

# **Memorandum**

**To:** City Council

**From:** Sonja Springer, Finance Director

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

**Date:** November 13, 2008

**Subject:** Third Quarter Financial Report

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## **INTRODUCTION**

Attached is the 2008 Third Quarter financial report containing a summary of all revenues and expenditures through September 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.

Economic activity has weakened across the country, as consumer spending, manufacturing and the labor market all weakened in response to consumer uncertainty and the credit crunch. The bubbles that have burst now include not only real estate and the stock market, but even a widening range of commodities, starting with oil. How this saga will unfold for the remainder of this year and into 2009 is unclear. We are beginning to see a slow-down in revenues, particularly sales and gambling tax receipts. However, we have implemented steps to mitigate this impact and ensure we meet our financial objectives for 2008 and 2009.

At this point in time, we are taking the following preventative approaches to managing our finances for the remainder of 2008 and into 2009:

- Discretionary and overhead expenditures (i.e., supplies, travel, training, overtime, equipment, temporary help, etc.) in our general government funds, specifically our General Fund are on hold indefinitely;
- Vacant positions (current and future) will not be filled with the exception of police patrol vacancies;
- The creation of lead workers in public works and parks & property management will be delayed;
- Vacant positions in our utility program will be backfilled with existing maintenance workers currently funded from the General Fund;

- Payout of accumulated unused vacation leave, compensatory time, and vested sick leave to employees who leave our organization in 2008 and perhaps 2009 will be charged to the Accumulated Leave Reserve Fund, thus relieving the General Fund and other funds of this financial liability;
- Fleet and equipment purchases, which are proposed to total \$1.2 million in 2009, will be limited to essential vehicles and equipment (evaluation currently underway). Non-essential purchases will be delayed until later in 2009 or perhaps 2010 once we have a better understanding of the impact of this economic crisis on our finances;
- The recent reduction in gas prices will also provide us some financial relief – the 2009-2010 Proposed Biennial Budget estimated gas prices at \$4/gallon – current trends signal they may be lower in 2009; and
- An employee Healthcare Task Force has been formed to address our increasing health care costs. The City of Mountlake Terrace, like many employers is facing an urgent need to effectively contain the rise in employee health care costs, which average 10-15% annually. The Task Force's goal is not to just look at what our own costs are, but to look at outside traditional approaches to employee benefits to find innovative ways to balance meeting employee health care needs and the need to control costs.

Because we expect our financial forecast to continue shifting as we get new data and until we have a better understanding of what the impact of this crisis means to Mountlake Terrace, I believe it is too early to initiate the following:

- Changes to 2009 revenue estimates that would result in service cuts, service reductions, and layoffs;
- Use of financial reserves or contingency accounts to temporarily maintain services; and
- Reduction or elimination of capital improvement projects (i.e., street overlays, sidewalks, street reconstruction projects, etc.).

In the meantime, we will continue to be proactive and will closely monitor our revenues on a monthly basis. This approach coupled with the preventative approaches outlined above will allow us not only the time to properly evaluate the impact of this crisis on our budget, but also to meet our financial objectives for year-end 2008.

## **GENERAL FUND**

As of the end of the third quarter, actual General Fund operating *revenues* totaled \$10,692,382 or 72% of the budgeted amount (\$14,791,095). General Fund operating *expenditures* totaled \$11,087,050 at the end of the third quarter, which is 76% of the revised budget of \$14,590,497.

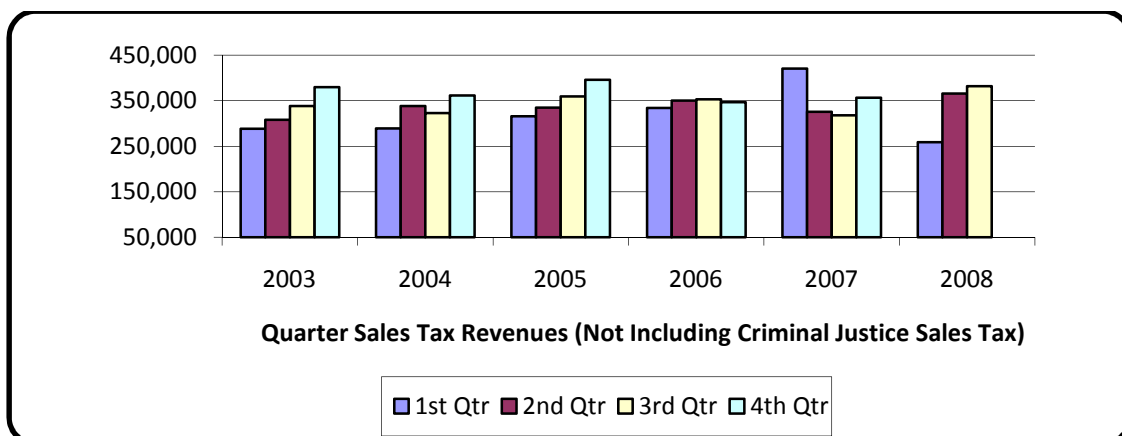
The Ending Fund Balance as of September 30, 2008 totals \$2,660,116, of which \$215,971 is reserved for outstanding encumbrances (commitments on contracts) and \$729,525 set aside as reserves (5% of General Fund operating expenditures). This leaves a net ending fund balance of \$1,714,620 which is projected 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 third quarter, an estimate of property tax has been recorded at 75% of the total 2008 tax assessment.

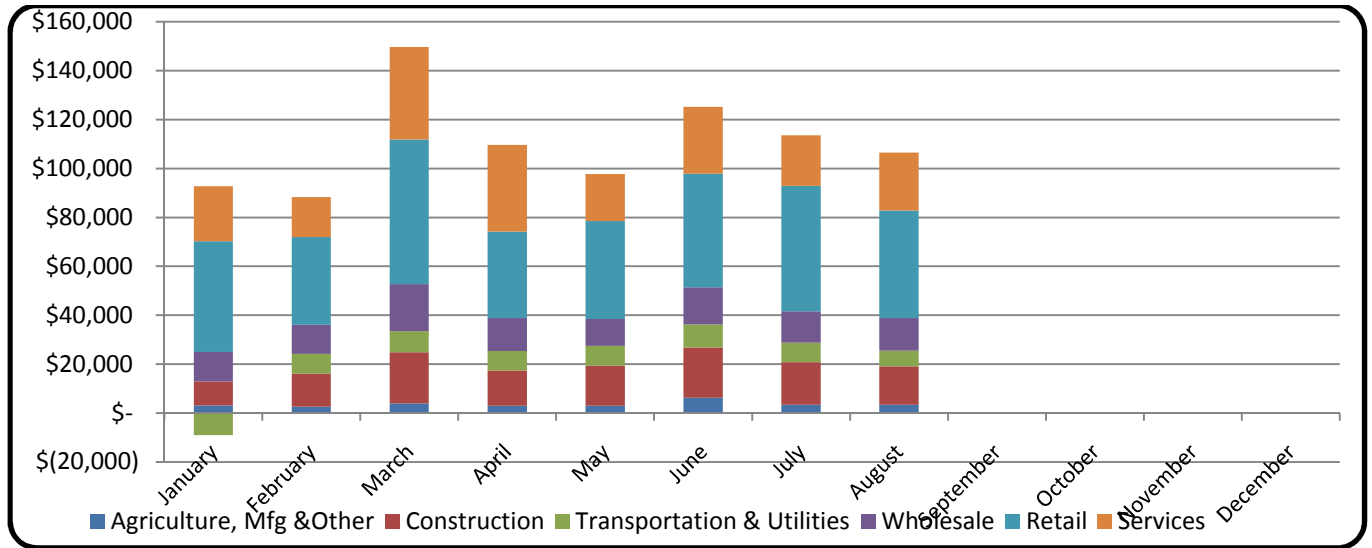
Sales tax includes revenues for sales that occurred during the first nine months of the year, and includes an estimate for September revenues that have not yet been received from the State. With this estimate, sales tax revenues for the first nine months of 2008 total 62% of the adopted budget, or \$1,236,220. This includes criminal justice sales tax revenues of \$229,974. 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 has seen only two months of the effect of this change. So far, the impact of the change has been minimal but has helped to offset decreased sales tax revenues 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 will likely 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, the second and third quarter 2008 collections are higher than collections for the years 2003 through 2007. Total sales tax collections, including criminal justice sales tax, are \$73,499 less than taxes received through the third 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 September are not expected to be received until November 28, they are not included below. For the first eight months of the year, sales tax received from *retail* sales represents 41% of all

sales tax revenues, while sales tax from *services* totals 23% and sales tax from *construction* represents 15% of all sales tax.



Gas and electric utility taxes are at 90% and 75% of the adopted budget, respectively. Cable franchise and cable utility taxes are at 96% of the adopted budget. City utility taxes, which reflect 10% of water, sewer and storm water revenues, are at 73% of budget at the end of the third quarter, which is typical for this time of year.

Admission taxes totaled \$163,216 through the third quarter, just slightly below what they totaled through the third quarter of 2007. This reflects 62% of the adopted budget.

Gambling tax revenues total \$1,048,054 through the third quarter, or 67% of the adopted 2008 budget of \$1,560,000. Gambling tax revenues received through third quarter of 2007 were \$1,199,361 or \$151,307 more than gambling taxes received through the third quarter of 2008. If the decline in gambling tax revenues continues into the fourth quarter, they will be about \$160,000 below the adopted budget at the end of the year.

Development revenues, which include engineering fees and building permit revenues, are substantially lower than projections, at only 41% of budget, due to the slowing economy. Plan check and zoning fees, however, are above budget projections, totaling \$344,057 which is 180% 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 \$55,923 was received for the third 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 \$74,666 from the lease of the golf course for the first nine months of the year. Other property rents and leases include rental for the Hirvela cabin for \$4,267.

Transport fees are above expectations coming in at \$288,708 or 101% of budget through the third quarter. Home monitoring revenues are below estimates, totaling \$47,978 or only 63% of the adopted budget due primarily to personnel changes for this service.

General Fund investment interest revenues are at 64% of the adopted budget, totaling \$152,115 through the third quarter. While General Fund interest revenues are below 75% of the budget as of September 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 was adopted in 2006. Overall, the City's investment revenues for all funds through the third quarter total \$577,638, or 99.5% of the adopted budget of \$580,726.

### **General Fund Expenditures**

General Fund operating expenditures were at 76% of the revised budget overall, totaling \$11,087,050 through the third quarter. Encumbrances for outstanding contracts total \$215,971 as of September 30.

The Municipal Court budget is at 69% expended through the third quarter, as South District Court and Jail costs are coming in less than projected in the budget.

The Police department budget is 79% expended as of September 30, mostly due to increased overtime and because the third quarter report includes the payment of SnoCom charges through the fourth quarter. The Fire department budget is 76% expended at September 30 as it also includes third quarter SnoCom charges.

Parks operating expenditures were only at 65% of budget, which is typical for this time of year. At the end of September there were outstanding encumbrances (contracts) totaling \$73,656 that were paid after September 30. Taking this into account, the Park budget would be 72% expended as of the end of the third quarter.

All other departments (City Council, City Manager, Administrative Services, Property Management and Community Development) are close to 75% of the revised 2008 budget.

### **STREET FUND**

Street Fund operating revenues are at 69% of the revised budget. Most of the Street Fund's operating revenues come from a share of the State's motor vehicle fuel tax, which is lower than budgeted due to decreased gas consumption in the State.

Street Fund operating expenditures are only at 71% of the adopted budget.

### **RECREATION PROGRAMS FUND**

The Recreation Program Fund is slightly behind revenue projections, at 73% of the revised budget. Expenditures through the third quarter are 76.5% of the revised budget, which is typical for this time of year as expenditures are higher during the summer months. The cost recovery

rate is at 80% at the end of the third quarter, and it will most likely be at 80% by the end of the year, which is below the projected 83%.

## **REAL ESTATE EXCISE TAX FUND**

The Real Estate Excise Tax (REET) revenues received through the third quarter total \$430,109 or 66% 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 been slowing 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 72% of the revised budget as of the end of the third quarter. The Storm Water operating expenditures were at 62% of budget.

### **Sewer**

Sewer operating revenues were at 69% of budget and sewer utility operating expenditures were at 63% of the budget.

Revenues are expected to increase as we complete the billing cycles for the summer months during the next couple of months and should be close to budget by the end of the year.

### **Water**

Water Utility operating revenues were at 72% of budget and operating expenditures were at 62% of budget.

Revenues are expected to increase as we complete the billing cycles for the summer months during the next couple of months and should be close to budget by the end of the year.

Expenditures should be close to budget by the end of the year as the invoices from Alderwood Water District for the City's summer water consumption charges were billed and paid for after September 30.

## **ATTACHMENTS**

Third Quarter 2008 Financial Report Detail