



City of Liberty Lake

Work · Live · Play

Quarterly and Mid-Year Financial Report

Second Quarter 2010

July 16, 2010

Overview

The Quarterly Financial Report provides a summary budget to actual comparison of revenues and expenditures for each fund through the end of the most recently completed fiscal quarter. The information contained in this report is prepared on a cash basis.

General Fund

Revenues

The majority of General Fund revenue collections at the end of second quarter closely followed projections. The City continues to experience a significant decline in retail sales tax revenue. Retail sales tax declined 8% comparing mid-year 2009 with mid-year 2010.

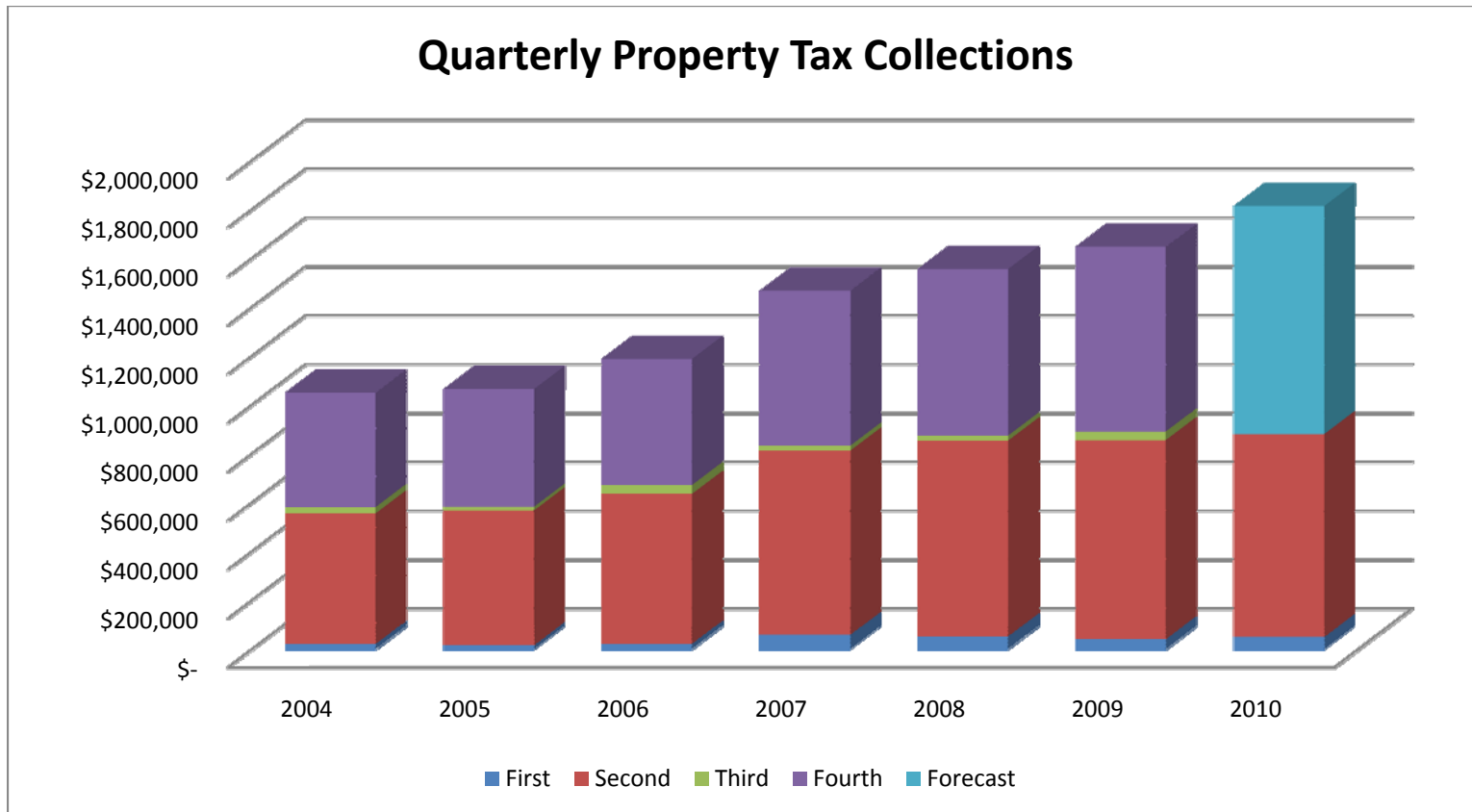
On a positive note, the City again experienced an increase in revenues related to building activities in the second quarter compared to second quarter 2009. The City collected \$76,356 in building permit fees for second quarter which represented 51% of the budget. The following table shows budgeted and actual revenues from January 1 through June 30, 2009 and 2010. The table also shows the percentage of revenues utilized and the remaining uncollected balance through June 30, 2010.

General Fund: Revenues

Revenue Category	Second Quarter Actuals		Mid-Year Actuals		Projected		% of Revenues Collected for Mid-Year		Remaining
	4/1/09 - 6/30/09	4/1/10 - 6/30/10	1/1/09 - 6/30/09	1/1/10 - 6/30/10	2009	2010	2009	2010	2010
Sales Tax	405,733	387,444	833,820	767,969	1,854,000	1,752,079	44.97%	43.83%	984,110
Property Tax	815,058	830,758	855,028	880,417	1,762,712	1,813,405	48.51%	48.55%	932,988
Other Taxes	59,001	62,638	101,771	106,186	193,500	207,104	52.59%	51.27%	100,918
Licenses and Permits	49,752	83,822	104,058	188,790	380,160	227,350	27.37%	83.04%	38,560
Intergovernmental Revenue	38,912	35,133	113,331	73,324	672,100	602,664	16.86%	12.17%	529,340
Charges for Services	29,030	36,277	38,302	59,158	123,800	91,300	30.94%	64.79%	32,142
Fines and Forfeitures	19,847	19,670	36,801	36,192	64,000	65,000	57.50%	55.68%	28,808
Miscellaneous Revenues	12,930	7,639	18,468	9,979	52,400	16,600	35.24%	60.11%	6,621
Other Revenues	-	734	-	734	-	-			(734)
Total Revenues	1,430,263	1,464,114	2,101,579	2,122,749	5,102,672	4,775,502	41.19%	44.45%	2,652,753
Non Revenue Sources	23,508	23,820	44,023	41,134	67,050	65,750	65.66%	62.56%	24,616
Beginning Fund Balance on April 1st	1,425,569	1,291,584							
Total Resources	2,879,340	2,779,518							

- *Taxes.* This category reflects the collection of sales and use taxes; property taxes; public safety; admissions taxes; and leasehold excise taxes.

Of the \$3.7 million projected, \$1.8 million is in the form of property tax. Property tax revenues are typically received during the second and fourth quarters of the year. Through the second quarter 2010 the City has collected 49% of the property taxes projected. Total property tax collections through the second quarter of 2010 were \$880,417. The table below reflects quarterly property tax collections from 2004 to 2010.



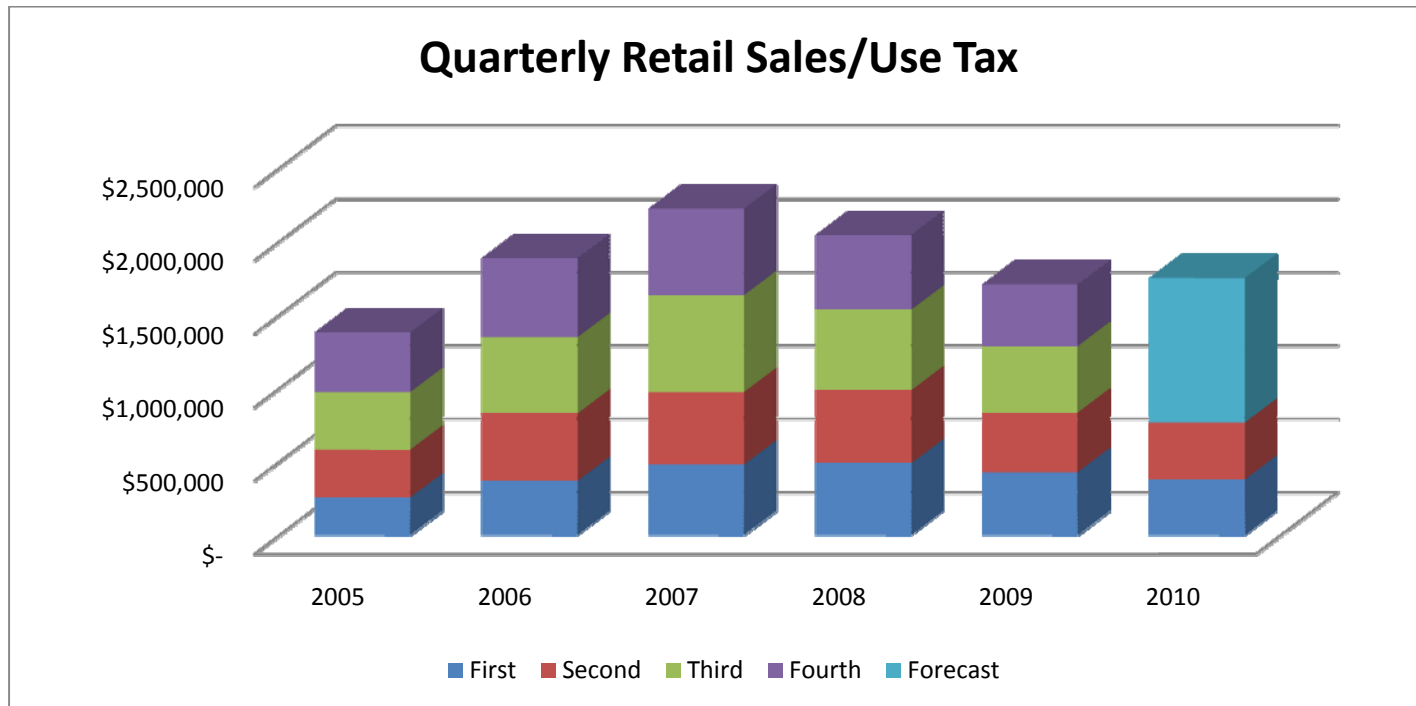
The City continued to experience a decline in retail sales tax revenue for second quarter 2010. The City experienced a 5% percent decline in retail sales and use tax for second quarter 2010 compared to second quarter 2009. Comparing 2009 with 2010 sales tax collections, the City experienced losses in construction, wholesale trade, and retail. The City experienced a 2% decline in the retail sector which accounts for approximately 55% of all sales and use tax revenue collected.

Sales tax collections fluctuate from quarter to quarter due to seasonal activity. The City typically receives more sales tax revenue in the second half of the year. The following table compares 2010 to 2009 sales tax revenue for second quarter and includes a breakdown by business sector.

Second Quarter Retail Sales and Use Tax

Business Sector	Revenue (April - June)		% Change	% of Total	
	2009	2010		2009	2010
Construction	\$ 48,157	\$ 32,150	-33%	12%	8%
Manufacturing	\$ 10,076	\$ 14,895	48%	2%	4%
Wholesale Trade	\$ 45,641	\$ 31,611	-31%	11%	8%
Retail	\$ 216,104	\$ 212,159	-2%	53%	55%
Telecommunications & Other Information Services	\$ 18,615	\$ 19,616	5%	5%	5%
Finance, Insurance, Real Estate, & Administrative Support Services	\$ 16,374	\$ 16,793	3%	4%	4%
Accommodation and Food Service	\$ 24,430	\$ 27,210	11%	6%	7%
All Other Sectors	\$ 26,336	\$ 33,010	25%	6%	9%
Total	\$ 405,733	\$ 387,444	-5%	100%	100%

The following chart displays the quarterly retail sales and use tax collected since 2004. Growth in taxable retail sales over the past several years had been fueled by new construction and real estate related sectors, which had significant growth between 2005 and 2007, however growth has slowed significantly following the economic downturn.



Business Sector Descriptions

Construction: The construction industry is divided into three major segments. The *construction of building* segment includes contractors, usually called general contractors, who build residential, industrial, commercial, and other buildings. *Heavy and civil engineering construction contractors* build sewers, roads, highways, bridges, tunnels, and other projects. *Specialty trade contractors* perform specialized activities related to construction such as carpentry, painting, plumbing, and electrical work.

Manufacturing: The establishments in these industries produce a variety of goods, some of which are sold to the consumer, while others are sold as inputs to the manufacture of other products. Goods manufactured include computers and electronics, cabinets, machinery and parts to name a few.

Wholesale Trade: When consumers purchase goods, they usually buy them from a retail establishment, such as a supermarket, department store, gas station, or Internet site. When businesses, government agencies, or institutions, such as universities or hospitals, need to purchase goods, they normally buy them from wholesale trade establishments. Retail establishments purchase goods for resale to consumers, but other establishments purchase equipment, motor vehicles, office supplies, or any other items for their own use. Customers of wholesale trade firms buy goods for use in making other products, as in the case of a bicycle manufacturer that purchases steel tubing, wire cables, and paint. Customers also may purchase items for use in the course of daily operations, as when a corporation buys office furniture, paper clips, or computers.

Retail: In the retail industry goods or commodities are sold usually in small quantities directly to consumers. Retailing includes the Internet, specialty stores, department stores, supermarkets, as well as auto, boat and RV dealers.

Telecommunications & Other Information Services: The telecommunications industry delivers voice communications, data, graphics, television, and video at ever increasing speeds and in an increasing number of ways. Whereas wireline telephone communication was once the primary service of the industry, wireless communication services, Internet service, and cable and satellite program distribution make up an increasing share of the industry.

Finance and Insurance, Real Estate, & Administrative and Support Services: This category is very diverse. Under finance and insurance it can include such subcategories as credit intermediation, securities and commodity contracts, funds, trusts and other financial services. Real estate could include general real estate and leasing services. Administrative and support includes general administrative and support services, as well as waste management and remediation services.

Accommodation and Food Service: This industry includes all types of lodging. While many provide simply a place to spend the night, others cater to longer stays by providing food service, recreational activities, and meeting rooms. Food services and drinking places

may be the world's most widespread and familiar industry. These establishments include all types of restaurants, from fast-food eateries to formal dining establishments.

All Other Sectors: This category represents sectors not represented by those listed above. In terms of sales and use tax revenue, this category represents a small percentage of the overall revenue collected. All other sectors could include mining, utilities, transportation and warehousing, educational services, ambulatory health care services, and unclassifiable.

- *Licenses and Permits.* This revenue source reflects the collection of business licenses; solicitor licenses; cable franchise fees; building permits; and state building code surcharges. Building permit fees and cable franchise fees constitute 93% of the revenue in this category. The City received 131 new business license applications for second quarter.
- *Intergovernmental.* Intergovernmental revenues are grants, entitlements, shared revenues and payments for goods and services provided by one government to another. Revenues in this category include state-distributed money to be used for criminal justice purposes; state distributed revenue to counties and cities for the cost of implementation of the DUI and other criminal justice statutes; state-distributed taxes on liquor sold at state liquor stores and agencies and on other retail sales of wine; state distributed mitigation payments as part of streamline sales tax; and lastly, state distribution of license and permit fees, penalties, forfeitures, and other income received by the Liquor Control Board.
- *Charges for Services.* Charges for Services are revenues generated from the rendering of services for a fee. Charges for services will vary from month to month due to the seasonal activities that take place throughout the year.
- *Fines and Forfeits.* Fines and forfeits revenues are received from traffic fines and infractions. The City collected over the projected amount for the year in this category. Fines and forfeitures vary from month to month due to seasonal fluctuation.
- *Miscellaneous Revenues.* This category represents revenues derived from sources not otherwise provided for in other accounts. Miscellaneous revenues primarily reflect interest earned on investments; donations; and private grants awarded to the City.

Expenditures

Comparing total actual to total budgeted expenditures through the second quarter, the General Fund was 39% of the budget which does not include non-expenditures (WA State Court Remittances) and Ending Balance. Expenditures for second quarter totaled \$1,289,862. The following table shows budgeted and actual expenditures through June 30, 2009 and 2010. An ending balance of \$1,473,183 has been maintained through the end of June for cash flow purposes.

General Fund: Expenditures

Expenditure Category	Second Quarter Actuals		Mid-Year Actuals		Budget		% Expended for Mid-Year		Remaining
	04/1/09 - 06/30/09	4/1/10 - 6/30/10	1/1/09 - 6/30/09	1/1/10 - 6/30/10	2009	2010	2009	2010	2010
General Government Services	415,007	501,918	575,089	678,522	1,711,170	1,851,155	33.61%	36.65%	1,172,633
Legislative	17,035	15,538	32,410	25,924	92,851	75,801	34.90%	34.20%	49,877
Municipal Court	24,679	25,201	54,403	30,523	148,000	152,440	36.76%	20.02%	121,917
Executive	17,432	10,766	20,593	15,345	69,011	64,311	29.84%	23.86%	48,966
Legal	12,000	12,000	20,000	20,422	48,500	48,000	41.24%	42.55%	27,578
Administrative Services	113,738	100,486	217,646	201,817	529,308	545,618	41.12%	36.99%	343,801
Law Enforcement	301,590	318,128	576,172	588,346	1,140,656	1,184,596	50.51%	49.67%	596,250
Planning and Building Services	103,323	81,587	201,834	160,937	439,802	351,593	45.89%	45.77%	190,656
Recreation & Youth Programs	15,750	15,860	24,374	25,290	123,800	84,527	19.69%	29.92%	59,237
Parks	78,907	208,379	100,216	232,473	852,702	669,022	11.75%	34.75%	436,549
Subtotal	1,099,461	1,289,862	1,822,737	1,979,600	5,155,800	5,027,063	35.35%	39.38%	3,047,463
WA State Court Remittances	22,739	16,473	22,739	16,473	76,100	64,750	29.88%	25.44%	48,277
Total Expenditures	1,122,200	1,306,335	1,845,475	1,996,072	5,231,900	5,091,813	35.27%	39.20%	3,095,741
Ending Balance on June 30th	1,757,140	1,473,183							

Other Fund Revenues

The majority of revenue collections in other funds were on track for the second quarter. Most funds in this category receive revenue through internal transfers from the General Fund including Library, Street Light Utility, Street, Restricted Reserve, Debt Service, Street Capital, Library Capital, and Unemployment. Gas tax revenues in the Street Fund increased 3% when compared to second quarter 2009. This tax is tied to the number of gallons sold, not the price per gallon. The gas tax is collected at the state level and distributed to cities based on percent of population as compared with the State. REET revenues increased 6% from second quarter 2009.

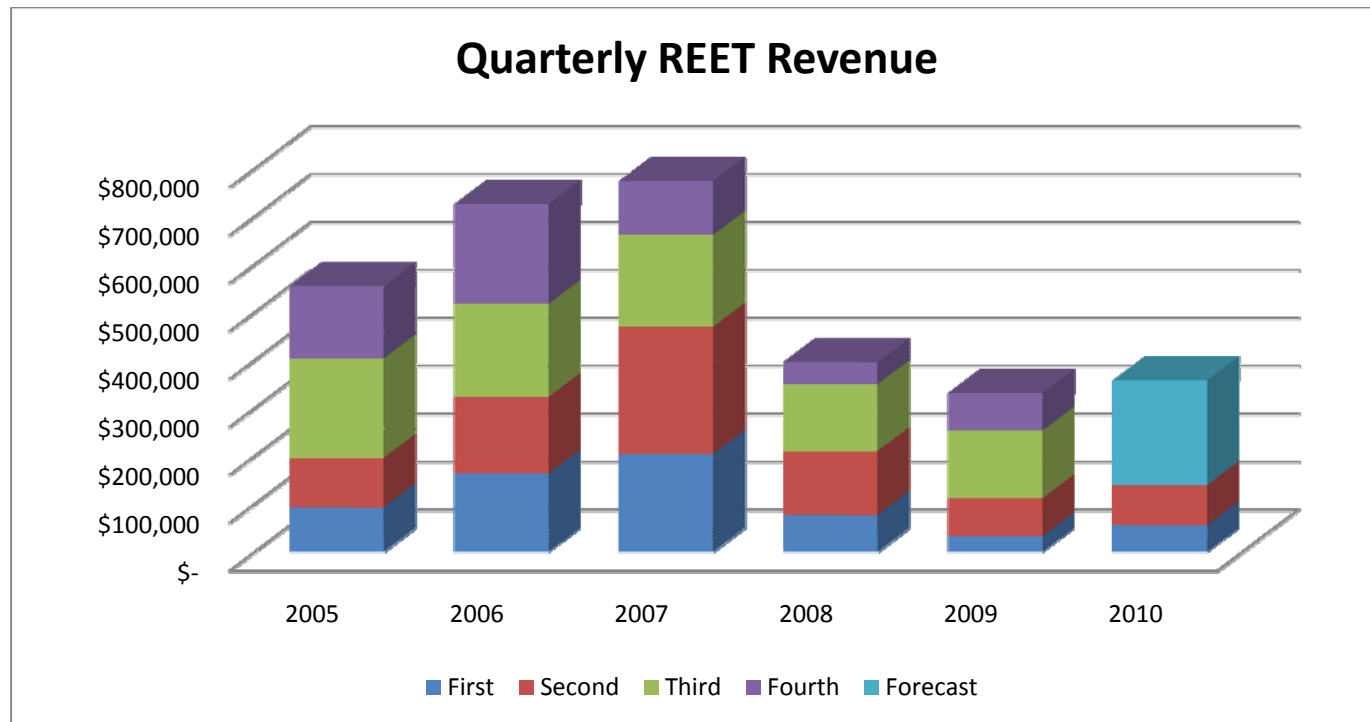
Revenue Category	Second Quarter Actuals		Mid-Year Actuals		Projected		% of Revenues Collected for Mid-Year		Remaining
	04/01/09 - 06/30/09	04/01/10 - 06/30/10	01/01/09 - 06/30/09	01/01/10 - 06/30/10	2009	2010	2009	2010	2010
	Municipal Library	109,768	188,535	212,023	253,341	481,008	489,303	44.08%	51.8%
Street Light Utility Fund	5,699	77	9,441	2,037	20,000	25,000	47.21%	8.1%	22,963
Street Fund	128,655	166,077	164,077	255,402	556,553	851,147	29.48%	30.0%	595,745
Tourism Promotion Fund	7,022	7,232	12,239	11,996	41,485	36,970	29.50%	32.4%	24,974
Tourism Promotion Area Fund	4,664	5,130	7,509	8,279	28,921	22,274	25.96%	37.2%	13,995
Restricted Reserve Fund	7,510	851	7,854	1,351	63,092	8,000	12.45%	16.9%	6,649
G.O. Bond Debt Service	16,554	15,901	16,554	15,901	63,108	67,203	26.23%	23.7%	51,302
LTGO Redemption Note	42,003	42,003	84,006	84,006	168,402	168,112	49.88%	50.0%	84,106
City Land LTGO Bond Fund	80,760	80,760	80,760	80,760	162,439	161,520	49.72%	50.0%	80,760
Capital Projects Fund	39,936	41,940	56,598	70,994	208,041	151,000	27.21%	47.0%	80,006
Special Capital Projects Fund	39,890	41,908	56,520	68,594	208,050	151,000	27.17%	45.4%	82,406
Street Capital Projects Fund	805	419	1,982	730	193,900	177,808	1.02%	0.4%	177,078
Outlet Trail Project	19	7	43	13	180	75	24.01%	17.7%	62
Pedestrian/Bicycle Bridge Fund	10	4	25	7	132	50	19.19%	14.7%	43
Harvard Road Mitigation Fund	13,132	34,491	16,624	67,067	171,514	32,600	9.69%	205.7%	(34,467)
Library Capital Fund	-	7	-	9	-	106,936		0.0%	106,927
City Hall LTGO Bond Fund	54,042	54,042	54,042	54,042	108,086	108,086	50.00%	50.0%	54,044
Stormwater Utility Fund	29,410	27,381	31,739	30,122	52,868	53,919	60.03%	55.9%	23,797
Golf Course	195,084	162,688	236,415	239,397	566,086	407,800	41.76%	58.7%	168,403
Unemployment Fund	3,492	9	3,523	16	7,878	39,100	44.72%	0.0%	39,084
Total Revenues	778,455	869,461	1,051,975	1,244,066	3,101,743	3,057,903	33.92%	40.7%	1,813,837
April Beginning Fund Balance for All Funds except the General Fund	2,887,244	3,602,178							
Total Resources	3,665,699	4,471,639							

- *Hotel/Motel Tax (Tourism Promotion Fund)*. The Hotel/Motel Tax is derived from the sale or charge made for the furnishing of lodging by any hotel, motel, rooming house, tourist court, or trailer camp within the city limits of Liberty Lake for less than 30 consecutive days. In Spokane County, there must be 40 or more units for the tax to apply. The City levies a special excise tax of two percent.
- *Tourism Promotion Area (Tourism Promotion Area Fund)*. The City established a tourism promotion area (TPA) that encompasses the entire City of Liberty Lake and has authorized lodging charges within the established area. Lodging businesses in the TPA that have 40 or more units must collect the lodging charge from persons who purchase lodging. The City receives \$1.00 per night of stay for lodging businesses with 40 or more units with lodging revenues exceeding five hundred thousand dollars during the preceding calendar year. The City receives \$.50 per night of stay for lodging businesses with 40 or more units with lodging revenues below five hundred thousand dollars during the preceding calendar year.
- *Restricted Reserve Fund*. The Restricted Reserve Fund is generally maintained at 15% of the General Fund's projected or actual, if known, operating revenues for the fiscal year. Policies for management and use of the Restricted Reserve Fund are laid out in City of Liberty Lake Ordinance No. 107-D.

- *REET (Capital Projects Fund & Special Capital Projects Fund)*. Real Estate Excise Tax (REET) of one-quarter of one percent of the selling price is imposed on each sale of property in the City of Liberty Lake. The tax is deposited into the Capital Projects Fund and is restricted to fund any capital purpose identified in a capital improvement plan and local capital improvements including those listed in RCW 35.43.040.

There is an additional one-quarter of one percent on real estate sales within the city limits. According to state law, cities planning under GMA have the authority to levy a second quarter percent tax (REET 2). Funds from REET 2 are placed in a Special Capital Project Fund and used solely for financing capital projects as specified in a capital facilities plan element of the comprehensive plan.

REET collections have declined significantly since 2007, however, REET revenue has increased over the previous year for the last four consecutive quarters. Second quarter REET revenues increased 6% in 2010 compared to 2009. The chart below demonstrates quarterly fluctuations in REET collections since 2005.



Other Fund Expenditures

Other fund expenditures typically followed the historic spending pattern. Comparing total actual to total budgeted expenditures through the second quarter, Other Fund Expenditures were 35% of the budget which does not include Ending Fund Balance.

Expenditure Category	Second Quarter Actuals		Mid-Year Actuals		Budget		% Expended for Mid-Year		Remaining
	4/1/09 - 6/30/09	4/1/10 - 6/30/10	1/1/09 - 6/30/09	01/01/10 - 6/30/10	2009	2010	2009	2010	2010
Municipal Library	110,030	93,743	217,908	187,877	456,174	450,137	47.77%	41.74%	262,260
Street Light Utility Fund	5,699	78	9,441	2,037	20,000	25,000	47.20%	8.15%	22,963
Street Fund	105,463	124,573	207,929	210,098	688,518	896,682	30.20%	23.43%	686,584
Tourism Promotion Fund	-	9,206	-	9,206	60,000	60,000	0.00%	15.34%	50,794
Tourism Promotion Area Fund	2,832	-	2,832	-	28,921	22,274	9.79%	0.00%	22,274
Restricted Reserve Fund	-	-	-	160	-	1,200		13.33%	1,040
G.O. Bond Debt Service	16,554	15,901	16,554	15,901	63,108	67,203	26.23%	23.66%	51,302
LTGO Redemption Note	42,003	42,003	84,006	84,006	168,402	168,112	49.88%	49.97%	84,106
City LL Land LTGO Bond Fund	80,760	80,760	80,760	80,760	162,439	161,520	49.72%	50.00%	80,760
Capital Projects Fund	18,389	71,604	95,010	71,604	212,920	172,920	44.62%	41.41%	101,316
Special Capital Projects Fund	45,561	71,604	105,569	71,604	212,920	172,920	49.58%	41.41%	101,316
Street Capital Projects Fund	-	-	-	-	-	-			-
Outlet Trail Project	-	-	-	-	9,790	-	0.00%		-
Pedestrian/Bicycle Bridge Fund	-	-	-	-	5,446	-	0.00%		-
Harvard Road Mitigation Fund	-	-	-	-	-	-			-
Municipal Library Capital Fund	-	-	-	-	-	-			-
City Hall LTGO Bond Fund	54,042	54,042	54,042	54,042	108,086	108,086	50.00%	50.00%	54,044
Stormwater Utility Fund	2,930	2,382	4,865	4,316	54,000	55,000	9.01%	7.85%	50,684
Golf Course	118,353	121,254	183,034	189,682	492,956	446,702	37.13%	42.46%	257,020
Unemployment Fund	4,018	7,137	4,970	10,479	4,000	39,000	124.24%	26.87%	28,521
Expenditures	606,633	694,286	1,066,918	991,772	2,747,680	2,846,756	38.83%	34.84%	1,854,984
Ending Fund Balance for Other Funds on June 30th	3,059,066	3,777,353							

Investment Summary

All investments of the City of Liberty Lake are made in compliance with Federal and State laws and in accordance with applicable legal interpretation. Primary objectives of the City of Liberty Lake investment activities are as follows:

1. **Safety:** Investments of the City are undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
2. **Liquidity:** The City's investments remain sufficiently liquid to enable the City to meet all operating requirements that might be reasonably anticipated.
3. **Return on Investment:** The City's investments are designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow characteristics.

Investments on 06/30/2010

- Total Invested: \$4,743,672.70
- Total Interest Earnings for Second Quarter 2010: \$3,368.54

Investment	Percent of Total Investments	Yield
Washington State Local Government Investment Pool (LGIP)	100%	.30%

Economic Update

National Economy

- The economic recovery has lost some steam. The expected economic weakness in May was greater than originally anticipated by experts. The housing market has collapsed following the expiration of tax credits for buyers; consumers appear more hesitant to spend; the risk of excessive European fiscal austerity poses a threat to the global recovery, as does the possibility of a sovereign debt default; and, most critically, private job growth in the U.S. remains below par.¹
- The Conference Board tracks economic indicators in ten different areas to assess the health of the economy and to gauge the direction of economic development. The cumulative product of the ten indicators is called the U.S. Leading Index. The Conference Board Consumer Confidence Index had been on the rise for three consecutive months, declined sharply in June. The Index now stands at 52.9, down from 62.7 in May. According to Lynn Franco, Director of the Conference Board Consumer Research Center: “Consumer confidence, which had posted three consecutive monthly gains and appeared to be gaining some traction, retreated sharply in June. Increasing uncertainty and apprehension about the future state of the economy and labor market, no doubt a result of the recent slowdown in job growth, are the primary reasons for the sharp reversal in confidence. Until the pace of job growth picks up, consumer confidence is not likely to pick up.”²
- Household spending is increasing but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software has risen significantly; however, investment in nonresidential structures continues to be weak and employers remain reluctant to add to payrolls. Housing starts remain at a depressed level. Bank lending has continued to contract in recent months, however, the Federal Reserve Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, although the pace of economic recovery is likely to be moderate for a time.³

¹ Economic and Revenue Update, Washington State Economic and Revenue Forecast Council, July 12, 2010, <http://www.erfc.wa.gov/publications/documents/jul10.pdf>

² The Conference Board Leading Economic Index (LEI) for the United States, The Conference Board, June 29, 2010, <http://www.conference-board.org/press/pressdetail.cfm?pressid=3949>

³ Federal Reserve Press Release, Board of Governors of the Federal Reserve System, June 23, 2010, <http://www.federalreserve.gov/newsevents/press/monetary/20100623a.htm>

State and Local Economy

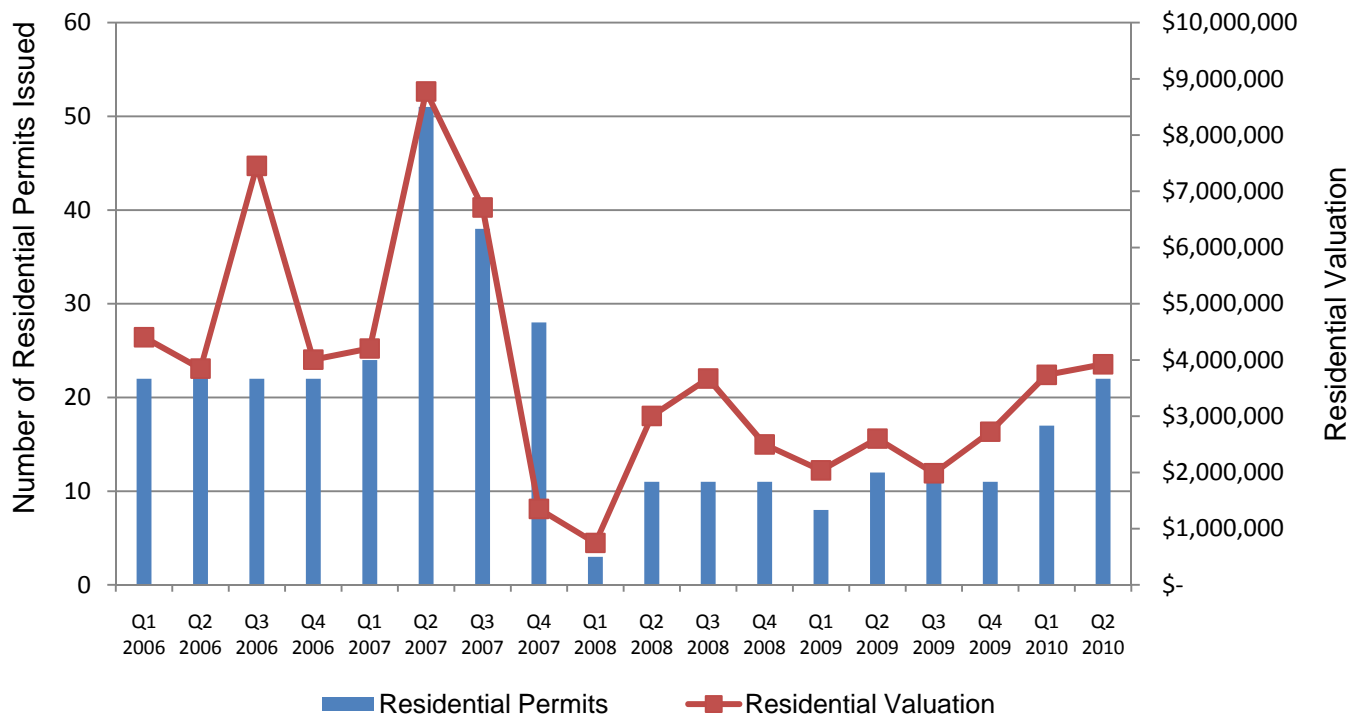
- According to the Economic and Revenue Forecast Council, Washington's economy also stumbled in May. Private sector employment growth slowed to a trickle and single-family housing permits registered a second consecutive month of decline. The downside risks have increased and the near-term outlook appears weaker than anticipated in June. The Council still expects the state economy to outperform the national economy in what is turning out to be a modest and moderate recovery.⁴
- The Washington economy added 8,600 jobs in May, but most were temporary jobs related to the 2010 Census. The private sector added just 200 jobs, a sharp decline from the 5,600 private sector jobs added in April.⁵
- The manufacturing sector in the state continues to experience a dramatic turnaround in activity, although national growth rates have slowed. The state's software publishing industry is growing once again. Microsoft has sold 150 million copies of Windows 7 making it the fastest-selling operating system in Microsoft history.⁶
- It has been predicted by the Economic and Revenue Forecast Council that local economies in Washington State will lag the national economic recovery by approximately two years. Liberty Lake continues to experience declines in sales tax revenue.
- Single family home building permits continued to increase in second quarter 2010. There were 22 residential building permits issued in 2010 compared to 12 issued in second quarter 2009. The total residential construction valuations for second quarter 2010 have increased 51% from second quarter 2009. The chart below reflects quarterly residential permits and valuation since 2006. Residential building activity fluctuates from quarter to quarter due to seasonal activity.

⁴Economic and Revenue Update, Washington State Economic and Revenue Forecast Council, July 12, 2010, <http://www.erfc.wa.gov/publications/documents/jul10.pdf>

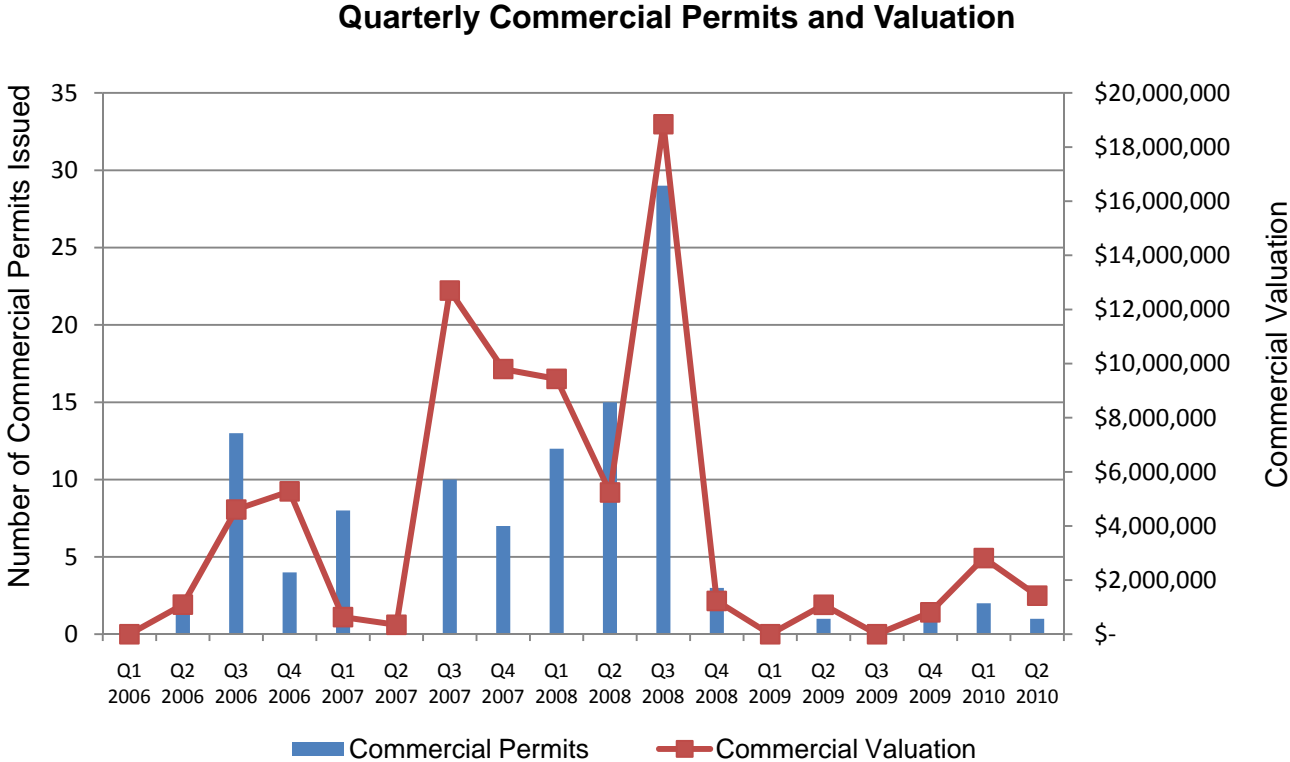
⁵Economic and Revenue Update, Washington State Economic and Revenue Forecast Council, July 12, 2010, <http://www.erfc.wa.gov/publications/documents/jul10.pdf>

⁶Economic and Revenue Update, Washington State Economic and Revenue Forecast Council, July 12, 2010, <http://www.erfc.wa.gov/publications/documents/jul10.pdf>

Quarterly Residential Permits and Valuation



- Commercial permits have declined slightly from last quarter. One commercial permit was issued for second quarter 2010. Commercial valuation totaled \$1,426,647 for second quarter 2010, which is an increase of 31% when compared to second quarter 2009. The chart below represents quarterly commercial permits and valuation since 2006. Commercial building activity fluctuates from quarter to quarter due to seasonal activity.



Summary

For more information. This summary is based on detailed information produced by the City's Administrative Services. If you would like additional information, or have any questions about the report, please call Jessica Platt, Administrative Services Manager at 755-6702.