

Memorandum

To: City Council

From: Sonja Springer, Financial Services Manager

Via: John J. Caulfield, City Manager

Date: March 20, 2006

Subject: Fourth Quarter Financial Report

INTRODUCTION:

The attached Fourth Quarter 2005 Financial Report is presented in a new and more detailed format than the previous quarterly financial reports. All of the City's 27 Funds have been included, as well as the beginning and ending fund balances of each fund. Historical financial information is provided back to 2003. The goal of providing this detailed information is to give you a better perspective of the City's financial status and to prepare for the development of the City's Six Year Financial Forecast.

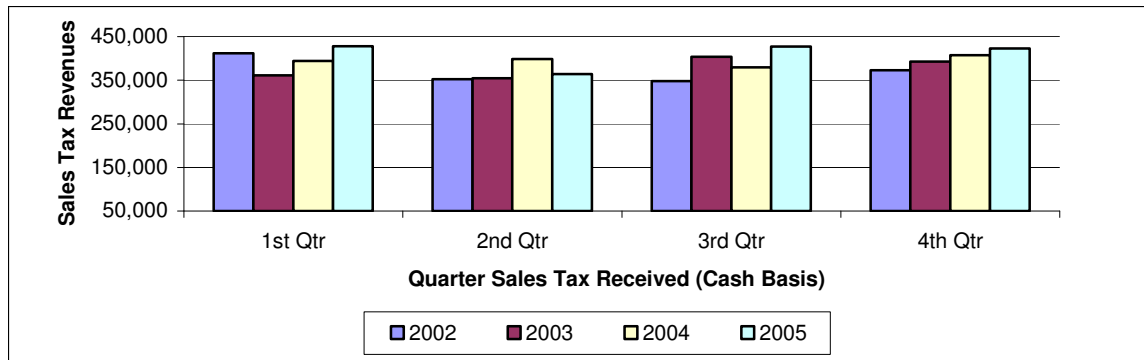
GENERAL FUND

As of the end of 2005, General Fund operating revenues totaled \$14,460,463; equaling 103% of the 2005 budgeted operating revenue for the year. General Fund operating expenditures were at 93% of budget at the end of the fourth quarter, or a total of \$13,599,510 and \$1,028,190 under budget.

The Ending Fund Balance as of December 31, 2005 was \$3,927,772 of which \$171,949 is reserved for outstanding encumbrances (commitments on contracts) leaving a net ending fund balance of \$3,755,823. This balance is higher than expected due to higher revenues, lower expenditures and reduced transfers to the Debt Service and Recreation Program Funds.

General Fund Revenues

Property tax revenues were over budget by \$61,275. Sales tax revenues came in at 98% of budget, and \$62,992 more than what was received in 2004. Sales tax revenues are received from the State Department of Revenue two months after business or sales occur. As the chart below indicates, sales tax revenues for the fourth quarter of 2005 have exceeded fourth quarter sales tax received for the past three years.



Gas, electric, solid waste and telephone utility taxes are close to budgeted amounts. Cable franchise and cable utility taxes exceeded the budget by \$71,729. City utility taxes, which reflect 10% of water, sewer and storm water revenues, are only at 92% of budget at the end of the fourth quarter due to less water consumption than projected during the year.

Admission taxes totaled \$161,401 for the year, or \$37,144 under budget. This reflects a decrease of \$51,024 from 2004 and is indicative of fewer sales at the Mountlake 9 Theatre, possibly due to the new Loews 16 theatre in Lynnwood.

Gambling tax revenues total \$1,433,407 through the fourth quarter, which is \$176,370 more than received in 2004, coming in at 137% of the 2005 budgeted amount. As directed by Council, \$419,407 was transferred to the Street Operating Fund, which represents the gambling tax revenues that exceeded the budgeted transfers to the Street Funds. License revenues have also exceeded budget projections, coming in at \$13,443 over budget.

Development fee revenues came in under budget by \$83,924, mostly due to less plan check and zoning fee revenues than projected. Development fees in total were lower than 2004 levels by \$106,210.

The legislative backfill funding for 2005 of \$18,000 and the new quarterly City Assistance funding from the State of Washington of \$55,552 was received for two quarters in 2005. This new funding, established by State Senate Bill #6050, allocates a portion of the state's real property excise tax to replace a portion of the financial assistance eliminated following Initiative 695 in 1998.

The payments from the Edmonds School District for the School Resource Officer have already been received for the 2005-2006 school year, which is why the revenues in that category exceed budget by \$17,403.

The City received three months of golf course rent in 2005 totaling \$1,752. Other property rents and leases include Hirvela Cabin rent income and \$9,500 in rent from T-Mobile for the new monopole on the Civic Center campus.

Transport fees were higher than anticipated, totaling \$286,847 for the year.

Fines and forfeiture revenues are at 82% of the budget totaling \$210,920 for the year. This reflects a decrease of \$42,524 from 2004.

Interest revenues are at 185% of budget, or \$99,878 over budget. This is quite a bit higher than expected due to a higher than expected fund balance and excellent management of the investment portfolio by our City Treasurer.

The budget of \$400,000 for "Sale of Capital Assets" represents the estimated value of the Fire Department vehicles and equipment that has been sold to Fire District One. The revenues for this transfer were higher than anticipated, totaling \$603,900.

Interfund transfers exceeded the budget by \$282,721, as the Contingency Fund was used little in 2005 and the balance of \$292,721 was transferred to the General Fund at the end of the year.

General Fund Expenditures

General Fund operating expenditures were at 93% of budget overall, totaling \$14,018,917 for the year. Encumbrances for outstanding contracts total \$171,949 and will be carried over to the 2006 budget.

The Municipal Court operating expenditures were only at 89% of the budget, due to decreased court and jail costs.

The Police Department operating expenditures were below budget by \$199,164, which represents lower than expected SNOCOM, personnel and travel costs.

The Community Development Department expended 85% of its budget as of the end of the fourth quarter, as there was a building official position vacancy earlier in the year and there are outstanding encumbrances for consultants totaling \$89,767.51 that will be carried over and paid in 2006.

The operating transfer to the Debt Service Fund was decreased by \$267,841 to reflect the accumulated fund balance in the Debt Service Fund that is not needed for future debt service payments. The operating transfer to the Recreation Fund was also decreased, by \$159,400, as the Recreation Programs have generated more revenues for the past few years than what was projected in the budget. As a result of the decreased operating transfers, both the Debt Service and the Recreation Programs Fund end the year with a zero fund balance.

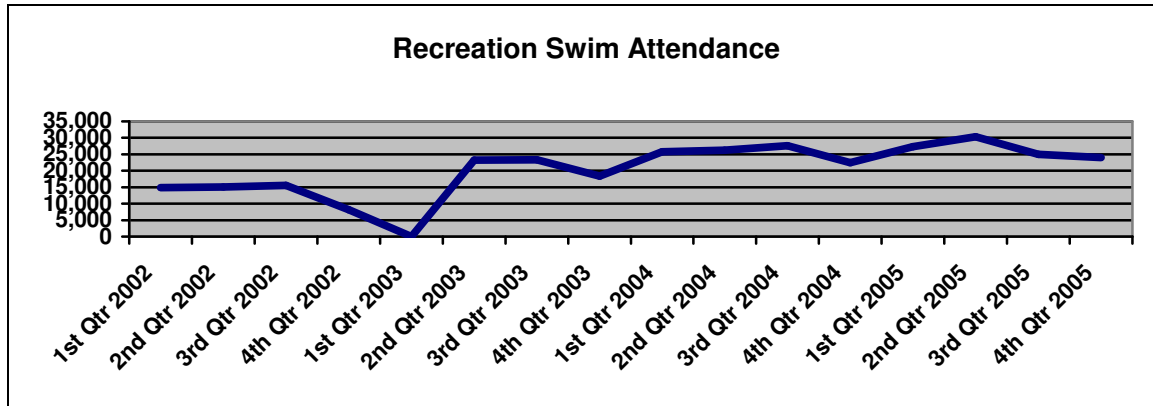
STREET FUND

Street Fund operating revenues exceeded the budget by \$9,698, and Street Fund expenditures are at 94% of budget, or \$51,960 under budget.

With the additional transfer of gambling tax revenues from the General Fund of \$419,407 approved by the City Council in December, the Street Operating Fund ends the year with a fund balance of \$596,976, of which \$500 is reserved for outstanding encumbrances.

RECREATION PROGRAMS FUND

Overall, the Recreation Program Fund ended the year at an 83% cost recovery rate, which is higher than the 80% cost recovery rate that was anticipated when the third quarter financial report was developed.



Recreation Swim Attendance decreased slightly during the 4th Quarter, although it was higher than the swim attendance during the 4th quarters of 2002 and 2003.

UTILITY FUNDS

Sewer

Sewer Utility operating revenues were at 92% of budget and operating expenditures were at 85% of budget.

The ending fund balance of the Sewer Fund is \$1,370,264, of which \$87,281 is reserved for outstanding encumbrances, \$583,141 is included in reserves, resulting in an ending unreserved fund balance of \$699,842.

Water

Water operating revenues were at 92% of budget and water utility operating expenditures were at 91% of the budget. Revenues and expenditures were less than projected, as actual water consumption has been lower than expected.

The ending fund balance of the Water Fund is \$2,253,311, of which \$3,740 is reserved for outstanding encumbrances, \$593,962 is included in reserves, for an ending unreserved fund balance of \$1,655,609.

Storm Water

Storm Water operating revenues were at 98% of the annual budget and storm water operating expenditures totaled 96% of the adopted budget.

The ending fund balance of the Storm Water Fund is \$682,444, of which \$500 is reserved for outstanding encumbrances, \$126,536 is included in reserves, resulting with an ending unreserved fund balance of \$555,408.

CAPITAL IMPROVEMENT FUNDS

Street Construction Fund

The Street Construction Fund includes an \$80,000 grant from Community Transit for “Transit Signal Priority”. This project has been delayed until 2006 by Community Transit and the revenues and expenditure budget authority for this project has been carried over to 2006.

The Street Construction Fund includes budget authority of \$412,205 for Street Overlay projects, with \$347,708 expended (including \$86,602 of outstanding encumbrances) at the end of the year.

The LED Signal Modification Project, which is 90% funded by a Hazard Elimination System (HES) Grant from the Federal Highway Administration, was not completed in 2005 and has been carried over into 2006. The signals for the 220th Street Reconstruction project have all been purchased and the remaining budget of \$88,205 will not be spent.

The ending fund balance of the Street Construction Fund is \$2,734,357, of which \$211,404 is reserved for outstanding encumbrances, and the remaining \$2,522,953 is reserved for future Street Construction projects.

Capital Improvement Projects Fund

The Capital Improvement Projects Fund includes revenue transfers from other funds and transfers to the General Fund for reimbursement of various routine capital expenditures.

The ending fund balance of the Capital Improvement Project Fund is \$161,076, of which \$15,513 is reserved for Public Educational Governmental (P.E.G) improvements, and \$56,213 is reserved for parks improvements, with an ending unreserved fund balance of \$89,350.

Real Estate Excise Tax Fund

Revenues from Real Estate Excise Tax exceeded budgeted amounts by \$320,704. An additional transfer of \$593,633 was approved at the October 17 council meeting to cover costs related to the construction of Fire Station 19.

The ending fund balance of the Real Estate Excise Tax (REET) Fund is \$667,623, and is reserved for future construction projects.

Facilities Construction Fund

The Facilities Construction Fund’s expenditures for Fire Station 19 Construction include payments of \$2,296,765 and an outstanding encumbrance balance of \$48,251, which represents the outstanding balance on the contract with Premium Construction. A 2005 Budget Amendment for \$720,000 was approved on October 7 to cover the total expected actual costs of the construction of the Fire Station.

The ending fund balance of the Facilities Construction Fund is \$330,736, of which \$48,251 is reserved for outstanding encumbrances, and the remaining \$282,485 is reserved for future construction projects.

Sewer Construction Fund

Included in the Sewer Construction Fund is \$510,138 budgeted for sewer mains. At the end of 2005, \$285,303 had been expended, including \$197,432 of outstanding encumbrances. Due to a national shortage of PVC pipe as a result of Hurricane Katrina's impact, the solicitation of bids for the sewer construction projects originally scheduled for 2005 was delayed until the pipe becomes readily available and prices stabilize. As a result, the remaining funds budgeted for sewer mains have been carried over to 2006.

A contract for the first phase of the Terrace Ridge Pump Station Replacement Project, purchasing a manufactured "package pump station" unit, was bid and encumbered against the budget. The costs for the second phase, - installing the unit, has been carried over to 2006.

The ending fund balance of the Sewer Construction Fund is \$983,751, of which \$208,137 is reserved for outstanding encumbrances, and the remaining \$775,614 is reserved for future Sewer Construction projects.

Water Construction Fund

Design of the Terrace Creek Park Water Main Replacement began in 2005, but the funds were carried into 2006 to complete it.

The 1.5 MG Reservoir at Jack Long Park will be completed under the budgeted amount by \$159,508 and includes \$32,966 of outstanding encumbrances that will be a carried over to 2006.

The ending fund balance of the Water Construction Fund is \$604,052, of which \$62,900 is reserved for outstanding encumbrances, and the remaining \$541,152 is reserved for future Water Construction projects.

Storm Water Construction Fund

The remaining budget authority for "Reroute Storm Lines" and "Replace Storm Lines" was carried over into 2006. A significant portion of the nation's capacity to produce PVC resin was shut down due to hurricanes Katrina and Rita, resulting in a shortage of PVC pipe. Solicitation of bids on storm construction projects originally scheduled for 2005 was delayed until the PVC pipe becomes readily available and the prices stabilize. It is anticipated that this will happen in early spring, 2006.

The ending fund balance of the Storm Water Construction Fund is \$1,142,291, of which \$25,115 is reserved for outstanding encumbrances, and the remaining \$1,117,176 is reserved for future Storm Water Construction projects.