

2012 Third Quarter Financial Report

AT A GLANCE:

- **Building Permit revenue is projected to end 46% higher than budgeted due to a new, large construction project in the Issaquah Highlands.**
- **General Fund expenditures are 3.4% higher than 3rd Quarter 2011**
- **Water Utility Fund revenue gained some ground in meeting 2012 Budgeted amounts due to a historical, record dry weather streak.**

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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.



Salmon Sculpture at Issaquah Hatchery

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-End Projections	Compared to Budget
General Fund Expenditure vs. Budget	Positive	-1.8%
General Fund Revenues vs. Estimate	Warning	-4.2%
Tax Performance	Warning	-6.2%
Utility Funds Expenditures vs. Budget	Positive	-2.8%
Utility Funds Revenues vs. Estimate	Neutral	-0.9%

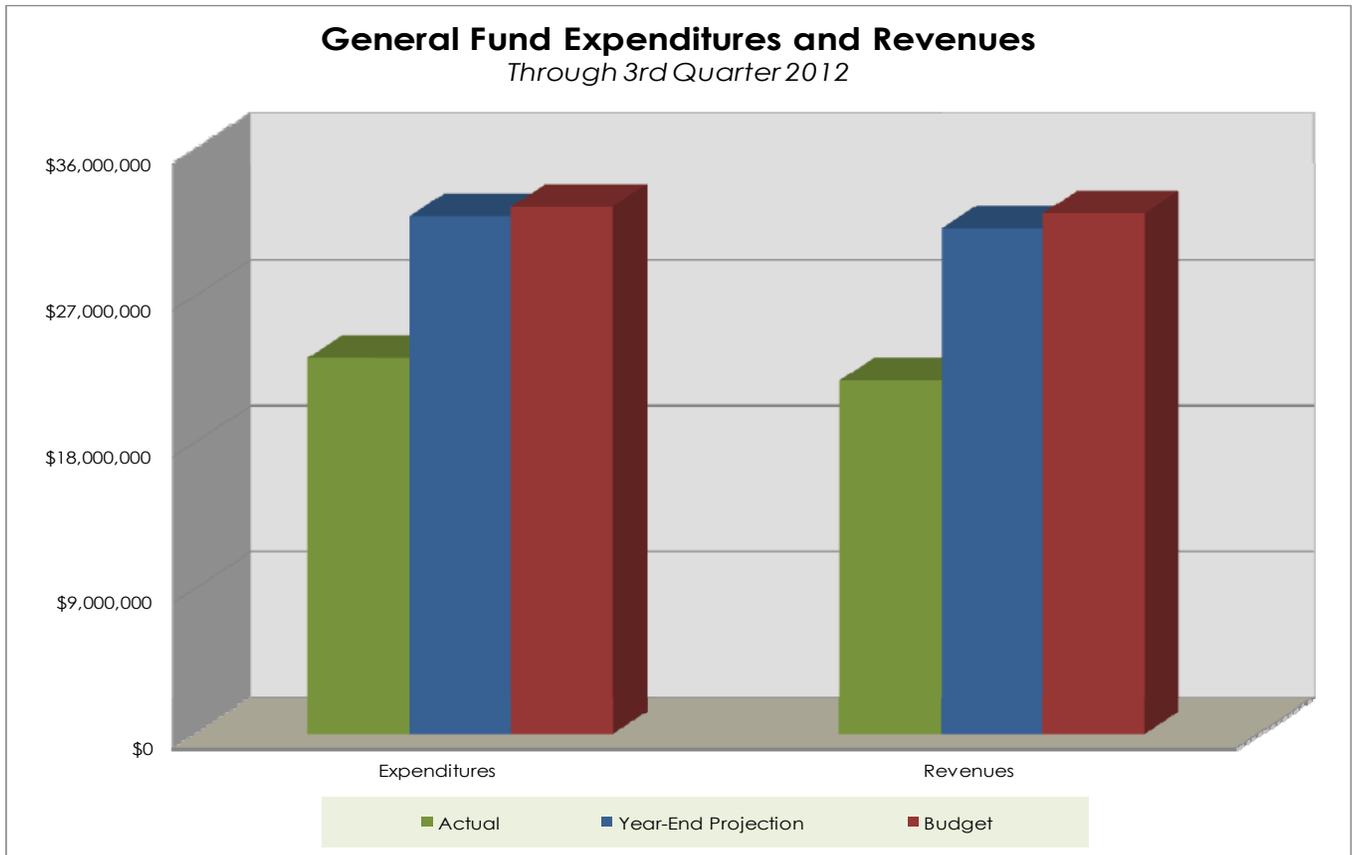
Key to Expenditure Trend Indicators

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	3rd Quarter Actual	Total Year-to-Date Actual	Year- End Projection	Total Budget	% of Total Budget Used
Total Expenditures	\$ 7,584,461	\$23,251,746	\$31,952,271	\$32,542,475	71.5%
Total Revenues	\$ 6,289,363	\$21,847,098	\$31,191,843	\$32,142,175	68.0%

Three-Year Comparison of Actual Expenditures Through 3rd Quarter 2012

General Fund	2010 Actual	2011 Actual	% Change From 2010	2012 Actual	% Change From 2011
Expenditures	\$ 21,836,195	\$ 22,483,738	3.0%	\$ 23,251,746	3.4%
Revenues	\$ 21,304,189	\$ 22,615,836	6.2%	\$ 21,847,098	-3.4%

General Fund Year-End Estimates

Revenues

At 2012 year-end General Fund revenues are estimated to finish at \$31,191,843.

This figure is 3 percent (\$950,632) less than the original budgeted revenue amount of \$32,142,475.

The majority of the revenue decrease can be attributed to Sales and Business taxes which are predicted to end less than originally budgeted by 18 percent and 13.6

percent respectively.

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

Expenditures

Expenditures are projected to finish at \$31,952,271. This is 12 percent less than the original 2012 expenditure budget of \$32,542,475. This will result in

a positive differential of \$590,204. The City started 2012 with \$8,910,428 in cash reserves and is predicted to finish with \$8,150,000.

The projected ending reserves will provide a 25.5 percent expenditure coverage ratio.

The 2012 Council budget goal is to keep this ratio level above 15%.

“Year-end Revenues are estimated to be \$950,632 less than budgeted for 2012”

Third Quarter Highlights

“3rd Quarter Building Permit revenue \$250,474 higher than forecasted.”

Overall third quarter revenues ended at \$5,289,363, which is \$23,084, or .4 percent greater than forecasted.

Despite shortfalls in

Business Taxes of \$125,827 (19 percent) and Municipal Court fees of \$31,570 (12 percent), higher than projected Building Permit revenue - up \$250,474 (67 percent) from estimate - helped

offset the deficits.

Third quarter expenditures ended at \$7,584,461, which is \$215,883 (3 percent) less than the \$7,800,344 originally 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, and 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 3rd Quarter 2012

General Fund Departments - Actual Expenditures

Through 3rd Quarter 2012

Department Name	2010 Actual	2011 Actual	% Change From 2010	2012 Actual	% Change From 2011
Council	\$ 54,336	\$ 52,809	-2.8%	\$ 57,188	8.3% ¹
Municipal Court	395,778	425,966	7.6%	495,201	16.3% ²
Executive	690,918	725,021	4.9%	710,100	-2.1%
Human Resources	413,597	473,699	14.5%	305,444	-35.5%
City Clerk	209,401	213,335	1.9%	220,041	3.1%
Economic Development ³	-	-	0.0%	104,800	0.0%
Information Technology	674,700	691,096	2.4%	693,790	0.4%
Finance	624,418	689,027	10.3%	665,266	-3.4%
Legal	329,393	331,234	0.6%	346,160	4.5%
Police	5,267,379	5,554,798	5.5%	5,805,707	4.5%
Fire Control	3,426,204	3,457,953	0.9%	3,530,349	2.1%
Community Services	276,263	258,663	-6.4%	265,847	2.8%
Planning	1,118,525	1,134,023	1.4%	1,080,964	-4.7%
Building	1,184,650	1,235,953	4.3%	1,319,244	6.7%
Parks	4,693,293	4,771,405	1.7%	5,109,633	7.1%
Other Governmental	2,477,339	2,468,755	-0.3%	2,542,011	3.0%
Total GF Departments	\$ 21,836,195	\$ 22,483,738	3.0%	\$ 23,251,746	3.4%

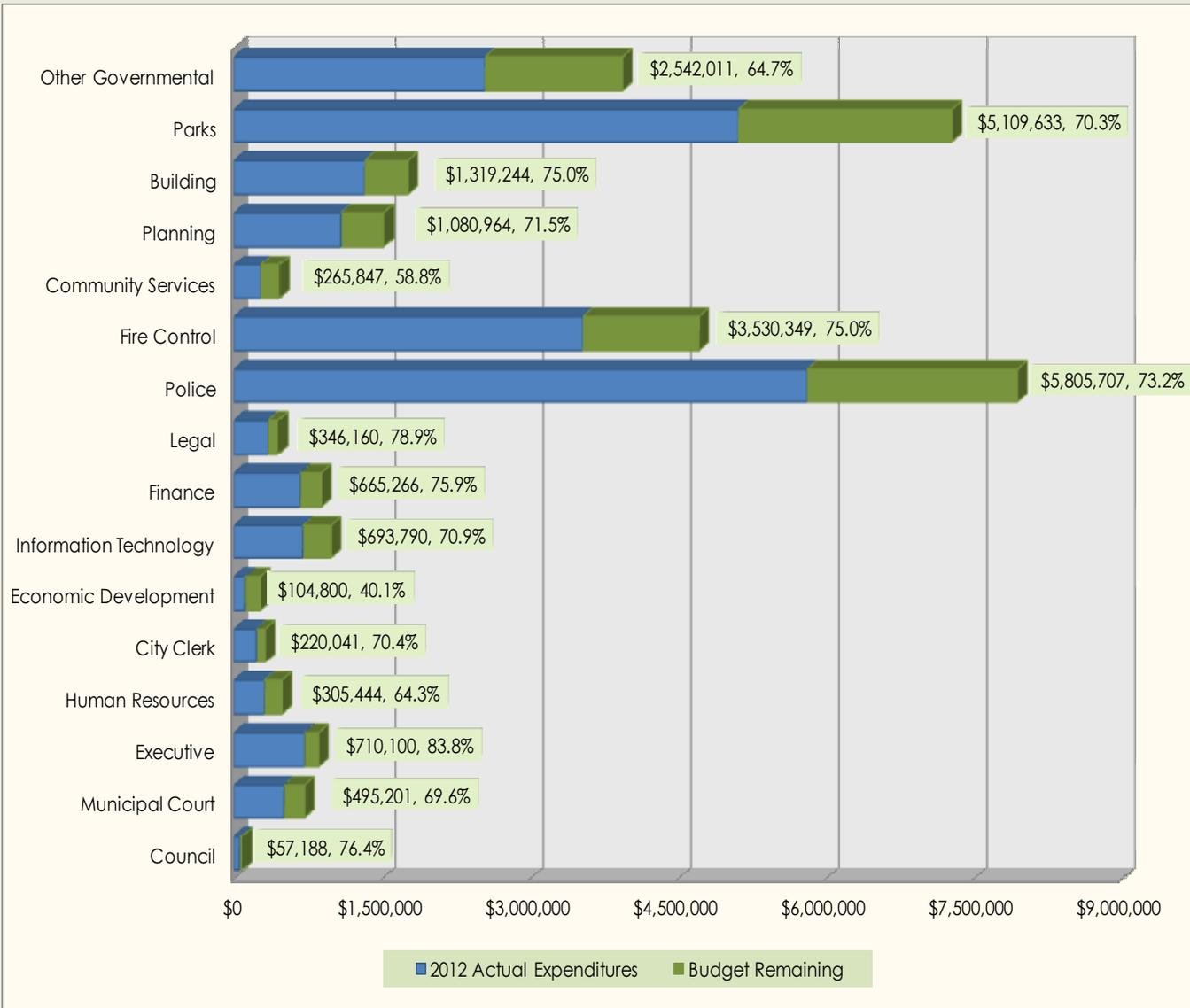
¹ The increase includes updated Council photos as well as expenses from the Council Goal Setting retreat on June 2, 2012.

² Increase represents the addition of a Probation Officer approved during the 2012 Budget Process.

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

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 3rd Quarter 2012

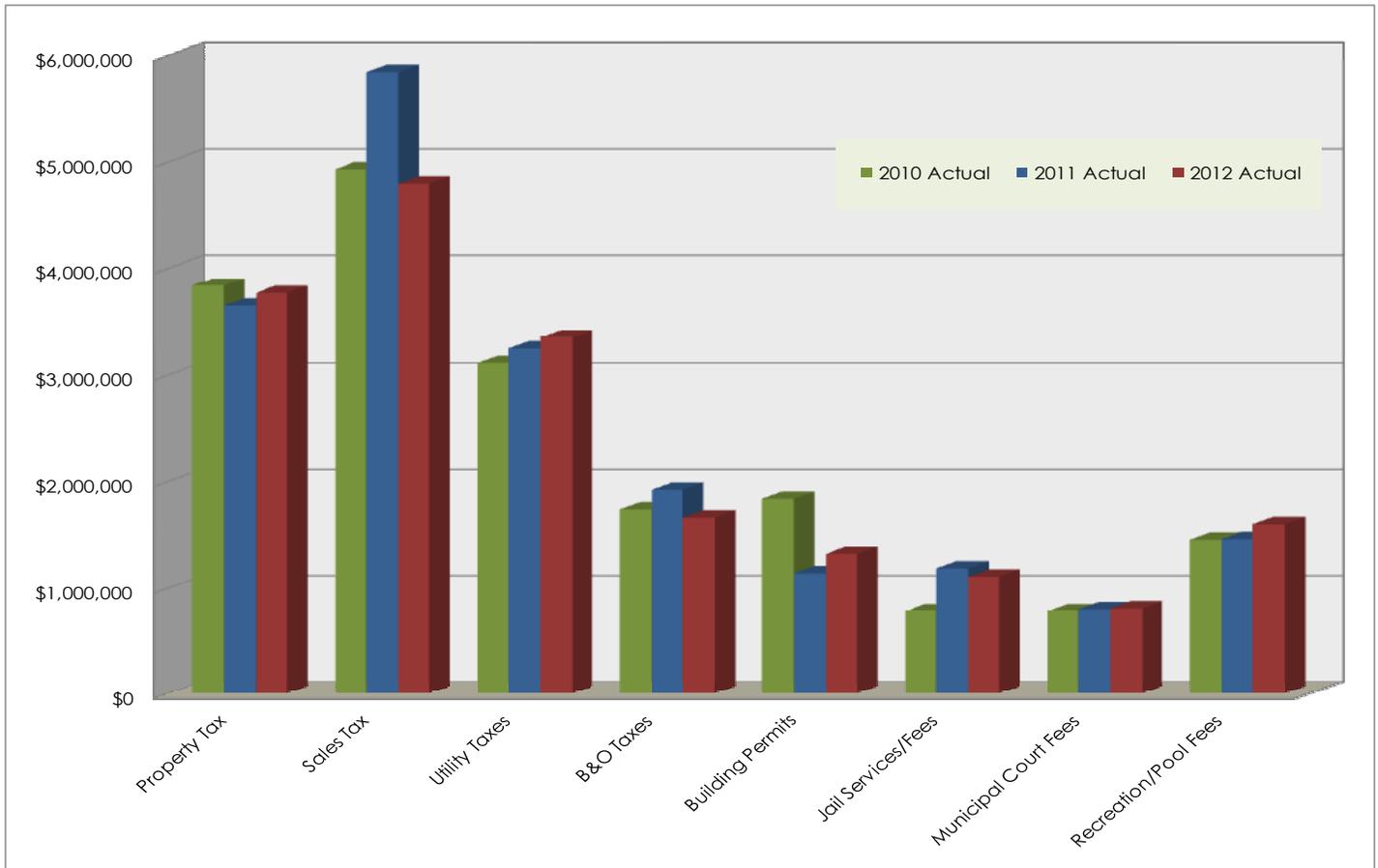
Department Name	Actual	Year-End Projection	Budget	% Variance from 2012 Budget	\$ Variance from 2012 Budget
Council	\$ 57,188	\$ 74,110	\$ 74,900	-1.1%	\$ (790)
Municipal Court	\$ 495,201	\$ 711,760	\$ 711,862	0.0%	\$ (102)
Executive	\$ 710,100	\$ 985,287	\$ 847,138	14.0%	\$ 138,149 ¹
Human Resources	\$ 305,444	\$ 447,750	\$ 475,327	-6.2%	\$ (27,577)
City Clerk	\$ 220,041	\$ 309,500	\$ 312,607	-1.0%	\$ (3,107)
Economic Development ²	\$ 104,800	\$ 252,500	\$ 261,440	-3.5%	\$ (8,940)
Information Technology	\$ 693,790	\$ 902,600	\$ 978,335	-8.4%	\$ (75,735)
Finance	\$ 665,266	\$ 859,600	\$ 876,120	-1.9%	\$ (16,520)
Legal	\$ 346,160	\$ 462,000	\$ 439,000	5.0%	\$ 23,000
Police	\$ 5,805,707	\$ 7,829,712	\$ 7,932,401	-1.3%	\$ (102,689)
Fire Control	\$ 3,530,349	\$ 4,707,133	\$ 4,707,133	0.0%	\$ -
Community Services	\$ 265,847	\$ 450,560	\$ 452,170	-0.4%	\$ (1,610)
Planning	\$ 1,080,964	\$ 1,521,115	\$ 1,512,402	0.6%	\$ 8,713
Building	\$ 1,319,244	\$ 1,703,541	\$ 1,759,008	-3.3%	\$ (55,467)
Parks	\$ 5,109,633	\$ 6,894,910	\$ 7,270,798	-5.5%	\$ (375,888)
Other Governmental	\$ 2,542,011	\$ 3,840,193	\$ 3,931,834	-2.4%	\$ (91,641)
Total GF Departments	\$ 23,251,746	\$ 31,952,271	\$ 32,542,475	-1.8%	\$ (590,204)

¹ The increase includes staffing shifts resulting from implantation of the Moss Adams study. On July 1, 2012, the Planning Director became the Special Projects and Policy Director. Expenditures also include 25 percent of the cost of the newly formed Shared Services function.

² Expenditure activity for the Economic Development Department began July 1, 2012.

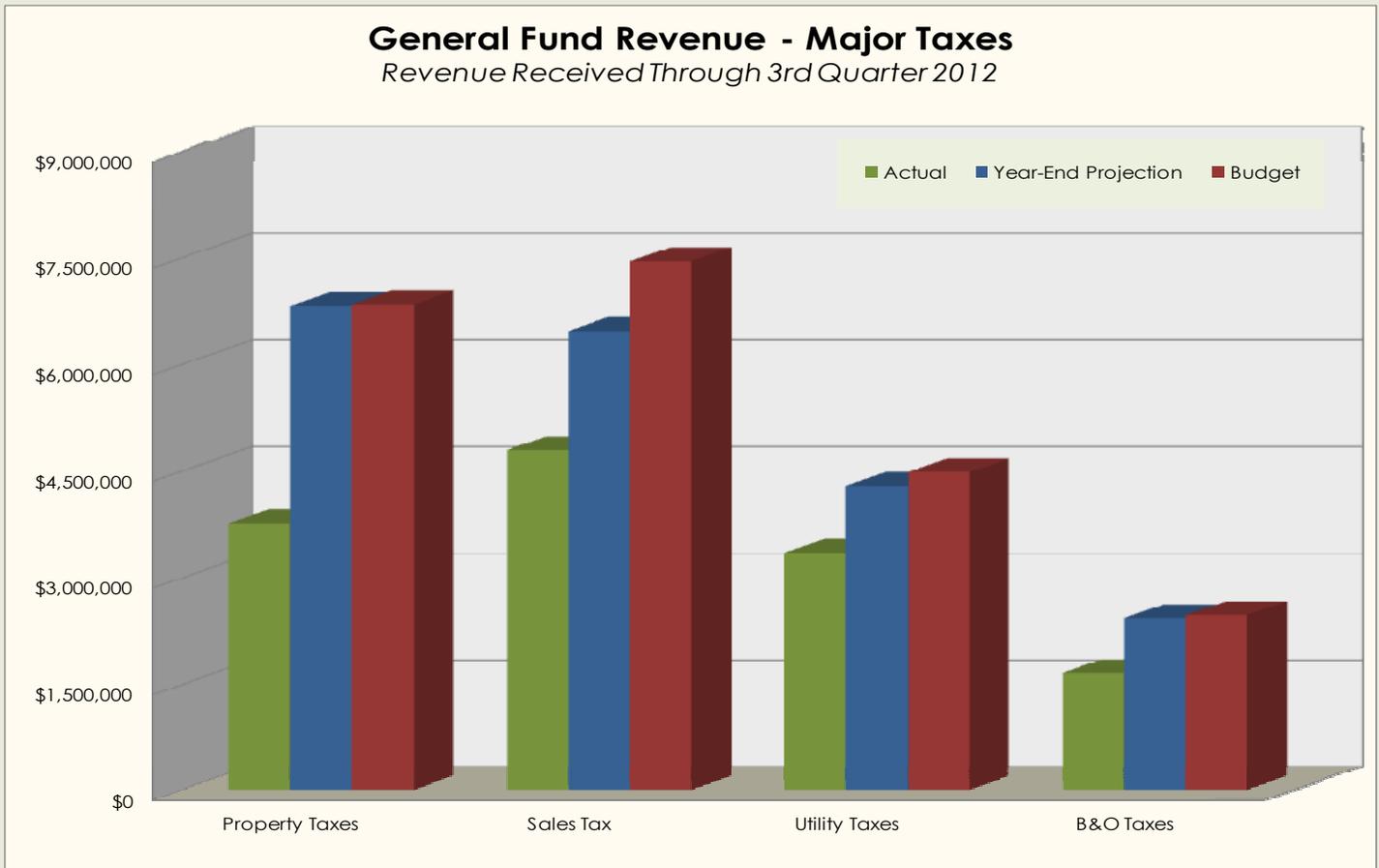
General Fund: Major Revenue Sources

Three-Year Comparison of Actual Revenue Received Through 3rd Quarter 2012



Major Revenue Sources	2010 Actual	2011 Actual	% Change From 2010	2012 Actual	% Change From 2011
Property Tax	\$ 3,838,200	\$ 3,655,662	-4.8%	\$ 3,769,626	3.1%
Sales Tax	\$ 4,932,820	\$ 5,838,725	18.4%	\$ 4,792,922	-17.9%
Utility Taxes	\$ 3,117,106	\$ 3,248,034	4.2%	\$ 3,354,775	3.3%
B&O Taxes	\$ 1,734,377	\$ 1,921,887	10.8%	\$ 1,659,566	-13.6%
Building Permits	\$ 1,841,230	\$ 1,137,597	-38.2%	\$ 1,324,257	16.4%
Jail Services/Fees	\$ 784,010	\$ 1,181,538	50.7%	\$ 1,105,601	-6.4%
Municipal Court Fees	\$ 785,088	\$ 803,524	2.3%	\$ 811,608	1.0%
Recreation/Pool Fees	\$ 1,449,905	\$ 1,455,857	0.4%	\$ 1,602,365	10.1%

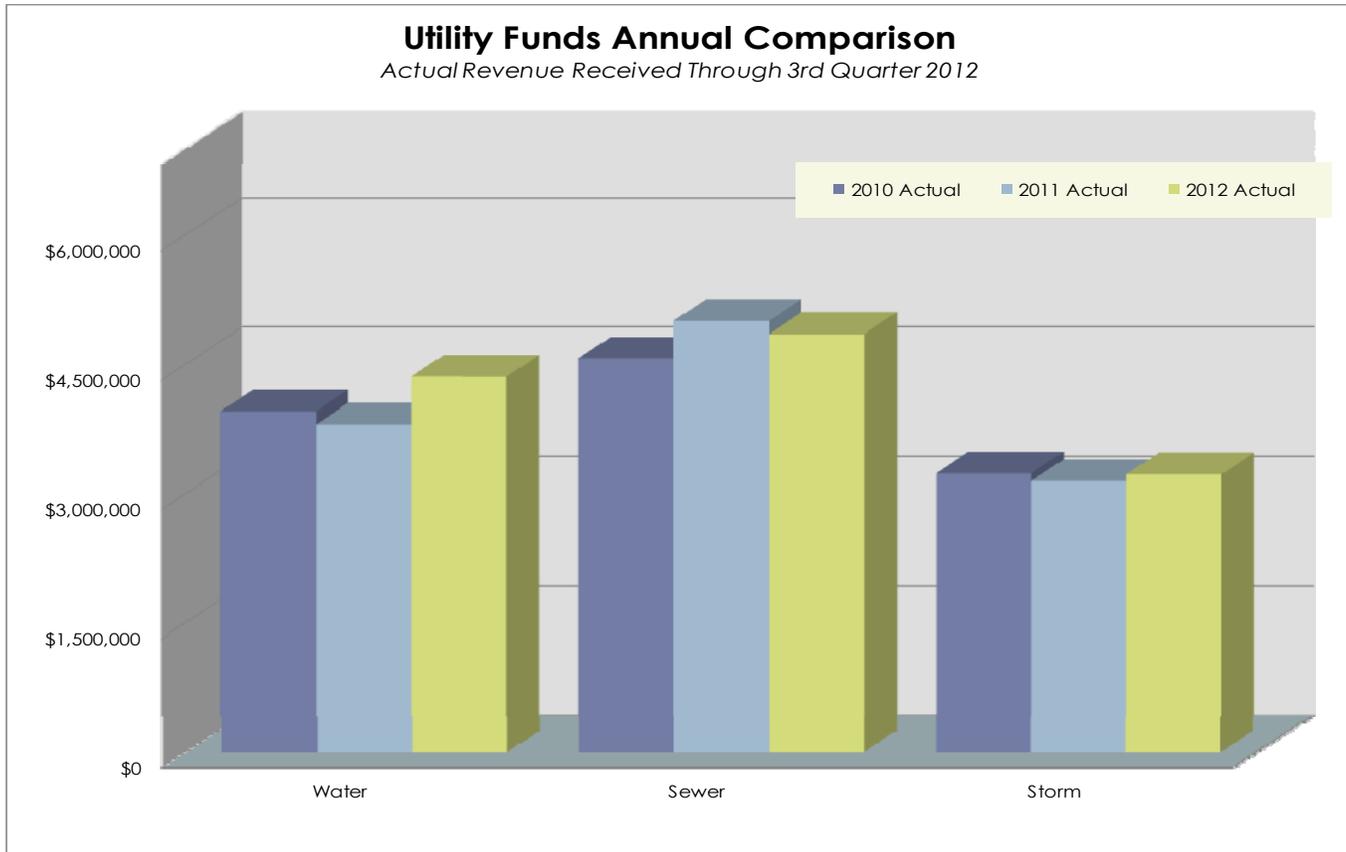
General Fund Revenue: Major Taxes Analysis



Major Tax Revenue Source	Actual	Year-End Projection	Budget	% Variance from 2012 Budget	\$ Variance from 2012 Budget
Property Taxes	\$ 3,769,626	\$ 6,826,551	\$ 6,847,848	-0.3%	\$ (21,297)
Sales Tax	\$ 4,792,922	\$ 6,473,612	\$ 7,450,000	-15.1%	\$ (976,388)
Utility Taxes	\$ 3,354,775	\$ 4,289,682	\$ 4,485,000	-4.6%	\$ (195,318)
B&O Taxes	\$ 1,659,566	\$ 2,433,387	\$ 2,475,000	-1.7%	\$ (41,613)
Total Major Tax Revenue	\$ 13,576,890	\$ 20,023,232	\$ 21,257,848	-6.2%	\$ (1,234,616)

Utility Funds Performance: Expenditures

Three-Year Comparison of Actual Expenditures Through 3rd Quarter 2012



Utility Type	2010 Actual	2011 Actual	% Change from 2010	2012 Actual	% Change from 2011
Water ¹	\$ 4,802,910	\$ 4,454,652	-7.3%	\$ 4,567,741	2.5%
Sewer ²	\$ 4,609,485	\$ 5,077,071	10.1%	\$ 5,058,546	-0.4%
Stormwater	\$ 3,001,043	\$ 3,116,629	3.9%	\$ 2,723,629	-12.6%

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

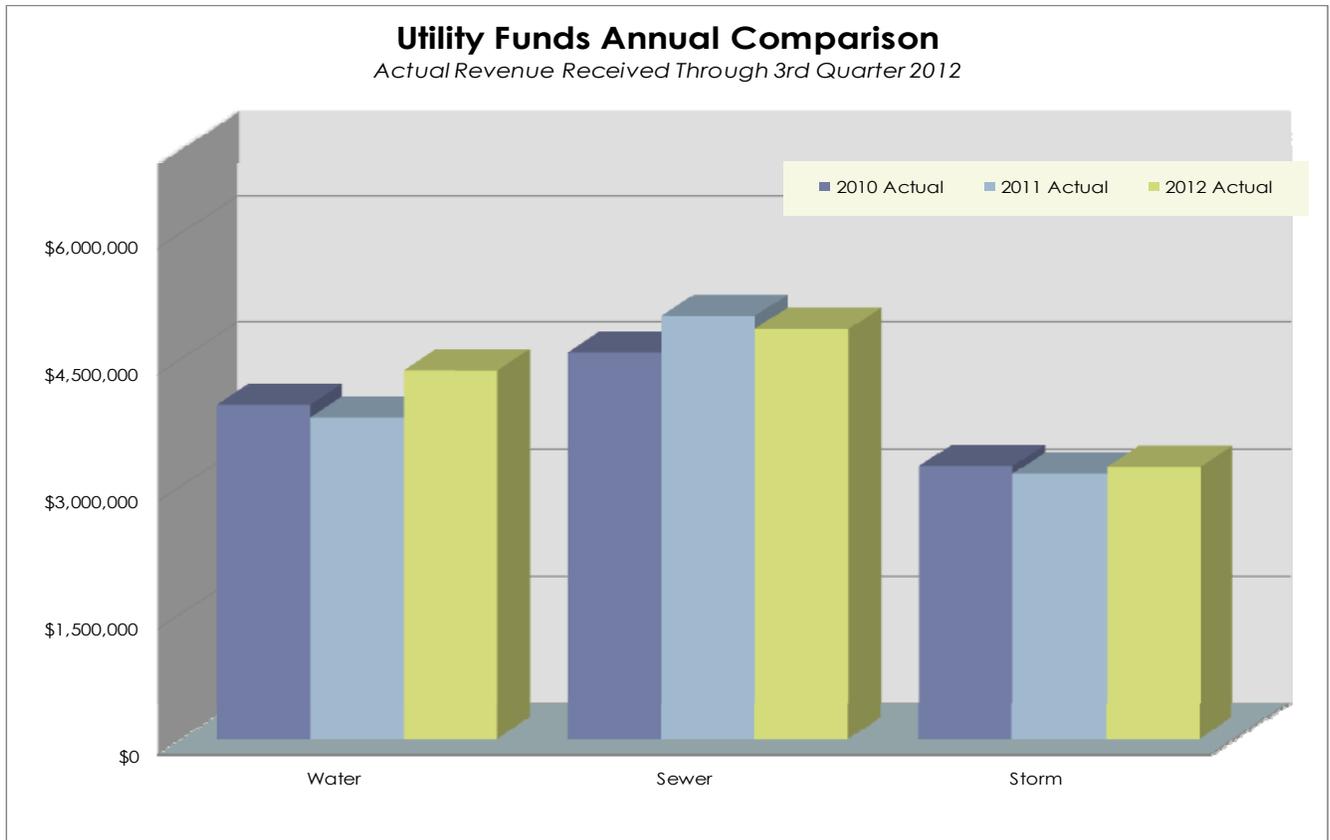
Utility Type	Actual	Year-End Projection	Budget	% Variance from 2012 Budget	\$ Variance from 2012 Budget
Water	\$ 4,567,741	\$ 6,053,826	\$ 6,171,108	-1.9%	\$ (117,282)
Sewer	\$ 5,058,546	\$ 6,885,120	\$ 7,198,505	-4.6%	\$ (313,385)
Stormwater	\$ 2,723,629	\$ 3,966,067	\$ 4,002,860	-0.9%	\$ (36,793)

¹ 9% Rate increase began with February 2012 Utility Bill

² 2011 Includes METRO pass-through increase of 13.2%

Utility Funds Performance: Revenues

Three-Year Comparison of Actual Revenue Received Through 3rd Quarter 2012



Utility Type	2010 Actual	2011 Actual	% Change from 2010	2012 Actual	% Change from 2011
Water ¹	\$ 3,958,070	\$ 3,808,620	-3.8%	\$ 4,363,175	14.6%
Sewer ²	\$ 4,574,495	\$ 5,005,337	9.4%	\$ 4,854,704	-3.0%
Stormwater	\$ 3,237,318	\$ 3,148,770	-2.7%	\$ 3,228,133	2.5%

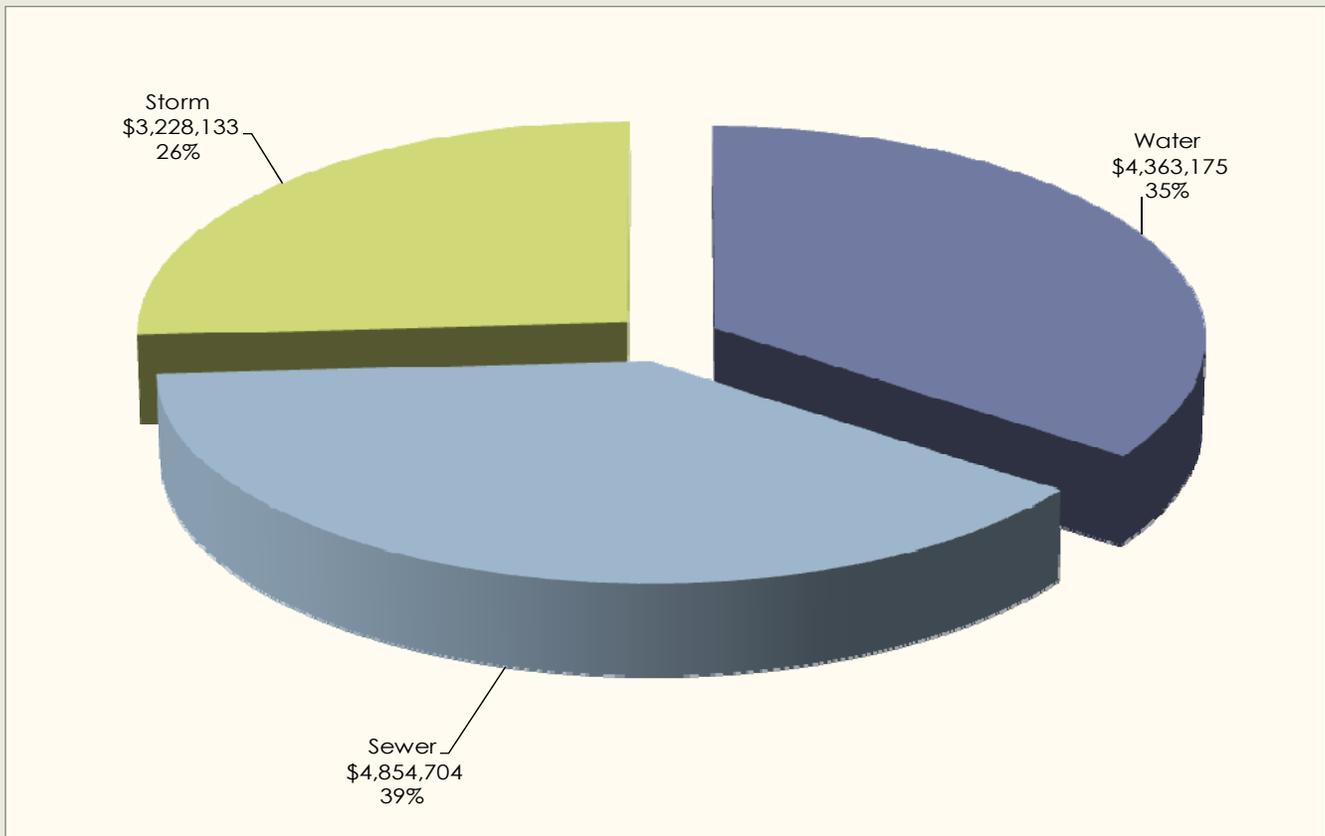
¹ 9% Rate increase began with February 2012 Utility Bill

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

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

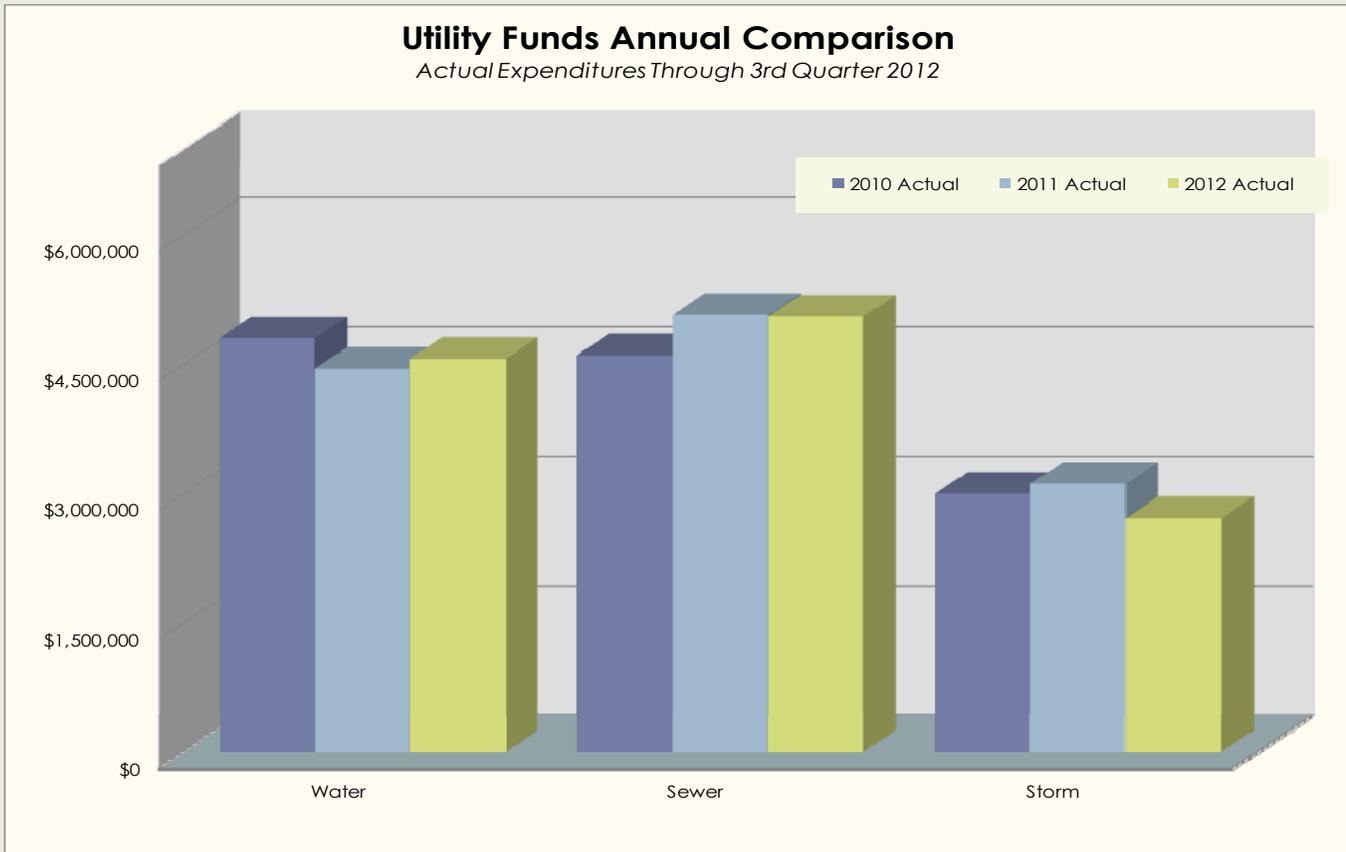
Utility Type	Actual	Year-End Projection	Budget	% Variance from 2012 Budget	\$ Variance from 2012 Budget
Water	\$ 4,363,175	\$ 6,230,000	\$ 6,282,275	-0.8%	\$ (52,275)
Sewer	\$ 4,854,704	\$ 7,000,000	\$ 7,171,689	-2.5%	\$ (171,689)
Stormwater	\$ 3,228,133	\$ 4,266,938	\$ 4,194,300	1.7%	\$ 72,638

Actual Revenue Received Through 3rd Quarter 2012: Distribution by Utility



Individual Utility Funds Performance

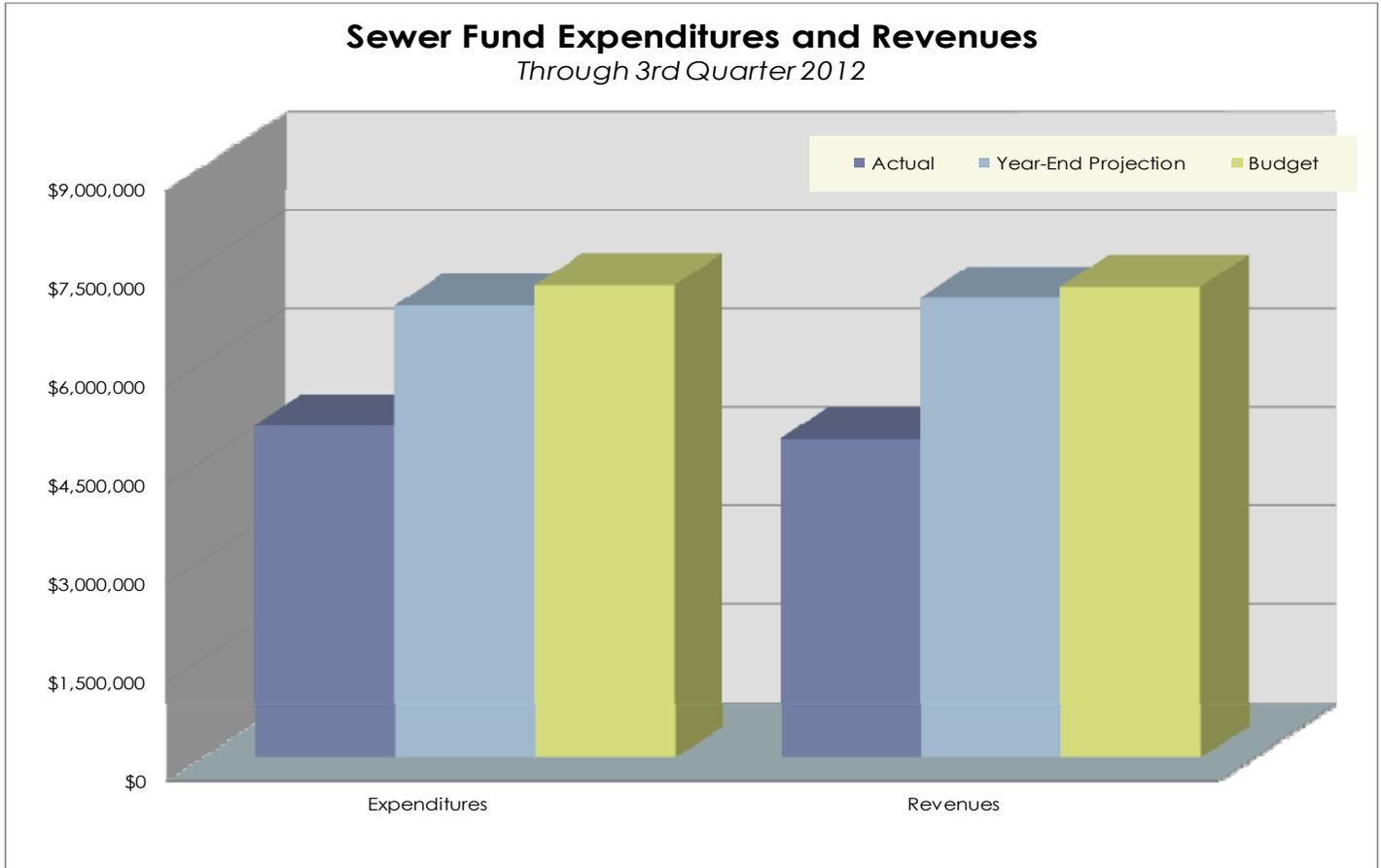
Individual Utility Fund Performance: Expenditures vs. Revenues



Water Fund	Actual	Year-End Projection	Budget	% Variance from 2012 Budget	\$ Variance from 2012 Budget
Expenditures	\$ 4,567,741	\$ 6,053,826	\$ 6,171,108	-1.9%	\$ (117,282)
Revenues	\$ 4,363,175	\$ 6,230,000	\$ 6,282,275	-0.8%	\$ (52,275)

The Water Utility Fund revenue gained some ground in meeting 2012 Budgeted amounts due to a historical, record dry weather streak. This positive revenue impact will continue into the 4th Quarter.

Sewer Fund Expenditures and Revenues Through 3rd Quarter 2012



Sewer Fund	Actual	Year-End Projection	Budget	% Variance from 2012 Budget	\$ Variance from 2012 Budget
Expenditures	\$ 5,058,546	\$ 6,885,120	\$ 7,198,505	-4.6%	\$ (313,385)
Revenues	\$ 4,854,704	\$ 7,000,000	\$ 7,171,689	-2.5%	\$ (171,689)

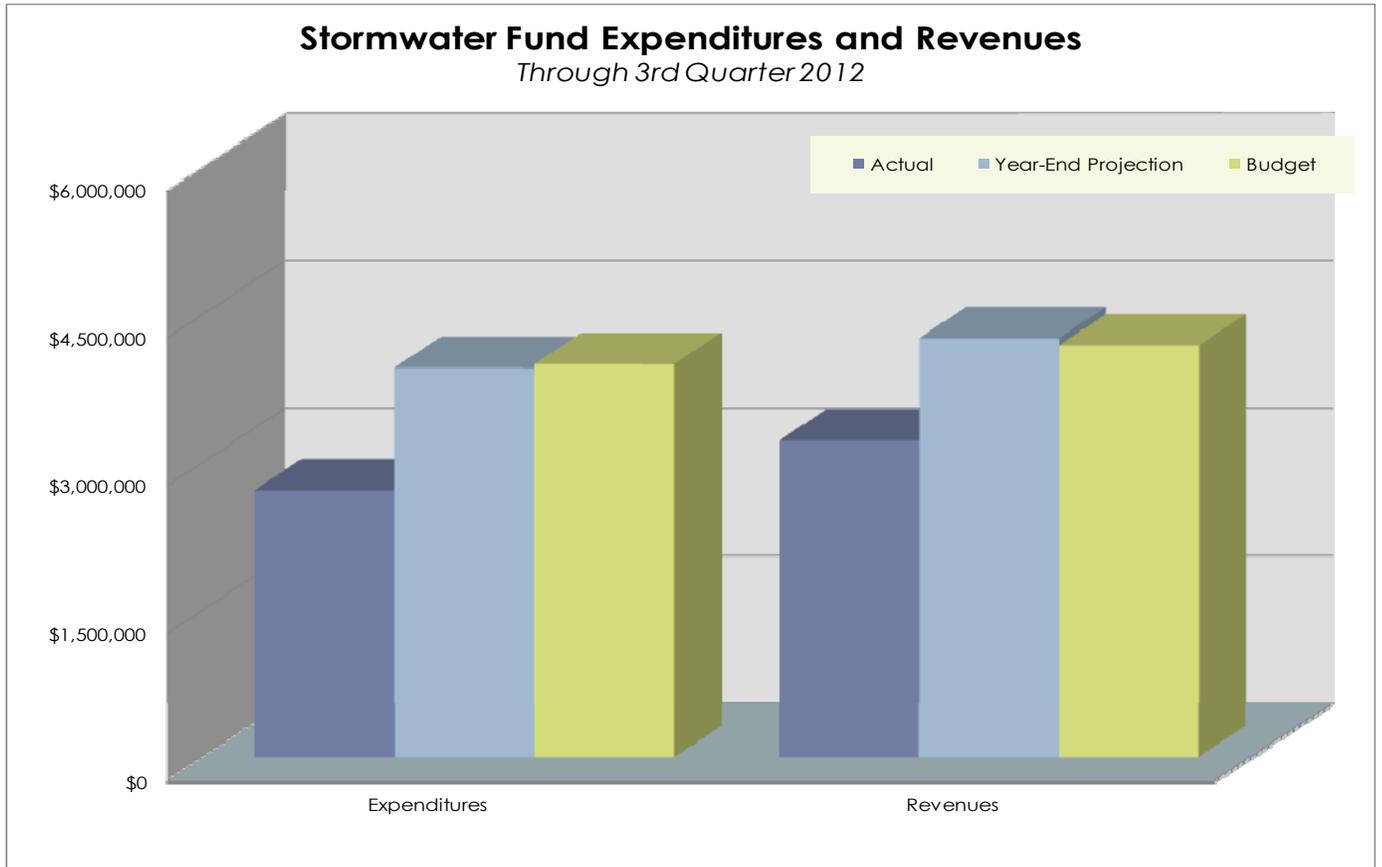
The majority of Sewer Fund revenues and expenses are directly related to a King County METRO Sewer pass-through

KC Metro Sewer	2010 Actual	2011 Actual	% Change from 2010	2012 Actual	% Change from 2012
Expenses	\$ 3,224,727	\$ 3,652,585	13.3%	\$ 3,544,325	-3.0%
% of Total Expenses	70.0%	71.9%		70.1%	
Revenue	\$ 3,182,174	\$ 3,586,112	12.7%	\$ 3,472,530	-3.2%
% of Total Revenue	69.6%	71.6%		71.5%	

Sewer Fund Revenue	2010 Actual	2011 Actual	% Change from 2010	2012 Actual	% Change from 2011
METRO	\$ 3,182,174	\$ 3,586,112	12.7%	\$ 3,472,530	-3.2%
City Sewer	\$ 1,385,944	\$ 1,380,108	-0.4%	\$ 1,380,069	0.0%

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	\$ 2,723,629	\$ 3,966,067	\$ 4,002,860	-0.9%	\$ (36,793)
Revenues	\$ 3,228,133	\$ 4,266,938	\$ 4,194,300	1.7%	\$ 72,638

Economic Environment Update

Third Quarter Economic Outlook

United States

In the three months since the June forecast, U.S. economic activity has generally been in line with the baseline scenario. We continue to see slow growth, high unemployment and weak confidence. Despite the relatively small changes in the economic forecast, the level of downside uncertainty in the baseline remains high.

As in June, factors outside the state account for the high downside risk. 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.

Slow European growth increases the difficulty in resolving the 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.

In the absence of Congressional action, payroll and income tax rates will increase, across-the-board budget cuts will be implemented, and emergency unemployment benefits extension will expire at the end of this year. The Congressional Budget Office estimates that the

impact of not addressing this "fiscal cliff" would be a return to recession in the first half of 2013. State forecasters assume that, after the election, the outgoing Congress will extend the deadlines to avoid tax increases or budget cuts, with a compromise on fiscal policy to be enacted by the new Congress.

Washington State and Local

The Washington economy continues to grow at a moderate pace, is still likely to outperform the nation, but by a small margin

The slowing global economy has put an end to Washington's export boom. Total exports in the second quarter of 2012 were only 7.5 percent higher than in the previous year compared to 25.2 percent growth in the first quarter and 32.2 percent growth in the second quarter of last year. Transportation equipment exports (mostly Boeing planes) were 21.3 percent higher than in the previous year but exports other than transportation equipment declined 2.8 percent. This was the first year-over-year decline in non-transportation equipment exports since mid-2009.

The forecast for Washington employment is very similar to June's forecast. As in June, aerospace employment is expected to peak at the end of this year and begin a gradual decline in mid-2013. Construction employment is expected to remain moderate through the remainder of this year with growth gradually picking up beginning in 2013. Government employment is expected to decline through late 2013 with only modest growth thereafter.

Number of Active Issaquah Business Licenses	
2010	4,646
2011	4,331
2012	4,929

2010 and 2011 data thru Dec.
2012 data thru Sep.

Source: Issaquah Development
Services Department

(Continued on page 16)

(Continued from page 15)

Housing construction, however, is continuing to gradually improve due mainly to the multi-family segment. Washington housing permits came in at 28,100 units in the second quarter of 2012 compared to 27,700 in the first quarter and 20,600 in the fourth quarter of 2011.

Issaquah annual permit statistics through the third quarter are as follows:

Permit Type	2010	2011	2012
Single Family:			
New	66	108	163
Alterations	69	75	46
Multi-family:			
New	7	3	6
Alterations	70	27	18
Commercial:			
New	12	5	4
Alterations	88	91	81

According to the S&P/Case-Shiller Home Price Indices, seasonally adjusted Seattle area home prices have risen in each of the last four months and, as of June, are now 1.7 percent higher than the previous June. Seattle home prices had not registered a year-over-year gain since December 2007. Nationally, June home prices were up 0.5 percent compared to the previous year.

(Source: State of Washington Economic & Revenue Forecast Council Sep. 6, 2012 Report)

Consumer Price Index

Seattle metro consumer price index for All Urban Consumers (CPI-U) in August was 2.7 percent, remaining the same level as reported in June. The Seattle index is calculated bi-monthly.

Prices in the greater Seattle Area advanced 0.3 percent for the two months ending August 2012. The August increase was influenced by higher prices for shelter and apparel.

Over the last 12 months, the CPI-U rose 2.7 percent. Energy prices rose 2.4 percent, largely the result of an increase in the price of gasoline. The index for all items less food and energy advanced 3.0 percent since August 2011.

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

Consumer Confidence

The Conference Board Consumer Confidence Index improved in September, rebounding to levels last seen in February. The index now stands at 70.3.

Consumers were more positive in their assessment of current conditions, in particular the job market, and about the short-term outlook for business conditions, employment and their financial situation. Despite continuing economic uncertainty, consumers are slightly more optimistic than they have been in several months.

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, Sep. 25, 2012)

	Aug. 2012	Aug. 2011
United States		
Unemployment Rate	8.1%	9.1%
Washington		
Unemployment Rate	8.6%	9.2%
Resident Labor Force	3,497,100	3,479,700
Unemployed	301,700	319,600
Seattle/Bellevue/Everett		
Unemployment Rate	7.7%	8.4%
Resident Labor Force	1,506,400	1,494,500
Unemployed	116,700	124,900

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