

AT A GLANCE:

- The construction component of Sales Tax revenue dropped significantly from last year due to the completion of a large project.
- General Fund expenditures are 2.4% higher than 2nd Quarter 2011
- Water Utility Fund revenue is projected to be under budget by 5.1% due to a wetter than normal spring

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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.

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.



Pickering Barn Garden

Performance at a Glance

	Year-End Projections	Compared to Budget
General Fund Expenditure vs. Budget	Positive	-2.7%
General Fund Revenues vs. Estimate	Warning	-4.2%
Tax Performance	Warning	-6.1%
Utility Funds Expenditures vs. Budget	Positive	-4.7%
Utility Funds Revenues vs. Estimate	Warning	-3.8%

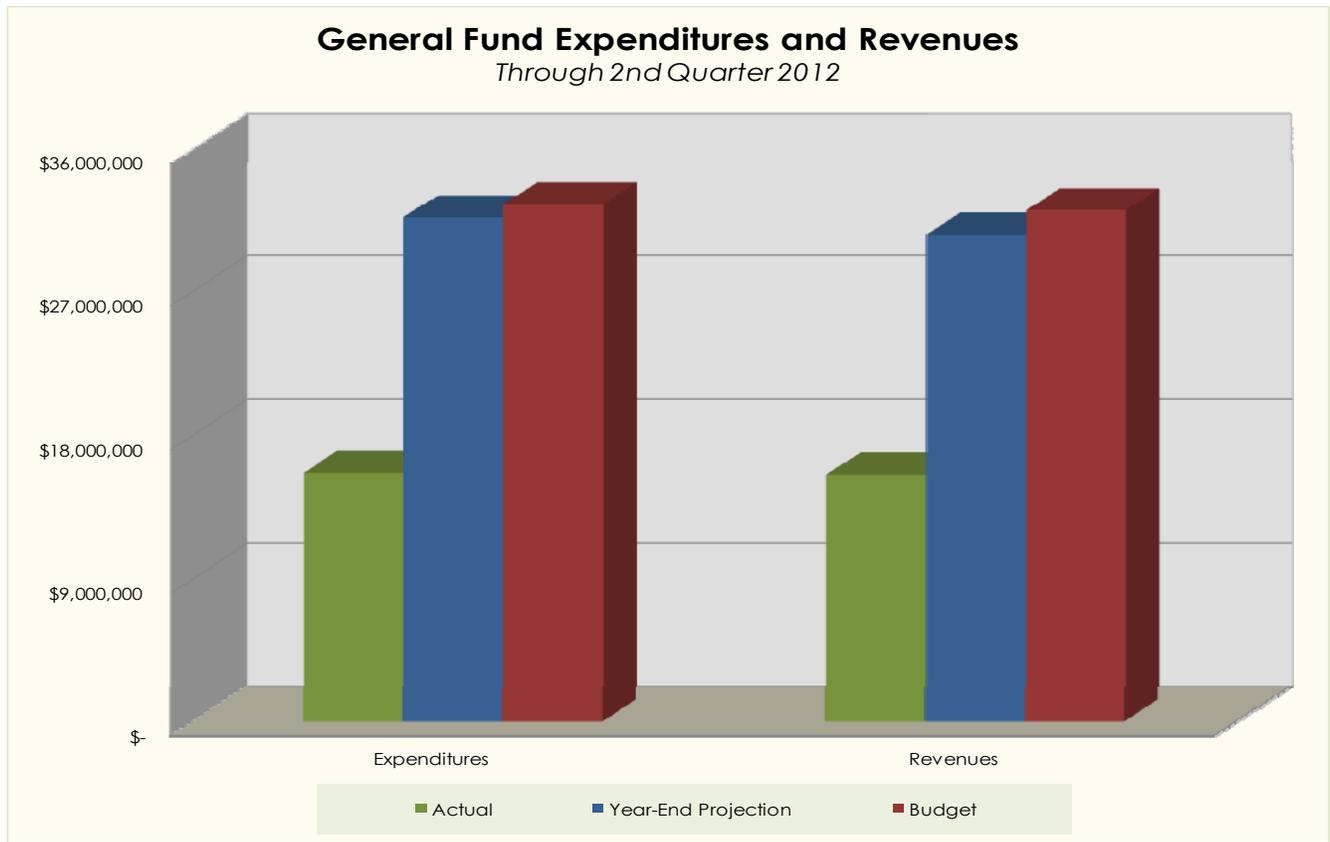
Key to Expenditure Trend Indicators

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-to-Date Expenditures and Revenues: Budget to Actual

General Fund	2nd Quarter Actual	Total Year-to-Date Actual	Year-End Projection	Total Budget	% of Total Budget Used
Total Expenditures	\$ 7,184,055	\$15,667,285	\$31,676,733	\$32,542,475	48.1%
Total Revenues	\$ 9,367,369	\$15,556,619	\$30,577,158	\$32,142,475	48.4%

Three-Year Comparison of Actual Expenditures Through 2nd Quarter 2012

General Fund	2010 Actual	2011 Actual	% Change From 2010	2012 Actual	% Change From 2011
Expenditures	\$ 14,969,443	\$ 15,293,636	2.2%	\$ 15,667,285	2.4%
Revenues	\$ 14,980,918	\$ 16,206,211	8.2%	\$ 15,556,619	-4.0%

General Fund Year-End Estimates

Revenues

At 2012 year-end General Fund revenues are estimated to finish at \$30,577,158.

This figure is 5.1% (\$1,565,317) less than the original budgeted revenue amount of \$32,142,475.

The majority of the revenue decrease can be attributed to Sales Tax which is predicted to end less than originally budgeted by 15.1%.

In the first quarter 2012 report, Business taxes were trending to end the year down 13.7%. Second quarter results have reduced that downturn by 12% to 1.7% less than budgeted.

Expenditures

Expenditures are projected to finish at \$31,676,733. This is 2.7% less than the original 2012 expenditure budget of \$32,542,475. This will result in a positive differential of \$865,742.

The City started 2012 with \$8,910,428 in cash reserves and is predicted to finish with \$7,810,153.

The projected ending reserves will provide a 27.6% expenditure coverage ratio. The 2012 Council budget goal is to keep this ratio level above 15%.

“Year-end Revenues are estimated to be \$1,565,317 less than budgeted for 2012”

Second Quarter Highlights

Overall second Quarter revenues were \$9,367,369; \$88,680 (0.9%) less than forecasted. Decreases were greatest in:

- Sales Tax - \$376,912 (20.6%)

less than projected

- Jail Services - \$87,416 (20.2%) less

Decreases were offset by higher than projected Building

Permit revenue - up \$125,927 from estimate

Second Quarter expenditures were \$7,184,055, which is \$263,146 (3.5%) less than projected for the quarter.

Cost Containment in Action



With the continued uncertainty of the economic recovery (see economic environment update section), the City's cost containment measures begun in 2009 will continue into 2012.

2012 containment efforts began with voluntary early separations for employees in addition to layoffs. Containment will continue with the reduction of discretionary spending, as well as deferring expenses where possible.

General Fund Departments: Annual Comparisons

Three-Year Comparison of Actual Expenditures Through 2nd Quarter 2012

General Fund Departments - Actual Expenditures

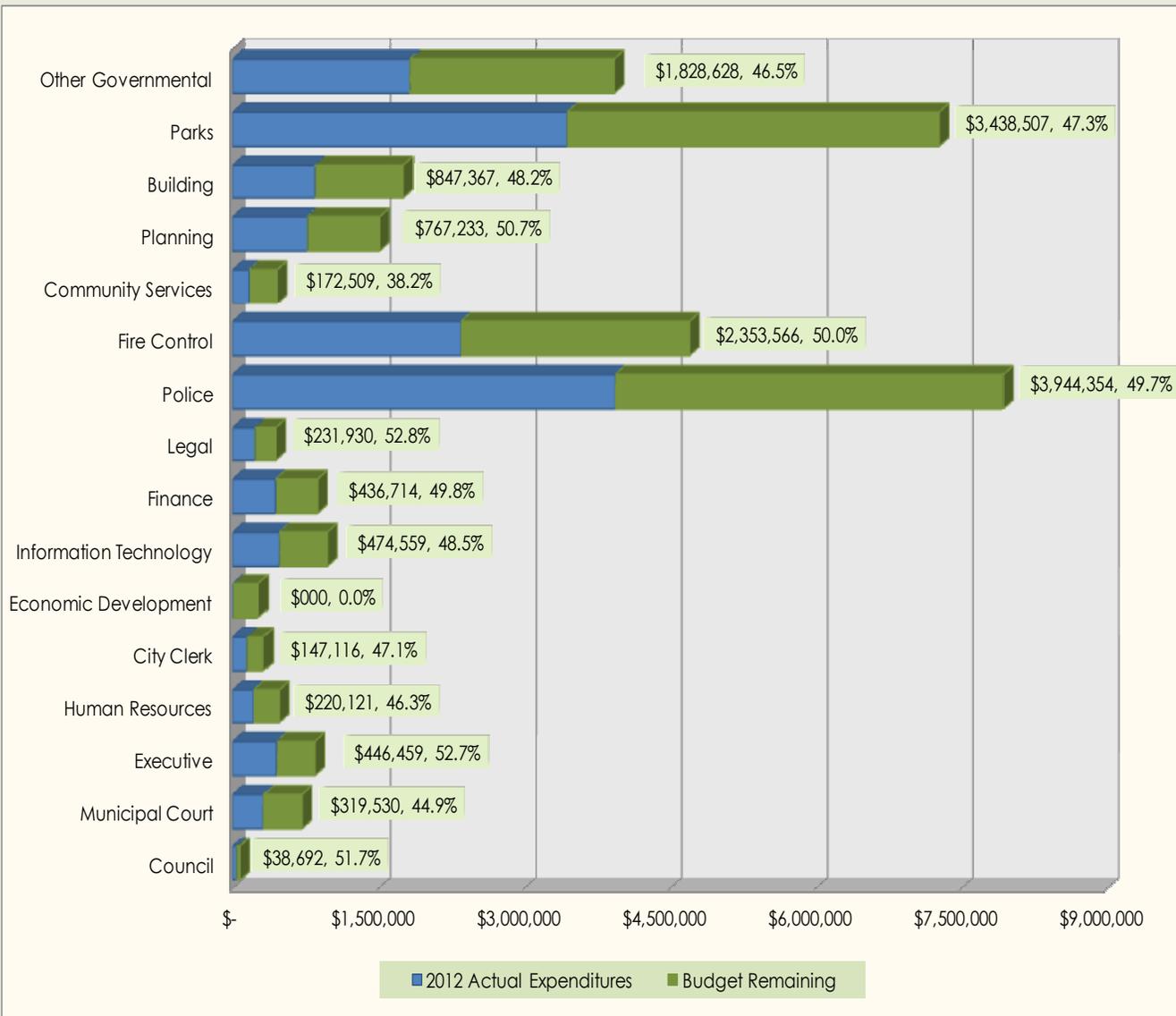
Through 2nd Quarter 2012

Department Name	2010 Actual	2011 Actual	% Change From 2010	2012 Actual	% Change From 2011
Council	\$ 37,538	\$ 36,186	-3.6%	\$ 38,692	6.9%
Municipal Court	264,745	287,108	8.4%	319,530	11.3%
Executive	498,663	419,461	-15.9%	446,459	6.4%
Human Resources	296,512	396,081	33.6%	220,121	-44.4%
City Clerk	146,488	149,497	2.1%	147,116	-1.6%
Economic Development ¹	-	-	0.0%	-	0.0%
Information Technology	479,906	482,848	0.6%	474,559	-1.7%
Finance	440,650	463,649	5.2%	436,714	-5.8%
Legal	207,203	204,044	-1.5%	231,930	13.7%
Police	3,570,171	3,795,995	6.3%	3,944,354	3.9%
Fire Control	2,284,136	2,305,920	1.0%	2,353,566	2.1%
Community Services	193,611	168,036	-13.2%	172,509	2.7%
Planning	774,547	771,502	-0.4%	767,233	-0.6%
Building	798,858	863,488	8.1%	847,367	-1.9%
Parks	3,139,808	3,168,569	0.9%	3,438,507	8.5%
Other Governmental	1,836,607	1,781,252	-3.0%	1,828,628	2.7%
Total GF Departments	\$ 14,969,443	\$ 15,293,636	2.2%	\$ 15,667,285	2.4%

¹ Budget activity for the Economic Development Department will not begin until July 1, 2012. Expenditure activity will be present beginning with the 3rd Quarter 2012 Financial Update.

General Fund Departments: Performance

2012 Actual Expenditure Totals and Percent of Annual Budget Expended



General Fund Departments: Performance

2012 Actual Expenditures vs. Budget & Year —End Projections

General Fund Departments - Actual Expenditures

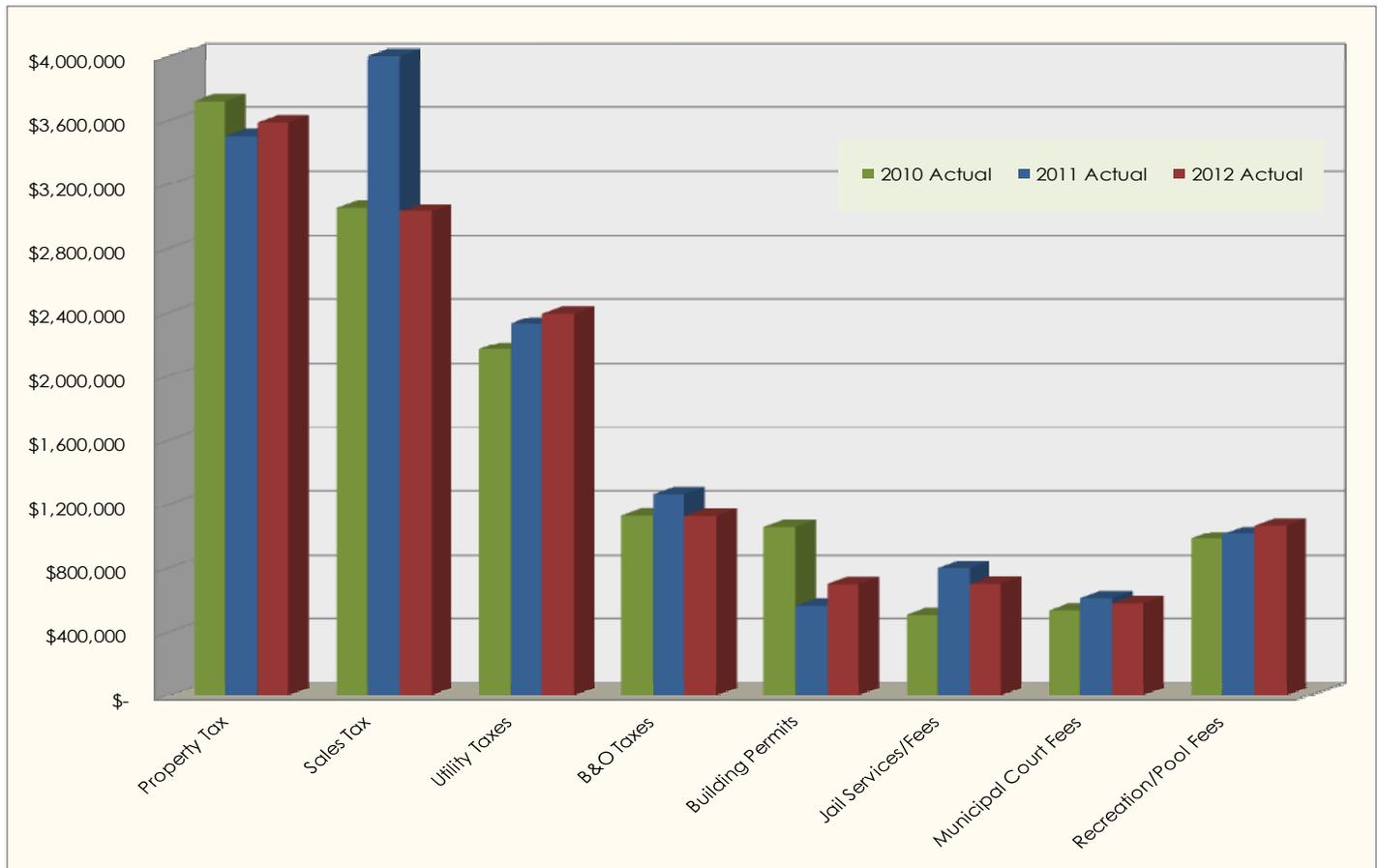
Through 2nd Quarter 2012

Department Name	Actual	Year-End Projection	Budget	% Variance from 2012 Budget	\$ Variance from 2012 Budget
Council	\$ 38,692	\$ 72,778	\$ 74,900	-2.9%	\$ (2,122)
Municipal Court	\$ 319,530	\$ 666,716	\$ 711,862	-6.8%	\$ (45,146)
Executive	\$ 446,459	\$ 970,854	\$ 847,138	12.7%	\$ 123,716
Human Resources	\$ 220,121	\$ 445,280	\$ 475,327	-6.7%	\$ (30,047)
City Clerk	\$ 147,116	\$ 306,626	\$ 312,607	-2.0%	\$ (5,981)
Economic Development ¹	\$ -	\$ 271,310	\$ 261,440	3.6%	\$ 9,870
Information Technology	\$ 474,559	\$ 935,987	\$ 978,335	-4.5%	\$ (42,348)
Finance	\$ 436,714	\$ 878,421	\$ 876,120	0.3%	\$ 2,301
Legal	\$ 231,930	\$ 456,024	\$ 439,000	3.7%	\$ 17,024
Police	\$ 3,944,354	\$ 7,688,342	\$ 7,932,401	-3.2%	\$ (244,059)
Fire Control	\$ 2,353,566	\$ 4,707,133	\$ 4,707,133	0.0%	\$ -
Community Services	\$ 172,509	\$ 444,582	\$ 452,170	-1.7%	\$ (7,588)
Planning	\$ 767,233	\$ 1,479,681	\$ 1,512,402	-2.2%	\$ (32,721)
Building	\$ 847,367	\$ 1,740,064	\$ 1,759,008	-1.1%	\$ (18,944)
Parks	\$ 3,438,507	\$ 7,034,947	\$ 7,270,798	-3.4%	\$ (235,851)
Other Governmental	\$ 1,828,628	\$ 3,577,988	\$ 3,931,834	-9.9%	\$ (353,846)
Total GF Departments	\$ 15,667,285	\$ 31,676,733	\$ 32,542,475	-2.7%	\$ (865,742)

¹ Budget activity for the Economic Development Department will not begin until July 1, 2012. Expenditure activity will be present beginning with the 3rd Quarter 2012 Financial Update.

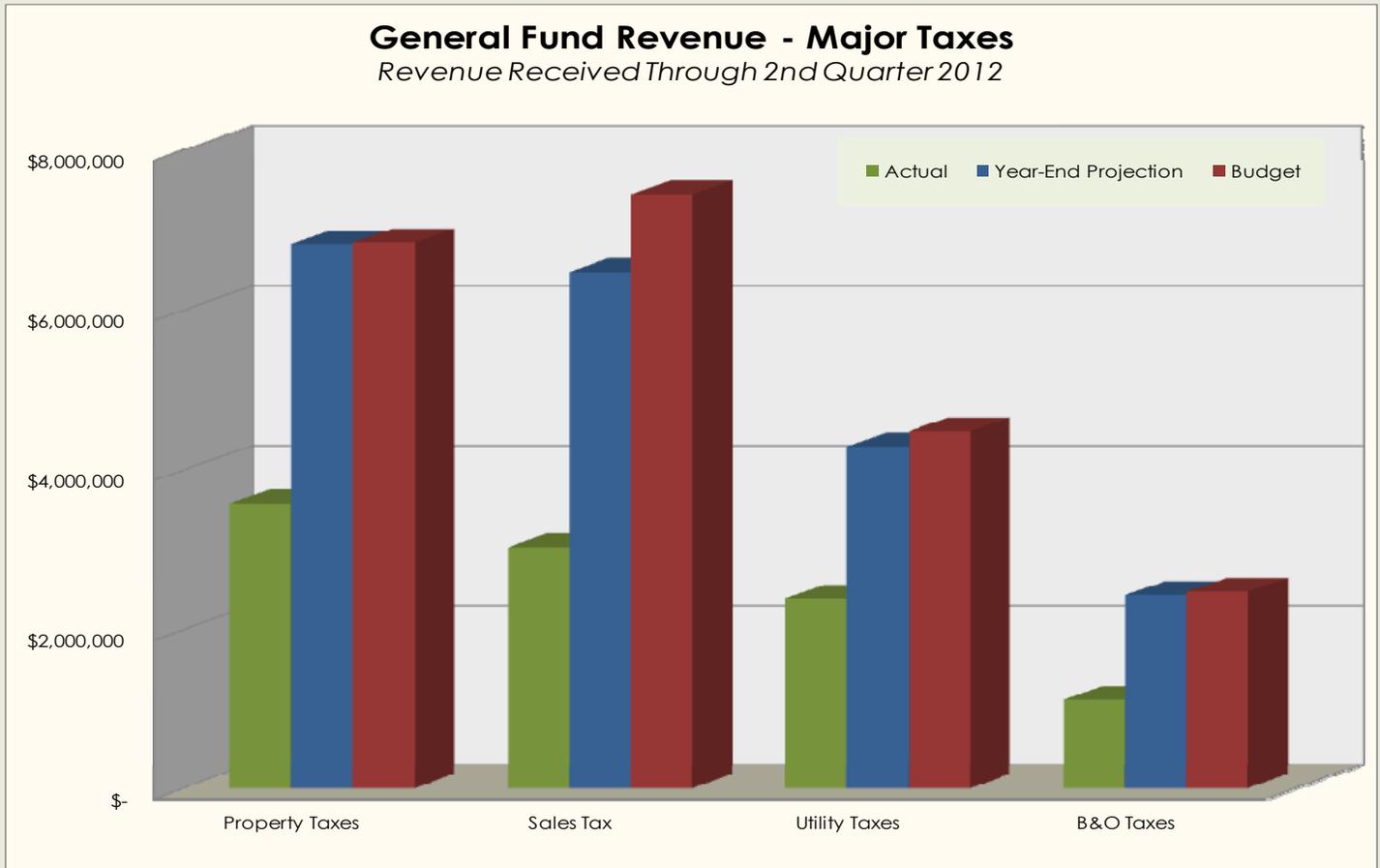
General Fund: Major Revenue Sources

Three-Year Comparison of Actual Revenue Received Through 2nd Quarter 2012



Major Revenue Sources	2010 Actual	2011 Actual	% Change From 2010	2012 Actual	% Change From 2011
Property Tax	\$ 3,720,084	\$ 3,496,768	-6.0%	\$ 3,585,316	2.5%
Sales Tax	\$ 3,053,260	\$ 3,998,366	31.0%	\$ 3,028,728	-24.3%
Utility Taxes	\$ 2,164,552	\$ 2,323,078	7.3%	\$ 2,390,383	2.9%
B&O Taxes	\$ 1,123,714	\$ 1,258,018	12.0%	\$ 1,121,523	-10.8%
Building Permits	\$ 1,055,368	\$ 562,019	-46.7%	\$ 698,205	24.2%
Jail Services/Fees	\$ 506,385	\$ 794,033	56.8%	\$ 700,504	-11.8%
Municipal Court Fees	\$ 534,434	\$ 606,595	13.5%	\$ 576,003	-5.0%
Recreation/Pool Fees	\$ 980,113	\$ 1,009,925	3.0%	\$ 1,062,343	5.2%

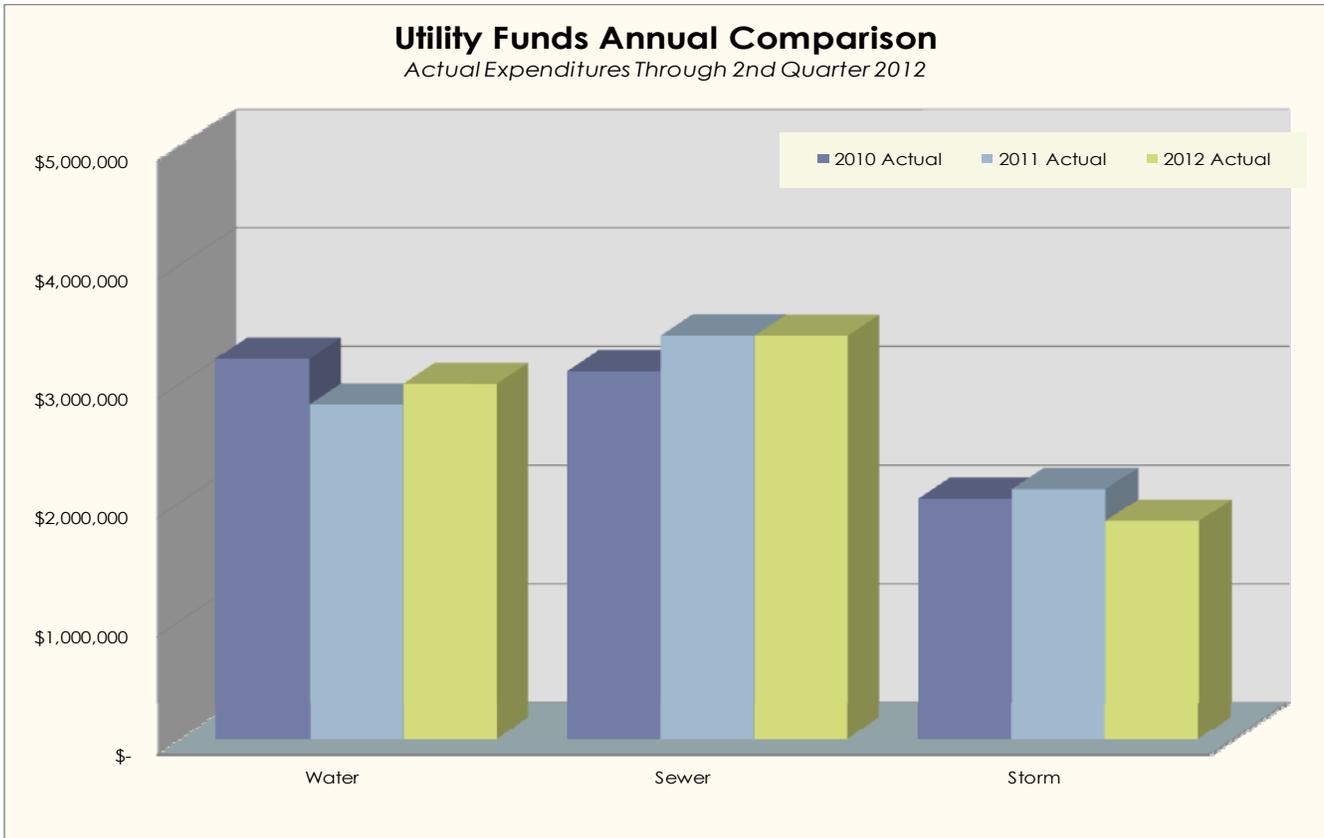
General Fund Revenue: Major Taxes Analysis



Major Tax Revenue Source	Actual	Year-End Projection	Budget	% Variance from 2012 Budget	\$ Variance from 2012 Budget
Property Taxes	\$ 3,585,316	\$ 6,826,551	\$ 6,847,848	-0.3%	\$ (21,297)
Sales Tax	\$ 3,028,728	\$ 6,473,612	\$ 7,450,000	-15.1%	\$ (976,388)
Utility Taxes	\$ 2,390,383	\$ 4,294,113	\$ 4,485,000	-4.4%	\$ (190,887)
B&O Taxes	\$ 1,121,523	\$ 2,433,387	\$ 2,475,000	-1.7%	\$ (41,613)
Total Major Tax Revenue	\$ 10,125,950	\$ 20,027,663	\$ 21,257,848	-6.1%	\$ (1,230,185)

Utility Funds Performance: Expenditures

Three-Year Comparison of Actual Expenditures Through 2nd Quarter 2012



Utility Type	2010 Actual	2011 Actual	% Change from 2010	2012 Actual	% Change from 2011	2012 Total Budget
Water ¹	\$ 3,208,428	\$ 2,822,810	-12.0%	\$ 2,995,857	6.1%	\$ 6,171,108
Sewer ²	\$ 3,102,835	\$ 3,402,586	9.7%	\$ 3,401,517	0.0%	\$ 7,198,505
Stormwater	\$ 2,029,262	\$ 2,109,779	4.0%	\$ 1,843,480	-12.6%	\$ 4,002,860

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

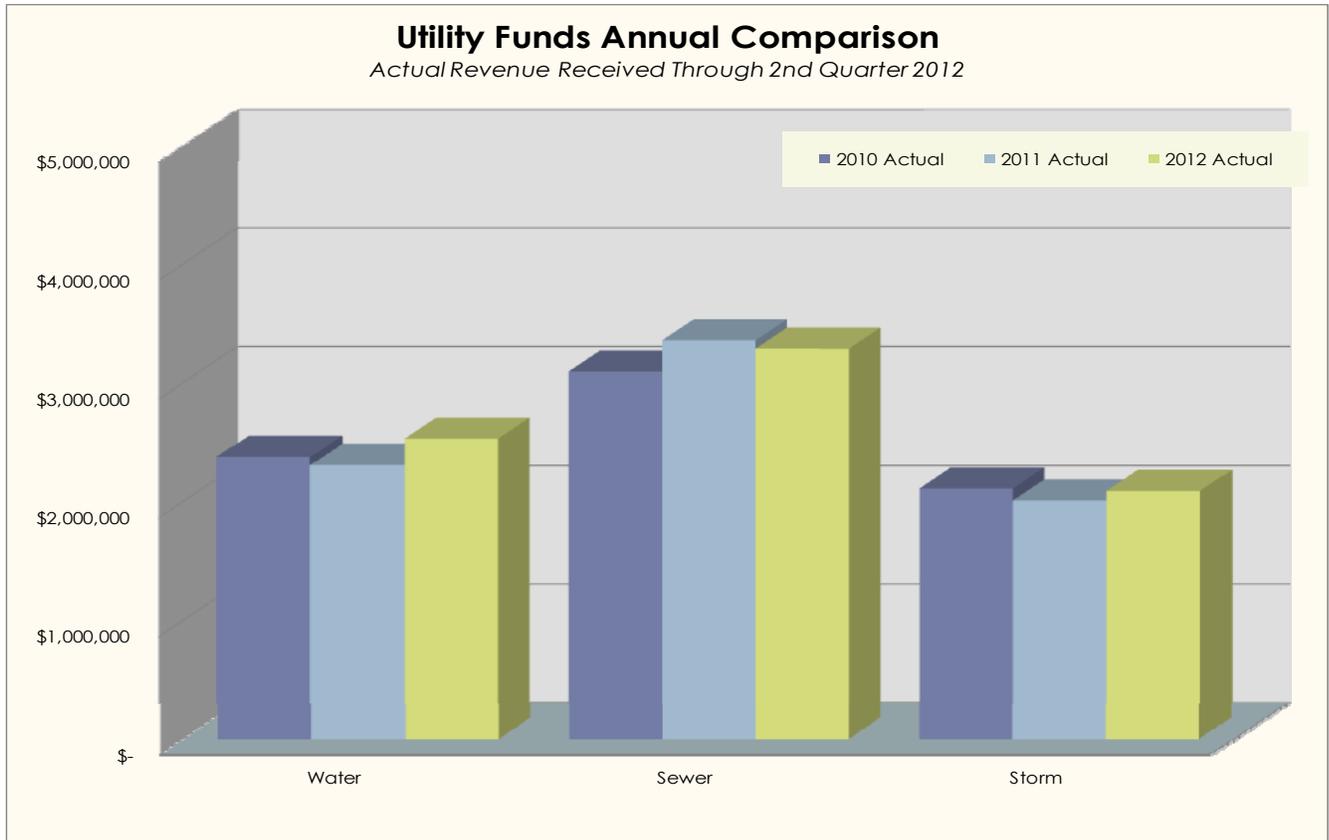
Utility Type	Actual	Year-End Projection	Budget	% Variance from 2012 Budget	\$ Variance from 2012 Budget
Water	\$ 2,995,857	\$ 5,947,785	\$ 6,171,108	-3.8%	\$ (223,323)
Sewer	\$ 3,401,517	\$ 6,786,389	\$ 7,198,505	-6.1%	\$ (412,116)
Stormwater	\$ 1,843,480	\$ 3,858,861	\$ 4,002,860	-3.7%	\$ (144,000)

¹ 9% Rate increase began with February 2012 Utility Bill

² 2011 Includes METRO pass-through increase of 13.2%

Utility Funds Performance: Revenues

3-Year Comparison of Actual Revenue Received Through 2nd Quarter 2012



Utility Type	2010 Actual	2011 Actual	% Change from 2010	2012 Actual	% Change from 2011	2012 Total Budget
Water ¹	\$ 2,382,534	\$ 2,315,226	-2.8%	\$ 2,535,042	9.5%	\$6,282,275
Sewer ²	\$ 3,101,036	\$ 3,363,550	8.5%	\$ 3,293,679	-2.1%	\$7,171,689
Stormwater	\$ 2,117,176	\$ 2,015,796	-4.8%	\$ 2,096,673	4.0%	\$4,194,300

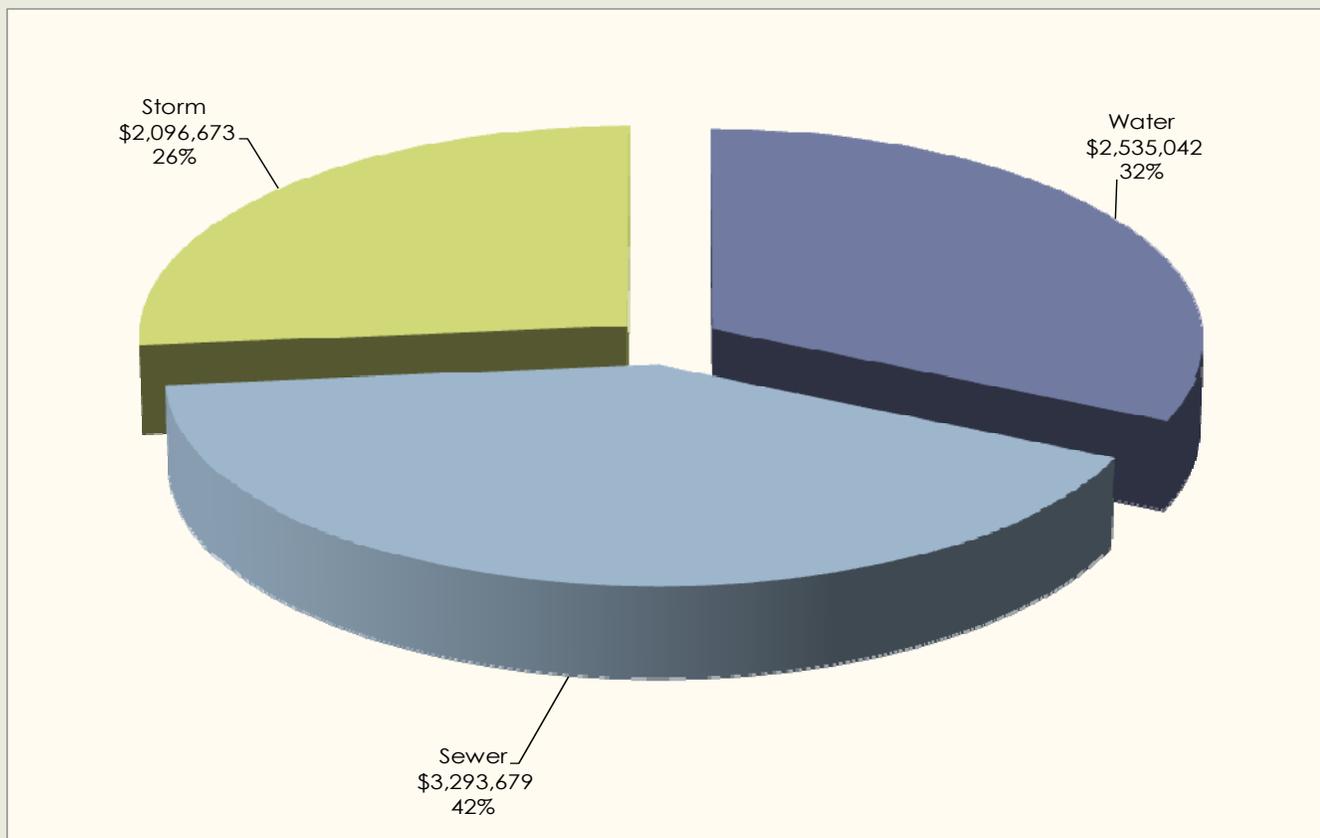
¹ 9% Rate increase began with February 2012 Utility Bill

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

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

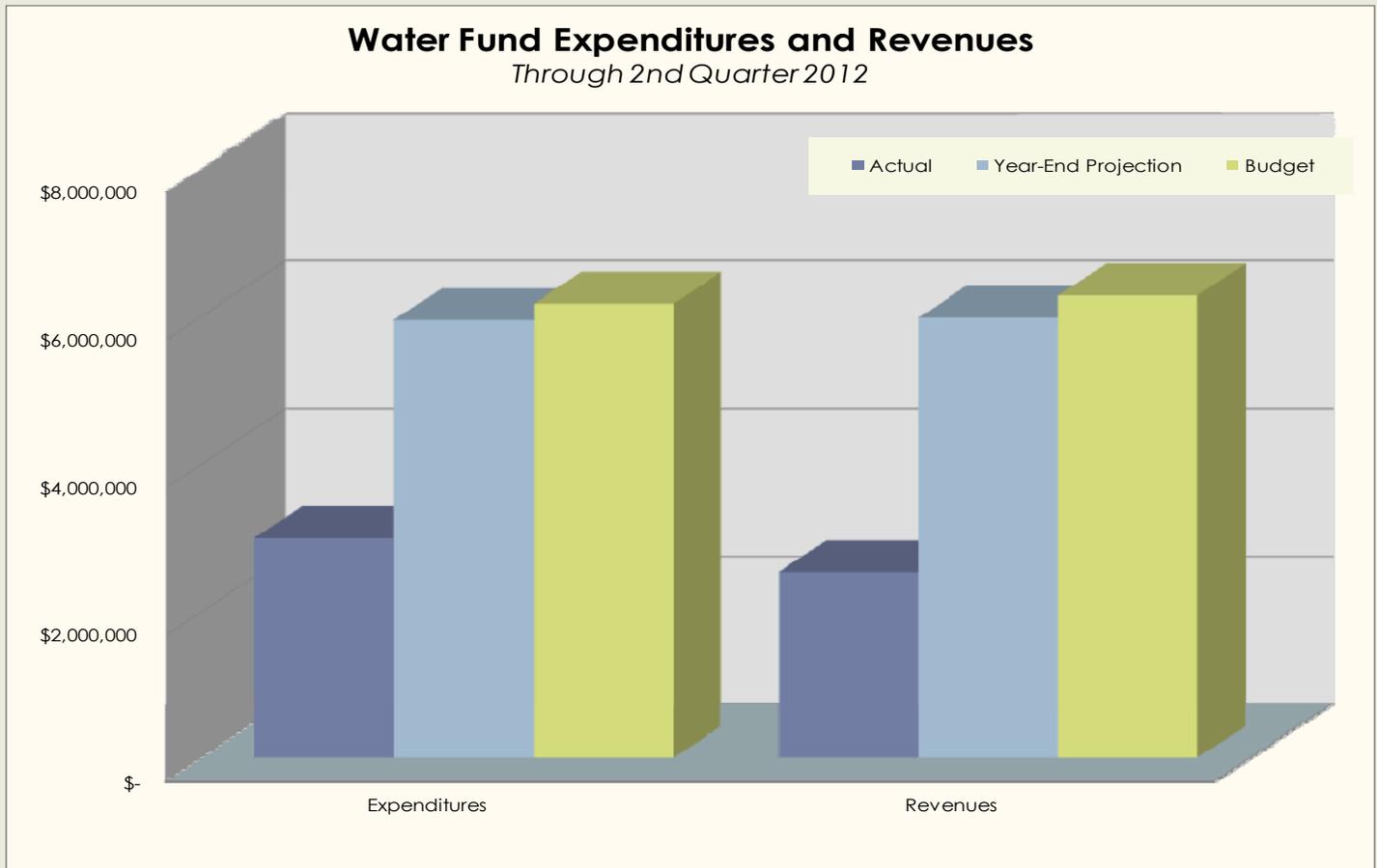
Utility Type	Actual	Year-End Projection	Budget	% Variance from 2012 Budget	\$ Variance from 2012 Budget
Water	\$ 2,535,042	\$ 5,978,078	\$ 6,282,275	-5.1%	\$ (304,197)
Sewer	\$ 3,293,679	\$ 6,823,531	\$ 7,171,689	-5.1%	\$ (348,158)
Stormwater	\$ 2,096,673	\$ 4,208,643	\$ 4,194,300	0.3%	\$ 14,343

Actual Revenue Received Through 2nd Quarter 2012: Distribution by Utility



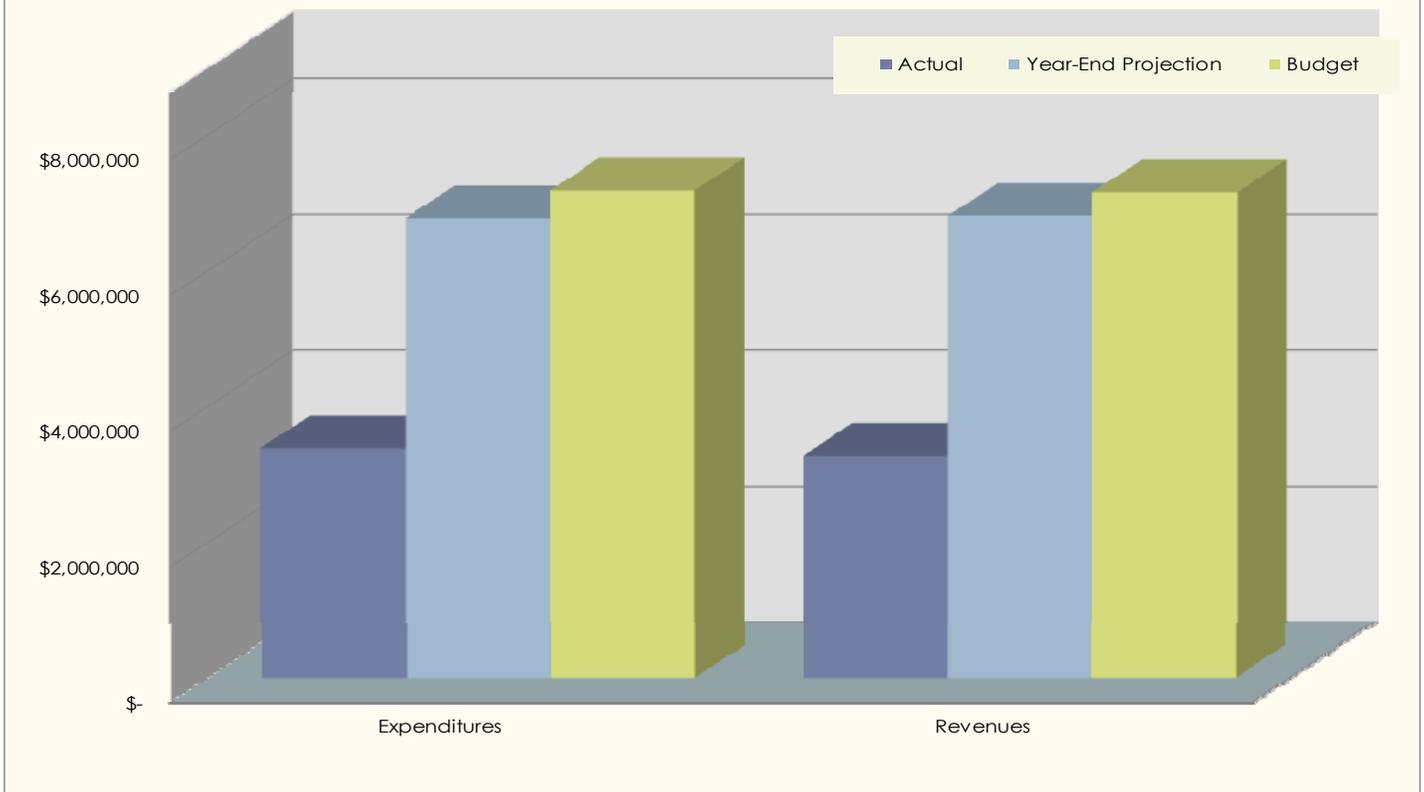
Individual Utility Funds Performance

Individual Utility Fund Performance: Expenditures vs. Revenues



Water Fund	Actual	Year-End Projection	Budget	% Variance from 2012 Budget	\$ Variance from 2012 Budget
Expenditures	\$ 2,995,857	\$ 5,947,785	\$ 6,171,108	-3.8%	\$ (223,323)
Revenues	\$ 2,535,042	\$ 5,978,078	\$ 6,282,275	-5.1%	\$ (304,197)

Sewer Fund Expenditures and Revenues Through 2nd Quarter 2012



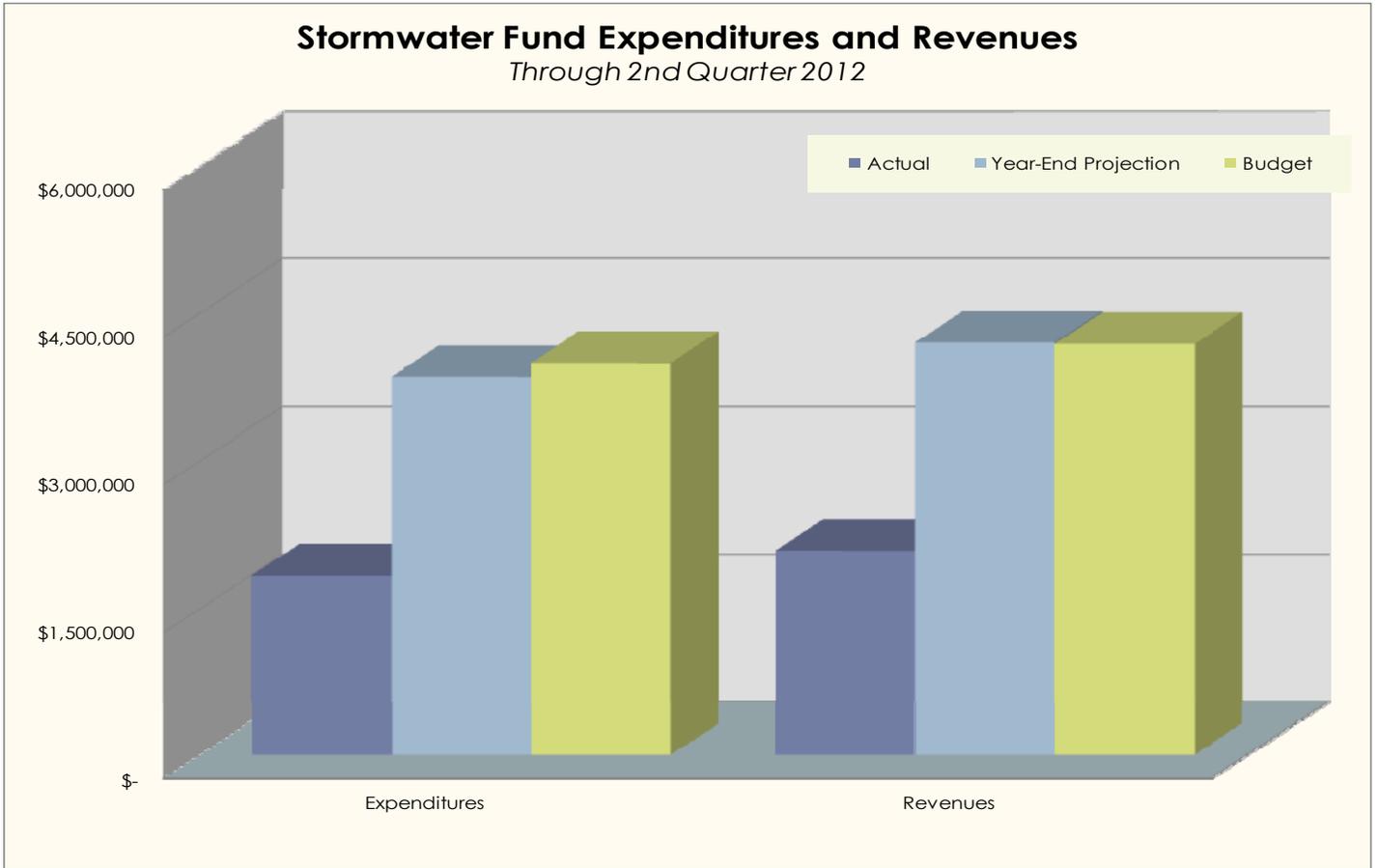
Sewer Fund	Actual	Year-End Projection	Budget	% Variance from 2012 Budget	\$ Variance from 2012 Budget
Expenditures	\$ 3,401,517	\$ 6,786,389	\$ 7,198,505	-6.1%	\$ (412,116)
Revenues	\$ 3,293,679	\$ 6,823,531	\$ 7,171,689	-5.1%	\$ (348,158)

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 2012	2012 Total Budget
Expenses	\$ 2,147,992	\$ 2,438,665	13.5%	\$ 2,364,870	-3.0%	\$5,152,024
% of Total Expenses	69.2%	71.7%		69.5%		71.6%
Revenue	\$ 2,155,729	\$ 2,418,163	12.2%	\$ 2,356,126	-2.6%	\$5,152,024
% of Total Revenue	69.5%	71.9%		71.5%		71.8%
Sewer Fund Revenue	2010 Actual	2011 Actual	% Change from 2010	2012 Actual	% Change from 2011	2012 Total Budget
METRO	\$ 2,155,729	\$ 2,418,163	12.2%	\$ 2,356,126	-2.6%	\$5,152,024
City Sewer	\$ 941,667	\$ 936,390	-0.6%	\$ 936,653	0.0%	\$2,003,565

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

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



Stormwater Fund	Actual	Year-End Projection	Budget	% Variance from 2012 Budget	\$ Variance from 2012 Budget
Expenditures	\$ 1,843,480	\$ 3,858,861	\$ 4,002,860	-3.7%	\$ (144,000)
Revenues	\$ 2,096,673	\$ 4,208,643	\$ 4,194,300	0.3%	\$ 14,343

Economic Environment Update

Second Quarter Economic Outlook

United States

Europe continues to pose a substantial risk to the U.S. economy. The European Central Bank has lowered its benchmark lending rate to stimulate economic activity in the struggling Eurozone, many of whose members appear to be in recession. The recent European Union summit appeared to agree on centralized banking supervision and directly injecting funds into ailing banks in Spain and elsewhere in the Eurozone. However, details on the agreement remain vague and there are potential barriers to its successful implementation.

The Blue Chip consensus forecast for real GDP growth in 2012 dipped to 2.1% in June. The less-positive outlook was attributed to mixed economic data and intensification of the Eurozone's sovereign debt and banking crises.

Nationally, gasoline prices have continued their downward trend, dropping from \$3.94 per gallon for regular in early April to \$3.36 for the week ending July 2nd. Energy markets have remained calm even as the European Union's embargo of Iranian oil went into effect on July 1st. Increases in Saudi Arabian oil production appear to have offset the Iranian oil that has left the market. However, some Iranian officials have reiterated the threat to blockade the Strait of Hormuz in retaliation for the EU embargo. If this threat were to become a reality, oil and gasoline prices would spike.

June U.S. employment grew by only 80,000 jobs, making for a third consecutive month of employment growth below 100,000. Such low growth indicates that the labor market remains weak and businesses are cautious about adding new workers. To put this in context, employment gains of approximately 160,000

each month for the next year would be needed to reduce the unemployment rate by 0.5%.

Two major indexes both point towards less consumer optimism. The Conference Board index of consumer confidence decreased by 2.4 points, dropping from 64.4 in May to 62.0 in June. The University of Michigan consumer sentiment survey dropped by 6.1 points, from 79.3 in May to 73.2 in June. The University of Michigan survey found greater pessimism among higher income households; declining gas prices offset a less favorable view of the economy for lower income households.

Washington State

The Washington economy continues to grow at a moderate pace. Similar to the national experience, Washington employment growth has slowed down after a strong start at the beginning of the year. Manufacturing is still growing, but at a reduced rate. Aerospace employment is still expanding, but at a slower rate than in 2011. Housing construction, however, is gradually improving thanks mainly to the multi-family segment. Washington personal income growth in early 2012 was among the strongest in the nation.

The recovery in Washington, as in the nation, has been driven largely by the manufacturing sector. Boeing expects strong growth in the commercial aircraft market over the next 20 years according to its recently released "Current Market Outlook." Boeing expects airline traffic to grow 5.0% per year and air cargo traffic to grow 5.2% per year. Almost half the growth is expected to come from travel to, from, or within the Asia Pacific region. While aircraft production is expected to continue to

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grow, State forecasters believe we are near the peak in employment.

Housing construction in Washington is strengthening, led by an upturn in multi-family construction. So far this year multi-family permits are averaging 11,700 (SAAR) compared to just 4,000 for all of 2009, the low point in housing construction. In contrast, single-family permits have improved much less, to an average rate of 15,700 so far this year from 13,000 in 2009. While this sounds like a huge rate of growth, permits this year are still running 48% below the 53,000 units permitted in 2005.

According to the S&P/Case-Shiller Home Price Indices through April 2012, seasonally adjusted Seattle home prices have increased in three of the last four months. Home prices are up 2.9% from the December trough but still down 0.9% from the previous year and 29.1% below the peak in May 2007.

(Source: State of Washington Economic & Revenue Forecast Council July 11, 2012 Report)

Consumer Price Index

Seattle metro consumer price index for All Urban Consumers (CPI-U) in June was 2.7%, remaining the same level as reported in February, and down from the June 2011 level of 3.2%. The Seattle index is calculated bi-monthly.

The national index was 1.7% in both May and June, down from 2.7% in March.

The CPI was restrained by a third month of declines in energy prices. Airfares fell, used car prices were unchanged and the cost of shelter posted its smallest gain since September 2011.

CPI-U is used to identify periods of inflation or deflation.

(Source: U.S. Bureau of Labor Statistics and Bloomberg.com)

Consumer Confidence

The Conference Board Consumer Confidence Index, which had declined in May, fell further in June. The index now stands at 62.0, down from 70.2 in March. While low, the 2012 index is still higher than the June 2011 measurement of 58.5.

Consumer Confidence declined in June, the fourth consecutive moderate decline. Consumers were somewhat more positive about current conditions, but slightly more pessimistic about the short-term outlook. Income expectations, which had improved, decline in June. If this trend continues, spending may be restrained in the short-term."

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

(Source: Lynn Franco, Director of the Conference Board Consumer Research Center, The Conference Board, June 26, 2012)

Employment Situation		
	June 2012	June 2011
United States		
Unemployment Rate	8.2%	9.1%
Washington		
Unemployment Rate	8.3%	9.3%
Resident Labor Force	3,525,200	3,477,600
Unemployed	293,200	324,000
Seattle/Bellevue/Everett		
Unemployment Rate	7.2%	8.6%
Resident Labor Force	1,506,800	1,487,700
Unemployed	107,800	127,400

Source: Washington State Employment Security Department, Labor Market and Economic Analysis, July 2012