

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The management discussion and analysis section of the City of Redmond's annual financial report provides a narrative overview of the city's financial activities for and financial position at the end of December 31, 2005. This information should be read in conjunction with the preceding letter of transmittal and the financial statements and notes to the financial statements that follow.

### Financial Highlights

- Net assets, the amount by which total assets exceed total liabilities, equaled \$467,080,083 at the end of 2005. A total of 79% or \$368,879,468 of total net assets is invested in capital assets such as streets, land, buildings, and utility pipes. Of the remaining net assets of \$98,200,615, the majority are legally restricted, reserved by city policy for specific purposes, or are the net assets of business-type activities restricted for use by the city's utilities.

The city's net assets increased by \$24,110,012 in 2005. The overall increase was split between governmental activities and business-type activities at \$13,476,890 and \$10,633,012 respectively. The capital asset category of net assets increased \$25,910,423 including \$7.5 million contributed by developers. Net assets not invested in capital assets declined \$1.8 million between 2004 and 2005.

In the governmental activities category, net assets not invested in capital assets increased \$1,707,150 or 2.5% in 2005. Net assets restricted for Debt Service and Special Revenue Funds declined \$878,653 while net assets restricted for capital projects rose \$41,144. Unrestricted net assets increased \$2,544,659. Net assets not invested in capital assets in the business-type activities category declined \$3,507,561 or 11.4% between 2004 and 2005.

- Governmental fund balances at year end were \$66,074,763, an increase of \$916,283 or 1.4% from the prior year. Of this amount, \$6,205,024 is unreserved and available to fund ongoing activities. \$1,536,679 is legally restricted for debt service and the remaining \$58,333,060 is legally restricted or reserved by city policy for

capital projects (\$36,919,865) or Special Revenue Fund purposes (\$21,413,195).

- Unreserved fund balance in the general fund was \$6,181,604, an increase of \$1,174,090 from the prior year. An additional fund balance of \$5,046,716 is available in the operating reserve fund to provide the capacity to offset significant downturns and revisions in any general municipal purpose fund in accordance with the city's operating reserve policy.
- Total city debt, excluding special assessment debt, decreased \$4,244,661 from 2004 to 2005. Outstanding bonded debt, loans, and long term contracts at year end totaled \$46,821,310.

### Overview of the Financial Statements

The city's basic financial statements are presented in three parts: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. Other supplementary information in addition to the basic financial statements is also contained in this report. This section of the management's discussion and analysis is intended to introduce and explain the basic financial statements.

### Government-wide financial statements

The government-wide financial statements are designed to give the reader a picture of the financial condition and activities of the city as a whole. This broad overview is similar to the financial reporting of private-sector businesses. The government-wide financial statements have separate columns for governmental activities and business-type activities. Governmental activities of the city include general government (finance, executive, human resources), security (police and fire), physical environment, economic environment, transportation, mental/physical health, and culture and recreation. The city's business-type activities are limited to water/wastewater and stormwater utilities. Governmental activities are primarily supported by taxes, charges for services, and grants while business-type activities are self-supporting through user fees and charges.

The *statement of net assets* presents information on all of the City of Redmond's assets and liabilities, highlighting the difference between the two as net assets. This statement is similar to the balance sheet of a private sector business. Over time, increases or decreases in net assets may be one indicator of improvement or deterioration in the city's overall financial health.

The *statement of activities* presents information designed to show how the city's net assets changed during the year. This statement distinguishes revenue generated by specific functions from revenue provided by taxes and other sources not related to a specific function. The revenue generated by the specific functions (charges for services, grants, and contributions) is compared to the expenses for those functions to show how much each function either supports itself or relies on taxes and other general funding sources for support. All activity on this statement is reported on the accrual basis of accounting, requiring that revenues are reported when they are earned and expenses are reported when they are incurred, regardless of when cash is received or disbursed. Items such as uncollected taxes, unpaid vendor invoices for goods or services received during the year, and earned but unused vacation leave are included in the statement of activities as revenue and expenses even though no cash has changed hands.

### **Fund Financial Statements**

The annual financial report includes fund financial statements in addition to the government-wide financial statements. While the government-wide statements present the city's finances based on the type of activity, general government versus business-type, the fund financial statements are presented by fund type such as the general fund, special revenue funds, and proprietary funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts used to account for specific activities or meet certain objectives. Funds are often set up in accordance with special regulations, restrictions or limitations. The City of Redmond, like other state and local governments, uses fund accounting to ensure and show compliance with finance-related legal requirements. The city's funds are divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

*Governmental funds* are used to account for essentially the same functions as are reported as governmental activities in the government-wide financial statements. The basis of accounting is different between the governmental fund statements and the government-wide

financial statements. The governmental fund statements focus on near term revenues/financial resources and expenditures while the government-wide financial statements include both near term and long term revenues/financial resources and expenses. The information in the governmental fund statements can be used to evaluate the city's near term financing requirements and immediate fiscal health. Comparing the governmental fund statements with the government-wide statements can help the reader better understand the long term impact of the city's current year financing decisions. To assist in this comparison, reconciliations between the governmental fund statements and the government-wide financial statements are included with the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances.

The City of Redmond maintains twenty-five individual governmental funds. The city's three major governmental funds, the general fund, the advanced life support fund, and the capital improvements program fund are presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances. The remaining governmental funds are combined into a single column labeled other governmental funds. Individual fund data for each of the other governmental funds can be found in combining statements later on in this report.

The city maintains budgetary control over its operating funds through the adoption of a biennial budget. Budgets are adopted at the fund level and according to state law. A budgetary comparison statement is presented for the general fund and the advanced life support fund as basic financial statements. Other budgetary comparison schedules are included following the other governmental funds' combining statements in this report.

*Proprietary funds* are used by governments to account for their business-type activities. Business-type activities provide specific goods or services to a group of customers that are paid for by fees charged to those customers. There is a direct relationship between the fees paid and the services received.

The City of Redmond has two types of proprietary funds, enterprise funds and internal service funds. Enterprise funds are used to account for goods and services provided to citizens. Internal service funds are used to account for goods and services provided internally to various city departments.

Enterprise funds of the city are used to report the same functions presented as business-type activities in the government-wide statements with the fund statements providing more detail than is reported in the government-wide statements. The enterprise fund statements provide separate information for the city's water/wastewater utility, an Urban Planned Development (UPD) water/wastewater utility outside the city limits, and the city's stormwater utility.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the city's various functions. The city uses internal service funds to account for its fleet of vehicles, insurance premiums and claims, medical self-insurance, workmen's compensation self-insurance program, and information technology. Internal service funds benefit both governmental and business-type activities and are allocated accordingly in the government-wide statement of activities. Internal service fund assets and liabilities are predominantly governmental and have been included in the governmental activities column of the government-wide statement of net assets.

***Fiduciary funds*** account for assets held by the city in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds. Fiduciary funds are not included in the government-wide financial statements because their assets are not available to support the City of Redmond's activities.

The city has two types of fiduciary funds, a pension fund and agency funds. The accounting for the pension fund is on the accrual basis. Agency funds are custodial in nature and do not include revenues and expenses as they do not measure the results of operations.

## **Notes to the financial statements**

The notes to the financial statements provide additional information that is important to a full understanding of the data in the government-wide and fund financial statements. The notes are located immediately following the basic financial statements.

## **Other information**

In addition to the basic financial statements and accompanying notes, this report also presents certain ***required supplementary information*** concerning the city's progress in funding its obligation to provide pension benefits to certain retired firefighters. Required

supplementary information may be found immediately following the notes to the financial statements.

The combining statements for other governmental funds, internal service funds, and agency-type fiduciary funds are presented immediately following the required supplementary information.

**Government-wide Financial Analysis**

**Statement of net assets**

The statement of net assets can serve as a useful indicator of the city’s financial position. The City of Redmond’s net assets at December 31, 2004 and 2005 total \$442,970,071 and \$467,080,083, respectively. Following is a condensed version of the government-wide statement of net assets for 2005 compared to 2004.

**City of Redmond’s Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 86,701,649	\$ 121,339,676	\$ 31,474,955	\$ 33,955,906	\$ 118,176,604	\$ 155,295,582
Capital assets, net of accumulated depreciation	242,156,697	195,345,393	173,622,062	159,625,169	415,778,759	354,970,562
<b>Total assets</b>	<b>328,858,346</b>	<b>316,685,069</b>	<b>205,097,017</b>	<b>193,581,075</b>	<b>533,955,363</b>	<b>510,266,144</b>
Long-term liabilities	50,072,520	54,372,355	854,691	960,497	50,927,211	55,332,852
Other liabilities	12,109,614	9,113,392	3,838,455	2,849,829	15,948,069	11,963,221
<b>Total liabilities</b>	<b>62,182,134</b>	<b>63,485,747</b>	<b>4,693,146</b>	<b>3,810,326</b>	<b>66,875,280</b>	<b>67,296,073</b>
<b>Net assets</b>						
Invested in capital assets, net of related debt	195,751,144	183,981,404	173,128,324	158,987,641	368,879,468	342,969,045
Restricted	17,545,163	18,498,091	-	-	17,545,163	18,498,091
Unrestricted	53,379,905	50,719,827	27,275,547	30,783,108	80,655,452	81,502,935
<b>Total net assets</b>	<b>\$ 266,676,212</b>	<b>\$253,199,322</b>	<b>\$200,403,871</b>	<b>\$ 189,770,749</b>	<b>\$ 467,080,083</b>	<b>\$442,970,071</b>

As noted earlier, the statement of net assets can serve as one indicator of the city's overall financial health. The City of Redmond's assets exceeded liabilities by \$467,080,083 as of December 31, 2005 and by \$442,970,071 as of December 31, 2004.

The largest component of the city's net assets, 79% or \$368,879,468, is its investment in capital assets less any related outstanding debt issued to acquire those assets. These capital assets such as streets, trails, water pipes, parks, fire and police vehicles, are used to provide services to the citizens. Consequently, these assets are not available to sell and convert to cash for future spending. The city has elected the GASB 34 reporting option to include all general infrastructure of the city acquired or substantially renovated since 1980.

The remaining \$98,200,615 of net assets represents both restricted and unrestricted assets. Approximately 2.4% or \$11,075,960 of the total net assets of the city are legally restricted for general government construction projects such as renovation and construction of sports fields in city parks, and street additions/improvements. The city attempts to fund its capital construction projects on a pay as you go basis, aggressively pursuing transportation grant funding and cost sharing with developers wishing to construct large projects in the city that impact the transportation system. \$1,536,679 (.3% of total net assets) are restricted for debt service payments. \$4,932,524 of net assets are restricted for special purposes and designated to fund activities such as advanced life support services, tourism activities, park maintenance and operation, and capital construction transfers.

A total of \$80,655,452 represents the unrestricted net assets of the city. The business-type activities portion of \$27,275,547 may only be spent on water/wastewater and stormwater utility activities. Maintenance of utility delivery systems (water lines, pump stations, wells), storm drain flushing, water meter reading, and capital construction projects such as well rehabilitation are examples of utility activities. Of the remaining \$53,379,905 in funds not subject to legal restrictions, \$47,198,301 is reserved for specific activities by city policy. Examples of the net assets reserved by city policy are funds earmarked for equipment replacement, rainy day funds, recreation activities, recycling, capital construction projects funded by general tax revenues, and transportation flow improvements. \$6,181,604 of the city's net assets are unreserved.

At the end of the fiscal year, the City of Redmond reported positive balances in all three categories of net assets, for the government as a whole, as well as for the separate governmental and business-type activities.

### Changes in net assets

The changes in net assets table illustrates the increases or decreases in net assets of the city resulting from its operating activities. The City of Redmond's net assets increased approximately \$24 million in 2005. The increase was split between the government activities (\$13.4 million) and the business-type activities (\$10.6 million).

Following is a condensed version of the city's changes in net assets. The table shows the revenues, expenses, and related changes in net assets in tabular form for the governmental activities separate from the business-type activities for 2004 and 2005. The graphs that follow compare program revenues to program expenses and illustrate the revenues by source separately for the governmental and business-type activities for 2005.

**CITY OF REDMOND**

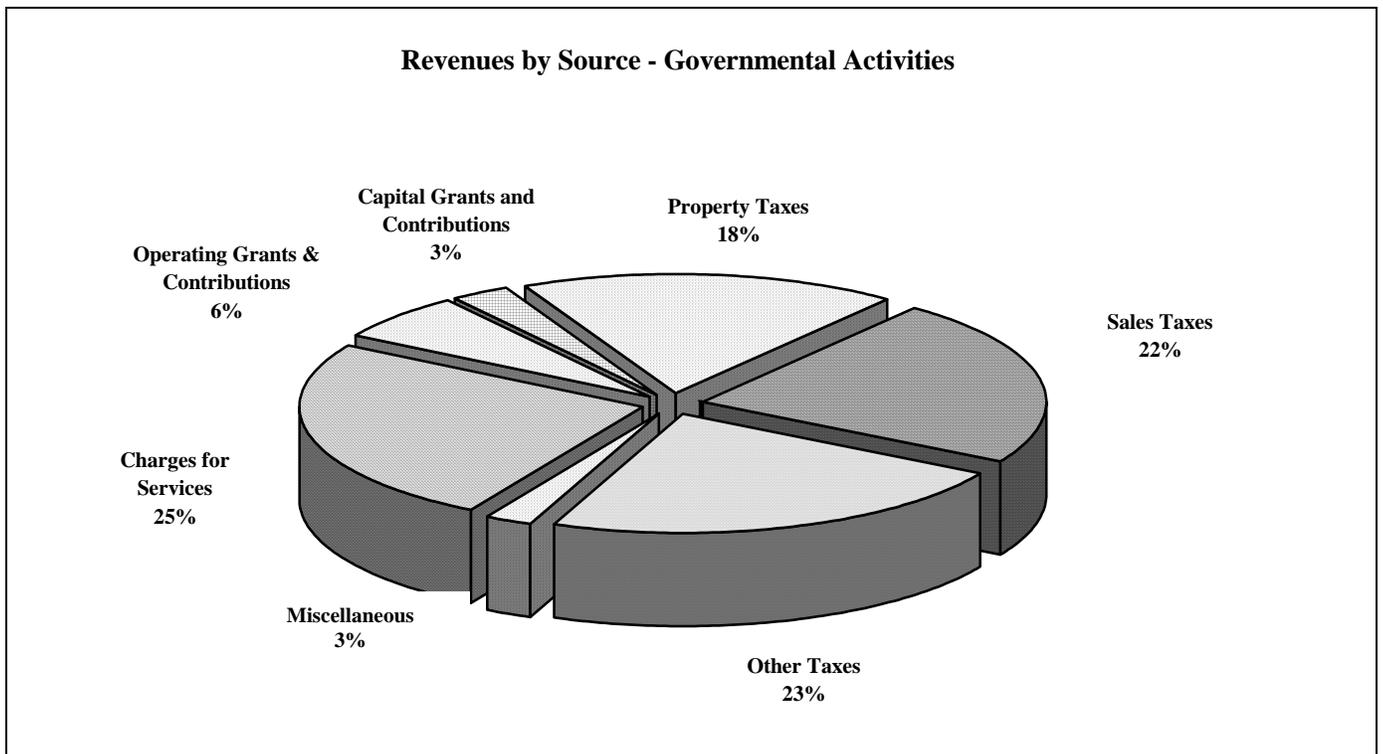
**City of Redmond's Changes in Net Assets**

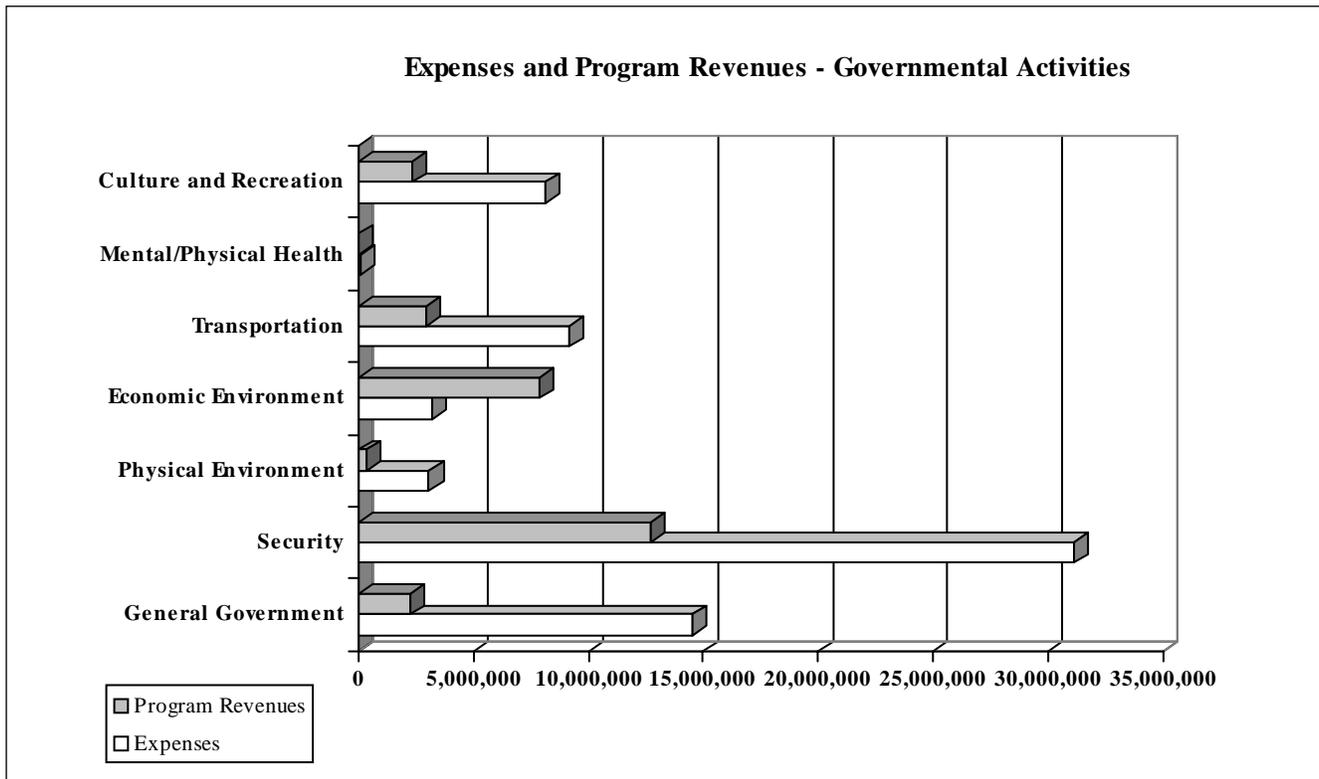
	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
<b>Revenues:</b>						
Program revenues						
Charges for services	\$ 20,877,123	\$ 22,096,593	\$ 31,626,370	\$ 30,339,948	\$ 52,503,493	\$ 52,436,541
Operating grants and contributions	5,157,603	3,355,634	-	29,064	5,157,603	3,384,698
Capital grants and contributions	2,447,860	6,067,335	8,139,193	7,114,457	10,587,053	13,181,792
General revenues						
Property taxes	14,691,641	13,813,469	-	-	14,691,641	13,813,469
Sales taxes	18,647,890	18,955,381	-	-	18,647,890	18,955,381
Other taxes	18,705,429	16,510,154	-	-	18,705,429	16,510,154
Investment interest	1,927,511	1,118,756	785,340	516,727	2,712,851	1,635,483
Miscellaneous	623,081	572,786	63,368	46,845	686,449	619,631
<b>Total revenues</b>	<b>83,078,138</b>	<b>82,490,108</b>	<b>40,614,271</b>	<b>38,047,041</b>	<b>123,692,409</b>	<b>120,537,149</b>
<b>Expenses:</b>						
General government	14,497,527	10,598,890	-	-	14,497,527	10,598,890
Security	31,089,219	30,031,794	-	-	31,089,219	30,031,794
Physical environment	3,054,857	3,079,888	-	-	3,054,857	3,079,888
Economic environment	3,160,282	3,390,746	-	-	3,160,282	3,390,746
Transportation	9,150,474	7,983,324	-	-	9,150,474	7,983,324
Mental/physical health	94,300	94,900	-	-	94,300	94,900
Culture and recreation	8,121,462	7,489,357	-	-	8,121,462	7,489,357
Interest on long term debt	461,621	458,637	-	-	461,621	458,637
Water/wastewater	-	-	20,617,211	18,339,907	20,617,211	18,339,907
UPD water/wastewater	-	-	4,003,077	3,373,102	4,003,077	3,373,102
Stormwater	-	-	5,332,367	5,292,942	5,332,367	5,292,942
<b>Total expenses</b>	<b>69,629,742</b>	<b>63,127,536</b>	<b>29,952,655</b>	<b>27,005,951</b>	<b>99,582,397</b>	<b>90,133,487</b>
Increases in net assets before transfers and special items	13,448,396	19,362,572	10,661,616	11,041,090	24,110,012	30,403,662
Transfers	28,494	23,555	(28,494)	(23,555)	-	-
Increase in net assets	13,476,890	19,386,127	10,633,122	11,017,535	24,110,012	30,403,662
Net assets – beginning	253,199,322	233,813,195	189,770,749	180,116,060	442,970,071	413,929,255
Prior period adjustment	-	-	-	(1,362,846)	-	(1,362,846)
Net assets - ending	<u>\$ 266,676,212</u>	<u>\$253,199,322</u>	<u>\$200,403,871</u>	<u>\$189,770,749</u>	<u>\$467,080,083</u>	<u>\$442,970,071</u>

**Governmental activities** contributed \$13,476,890 of the total change in net assets of \$24,110,012. The increase in net assets in 2005 was lower than the increase in net assets for 2004 by \$5.9 million. Key elements of the 2005 increase are as follows:

- The city's net investment in general government capital assets increased \$11,769,740 and net assets legally restricted or reserved by city policy for capital expenses increased \$41,144 from 2004 to 2005. These two capital asset categories accounted for 88% of the total increase in governmental activities net assets. Revenues to fund capital asset purchases and construction are recorded as program or general revenues in the Statement of Activities. These revenues primarily include impact fees, business transportation taxes, developer contributions, Local Improvement District assessments, and grants. The associated asset acquisition costs are not recorded as expenses in the year of acquisition but rather are included in the Statement of Net Assets as capital assets. The asset costs are allocated to expense over the lives of the assets through depreciation. The remaining components of net assets increased by a modest 3% or \$1,666,006 from 2004 to 2005.
  - Most ongoing revenue sources to fund basic city operations remained relatively flat in 2005. Cognizant of the low growth in revenues available to fund ongoing activities, the city kept a close watch on its operating expenses and ended 2005 in a positive position.
  - Retail sales and use tax increased by approximately \$900,000, just over 5.5%, exclusive of a one time adjustment of \$1.3 million in 2004 resulting from a Washington State Department of Revenue audit of sales taxes paid by Redmond businesses. Property taxes increased \$878,000 or 6.4% as a result of new construction. Utility tax rates increased from 5.5% to 5.8% early in 2005 bringing an increase in gas and electric taxes over 2004 of \$708,000.
  - Development fees, including permits, inspections, and plan review services increased \$663,000 over 2004 fueled primarily by residential building permits. Business license revenue available to fund general government activities increased by over \$1 million in 2005 due to a fee increase from \$12.50 per employee
- in 2004 to \$28.25 per employee in 2005. The city's business license fee is based on the number of employees working in businesses operating in Redmond.
- The city's revenues from King County for advanced life support services increased \$302,000. This increase was matched by a commensurate increase in the cost of providing advanced life support services to East King County resulting in no change to the net assets of the city's governmental activities.
  - Overall governmental activities expenses increased in 2005 over 2004 by 10.3% at \$6,502,206. The general government function accounts for \$3,898,637 of this increase. Furniture for the new city hall that fell under the city's fixed asset threshold of \$10,000 per item and depreciation expense related to the city's move from several older buildings to its new city hall make up the majority of the general government expense increase. Other factors include a \$555,000 increase in transfers to the city's information technology function and a reporting change of \$87,000 in pension fund expenses.
  - Other functional areas increased a total of 5% or \$2.6 million in 2005 with security and transportation making up \$2.2 million of the increase. Depreciation expense in these two functions increased with the addition of one fire station in the UPD and completion of \$22 million in street projects. The security function posted a modest increase of 3.5% or \$1.06 million comprised mainly of salaries, including overtime, equipment, and maintenance projects. Overall salaries for Police increased as several position vacancies in 2004 were filled in 2005. Three new Fire positions, authorized and funded by King County, were covered by existing Fire personnel working overtime during new employee training resulting in a one time increase of \$245,000 in overtime for 2005. Fluctuations in equipment purchases and major repair projects make up the remaining increase in the security function. Transportation expense increases of 14.2% or \$1.17 million were driven by commute trip reduction incentives of \$400,000 funded by grants, and street maintenance such as repaving and road striping.

- Culture and recreation expenses increased due to added depreciation expense for newly completed Perrigo Park, repair and maintenance projects at city parks, and increases in costs for recreation classes which were offset by increases in recreation class fees. The remaining two functional areas, physical environment and economic environment, experienced a decrease in costs as professional services and the city's 2005 contribution for affordable housing were lower than in 2004.
- The city updates its revenue forecasts during the year and closely monitors incoming revenues to ensure sufficient funding will be available to maintain basic city functions. Should revenues fall short of expectations, immediate steps are taken to limit expenses to maintain the city's fiscal health. The city's fiscal watchfulness for the past several years enabled Redmond to end 2005 on a positive financial note.

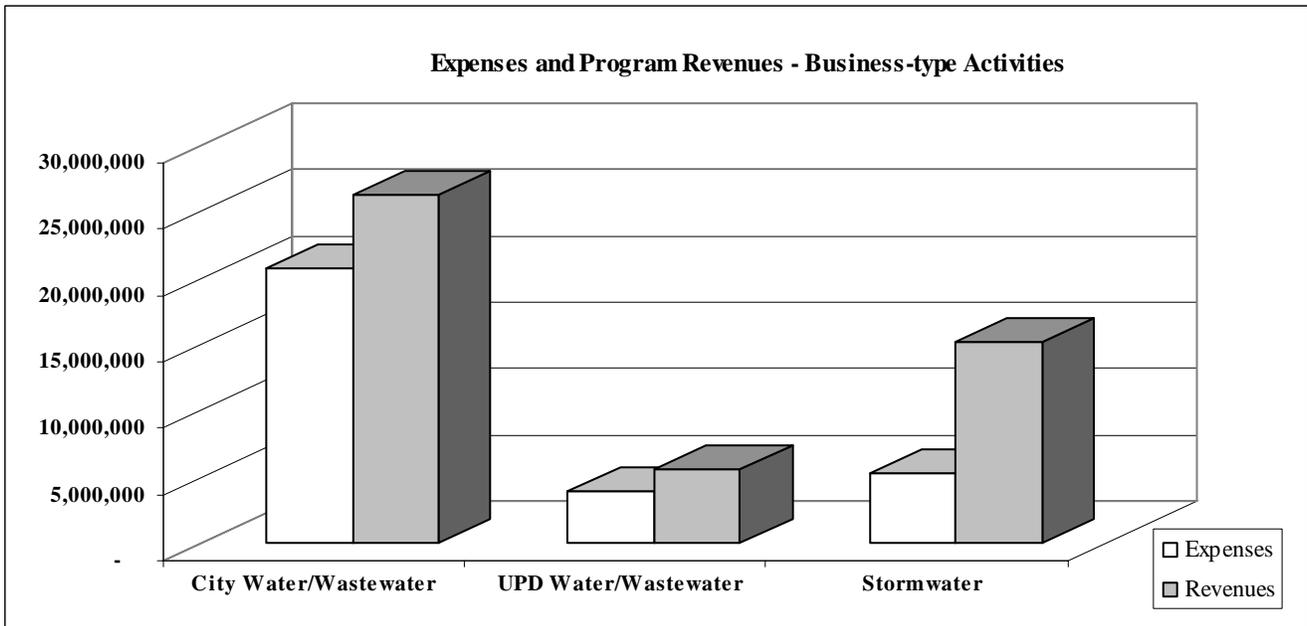




*Business-type activities* of the city’s utilities increased the City of Redmond’s net assets by \$10,633,122, accounting for 44% of the total growth in the government’s net assets.

Key elements of this increase are as follows:

- Capital contributions emerged as a major revenue source for the utilities during the current year, producing over \$8 million in revenue. Capital assets totaling \$4.6 million were contributed to the utilities, consisting of \$2.7 million in assets to the city water/wastewater utility, \$1.6 million to the Redmond Ridge Urban Planned Development (UPD) and \$300,000 to the stormwater utility. The remaining \$3.4 million is attributable to connection fees and capital facility charges.
- Water/wastewater operating revenues for 2005 were \$20,658,105, a 5% increase over 2004. This increase was due to increased rates implemented in January 2005 for water, Metro, and regional capital facility charges.
- UPD water/wastewater operating revenues for 2005 were \$3,803,868, a 10.6% increase over 2004. This increase was due to continued growth in the UPD development and increased rates implemented in January 2005 for Metro and regional capital facility charges.
- Stormwater operating revenues for 2005 were \$7,164,397, a 1% decline from 2004 due to several significant billing adjustments in 2004 to correct underbilling of revenues in prior years.
- Investment earnings for the business-type activities increased \$268,613 from 2004 due to higher interest rates.



### Financial Analysis of the Government's Funds

As discussed earlier, the City of Redmond uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

#### Governmental funds

The purpose of the city's governmental funds is to report on near term revenues/financial resources and expenditures. This information helps determine the city's financial requirements in the near future. In particular, fund balance is a good indicator of the city's resources available at the end of the year.

At the end of the current year the city's combined ending governmental fund balance was \$66,074,763. This was an increase of \$916,283 or 1.4% from the ending fund balance of the prior year. Of the \$66,074,763, a total of \$1,536,679 is reserved for debt service, \$36,919,865 is earmarked for capital construction projects and \$21,413,195 resides with special revenue funds. Significant special revenue fund balances include \$5,046,716 in the operating reserve fund, including general reserves and development reserves, \$3,420,105 in equipment reserve funds, \$3,646,091 in the real estate excise tax fund, and \$4,400,884 in the business license surcharge fund for future transportation projects. Special

revenue fund balances are either legally restricted or reserved by city policy for particular purposes.

The general fund is the primary operating fund of the city through which all receipts and payments of ordinary city operations are processed, unless they are required to be accounted for in another fund. Taxes are the major revenue source. At the end of 2005 the fund balance of the general fund was \$6,205,024. As a measure of the fund's liquidity, the ending fund balance is 13% of the fund's 2005 expenditures. This meets the city's goal to have a balance sufficient to cover daily financial needs without carrying an excessive balance forward at year end.

The general fund balance increased \$1,174,070 from the prior year. Revenues rose faster than expenditures from 2004 to 2005, increasing 5.5% and 1.3% respectively. Expenditure increases were small in 2005 in part due to unsettled union contracts. The Police and Fire contracts expired at the end of 2004 and the city continues negotiations with the two unions. Revenues exceeded expenditures in the general fund by \$5,995,544 in 2005. In keeping with the city's policy to fund capital projects on a pay as you go basis, net transfers out of the general fund totaled \$4,821,474, primarily for capital activities.

Taxes are the primary source of revenue in the General Fund, at 70% of the fund's 2005 revenues. Sales tax revenues, the city's largest single revenue source, increased \$908,000 from 2004 to 2005 excluding a one time adjustment of \$1.3 million in 2004 from audits of sales taxes paid by Redmond businesses. Sales tax revenues increased 5.5% in 2005, down from an increase of just under 10% in 2004. Sales tax revenues for the year remain below the annual sales tax revenue in 2000.

Changes of note occurred in several other General Fund revenues. License and permit revenue was up significantly, increasing by \$1,725,365 over 2004. The General Fund portion of the business license fee was raised from \$12.50 to \$28.25 per employee for businesses operating in Redmond. The fee change increased business license revenue by over \$1 million. Building permit revenue was up close to \$600,000, primarily for residential building permits. An increase in the gas and electric utility tax rate brought in an additional \$708,000 in utility taxes in 2005. The only General Fund revenue source to suffer a decline in 2005 was fines and forfeitures as King County reduced the city's portion of court revenues from 14% to 0% in mid 2005.

Prudent management dictates that the city closely monitor expenditures to not exceed revenues and that the impact of any service adjustments be fully evaluated in light of community and organizational goals. The city's largest General Fund expenditure category, at 54% of total expenditures, is security encompassing Police and Fire services. Expenditures in this category were up only .8%. Some 2004 vacancies in the Police department were filled in 2005, increasing Police costs somewhat. However, the Police and Fire union contracts were unsettled in 2005, leaving salaries for these two groups at their 2004 rates during all of 2005. Funds will be set aside to cover cost increases resulting from future settlement of these contracts. General government expenditures increased 5.9% at \$550,000 as additional funds were transferred to the city's information services function and general personnel costs rose.

The Advanced Life Support (ALS) Fund's purpose is to account for the cost of providing advanced life support services to several eastside cities and areas of East King County. These services are funded by an Emergency Medical Services property tax levy collected by King County. As Redmond incurs the costs of providing these services, King County is billed for the services by Redmond. Therefore revenues and expenditures in this fund are relatively equal each year with little or no year ending fund balance. Expenditures for ALS services

were approximately \$302,000 or 8.5% higher than 2004 due to an increase in service capacity.

The capital improvements program fund ending fund balance was \$35,873,289, an increase of \$108,753 from 2004. Several factors contributed to this increase as compared to 2004. Revenues and net transfers were down \$3,592,494 while expenditures were down close to \$2.7 million. The city requires developers to directly contribute to some transportation capital projects if the developers will benefit from the project or their development will greatly impact the city's transportation system. Contributions from developers were down \$2,845,521 in 2005. Capital construction project expenditures were \$2,702,774 lower than in 2004, as several major road projects and park renovations with significant expenditures in 2004 were winding down or completed in 2005. Investment income was up \$413,497 from 2004 due to rebounding interest rates.

**Proprietary funds**

The City of Redmond's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Factors concerning the finances of the city's proprietary funds have already been addressed in the discussion of the city's business-type activities.

**General Fund Budgetary Highlights**

The City of Redmond budgets on a biennial basis with each budget beginning in an odd numbered year by state law. The difference between the 2005/2006 biennial budget adopted at the end of 2004 and the final 2005/2006 biennial budget at December 31, 2005 amounts to \$425,360.

Revenues increased in the following categories:

- Beginning fund balance increased \$420,360 due to a higher than anticipated ending fund balance at December 31, 2004.
- Contributions \$5,000

Expenditure increases in the following areas were funded by the \$420,360 increase in beginning fund balances:

- Planning Department technology project expenditures increased \$7,015 as a result of unspent technology surcharge funds from the

previous biennium. Printing costs of \$11,100 for the 5 year comprehensive plan and a specialized training program for the development review team at \$30,000 round out the expenditure increases funded in the Planning Department.

- Public Works was allotted \$8,850 in additional funding for transportation consulting services.
- The Fire Department received an additional \$23,928 for rescue equipment.
- A Parks bond study was funded at \$78,000 and \$261,467 was set aside as a salary and benefit contingency for future contract settlements.
- The \$5,000 increase in contributions was budgeted for additional Public Works Department consultant services.

- General government capital investment street projects were completed at a cost of \$22.8 million.
- General government capital investment projects currently under construction are valued at \$11,422,054. These include road work at Redmond Way and Highway 202, and transportation projects in the Overlake area.
- Capital assets contributed to the city water/wastewater utility totaled \$2.7 million and \$1.6 million in capital assets were contributed to the UPD water/wastewater utility.
- City utility projects completed in 2005 include improvements to the upper reach of Idylwood stream, the NE 116<sup>th</sup> culvert, and the Redmond transmission line for a total cost of \$7.6 million. The city's wells are being rehabilitated with well 5 under construction and wells 1, 2 and 3 in the final stages of design, totalling \$4.1 million in costs to date.

### Capital Asset and Debt Administration

#### Capital Assets

The City of Redmond's investment in capital assets for its governmental and business-type activities as of December 31, 2005 amounts to \$415,778,759 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, art, construction in progress, utility transmission/distribution systems, roads, and bridges.

Major capital assets changes during 2005 included the following:

- A new city hall and parking garage were built at a cost of \$39,230,000.
- The former city hall and technology center were demolished and the cost of \$1,870,605 was removed.
- Land was purchased in downtown Redmond for \$1.4 million.
- Quadrant Corporation donated a new fire station valued at \$2,498,000 for the land and building.
- Perrigo Park was completed at a cost of \$5.6 million.

**City of Redmond's Capital Assets (net of depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 45,546,424	\$ 42,661,858	\$ 4,995,515	\$ 4,995,515	\$ 50,541,939	\$ 47,657,373
Buildings/Building Improvements	55,154,820	19,860,457	13,711,591	14,089,509	68,866,411	33,949,966
Improvements other than buildings	16,333,702	7,060,221	140,555,367	133,324,283	156,889,069	140,384,504
Machinery and equipment	9,366,836	9,594,468	382,403	457,553	9,749,239	10,052,021
Construction in progress	11,422,052	31,497,679	13,977,186	6,758,309	25,399,238	38,255,988
Infrastructure	104,037,239	84,383,587	-	-	104,037,239	84,383,587
Art	295,624	287,123	-	-	295,624	287,123
<b>Total</b>	<b>\$ 242,156,697</b>	<b>\$ 195,345,393</b>	<b>\$ 173,622,062</b>	<b>\$ 159,625,169</b>	<b>\$ 415,778,759</b>	<b>\$ 354,970,562</b>

Additional information on the City of Redmond's capital assets can be found in Note 7 of this report.

**Long-term debt**

At the end of the current fiscal year, the City of Redmond had total bonded debt outstanding of \$44,499,879. Of this amount, \$43,454,879 is general obligation bonds, and \$1,045,000 is special assessment debt with governmental commitment. The Business-Type Activities had no bonded debt outstanding at the end of the current fiscal year.

**City of Redmond's Outstanding Debt -  
General Obligation Bonds**

	Governmental Activities		Total	
	2005	2004	2005	2004
General obligation bonds	\$ 43,454,879	\$ 46,927,432	\$ 43,454,879	\$ 46,927,432
Special assessment debt with governmental commitment	1,045,000	1,410,000	1,045,000	1,410,000
<b>Total</b>	<b>\$ 44,499,879</b>	<b>\$ 48,337,432</b>	<b>\$ 44,499,879</b>	<b>\$ 48,337,432</b>

The City of Redmond maintains a AA rating from Standard & Poors and a AA2 rating from Moody's for general obligation debt. Special assessment bonds are unrated.

Washington State statutes limit the amount of general obligation debt a governmental entity may issue to 7.5% of its total assessed valuation, subject to a 60% majority vote of qualified electors. Of the 7.5% limit, 2.5% is for general purposes, 2.5% for open space/park facilities, and 2.5% for utilities. Non-voted (limited tax) general obligation indebtedness is limited to 1.5% of assessed

valuation. The combination of unlimited tax and limited tax general obligation debt for all purposes cannot exceed 7.5% of assessed valuation. The City's assessed valuation for 2005 was \$9,320,368,533 and remaining debt capacity is as follows:

General	\$ 189,512,766
Open Space/Park Facilities	233,009,213
Utilities	233,009,213
<b>TOTAL</b>	<b>\$ 655,531,192</b>

The total amount of unlimited tax and limited tax general obligation debt the city may issue is \$699,027,639. Additional information on the City of Redmond's long-term debt can be found in Note 11 of this report and in the Statistical Section of the report.

### **Economic Factors and Next Year's Budgets and Rates**

Several factors that affect the economic climate in Redmond were considered when preparing the city's 2005-2006 biennial budget. The outlook for the nation, state and region was weighed in relation to its expected impact on Redmond. The character of the city, including its current and future business activity and its attraction as a place to live, was evaluated. Current financial position and the ability of the city to enhance revenues were also given consideration. Based on this review, Redmond's long term economic outlook is promising, although short term funding challenges will exist until the City Council develops long term funding strategies.

The Puget Sound economy, of which Redmond is a part, is fundamentally sound with growth in personal income, residential construction climbing to accommodate new residents, and declining unemployment. Microsoft, the largest employer in Redmond, continues to add to its office square footage and workforce with significant expansion plans for the next five years. Redmond Town Center, a large open air mall, continues to attract new businesses and enjoys a 97% occupancy rate. Caution is being exercised by the city in its budgeting, however, as Redmond's sales tax increases lagged behind those of neighboring communities in 2005.

Redmond as a place to live has many attractions with parks and open spaces, beautiful landscape, and proximity to employment centers. Evidence of the city's attraction can be seen in residential development which was up significantly in 2005. However, commercial development continued to languish following the slowdown that began in 2001.

Redmond's elected officials have a strong interest in developing and maintaining a vibrant city. To that end the City Council engaged in planning a long term financial strategy to ensure the city stays well managed and financially healthy. Implementation of several of the revenue enhancing strategies identified during the planning stage is scheduled for 2006.

Redmond has a history of excellent financial management and prudent fiscal policies. To that end the city reviews its rates and fees on an annual or biennial basis depending

on the rate. Business license fees were increased in 2005 and are scheduled to increase in 2007 for inflation. These fees are scheduled to sunset in 2006, however city administration will propose they be made permanent. The city's utility tax rate will increase from 5.8% to 6%, the maximum allowed, on June 1, 2006. Development review fees are being adjusted in 2006 to recover 85-90% of the cost, up from the city's current 50% cost recovery fee schedule. Water/wastewater and stormwater rates are reviewed annually to ensure the city's utilities will remain financially healthy. No rate increases for city utilities are planned for 2006.

Adherence to prudent financial management practices and policies has served the city well and set the stage for a community that will thrive for many years to come.

### **Requests for Information**

This financial report is designed to provide a general overview of the City of Redmond's finances for readers with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional information, may be addressed to the Finance Director, City of Redmond, PO Box 97010, Redmond, WA 98073-9710.