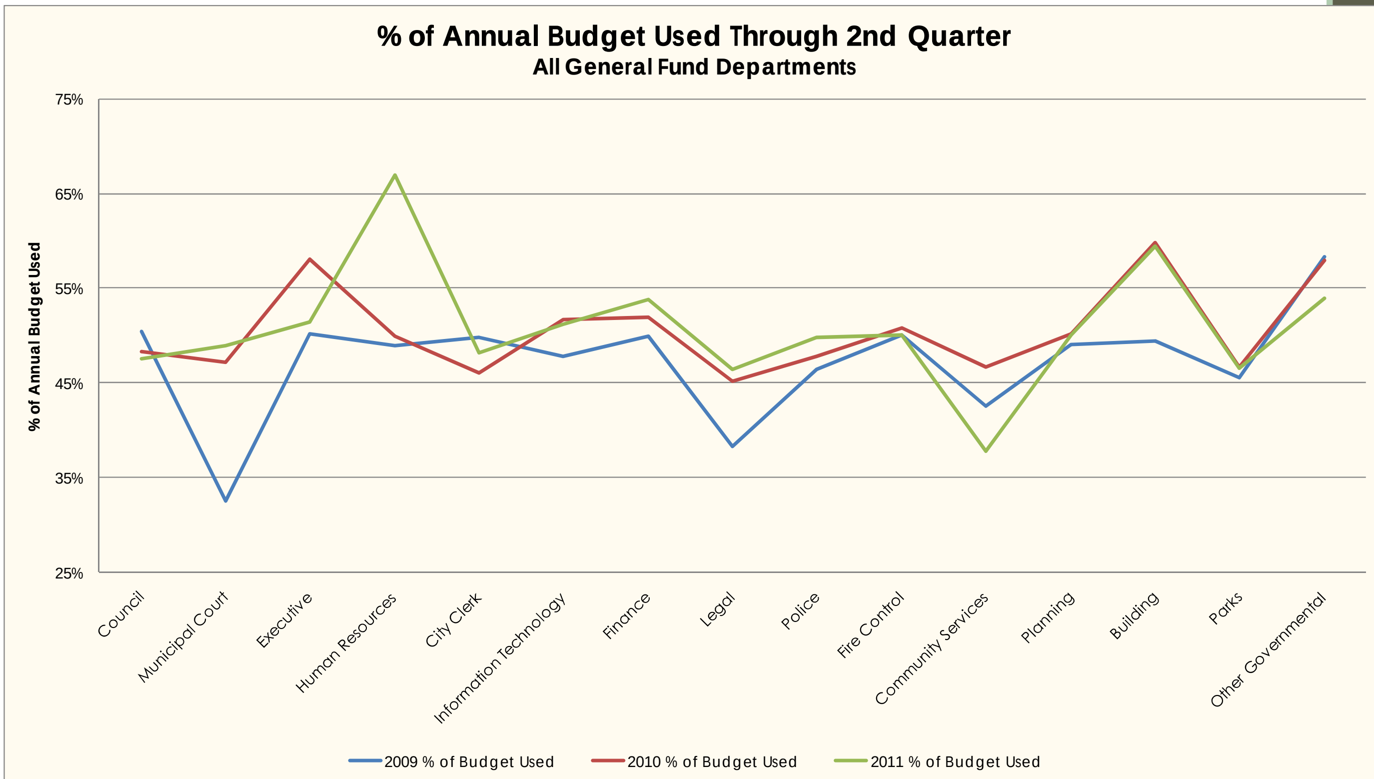
As a result, General Fund expenses are expected to be in line with projected resources.

General Fund Departments: Annual Comparisons

General Fund Departments - Actual Expenditures

Through 2nd Quarter 2011

Department Name	2009 Actual	2010 Actual	% Change From 2009	2011 Actual	% Change From 2010
Council	$ 41,240	$ 37,538	-9.0%	$ 36,186	-3.6%
Municipal Court	243,917	264,745	8.5%	287,108	8.4%
Executive	486,798	498,663	2.4%	419,461	-15.9%
Human Resources	359,642	296,512	-17.6%	396,081	33.6%
City Clerk	199,089	146,488	-26.4%	149,497	2.1%
Information Technology	466,916	479,906	2.8%	482,848	0.6%
Finance	481,955	440,650	-8.6%	463,649	5.2%
Legal	190,328	207,203	8.9%	204,044	-1.5%
Police	3,550,508	3,570,171	0.6%	3,795,995	6.3%
Fire Control	2,269,037	2,284,136	0.7%	2,305,920	1.0%
Community Services	186,741	193,611	3.7%	168,036	-13.2%
Planning	971,259	774,547	-20.3%	771,502	-0.4%
Building	841,145	798,858	-5.0%	863,488	8.1%
Parks	3,331,531	3,139,808	-5.8%	3,168,569	0.9%
Other Governmental	1,928,072	1,836,607	-4.7%	1,781,252	-3.0%
Total GF Departments	**$ 15,548,177**	**$ 14,969,442**	-3.7%	**$ 15,293,636**	2.2%



Department Name	2009 % of Total Budget Used	2010 % of Total Budget Used	2011 % of Total Budget Used
Council	50.4%	48.3%	47.6%
Municipal Court	32.5%	47.2%	48.9%
Executive	50.2%	58.1%	51.5%
Human Resources	49.0%	49.9%	67.0%
City Clerk	49.8%	46.0%	48.2%
Information Technology	47.8%	51.7%	51.2%
Finance	49.9%	51.9%	53.7%
Legal	38.3%	45.1%	46.5%
Police	46.4%	47.8%	49.8%
Fire Control	50.0%	50.8%	50.0%
Community Services	42.5%	46.6%	37.8%
Planning	49.1%	50.2%	50.0%
Building	49.4%	59.8%	59.5%
Parks	45.6%	46.7%	46.6%
Other Governmental	58.3%	57.9%	53.9%

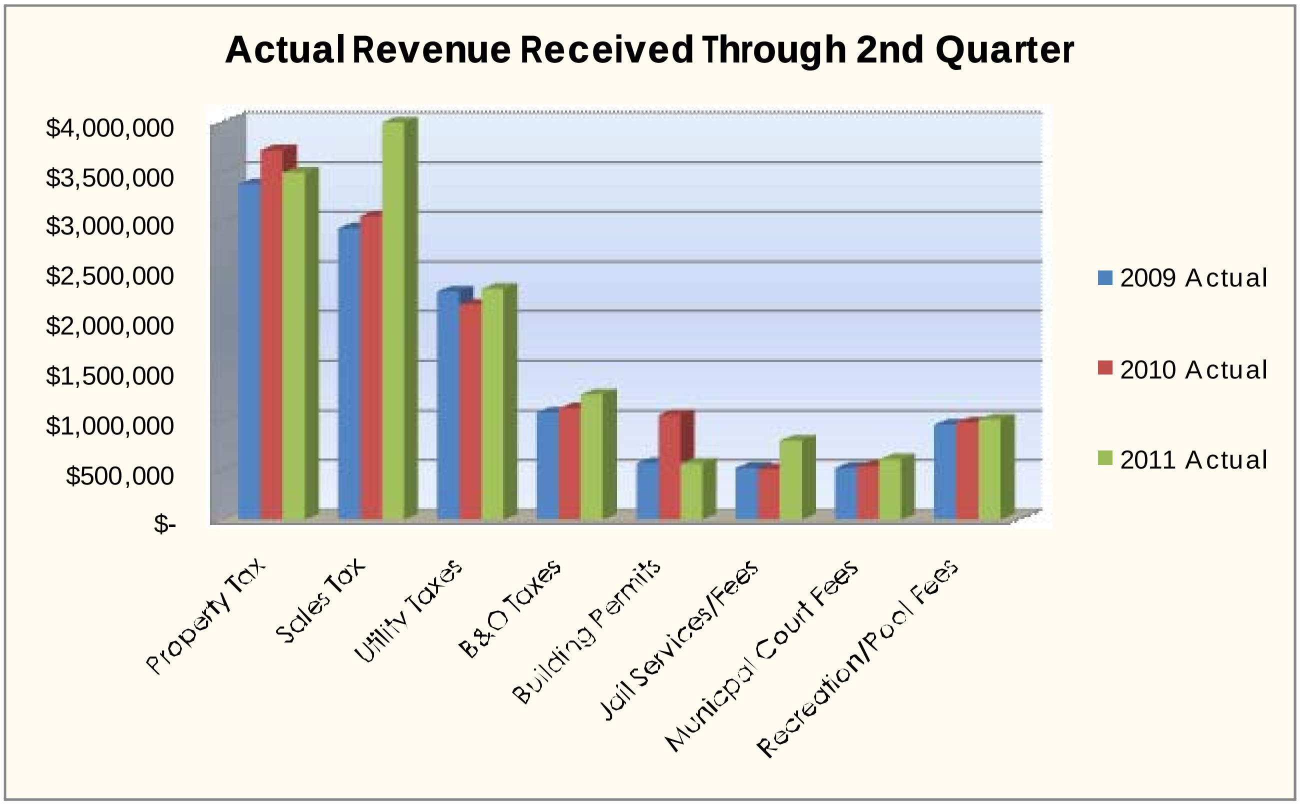
General Fund Departments: Performance

2011 Actual Expenditures vs. Budget & Year —end Projections

Department Name	2011 Actual	2011 Year-End Estimate	2011 Budget	Estimated % Variance from 2011 Budget	Estimated $ Variance from 2011 Budget
Council	$ 36,186	$ 71,793	$ 76,068	-5.6%	$ (4,275)
Municipal Court	$ 287,108	$ 582,926	$ 587,619	-0.8%	$ (4,693)
Executive	$ 419,461	$ 900,943	$ 814,750	10.6%	$ 86,193
Human Resources	$ 396,081	$ 638,450	$ 591,426	8.0%	$ 47,024
City Clerk	$ 149,497	$ 308,063	$ 310,236	-0.7%	$ (2,173)
Information Technology	$ 482,848	$ 926,598	$ 942,922	-1.7%	$ (16,324)
Finance	$ 463,649	$ 859,607	$ 862,748	-0.4%	$ (3,141)
Legal	$ 204,044	$ 422,777	$ 439,000	-3.7%	$ (16,223)
Police	$ 3,795,995	$ 7,512,092	$ 7,626,588	-1.5%	$ (114,496)
Fire Control	$ 2,305,920	$ 4,609,986	$ 4,609,986	0.0%	$ -
Community Services	$ 168,036	$ 424,817	$ 444,171	-4.4%	$ (19,354)
Planning	$ 771,502	$ 1,512,052	$ 1,541,581	-1.9%	$ (29,529)
Building	$ 863,488	$ 1,680,014	$ 1,451,419	15.7%	$ 228,595
Parks	$ 3,168,569	$ 6,575,685	$ 6,801,058	-3.3%	$ (225,373)
Other Governmental	$ 1,781,252	$ 3,261,669	$ 3,303,524	-1.3%	$ (41,855)
Total GF Departments	**$ 15,293,636**	**$ 30,287,472**	**$ 30,403,096**	-0.4%	$ (115,624)

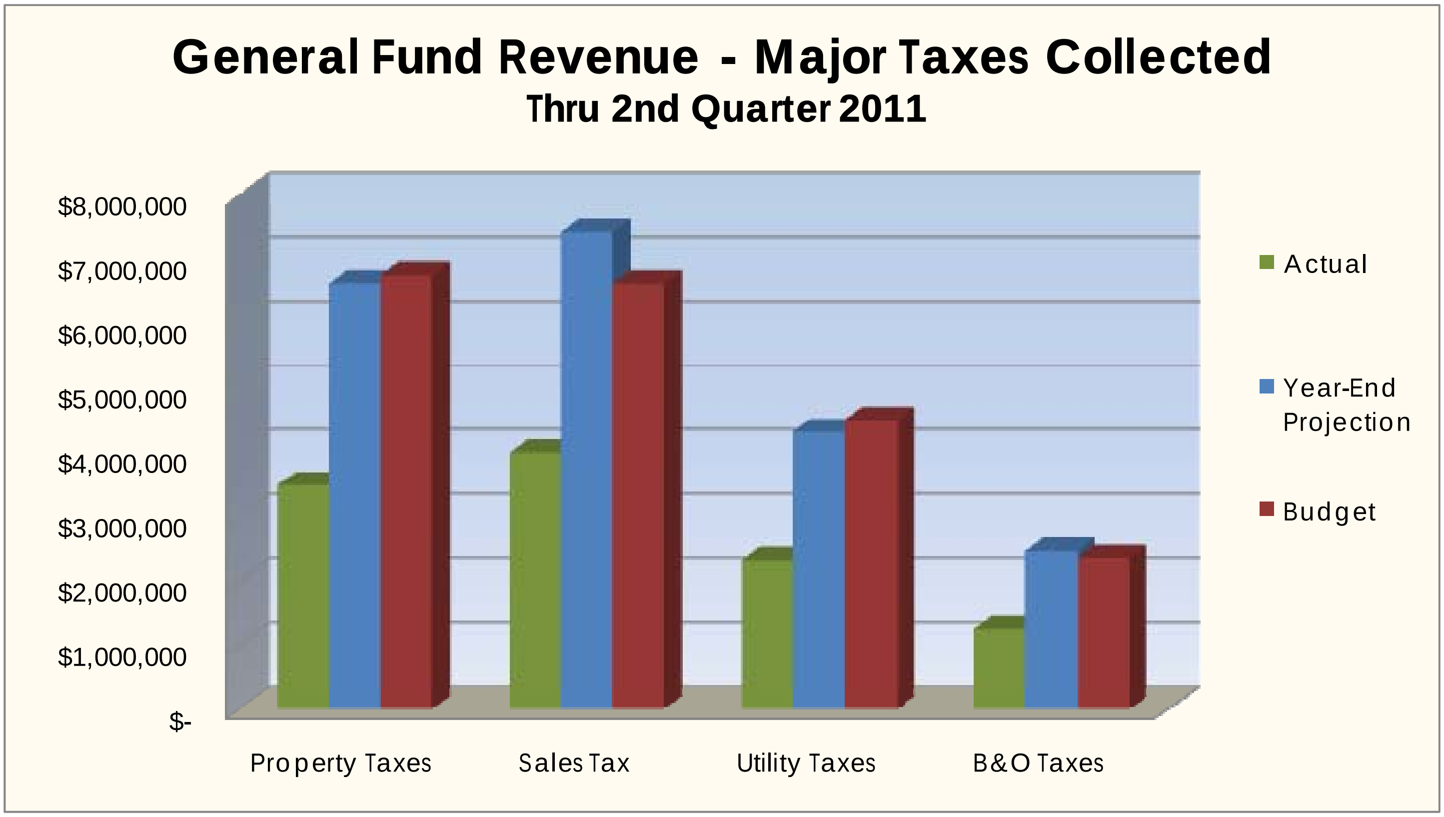
General Fund: Major Revenue Sources

3-Year Comparison of Actual Revenue Received Through Second Quarter



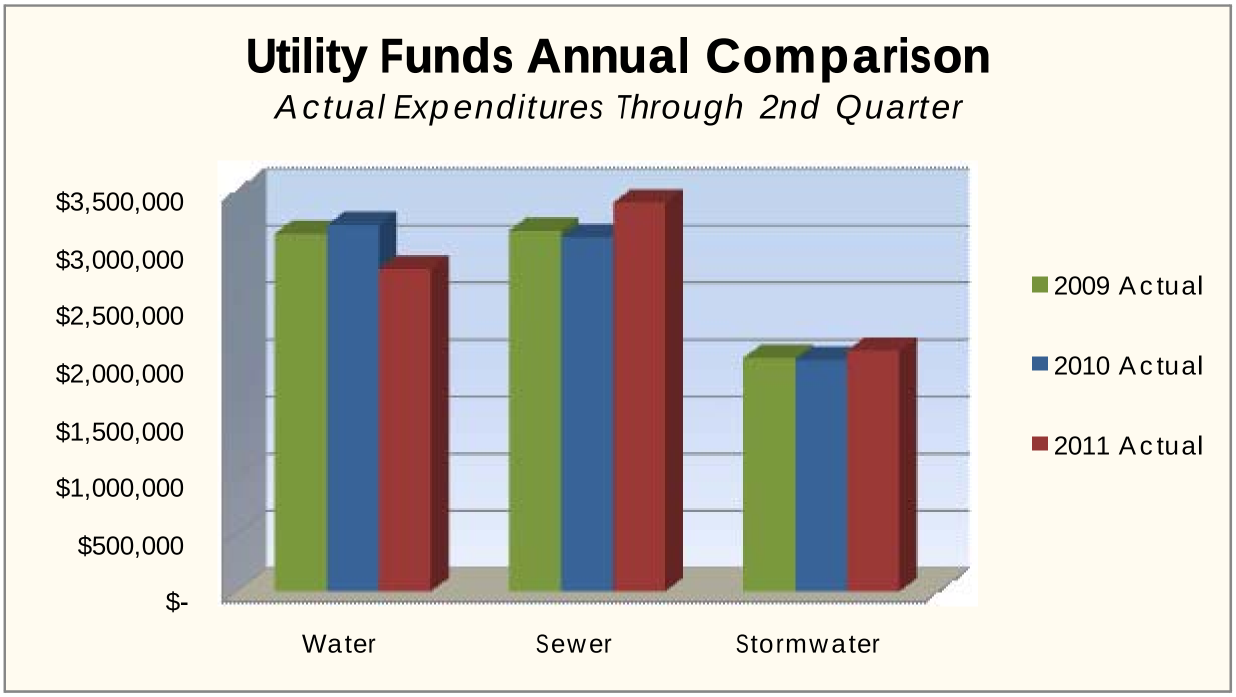
Major Revenue Sources	2009 Actual	2010 Actual	2011 Actual	2011 Total Budget	% of 2011 Budget
Property Tax	$3,378,844	$3,720,084	$3,496,768	$6,762,848	*51.7%*
Sales Tax	$2,932,449	$3,053,260	$3,998,366	$6,630,000	*60.3%*
Utility Taxes	$2,296,371	$2,164,552	$2,323,078	$4,515,000	*51.5%*
B&O Taxes	$1,081,273	$1,123,714	$1,258,018	$2,360,000	*53.3%*
Building Permits	$ 567,208	$1,055,368	$ 562,019	$ 990,000	*56.8%*
Jail Services/Fees	$ 519,773	$ 506,385	$ 794,033	$1,151,500	*69.0%*
Municipal Court Fees	$ 520,125	$ 534,434	$ 606,595	$1,120,000	*54.2%*
Recreation/Pool Fees	$ 957,736	$ 980,113	$1,009,925	$1,883,500	*53.6%*

General Fund Revenue: Major Taxes Analysis



Major Tax Source	Actual	2011 Year-End Estimate	Budget	Estimated % Variance from 2011 Budget	Estimated $ Variance from 2011 Budget
Property Taxes	$ 3,496,768	$ 6,631,768	$ 6,762,848	*-1.94%*	$ (131,080)
Sales Tax	$ 3,998,366	$ 7,438,047	$ 6,630,000	*12.19%*	$ 808,047
Utility Taxes	$ 2,323,078	$ 4,325,006	$ 4,515,000	*-4.21%*	$ (189,994)
B&O Taxes	$ 1,258,018	$ 2,462,505	$ 2,360,000	*4.34%*	$ 102,505

Utility Funds Performance: Expenditures



Utility Type	2009 Actual	2010 Actual	% Change from 2009	2011 Actual	% Change from 2010
Water	$ 3,133,284	$ 3,208,428	2.4%	$ 2,822,810	-12.0%
Sewer	$ 3,159,614	$ 3,102,835	-1.8%	$ 3,402,586 [1]	9.7%
Stormwater	$ 2,044,449	$ 2,029,262	-0.7%	$ 2,109,779	4.0%

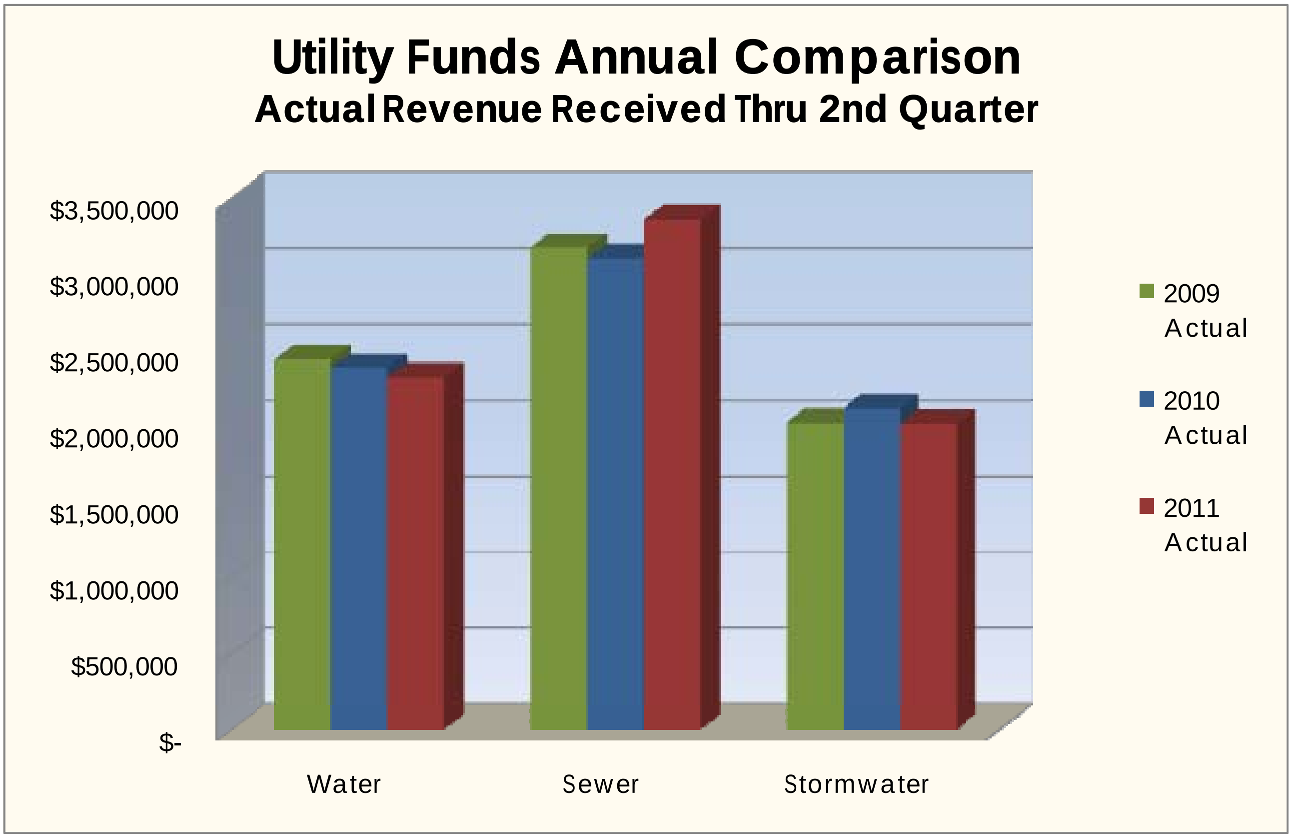
Utility Funds Actual Expenditures vs. Budget & Year –end Projections

Utility Type	2nd Qtr 2011 Actual	2011 Year-End Estimate	Budget	Estimated % Variance from 2011 Budget	Estimated $ Variance from 2011 Budget
Water	$ 2,822,810	$ 5,918,870	$ 6,135,964	-3.54%	$ (217,094)
Sewer [1]	$ 3,402,586	$ 6,825,287	$ 6,921,314	-1.39%	$ (96,027)
Stormwater	$ 2,109,779	$ 4,132,261	$ 4,187,888	-1.33%	$ (55,627)

[1] *Includes METRO pass-through increase of 13.2%*

Utility Funds Performance: Revenues

3-Year Comparison of Actual Revenue Received Through Second Quarter

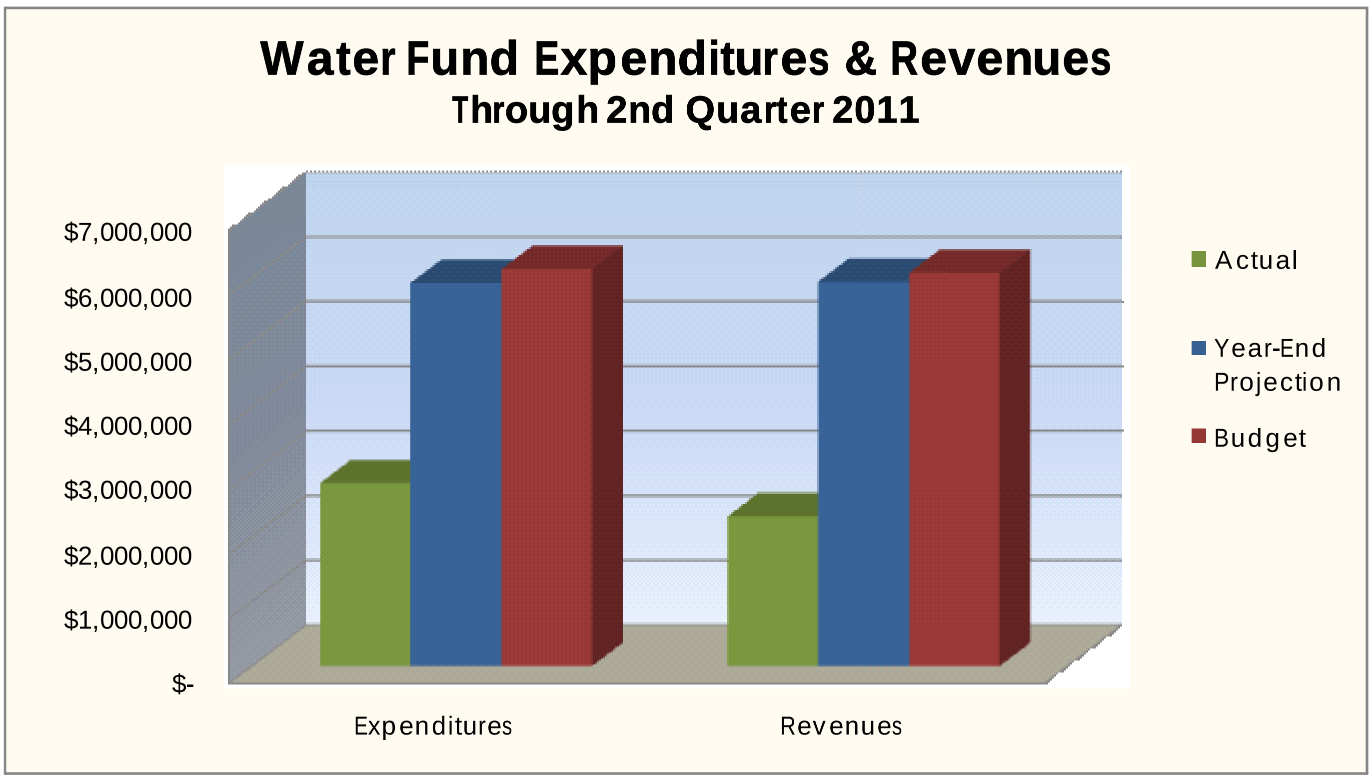


Utility Type	2009 Actual	2010 Actual	% Change from 2009	2011 Actual	% Change from 2010
Water	$ 2,441,637	$ 2,382,534	-2.4%	$ 2,315,226	-2.8%
Sewer	$ 3,172,652	$ 3,101,036	-2.3%	$ 3,363,550	8.5%
Stormwater	$ 2,023,511	$ 2,117,176	4.6%	$ 2,015,796	-4.8%

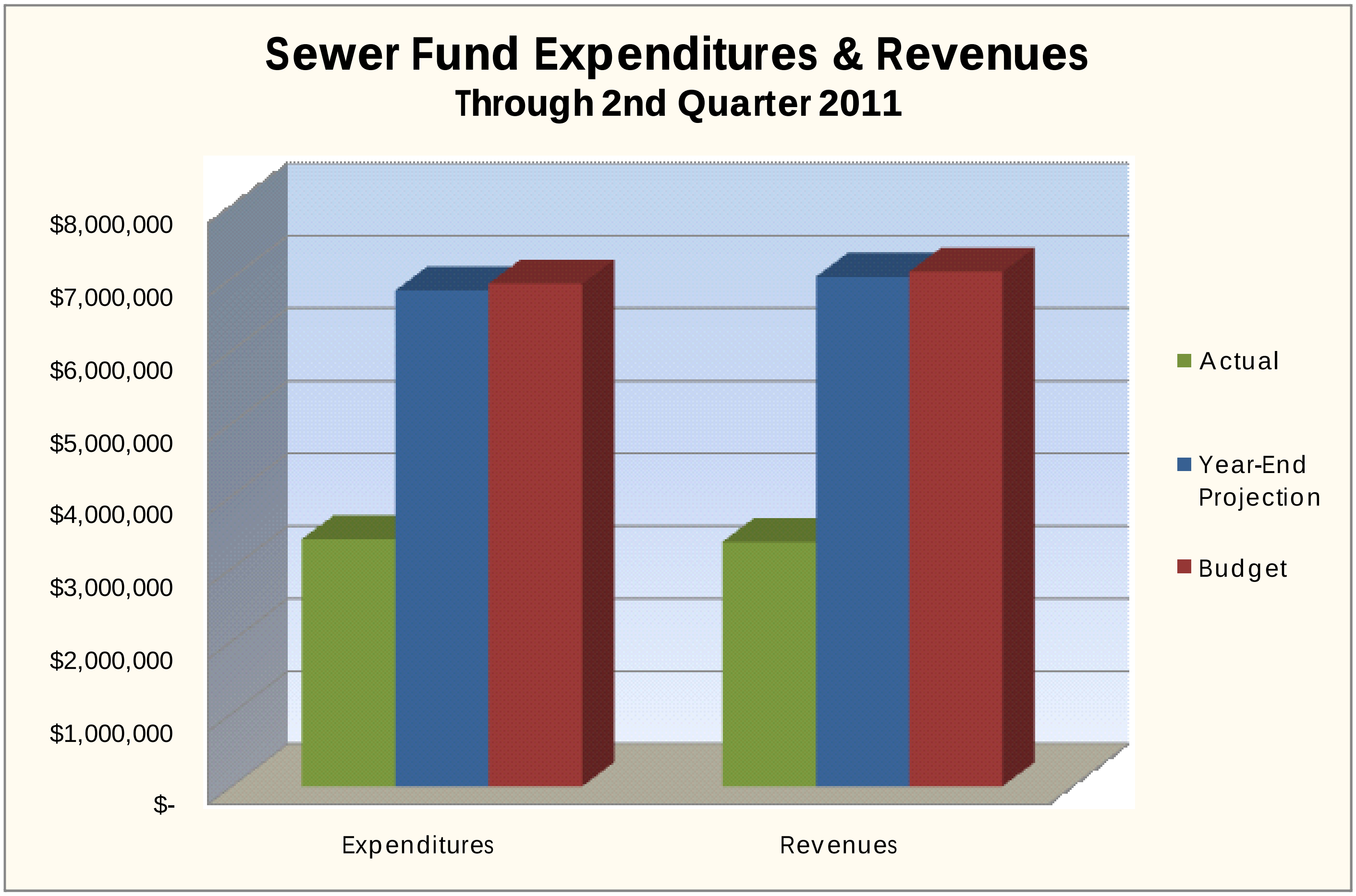
Utility Funds Actual Revenue Received vs. Budget & Year-end Projections

Utility Type	2nd Quarter 2011 Actual	2011 Year-End Estimate	2011 Budget	Estimated % Variance from 2011 Budget	Estimated $ Variance from 2011 Budget
Water	$ 2,315,226	$ 5,938,643	$ 6,079,752	-2.32%	$ (141,109)
Sewer	$ 3,363,550	$ 7,015,283	$ 7,084,819	-0.98%	$ (69,536)
Stormwater	$ 2,015,796	$ 4,104,824	$ 4,151,918	-1.13%	$ (47,094)

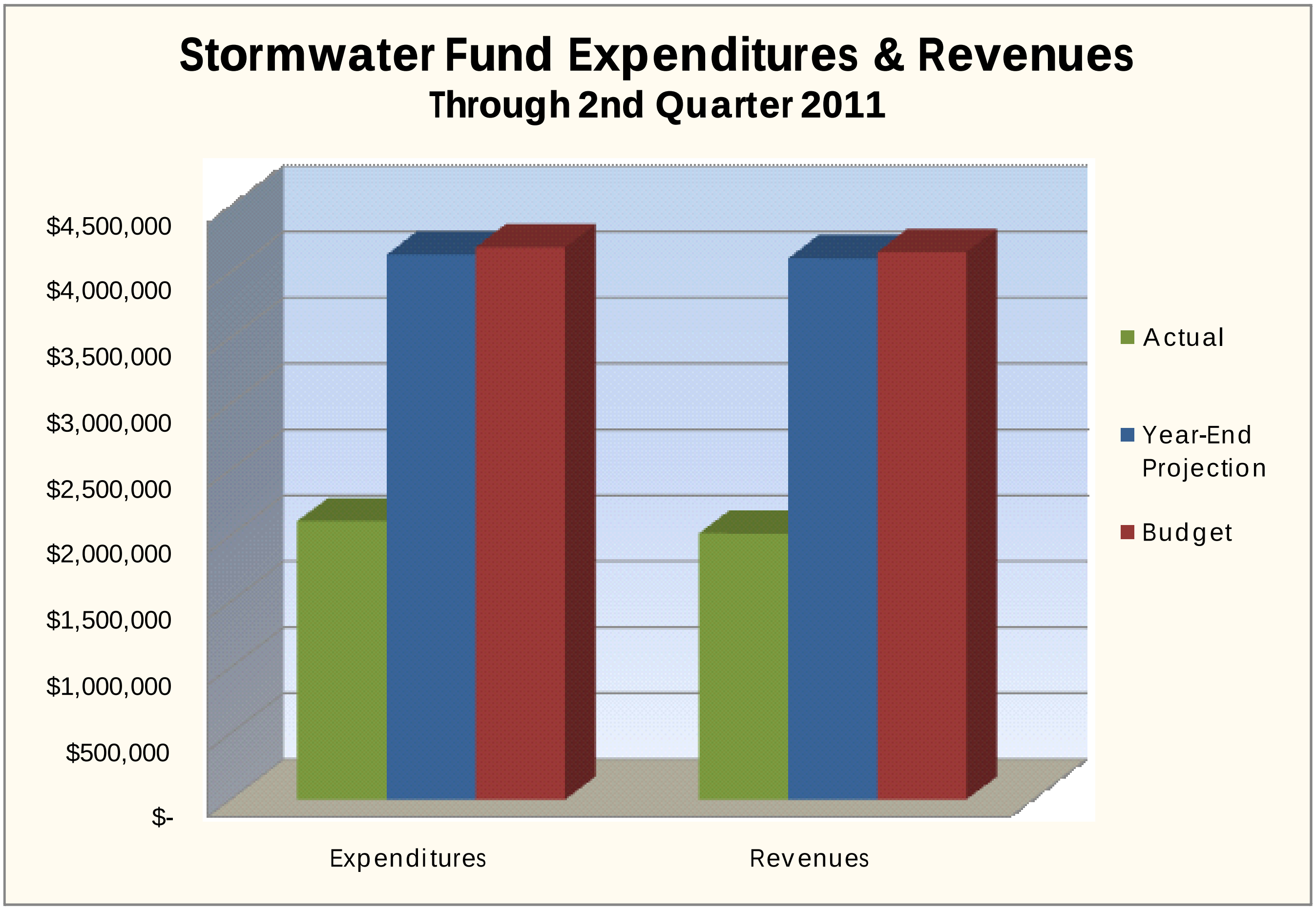
Individual Utility Fund Performance: Expenditures vs. Revenues



Water Fund	2011 Actual	2011 Year-End Estimate	2011 Total Budget	Estimated % Variance from 2011 Budget	Estimated $ Variance from 2011 Budget
Expenditures	$ 3,208,428	$ 2,822,810	$ 2,822,810	-3.5%	$ (217,094)
Revenues	$ 2,382,534	$ 2,382,534	$ 2,315,226	-2.3%	$ (141,109)



Sewer Fund	2011 Actual	2011 Year-End Estimate	2011 Total Budget	Estimated % Variance from 2011 Budget	Estimated $ Variance from 2011 Budget
Expenditures	$ 3,402,586	$ 6,825,287	$ 6,921,314	-1.4%	$ (96,027)
Revenues	$ 3,363,550	$ 7,015,283	$ 7,084,819	-1.0%	$ (69,536)



Stormwater Fund	2011 Actual	2011 Year-End Estimate	2011 Total Budget	Estimated % Variance from 2011 Budget	Estimated $ Variance from 2011 Budget
Expenditures	$ 2,109,779	$ 4,132,261	$ 4,187,888	*-1.3%*	$ (55,627)
Revenues	$ 2,015,796	$ 4,104,824	$ 4,151,918	*-1.1%*	$ (47,094)

Economic Environment Update

The economic recovery has run into yet another soft-patch. While growth continues, it does so at a slower rate than before. Sustained high gas prices and disruptions to the manufacturing supply chain due to power shortages in Japan have caused the recovery to slow.

The recovery, however, is likely to continue and even pick up momentum in the second half of the year. Gas prices remain high, but have retreated from their peaks, and the economy proved more resilient to them than expected. On the other hand, the repercussions from the disaster in Japan have turned out to be worse than thought. Not only did it constrain consumer spending by not having enough goods available, but it also put a crimp in the remarkable recovery that had been unfolding in the U.S. manufacturing sector. Later this year, as Japan starts rebuilding, much of that negative impact will be more than offset.

Activity in the construction sector remains depressed as both single family housing and non-residential construction continue to work off huge amounts of excess inventory. The only part of construction that is showing any signs of life is the multi-family residential segment, as people show a preference for renting, rather than owning their homes.

Credit availability for small businesses is improving, but is still tight.

In June, the Federal Reserve continued to keep its benchmark interest rate around 0.25 percent. National rates on a 30-year, fixed rate mortgage remained below 5%, still below the 2009 year end rate of 5.34% and 2008's year end rate of 5.2%. This is due to a global movement to U.S. Treasuries and their perceived safety. The high national and state unemployment rate, along with the Federal Debt Ceiling impasse are adding to the uncertainty in the outlook and are hindering recovery.

(Source: State of Washington Economic & Revenue Forecast Council June 3, 2011Report)

Employment

Job growth has picked up a little speed, but remains slow. From June 2010 to June 2011, Washington job gains totaled 42,300. The private sector added 57,800 jobs over the year and the public sector lost 15,500 jobs.

Employment Situation

	June 2011	June 2010
United States		
Unemployment Rate	9.2%	9.5%
Washington		
Unemployment Rate	9.2%	9.5%
Resident Labor Force	3,476,000	3,532,600
Unemployed	321,100	336,600
Seattle/Bellevue/Everett		
Unemployment Rate	8.8%	9.1%
Resident Labor Force	1,468,400	1,493,500
Unemployed	128,500	135,400

More than 70 percent of the annual gains occurred in the 2011 year.

(Source: Washington State Employment Security Department "Labor Market and Economic Analysis July 2011")

Office Vacancy Rates

The Puget Sound regional market recovery appears to continue with over 1.5 million square feet of positive absorption during the second quarter. Positive absorption occurs when the total amount of available office space decreased during a set period.

The Seattle/Puget Sound Office market vacancy rate was down over the previous quarter, ending with a vacancy rate of 12.3%.

(Source: CoStar Group's Second Quarter 2011 Market Report)

Consumer Confidence

The U.S. consumer confidence index dropped to 58.5 in June compared to 61.7 in May, primarily due to a less favorable assessment of current conditions and continued pessimism about the short-term outlook. Inflation fears eased considerably in June, but concerns about income prospects increased. An index of 90 indicates a stable economy and one at or above 100 indicates growth.

(Source: The Conference Board)