

# **Memorandum**

**To:** City Council

**From:** Sonja Springer, Finance Director

**Via:** John J. Caulfield, City Manager

**Date:** May 29, 2008

**Subject:** First Quarter Financial Report

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## **INTRODUCTION**

Attached is the 2008 First Quarter financial report containing a summary of all revenues and expenditures through March 31, 2008. The report includes all of the City's 19 funds, as well as the beginning and ending fund balances of each fund and historical information back to 2005.

Overall, revenues and expenditures for the City's funds are tracking consistent with the 2008 revised budget and the six-year financial forecast.

## **GENERAL FUND**

As of the end of the first quarter, actual General Fund *revenues* totaled \$3,702,458 or 25% of the budgeted amount (\$14,791,095). General Fund operating *expenditures* totaled \$3,585,220 at the end of the first quarter, which is 24.6% of the revised budget of \$14,590,497.

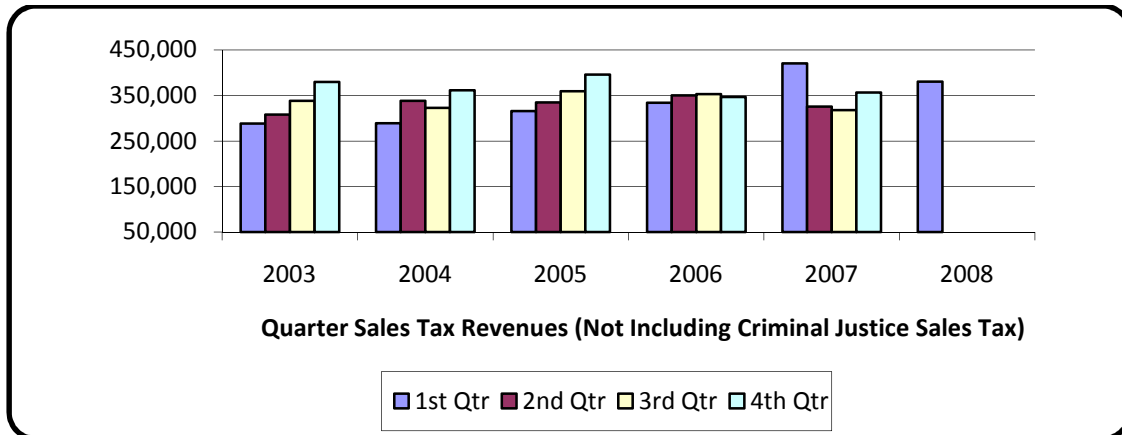
The Ending Fund Balance as of March 31, 2008 totals \$3,853,742, of which \$320,793 is reserved for outstanding encumbrances (commitments on contracts), \$229,720 is reserved for contingencies (2% of General Fund operating expenditures), and \$729,525 set aside as reserves (5% of General Fund operating expenditures). This leaves a net ending fund balance of \$2,573,704 which is projected to be invested in the City's capital improvement program through 2012.

### **General Fund Revenues**

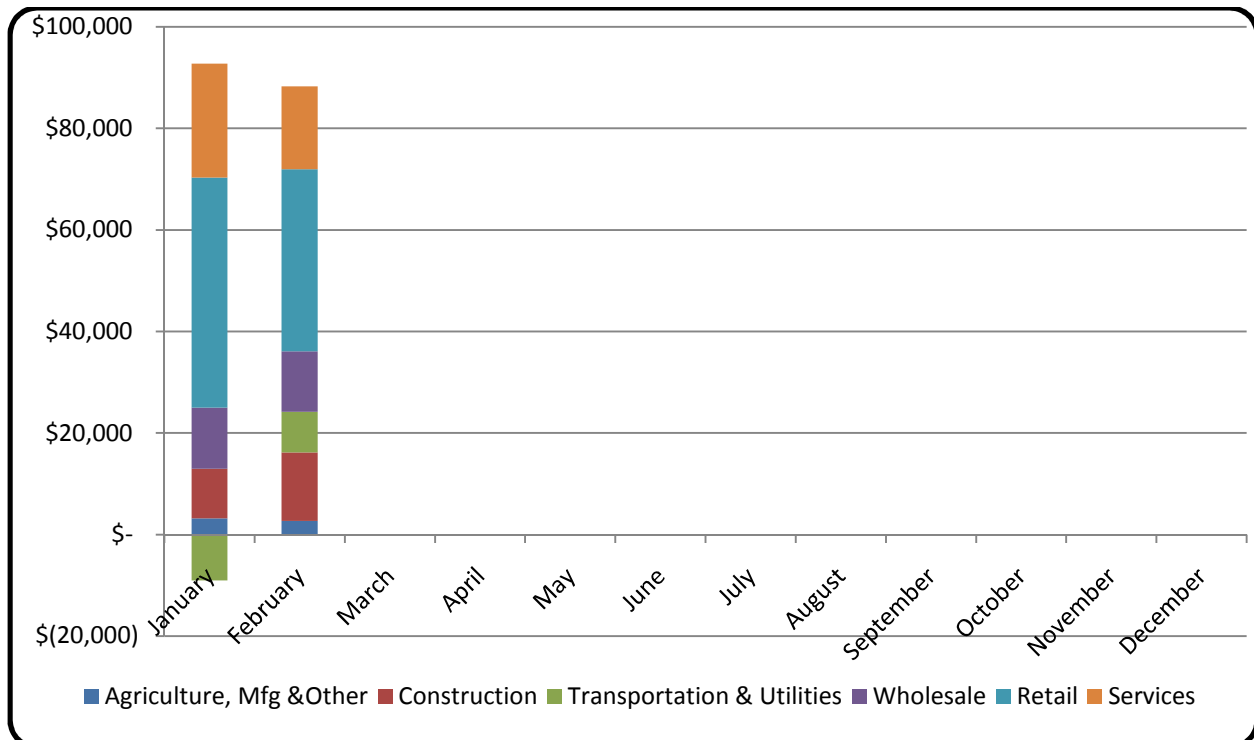
Most of the City's property tax revenues are received during the months of May and October. To more accurately reflect the City's financial status as of the end of the first quarter, an estimate of property tax has been recorded at 25% of the adopted budget.

Sales tax includes revenues for sales that occurred during the first three months of the year, including an estimate for March revenues that have not yet been received from the State. With this estimate, sales tax revenues for the first three months of 2008 total 23% of the adopted budget, or \$463,432. This includes criminal justice sales tax revenues of \$82,888.

As the chart below indicates, first quarter 2008 sales tax revenues are below the first quarter sales tax revenues in 2007, in part due to an unusually large sales tax payment from a software vendor received during the first quarter of 2007. However, first quarter 2008 collections are higher than collections for the years 2003 through 2006. We will carefully monitor our sales tax revenues in 2008.



The chart below shows the monthly sales tax revenues for 2008, by type. As sales tax revenues for March are not expected to be received until May 30, they are not included below. For the first two months of the year, sales tax received from *retail* sales represents 47% of all sales tax revenues, while sales tax from *services* totals 23% and sales tax from *construction* represents 14% of all sales tax. Taxes from transportation & utilities, included in the “other” category below actually shows a negative amount in January as there was a correction made by the State related to over-reporting some revenue from a telecom company in 2007.



Gas and electric utility taxes are at 49% and 32% of the adopted budget, respectively, which is higher than the average first-quarter benchmark of 25% due to higher gas and electric sales during the colder winter months. Cable franchise and cable utility taxes are at 32% of the adopted budget. City utility taxes, which reflect 10% of water, sewer and storm water revenues, are at 24% of budget at the end of the first quarter.

Admission taxes totaled \$31,516 for the quarter, or \$380 more than the first quarter of 2007. This reflects only 19% of the adopted budget and is indicative of a slowdown at the Mountlake 9 Theatre, possibly due to the Loews 16 theatre in Lynnwood.

Gambling tax revenues total \$366,922 through the first quarter, or 23.5% of the adopted 2008 budget of \$1,560,000. First quarter 2007 gambling tax revenues were \$416,286 or \$49,364 more than the first quarter of 2008.

Development revenues, which include engineering fees and building permit revenues, are substantially lower than projections, at only 13.5% of budget, due to the slowing economy. That issue aside, we expect these activities to increase somewhat during the summer months.

City assistance funding from the State in the amount of \$23,429 was received for the first quarter of 2008. This funding allocates a portion of the State's real estate excise tax to replace a portion of the financial assistance eliminated following Initiative 695.

The City received \$11,000 from the lease of the golf course for the first three months of the year. Other property rents and leases include rental for the Hirvela cabin for \$1,422.

Transport fees are well above expectations coming in at \$103,804 for the first quarter. Home monitoring revenues are below estimates, totaling \$13,235 or only 17% of the adopted budget due primarily to personnel changes for this service.

Investment interest revenues are at 23% of the adopted budget, totaling \$55,321 for the quarter. This is consistent with typical first quarter earnings as a majority of the investment payments we receive are received in the second and fourth quarters. As interest rates rose during the first part of the year, several of our long term investments were 'called in' and we had to reinvest in the limited mechanisms available to us – mostly lower interest securities. The result is that we are expecting lower interest revenues for the remainder of the year.

### **General Fund Expenditures**

General Fund operating expenditures were at 24.6% of the revised budget overall, totaling \$3,585,220 for the first quarter. Encumbrances for outstanding contracts total \$320,793 as of March 31.

City Manager department operating expenditures are at 30% of the revised budget as of the end of the first quarter. This is above the 25% benchmark for the first quarter due to one-time payments of publications, subscriptions and memberships due at the first of the year.

Municipal Court operating expenditures were at only 13% of the revised budget due to delayed billings for court and jail costs.

Parks operating expenditures were only at 20% of budget, which is typical for this time of year. More expenditures will be incurred during the upcoming summer months when seasonal workers are added.

The Fire Department budget is expended by 27% at the end of the first quarter. This is higher than the benchmark due to the March payment of SNOCOM fees for both the first and second quarters.

All other departments (Administrative Services, Police and Community Development) are all close to or slightly under 25% of the revised 2007 budget.

### **STREET FUND**

Street Fund operating revenues are at 23% of the revised budget.

Street Fund operating expenditures are only at 20% of the adopted budget, as most street maintenance work will occur during the second and third quarters.

### **RECREATION PROGRAMS FUND**

The Recreation Programs Fund is on track with expectations with a cost recovery rate of 80% at the end of the first quarter. The Recreation Pavilion swimming pool was closed for 14 days in January for pool maintenance and warranty repairs to the pool liner. This closure impacted revenues in aquatics (lessons, public swims, pool rentals), room rentals, merchandise sales and concessions.

### **REAL ESTATE EXCISE TAX FUND**

The Real Estate Excise Tax (REET) first quarter revenues are lower than projected totaling \$109,815 or only 17% of the budget. This revenue has slowed down in 2008 due to the slowing real estate market; as such we will continue to monitor it very closely. The attached Summary of Sources and Uses document reflects the cyclical variation in this revenue source.

### **UTILITY FUNDS**

#### **Storm Water**

Storm Water revenues are at 23% of the revised budget as of the end of the first quarter. The Storm Water operating expenditures were at 22% of budget.

Both revenues and expenditures are expected to increase during the coming summer months and should be close to budget by the end of the year.

**Sewer**

Sewer operating revenues were at 22% of budget and sewer utility operating expenditures were at 15% of the budget. Sewage treatment expenditures are only 5% of budget due to delayed billings.

Both revenues and expenditures are expected to increase during the coming summer months and should be close to budget by the end of the year.

**Water**

Water Utility operating revenues were at 24% of budget and operating expenditures were at 17% of budget.

Both revenues and expenditures are expected to increase during the coming summer months and should be close to budget by the end of the year.

**ATTACHMENTS**

First Quarter 2008 Financial Report Detail