

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management discussion and analysis section of the City of Redmond's Comprehensive Annual Financial Report provides an overview of the City's financial activities for the year ending December 31, 2007, and for the City's financial position at December 31, 2007. 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 \$571,969,750 at the end of 2007. A total of 78% or \$444,335,955 of total net assets is invested in capital assets such as streets, land, buildings, and utility pipes. Of the remaining net assets of \$127,633,795, 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 \$66,309,855 in 2007. The overall increase was split between governmental activities and business-type activities at \$34,029,790 and \$32,280,065 respectively. The capital asset category of net assets increased \$40,923,271 including \$11.4 million contributed by developers. Net assets not invested in capital assets increased \$25.4 million between 2006 and 2007.

In the governmental activities category, net assets not invested in capital assets increased \$12,239,923 or 15.5% in 2007. Net assets restricted for Debt Service and Special Revenue Funds increased \$1,376,185 while net assets restricted for capital projects decreased \$484,349. Unrestricted net assets increased \$11,348,087. Net assets not invested in capital assets in the business-type activities category increased \$13,146,661 or 57.6% between 2006 and 2007.

- Governmental fund balances at year end were \$85,697,995, an increase of \$11,152,753 or 15% from the prior year. Of this amount, \$14,684,782 is unreserved and available to fund ongoing activities. \$1,607,976 is legally

restricted for debt service and the remaining \$69,405,237 is legally restricted or reserved by City policy for capital projects (\$37,124,886) or Special Revenue Fund purposes (\$32,280,351).

- Unreserved fund balance in the general fund was \$14,652,362, an increase of \$5,617,282 from the prior year. An additional fund balance of \$6,567,156 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 \$2,521,626 from 2006 to 2007. Outstanding bonded debt, loans, and long term contracts at year end totaled \$43,481,426.

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. 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-nine 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 department level for the General Government and at the fund level for all other funds, 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, information technology, and one blended component unit, Redmond Community Properties. 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 and lifetime medical benefits to uniformed personnel hired before October 1, 1977. 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.

CITY OF REDMOND

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, 2006 and 2007 total \$505,659,895 and \$571,969,750, respectively. Following is a condensed version of the government-wide statement of net assets for 2007 compared to 2006.

City of Redmond's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 115,454,508	\$ 95,472,626	\$ 39,724,521	\$ 30,753,671	\$ 155,179,029	\$ 126,226,297
Capital assets, net of accumulated depreciation	274,169,219	254,724,288	213,066,007	188,964,942	487,235,226	443,689,230
Total assets	\$ 389,623,727	\$ 350,196,914	\$ 252,790,528	\$ 219,718,613	\$ 642,414,255	\$ 569,915,527
Long-term liabilities	\$ 46,892,700	\$ 48,714,497	\$ 749,386	\$ 1,116,952	\$ 47,642,086	\$ 49,831,449
Other liabilities	19,314,162	12,095,342	3,488,257	2,328,841	22,802,419	14,424,183
Total liabilities	\$ 66,206,862	\$ 60,809,839	\$ 4,237,643	\$ 3,445,793	\$ 70,444,505	\$ 64,255,632
Net assets						
Invested in capital assets, net of related debt	\$ 231,770,778	\$ 209,980,911	\$ 212,565,177	\$ 193,431,773	\$ 444,335,955	\$ 403,412,684
Restricted	24,319,637	23,427,801	-	-	24,319,637	23,427,801
Unrestricted	67,326,450	55,978,363	35,987,708	22,841,047	103,314,158	78,819,410
Total net assets	\$ 323,416,865	\$ 289,387,075	\$ 248,552,885	\$ 216,272,820	\$ 571,969,750	\$ 505,659,895

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 \$571,969,750 as of December 31, 2007 and by \$505,659,895 as of December 31, 2006.

The largest component of the City's net assets, 78% or \$444,335,955, 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 \$127,633,795 of net assets represents both restricted and unrestricted assets. Approximately 2.0% or \$11,422,032 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. A total of \$1,607,976 (0.3% of total net assets) is restricted for debt service payments. Net assets of \$11,289,629 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 \$103,314,158 represents the unrestricted net assets of the City. The business-type activities portion of \$35,987,708 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 \$67,326,450 in funds not subject to legal restrictions, \$52,674,088 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. \$14,652,362 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 \$66.3 million in 2007. The increase was split between the government activities (\$34 million) and the business-type activities (\$32.3 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 2006 and 2007. 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 2007.

CITY OF REDMOND

City of Redmond's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues						
Charges for services	\$ 32,680,828	\$ 26,734,394	\$ 42,967,840	\$ 31,914,057	\$ 75,648,668	\$ 58,648,451
Operating grants and contributions	5,902,573	6,967,499	523,202	-	6,425,775	6,967,499
Capital grants and contributions	5,226,690	5,312,005	21,160,052	13,341,158	26,386,742	18,653,163
General revenues						
Property taxes	13,039,046	12,620,764	-	-	13,039,046	12,620,764
Sales taxes	24,420,352	20,070,662	-	-	24,420,352	20,070,662
Other taxes	27,404,221	22,174,191	-	-	27,404,221	22,174,191
Investment interest	5,134,692	3,664,879	1,667,790	1,298,037	6,802,482	4,962,916
Miscellaneous	3,818,571	588,763	142,507	149,333	3,961,078	738,096
Total revenues	\$ 117,626,973	\$ 98,133,157	\$ 66,461,391	\$ 46,702,585	\$ 184,088,364	\$ 144,835,742
Expenses:						
General government	\$ 13,390,052	\$ 14,024,271	\$ -	\$ -	\$ 13,390,052	\$ 14,024,271
Security	41,104,780	34,353,317	-	-	41,104,780	34,353,317
Physical environment	3,360,185	3,394,541	-	-	3,360,185	3,394,541
Economic environment	3,487,715	3,458,336	-	-	3,487,715	3,458,336
Transportation	10,616,039	9,533,011	-	-	10,616,039	9,533,011
Mental/physical health	97,622	98,479	-	-	97,622	98,479
Culture and recreation	9,550,896	8,907,741	-	-	9,550,896	8,907,741
Interest on long term debt	1,989,894	2,012,235	-	-	1,989,894	2,012,235
Water/wastewater	-	-	22,527,962	20,915,291	22,527,962	20,915,291
UPD water/wastewater	-	-	5,465,642	3,610,047	5,465,642	3,610,047
Stormwater	-	-	6,187,722	5,948,661	6,187,722	5,948,661
Total expenses	\$ 83,597,183	\$ 75,781,931	\$ 34,181,326	\$ 30,473,999	\$ 117,778,509	\$ 106,255,930
Increases in net assets before transfers	\$ 34,029,790	\$ 22,351,226	\$ 32,280,065	\$ 16,228,586	\$ 66,309,855	\$ 38,579,812
Transfers	-	29,137	-	(29,137)	-	-
Increase in net assets	34,029,790	22,380,363	32,280,065	16,199,449	66,309,855	38,579,812
Net assets - beginning	289,387,075	267,006,712	216,272,820	200,073,371	505,659,895	467,080,083
Net assets - ending	\$ 323,416,865	\$ 289,387,075	\$ 248,552,885	\$ 216,272,820	\$ 571,969,750	\$ 505,659,895

Governmental activities contributed \$34,029,790 of the total change in net assets of \$66,309,855. The increase in net assets in 2007 was higher than the change in net assets for 2006 by \$11.6 million. Key elements of the 2007 increase are as follows:

- The City's net investment in general government capital assets increased \$21,789,867 while net assets legally restricted or reserved by City policy for capital expenses decreased \$480,349 from 2006 to 2007. These two capital asset categories accounted for 62.6% 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, 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.
- Governmental revenues increased \$19.5 million or 19.9% from 2006 to 2007. Approximately \$5 million of this amount is available to fund increases in basic City operating costs. The remaining \$14.4 million is legally restricted or reserved by City policy for specific purposes such as capital improvement projects and funding advanced life support services.
- Sales, property, and utility taxes are the primary sources of tax revenue available to fund general city operations. Retail sales and use tax increased \$4,349,690 (21.7%) primarily from one-time audit adjustments with growth at a modest 0.5% increase. Property tax collections available for general use were flat. Utility tax revenue was \$2.5 million higher in 2007 than in 2006 due primarily to increases in Puget Sound Energy rates near the end of 2006 and cellular phone growth.
- Development fees, including permits, inspections, and plan review services, increased by 6.5% over 2006. Residential building activity contributed to this growth. Business license revenue available to fund general government activities increased just over \$794,000 as the employee base increased. Redmond's business license fee is based on the number of employees working in the City.
- Increases in contract revenues of \$500,000 from King County for advanced life support services and \$500,000 from other governments for fire services provided by the City were used to pay for the higher costs of these services. The result was no net change to the net assets of the City's governmental activities. Investment interest increased 40% over 2006 due to several increases in interest rates and more cash available to invest. The \$1.46 million increase in interest revenue was used to fund basic services.
- Capital grants and contributions decreased \$85,315. Revenue in this category is restricted for specific purposes by the granting agency or the donor with the majority funding transportation projects.
- Overall, governmental activities expenses increased in 2007 over 2006 by 10.4% at \$7,815,252. Personnel costs, which make up about 70% of the City's expenses, increased \$3.7 million or 0.8% from 2006. Approximately \$2.97 million of the increase was due to the firefighters' union settling their labor contract. \$539,189 was due to the City's self-insured health costs going up, and \$489,084 was due to a 25% increase in the rate charged to the City for retirement benefits by the State of Washington Department of Retirement Systems.
- Expenses in the general government function decreased \$634,219 in total. Legal fees were down almost \$300,000; the balance of the decrease was the result of careful monitoring of expenses.
- Other functions with notable increases for 2007 were security, encompassing police, fire, and inspections; transportation; and culture and recreation. Operating expenses for advanced life support services in the Fire Department increased approximately \$882,000 in 2007. These expenses were funded by additional revenue from King County per contract. Jail costs decreased by \$77,000 between 2006 and 2007. Included in security expenses in 2007 is an expense of \$398,641 for future medical costs for uniformed personnel accorded full lifetime

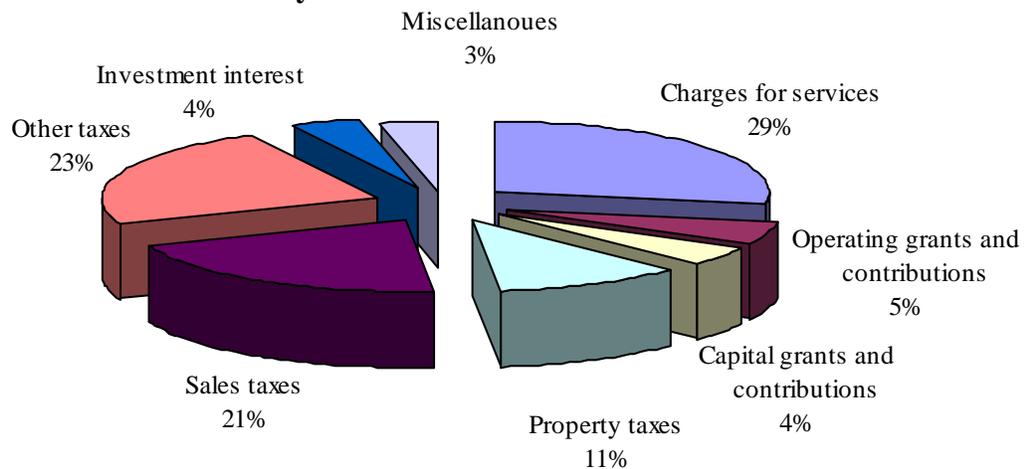
medical coverage by State law. Other expenses contributing to the increase in security expenses were personnel costs primarily due to the firefighters union settling their labor contract, start up costs for a new fire station, purchases of emergency response equipment, and higher fuel and energy costs.

- Transportation function expenses were up \$1,083,028 or about 11.4% in 2007. Personnel costs make up about 55% of this increase as salary and benefit costs rise throughout the City. Other contributing factors are increased depreciation as the City's transportation infrastructure grows and fluctuations from year to year in the cost of street maintenance activities such as repaving and road striping. 10% of the increase was due to fuel costs.
- Culture and recreation expenses increased 7.2% or \$643,155 in 2007. Popular recreation classes

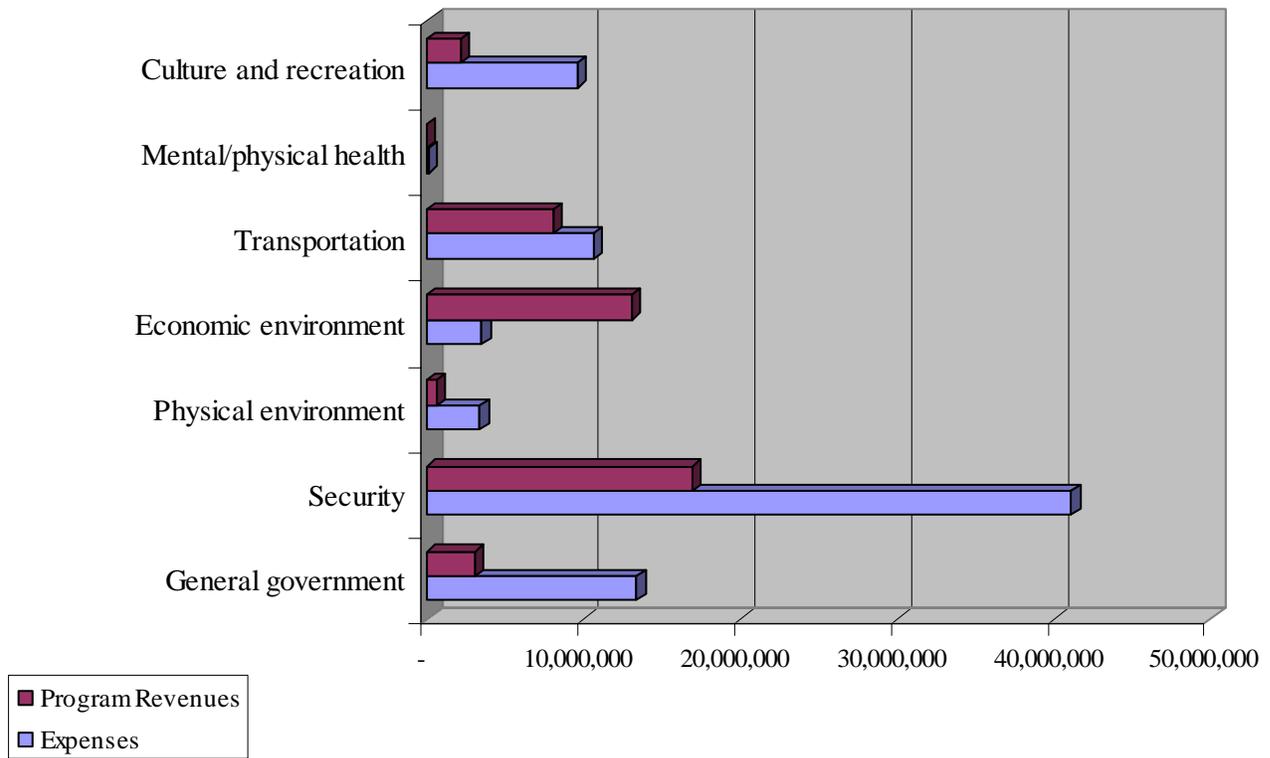
required additional supplemental staff to lead the classes, resulting in increased supplemental staff personnel costs. These costs are offset by an increase in recreation class fees. Maintenance and depreciation expenses for City parks increased more than \$300,000 over 2006 as the number of amenities and popularity of the parks continued to grow. The remaining two functional areas, physical environment and mental/physical health, decreased less than 1%. Their activities remain relatively stable.

- 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 prudence for the past several years enabled Redmond to end 2007 on a positive financial note.

Revenues by Source - Governmental Activities



Expenses and Program Revenues - Governmental Activities



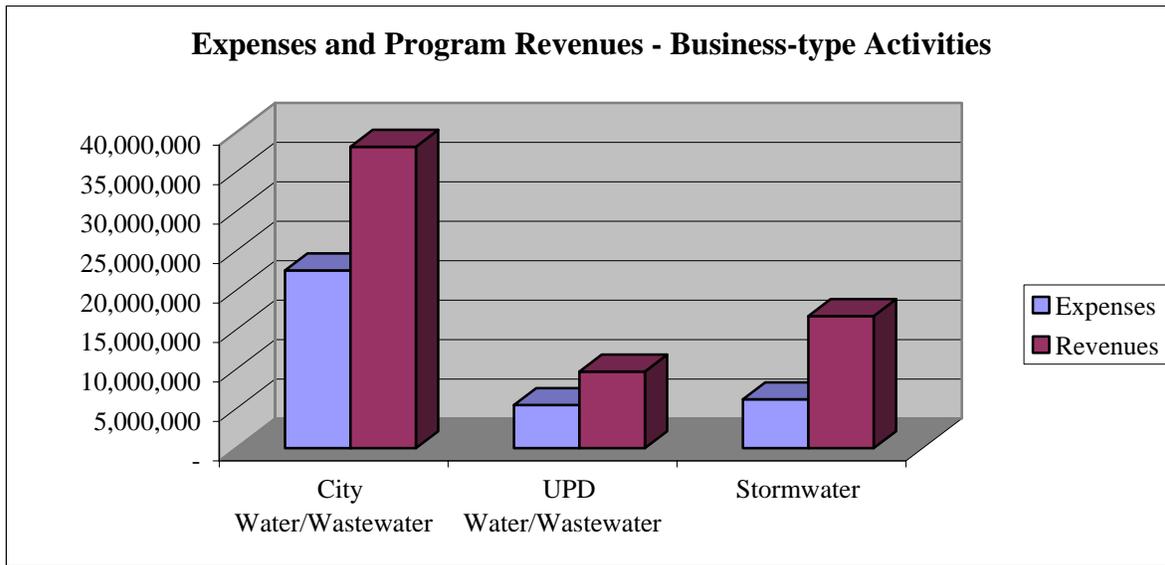
Business-type activities of the City’s utilities increased the City of Redmond’s net assets by \$32,280,065, accounting for 49% of the total growth in the government’s net assets.

Key elements of this increase are as follows:

- Water/wastewater operating revenues for 2007 were \$26,127,411, a 24% increase over 2006. This increase was due to growth, accrual of \$1.7 million in unbilled revenue, and rate increases. Water rates increased 12%, wastewater rates increased 19% and King County Wastewater Treatment fees increased 9.2%.
- UPD water/wastewater operating revenues for 2007 were \$5,525,293, a 64% increase from 2006. This increase was due to growth, accrual of \$192,061 in unbilled revenue, and a change in the rate tier structure. The structure changes increased water rates on average 9.6%. Growth

also brought in an additional \$1.4 million in regional capital facility charges, a 359% increase over 2006.

- Stormwater operating revenues for 2007 were \$11,315,136, a 52% increase over 2006 due to a 44% rate increase, \$704,435 of unbilled revenue being recognized, and a \$101,366 increase in engineering fees.
- Investment earnings for the business-type activities increased \$369,753, a 28% increase over 2006 due to higher interest rates and cash balances.



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 \$85,697,995. This was an increase of \$11,152,753 or 15% from the ending fund balance of the prior year. Of the \$85,697,995, a total of \$1,607,976 is reserved for debt service, \$37,124,886 is earmarked for capital construction projects and \$32,280,351 resides with special revenue funds. Significant special revenue fund balances include \$6,567,156 in the operating reserve fund, including general reserves and development reserves; \$6,806,744 in equipment reserve funds; \$9,812,370 in the real estate excise tax fund; and \$1,872,754 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 2007 the fund balance of the general fund was \$14,684,782. As a measure of the fund’s liquidity, the ending fund balance is 26% of the fund’s 2007 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 \$5,626,262 from the prior year. Revenues rose faster than expenditures from 2006 to 2007, increasing 17.4% and 9.2% respectively. Revenues exceeded expenditures in the general fund by \$14,536,807 in 2007. 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 \$8,910,545, primarily for capital activities.

Taxes are the primary source of revenue in the General Fund, at 67% of the fund’s 2007 revenues. Sales tax revenues, the City’s largest single revenue source, increased \$4,331,278 from 2006 to 2007 or 23%, up from an increase of 8% in 2006. \$4.1 million of this increase are one-time audit adjustments with remaining sales tax up a modest 0.5% over 2006.

Changes of note occurred in several other General Fund revenues. License and permit revenue was up, increasing by \$1,102,756 over 2006 with growth in both business licenses and building permit revenue. An increase in the

gas and electric rates by Puget Sound Energy brought in an additional \$1,500,000 in utility taxes in 2007.

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 57% of total expenditures, is security encompassing Police and Fire services. Expenditures in this category were up 19.2%. Salaries and benefits rose significantly due to police and fire union settlements in 2007 that included back pay for 2005 and 2006.

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 \$519,424 higher than in 2006 due to union contract settlement and higher salaries and benefits.

The Capital Improvements Program Fund ending fund balance was \$36,853,117, a decrease of \$2,570,309 from 2006. This was due to several factors. The sale of a street right-of-way brought in an additional \$3,164,850 and transfers-in increased \$2,693,895, with expenditures \$15,168,397 higher than 2006. Transportation projects accounted for \$13.9 million of the expenditure increase including \$4.6 million for the Bear Creek Parkway project and \$3.8 million for sidewalk improvements. Investment income was up \$413,005 from 2006 due to increasing interest rates and cash available to invest.

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 2007/2008 biennial

budget adopted at the end of 2006 and the final 2007/2008 biennial budget at December 31, 2007 amounts to \$17,592,931.

Revenues increased in the following categories:

- Beginning fund balance increased \$5,185,385 due to a higher than anticipated ending fund balance at December 31, 2006.
- Taxes \$5,096,974
- Contributions \$267,564
- Intergovernmental revenue \$829,100
- Charges for services \$5,283,158
- Miscellaneous \$368,391

Expenditure increases in the following areas were funded by the \$5,185,385 increase in beginning fund balances:

- Non-Departmental received \$4,762,623 with \$2,397,204 set aside in the Salary and Benefit Contingency to support unsettled labor contract, \$844,000 to fund capital equipment, \$444,774 for records management, \$325,000 to fund new police officers, \$60,000 for the Parks bond study, and \$691,645 also set aside for the Council's Economic Contingency.
- Planning received \$525,485 with \$365,584 to fund technology projects, \$100,000 toward the Comprehensive Plan and Development Guide, and \$60,000 for the Downtown Parking study.
- \$20,000 in funding was provided for security cameras at the Old Redmond School House Community Center.
- Fire received an additional \$3,400 toward the replacement and repair of fencing and an emergency potable water supply at Fire Station 11.
- Refurbishment of the Police crisis vehicle was funded at \$35,000.

The \$5,096,974 increase in taxes funded additional Fire, Police, and Park services with the recently approved Levy Lid Lifts.

The \$267,564 increase in contributions helped fund additional youth programs, the NE 40th Street Corridor Study, and East Lake Sammamish Parkway rehabilitation.

The \$829,100 increase in intergovernmental revenue consisted of grants to fund the following:

- \$249,900 for the Commute Reduction Program
- \$99,000 for the Air Quality Program
- \$3,500 for the Overlake Neighborhood Plan
- \$5,000 for a Historic Survey
- \$2,500 for restoration of the old school bell
- \$469,200 for Grass Lawn Park renovation

The \$5,283,158 increase in charges for services provided an additional \$6,678,307 funding for review and processing of a large development project in the City, while the Information Technology funding was reduced by \$925,949 to reflect Council's decisions on proposed technology programs.

Increases in miscellaneous revenue of \$368,391 provided additional funding for the Capital Improvement Program.

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, 2007 amounts to \$487,235,226 (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.

- General government capital investment street projects were completed at a cost of \$9.9 million.
- General government capital investment projects currently under construction are valued at \$19,826,014. These include road work at Redmond Way and Highway 202, extension of Bear Creek Parkway, transportation projects in the Overlake area, 520 overpass at NE 36th, and an addition to the Public Safety Building.
- Capital assets totaling \$10.7 million were contributed to the City water/wastewater utility including water and sewer infrastructure for the

Quadrant Willows Corporate Center and the Safeco Redmond Campus valued at \$1,785,784 and \$1,121,356 respectively.

- Quadrant Corporation contributed capital assets valued at \$4 million to the UPD water/wastewater utility including Sewer Pump Station #56 valued at \$1,965,130.
- The stormwater utility received capital assets totaling \$1.3 million including the Whistler Ridge stormwater facilities valued at \$634,803.

Major capital assets changes during 2007 included the following:

- Commercial property adjacent to the Maintenance Operation Center was purchased to provide additional space for Public Works at a cost of \$2.6 million.
- Land was purchased for the Bear Creek Parkway extension for \$2.3 million.
- Improvements and renovations were made to the Old Redmond School House Community Center at a cost of \$1.1 million.
- The Old Redmond Road widening project, including curbs, gutters, sidewalks, and streetlights, was completed at a cost of \$1.9 million.
- Additional park land was purchased for a total cost of \$615,812. One parcel is adjacent to Perrigo Park and the other adjacent to Juel Park.
- 1.3 miles of transit enhancements including sidewalk improvements were completed for Redmond Way costing \$1.5 million.
- The Sammamish Bear Creek habitat restoration was completed at a cost of \$1.9 million.
- The Luke McRedmond water quality facility was completed at a cost of \$1.5 million.
- The Redmond Way stormwater stabilization was completed at a cost of \$1.4 million.

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

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$ 53,841,445	\$ 49,591,117	\$ 7,292,365	\$ 6,757,847	\$ 61,133,810	\$ 56,348,964
Buildings/Building Improvements	55,810,300	54,222,366	18,746,910	17,774,019	74,557,210	71,996,385
Improvements other than buildings	16,401,787	17,143,163	176,610,985	155,454,420	193,012,772	172,597,583
Machinery and equipment	10,390,749	10,558,400	251,902	339,077	10,642,651	10,897,477
Construction in progress	19,826,014	14,526,408	10,163,845	8,639,579	29,989,859	23,165,987
Infrastructure	117,600,617	108,384,728	-	-	117,600,617	108,384,728
Art	298,307	298,106	-	-	298,307	298,106
Total	\$ 274,169,219	\$ 254,724,288	\$ 213,066,007	\$ 188,964,942	\$ 487,235,226	\$ 443,689,230

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 \$41,116,384. Of this amount, \$40,531,384 is general obligation bonds, and \$585,000 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	
	2007	2006
General obligation bonds	\$ 40,531,384	\$ 42,504,603
Special assessment debt with governmental commitment	585,000	780,000
Total	\$ 41,116,384	\$ 43,284,603

The City of Redmond maintains an AA rating from Standard & Poors and an 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 2007 was \$11,180,532,223 and remaining debt capacity is as follows:

CITY OF REDMOND

General	\$ 239,225,819
Open Space/Park Facilities	279,513,306
Utilities	<u>279,513,306</u>
TOTAL	<u>\$ 798,252,431</u>

The total amount of unlimited tax and limited tax general obligation debt the City may issue is \$838,539,918. Additional information on the City of Redmond's long-term debt can be found in Note 12 of this report and in the Statistical Section of the report.

Economic Factors and the Next Year's Budget Rates

Several factors that affect the economic climate in Redmond were considered when preparing the City's 2007-2008 biennial budget. The outlook for the nation, state and region was weighed in relation to its expected impact on the City. The character of Redmond, including its current and future business activity and its attraction as a place to live, was also evaluated. Current financial position and the ability and the desire of the City to enhance revenues were also given consideration. Particular attention was paid to balancing the needs of a continually growing community with increasing service demands while at the same time remaining fiscally prudent. To that end, Redmond's elected officials solicited voter support to increase fire, police and parks maintenance services through a property tax levy lid lift in 2007. Residents approved the measures allowing the City to implement needed enhancements to those services.

Commercial and residential development remains strong in Redmond. Multi-family residences are being constructed downtown, and the City's largest employer, Microsoft Corporation, continues to accelerate the expansion of their campus. Growth that was expected to take place over a twenty-year period is now planned within the next three years. As a result, the City has increased staffing in the development review area, on a temporary basis, to handle the activities associated with reviewing and inspecting over seven million square feet of Microsoft office and garage space. In addition, the Overlake Neighborhood Plan is complete, which will guide the redevelopment of a significant commercial and residential area in the City.

Other businesses in Redmond continue to thrive, such as Redmond Town Center (a large open-air mall), Home Depot, Fred Meyer, and Target, and in late 2008 Costco will open along the City's eastern border. Overall job

growth in Redmond has averaged approximately 2% annually since 2000, and population growth is expected to continue at about 1,000 new residents per year.

Redmond has many attractions with parks and open spaces, beautiful landscapes and proximity to employment centers and continues to promote its amenities to residents, tourists and potential businesses through strategic marketing materials. Evidence of the City's attractiveness can be seen in the growth of residential and commercial development, which is expected to remain strong through 2008.

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 2007 for inflation. Water/wastewater and stormwater rates are reviewed annually to ensure the City's utilities will remain financially healthy. City water rates increased 12% for 2007 and will increase 6% for 2008. City wastewater rates increased 19% in 2007 and will increase 6% in 2008. Stormwater rates increased 44% in 2007, with no increase planned in 2008. UPD water rates also increased in 2007 due to a change in the tier structure. The rate increase averaged 9.6%, and no increase is planned in 2008.

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.