

# **Memorandum**

**To:** City Council  
**From:** Sonja Springer, Finance Director  
**Via:** John J. Caulfield, City Manager  
**Date:** August 28, 2008  
**Subject:** Second Quarter Financial Report

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## **INTRODUCTION**

Attached is the 2008 Second Quarter financial report containing a summary of all revenues and expenditures through June 30, 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 second quarter, actual General Fund operating *revenues* totaled \$7,184,199 or 49% of the budgeted amount (\$14,791,095). General Fund operating *expenditures* totaled \$7,289,517 at the end of the second quarter, which is 50% of the revised budget of \$14,590,497.

The Ending Fund Balance as of June 30, 2008 totals \$3,188,950, of which \$250,682 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 \$1,979,023 which is projected to be invested in the City's capital improvement program through 2014.

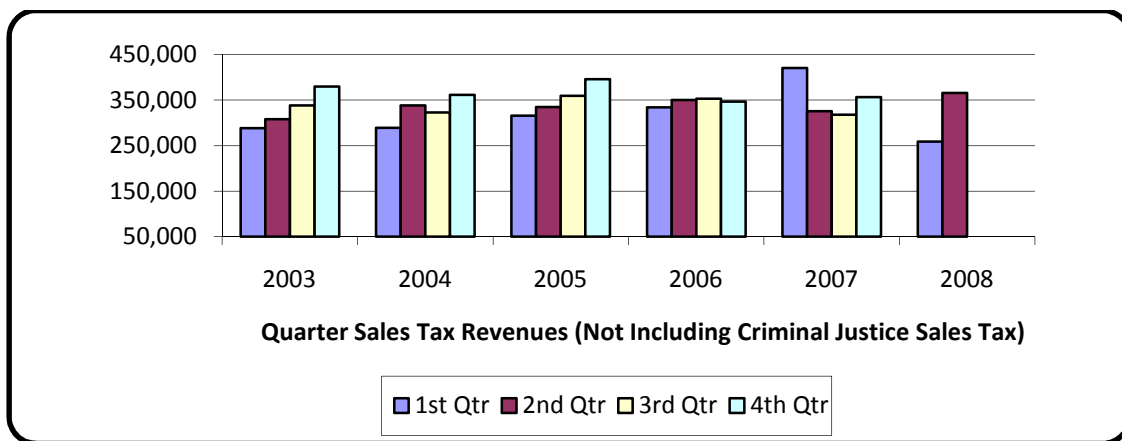
### **General Fund Revenues**

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 second quarter, an estimate of property tax has been recorded at 50% of the total 2008 tax assessment.

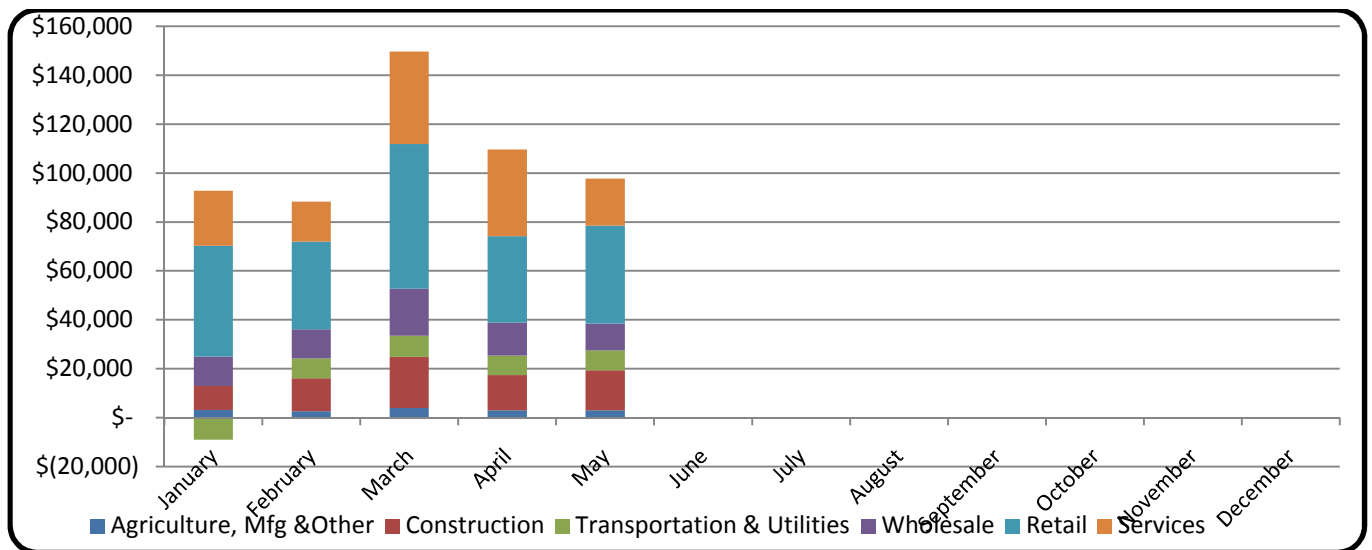
Sales tax includes revenues for sales that occurred during the first six months of the year, including an estimate for June revenues that have not yet been received from the State. With this estimate, sales tax revenues for the first six months of 2008 total 37% of the adopted budget, or \$751,443. This includes criminal justice sales tax revenues of \$126,816. The 2008 budget for sales tax of \$2,009,620 includes an estimate of \$100,000 for additional sales tax generated from

the State’s new streamlined sales tax rules. The State’s change to destination based sales tax took effect on July 1, 2008, and the City will not see any results from this change until the third quarter of 2008. The City is experiencing decreased sales tax revenues from previous years due to the loss of a major retailer in 2007. While some of this lost revenue may be made up by the construction of the Park ‘n Ride in the City, the City may be below sales tax estimates in 2008 if the streamlined sales tax changes do not generate substantial additional sales tax revenues.

As the chart below indicates, first quarter 2008 sales tax revenues were below the first quarter sales tax revenues in 2007, however, second quarter 2008 collections are higher than collections for the years 2003 through 2007. Total sales tax collections, including criminal justice sales tax, are \$153,649 less than taxes received through the second quarter of 2007. We will continue to 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 June are not expected to be received until August 29, they are not included below. For the first five months of the year, sales tax received from *retail* sales represents 41% of all sales tax revenues, while sales tax from *services* totals 25% and sales tax from *construction* represents 14% of all sales tax.



Gas and electric utility taxes are at 78% and 57% of the adopted budget, respectively, which is higher than the average second quarter benchmark of 50% due to higher gas and electric sales during the colder winter months. Cable franchise and cable utility taxes are at 64% of the adopted budget. City utility taxes, which reflect 10% of water, sewer and storm water revenues, are at 48% of budget at the end of the second quarter, which is typical for this time of year as water and sewer revenues and their related taxes are expected to increase during the later summer months.

Admission taxes totaled \$64,970 through the second quarter, just about equal to what they totaled through the second quarter of 2007. This reflects 40% of the adopted budget.

Gambling tax revenues total \$721,263 through the second quarter, or 46% of the adopted 2008 budget of \$1,560,000. Gambling tax revenues received through second quarter of 2007 were \$833,619 or \$112,356 more than gambling taxes received through the second quarter of 2008.

Development revenues, which include engineering fees and building permit revenues, are substantially lower than projections, at only 25.3% of budget, due to the slowing economy. That issue aside, we expect these activities to increase somewhat during the summer months. Plan check and zoning fees, however, are above budget projections, totaling \$249,980 which is 131% of budget, mostly due to the fees received for the planning/construction of the new Community Transit facility and a Premera parking garage.

City assistance funding from the State in the amount of \$39,571 was received for the second 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 \$57,500 from the lease of the golf course for the first six months of the year. Other property rents and leases include rental for the Hirvela cabin for \$2,845.

Transport fees are well above expectations coming in at \$214,628 or 75% of budget through the second quarter. Home monitoring revenues are below estimates, totaling \$28,653 or only 38% of the adopted budget due primarily to personnel changes for this service.

General Fund investment interest revenues are at 39% of the adopted budget, totaling \$92,945 through the second quarter. While General Fund interest revenues are below 50% of the budget as of June 30, other funds with higher cash fund balances (for example, the Street Construction and Capital Improvement Funds) are above budget projections, as a result of significant transfers to these funds that were not anticipated when the original 2008 budget that was adopted in 2006. Overall, the City's investment revenues for all funds through the second quarter total \$338,540, or 57% of the adopted budget.

### **General Fund Expenditures**

General Fund operating expenditures were at 50% of the revised budget overall, totaling \$7,289,517 for the second quarter. Encumbrances for outstanding contracts total \$250,682 as of June 30.

Municipal Court is at 45% expended through the second quarter, as two months of second quarter billings from South District court had not been received nor paid by June 30.

The Police department budget is 53% expended as of June 30, mostly due to increased overtime and because the second quarter report includes the payment of SnoCom charges through the third quarter. The Fire department budget is 52% expended at June 30 as it also includes third quarter SnoCom charges.

Parks operating expenditures were only at 42% 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.

Operating transfers to the Street Operating Fund are also below budget at 40%, also due to the seasonal nature of the street maintenance work.

All other departments (City Council, City Manager, Administrative Services, Property Management and Community Development) are all close to 50% of the revised 2008 budget.

## **STREET FUND**

Street Fund operating revenues are at 46% of the revised budget.

Street Fund operating expenditures are only at 45% of the adopted budget, as most street maintenance work will occur during the third quarter.

## **RECREATION PROGRAMS FUND**

The Recreation Programs Fund is on track with expectations with a cost recovery rate of 83% at the end of the second quarter. Youth programs revenues, specifically youth and preschool camps, and dance revenues, are less than 50% of budget at the end of the second quarter. These revenues are expected to increase during the third quarter and will be closer to budget by the end of the year.

## **REAL ESTATE EXCISE TAX FUND**

The Real Estate Excise Tax (REET) revenues received through the second quarter total \$353,622 or 54% of the budget. In May a large apartment complex was sold that generated additional REET revenues during the second quarter. Other than this one time increase, the revenue has slowed down in 2008 due to the slowing real estate market; as such we will continue to monitor these revenues very closely.

## **UTILITY FUNDS**

### **Storm Water**

Storm Water revenues are at 49% of the revised budget as of the end of the second quarter. The Storm Water operating expenditures were at 42% 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 47% of budget and sewer utility operating expenditures were at 40% of the 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.

### **Water**

Water Utility operating revenues were at 47% of budget and operating expenditures were at 38% 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**

Second Quarter 2008 Financial Report Detail